



招商銀行

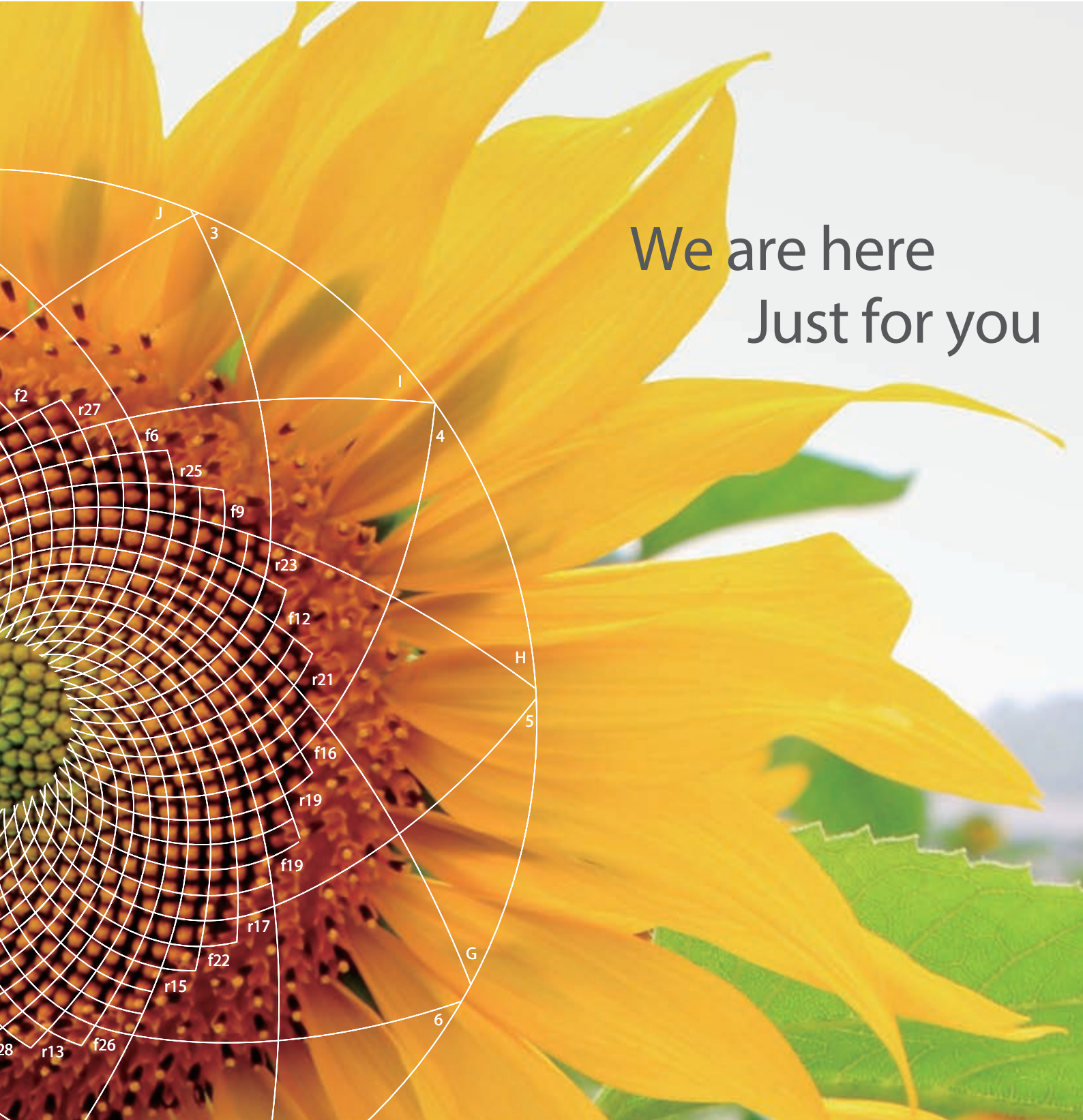
CHINA MERCHANTS BANK

CHINA MERCHANTS BANK CO., LTD.

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

Stock Code : 03968

2013 Annual Report



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Just for you

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Important Notice

1. The Board of Directors, the Board of Supervisors, directors, supervisors and senior management of the Company confirm that the contents in this report are true, accurate, complete and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.
2. The 14th meeting of the Ninth Session of the Board of Directors of the Company was held at the CMB CHINA MERCHANTS BANK University, Shenzhen on 27 to 28 March 2014. The meeting was presided by Fu Yuning, Chairman of the Board. 16 out of 17 eligible Directors attended the meeting in person. Ma Zehua (Director) failed to attend the meeting because of business appointments, and entrusted Sun Yueying (Director) to exercise the voting right. A total of 17 valid votes were cast. 7 Supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law and the Articles of Association of the Company.
3. KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants (both being auditors of the Company) have separately reviewed the 2013 financial report prepared in accordance with the PRC Generally Accepted Accounting Principles and International Financial Reporting Standards, and issued standard auditing reports with unqualified opinions.
4. Unless otherwise stated, all monetary sums stated in this annual report are expressed in RMB.
5. Fu Yuning, Chairman of the Company, Tian Huiyu, President, Li Hao, First Executive Vice President and Chief Financial Officer, and Zhou Song, the person in charge of the Planning and Finance Department, hereby make representations in respect of the truthfulness, accuracy and completeness of the financial statements in this annual report.
6. Proposal of profit appropriation: As stated in the audited PRC financial statements of the Company for 2013, 10% of the profit after tax of RMB48.842 billion, equivalent to RMB4.884 billion, was transferred to the statutory surplus reserve, while 1.5% of the total amount of the increased risk assets in this reporting period, equivalent to RMB6.913 billion, was appropriated to the general reserve. Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend of RMB6.20 (tax included) for every 10 shares to all shareholders of the Company, payable in RMB for holders of A Shares and in HKD for holders of H Shares. The retained profit will be carried forward to the next year. In 2013, the Company did not transfer any capital reserve into share capital. The above proposal of profit appropriation is subject to consideration and approval at the 2013 Annual General Meeting of the Company.
7. We have included in this report certain forward-looking statements with respect to the financial position, operating results and business development of the Group. We use words such as "will", "may", "expect", "try", "strive", "plan", "anticipate", "aim at", and similar expressions to identify forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we give no assurance that these expectations will prove to be correct. Therefore they should not be deemed as the Group's commitments. Investors should not place undue reliance on such statements and should pay more attention to investment risks. You are cautioned that such forward-looking statements are related to future events or future financial position, business, or other performance of the Group, and are subject to a number of uncertainties which may cause substantial difference to the actual results.

Definitions

The Company, the Bank, CMB or China Merchants Bank:
China Merchants Bank Co., Ltd.

The Group:
China Merchants Bank Co., Ltd. and its subsidiaries

China Banking Regulatory Commission or CBRC:
China Banking Regulatory Commission

China Securities Regulatory Commission or CSRC:
China Securities Regulatory Commission

China Insurance Regulatory Commission or CIRC:
China Insurance Regulatory Commission

Hong Kong Stock Exchange or SEHK:
The Stock Exchange of Hong Kong Limited

Hong Kong Listing Rules:
the Rules Governing the Listing of Securities on the SEHK

Wing Lung Bank or WLB:
Wing Lung Bank Limited

Wing Lung Group or WLG:
Wing Lung Bank and its subsidiaries

CMB Financial Leasing or CMBFL:
CMB Financial Leasing Co., Ltd.

CMB International Capital or CMBIC:
CMB International Capital Corporation Limited

China Merchants Fund or CMFM:
China Merchants Fund Management Co., Ltd.

CIGNA & CMB Life Insurance:
CIGNA & CMB Life Insurance Co., Ltd.

CM Securities:
China Merchants Securities Co., Ltd.

KPMG Huazhen Certified Public Accountants:
KPMG Huazhen Certified Public Accountants (Special General Partnership)

Significant Risk Warning

The Company has disclosed herein the major risks involved in its operations and the proposed risk management measures, please refer to Section 5.12 for the details in relation to risk management.

Company Information

1.1 Company Profile

- 1.1.1 Registered Company Name in Chinese:** 招商銀行股份有限公司
(Chinese abbreviation: 招商銀行)
Registered Company Name in English: China Merchants Bank Co., Ltd.
- 1.1.2 Legal Representative:** Fu Yuning
Authorised Representatives: Tian Huiyu, Li Hao
Secretary of the Board of Directors: Xu Shiqing (whose appointment qualification is subject to approval)
Joint Company Secretaries: Xu Shiqing, Seng Sze Ka Mee Natalia (FCIS, FCS(PE), FHKIoD, FTIHK)
Securities Representative: Wu Jianbing
- 1.1.3 Registered and Office Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
- 1.1.4 Mailing Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode: 518040
Tel: 86755-83198888
Fax: 86755-83195109
Email: cmb@cmbchina.com
Website: www.cmbchina.com
Customer service: 95555
- 1.1.5 Principal Place of Business in Hong Kong:**
21st Floor, Bank of America Tower, 12 Harcourt Road, Hong Kong
- 1.1.6 Share Listing:**
A Share: Shanghai Stock Exchange
Abbreviated Name of A Share: CMB
Stock Code: 600036
H Share: SEHK
Abbreviated Name of H Share: CM BANK
Stock Code: 03968
- 1.1.7 Domestic Auditor:** KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower 2, Oriental Plaza,
1 East Chang An Avenue, Beijing,
China
Certified public accountants for signature:
Pu Hongxia, Liang Zhongwei
- International Auditor:** KPMG Certified Public Accountants
Office Address: 8th Floor, Prince's Building,
10 Charter Road, Central,
Hong Kong
- 1.1.8 Legal Advisor as to PRC Law:** Jun He Law Offices
Legal Advisor as to Hong Kong Law: Herbert Smith Freehills

1.1.9 Depository for A Share:

China Securities Depository & Clearing Corporation Ltd., Shanghai Branch

1.1.10 Share Register and Transfer Office as to H Share:

Computershare Hong Kong Investor Services Ltd.

Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

1.1.11 Sponsors performing continuous supervisory duty during the reporting period

China International Capital Corporation Limited

Office address: 28/F, China World Office 2, 1, Jian Guo Men Wai Avenue, Beijing

Authorized representative of the sponsor: Lin Longhua, Liu Shulin

Goldman Sachs Gao Hua Securities Company Limited

Office address: 18th Floor, Winland International Center, 7 Finance Street, Xicheng District, Beijing

Authorized representative of the sponsor: Chen Yilv, Duan Aimin

Continuous supervisory period: 11 September 2013 to 31 December 2014

1.1.12 Websites and Newspapers Designated by the Company for Information Disclosure:

Mainland China: *"China Securities Journal"*, *"Securities Times"*,
"Shanghai Securities News"
website of Shanghai Stock Exchange (www.sse.com.cn),
website of the Company (www.cmbchina.com)

Hong Kong: website of SEHK (www.hkex.com.hk),
website of the Company (www.cmbchina.com)

Place of maintenance of annual reports: Office of the Board of Directors of the Company

1.1.13 Other Information about the Company:

Initial registration date: 31 March 1987

Initial registration place: Administration for Industry and Commerce of Shenzhen, Shekou Branch

Registered No. of business license for an enterprise as a legal person: 440301104433862

Taxation Registration No.: Shen Shui Deng Zi 44030010001686X

Organisation Code: 10001686-X

1.2 Company Information

Founded in 1987 with its head office in Shenzhen, China, the Company mainly focuses on the market in China. The Company's highly efficient distribution network primarily covers China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium cities in other regions. For details, please refer to the section headed "5.11.4 Distribution channels" and the section headed "8.10 Branches and representative offices". The Company currently has 1,921 domestic and overseas correspondent banks in 108 countries (including China) and regions.

The growth of the Company from a regional bank into a national commercial bank with significant scale and strength in China is primarily attributable to its own resources and efforts. The Company was listed on Shanghai Stock Exchange in April 2002 and on SEHK in September 2006.

The Company provides customers with various wholesale and retail banking products and services, and maintains treasury businesses for proprietary purpose and on behalf of customers. Many innovative products and services of the Company, such as "All-in-one Card", a multi-function debit card, "All-in-one Net", a comprehensive online banking service platform, dual-currency credit card, the "Sunflower Wealth Management" services and private banking services, have been widely recognised by consumers in China.

1,921

domestic and overseas correspondent banks in 108 countries and regions

934

sub-branches in Mainland China



1.3 Development Strategy and Investment Value

Development vision: Creating a blue-chip for the stock market, building a bank that thrives for centuries

Strategic objective: Striving to become the best commercial bank in China with international competitive edge

Strategic positioning: An innovative bank distinguished by leading profitability, first-class service, strong basic management and excellent brand image

- Focus on the development of retail banking business, small and micro enterprise businesses, emerging and featured businesses and intermediary business, and build CMB into the best retail bank and an outstanding financial services provider for small and micro enterprises.
- As for retail finance, the Bank will focus on wealth management, small and micro enterprise business, private banking, credit cards and E-banking while aggressively developing direct banking, internet banking, annuity finance and other emerging businesses so as to consolidate and enhance its leading edge in retail banking. With regards to corporate finance, the Bank will strengthen its liabilities business, innovate and develop its small enterprise business, and actively explore the emerging businesses such as offshore finance, cross-border trade finance, cash management, investment banking, transaction banking and corporate asset management, create a model of corporate internet finance and foster characteristics of emerging financing business so as to enhance its competitiveness in corporate finance markets. As for interbank finance, the Bank will build a financial product chain with asset management and financial market as its twin-driven engine, establish a global trading platform and cross-border business platform so as to forge new strengths in interbank finance.
- Focus on exploring high-value customer groups while continuously expand basic customer base in retail finance, corporate finance and interbank finance.
- Rationally expand physical network, innovate and develop E-banking, accelerate the establishment of a powerful multi-channel distribution system with operating synergies.
- Expand and strengthen the presence in domestic market, intensify investment to developed regions, rationally expand network into highly potential regions; steadily explore overseas markets with a focus on Hong Kong, Macao, emerging markets and international financial centers.

Investment value:**Unique competitive advantage**

- Leading retail finance and emerging corporate finance business
- Continuously optimised business structure and rapidly increasing high-net-worth customers
- Innovative electronic channels and IT platform
- Being the industry benchmark of high-quality services
- Rapidly growing cross-border finance platform
- Continuously enhanced brand influence

Continuously robust business development

- Retail finance has formed its comprehensive advantages in products, customers, channels and brand, etc., and is expected to be further strengthened and expanded
- Corporate finance has adhered to its specialised operation and professional management approach, among which, emerging corporate finance businesses such as offshore finance, cash management and investment banking have delivered outstanding market performance
- Small and micro enterprise businesses have laid a good foundation for development with constantly improved supporting service system and a promising future
- The “three-in-one” cross-border finance platform, jointly formed by overseas institutions (Wing Lung Bank and overseas branches), offshore banking unit and domestic branches, is becoming a new point of growth
- The comprehensive operation system has been basically established, and cross-segment product innovation and business coordination have been actively promoted, therefore the benefits of strategic synergy and financial synergy will become more apparent

Advanced operational management

- Sound corporate governance structure, scientific governance mechanisms, and highly efficient decision-making system, operating system and internal control system
- Actively promoted the reform of organisational and management systems and constantly optimised the operation procedures
- Steadily built up a comprehensive risk management system and a scientific capital management system
- Promoted technological innovation, committed to the establishment of an IT system that is secure and reliable, highly efficient, green and cost-effective, and sustainable

1.4 Awards and Honors Received in 2013

In 2013, the Company won a number of honors in appraisal/selection activities organised by authoritative organisations both at home and abroad, including:

- In the best private banking and wealth management survey for 2013 organised by *Euromoney*, the Company was awarded the “Best Private Bank in China” and several individual awards for best customer relations management, best investment product portfolio and best ultra-high-end customer Service, taking a leading position in the industry in terms of grade and number of awards.
- At the 2013 Global Private Banking Awards Ceremony organised by *Financial Times* of the U.K., the Company was awarded the “Best Private Bank in China” for the fourth consecutive year.
- In the selection of excellent retail financial service providers, the Company was awarded for the ninth consecutive time the “Best Joint Stock Retail Bank in China” by *The Asian Banker* magazine. In the award selection in respect of banking products, the Company was honoured the “Best Mobile Banking Product in China” and the “Commendation Award for SME Business in China”.
- In the selection campaign organised by *Asiamoney*, the Company was awarded the “Best Cash Management Bank in China 2013” for the eighth consecutive time and swept a total of 10 awards for Mainland China such as the “Best Cash Management Service Provider for Large, Medium and Small Enterprises”, thereby becoming the most awarded Chinese bank in the history of such award.
- In the selection of the best private bank in the world in 2012 organised by *The Asset*, the Company was honoured the “Best Domestic Custody Specialist – China” for the fourth consecutive year. In the selection of the world’s best cash management bank for 2013, the Bank was awarded the “Best SME Cash Management Bank in China”.
- In the Annual Conference of ACCE Global Call Centre, the Company’s Direct Banking Center was awarded “the World’s Best Call Centre” for the second time and ranked fourth in the world.
- In the “Result Release on the Survey of Preferred Brand Names of Chinese Multimillionaires” held by *Hurun Report*, the Company was recognised as “The Most Preferred RMB Wealth Management Bank” and “The Most Preferred Credit Card Issuer”.
- In the “2nd China Trade Finance Annual Conference” organised by China Banking Association, the Company was awarded the “Best Innovation Bank for Trade Finance Products” for its international business.
- In the selection of “China Financial Service Innovation Award for 2013” jointly organised by *The Banker* magazine and the Institute of Finance and Banking of Chinese Academy of Social Sciences, the cross-border RMB Inter-bank platform products of the Company won the “Top 10 Innovative Financial Products”, and the marketing case of small business cash management services won the “Top 10 Financial Products Marketing Award”.

- In the selection of the “Competitive Financial Institutions for 2013 with Excellence” jointly organised by the Institute of Industrial Economics of Chinese Academy of Social Sciences and *China Business Journal*, the Company was honored the “Excellent Bank for Cash Management in 2013” and the “Competitive Bank for Small Enterprise Financial Service in 2013 with Excellence”.
- In the selection of 2013 innovative financial services award for medium, small and micro enterprises in Shenzhen organised by Shenzhen Municipal Government Financial Services Office, the Company won the first place of the “2013 Financial Services Innovation Award for Medium, Small and Micro Enterprises in Shenzhen”, and its housing fund management project and cross-border finance project both took the second place of the “2013 Financial Services Innovation Award in Shenzhen”.
- At the “Annual Finance Summit of Asia and 2013 Asian Banks Competitive Ranking Report Release Ceremony” hosted by “21st Century Business Herald”, we were awarded the “Best Wealth Management Bank in Asia for 2013”.
- In the selection of the “Best Wealth Management Institution in China for 2013” organised by “Securities Times”, the Company won three awards, namely the “Best Wealth Management Institution in China”, the “Best Wealth Management Brand of Banks in China” and the “Best Private Bank in China”.
- In the results of “2013 Chinese Customer Satisfaction Survey”, the Company ranked 1st in “Chinese Customer Satisfaction Ranking List” for the fifth consecutive year.
- At the awarding ceremony of the second session of China Charity Festival organised by china.com.cn and china.com, the Company was honored the “2012 China Charity Festival –Collective Award” and our microfilm “Just wanna be with you” introduced in 2012 was awarded the “2012 Charity Image Award”.
- In the selection campaign of the most respectable enterprise in 2012-2013 organised by *Economic Observer*, the Company was honored the “2013 Most Respectable Enterprise Award”.
- At the press conference for the release of Social Responsibility Report for China Banking Industry in 2012 and the awarding ceremony for excellence in social responsibility works, the Company was honored the “Best Financial Institution in Social Responsibility of the Year”, and was granted four awards, namely the “Best Green Finance Award in Social Responsibility of the Year”, the “Best Public Welfare Contribution Award in Social Responsibility of the Year” and the “Public Charity Outstanding Programme Award of the Year”.
- In the selection campaign of “2013 China Advertising Great-wall Awards”, the Company’s brand marketing project of M+ card won the Gold Award for Marketing.

Summary of Accounting Data and Financial Indicators

2.1 Key Accounting Data and Financial Indicators

Operating Results

(in millions of RMB)	2013	2012 (restated)	Changes +/(-) %
Net operating income ^(note)	133,118	113,818	16.96
Profit before tax	68,425	59,558	14.89
Net profit attributable to the Bank's shareholders	51,743	45,268	14.30

Per Share

(RMB)	2013	2012 (restated)	Changes +/(-) %
Basic earnings attributable to the Bank's shareholders	2.30	2.10	9.52
Diluted earnings attributable to the Bank's shareholders	2.30	2.10	9.52
Year-end net assets attributable to the Bank's shareholders	10.53	9.28	13.47

Financial Indicators

(in millions of RMB)	As at 31 December 2013	As at 31 December 2012 (restated)	Changes +/(-) %
Total assets	4,016,399	3,408,099	17.85
of which: total loans and advances to customers	2,197,094	1,904,463	15.37
Total liabilities	3,750,443	3,207,698	16.92
of which: total deposits from customers	2,775,276	2,532,444	9.59
Total equity attributable to the Bank's shareholders	265,465	200,328	32.52

Note: Net operating income is the sum of net interest income, net fee and commission income, other net income as well as the share of investment gains of associates and joint ventures.

2.2 Financial Ratios

(%)	2013	2012 (restated)	Changes +/(–)
Profitability indicators			
Return on average assets (after tax) attributable to the Bank's shareholders	1.39	1.46	(0.07)
Return on average equity (after tax) attributable to the Bank's shareholders	22.22	24.78	(2.56)
Net interest spread	2.65	2.87	(0.22)
Net interest margin	2.82	3.03	(0.21)
As percentage of operating income			
– Net interest income	74.30	77.65	(3.35)
– Net non-interest income	25.70	22.35	3.35
Cost-to-income ratio (excluding business tax and surcharges)	34.23	35.85	(1.62)

(%)	As at 31 December 2013	As at 31 December 2012	Changes +/(–)
Capital adequacy indicators⁽¹⁾			
Tier 1 capital adequacy ratio	9.27	8.34	0.93
Capital adequacy ratio	11.14	11.41	(0.27)
Total equity to total assets	6.62	5.88	0.74
Asset quality indicators			
Non-performing loan ratio	0.83	0.61	0.22
Allowance coverage ratio of non-performing loans ⁽²⁾	266.00	351.79	(85.79)
Allowance ratio of loans ⁽³⁾	2.22	2.16	0.06

Notes: (1) According to the requirements of the "Administrative Measures for the Capital of Commercial Banks (Trial)" (商業銀行資本管理辦法(試行)) promulgated by CBRC and other relevant regulations, the Group, from 1 January 2013, started to calculate various capital adequacy indicators and made retrospective adjustments on the data as at the end of 2012.

(2) Allowance coverage ratio of non-performing loans = allowances for impairment losses/balance of non-performing loans.

(3) Allowance ratio of loans = allowances for impairment losses/total loans and advances.

2.3 Five-year Financial Summary

(in millions of RMB)	2013	2012 (restated)	2011	2010	2009
Results for the year					
Net operating income	133,118	113,818	96,666	71,756	51,917
Operating expenses	54,144	48,356	40,889	32,634	26,207
Impairment losses on assets	10,218	5,583	8,350	5,501	2,971
Profit before tax	68,425	59,558	47,122	33,343	22,384
Net profit attributable to the Bank's shareholders	51,743	45,268	36,129	25,769	18,235
Per share					
Dividend	0.62	0.63	0.42	0.29	0.21
Basic earnings	2.30	2.10	1.67	1.23	0.95
Diluted earnings	2.30	2.10	1.67	1.23	0.95
Year-end net assets attributable to the Bank's shareholders	10.53	9.28	7.65	6.21	4.85
Year end					
Share capital	25,220	21,577	21,577	21,577	19,119
Total shareholders' equity	265,956	200,401	165,010	134,006	92,783
Total liabilities	3,750,443	3,207,698	2,629,961	2,268,501	1,975,158
Deposits from customers	2,775,276	2,532,444	2,220,060	1,897,178	1,608,146
Total assets	4,016,399	3,408,099	2,794,971	2,402,507	2,067,941
Net loans and advances to customers ⁽¹⁾	2,148,330	1,863,325	1,604,371	1,402,160	1,161,817
Key financial ratios					
Return on average assets (after tax) attributable to the Bank's shareholders	1.39	1.46	1.39	1.15	1.00
Return on average equity (after tax) attributable to the Bank's shareholders	22.22	24.78	24.17	22.73	21.17
Cost-to-income ratio	34.23	35.85	36.00	39.69	44.45
Non-performing loan ratio	0.83	0.61	0.56	0.68	0.82
Tier 1 capital adequacy ratio	9.27	8.34	8.22	8.04	6.63
Capital adequacy ratio	11.14	11.41	11.53	11.47	10.45

Note: (1) Net loans and advances to customers represent gross loans and advances to customers less allowances for loan impairment losses.

Chairman's Statement

In 2013, the world economy made a difficult recovery through adjustments. Domestic Economy faced mounting downward pressure with the stringent issue of overcapacity, and the banking industry faced continuous increase of non-performing loans, increasing complexity and diversity of business structure, the growing momentum of internet banking, as well as the acceleration of interest rate liberalisation and financial disintermediation. Facing such plights and challenges, CMB, in adherence to its guiding principles of achieving balanced development of efficiency, quality and scale, achieved favourable operating results and expected profit growth thanks to the strong support from people from all walks of life, thus continuously creating value for its shareholders.

In 2013, net profit attributable to the shareholders of the Bank amounted to RMB51.743 billion, up 14.30% year-on-year; and its ROAA and ROAE were 1.39% and 22.22%, respectively. There were steady growth in net interest income, continuous decline in cost to income ratio, rapid growth in net fee and commission income and steady improvement in operating performance.

By adhering to the "effective corporate governance" principle and focusing on the goals of balanced development and "Second Transformation", the Board of Directors successfully led the Bank to overcome all sorts of unfavourable circumstances and stay firm in its direction, made unremitting efforts in exploration, and accomplished two significant tasks which were crucial to the healthy and sustainable development of the Company.

Firstly, the Company realised a changeover of the Board of Directors and the senior management, ensuring a smooth transition and effective connection of the Board of Directors and the senior management. While a new round of reform is about to roll out in China, and domestic banking industry is currently accelerating its transformation, CMB, with a mission of building a bank that thrives for centuries, put top priority on the smooth changeover of the Board of Directors and the senior management. CMB will take this as an opportunity to inherit the past and usher in the future, and take proactive measures to overcome challenges and deepen the "Second Transformation".

Secondly, the Company successfully completed the Rights Issue of A shares and H shares, thus replenishing its capital on a timely basis. Thanks to the strong support from investors, CMB successfully completed the Rights Issue of A shares and H shares at a subscription rate of 96.39% for the A Shares and an oversubscription rate of 457.81% for the H Shares respectively, raising approximately RMB33.66 billion of net capital in aggregate, despite the low discount rate of the market. Completion of the Rights Issues effectively replenished the capital of the Company in a timely manner, laying a solid foundation for a new round of innovation and transformation and sustainable development of the bank.



Fu Yuning
Chairman

The Company continued to proceed with process re-engineering in 2013, further enhancing the efficiency in management and operation as well as customer service. Amidst rapid changes in market and customer needs, ever-changing mode of industry competition and the acceleration of financial disintermediation and interest rate liberalisation, China's banking industry is undergoing reform, transformation and upgrading, while CMB also made significant progress in its process re-engineering. During the year, in adherence to the "customer-centric" philosophy and the guiding principles of "overall design, gradual implementation, key breakthroughs and constant optimisation", the Company took a critical step forward to promote system reform by officially adjusting the organisational structure of corporate finance function at the Head Office within the year, as well as to build a strong asset management platform by initiating adjustment of the inter-bank finance organization structure at the Head Office.

Under the background of decelerated economic growth and deepened structural adjustment, the Company adhered to the prudent and sound risk management concept, and effectively controlled and monitored capital management and risk management. In 2013, China's domestic economy was impeded by slower growth rate and deepening economic restructuring and upgrading, which led to continuous increase in non-performing loans of the banking industry. As a result, both the ratio and balance of non-performing loans of CMB increased at the end of the year, and credit risk and liquidity risk showed an upward trend, resulting in greater challenges for risk management and control. Adhering to the sound and prudent risk management concept, the Board devoted more efforts to overall risk management, strengthened its guiding role in capital management, and effectively controlled and monitored capital management and risk management, so as to achieve a balance between risk management and profitability.

The Company further improved the remuneration management system for its senior management, constantly strengthened its internal control, internal audit and management of connected transactions. CMB constantly implemented long-term incentives for its senior management, and improved management measures on the remuneration of senior management. CMB oversaw the implementation of audit on financial reports, conducted internal control assessment and audit, as well as internal audit, and supervised the management of connected transactions across the Bank, so as to achieve standardised and effective management of connected transactions.

The Company proactively implemented the new codes on corporate governance promulgated by the CBRC, and constantly improved and enhanced the operation of the Board. On 19 July 2013, the CBRC issued "Guidelines on the Corporate Governance of Commercial Banks" (hereinafter referred to as the "Guidelines"), which specified the requirements for standardising Board operation and performance of duties by directors, and enhancing the functions of the Board in strategic management, capital management, risk management and internal control. In accordance with the requirements of the Guidelines and the actual situations of CMB in corporate governance, the Board formulated specific implementation plans to improve and enhance its operation, in order to set a correct direction for the future development of CMB by further leveraging on the scientific decision-making function of the Board.

While upholding integrity in operation and compliance with regulation, the Company proactively fulfilled its social responsibilities, and devoted to the harmonious and win-win relationship between the Company and the society. CMB strictly adhered to and implemented national macro-economic control policies, supported industrial restructuring and upgrading, assisted the development of small and micro enterprises, increased the support for economic development and people's livelihood in Central and Western China, supported the global development of Chinese enterprises which were "going global" through its cross-border finance services, proactively implemented national energy-saving and environmental protection policies, vigorously promoted green credit, supported the development of emerging industries, proactively incorporated the concept of environmental protection into each and every aspect of its daily operation, and promoted the development of green and low-carbon industries.

2013 was a year of drastic changes with immense ups and downs. The equilibrium between rapid and steady development became more difficult to achieve, and the cost of the original growth model became increasingly high. The Third Plenary Session of the 18th CPC Central Committee has initiated a new round of reform. The transition between the new and the old systems and the upgrade in development path will result in more uncertainties in the operating environment, and new opportunities, too.

Looking forward to 2014, the global economy will continue its pace of slow recovery, the problem of global debts risk has not been solved completely, and US Federal Reserve's expected exit from quantitative easing policies will expose the global economy and financial markets to huge potential risks. The domestic economy has reached a special historical moment attributable to decelerated growth rate, painful structural adjustment and gradual digestion of previously implemented economic incentive policies. To cope with these challenges, CMB will study and analyze the external environment and its development direction from a more future-oriented, progressive and dynamic perspective. CMB will strive for "smart growth", that is, growth derived from high-value customers, growth enhanced by capabilities in risk prediction, management and control, growth achieved through effective innovations, and eventually the smart growth featuring "efficiency, quality and sustainability".

Cherishing the achievements made in the past, CMB will grasp development opportunities arising today while looking forward to the future in the hope that in the traditional Chinese "Year of the Horse", with joint efforts of all staff of CMB, we will forge ahead to reach new heights and make new achievements.

China Merchants Bank Co., Ltd.
Chairman



President's Statement

In spite of the complicated external environment in 2013, China Merchants Bank was committed to and determined in fulfilling the requirements of both the regulators and the Board of Directors, managed to overcome various unfavourable factors, and sustained an overall steady momentum of growth.

As at the end of 2013, the total assets of the Group amounted to RMB4.02 trillion, up by 17.85% from the beginning of the year; total deposits from customers amounted to RMB2.78 trillion, up 9.59% from the beginning of the year; and total loans and advances to customers amounted to RMB2.20 trillion, up 15.37% from the beginning of the year. The return on average net assets (after tax) attributable to the shareholders of the Bank was 22.22%, down 2.56 percentage points year-on-year. The cost-to-income ratio was 34.23%, representing a decrease of 1.62 percentage points compared with the previous year. The capital adequacy ratio was 11.14%, the non-performing loan ratio was 0.83%, and the allowance coverage ratio of non-performing loans stood at 266.00%. Net profit attributable to the shareholders of the Bank amounted to RMB51.743 billion, up 14.30% year-on-year.

In 2013, the Bank proactively promoted the rapid development of all businesses, further reinforced its leading position in wealth management and private banking, achieved the highest increase in small and micro enterprises loans among peers for two consecutive years, promoted the sound and rapid development of credit card business, and launched innovative products and services such as the M+ debit card, the WeChat Banking Platform, the mobile wallet and the comprehensive service solution for remuneration finance. In addition, the Bank particularly promoted the marketing for corporate deposits, accelerated the development of emerging financing businesses, steadily promoted the specialised operation of small enterprises business, and vigorously expanded the "Qian Ying Zhan Yi" program, and achieved rapid growth in income from intermediary businesses such as investment banking, cash management and corporate asset management. The Bank maintained fast development in wealth management business, vigorously developed interbank business, and our cross-border Renminbi settlement and gold leasing businesses continued to lead all domestic joint-stock banks.

In 2013, the Bank made great efforts in risk prevention, internal control and compliance, implemented comprehensive risk screening, strengthened risk pre-warning and exit mechanism, broadened channels for disposal of non-performing assets, strictly carried out categorised management of assets, and vigorously enhanced the management of asset quality. The Bank strengthened the management and control over risks associated with loans extended to local government financing platforms, real estate enterprises and overcapacity industries, closely monitored credit risks of emerging financing businesses, and strictly guarded itself against external risks related to guarantee agencies and microfinance companies. The Bank effectively improved the management of liquidity risk, market risk, operational risk and reputational risk, and greatly intensified risk monitoring of wealth management products and strengthened compliance requirements on their sales. The Company furthered its efforts in internal control and compliance management, raised the intensity in audit, inspection, rectification, and accountability, committed itself to the prevention of money laundering and terrorism financing, and maintained a pressing posture on misconducts. No serious incident of misconduct occurred during the year.



Tian Huiyu
President

In 2013, the Bank strengthened its internal management, developed a three-year implementation plan on process re-engineering, and officially launched the reform on the organisational structure of corporate finance and interbank finance businesses at the head office. The Bank made overall improvement in the branch performance assessment system and upgraded its budget management, asset and liability management, capital management and expenditure and income management, and completed fund-raising through the rights issue of A Shares and H Shares. The Bank optimised its talent selection mechanism, widened career development paths for employees, and accelerated the adjustment on workforce structure. The third-generation core business system was successfully launched and put into operation. The dual-data-center system made smooth progress, thereby realising dual-centre operation in the main units of some businesses.

In 2013, the Bank steadily promoted its international and integrated operations, and further improved the three main sets of products, namely, "Shang Mao Tong (商貿通)", "Zi Ben Tong (資本通)" and "Cai Fu Tong (財富通)", achieving significant results in cross-border business coordination. The integration of Wing Lung Bank was further promoted. Wing Lung Bank's key competencies were further strengthened, and a relatively rapid growth in net earnings was thusly achieved. The Bank's Hong Kong Branch and New York Branch continued their sound growth momentum, while the Singapore Branch successfully commenced operation. CMB International Capital and CMB Financial Leasing achieved rapid development, and the acquisition of equity interests in CMB Fund and CIGNA & CMB Life Insurance was completed.

In 2013, the Bank's overall brand image continued to receive high recognition from the community, which was evidenced by over 140 awards granted by prestigious media at home and abroad, including the awards of "Best Retail Bank in China", "Best Private Bank in China", "Best Cash Management Bank in China" and "Best Custodian Bank in China".

The above achievements were attributable to the hard work of our staff and the unwavering support from our customers, investors and all walks of life. On behalf of China Merchants Bank, I would like to extend my sincere gratitude to all who care about and support the development of China Merchants Bank.

Looking forward to 2014, we will adhere to the guiding principle of "speeding up transformation and achieving steady development" to overcome obstacles, work diligently and forge ahead with innovative ideas, so as to usher in a new era of sustainable growth for China Merchants Bank with the concerted efforts of our dedicated staff.

China Merchants Bank Co., Ltd.
President





Han Mingzhi
Chairman of the Board of Supervisors

Report of the Board of Directors

5.1 Analysis of General Operating Status

In 2013, despite the complicated external situation, the Group overcame various unfavourable factors, vigorously promoted the “Second Transformation” and generally maintained a steady development, which were reflected mainly in the following aspects:

Profitability improved steadily. In 2013, the Group accomplished a net profit attributable to the shareholders of RMB51.743 billion, representing an increase of RMB6.475 billion or 14.30% as compared with the previous year. The Group realised a net interest income of RMB98.913 billion and a net non-interest income of RMB34.205 billion, representing an increase of RMB10.539 billion or 11.93%, and an increase of RMB8.761 billion or 34.43% respectively as compared with the previous year. The ROAA and ROAE attributable to the shareholders of the Bank were 1.39% and 22.22%, decreased by 0.07 percentage point and 2.56 percentage points from 1.46% and 24.78% for 2012 respectively. Our operating performance was improved steadily, which was driven by (i) an increase in net interest income brought about by the expansion of asset scale; (ii) a continuous decline in the cost-to-income ratio which was attributable to more standardised and refined financial management; and (iii) a rapid growth in net fee and commission income thanks to our intensified efforts in capitalising on customers’ demand for comprehensive wealth management and the opportunities brought about by stronger consumption demand to develop the intermediary businesses.

The scale of assets and liabilities expanded steadily. As at the end of 2013, the Group’s total assets amounted to RMB4,016.399 billion, representing an increase of RMB608.300 billion or 17.85%, as compared with the beginning of the year. The total loans and advances to customers amounted to RMB2,197.094 billion, representing an increase of RMB292.631 billion or 15.37%, as compared with the beginning of the year. The total deposits from customers amounted to RMB2,775.276 billion, representing an increase of RMB242.832 billion or 9.59%, as compared with the beginning of the year.

The non-performing assets increased while the allowance coverage ratio remained stable. As at the end of 2013, the Group had a balance of non-performing loans of RMB18.332 billion, representing an increase of RMB6.638 billion as compared with the beginning of the year. The non-performing loan ratio was 0.83%, up by 0.22 percentage point as compared with the beginning of the year. The non-performing loan allowance coverage ratio was 266.00%, representing a decrease of 85.79 percentage points as compared with the beginning of the year.

5.2 Analysis of Income Statement

5.2.1 Financial highlights

(in millions of RMB)	2013	2012 (restated)
Net interest income	98,913	88,374
Net fee and commission income	29,184	19,739
Other net income	4,933	5,641
Operating expenses	(54,144)	(48,356)
Provision for insurance claims	(331)	(321)
Gains on investment in associates	53	31
Gains on investment in joint ventures	35	33
Impairment losses on assets	(10,218)	(5,583)
Profit before tax	68,425	59,558
Income tax	(16,683)	(14,286)
Net profit	51,742	45,272
Net profit attributable to the Bank's shareholders	51,743	45,268

In 2013, the Group realised a profit before tax of RMB68.425 billion and an effective income tax rate of 24.38%, representing an increase of 14.89% and 0.39 percentage point respectively as compared with those of 2012.

The following table sets out the impact on the profit before tax of the Group for 2013 by changes in major income/loss items.

Changes in profit before tax

(in millions of RMB)

Profit before tax for 2012	59,558
Changes in 2013	
Net interest income	10,539
Net fee and commission income	9,445
Other net income	(708)
Operating expenses	(5,788)
Provision for insurance claims	(10)
Impairment losses on assets	(4,635)
Gains on investment in associates and joint ventures	24
Profit before tax for 2013	68,425

5.2.2 Operating income

In 2013, the net operating income of the Group was RMB133.118 billion, representing an increase of 16.96% as compared with that of 2012. The net interest income accounted for 74.30% of the total net operating income, representing a decrease of 3.35 percentage points from 2012; the net non-interest income accounted for 25.70% of the total net operating income, representing an increase of 3.35 percentage points from 2012.

The following table sets out the composition of the net operating income of the Group in the past 5 years.

(%)	2013	2012	2011	2010	2009
Net interest income	74.30	77.65	78.94	79.54	77.75
Net fee and commission income	21.92	17.34	16.17	15.79	15.40
Other net income	3.71	4.96	4.83	4.58	6.72
Gains on investment in associates and joint ventures	0.07	0.05	0.06	0.09	0.13
Total	100.00	100.00	100.00	100.00	100.00

5.2.3 Net interest income

In 2013, the Group's net interest income amounted to RMB98.913 billion, representing an increase of 11.93% as compared with that of 2012.

The following table sets out the average balances of assets and liabilities, interest income/interest expense, and average yield/cost of the Group during the period indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

(in millions of RMB, excluding percentages)	2013			2012		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances	2,092,074	127,630	6.10	1,770,103	115,926	6.55
Investments	542,652	21,621	3.98	424,382	15,944	3.76
Balances with central bank	472,535	7,296	1.54	415,349	6,392	1.54
Placements with banks and other financial institutions	399,959	16,948	4.24	311,589	11,839	3.80
Total interest-earning assets and interest income	3,507,220	173,495	4.95	2,921,423	150,101	5.14
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Interest-bearing liabilities						
Deposits from customers	2,583,045	48,475	1.88	2,214,822	42,308	1.91
Placements from banks and other financial institutions	582,573	22,826	3.92	449,871	16,648	3.70
Issued debts	70,396	3,281	4.66	56,843	2,771	4.87
Total interest-bearing liabilities and interest expense	3,236,014	74,582	2.30	2,721,536	61,727	2.27
Net interest income	/	98,913	/	/	88,374	/
Net interest spread	/	/	2.65	/	/	2.87
Net interest margin	/	/	2.82	/	/	3.03

In 2013, being negatively affected by the re-pricing of assets due to decline in interest rates and the rising costs of inter-bank lending, net interest margin and net interest spread of the Group were 2.82% and 2.65% respectively, down 21 basis points and 22 basis points respectively as compared with those of 2012.

The following table sets forth, for the period indicated, the breakdown of changes in interest income and interest expenses due to changes in value and interest rate. Changes in value are measured by changes of average balances (daily average balance), while changes in interest rate are measured by changes in the average interest rates; interest income and expense changes caused by changes in value and interest rate together are counted as changes incurred by value.

(in millions of RMB)	2013 compared with 2012		
	Increase/(decrease) due to		Net increase/ (decrease)
	Value	Interest rate	
Assets			
Loans and advances	19,669	(7,965)	11,704
Investments	4,743	934	5,677
Balances with central bank	904	–	904
Placements with banks and other financial institutions	3,738	1,371	5,109
Changes in interest income	29,054	(5,660)	23,394
Liabilities			
Deposits from customers	6,831	(664)	6,167
Placements from banks and other financial institutions	5,188	990	6,178
Issued debts	629	(119)	510
Changes in interest expense	12,648	207	12,855
Changes in net interest income	16,406	(5,867)	10,539

The following table sets out the average balances of assets and liabilities, interest income/interest expense and annualised average yield/cost of the Group during the period indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

	July to September 2013			October to December 2013		
	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
<i>(in millions of RMB, excluding percentages)</i>						
Interest-earning assets						
Loans and advances	2,161,456	33,083	6.07	2,188,381	33,840	6.13
Investments	573,985	5,850	4.04	675,619	7,127	4.19
Balances with central bank	479,901	1,874	1.55	490,387	1,903	1.54
Placements with banks and other financial institutions	434,082	4,489	4.10	395,345	4,946	4.96
Total interest-earning assets and interest income	3,649,424	45,296	4.92	3,749,732	47,816	5.06

	July to September 2013			October to December 2013		
	Average balance	Interest expense	Annualised average cost (%)	Average balance	Interest expense	Annualised average cost (%)
<i>(in millions of RMB, excluding percentages)</i>						
Interest-bearing liabilities						
Deposits from customers	2,639,798	12,641	1.90	2,669,915	12,803	1.90
Placements from banks and other financial institutions	657,028	6,703	4.05	697,662	7,965	4.53
Issued debts	70,921	821	4.59	67,805	707	4.14
Total interest-bearing liabilities and interest expense	3,367,747	20,165	2.38	3,435,382	21,475	2.48
Net interest income	/	25,131	/	/	26,341	/
Net interest spread	/	/	2.54	/	/	2.58
Net interest margin	/	/	2.73	/	/	2.79

In the fourth quarter of 2013, the net interest spread of the Group was 2.58%, up by 4 basis points as compared with the third quarter of 2013. The annualised average yield of the interest-earning assets was 5.06%, up by 14 basis points as compared with the third quarter of 2013 while the annualised average cost of interest-bearing liabilities was 2.48%, up by 10 basis points as compared with the third quarter of 2013.

In the fourth quarter of 2013, the net interest margin of the Group was 2.79%, up by 6 basis points as compared with the third quarter of 2013.

5.2.4 Interest income

In 2013, the Group recorded an interest income of RMB173.495 billion, an increase of 15.59% as compared with that of 2012, mainly due to the steady increase in the volume of interest-earning assets. Interest income from loans and advances still constituted the majority of the interest income of the Group.

Interest income from loans and advances

In 2013, the interest income from loans and advances of the Group was RMB127.630 billion, representing an increase of RMB11.704 billion or 10.10% as compared with the previous year. Affected by the re-pricing of assets due to the decrease in interest rates, the average yield of loans and advances of the Group decreased by 0.45 percentage point to 6.10% as compared with the previous year.

The following table sets forth, for the periods indicated, the average balance, the interest income and the average yield of different types of loans and advances of the Group.

(in millions of RMB, excluding percentages)	2013			2012		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	1,262,701	72,765	5.76	1,072,195	68,719	6.41
Retail loans	743,453	50,120	6.74	608,940	41,303	6.78
Discounted bills	85,920	4,745	5.52	88,968	5,904	6.64
Loans and advances	2,092,074	127,630	6.10	1,770,103	115,926	6.55

In 2013, from the perspective of the terms of loans and advances of the Company, the average balance of short-term loans was RMB1,086.316 billion, with the interest income amounting to RMB70.155 billion, and the average yield reaching 6.46%; the average balance of medium to long-term loans was RMB834.828 billion, with the interest income amounting to RMB50.336 billion, and the average yield reaching 6.03%.

Interest income from investments

In 2013, the interest income from investments of the Group increased by RMB5.677 billion or 35.61% as compared with the previous year, and the average yield of investments was 3.98%, up 0.22 percentage point as compared with the previous year.

Interest income from placements with banks and other financial institutions

In 2013, the interest income from placements with banks and other financial institutions of the Group increased by RMB5.109 billion or 43.15% as compared with the previous year, and the average yield for placements with banks and other financial institutions was 4.24%, up 0.44 percentage point as compared with the previous year, which was primarily attributable to the increase in the interest rate of inter-bank lending in an environment of tight liquidity.

5.2.5 Interest expense

In 2013, the interest expense of the Group was RMB74.582 billion, an increase of RMB12.855 billion or 20.83% as compared with the previous year, which was primarily attributable to the increase of volume, change of structure and rise of cost of interest-bearing liabilities.

Interest expense on deposits from customers

In 2013, the Group's interest expense on deposits from customers increased by RMB6.167 billion or 14.58% as compared with the previous year, which was primarily attributable to the 16.63% increase of the average balance of deposits from customers as compared with the previous year.

The following table sets forth, for the periods indicated, the average balance, the interest expense and the average cost for deposits from corporate and retail customers of the Group.

(in millions of RMB, excluding percentages)	2013			2012		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Deposits from corporate customers						
Demand	759,533	5,339	0.70	684,050	5,061	0.74
Time	901,611	28,510	3.16	727,811	23,900	3.28
Subtotal	1,661,144	33,849	2.04	1,411,861	28,961	2.05
Deposits from retail customers						
Demand	530,799	2,701	0.51	461,912	2,659	0.58
Time	391,102	11,925	3.05	341,049	10,688	3.13
Subtotal	921,901	14,626	1.59	802,961	13,347	1.66
Total deposits from customers	2,583,045	48,475	1.88	2,214,822	42,308	1.91

Interest expense on placements from banks and other financial institutions

In 2013, the interest expense on placements from banks and other financial institutions of the Group increased by 37.11% as compared with the previous year, which was primarily attributable to the increase of the amount of placements from banks and other financial institutions, and the increase in the interest rate of inter-bank lending in an environment of tight liquidity.

Interest expense on issued debts

In 2013, the interest expense on issued debts of the Group increased by 18.40% as compared with the previous year, which was primarily attributable to an increase in the value of issued debts.

5.2.6 Net non-interest income

In 2013, the Group recorded a net non-interest income of RMB34.205 billion, representing an increase of RMB8.761 billion or 34.43% as compared with the previous year. Specifically, the net non-interest income from retail banking business amounted to RMB16.901 billion, an increase of 35.14% over the previous year, accounting for 49.41% of the Group's net non-interest income; the net non-interest income from wholesale banking business amounted to RMB16.695 billion, an increase of 44.95% over the previous year, accounting for 48.81% of the Group's net non-interest income.

The following table sets forth, for the periods indicated, the principal components of net non-interest income of the Group.

(in millions of RMB)	2013	2012
Fee and commission income	31,365	21,167
Less: Fee and commission expense	(2,181)	(1,428)
Net fee and commission income	29,184	19,739
Other net non-interest income	5,021	5,705
Total net non-interest income	34,205	25,444

5.2.7 Net fee and commission income

In 2013, net fee and commission income of the Group increased by RMB9.445 billion or 47.85% as compared with the previous year, which was primarily attributable to the increase in commissions from custody and other trustee businesses, bank card fees, financial advisory fees and agency services fees.

The following table sets forth, for the periods indicated, the principal components of net fee and commission income of the Group.

(in millions of RMB)	2013	2012
Fee and commission income	31,365	21,167
Bank card fees	8,309	5,825
Settlement and clearing fees	2,756	2,211
Agency services fees	5,143	3,924
Commissions from credit commitment and loan business	2,873	2,229
Commissions from custody and other trustee businesses	7,187	4,594
Others	5,097	2,384
Fee and commission expense	(2,181)	(1,428)
Net fee and commission income	29,184	19,739

Bank card fees increased by RMB2.484 billion or 42.64% as compared with the previous year, benefiting from the rapid increase in the income from credit card repayment by instalments and other incomes.

Settlement and clearing fees increased by RMB545 million or 24.65% as compared with the previous year, benefiting from the steady increase in online consumption, online electronic remittance and transfer and other settlement volume.

Agency services fees increased by RMB1.219 billion or 31.07% as compared with the previous year, primarily attributable to the steady growth in the fees from distribution of fund and the fees from distribution of third-party insurance policies.

Commissions from credit commitment and loan business increased by RMB644 million or 28.89% as compared with the previous year, benefiting from the growth of fees from international guarantee and factoring businesses.

Commissions from custody and other trustee businesses increased by RMB2.593 billion or 56.44% as compared with the previous year, benefiting from the rapid growth of income from wealth management business such as entrusted wealth management by increasing product supply and product offering. Of which, income from entrusted wealth management was RMB3.396 billion, an increase of 83.27% as compared with the previous year and income from sales of third party trust plan amounted to RMB2.233 billion, an increase of 19.54% as compared with the previous year.

Other fee and commission income increased by RMB2.713 billion or 113.80% as compared with the previous year, which was mainly attributable to the increase of financial advisory fees income by RMB1.519 billion as compared with the previous year.

5.2.8 Other net income

In 2013, other net income of the Group decreased by RMB708 million or 12.55% as compared with the previous year, which was mainly due to a decline in prices of the debt securities held for trading and precious metals and an increase in net loss resulted from changes in the fair value of financial instruments held for trading and precious metals. The following table sets forth, for the periods indicated, the principal components of other net income of the Group.

(in millions of RMB)	2013	2012
Net trading profit/(loss)		
– Foreign exchange	891	1,296
– Securities, derivatives and other trading activities	(560)	425
Net gains on financial instruments designated at fair value through profit or loss	580	180
Net gains on disposal of available-for-sale investments	104	78
Gains on investment in funds	19	24
Rental income on assets under operating lease	414	318
Net bills spread income	2,469	2,766
Insurance operating income	426	414
Others	590	140
Other net income in total	4,933	5,641

5.2.9 Operating expenses

In 2013, operating expenses of the Group were RMB54.144 billion, representing an increase of 11.97% as compared with that of 2012. The cost-to-income ratio was 34.23%, representing a decrease of 1.62 percentage points as compared with the previous year. The standardisation and sophistication in expense management of the Group were further improved, and the awareness of conservation and intensiveness was further enhanced, leading to a stable but slower increase in operating expenses compared with that of operating income. Staff costs increased by 12.75% as compared with that of 2012 due to the increase in headcount. Return on investments was improved while business was expanded. Other general and administrative expenses increased by 8.73% as compared with that of 2012, and depreciation charges and rental expenses increased by 12.69% and 13.77% respectively as compared with those of 2012.

The Company has always attached great importance to investments in research and development. In 2013, our research and development expenses amounted to RMB3.194 billion, representing an increase of 26.80% as compared with that of 2012.

The following table sets forth, for the periods indicated, the principal components of the operating expenses of the Group.

(in millions of RMB)	2013	2012 (restated)
Staff costs	26,990	23,938
Business tax and surcharges	8,579	7,555
Depreciation of fixed assets and investment properties	3,224	2,864
Depreciation of fixed assets under operating lease	71	60
Rental expenses	2,801	2,462
Other general and administrative expenses	12,479	11,477
Total operating expenses	54,144	48,356

5.2.10 Impairment losses on assets

In 2013, impairment losses on assets of the Group were RMB10.218 billion, an increase of 83.02% as compared with that of 2012. The following table sets forth, for the periods indicated, the principal components of impairment losses on the assets of the Group.

(in millions of RMB)	2013	2012
Assets impairment charged/(released) on		
– Loans and advances	10,196	5,491
– Investments	(16)	29
– Placements with banks and other financial institutions	(32)	(2)
– Other assets	70	65
Total impairment losses on assets	10,218	5,583

Impairment losses on loans constituted the largest proportion of impairment losses on assets. In 2013, impairment losses on loans were RMB10.196 billion, representing an increase of 85.69% as compared with the previous year, which was mainly attributable to the increase in the volume of loans and deteriorated loan quality. For details of the provision for impairment losses on loans, please refer to the section headed “Loan quality analysis” in this chapter.

5.3 Analysis of Balance Sheet

5.3.1 Assets

As at 31 December 2013, the total assets of the Group amounted to RMB4,016.399 billion, representing an increase of 17.85% as compared with the end of 2012, which was mainly attributable to the increase in loans and advances to customers, investments and financial assets purchased under resale agreement of the Group.

The following table sets forth, as at the dates indicated, the components of the total assets of the Group.

(In millions of RMB, excluding percentages)	31 December 2013		31 December 2012 (restated)	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Total loans and advances to customers	2,197,094	54.70	1,904,463	55.88
Provision for impairment losses on loans	(48,764)	(1.21)	(41,138)	(1.21)
Net loans and advances to customers	2,148,330	53.49	1,863,325	54.67
Investments	763,401	19.01	520,446	15.27
Cash, precious metal and balances with central bank	523,872	13.04	471,415	13.83
Balances with banks and other financial institutions	38,850	0.97	280,870	8.24
Inter-bank lending and financial assets purchased under repurchase agreements	466,952	11.63	210,385	6.17
Interest receivable	17,699	0.44	13,009	0.38
Investment in associates and joint ventures	778	0.02	455	0.01
Fixed assets	24,199	0.60	20,392	0.60
Investment properties	1,701	0.04	1,638	0.05
Intangible assets	2,996	0.07	2,851	0.09
Deferred tax assets	8,064	0.20	4,993	0.15
Goodwill	9,953	0.25	9,598	0.28
Other assets	9,604	0.24	8,722	0.26
Total assets	4,016,399	100.00	3,408,099	100.00

5.3.1.1 Loans and advances

As at 31 December 2013, total loans and advances of the Group amounted to RMB2,197.094 billion, representing an increase of 15.37% as compared with the end of the previous year; total loans and advances accounted for 54.70% of the total assets, representing a decrease of 1.18 percentage points as compared with the end of the previous year.

Distribution of loans by product type

The following table sets forth, as at the dates indicated, the loans and advances to customers of the Group by product type.

(In millions of RMB, excluding percentages)	31 December 2013		31 December 2012	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Corporate loans	1,325,810	60.34	1,152,837	60.53
Discounted bills	71,035	3.24	64,842	3.41
Retail loans	800,249	36.42	686,784	36.06
Total loans and advances to customers	2,197,094	100.00	1,904,463	100.00

Corporate loans

As at 31 December 2013, the Group's total corporate loans amounted to RMB1,325.810 billion, representing an increase of 15.00% as compared with the end of the previous year. Total corporate loans accounted for 60.34% of total loans and advances to customers, representing a decrease of 0.19 percentage point as compared with the end of the previous year. In 2013, taking into account the adjustment in total loan volume and structural adjustment, the Group supported the development of the real economy and accelerated the promotion of loans granted to small enterprises, thus optimising the corporate loan structure.

Discounted bills

As at 31 December 2013, discounted bills amounted to RMB71.035 billion, representing an increase of 9.55% as compared with the end of the previous year. The Group has been expanding its discounted bills business, as the risk of this business was relatively low and capital consumption was relatively small. According to the timeline of granting loans, the Group flexibly adjusted the scale of bills financing and adopted a series of measures, including optimised structure, centralised operation, accelerated circulation, and expanded volume to increase the overall return on bill assets.

Retail loans

As at 31 December 2013, retail loans amounted to RMB800.249 billion, representing an increase of 16.52% as compared with the end of the previous year. As at 31 December 2013, retail loans accounted for 36.42% of total loans and advances, up by 0.36 percentage point as compared with the end of the previous year. By adhering to the Second Transformation strategy, the Group deepened its comprehensive operation on the retail customers of small and micro enterprise business and continued to raise the proportion of the operating loans. For credit card business, the Group proactively adapted to the changing customer demands and external environment to build a differentiated competitive edge.

The following table sets forth, as at the dates indicated, the Group's retail loans by product type.

(In millions of RMB, excluding percentages)	31 December 2013		31 December 2012	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Personal operating loans	319,722	39.95	182,012	26.50
Residential mortgage loans	268,606	33.57	335,746	48.89
Credit card receivables	155,235	19.40	106,519	15.51
Others ^(Note)	56,686	7.08	62,507	9.10
Total retail loans	800,249	100.00	686,784	100.00

Note: Others consist primarily of automobile loans, house decoration loans, education loans, general consumption loans and retail loans secured by monetary assets.

5.3.1.2 Investments

Investments

Investments of the Group are composed of listed and unlisted financial instruments denominated in Renminbi and foreign currencies, including financial assets designated at fair value through profit or loss, derivative financial assets, available-for-sale investments, held-to-maturity investments and investment receivables.

The following table sets forth the components of the investment portfolio of the Group according to accounting classification.

(In millions of RMB, excluding percentages)	31 December 2013		31 December 2012	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Financial assets held for trading	14,611	1.91	19,139	3.68
Financial assets at fair value through profit or loss	8,612	1.13	6,350	1.22
Derivative financial assets	5,925	0.77	1,975	0.38
Available-for-sale investments	289,911	37.98	285,344	54.83
Held-to-maturity investments	208,927	27.37	175,417	33.70
Investment receivables	235,415	30.84	32,221	6.19
Total investments	763,401	100.00	520,446	100.00

Financial assets held for trading

The following table sets forth the components of the financial assets held for trading of the Group.

(In millions of RMB)	31 December 2013	31 December 2012
Bonds issued by the PRC government	4,129	1,221
Bonds issued by the People's Bank of China (PBOC)	–	23
Bonds issued by policy banks	339	2,931
Bonds issued by commercial banks and other financial institutions	6,642	11,518
Others ^(note)	3,501	3,446
Total financial assets held for trading	14,611	19,139

Note: Consists of other bonds, equity investments, investments in funds, etc.

Total financial assets at fair value through profit or loss

The following table sets forth the components of the financial assets at fair value through profit or loss of the Group.

(In millions of RMB)	31 December 2013	31 December 2012
Bonds issued by PRC government	285	298
Bonds issued by policy banks	995	1,015
Bonds issued by commercial banks and other financial institutions	5,055	3,971
Other bonds	2,277	1,066
Total financial assets at fair value through profit or loss	8,612	6,350

Available-for-sale investments

As at 31 December 2013, the net value of the available-for-sale investments of the Group increased by RMB4.567 billion or 1.60% as compared with the end of 2012. The investment in this category, which was the largest investment category of the Group, was made mainly due to the need to allocate assets and liabilities and to improve operating efficiency and performance.

In 2013, the central bank of China implemented its prudent monetary policy, proceeded with finance deleveraging and expedited interest rate liberalisation. Driven by downward domestic economy and loose liquidity in the first half of the year, the domestic bonds market went strong in the first five months of the year. In June 2013, the “liquidity shortage” burst out and caused a stumble in the domestic bonds market. In the second half of the year, affected by the moderately tight monetary policy and a tightly balanced liquidity supply, the domestic bonds market continued its downward trend, with the yield of certain bonds hitting a record high. The Group carried out in-depth studies and close monitoring on domestic and overseas macro-economic situations, monetary policies, market liquidity and other aspects, and formulated corresponding investment strategies. In response to the market trends, the Group took opportunities to increase investments in bonds, primarily in interest-bearing bonds and moderately increased its holdings of credit bonds when prime opportunity emerged. As a result, the Group optimised its assets and liabilities structure and achieved solid investment performance.

The following table sets forth the components of the available-for-sale investments portfolio of the Group.

(In millions of RMB)	31 December 2013	31 December 2012
Bonds issued by the PRC government	49,846	29,829
Bonds issued by the PBOC	229	5,928
Bonds issued by policy banks	27,922	39,270
Bonds issued by commercial banks and other financial institutions	105,747	109,240
Other bonds	105,056	100,254
Equity investments	1,537	1,334
Fund investments	74	18
Total available-for-sale investments	290,411	285,873
Less: provision for impairment losses	(500)	(529)
Net amount of available-for-sale investments	289,911	285,344

Held-to-maturity investments

As at 31 December 2013, the net amount of held-to-maturity investments of the Group increased by RMB33.510 billion or 19.10% as compared with the end of the previous year. Held-to-maturity investments are held on a long-term basis for the strategic purpose of the Group. Given the low base of our held-to-maturity securities investment and in order to moderately increase the duration of the investment portfolio to meet the requirement of interest rate risk management for bank accounts, the Group began to purchase more medium to long term bonds bearing fixed interest rates when the yields of bond market were at a high level. The purchase focused on bonds issued by the PRC government and policy banks which led to a faster growth of such category of investments.

The following table sets forth, as at the dates indicated, the components of held-to-maturity investments of the Group.

(In millions of RMB)	31 December 2013	31 December 2012
Bonds issued by the PRC government	90,483	74,780
Bonds issued by the PBOC	–	15,373
Bonds issued by policy banks	18,055	10,503
Bonds issued by commercial banks and other financial institutions	92,028	70,444
Other bonds	8,439	4,491
Total amount of held-to-maturity investments	209,005	175,591
Less: provision for impairment losses	(78)	(174)
Net amount of held-to-maturity investments	208,927	175,417

Investment receivables

Investment receivables are unlisted PRC certificated bonds and other investment in debt securities held by the Group, which are not publicly quoted in China or overseas. As at 31 December 2013, the Group's net investment receivables amounted to RMB235.415 billion, representing an increase of RMB203.194 billion as compared with the end of 2012, which was mainly due to increased investment in the Trust Beneficiary Rights and the Insurance Asset Management Plan.

The following table sets forth the composition of the Group's investment receivables.

(In millions of RMB)	31 December 2013	31 December 2012
Bonds issued by the PRC government	822	1,769
Bonds issued by commercial banks and other financial institutions	10,054	11,422
Other bonds	12,462	19,093
Insurance Asset Management Plan	40,670	–
Trust Beneficiary Rights and others	171,470	–
Total investment receivables	235,478	32,284
Less: provision for impairment losses	(63)	(63)
Net investment receivables	235,415	32,221

Carrying value and market value

All bond investments classified as financial assets at fair value through profit or loss and available-for-sale investments were stated at market value or at fair value. Due to lack of a mature market for the investment receivables in the Group's investment portfolio and the Group's expectation of being able to fully recover their carrying values upon maturity, the Group has not made any assessment on their market value or fair value.

The following table sets forth, as at the dates indicated, the carrying value and the market value of the held-to-maturity listed investments in our investment portfolio:

(In millions of RMB)	31 December 2013		31 December 2012	
	Carrying value	Market/ fair value	Carrying value	Market/ fair value
Held-to-maturity listed investments	204,642	195,499	173,850	173,941

Securities investments

Stock code	Name	Currency	Initial investment ('000)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Percentage of total investments at end of period (%)	Profits/ (losses) for the reporting period ('000)
00388.HK	Hong Kong Exchanges and Clearing Ltd.	HK\$	2,689	996,042	128,589	14.25	-
V	Visa Inc	HK\$	15,881	54,361	87,236	9.67	-
03988.HK	Bank of China Ltd.	HK\$	58,973	18,860,000	67,330	7.46	-
02388.HK	BOC Hong Kong (Holdings) Limited	HK\$	35,795	1,812,000	44,938	4.98	-
01288.HK	Agricultural Bank of China Ltd.	HK\$	32,323	10,000,000	38,100	4.22	-
06883.HK	Melco Crown Entertainment Limited	HK\$	21,058	110,000	33,435	3.71	12,377
01928.HK	Sands China Ltd.	HK\$	20,513	500,000	31,659	3.51	11,146
00027.HK	Galaxy Entertainment Group	HK\$	18,056	450,000	31,282	3.47	13,225
00005.HK	HSBC Holdings plc	HK\$	26,316	324,617	27,317	3.03	-
00941.HK	China Mobile Ltd.	HK\$	23,866	316,000	25,359	2.81	-
	Other securities investments at end of period	HK\$	315,873	N/A	387,045	42.89	(60)
Total		HK\$	571,343	N/A	902,290	100.00	36,688

Notes: 1. The above table ranked the securities according to their carrying values at the end of the period to show the top 10 holdings.

2. Other securities investments referred to those other than the top 10 holdings.

Analysis on investments in foreign currency bonds

As at 31 December 2013, the Group had a balance of investments in foreign currency bonds of US\$6,240 billion, among which US\$3.575 billion was held by the Company and US\$2.665 billion was held by Wing Lung Group.

As at 31 December 2013, the investments in foreign currency bonds held by the Company are categorized by issuer as follows: 19.36% of the foreign currency bonds were issued by the PRC government and Chinese companies; 45.65% by overseas governments and institutions; 20.46% by overseas financial institutions and 14.53% by overseas companies. The Company has made a provision for impairment losses of US\$92 million for its investments in foreign currency bonds (mainly for Lehman bonds).

*Companies in which the Company holds controlling interests and other Investee companies**Shareholdings in non-listed financial companies*

Name of companies	Initial investment ('000)	Shareholding percentage at beginning and end of period (%)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Profits/(losses) for the reporting period ⁽¹⁾ ('000)	Changes in owners' equity for the reporting period ('000)	Origination of shares
Wing Lung Bank Ltd.	32,081,937	100.00	231,028,792	30,313,858	1,604,051	1,107,117	Equity investment
CMB International Capital Corporation Ltd.	250,520	100.00	250,000,000	250,520	195,042	151,359	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	4,000,000	100.00	N/A	4,000,000	1,203,989	1,215,065	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd	708,193	55.00	115,500,000	882,274	1,848	50,499	Equity investment
CIGNA & CMB Life Insurance Co., Ltd.	171,443	50.00	250,000,000	587,122	7,100	79,603	Equity investment
Taizhou Bank Co., Ltd.	306,671	10.00	180,000,000	345,708	27,000	–	Equity investment
China UnionPay Co., Ltd.	155,000	3.75	110,000,000	155,000	4,000	–	Equity investment
EPS Company (Hong Kong) Ltd.	HK\$8,400	2.10	2	HK\$8,400	HK\$1,750	–	Equity investment
Yantai City Commercial Bank Corporation Ltd.	189,620	4.99	99,800,000	170,001	(19,800)	–	Equity investment
Bank Consortium Holdings Ltd.	HK\$20,000	13.33	20,000,000	HK\$59,520	HK\$16,652	HK\$13	Equity investment
Joint Electronic Teller Services Ltd.	HK\$2,000	20.00	20,000	HK\$8,781	HK\$873	–	Equity investment
Hong Kong Life Insurance Ltd.	HK\$70,000	16.67	70,000,000	HK\$89,690	HK\$3,125	HK\$(182)	Equity investment
BC Reinsurance Ltd.	HK\$21,000	21.00	42,000,000	HK\$59,271	HK\$14,278	–	Equity investment
Professional Liability Underwriting Services Ltd.	HK\$810	27.00	810,000	HK\$5,113	HK\$1,948	HK\$(4)	Equity investment
I-Tech Solutions Limited	HK\$3,000	50.00	3,000,000	HK\$2,841	HK\$(34)	–	Equity investment
Hong Kong Precious Metals Exchange Ltd.	HK\$136	0.35	136,000	HK\$136	–	–	Equity investment
AR Consultant Service Ltd.	HK\$4,023	8.70	100,000	HK\$7,980	–	HK\$732	Equity investment
Luen Fung Hang Life Ltd.	MOP6,000	6.00	60,000	MOP6,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK\$570	3.00	N/A	HK\$570	HK\$(570)	–	Equity investment

Note: 1. Profits/(losses) for the reporting period indicate the impact on the consolidated net profits of the Group for the reporting period.

Derivative financial instruments

As at 31 December 2013, the major categories and amount of derivative financial instruments held by the Group are shown in the following table. For details of derivative financial instruments, please refer to Note 53(h) to the financial statements "Risk Management – Derivatives".

(In millions of RMB)	31 December 2013			31 December 2012		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives	118,516	556	(1,867)	107,557	509	(934)
Currency derivatives	573,253	5,334	(6,366)	173,562	1,430	(1,809)
Other derivatives	2,122	35	(2)	3,234	36	(2)
Total	693,891	5,925	(8,235)	284,353	1,975	(2,745)

5.3.1.3 Goodwill

In compliance with the PRC accounting principles, at the end of 2013, the Group took an impairment test on the goodwill arisen from the acquisition of WLB and China Merchants Fund and decided that provision for impairment was not necessary. As at 31 December 2013, the Group had a balance of provision for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.953 billion.

5.3.2 Liabilities

As at 31 December 2013, the total liabilities of the Group amounted to RMB3,750.443 billion, representing an increase of 16.92% as compared with the end of 2012, which was primarily due to the steady growth in deposits from banks and other financial institutions, placements from banks and other financial institutions, and deposits from customers.

The following table sets forth, as at the dates indicated, the components of the total liabilities of the Group.

(In millions of RMB, excluding percentages)	31 December 2013		31 December 2012 (restated)	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from customers	2,775,276	74.00	2,532,444	78.95
Deposits from banks and other financial institutions	514,182	13.71	258,692	8.06
Placements from banks and other financial institutions	125,132	3.34	109,815	3.42
Financial liabilities at fair value through profit or loss	21,891	0.58	6,854	0.21
Derivative financial liabilities	8,235	0.22	2,745	0.09
Proceeds from disposal of financial assets repurchased	153,164	4.08	157,953	4.92
Accrued payroll	5,119	0.14	4,056	0.13
Taxes payable	8,722	0.23	6,679	0.21
Interest payable	30,988	0.83	24,065	0.75
Bonds payable	68,936	1.84	77,111	2.40
Deferred income tax liabilities	770	0.02	813	0.03
Other liabilities	38,028	1.01	26,471	0.83
Total liabilities	3,750,443	100.00	3,207,698	100.00

Deposits from customers

As at 31 December 2013, deposits from customers of the Group amounted to RMB2,775.276 billion, representing an increase of 9.59% as compared with the end of 2012. Deposits from customers accounted for 74.00% of the total liabilities of the Group and were the major funding source of the Group.

The following table sets forth, as at the dates indicated, the deposits from customers of the Group by product type and customer type.

(In millions of RMB, excluding percentages)	31 December 2013		31 December 2012	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from corporate customers				
Demand	864,224	31.14	797,577	31.49
Time	942,728	33.97	809,364	31.96
Subtotal	1,806,952	65.11	1,606,941	63.45
Deposits from retail customers				
Demand	547,363	19.72	524,970	20.73
Time	420,961	15.17	400,533	15.82
Subtotal	968,324	34.89	925,503	36.55
Total deposits from customers	2,775,276	100.00	2,532,444	100.00

In 2013, attracted by the high yield of wealth management products, retail customers increasingly directed their deposits to purchase those products. As at 31 December 2013, the percentage of retail deposits to total deposits from customers of the Group was 34.89%, representing a decrease of 1.66 percentage points as compared with the end of 2012.

In 2013, the percentage of demand deposits to total deposits from customers decreased due to increasingly diversified investments. As at 31 December 2013, the percentage of demand deposits to total deposits from customers of the Group was 50.86%, representing a decrease of 1.36 percentage points as compared with the end of 2012. Among the figures, the proportion of corporate demand deposits accounted for 47.83% of the corporate deposits, representing a decrease of 1.80 percentage points as compared with the end of 2012, and the retail demand deposits accounted for 56.53% of the retail deposits, representing a decrease of 0.19 percentage point as compared with the end of 2012.

5.3.3 Shareholders' equity

(In millions of RMB)	31 December 2013	31 December 2012 (restated)
Share capital	25,220	21,577
Capital reserve	67,515	37,508
Investment revaluation reserve	(5,539)	37
Hedge reserve	(951)	(261)
Surplus reserve	23,502	18,618
Regulatory general reserve	46,347	39,195
Retained profits	95,471	71,326
Proposed profit distribution	15,636	13,593
Difference arising from converting financial statements denominated in foreign currency	(1,736)	(1,265)
Total equity attributable to the shareholders of the Company	265,465	200,328
Minority shareholders' equity	491	73
Total shareholders' equity	265,956	200,401

5.3.4 Market share of major products or services

According to the Statements of Incomes and Expenditures Related to Lendings from Financial Institutions published by the PBOC in December 2013, the market share and ranking of the Bank among the 31 national small and medium-sized banks in terms of loans and deposits as at the end of the reporting period are as follows:

Items	Market share (%)	Ranking
Total deposits	10.09	1
Total savings deposits	15.24	1
Total loans	9.30	2
Total personal consumption loans	15.42	1

Note: From 2010, PBOC had applied new classifications for all financial institutions in the PRC based on their total assets in preparing the Statements of Incomes and Expenditures Related to Lendings from Financial Institutions, being large-sized banks, national small and medium-sized banks, and local small and medium-sized banks, etc. The national small and medium-sized banks are China Merchants Bank, Agricultural Development Bank, Export-Import Bank, China Citic Bank, Shanghai Pudong Development Bank, China Minsheng Bank, China Everbright Bank, Industrial Bank, Huaxia Bank, Guangdong Development Bank, Evergrowing Bank, China Zheshang Bank, Bohai Bank, Bank of Beijing, Bank of Tianjin, Baoshang Bank, Shengjing Bank, Bank of Dalian, Bank of Jinzhou, Harbin Bank, Bank of Shanghai, Bank of Nanjing, Bank of Jiangsu, Bank of Ningbo, Bank of Hangzhou, Chouzhou Bank, Jinan Bank, Weihai Bank, Linshang Bank, Ping An Bank, and Bank of Chongqing.

5.4 Loan Quality Analysis

During the reporting period, the credit assets of the Group saw a steady growth in its scale, an increase in non-performing assets and a healthy allowance coverage. As at 31 December 2013, total loans and advances of the Group were RMB2,197.094 billion, representing an increase of RMB292.631 billion or 15.37%, as compared with the end of the previous year; the non-performing loan ratio was 0.83%, 0.22 percentage point up from the end of the previous year; whereas the non-performing loan allowance coverage ratio was 266.00%, representing a decrease of 85.79 percentage points as compared with the end of the previous year.

5.4.1 Distribution of loans by 5-tier loan classification

The following table sets forth the 5-tier loan classification of the Group as at the dates indicated.

(In millions of RMB, excluding percentages)	31 December 2013		31 December 2012	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Normal	2,154,159	98.05	1,873,280	98.37
Special Mention	24,603	1.12	19,489	1.02
Substandard	9,037	0.41	5,281	0.28
Doubtful	5,450	0.25	3,064	0.16
Loss	3,845	0.17	3,349	0.17
Total loans and advances to customers	2,197,094	100.00	1,904,463	100.00
Total non-performing loans	18,332	0.83	11,694	0.61

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. In 2013, the banking industry was challenged by credit risks arising from the domestic economic slowdown and industrial restructuring. The Group prevented deterioration in asset quality by pre-emptively guarding against risks and speeding up the adjustment of loan structure and recovery and disposal of non-performing assets. As at the end of the reporting period, the total non-performing loans of the Group amounted to RMB18.332 billion, representing an increase of 56.76% as compared with the end of the previous year; the non-performing loan ratio was 0.83%, 0.22 percentage point up from the end of the previous year, mainly due to an increase in substandard and doubtful loans offset by stable proportion of loss loans through accelerating write-offs. The proportion of special mention loans increased by 0.10 percentage point over the end of the previous year.

5.4.2 Distribution of loans and non-performing loans by product type

(in millions of RMB, excluding percentages)	As at 31 December 2013				As at 31 December 2012			
	Loan balance	Percentage of the total %	Non-performing loans	Non-performing loan ratio ⁽¹⁾ %	Loan balance	Percentage of the total %	Non-performing loans	Non-performing loan ratio ⁽¹⁾ %
Corporate loans	1,325,810	60.34	13,280	1.00	1,152,837	60.54	8,404	0.73
Working capital loans	769,146	35.00	10,176	1.32	707,806	37.18	6,149	0.87
Fixed asset loans	290,008	13.20	693	0.24	277,737	14.58	680	0.24
Trade finance	170,887	7.78	749	0.44	100,804	5.29	650	0.64
Others ⁽²⁾	95,769	4.36	1,662	1.74	66,490	3.49	925	1.39
Discounted bills⁽³⁾	71,035	3.24	–	–	64,842	3.40	–	–
Retail loans	800,249	36.42	5,052	0.63	686,784	36.06	3,290	0.48
Personal operating loans	319,722	14.55	1,882	0.59	182,012	9.56	822	0.45
Residential mortgage loans	268,606	12.23	919	0.34	335,746	17.63	733	0.22
Credit card loans	155,235	7.06	1,530	0.99	106,519	5.59	1,136	1.07
Others ⁽⁴⁾	56,686	2.58	721	1.27	62,507	3.28	599	0.96
Total loans and advances to customers	2,197,094	100.00	18,332	0.83	1,904,463	100.00	11,694	0.61

Notes: (1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

(2) Consists primarily of other corporate loans such as financial leasing, merger and acquisition loans and corporate mortgage loans.

(3) The Company will transfer its overdue discounted bills to corporate loans for accounting purposes.

(4) Others consist primarily of automobile loans, home decoration loans, education loans, general consumption loans, and retail loans secured by monetary assets.

In 2013, the Group took initiatives to make adjustments to its credit structure to actively support trade finance businesses with true trade background, short term and fast turnover period, leading to an increase in trade finance as a percentage in total corporate loans during the reporting period. In respect of retail loans, the Group vigorously developed loans granted to micro enterprises, such that the percentage of retail operating loans increased while that of residential mortgage loans decreased at the end of the reporting period. As at the end of the reporting period, the ratio of non-performing corporate loans was 1.00%, up by 0.27 percentage point as compared with the end of the previous year; and the ratio of non-performing retail loans was 0.63%, up by 0.15 percentage point as compared with the end of the previous year, mainly attributable to the deteriorated repayment ability of certain enterprises and individual borrowers in the domestic economic downturn.

5.4.3 Distribution of loans and non-performing loans by industry

(in millions of RMB, excluding percentages)	As at 31 December 2013				As at 31 December 2012 ⁽³⁾			
	Loan balance	Percentage of the total %	Non-performing loans	Non-performing loan ratio ⁽¹⁾ %	Loan balance	Percentage of the total %	Non-performing loans	Non-performing loan ratio ⁽¹⁾ %
Corporate loans	1,325,810	60.34	13,280	1.00	1,152,837	60.54	8,404	0.73
Manufacturing	388,340	17.68	6,904	1.78	364,904	19.16	3,623	0.99
Wholesale and retail	295,174	13.43	4,260	1.44	223,672	11.74	2,401	1.07
Transportation, storage and postal services	127,416	5.80	338	0.27	143,051	7.51	484	0.34
Property development	131,061	5.97	521	0.40	108,453	5.69	711	0.66
Construction	92,916	4.23	316	0.34	60,725	3.19	170	0.28
Production and supply of electric power, heat, gas and water	60,097	2.74	148	0.25	81,300	4.27	408	0.50
Mining	64,744	2.95	3	–	54,645	2.87	–	–
Leasing and commercial services	38,235	1.74	74	0.19	32,067	1.68	112	0.35
Water conservancy, environment and public utilities	34,383	1.56	115	0.33	29,208	1.53	1	–
Information transmission, software and IT service	16,376	0.75	83	0.51	11,921	0.63	93	0.78
Others ⁽²⁾	77,068	3.49	518	0.67	42,891	2.27	401	0.93
Discounted bills	71,035	3.24	–	–	64,842	3.40	–	–
Retail loans	800,249	36.42	5,052	0.63	686,784	36.06	3,290	0.48
Total loans and advances to customers	2,197,094	100.00	18,332	0.83	1,904,463	100	11,694	0.61

Notes: (1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

(2) Consists primarily of agriculture, forestry, animal husbandry, fishery, accommodation and catering, health care, social security, social welfare, etc.

(3) The Company has implemented the National Standard of the Classifications and Codes of National Economy Industries (GT/T4754-2011) since January 2013, and made retrospective adjustments to the figures as at 31 December 2012 accordingly.

In 2013, the Group actively pushed forward the adoption of a sustainable development business model for small enterprises, granted credit facilities to high-value customers in the real economy, growth enterprises and green industry, steadily developed emerging financing businesses, refined the policies on granting loans to local government financing platforms and the real estate industry, pre-emptively prevented the systematic risks arising from high-risk areas, industries with surplus production capacity, and group customers with jumbo loans, reasonably allocated credit assets, and promoted the optimisation of its portfolio, so as to achieve an overall balance among risk, return, and cost. During the reporting period, the increase of 77.43% in non-performing loans of the Group was related to two industries: manufacturing, and wholesale and retail.

5.4.4 Distribution of loans and non-performing loans by region

(in millions of RMB, excluding percentages)	As at 31 December 2013				As at 31 December 2012			
	Loan balance	Percentage of the total %	Non-performing loans	Non-performing loan ratio ⁽¹⁾ %	Loan balance	Percentage of the total %	Non-performing loans	Non-performing loan ratio ⁽¹⁾ %
Head Office	197,872	9.01	2,627	1.33	176,736	9.28	2,569	1.45
Yangtze River Delta	456,889	20.80	8,262	1.81	401,335	21.07	4,210	1.05
Bohai Rim	313,312	14.26	1,555	0.50	282,158	14.82	1,016	0.36
Pearl River Delta and West Side of Taiwan Strait	343,894	15.65	2,321	0.67	302,650	15.89	1,555	0.51
North-east China	119,404	5.43	591	0.49	104,387	5.48	373	0.36
Central China	242,455	11.04	1,741	0.72	209,435	11.00	1,024	0.49
Western China	284,398	12.94	954	0.34	249,786	13.12	619	0.25
Overseas	51,033	2.32	18	0.04	34,055	1.79	22	0.06
Subsidiaries	187,837	8.55	263	0.14	143,921	7.55	306	0.21
Total loans and advances to customers	2,197,094	100.00	18,332	0.83	1,904,463	100.00	11,694	0.61

Note: (1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

In 2013, the Group flexibly adjusted its regional credit granting policies to allocate its credit resources scientifically and took the initiative to prevent the occurrence of regional risk through tightening the loan approval standard for the risk concentrated regions. As at the end of the reporting period, the percentage of the balance of loans extended to the subsidiaries, overseas bodies and Central China increased while that for the rest regions decreased. During the reporting period, 72.58% of the increased non-performing loans of the Group occurred in the Yangtze River Delta, the Pearl River Delta and the West Side of Taiwan Strait.

5.4.5 Distribution of loans and non-performing loans by type of guarantees

(in millions of RMB, excluding percentages)	As at 31 December 2013				As at 31 December 2012			
	Loan balance	Percentage of the total %	Non-performing loans	Non-performing loan ratio ⁽¹⁾ %	Loan balance	Percentage of the total %	Non-performing loans	Non-performing loan ratio ⁽¹⁾ %
Credit loans	446,121	20.30	1,986	0.45	393,596	20.67	1,301	0.33
Guaranteed loans	466,568	21.24	7,190	1.54	457,914	24.04	4,299	0.94
Collateralised loans	918,500	41.80	8,430	0.92	807,496	42.40	5,506	0.68
Pledged loans	294,870	13.42	726	0.25	180,615	9.49	588	0.33
Discounted bills	71,035	3.24	-	-	64,842	3.40	-	-
Total loans and advances to customers	2,197,094	100.00	18,332	0.83	1,904,463	100.00	11,694	0.61

Note: (1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

During the period of economic downturn, the Group emphasised risk prevention through various mitigation measures, including demanding more collateral. As at the end of the reporting period, the percentage of pledged loans increased significantly by 3.93 percentage points as compared with the end of the previous year, while the percentage of credit and guaranteed loans declined by 0.37 percentage point and 2.80 percentage points respectively as compared with the end of the previous year.

5.4.6 Loans to the top ten single borrowers

Top ten borrowers	Industry	Loan balance as at 31 December 2013	% of net capital	% of total loans
(in millions of RMB)				
A	Transportation, storage and postal services	6,170	2.02	0.28
B	Transportation, storage and postal services	5,000	1.64	0.23
C	Production and supply of electric power, heat, gas and water	4,000	1.31	0.18
D	Wholesale and retail	3,864	1.26	0.18
E	Wholesale and retail	2,994	0.98	0.14
F	Mining	2,893	0.95	0.13
G	Transportation, storage and postal services	2,836	0.93	0.13
H	Transportation, storage and postal services	2,700	0.88	0.12
I	Transportation, storage and postal services	2,585	0.85	0.12
J	Property development	2,541	0.83	0.11
Total		35,583	11.65	1.62

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB6.170 billion, representing 2.02% of the Group's net capital. The loan balance of the top ten single borrowers totalled RMB35.583 billion, representing 11.65% of the Group's net capital and 1.62% of the Group's total loan balance respectively.

5.4.7 Distribution of loans by overdue term

(in millions of RMB, excluding percentages)	As at 31 December 2013		As at 31 December 2012	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Overdue within 3 months	17,017	0.77	10,987	0.57
Overdue from 3 months up to 1 year	8,689	0.40	4,550	0.24
Overdue from 1 year up to 3 years	4,743	0.22	2,016	0.11
Overdue more than 3 years	2,546	0.11	3,847	0.20
Total overdue loans	32,995	1.50	21,400	1.12
Total loans and advances to customers	2,197,094	100.00	1,904,463	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB32.995 billion, up by RMB11.595 billion from the end of the previous year and accounting for 1.50% of its total loans, representing an increase of 0.38 percentage point as compared with the end of the previous year. Among all the overdue loans, collateralised and pledged loans accounted for 56.55%, guaranteed loans accounted for 26.67%, while credit loans accounted for 16.78% (the majority of which were those overdue loans of credit cards). The Group adopted stringent classification criteria for overdue loans, and the ratio of its non-performing loans overdue more than 90 days was 1.15.

5.4.8 Restructured loans

(in millions of RMB, excluding percentages)	As at 31 December 2013		As at 31 December 2012 (restated)	
	Amount	Percentage of total loans (%)	Amount	Percentage of total loans (%)
Restructured loans ^(Note)	1,068	0.05	1,503	0.08
Of which: restructured loans overdue for more than 90 days	687	0.03	981	0.05

Note: Represents the restructured non-performing loans.

The Group imposed strict and prudent control over restructuring of loans. As at the end of the reporting period, the percentage of the Group's restructured loans was 0.05%, a decrease of 0.03 percentage point as compared with that at the end of the previous year.

5.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, total repossessed assets of the Group amounted to RMB953 million. After deduction of allowances for impairment losses of RMB891 million, the net repossessed assets amounted to RMB62 million.

5.4.10 Changes of allowances for impairment losses on loans

The Group adopted two methods to assess impairment losses on loans at the balance sheet date: individual assessment and portfolio assessment. Loans which were considered individually significant were assessed individually for impairment. If there was any objective evidence indicating that a loan was impaired, the impairment losses would be recognised through profit or loss for the current period, as measured by the difference between the carrying amount of the loan and its discounted value of estimated future cash flows recoverable. Loans that were not considered individually significant and had not yet been identified as subject to individual assessment for impairment were grouped in a pool of loans with similar credit risk characteristics for the purpose of impairment testing. Based on the result of testing, the Group would determine allowances for impairment losses on a portfolio basis.

The following table sets forth the movements of allowances for impairment losses on loans to customers of the Group.

(in millions of RMB)	2013	2012
Balance at the beginning of the period	41,138	36,704
Charge for the period	10,927	6,276
Release for the period	(731)	(785)
Unwinding of discount on impaired loans ^(note)	(406)	(215)
Recovery of loans and advances previously written off	65	65
Write-offs	(2,134)	(891)
Transfers in/out	(8)	13
Foreign exchange rate movements	(87)	(29)
Balance at the end of the period	48,764	41,138

Note: Represents the interest income accrued on impaired loans as a result of subsequent increases in their present values due to the passage of time.

The Group continued to adopt a stable and prudent policy in respect of making provisions. As at the end of the reporting period, the balance of allowances for impairment losses on loans amounted to RMB48.764 billion, representing an increase of RMB7.626 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 266.00%, representing a decrease of 85.79 percentage points as compared with the end of the previous year; the loan allowance ratio was 2.22%, representing an increase of 0.06 percentage point as compared with the end of the previous year.

5.5 Analysis of Capital Adequacy Ratio

The Group continued to optimise its business structure and enhance capital management, and satisfied the minimum capital requirements, the reserve capital requirements and the counter-cyclical capital requirements under the transitional arrangements of CBRC during the reporting period.

As at 31 December 2013, the capital adequacy ratio and the tier 1 capital adequacy ratio of the Group was 11.14% and 9.27% respectively, representing a decrease of 0.27 percentage point and an increase of 0.93 percentage point as compared with those at the beginning of the year. After deducting the proceeds of RMB33.66 billion from the Rights Issues, the distribution of cash dividend of RMB13.593 billion in respect of the profit for the previous year and redemption of old subordinated bonds of RMB23.0 billion, the capital adequacy ratio and the tier 1 capital adequacy ratio of the Group was 10.98% and 8.43% respectively, representing a decrease of 0.42 percentage point and an increase of 0.09 percentage point as compared with those at the beginning of the year, representing a relatively strong capability for balanced endogenous growth of capital.

(in millions of RMB, excluding percentages)	At the end of the reporting period 31 December 2013	At the end of last year 31 December 2012	Increase/ decrease at the end of the reporting period as compared to the end of last year (%)
The Group			
Capital adequacy ratios under the new Measures⁽¹⁾			
1. Net core tier 1 capital	254,393	189,555	34.21%
2. Net tier 1 capital	254,393	189,555	34.21%
3. Net capital	305,704	259,377	17.86%
4. Risk-weighted assets	2,744,991	2,274,044	20.71%
Of which: Credit risk weighted assets	2,513,669	2,084,076	20.61%
Market risk weighted assets	15,718	13,216	18.93%
Operational risk weighted assets	215,604	176,752	21.98%
5. Core tier 1 capital adequacy ratio	9.27%	8.34%	Increase of 0.93 percentage point
6. Tier 1 capital adequacy ratio	9.27%	8.34%	Increase of 0.93 percentage point
7. Capital adequacy ratio	11.14%	11.41%	Decrease of 0.27 percentage point
Capital adequacy ratios under the previous Measures⁽²⁾			
8. Core capital adequacy ratio	9.14%	8.49%	Increase of 0.65 percentage point
9. Capital adequacy ratio	11.28%	12.14%	Decrease of 0.86 percentage point

Note 1: the "new Measures" herein refers to the "Administrative Measures for the Capital of Commercial Banks (Trial)" issued by CBRC on 7 June 2012. Under the new Measures, the core tier 1 capital adequacy ratio and the tier 1 capital adequacy ratio of the Group and the Company remain consistent at present. Under the New Measures, the capital adequacy ratio of the Group shall reflect China Merchants Bank Co., Ltd. and its subsidiaries. The capital adequacy ratio of the Company shall reflect all domestic and overseas branches and sub-branches of China Merchants Bank Co., Ltd. On 31 December 2013, the Group's subsidiaries for calculating its capital adequacy ratio include WLB, CMBIC, CMBFL and CMFM.

Note 2: the "previous Measures" herein refers to the "Resolution on Revision of the Measures for the Management of Capital Adequacy Ratio of Commercial Banks" issued by CBRC on 28 December 2006.

As at 31 December 2013, the capital adequacy ratio and the tier 1 capital adequacy ratio of the Company was 10.85% and 9.04% respectively, representing a decrease of 0.20 percentage point and an increase of 1.04 percentage points as compared with those at the beginning of the year. After deducting the proceeds of RMB33.66 billion from the Rights Issue, the distribution of cash dividend of RMB13.593 billion in respect of the profit for the previous year and redemption of old subordinated bonds of RMB23.0 billion, the capital adequacy ratio and the tier 1 capital adequacy ratio of the Group was 10.68% and 8.14% respectively, representing a decrease of 0.37 percentage point and an increase of 0.14 percentage point as compared with those at the beginning of the year.

	At the end of the reporting period 31 December 2013	At the end of last year 31 December 2012	Increase/ decrease at the end of the reporting period as compared to the end of last year (%)
<i>(in millions of RMB, excluding percentages)</i>			
The Company			
Capital adequacy ratios under the new Measures			
1. Net core tier 1 capital	231,379	168,848	37.03%
2. Net tier 1 capital	231,379	168,848	37.03%
3. Net capital	277,710	233,223	19.07%
4. Risk-weighted assets	2,560,011	2,110,063	21.32%
Of which: Credit risk weighted assets	2,346,590	1,934,317	21.31%
Market risk weighted assets	8,220	6,945	18.36%
Operational risk weighted assets	205,201	168,801	21.56%
5. Core tier 1 capital adequacy ratio	9.04%	8.00%	Increase of 1.04 percentage points
6. Tier 1 capital adequacy ratio	9.04%	8.00%	Increase of 1.04 percentage points
7. Capital adequacy ratio	10.85%	11.05%	Decrease of 0.20 percentage point
Capital adequacy ratios under the previous Measures			
8. Core capital adequacy ratio	9.54%	8.86%	Increase of 0.68 percentage point
9. Capital adequacy ratio	11.01%	11.73%	Decrease of 0.72 percentage point

5.6 Segment Operating Results

The following segment operating results are presented by business segments and geographical segments. As business segment information can better reflect the business operations of the Group, the Group chooses business segment information as the primary reporting format. Segment reporting data are principally derived from the multi-dimensional profitability report of the Bank's management accounting system.

Business segments

The main businesses of the Group are wholesale banking business, retail banking business and financial market business. The following table summarises the operating results of the business segments of the Group for the periods indicated.

Items (in millions of RMB, excluding percentages)	January to December 2013		January to December 2012	
	Profit before tax by segment	Percentage (%)	Profit before tax by segment	Percentage (%)
Wholesale banking business	50,066	73.17	44,190	74.19
Retail banking business	23,186	33.88	18,707	31.41
Financial market business	(3,567)	(5.21)	(2,759)	(4.63)
Other businesses	(1,260)	(1.84)	(580)	(0.97)
Total	68,425	100.00	59,558	100.00

During the reporting period, the percentage of profit from retail banking business of the Group further increased. Profit before tax amounted to RMB23.186 billion, up 23.94% over the previous year, representing 33.88% of the total profit before tax, an increase of 2.47 percentage points as compared with the previous year. At the same time, cost-to-income ratio of retail banking business (excluding business tax and surcharges) was 44.39%, a decrease of 4.37 percentage points as compared with that of 2012.

Geographical segments

The major outlets of the Group are located in the more economically developed regions of China and some large cities in other regions. The following table sets forth the segment results of the Group by geographical location in the periods indicated.

(in millions of RMB, excluding percentages)	Total Assets		Total Liabilities		Total Profit	
	31 December 2013		31 December 2013		2013	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	1,566,355	39	1,371,100	37	2,711	4
Yangtze River Delta	507,514	13	497,711	13	13,295	19
Bohai Rim	352,891	9	343,143	9	12,996	19
Pearl River Delta and West Side of Taiwan Strait	490,874	12	480,480	13	13,877	20
North-eastern China	146,125	4	143,285	4	3,800	6
Central China	286,311	7	280,598	7	7,642	11
Western China	316,410	8	309,422	8	9,316	14
Overseas	99,536	2	98,869	3	925	1
Subsidiaries	250,383	6	225,835	6	3,863	6
Total	4,016,399	100	3,750,443	100	68,425	100

(in millions of RMB, excluding percentages)	Total Assets		Total Liabilities		Total Profit	
	31 December 2012		31 December 2012		2012	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	1,275,164	37	1,138,797	36	(881)	(1)
Yangtze River Delta	447,120	13	436,498	14	14,172	24
Bohai Rim	310,429	9	301,591	9	11,798	20
Pearl River Delta and West Side of Taiwan Strait	460,229	14	450,917	14	12,423	21
North-eastern China	119,457	4	117,013	4	3,257	5
Central China	242,866	7	237,551	7	7,105	12
Western China	273,931	8	267,868	8	8,117	13
Overseas	76,043	2	75,700	2	568	1
Subsidiaries	202,860	6	181,763	6	2,999	5
Total	3,408,099	100	3,207,698	100	59,558	100

5.7 Other Information

5.7.1 Balance of off-balance-sheet items that may have a material effect on the financial positions and operating results and the related important information

The Group's off-balance-sheet items include derivative financial instruments, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, outstanding litigations and disputes and other contingent liabilities. Credit commitment is the primary component. As at the end of 2013, the balance of credit commitments was RMB963.435 billion. For details of the contingent liabilities and commitments, please refer to the "Contingent Liabilities and Commitments" in "Notes to the Financial Statements" of this report.

5.7.2 Outstanding overdue debts

As at the end of 2013, the Group did not have any outstanding overdue debts.

5.8 Business Development Strategies

5.8.1 Strategic transformation

1. The proportion of retail banking business rose steadily

In 2013, profit of the retail banking business grew steadily with constantly improved value contribution. Profit before tax reached RMB22.997 billion, representing a year-on-year increase of 23.99%. The percentage of retail profit in total profit increased continuously to 35.84%, 3.06 percentage points higher than the previous year. Net operating income generated by the Company's retail banking business grew rapidly to RMB55.795 billion, up by 19.43% year-on-year, representing 44.30% of the Company's net operating income, 1.22 percentage points higher than the previous year.

2. Net non-interest income increased rapidly

In 2013, the Company proactively adjusted its business development strategies, and vigorously expanded wealth management, credit cards, international guarantee and factoring, and other cross-border coordination businesses, thus facilitating a rapid growth in the net non-interest income. In 2013, the Company realised a net non-interest income of RMB30.668 billion, representing a year-on-year increase of RMB7.626 billion or 33.10%. The proportion of the net non-interest income to our net operating income was 24.35%, up 3.10 percentage points as compared with the end of the previous year. Among the total non-interest income, fees and commission income from wealth management services amounted to RMB9,291 million, representing a year-on-year increase of 42.83% (calculated on the same statistical calibres) (a breakdown of these fees and commission income is as follows: income from sales of wealth management products amounted to RMB3,396 million, representing a year-on-year increase of 83.27%; income from sales of third-party trust plans amounted to RMB2,233 million, representing a year-on-year increase of 19.54%; income from sales of third party insurance policies amounted to RMB1,821 million, representing a year-on-year increase of 27.97%; income from sales of mutual fund amounted to RMB1,668 million, representing a year-on-year increase of 45.55%; income from precious metals custody amounted to RMB173 million); bank card fees amounted to RMB8,206 million, representing a year-on-year increase of 42.84%; and fees from international guarantee and factoring amounted to RMB1,029 million, representing a year-on-year increase of 158.37%. In addition, settlement and clearing fees amounted to RMB2,688 million, representing a year-on-year increase of 22.24%, and the bills sell-off spread income amounted to RMB2,469 million, representing a year-on-year decrease of 10.74%.

In 2014, based on its existing competitive businesses such as wealth management, credit cards and cross-border coordination business, the Company will fully exert its advantages in comprehensive operations, overseas platform, and distribution channels, enhance business innovation, develop corporate banking services such as investment banking, cash management, assets custody and precious metals, and capitalise on its enormous retail customer base to develop retail consumer finance such as credit card installments, etc, thus realising a rapid growth in relevant net non-interest income.

3. The Company proactively promoted the healthy development of its small and micro enterprise businesses

During the reporting period, in order to carry forward the small and micro enterprises strategy, the Company continuously pushed forward the system reform and process optimisation, actively established a professional management system in line with the development of small and micro enterprise businesses, and focused on enhancing such capabilities as market planning, marketing development, customer service, product innovation, risk management and operation management in respect of small and micro enterprise businesses, and achieved satisfactory results.

In order to objectively reflect corporate customers' operation scale and risk-bearing ability, the Company redefined its corporate customer classification standards from "annual turnover + loan balance" to "annual turnover + credit exposure". Based on the bank's adjusted caliber, as at 31 December 2013, balance of the Company's loans to small and micro enterprises totalled RMB615.467 billion, representing an increase of RMB237.917 billion or 63.02% over the beginning of the year (calculated on the same statistical calibres), and accounted for 32.45% of domestic general loans (excluding discounted bills), representing an increase of 9.86 percentage points over the beginning of the year, of which: balance of the small enterprises loans amounted to RMB300.014 billion, up 49.70% as compared with the beginning of the year (calculated on the same statistical calibres), and the proportion of small enterprises loans to domestic corporate loans reached 27.00%, representing an increase of 6.94 percentage points as compared with the beginning of the year; balance of micro enterprises loans amounted to RMB315.453 billion, up by 78.08% as compared with the beginning of the year, and the proportion of micro enterprises loans to total retail loans reached 40.16%, representing an increase of 13.80 percentage points as compared with the beginning of the year. The non-performing loan ratios of loans granted to small enterprises and micro enterprises were 1.93% and 0.60% respectively; and the floating ranges of weighted average interest rate of newly granted small enterprises and micro enterprises loans were 22.78% and 32.08% respectively, up 0.72 percentage point and 2.67 percentage points as compared with the previous year respectively.

For the development of its small and micro enterprise businesses, the Company will exert its advantage in product innovation to provide comprehensive financial services to the whole value chain of an industry, and comprehensively enhance its market competitiveness by fully utilizing its overall retail banking advantage, innovating its business model and building its core brand image. In order to address and solve the problems of risk and cost control in the development of its small and micro enterprise businesses, the Company will proactively optimize its business process, scientifically develop its evaluation and appraisal system, constantly innovate its branded products and risk management model, improve its post-disbursement loan management mechanism and take other necessary measures to create a synergy.

5.8.2 Second transformation

In 2010, the Company started implementing the “Second Transformation” strategy in a bid to accelerate the transformation to an organic and intensive development model, and identified five major objectives, i.e. higher capital utilisation efficiency, stronger loan risk pricing capability, higher operating efficiency, larger proportion of high-net-worth customers and better risk control. Despite the volatile and complicated external environment in 2013, the Company continued to press forward with the “Second Transformation” and made the following remarkable achievements:

Capital utilisation efficiency remained stable. As at 31 December 2013, the capital adequacy ratio and tier 1 capital adequacy ratio of the Company were 10.85% and 9.04% respectively, which decreased by 0.20 percentage point and increased by 1.04 percentage points as compared with the beginning of the year respectively. The return on average equity (ROAE) was 20.55%, representing a decrease of 2.34 percentage points as compared with the previous year. The risk adjusted return on capital before tax (RAROC) was 26.38%, representing a decrease of 3.46 percentage points (calculated on the same statistical calibres) as compared with the previous year.

Loan risk pricing capability kept improving. In 2013, the floating range of weighted average interest rates of newly granted corporate loans in RMB (weighted at actual amounts, same as below) increased by 0.89 percentage point to 12.69% as compared with the previous year. The floating range of weighted average interest rates of newly granted retail loans in RMB increased by 6.54 percentage points to 29.49% as compared with the previous year.

Operational efficiency continued to improve. As at 31 December 2013, the cost-to-income ratio of the Company was 34.69%, representing a decrease of 1.46 percentage points as compared with the previous year; the profit before tax per person was RMB1.29 million (calculated on the same statistical calibres), representing an increase of 6.61% as compared with the previous year; the profit before tax per outlet was RMB64.12 million, representing an increase of 5.30% as compared with the previous year.

High-net-worth customers increased rapidly. As at 31 December 2013, the number of sunflower-level and above customers (retail customers of the Company with minimum total daily average assets of RMB500,000 per month) increased by 16.89% as compared with the beginning of the year; the number of private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month) increased by 30.63% as compared with the beginning of the year.

Overall asset quality risk was under control. As at 31 December 2013, the allowance coverage ratio of our non-performing loans was 261.34%, representing a decrease of 91.13 percentage points as compared with the end of the previous year, and the non-performing loan ratio of the Company was 0.90%, representing an increase of 0.25 percentage point as compared with the end of the previous year, while the percentage of special mention loans was 1.11%, which was 0.07 percentage point up as compared with that at the end of the previous year. The credit cost was 0.51%, an increase of 0.20 percentage point as compared with the end of the previous year. Non-performance loan formation rate was 0.66%, an increase of 0.31 percentage point as compared with the previous year.

5.9 Core Competitive Strengths

1. Leading retail banking and emerging corporate banking businesses

The Company took a leading position in retail banking business at an early stage. It continued accelerating reform and innovation, and formed systematic competitive strengths in various aspects such as products, customers, channels, brands, services and human resources. As a result, all its key performance indicators (including profit contribution, proportion of high-net-worth customers, counter replacement ratio in respect of e-banking and average balance per card) ranked at the top among competitors. As at 31 December 2013, the proportion of profit before tax from retail banking business to profit before tax of the Company reached 35.84%. The balance of total assets under management of the Company from Sunflower customers or above amounted to RMB2,052.5 billion, an increase of RMB380.5 billion or 22.76% from the end of the previous year, accounting for 72.65% of the total balance of retail customers' assets under management of the Company. Average balance per All-in-one Card amounted to RMB12,200, representing an increase of RMB1,700 as compared with the previous year. The transaction value of All-in-one Cards via POS amounted to RMB613.4 billion, representing an increase of 46.61% as compared with the previous year.

The Company's emerging corporate banking businesses, such as cash management and cross-border finance, continued to achieve a rapid and steady growth, and gained competitive advantages in the market. As at 31 December 2013, the annual intermediary business income from cash management amounted to RMB1.601 billion, representing an increase of 87.03% as compared with the previous year. The intermediary business income from cross-border finance amounted to RMB3.878 billion, representing an increase of 44.11% as compared with the previous year.

2. Steadily improving business structure and rapidly increasing high-net-worth customers

The Company continually improved and adjusted its operating strategies, enjoyed significant advantage in business structure and rapidly increased the number of its high-net-worth customers. In 2013, the proportion of net non-interest income to net operating income of the Company was 24.35%, up by 3.10 percentage points as compared with the previous year. As at 31 December 2013, the total number of retail customers of the Company was 47.63 million, of whom, the total number of Sunflower customers or above was 1,065,000, with a growth of 16.89% as compared with the beginning of the year. Their total deposit balance was RMB405.7 billion. The Company boasted 559,200 corporate depositors and 42,500 corporate borrowers, among which, 74,489 were high-value wholesale customers (those with comprehensive contribution to the Company of more than RMB100,000), representing an increase of 14.62% as compared with the end of the previous year. The Company has a total of 396,230 small enterprise customers, an increase of 22.61% as compared with the end of the previous year, and 959,097 micro enterprise customers, an increase of 387.86% as compared with the end of the previous year.

3. Innovative e-channels and IT platform

The Company attached high importance to the innovation and improvement of its e-channels, continually innovated the functions of online banking and direct banking as effective supplements to our physical channels, and proactively explored the development of mobile finance service. The Company pioneered the mobile finance online portal in China, and proposed the concept of "one-stop open platform for mobile banking". As a result, the number of downloads made by mobile banking users and iPad banking users ranked at the forefront in the industry. In addition to the WeChat customer service (信用卡微信客服) introduced for its credit card users in March 2013, the Company launched the "WeChat Online Banking" (微信銀行) service in July 2013, the first of its kind in the industry, which helped the Company maintain its leading position in customer experience. As at 31 December 2013, the overall counter replacement ratio of retail e-banking channels and the replacement ratio of online corporate banking settlements of the Company reached 92.50% and 92.42%, respectively.

Proactively responding to the challenges and seize the opportunities from Internet finance, the Company launched the “Small Business E Home (小企業E家)”, an innovative, open and comprehensive Internet finance service platform for SME customers, to widely explore, acquire in large scale and continuously serve SME customers. Focusing on the demand of SME customers for basic financial services, namely “depositing, borrowing and remittance”, the Company launched a number of Internet finance products such as “Enterprise Online Credit Rating”, “Wang Dai Yi (網貸易)”, “Hui Jie Suan (惠結算)” and “Wo Yao Li Cai (我要理財)” for its Small Business E Home platform, and had it connected with our middle and back office systems. With these efforts, the Company basically established a full O2O business model, covering from customer contact, subsequent marketing, opportunity exploration, product sales to online business transaction. Meanwhile, thanks to its extensive cross-industry cooperation with third party institutions, the Company developed a number of innovative online applications for its Small Business E Home platform, including “E+ Account (E+賬戶)”, “Business Opportunity Platform (商機平台)”, “Enterprise Cloud Service (企業雲服務)”, “Enterprise Mall (企業商城)”, “Online Financial Management (在線財務管理)” and “Investment and Financing Platform (投融資平台)”. As a result, the Company could provide enterprises with full services in settlement and financing, investment and wealth management, opportunities exploration, office automation, financial management, supply chain operation and other aspects, thus enabling the Company to accumulate “Big Data” which was difficult to obtain through traditional banking. The Investment and Financing Platform of Small Business E Home represented new attempt and exploration in internet finance. It utilised banks’ capabilities in risk identification and risk control and achieved information symmetry and rational capital flow between the supply and demand side of capital through the online and offline banking information verification service. The purposes of which were to improve the transparency of financial services, minimize information asymmetry and market transaction costs, enable the public to enjoy financial services equally and promote the establishment of a social benefiting financial system. In addition, it also facilitated the use of social capital to help SME enterprises to solve the problems of financing difficulty and high financing costs, thus finding a new path of financing for SME and laying a solid foundation for the Bank to better cope with the challenges of interest rate liberalisation.

Meanwhile, the Company endeavoured to build an information system that was safe, reliable, efficient, green and sustainable. During the reporting period, the Company successfully applied its 3G system in its 38 branches, built a core business framework that was clearly layered to realise efficient operation and long-term application, reconstructed its business system, integrated channels system, unified customer information and obtained the CMMI3 certification for its R&D center. In addition, the Company also completed the planning and phase 1 implementation of a new generation data warehouse platform (數據倉庫平台), upgraded its major systems such as credit loan horizontal-transfer system (信貸平移), corporate customer core fundamentals system (對公核心底層) and OPICS, launched supply chain financing platform and new personal loan system and realised the operation of its dual data centers in Shenzhen and Shanghai, thus becoming the first domestic bank to establish the industrial accreditation standards for evaluating the maturity of service capabilities of data centers. According to the statistics from China UnionPay, the Company continued to outperform domestic peers in terms of transaction acceptance ratio, successful transaction ratio and system processing ratio.

4. Industry benchmark of high quality services

The Company boasted unique service models since its inception and established the service philosophy of “we are here just for you” through years of practice in banking business. The Company has led the industry in terms of outlet design, channel establishment, service procedures and professionalism of relationship managers. “Excellent service”, as one of the core elements in our competitiveness, has become the tag of the Company and the signature brand image to attract customers and expand market. During the reporting period, 13 outlets of the Company were awarded the “Top 100 Model Banks Offering Excellent Services in the PRC Banking Industry for 2013”.

5. Cross-border finance platform

The Company enriched its three kinds of cross-border financial products, namely “Shang Mao Tong (商貿通)”, “Zi Ben Tong (資本通)” and “Cai Fu Tong (財富通)”, which leveraged on its cross-border coordination structure consisting of onshore, offshore and overseas branches (i.e. the “three-in-one” structure) plus overseas correspondent bank network (i.e. the “3+1” mode). Within the structure, the Company managed to integrate internal resources, innovate service models and improve operating mechanism. Thanks to the coordinated systems that bridge onshore and offshore transactions, domestic and international operations, Renminbi and other currencies, the Company developed 15 sub-products and enjoyed a competitive edge in cross-border financial services. As at 31 December 2013, the Company’s income from cross-border corporate coordination business reached RMB3.265 billion, representing an increase of 29.95% as compared with the previous year.

6. Continuously expanding brand influence

The Company built up “CMB” as an excellent financial brand image by making sustained innovation in product and technology, offering high quality services, generating steady operational results and adopting visionary management concepts. Since its inception, the Company kept expanding its brand influence, leading to a rapid increase in brand value. The Company ranked 412th among the Top 500 Global Companies for 2013 released by Fortune Magazine, 86 places up from the previous year. The Company ranked 50th among the World’s Top 1,000 Banks in terms of Tier-1 Capital in 2013 released by The Banker, an authoritative financial magazine in the United Kingdom. The Company ranked 14th among the BrandZ Most Valuable Chinese Brands for 2013 released by Millward Brown with brand value of US\$6.8 billion, and ranked 5th among the domestic banking institutions, only after the Big Four state-owned banks. At the Seventh Market Value Management Submit for Chinese Listed Companies, the Company was awarded the “Top 100 Listed Companies in China by Capital Brand Value for 2013” with the capital brand value of RMB59.35 billion.

5.10 Operating Environment, the Impact of Changes in Macroeconomic Policies and Key Business Concerns

In 2013, the global economy recovered slowly, and the domestic economic growth also slowed down with the ongoing economic transformation and restructuring, the macroeconomic policies aimed at a balance among the steady growth, industrial restructuring and risk control, and the PBOC continued to maintain a prudent monetary policy. Affected by a number of factors including movements in funds outstanding for foreign exchange, the monetary market maintained a tightly balanced situation after the highly volatility in June 2013, thereby posing a relatively high pressure on commercial banks in liquidity management, and further increasing the cost of liabilities. In addition, the process of interest rate liberalisation was accelerated, and the lending rates of financial institutions were fully liberalized, also coupled with the rapid development of Internet banking and financial disintermediation, the competition among banks was significantly intensified.

Facing the fast changing external macro-economic environment, the Company implemented the “Second Transformation” strategy with customer-centric philosophy and actively optimised its customer base, business structure and income structure to mitigate various adverse impacts. As a result, our operating scale grew steadily while putting our assets quality under control, and our operating profits increased stably with all our business lines developed in a balanced way.

1. Interest rate liberalisation and net interest margin

The PBOC announced to remove the lower limit of lending rate from 20 July 2013 onwards, and the process of interest rate liberalisation was accelerated. Just like other domestic commercial banks, the interest rate liberalisation not only affected the business development and profitability of the Company, but also challenged the risk management of the Company. In 2013, the Company improved its pace in strategic transformation, and proactively coped with the challenges of interest rate liberalisation: Firstly, the Company increased its effort of restructuring by optimising its customer base, business and income structure. The Company further strengthened its advantages in retail banking, and increased its efforts in exploring the small and micro enterprise businesses and high-net-worth corporate customers, and promoted the rapid development of its intermediary business, so as to reduce its reliance on interest spread between deposits and loans. Secondly, the Company put more effort in its product and service innovation to strengthen its customer service capability. While proactively promoting effective growth in its core deposits and consolidating its advantage in liability cost, the Company actively explored the independent pricing mechanism-improving the risk pricing and revenue level of small and micro enterprise customers through enhanced products and services, and enhancing the comprehensive service package for high-value medium-sized or above customers, thus improved the comprehensive service capability and return level. Thirdly, the Company further consolidated all its resources to improve its operational efficiency. The Company further promoted its customer-centric process re-engineering, deepened the management reform and organizational restructuring, improved the capabilities of risk management and control, enhanced the cost management and improve the operational efficiency. Fourthly, the Company further strengthened the management of interest rate risk, improved the risk measurement models and optimized the risk management strategies, thus the asset-sensitive features were significantly lessened. As of 31 December 2013, assuming that all interest rates instantly changed proportionally up or down by 200 basis points, the rate of change of net interest income in the coming year will be 8.4%, representing a year-on-year decrease of 3.8 percentage points.

In 2013, the cost of capital of the Company was relatively low as a whole. The average cost ratio of interest-bearing liabilities was 2.30%. On one hand, it was attributable to the higher proportion of demand deposits and the lower average interest ratio of deposits. During the reporting period, the average cost ratio of retail customer deposits was 1.62%, down by 8 basis points as compared with the previous year; the average cost ratio of corporate customer deposits was 2.06%, down by 1 basis point as compared with the previous year. On the other hand, it was also the result of effective control over structured deposits, agreement deposits, active liability taking and other higher cost funds. As at 31 December 2013, the balance of active liabilities taken by the Company was RMB96.260 billion, accounting for 3.63% of deposits from customers, with an average duration of 53 months and average interest rate of 5.53%. Against the background of interest rate cuts and continuous promotion of interest rate liberalisation in 2012, the Company achieved a net interest margin of 2.89% in 2013, representing a decrease of 21 basis points as compared with the previous year, thus maintaining a relatively steady net interest margin.

In 2014, the Company will continue to further its strategic transformation, optimise its asset structure, and to overcome the pressure of rising capital costs by increasing the yield rate on the assets, and it is anticipated that the net interest margin may maintain steady while slightly dropping.

2. Assets quality of key areas

To proactively cope with the impact of transformation and structural adjustment of economy on its asset quality, the Company pre-emptively prevented and controlled the potential risks associated with loans extended to local government financing platforms, real estate enterprises and overcapacity industries. It also attached great importance to guarding against external risks relating to microfinance companies, pawnshops, guarantee agencies, private financing activities and illegal fund-raising.

In respect of loans extended to local government financing platforms, in adherence to the basic guidance of controlling the total loans amount and prioritising loans to good projects, the Company implemented control on the total loan amounts and list management, and optimised loan portfolios by extending loans to governments at a higher level. As at the end of the reporting period, the balance of our loans extended to local government financing platforms amounted to RMB87.265 billion, representing a decrease of RMB3.191 billion or 3.53% as compared with the end of the previous year, which accounted for 4.34% of the total loans granted by the Company, down by 0.80 percentage point as compared with the end of the previous year, and the non-performing loan ratio was 0.02%, representing a decrease of 0.15 percentage point as compared with the end of the previous year.

In respect of loans extended to real estate enterprises, the Company implemented a steady development strategy and imposed a cap on the total loan amounts, while enhanced closed-end management and list management to projects. As at the end of the reporting period, according to the new national standards after adjustment, the balance of our corporate loans to the real estate market was RMB102.661 billion, representing an increase of RMB22.201 billion as compared with the end of the previous year, which accounted for 5.11% of the Company's total loans, up by 0.54 percentage point as compared with the end of the previous year, and the non-performing loan ratio was 0.48%, down by 0.29 percentage point as compared with the end of the previous year.

For overcapacity industries such as iron and steel, cement, plate glass, aluminum, shipbuilding, polysilicon, wind power equipment and coal chemical industry, the Company focused on controlling total loan amounts, adjusting loan structure, increasing guarantees and exiting risks, and pre-emptively prevented the risks of deterioration in those industries through setting loan limits, centralising the approval for loan granting, raising the minimum requirements for loan application, specifying the criteria for loan exit, and strengthening the examination, monitoring and assessment of credit risk, thus effectively preventing the risk of deteriorating industrial prospect. As at the end of the reporting period, the balance of our loans extended to overcapacity industries amounted to RMB48.803 billion, representing a decrease of 0.38 percentage point as compared with that at the beginning of the year, and accounting for 2.43% of total loans of the Company. The non-performing loan ratio of the Company was 0.73%.

For areas such as the Yangtze River Delta and the West Side of Taiwan Strait with concentrated risk exposure, the Company timely adjusted its regional credit policy, raised the minimum requirements for loan extension, slowed down the pace of loan granting, and optimized loan structure, while enhancing risk pre-warning, screening and bad loan collection so as to keep the regional credit risks under control.

3. Wealth management and proprietary non-standard debt assets business

In March 2013, the CBRC promulgated the "Notice on Issues of Regulating Investment Operation in the Wealth Management Business of Commercial Banks" which strictly regulates the fund pool operation mode of wealth management business of banks, and set specific limits on the investment into non-standard debt assets with wealth management funds. In response, the Company actively took the following measures to conduct its wealth management business in compliance with those requirements.

Firstly, the Company made investments in strict compliance with the CBRC's limits requirements regarding "non-standard debt assets". Since the end of August 2013, the balance of our wealth management funds invested in "non-standard debt assets" has been lower than the upper limit of RMB136.3 billion calculated in accordance with the relevant requirements of the CBRC. Therefore, we have continued to comply with those regulatory requirements. As at the end of the reporting period, the balance of our wealth management funds invested in "non-standard debt assets" amounted to RMB131.5 billion.

Secondly, the Company proactively improved its existing asset pool operation mode, and issued the "one-to-one" wealth management products to replace the "multiple-in-multiple-out" asset pool operation mode in accordance with relevant regulatory requirements, with a balance amount of "one-to-one" wealth management products under management reaching RMB544.3 billion as at the end of the reporting period, of which, balance of net-worth products was RMB47.2 billion, balance of structured deposits was RMB40.1 billion, and balance of other products (including single static products and single products named "Sui Yue Liu Jin") was RMB457.0 billion.

Thirdly, the Company continued to enrich product portfolios and linked objects, and steadily increased its structured products. As at the end of the reporting period, the cumulative transaction amounts of our structured deposits hit RMB137.98 billion, with a balance amount of RMB39.21 billion. The cumulative amounts of our structured wealth management products reached RMB6,277 million, with a balance amount of RMB2,181 million.

As at the end of 2013, the Company's proprietary funds invested in non-standard debt assets amounted to RMB212.140 billion. In strict compliance with external regulatory requirements and its own risk management requirements, the Company managed its proprietary investments in non-standard debt assets in its bank-wide liquidity risk management system to measure capital and make provisions for loan loss on a timely and accurate basis.

4. Deposit business

In 2013, the Company further optimised the management mechanism of deposit-taking objectives and strengthened assessments on daily average amounts. As at 31 December, the Company recorded the daily average balance of proprietary deposits from customers of RMB2,465.270 billion for the year, representing an increase of RMB348.870 billion or 16.48% as compared with the previous year, of which, the daily average balance of corporate deposits amounted to RMB1,608.085 billion for the year, representing an increase of RMB238.824 billion or 17.44% as compared with the previous year, and the daily average balance of saving deposits amounted to RMB857.185 billion for the year, representing an increase of RMB110.046 billion or 14.73% as compared with the previous year. In 2014, facing various impediments to the growth of deposits, such as replacement of deposits by wealth management products, intensified competition and rapid development of internet banking, the Company will place equal emphasis on internal potential exploration and customer doubling and adopt a combination of measures to exploit deposit sources to ensure stable growth of deposits, with specifics as follows: firstly, thoroughly implementing the "customer-centric" operational philosophy, deepening customer management, strengthening customer loyalty and increasing the retention ratio of customer funds; secondly, understanding customer demands, reinforcing product innovation, improving development strategies of wealth management products and settlement products, and promoting coordinated growth of deposits through continuing to expand basic customer base and total customers' assets under management; thirdly, proactively optimising internal allocation of resources, further increasing efforts on guidance to branches, and directing steady growth of deposits; fourthly, accelerating construction of outlets, and further expanding customer base through enlarging the coverage of outlets to lay a solid foundation for growth of deposits.

5. Internet banking

The Company made the best out of Internet-related philosophies, technologies and methodologies to upgrade its banking services, so as to cater for its customers' habit and preference in using internet banking. By enhancing its capability in acquiring and managing customers in online banking and offline banking, and building up its advantage by integrating its online and offline banking services, the Company offered the best banking service experience to its customers, lowered its operating cost and improved its operating efficiency. Meanwhile, the Company grasped the essence of internet business and established its systematic advantage in products, customers, costs and efficiency through constantly innovating and enhancing its "customer-centric" service concept.

Facing the impact of various internet companies penetrating into the financial sector, the Company vigorously took countermeasures. Firstly, the Company forged strategic cooperation with key e-commerce providers and other partners to foster a industrial chain, acquired valuable customers including small and micro enterprises, wealth management customers and mass customers in batches, and explored those customers' potential demands. Secondly, the Company invested more resources to improve its overall capability in data collection, integration, analysis and prediction based on big data analytics. Thirdly, the Company vigorously promoted intensive management based on internet technologies, and improved its operating efficiency and lowered its operating cost through optimizing operation processes, implementing centralized loan approval in respect of small and micro enterprises and adopting centralized operation. Fourthly, by adhering to the "customer-centric" principle and stressing to improve its customers' internet banking experience, the Company upgraded and refined its products such as online banking and mobile banking so as to improve its customers' online banking experience. Fifthly, the Company optimized its product development mechanism, established the rapid product development system, expedited the launch of new products and promptly responded to market trends. Finally, the Company closely monitored the development of new technologies which are likely to bring new business opportunities to the Company.

6. Capital management

In 2013, the Company completed financing through rights issue of A+H Shares, with net proceeds totaling RMB33.660 billion, all of which was used for replenishing core tier 1 capital, statically increasing the capital adequacy ratio by 1.38 percentage points, indicating an effective improvement. As at the end of 2013, the capital adequacy ratio of the Company was 10.85% and the tier 1 capital adequacy ratio was 9.04%, higher than the minimum regulatory requirements during the transitional period. However, in the long term, under the backdrop of economic slowdown and accelerating interest rate liberalisation, together with uncertainties of the additional capital regulatory requirements for banks of system significance and for Second Pillar, the Bank will be confronted with certain challenges in respect of dynamic balance among maintaining business development, profit growth and capital restraint. In the future, the Company will further strengthen development of low-capital-consumption businesses, stick to organic growth, strive to improve profit structures and focus on increasing capital utilisation efficiency and return on capital.

5.11 Business Operation

5.11.1 Retail banking

Business overview

In 2013, the Company achieved rapid development in its retail banking. The number of our high-value retail customers continued to grow rapidly. The number of our Sunflower-level customers and above increased by 16.89% as compared with that at the beginning of the year, among of which, the private banking customers increased by 30.63% as compared with that at the beginning of the year. The wealth management business of the Company maintained a rapid growth. The Company was in the forefront among domestic banks in terms of both new sales and stock volume of mutual fund; the Company ranked fifth in terms of its agency insurance sales and commission income, next only to the Big Four state-owned commercial banks. In addition, sales of wealth management products and precious metals continued to maintain a rapid growth. Our retail deposits and loans grew steadily. Our annual daily retail deposits balance increased by 14.73% as compared with that at the beginning of the year, and the retail loans increased by 16.91% as compared with that at the beginning of the year. According to the data released by the People's Bank of China, the Company ranked first among domestic small and medium-sized banks in terms of the balance of retail deposits, among which, the Company ranked third among domestic banks in terms of the balance and annual increase of foreign currency deposits; ranked fifth among domestic banks in terms of the balance of retail loans, among which, the Company ranked first among domestic banks in terms of the increment of personal operating loans for the two consecutive years.

In 2013, profit of the retail banking business grew steadily with constantly improved value contribution. Profit before tax reached RMB22.997 billion, representing a year-on-year increase of 23.99%. The percentage of retail profit in total profit increased continuously to 35.84%, 3.06 percentage points higher than the previous year. Net operating income generated by the Company's retail banking business grew rapidly to RMB55.795 billion, up 19.43% year-on-year, representing 44.30% of the Company's net operating income, 1.22 percentage points higher than the previous year. Amongst them, net interest income from retail banking business reached RMB39.150 billion, up 13.76% year-on-year and accounting for 70.17% of the Company's net operating income from retail banking business; net non-interest income from retail banking business amounted to RMB16.645 billion, up 35.29% year-on-year and accounting for 29.83% of the net operating income from retail banking business and 54.27% of the Company's net non-interest income. In 2013, the retail banking business of the Company recorded a commission income of RMB8,104 million from bank cards (including credit cards), up 43.43% year-on-year; fee and commission income from retail wealth management business was RMB7.157 billion, up 29.33% year-on-year (calculated on the same statistical calibres) and accounting for 45.83% of net fee and commission income from retail banking business.

Facing severe challenges brought about by changes in the external situations such as further progress of interest rate liberalisation, increasingly apparent financial disintermediation, rapid development of internet banking and intensified inter-bank competition, the Company will accelerate the transformation of its retail banking businesses, adhere to the market-oriented and customer-centric business philosophy, and continue to improve and perfect all these aspects such as the business process design, product creation, system formation, etc., thus giving full play to the driving effect of these three engines of "wealth management, small and micro enterprise business, consumer finance" on the retail banking business development, and provide the best customer experience and promote the service upgrades to further enhance the core competitiveness of the retail banking businesses.

Wealth management

In 2013, the Company further strengthened its professional capability in wealth management. To this end, the Company promoted refined management and process optimisation in respect of its wealth management business, enhanced product innovation, optimised product portfolio, and accelerated the structural adjustment and optimisation of the front, middle and back offices of the wealth management business. In addition, the Company also vigorously implemented the “productivity enhancement” project, further explored customers’ potential demands, established a sales support team, devised a new marketing model featuring “customer centricity and assets allocation”, improved its capability in allocating customers’ assets, diversified its assets allocation portfolios, and increased customers’ value contribution, so as to constantly enhanced its core competitiveness in wealth management.

In 2013, the Company recorded RMB3,398.8 billion in accumulated sales of personal wealth management products, registered RMB440.5 billion in the sales of open-ended mutual funds, RMB51.524 billion in standard premiums from the sales of third-party insurance policies and RMB139.5 billion in trust plan sales. Fee and commission income from retail wealth management business was RMB7,157 million, representing a year-on-year increase of 29.33% (calculated on the same statistical calibres). Among them, income from distribution of third-party trust plans amounted to RMB2,140 million, representing a year-on-year increase of 19.09%; income from distribution of third-party insurance policies amounted to RMB1,810 million, representing a year-on-year increase of 27.38%; income from distribution of mutual funds amounted to RMB1,664 million, representing a year-on-year increase of 45.84%; income from the sales of entrusted wealth management products amounted to RMB1,378 million, representing a year-on-year increase of 43.09%; and income from precious metals custody amounted to RMB165 million.

In terms of sales of third-party trust plans, the Company formulated unified systems and procedures across the Bank for accepting, selecting and evaluating trust companies and trust plans, and required third-party trust plans to be developed, designed or introduced, approved and managed by the Head Office. As for third-party trust plans for financing purpose, the Company, apart from setting strict entry requirements, put high emphasis on enhancing the management of those products in their duration period and prompted its business partners to screen credit risks on a regular basis. As at the end of 2013, none of the third-party trust plans for financing purpose promoted by the Company as an agent to its retail customers failed to repay in full amount upon their maturity.

Private banking

Our private banking business follows the philosophy of “It’s our job to build your everlasting family fortune”, which provides our high-net-worth customers with comprehensive, personalised and private wealth management services. After six years’ development, our private banking business has built a service system with professional investment advisory services as its core competitiveness, and set up a full range of open product platform, and thus created comprehensive asset management and product service capabilities from the “market research opinion” to “investment strategy”, to “asset allocation categories”, to “product portfolio selection” and “performance track review”, and provided value-added services systems and marketing activities platform which met customers’ demand.

As at 31 December 2013, the Company had 25,496 private banking customers (the Company’s retail customers with minimum total daily average assets of RMB10 million per month), representing an increase of 30.63% as compared with the beginning of the year; the total assets under management from private banking customers amounted to RMB571.4 billion, representing an increase of 31.60% over the beginning of the year. The Company established two new private banking centers in Changsha and Urumqi. Currently, the Company has established 31 private banking centers and 53 wealth management centers, and basically completed its high-end customer service network in China.

In 2013, the company further improved the service depth and breadth in its private banking business. Based on the "Family Office" service targeting at ultra-high-net-worth customers launched in 2012, the Company further introduced the "Wealth Inheritance Family Office" aiming at niche markets in 2013, which provided a customised program of wealth preservation and inheritance for these ultra-high-net-worth families, and signed the first contract of "Family Wealth Inheritance Trust", starting a new era for the domestic family trusts, taxation planning and legal consultation, offshore property trusts and discretionary trust assets of business. In addition, in response to the needs of ultra-high-net-worth customers in China to allocate their assets overseas, the Company established a cross-border financial services platform by combining businesses with the CMB International, Wing Lung Bank Ltd., CMB Hong Kong Branch, etc., so that the Company could fully exert its advantages in comprehensive operations inside and outside China to set up an open global wealth management platform, investment and product platform, thereby providing the best overseas investment experience and global asset allocation for its private banking customers. In future, based on consolidating the advantages of wealth management services, the company will strive to build the integrated financial services platforms for private banking which include personal financing and corporate banking services.

Credit cards

During the reporting period, the Company grasped the trend of mobile Internet technology, and pioneered in launching smart "Customer Service at WeChat" to re-define the innovative service channel with customers. The total number of official WeChat friends were over 5.8 million, bound users over 4.0 million, thus significantly enhancing the customers' experience with the card, which was studied and followed by a large number of other enterprises. The Company launched a brand new edition of "CMB Life (掌上生活)", the mobile user application, which achieved a lifecycle management for credit card. The mobile user application was the first of its kind in the domestic credit card industry, which effectively met the customers' needs in this mobile Internet era and thus broadened the channels for soliciting customers and improved the efficiency of soliciting customers, thereby continuing to put more efforts into soliciting these valued customers, so as to optimise the structure of the customer base. The Company actively carried out the cross-sales business under the Big retail system of the bank, which achieved great sales record. The Company launched a series of new credit card products such as GQ (Zhizu 智族) Co-branded Credit Card, "One Piece" Sea King Credit Card, Hero Alliance Credit Card, UnionPay Platinum Installment Credit Card, All Currency international Credit Card, which further optimised the product structure of credit cards. The Company improved its high-yield businesses, and tried to perfect its high-yield products system. The Company put more efforts in marketing, launched lots of marketing activities which large number of customers could participate in, such as "Small Points, Great Fun", "Wednesday Food 50%-off", "50%-off Movies", "Extraordinary Hong Kong" (非常香港), "Extraordinary Taiwan" (非常台灣), "Extraordinary USA" (非常美國), and "Extraordinary Sea Purchase" (非常海購), thus greatly promoting the local competitive advantages of credit cards. The Company improved the efficiency of capital and credit line utilisation, strengthened risk control, maintained a stable asset quality and achieved a balanced development of risk and return, maintaining a stable development of the overall operations of the credit card business.

As at the end of the reporting period, the Company had issued 51.21 million credit cards in total. The total number of active cards was 25.65 million, representing an increase of 3.85 million cards during the year. The Company constantly improved the efficiency of customer acquisition and customer management, the cumulative transaction value for 2013 was RMB940.3 billion, representing a year-on-year increase of 43.08%; and the average transaction value per month of each active card was RMB3,301. The percentage of the revolving balances of credit cards was 30.52%. Interest income from credit cards amounted to RMB8,855 million, representing a year-on-year increase of 41.54%. Non-interest income from credit cards was RMB7,807 million, representing a year-on-year increase of 42.99%. As the Company further strengthened its risk control measures, non-performing loan ratio of credit cards was 0.98%, down by 0.08 percentage point as compared with that at the end of the previous year.

In future, in response to the development trends of the society, the economy and the banking industry, the Company will continue to explore and innovate the operating model of credit card business, and to target at making breakthroughs through stable profit growth, continuous innovation, and unique customer experience, in order to accelerate building a differentiated competitive edge. The Company also expanded the value contribution of the credit card business in retail banking business in the whole bank, and strived to achieve a balanced development in aspects of scale, efficiency, and quality, so as to keep the leading position in the credit card businesses.

Retail loans

In 2013, the Company maintained a rapid growth in its micro enterprise loans, kept optimising the structure of its retail loans, further improved its risk pricing capability and generated higher capital return, thus significantly enhancing the profitability of retail loans. At the same time, the creditworthiness and solvency of some individual customers deteriorated due to the macroeconomic downturn and regional risks, resulting in an increase of non-performing loans. However, given that the non-performing loan ratio was generally controllable and the vast majority of such new non-performing loans have been fully secured by collaterals, the possibility of sustaining eventual losses on such loans is slim. As at 31 December 2013, the Company's total retail loans amounted to RMB785.525 billion, representing an increase of RMB113.625 billion as compared with that at the end of the previous year, and accounting for 39.10% of total loans to customers, up by 0.94 percentage point as compared with that at the end of the previous year. Among which, micro enterprise loans amounted to RMB315.453 billion, representing an increase of 78.08% as compared with that at the end of the previous year, which accounted for 40.16% of our retail loans, up by 13.80 percentage points as compared with that at the end of the previous year. Non-performing loan ratio of retail loans was 0.64%, up by 0.16 percentage point as compared with that at the end of the previous year.

To respond to the call of national policies to support the development of small and micro enterprises, the Company, learning from the experience of world-leading banks, preliminarily established a distinctive business model for micro enterprise businesses through continuous innovation. Firstly, the Company enhanced its capability in acquiring micro enterprise customers in batches by encouraging referrals at outlets, organising business meetings, developing professional markets, expanding supply chains and promoting electronic loan-granting channels, so as to obtain high-value customers in batches at low cost. Secondly, the Company built itself into a comprehensive service supplier for micro enterprises, and fully met various demands of micro enterprises in financing and settlement through launching innovative products and services such as "Business Loans (生意贷)" and "Business All-in-one Cards (生意一卡通)". Thirdly, the Company improved its countrywide centralised loan approval and granting model so that our head office centralised middle and back office operations such as the input of all loan information and the approval and granting of loans. The purpose of which was to grant loans within two working days in the case of availability of complete documents, thus significantly shortening the loan approval cycle and reducing the operating cost of small and micro loans. Lastly, the Company made technical innovations in risk management to realise bank-wide unified risk management of loans granted to small and micro enterprises through the application of quantitative risk management tools, an assessment score card model and a decision-making system (Please refer to section 5.8.1 of this report for further information on the loans granted to small and micro enterprises).

Total deposits from retail customers

In 2013, the Company conducted its retail banking business in strict adherence to the "customer-centric" principles. By developing its wealth management business, optimising the investment of deposits from its customers, increasing the total amount of assets under management (AUM) from its retail customers, coordinating the growth between its wealth management products and customer deposits, expanding its mass customer base and enhancing the comprehensive business of small- and micro-enterprises, the Company effectively broadened the sources of savings deposits and realised the steady growth of its customer deposits.

As at the end of December 2013, the total amount of assets under management (AUM) from our retail customers saw rapid growth, with a balance amount reaching RMB2,825.2 billion, representing an increase of 18.69% as compared with that at the beginning of the year. The daily average balance of retail customer deposits of the Company amounted to RMB857.185 billion for the year, representing an increase of RMB110.046 billion as compared with that at the beginning of the year, the highest annual increment over the past three years. The year-end balance of retail customer deposits amounted to RMB898.993 billion, representing an increase of RMB35.223 billion as compared with that the beginning of the year, of which the demand deposits accounted for 58.38% while the year-end balance of retail customer deposits accounted for 33.86% of the balance of our customer deposits.

5.11.2 Wholesale banking

Business overview

The Company provides corporate customers, financial institutions and government agencies with a wide range of high quality wholesale banking products and services. In 2013, the Company operated its wholesale banking business in strict compliance with the requirements of the "Second Transformation", thereby facilitating the rapid and healthy development of its various businesses. According to the classification standards set out in the "Notice on Issuing the Provisions on the Classification Standards for Small and Medium-sized Enterprises" (《關於印發中小企業劃型標準規定的通知》) (Lian Qi Ye [2011] No. 300) (the "National Standards") promulgated by the Ministry of Industry and Information Technology, the total amount of loans extended to domestic small and medium-sized enterprises increased by 21.16% as compared with that at the end of the previous year, up by 4.70 percentage points as compared with its proportion to total domestic corporate loans at the end of the previous year. The Company fully promoted the "Qian Ying Zhan Yi (千鷹展翼)" plan, with an increase of 128.78% in the number of customers as compared with that at the beginning of the year. The cash management business experienced rapid development, the number of customers of our cash management business increased by 45.84% as compared with that at the end of the previous year, and electronic supply chain transaction value increased by 48.19% year-on-year. Our corporate wealth management business achieved new breakthrough with an increase of 137.46% year-on-year in the revenue of our corporate asset management business. Our five dominant international businesses, namely international guarantees, cross-border RMB settlements, international factoring, forfeiting and foreign exchange trading, all doubled their respective transaction amounts compared with the previous year. The Company's key performance indicators of offshore businesses (such as offshore deposits, offshore net non-interest income and offshore profit) continued to hold the largest market share among Chinese banks offering offshore banking services (based on information exchange among banking peers). The cross-border RMB inter-bank collaboration business and the precious metal leasing business of the Company maintained rapid growth and leading position in the industry. During the reporting period, the Company's cash management, assets custody, corporate wealth management, new "Cross-border Finance" service, investment banking and other businesses maintained its brand advantage and received a number of domestic and international top awards.

In 2013, as for its wholesale banking business, the Company continued to optimize the pricing mechanism and system development, comprehensively improved its risk pricing capability, and strove to establish new profitability mode. During the reporting period, with respect to its wholesale banking business, the Company posted RMB60.579 billion in net interest income, representing a year-on-year increase of 10.30%; net non-interest income amounted to RMB14.616 billion, representing a year-on-year increase of 39.87%; net operating income was RMB75.195 billion, representing a year-on-year increase of 15.03%, and accounting for 59.70% of the net operating income of the Company; profit before tax amounted to RMB46.928 billion, accounting for 73.14% of profit before tax of the Company. During the reporting period, the Company realised corporate asset management income of RMB2.134 billion from wholesale banking business, representing a year-on-year increase of 119.77%.

Corporate loans

Corporate loans of the Company include working capital loans, fixed asset loans, trade finance and other loans, such as merger and acquisition loans and corporate mortgage loans. As at 31 December 2013, total corporate loans of the Company were RMB1,162.140 billion, representing an increase of 12.44% as compared with the end of the previous year and accounting for 57.83% of total customer loans. Among them, the balance of the medium to long-term loans to domestic enterprises amounted to RMB383.827 billion, a decrease of 0.68 percentage point as compared with the end of the previous year, accounting for 34.54% of the total loans to domestic enterprises. The non-performing loan ratio of our corporate loans was 1.12%, an increase of 0.33 percentage point as compared with the end of the previous year, which was mainly due to the weaker debt repayment ability of enterprises as a result of the economic downturn.

In 2013, the Company further optimised the industry distribution structure of corporate loans, gave priority to industries undergoing structural upgrading, traditionally competitive industries, the strategic emerging industries, modern service sectors, and green industries. Meanwhile, the Company restricted loans to state-regulated industries, such as real estate, local government financing vehicles, and overcapacity industries. As at 31 December 2013, the balance of green credit loans was RMB116.372 billion, representing an increase of RMB6.825 billion (calculated on the same statistical calibres) as compared with that at the end of the previous year, which accounted for 10.01% of the total corporate loans of the Company. The balance of our loans to strategic emerging industries amounted to RMB48.001 billion, which accounted for 4.13% of the total corporate loans of the Company, down by RMB1.922 billion as compared with that at the end of the previous year.

In 2013, the Company vigorously promoted syndicated loan business to enhance inter-bank cooperation and information sharing and diversify the risks associated with large amount loans. As at 31 December 2013, the balance and management fee income of syndicated loans amounted to RMB65.950 billion and RMB55.0519 million, respectively.

In 2013, the Company proactively promoted the rapid and healthy development of its SME business. According to the national standards, the total balance of loans extended to domestic small and medium-sized enterprises amounted to RMB633.271 billion as at 31 December 2013, representing an increase of 21.16% as compared with that at the end of the previous year, and accounting for 57.00% of our total domestic corporate loans.

Discounted bills

In 2013, after taking overall consideration of its total credit, liquidities, gains and risks, the Company effectively allocated and promoted its discounted bills business. As at 31 December 2013, the balance of discounted bills amounted to RMB61.592 billion, an increase of 11.79% as compared with that at the end of the previous year, accounting for 3.07% of total customer loans.

Corporate customer deposits

In 2013, the Company's corporate customer deposits maintained a sound growth momentum. As at 31 December 2013, the balance of corporate customer deposits amounted to RMB1,755.888 billion, representing a year-on-year increase of 12.36%, accounting for 66.14% of the total customer deposits; while its daily balance amounted to RMB1,608.085 billion, representing a year-on-year increase of 17.44%.

The Company focused on enhancing the returns on corporate customer deposits. By vigorously developing innovative services such as online corporate banking and cash management, the Company constantly improved the quality of marketing activities and expanded the sources of deposits, thus bringing in a large amount of low cost corporate customer deposits. Meanwhile, in line with market changes, liquidity management, and other needs, the Company absorbed an appropriate portion of deposits with longer maturities, and further optimised the structure of corporate customer deposits. As at 31 December 2013, demand deposits accounted for 48.69% of total deposits from our corporate customers, 1.74 percentage points lower than that at the end of the previous year.

“Qian Ying Zhan Yi” Program

The “Qian Ying Zhan Yi (千鷹展翼)” program is a strategic brand of the Company to serve innovative emerging enterprises. Since the official launch of the “Qian Ying Zhan Yi” program to nurture innovative emerging enterprises in October 2010, the Company has continued to make innovations in marketing methods, product support, service channels and technical means in respect of the program, and has been committed to building a new brand which is distinguished by an “equity financing plus bond financing” model designed to support innovative small enterprises. Thanks to three years’ effort, especially the “customers doubling plan” implemented since 2013, the customer base of the “Qian Ying Zhan Yi” program has kept expanding. As at the end of December 2013, the total number of such customers reached 17,344, representing an increase of 128.78% as compared with that at the end of the previous year. Of which, 67% of customers were granted credit lines from the Company, the proportion of such enterprises maintaining a loan balance reached 47% and their year-end loan balances amounted to RMB130.528 billion, representing an increase of 99.58% as compared with that at the end of the previous year. In order to better serve innovative growing enterprises, the Company has licensed to establish 100 “Qian Ying Zhan Yi Innovative Sub-branches” across the country to serve innovative emerging enterprises in the program.

In future, the Company will continue to enhance cooperation with domestic and international private equity institutions to expand cooperative scope, and promote innovation in financial products and services. In addition, the Company will fully exert its advantage in, and the irreplaceability of, the customer-centric integrated service system comprising product designs, professional teams and investment and commercial banking, effectively implement the “Qian Ying Zhan Yi” program to support innovative growing enterprises and build it into an important strategic brand of the Company.

Settlement and cash management business

Cash management business is of fundamental and strategic importance to coping with the challenge of liberalised interest rate. The Company provided various types of customers with all-inclusive, multi-model, and integrated cash management services, contributing to the acquisition and retention of customers, acquisition of low cost corporate settlement related deposits, and the cross-sales of other corporate and retail products. As at 31 December 2013, the total number of customers using cash management services reached 319,590. The fundamental cash management business sustained healthy development with cross-bank cash management product being applied by more than 300 conglomerates with more than 16,000 companies under management. The Company also innovatively launched housing reserve management system to effectively promote the marketing of various key items focusing on customs, tax, social security, provident funds and etc. The Company continued to push forward the innovation of major products including smart time deposits, “Wang Dai Yi (網貸易)”, “Ji Zhang Bao (記賬寶)” and “All-in-one Card for Company (公司一卡通)” and concentrated more efforts on the marketing and promotion of “All-in-one Net for Corporate and Individual Accounts (公私賬戶一網通)” and “Shou Kuan Tong for Small Enterprises (小企業收款通)”. In addition, the Company aggressively developed supply chain settlement products, exploited corporate notes management services and promoted products relating to bill pooling and bill value-added service, resulting in the transaction amount of electronic supply chain for the year exceeding RMB1,168.867 billion, representing a year-on-year increase of 48.19%.

As for corporate card business, through coordinated marketing of retail and corporate lines, the Company had issued a total of 151,590 corporate cards during the year as at 31 December 2013. Intermediary business income from corporate cards amounted to RMB107,751,000 in 2013, representing an increase of 6.08% over the previous year, among which, non-interest income from domestic transactions amounting to RMB75,192,200, non-interest income from overseas transactions amounting to RMB18,291,600 and intermediary business income from the business travel platform amounting to RMB14,267,200.

International business and offshore business

As for international business, the Company established a product system comprising 15 tier-2 products through deeply developing three categories of cross-border financial products, namely, “Shang Mao Tong (商貿通)”, “Zi Ben Tong (資本通)” and “Cai Fu Tong (財富通)” and put more efforts into promoting the product innovation of non-resident accounts (NRA), online foreign exchange trading and integration of domestic and foreign trade. In 2013, the Company completed international settlements of US\$424.922 billion, a year-on-year growth of 28.11%, cross-border Renminbi settlements of RMB350.017 billion, representing a year-on-year growth of 107.20%, foreign exchange settlements of US\$130.226 billion, representing a year-on-year growth of 11.97%, accumulated trade financing of US\$33.713 billion, representing a year-on-year growth of 32.21%, international factoring of US\$11.022 billion, representing a year-on-year growth of 246.60%, and forfeiting of US\$11.241 billion, representing a year-on-year growth of 161.32%. The non-interest income from international business amounted to RMB3.878 billion, representing a year-on-year growth of 44.11%.

With regard to offshore business, as at 31 December 2013, the number of offshore customers reached 25,800, an increase of 16.22% from the beginning of the year; deposits from offshore customers amounted to US\$9.173 billion, representing an increase of 45.88% as compared with that at the beginning of the year; while offshore trade financing balance reached US\$3.801 billion, representing an increase of 50.95% as compared with that at the beginning of the year; credit assets continued to be of good quality, with new overdue loans and new non-performing loans remained zero. Cumulative net incomes from non-interest businesses reached US\$94,211,000, representing an increase of 22.37% from the previous year.

Investment banking business

With respect to investment banking business, the Company aggressively developed underwriting business for short-term financing bonds, medium-term notes and other bonds with a focus on the diversification of bond products including ultra short-term financing bonds and instruments issued through private placement, and actively promoted high-end financial advisory business including M&A advisory business, refinancing of listed companies and structured financing. In 2013, a total income of RMB2,108 million from the investment banking business was achieved, representing a year-on-year increase of 57.78%. The debt financing instruments underwritten by our investment banking department amounted to RMB147.540 billion. There were 199 tranches of bonds underwritten by the Company, representing a year-on-year increase of 21.34%.

Financial institutions business

With regard to businesses with financial institutions, the Company focused on deepening and expanding its inter-bank cooperation channels and optimising the structure of over-the-counter inter-bank lending and borrowing business, thereby enhancing the value contribution of its inter-bank customer group and the revenue from its inter-bank lending and borrowing business. Meanwhile, the cross-border RMB inter-bank collaboration business of the Company and its precious metal leasing business continued to grow rapidly and occupy a leading position in the industry. As at 31 December 2013, the balance of inter-bank placements from other financial institutions reached RMB509.640 billion, representing an increase of 101.33% as compared with that at the beginning of the year. The balance of over-the-counter asset business with other financial institutions such as inter-bank placements, credit assets purchased for resale and beneficial rights transfer amounted to RMB184.489 billion as at the end of the reporting period, representing a decrease of 36.10% as compared with that at the beginning of the year. The balance of funds under third-party custody amounted to RMB35.124 billion. As for third party custody business, the Company had a total of 3,890,000 clients. The Company recorded a sales value of RMB81.5 billion in respect of wealth management products sold through inter-bank channels, representing an increase of 14.43% as compared with the previous year. The amount of inter-bank cross-border RMB clearing service reached RMB363.508 billion in value, representing an increase of 148.20% as compared with the previous year, and the total number of clearing accounts amounted to 75, an increase by 20 from the previous year. As for margin trading and short selling business, the Company maintained business cooperation with 53 securities firms including 12 newly added ones; and the business volume of precious metal leasing with customers amounted to 60.18 tons, representing an increase of 203.31% as compared with the previous year.

Assets management

With regard to corporate asset management, the Company captured market trends timely by launching a series of new asset management products. These products cover treasury bonds, central bank notes, financial notes traded in inter-bank bonds market and other financial assets. The corporate asset management business has become an important tool to expand non-interest income, draw in new customers and enhance brand recognition. In 2013, the Company realised an income of RMB1.496 billion from its corporate asset management business, representing a year-on-year increase of 137.46%.

With respect to the asset custody business, the Company enhanced its effort in marketing high yield custody products and achieved record high income from custody fees and size of assets under custody despite the volatile stock markets in China in 2013. The Company's custody business recorded an income of RMB1.062 billion, representing an increase of 62.39% over the previous year. The size of assets under custody was RMB1,857.216 billion, representing a year-on-year increase of 71.86% and daily average deposits under custody was RMB25.555 billion.

5.11.3 Financial market business

Operating strategy

RMB investment business: the Company, after making an intensive study of domestic financial market, grasped the trend of local-currency bond market and formulated its investment plan in a scientific way. Firstly, the Company appropriately extended the duration of its investments, increased investments in medium to long-term bonds with maturity of 5 years or above, and moderately controlled its investment pace in line with the macro-economic trend and policies. Meanwhile, for the purpose of risk prevention, the Company prioritised its investments in government bonds, policy financial bonds, and the credit bonds with good credit standing. Secondly, by capitalising on the opportunities of fluctuations in interest rates and credit spreads, the Company proactively adjusted the structure of its debt portfolios and constantly optimised portfolio management to increase the level of earnings. As at the end of the reporting period, the balance of the Company's RMB investment portfolio was RMB566.593 billion, with a portfolio duration of 3.0 years and the portfolio yield of 4.37%.

Foreign currency investments: the Company seized opportunities to implement stable operation based on its judgment on the international market. This has laid a good foundation for fulfillment of the Company's annual investment plan. Firstly, the Company implemented its prudent investment strategy, adjusted its investment pace and controlled the duration of its new investments. Meanwhile, the Company actively participated in the spread transactions of newly issued bonds and range trading operation to realise interest spread gains. Secondly, the Company proactively developed derivative products to increase returns of debt portfolio. As at the end of the reporting period, balance of the Company's foreign exchange investment portfolio amounted to US\$3.575 billion, with a portfolio duration of 1.87 years and the portfolio yield of 1.82%.

Business development

As for its traditional wealth management business, the Company developed 3,373 wealth management products with a total sales value of RMB4,916.5 billion. As at the end of the reporting period, balance of operating funds of our wealth management products was RMB698.099 billion, representing a year-on-year increase of 57.64%. Of which balance of off-balance sheet wealth management products was RMB582.519 billion, representing a year-on-year increase of 57.48%. During the reporting period, the wealth management business of the Company realised income from its intermediary business of RMB3.396 billion, representing a year-on-year increase of 83.27%.

5.11.4 Distribution channels

The Company provides products and services via multiple distribution channels. Our distribution channels are mainly divided into physical distribution channels and e-banking channels.

Physical Distribution Channels

The efficiently operated outlets of the Company are primarily located in China's economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium cities in other regions. As at 31 December 2013, the Company had 113 branches, 934 sub-branches, 1 exclusive branch-level operation center (a credit card center), 1 representative office, 2,330 self-service centers and 9,492 cash self-service machines (including 2,533 automatic teller machines and 6,959 cash recycle machines) in more than 110 cities of Mainland China. Meanwhile, the Company also had 2 wholly-owned subsidiaries, namely CMB Financial Leasing and China Merchants Fund as well as 1 joint venture, CIGNA & CMB Life Insurance. The Company also has a number of wholly-owned subsidiaries including Wing Lung Bank Ltd. and CMB International in Hong Kong, and a branch in Hong Kong (Hong Kong Branch); a branch and a representative office in New York, the United States; a branch in Singapore (Singapore Branch); a representative office in London, the United Kingdom; and a representative office in Taipei.

E-banking Channels

The Company attaches great importance to developing and improving e-banking channels such as online banking, mobile banking and direct banking, which are highly recognised by the society and have effectively relieved the pressure on outlets of the Company. In 2013, the overall counter replacement ratio in respect of retail e-banking channels reached 92.50% and overall counter replacement ratio in respect of corporate e-banking channels reached 54.65%; whereas it was 92.42% in respect of transaction settlement using online corporate banking services, representing an increase of 1.84 percentage points, 2.25 percentage points and 3.95 percentage points respectively over the previous year.

Online banking

The Company's online banking business continued to grow rapidly in 2013; its users were increasing dramatically and the frequency they use online banking grew as well.

As for its retail online banking business, as at 31 December 2013, the number of active users of the retail online banking professional edition of the Company reached 15,828,700, and the relevant replacement ratio in respect of retail online banking was 89.36%, 3.35 percentage points higher than that of last year. The total cumulative number of retail online banking transactions was 947,742,300, up by 28.75% as compared with that in the previous year; and the accumulated transaction amount was RMB19,540.044 billion, up by 28.59% as compared with that in the previous year. Specifically, the accumulative number of online payment transactions was 694,654,300, up by 26.32% as compared with that in the previous year; and the accumulative amount of online banking transactions was RMB412.421 billion, up by 90.33% as compared with that in the previous year.

As for its corporate online banking business, as at 31 December 2013, the total number of corporate online banking customers of the Company reached 316,506, representing an increase of 37.56% as compared with that at the end of the previous year. Of which small enterprise customers exceeded 250,000, and the number of small enterprise customers who entirely used our online banking services to conduct settlement transactions surpassed 80,000. The accumulated number of corporate online banking transactions of the whole Bank was 55.09 million, representing an increase of 24.95% as compared with that in the previous year. Of which the number of settlement transactions of small enterprise customers reached 24,030,000, representing 43.62% of the number of corporate online banking transactions of the whole Bank. The accumulated transaction amount of the whole Bank was RMB34,280 billion, representing an increase of 39.07% as compared with that in the previous year.

Mobile banking

The personal mobile banking service of the Company continued to maintain rapid growth in 2013, and the Company's mobile banking service was awarded the "Best Mobile Banking Product in China" by *The Asian Banker*. Ahead of its peers, the Company introduced a brand new mobile banking product, 'WeChat Banking', which extends the convenience of Internet banking services to increasingly popular mobile applications used by a large number of customers, therefore establishing a multi-level and diversified intelligent customer service mode, providing a handy way for customers to use mobile banking service as well as promoting the innovation and rapid development of WeChat Banking. In addition, following the introduction of mobile banking apps for iPhones and Android smart phones as well as iPads, the Company also introduced Win8 banking service in December 2013 which received enthusiastic applause from our customers. As at 31 December 2013, the aggregate number of mobile banking apps being downloaded had exceeded 22 million. The number of logins of mobile banking users reached 265,519,800 times, representing a year-on-year increase of 216.16%, and the number of mobile banking users, transactions and payments has been increasing dramatically with very active users. The total number of mobile banking contracts signed had reached 15,690,300, 62.34% higher than that of the previous year, of which the number of active customers had reached 5,440,100. Cumulative transactions (excluding mobile payment) amounted to 51,356,000 transactions, up by 294.97% as compared with the previous year; and the accumulated transaction value reached RMB1077.434 billion, up by 165.42% as compared with the previous year. The aggregate number of mobile payment amounted to 208 million transactions, up by 259.89% as compared with the previous year; and the accumulated transaction value was RMB59.078 billion, up by 443.10% as compared with the previous year.

As at the end of the reporting period, the number of corporate users of mobile banking services amounted to 111,500. The total number of transactions such as account enquiries, payments and settlements completed through corporate mobile banking reached 1,338,600 transactions, which effectively met our corporate customers' demand for mobile financial services, and also enabled the Company to form a brand new service channel for its online marketing campaign targeting corporate customers.

Direct banking

The direct banking service provided by the Company integrates the convenience of direct banking channels and the face-to-face friendly and attentive service at counters, which is performed by direct banking relationship managers to provide customers with immediate, comprehensive, speedy and professional service, including a variety of banking transactions, investment and financial advisory services, one-stop loan services and product sales. Currently, the primary function of direct banking is to provide online loan services, online wealth management, direct transactions and distance assistant service.

In 2013, the number of transactions conducted through direct banking reached 6,644,200 and the transaction value amounted to RMB801.733 billion, up by 7.20% as compared with that in the previous year. The sales of various types of funds (including monetary funds), trusts and wealth management products amounted to RMB334.446 billion, increasing by 11.47% from the previous year. Total loans granted through online channel amounted to RMB25.91 billion, up by 436.00% than that of the previous year.

In 2013, in the competition of the *11th Best Call Center and Management in China* organised by the Customer Relations Management Committee of China Federation of IT Information and co-organised by CCCS Customer Contact Center Standard Committee and ICMI International Customer Management Institute, the Company won the title of "Best Call Center in China" for the ninth straight year.

5.11.5 Overseas businesses

Hong Kong Branch

The Company established its Hong Kong Branch in 2002, which principally engaged in wholesale and retail banking. In particular, wholesale banking service provided by Hong Kong Branch included loans and deposits, remittance, factoring, international trade facilities and settlement, syndicated loans, and inter-bank transaction of funds, bonds and foreign exchange. Retail banking mainly included cross-border electronic banking services for individual customers between Hong Kong and Mainland China. The featured products were the “Hong Kong All-in-one Card” and “Hong Kong Bank-Securities Express”. The cardholder of “Hong Kong All-in-one Card” could withdraw cash from ATM and pay with their cards via POS through “China UnionPay”, “Hong Kong JETCO” and “EPS” in Hong Kong, Mainland China and overseas, and enjoy the counter and online remittance services of those places. The cardholder of “Hong Kong Bank-Securities Express” may trade Hong Kong stocks through online banking and direct banking, enjoying unparalleled ease and convenience in investment and wealth management.

In 2013, facing a historic opportunity arising from the internationalisation of the RMB, the Hong Kong Branch continued to leverage on its competitive edge in cross-border RMB business. Meanwhile, through strengthening innovation on financial services, optimising operating procedures and improving risk pricing, the Hong Kong Branch made good use of opportunities of business coordination with branches in Mainland China and comprehensively promoted its operation and internal management. To cope with the increasing stringency of local regulatory requirements, the Hong Kong Branch strived to strengthen compliance management, strictly prevented credit risk and made great efforts to build an anti-money laundering system so as to improve anti-money laundering workflow. In addition, the Company enhanced the confidentiality of customer information and provided a more secure transaction platform for customers through system upgrade and gradual replacement of chip cards for All-in-one Card customers.

In 2013, the Hong Kong Branch realized operating income of HK\$1382 million, up by 60% as compared with the previous year; among which, net interest income of HK\$870 million, net non-interest income of HK\$512 million, and profit before tax of HK\$993 million, up by 88% as compared with the previous year, the profit per capita exceeded HK\$8.00 million.

New York Branch

Established in 2008, the New York Branch of the Company was positioned as a bank committed to facilitating economic and trade cooperation between China and the U.S. It provided tailored services for Chinese companies “going global” and US enterprises investing in China. In addition, our New York Branch also acted as a showcase and platform in improving our internationalisation and global service capabilities. Its services included corporate deposits, corporate loans, project financing, trade financing, merger and acquisition financing, financial advisory, and cash management.

In 2013, the New York Branch launched two new innovative businesses: firstly, it started to transfer the overnight funds in the head office’s USD overseas account to US Federal Reserve’s products, which increased the operation efficiency of the overall funds of the Company and effectively reduced capital cost and credit risk; secondly, the branch provided privatisation financing for Chinese-funded listed companies and professional consultancy and financing services for delisting projects.

In 2013, the New York Branch recorded a net operating income of USD57.17 million. The New York Branch has no record of non-performing loan or credit loss since its inception.

Singapore Branch

The Singapore Branch of the Company was established on 22 November 2013, and it mainly provided corporate customers with diversified services including deposits, loans, trade financing, remittance, inter-bank funding business and forex trading.

During the reporting period, the Singapore Branch strived to develop its business, and completed a number of working capital loans, forfeiting, non-financing inter-bank risk participation, acting as agent for payment and settlement, discounting under letters of credit, export bill for collection and various inter-bank advancing.

As at 31 December 2013, the balance of various loans and advances to customers of the Singapore Branch amounted to USD305 million and the balance of deposits from customers amounted to USD42,466,400. It generated net interest income of USD303,300 and income from intermediary business of USD95,100.

5.11.6 Wing Lung Group

Profile of Wing Lung Bank

Wing Lung Bank was founded in 1933, with a registered capital of HK\$1.5 billion, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of Wing Lung Bank and its subsidiaries ("Wing Lung Group") comprise deposit-taking, lending, credit cards, documentary bills, foreign exchange, futures and securities brokerage, asset management, wealth management services, insurance business, financial lease, property trustee and nominees services. At present, Wing Lung Bank has a total of 43 banking offices in Hong Kong, 4 branches and representative offices in Mainland China, a branch in Macau, and two overseas branches, located respectively in Los Angeles, the United States and the Cayman Islands. As at 31 December 2013, the total number of employees of Wing Lung Bank is 1,721, of which 1,527 are in Hong Kong, 137 in Mainland China, 40 in Macau and 17 overseas.

The profit attributable to the shareholders of Wing Lung Group in 2013 was HK\$2.597 billion, representing an increase of 22.36% as compared with that in 2012 (as restated), which was mainly attributable to a year-on-year increase of HK\$714 million in operating income from its major businesses and a year-on-year increase of HK\$151 million in gains on the fair value of investment properties to HK\$291 million. In 2013, Wing Lung Group recorded a net interest income of HK\$3.047 billion, representing a year-on-year increase of 21.69%, which was mainly attributable to the increase in average loan amount; the net interest margin for 2013 was 1.58%, up by 1 basis point as compared with that of 2012. Net non-interest income was HK\$1.382 billion, representing a year-on-year increase of 14.09%. Net fees and commission income amounted to HK\$630 million, representing a year-on-year increase of 35.11%, which was primarily attributable to the increase in the income from securities brokerage, investment services and loan services. Insurance business posted net operating income of HK\$122 million, representing a year-on-year increase of 6.11%. Other operating income rose by 14.33% to HK\$250 million. As for trading gains, the net gains from foreign exchange trading increased by 7.84% to HK\$309 million, while net securities trading gains decreased by 39.28% to HK\$69.89 million, which was mainly due to the decrease in net gains arising from financial instruments designated at fair value through profit or loss and derivative financial instruments. Operating expenses amounted to HK\$1.610 billion, representing a year-on-year increase of 19.26%, which was primarily due to the increase in payroll, depreciation, electronic data processing cost, system consultancy fee, China business tax and withholding tax, etc. The cost-to-income ratio for 2013 was 36.35%, representing an increase of 0.01 percentage point as compared with that of 2012. Mainly due to the increase of total loans, the impairment charge for credit losses on loans and accrued interest increased to HK\$38.31 million, as compared with write-back of credit losses of HK\$6.98 million in 2012, and the impairment charge for credit losses on available-for-sale securities increased by HK\$23.32 million to HK\$25.94 million. The non-performing loan ratio was lower than that of 2012.

As at 31 December 2013, the total assets of Wing Lung Group amounted to HK\$217.186 billion, representing an increase of 21.47% as compared with that at the end of 2012 (as restated). Total equity attributable to shareholders amounted to HK\$19.777 billion, representing an increase of 16.27% as compared with that at the end of 2012 (as restated). Total loans and advances to customers (including trade bills) amounted to HK\$132.036 billion, representing an increase of 32.93% as compared with that at the end of 2012. Deposits from customers amounted to HK\$155.137 billion, representing an increase of 17.44% as compared with that at the end of 2012. Loan-to-deposit ratio was 66.19%, up by 3.24 percentage points as compared with that at the end of 2012. As at 31 December 2013, the total capital ratio and tier-1 capital ratio of Wing Lung Group were 14.81% and 10.04%, respectively, and the average liquidity ratio for the reporting period was 41.30%, all above statutory requirements.

For detailed financial information on Wing Lung Group, please refer to the 2013 annual report of Wing Lung Bank, which is published at the website of Wing Lung Bank (www.winglungbank.com).

Progress of Integration with WLB

In 2013, the Company continued to promote the integration of WLB in an active and steady manner, which facilitated the sustainable and healthy development of all businesses of WLB and enhanced its profitability significantly.

Firstly, coordinated business grew rapidly and signs of synergies emerged. WLB introduced its “Quan Dai Tong” cross-border loan business in March 2013, and made the service of Account Opening Witnessed by CMB Manager available to all our Diamond Private Customers across China. The construction of an offshore financial service platform for small and medium-sized banks progressed smoothly, and WLB has signed business cooperation agreements with more than 40 domestic institutions. As at the end of the reporting period, our branches within China have successfully recommended corporate customers to WLB with corporate deposits of HK\$10.813 billion and corporate loans of HK\$67.462 billion. In addition, the Company has also recommended individual customers to WLB with retail deposits of HK\$4.917 billion and retail loans of HK\$1.093 billion, and the balance of total customer assets under management amounted to HK\$9.845 billion.

Secondly, internal management was strengthened continually and key competencies were gradually enhanced. The reform on the organisation management system of “Customer-centric” retail service of WLB was officially implemented and the process re-engineering of the Operations Centre has made remarkable progress. The electronic banking service capability has kept improving, and the development of Android App and Disaster Data-recovery System has progressed smoothly. WLB has been implementing new Capital Accord steadily, with continuous improvement in its performance management standard and financial management standard. Domestic branches of WLB have officially launched new core systems and new general ledger system. Encouraging results were achieved in the upgrading of business system and IT-based information management system. At the same time, the business communications and management interactions between staff of the two banks have been increasing, fostering a cultural integration between them.

5.11.7 CMB Financial Leasing

CMB Financial Leasing is one of the first five pilot bank-affiliated financial leasing firms approved by the State Council. Registered in Shanghai, it is wholly owned by the Company and commenced operation on 23 April 2008. CMBFL is guided by national industrial policies, and is mainly engaged in the provision of financial leasing in respect of large and medium-sized equipment to domestic large enterprises and SMEs and overseas customers in electricity, manufacturing, transportation, construction and mining sectors. It satisfies different needs of lessees in respect of procurement of equipment, promotion of sales, revitalization of assets, balance of tax liabilities and improvement of financial structure. CMBFL also provides new financial leasing services such as capital and commodity finance (融資融物), asset management and financial advisory.

As at 31 December 2013, CMBFL had a registered capital of RMB4 billion and 123 employees; total assets of RMB77.366 billion, up by 38.42% as compared with the end of the previous year; net assets of RMB6,924 million, up by 21.01% as compared with the end of the previous year. In 2013, it made a net profit of RMB1,204 million, up by 32.60% as compared with the previous year.

5.11.8 CMB International Capital

CMB International Capital, which was established in 1993, is a wholly-owned subsidiary of the Company in Hong Kong. Currently, the business scope of CMBIC and its subsidiaries mainly covers investment banking, securities brokerage and assets management. As at 31 December 2013, CMBIC had a registered capital of HK\$250 million, 87 employees, total assets of HK\$1,071 million, and net assets of HK\$695 million. In 2013, it achieved an operating income of HK\$492 million, representing an increase of 108.47% as compared with the previous year, and net profit of HK\$225 million, representing an increase of 179.73% as compared with the previous year. It has made profits for the fourth consecutive year.

5.11.9 China Merchants Fund

China Merchants Fund was the first sino-foreign joint venture fund manager approved by China Securities Regulatory Commission. CMFM was established on 27 December 2002 with a registered capital of RMB210 million. As at the end of the reporting period, the Company had 55% equity interests in CMFM. For details of the acquisition of additional equity interest, please refer to Section 6.20.2. The businesses of CMFM include fund establishment, fund management and other operations approved by CSRC.

As at 31 December 2013, CMFM reported total assets of RMB1,080 million, net assets of RMB763 million, and a workforce of 220 employees. CMFM operated 35 mutual funds, 5 social security portfolios, 12 annuity portfolios, 34 specific asset management plan portfolios and 1 QFII portfolio, with total assets under management of RMB88.502 billion. In 2013, CMFM realised an operating income of RMB729 million, representing an increase of 25.39% as compared with the previous year, and a net profit of RMB163 million, representing an increase of 18.01% as compared with the previous year.

5.11.10 CIGNA & CMB Life Insurance

CIGNA & CMB Life Insurance was established in August 2003, and is the first sino-foreign joint venture life insurance company after China's entry into WTO. As at the end of the reporting period, the Company had 50% equity interests in CIGNA & CMB Life Insurance. For details of the acquisition of additional equity interest, please refer to Section 6.20.1. CIGNA & CMB Life Insurance is mainly engaged in insurance businesses such as life insurance, health insurance and accident injury insurance, as well as the reinsurance of the above insurances.

As at 31 December 2013, CIGNA & CMB Life Insurance had a registered capital of RMB500 million, total assets of RMB10.678 billion, representing an increase of 35.70% as compared with the end of the previous year, and net assets of RMB1,174 million, representing an increase of 15.68% as compared with the end of the previous year. In 2013, it realised insurance income of RMB4,240 million, representing an increase of 75.11% as compared with the previous year, and a net profit of RMB197 million, representing an increase of 64.13% as compared with the previous year.

5.12 Risk Management

Over recent years, the Company, through implementing the "Second Transformation", stepped up the construction of a risk management system focusing on creating value after risk adjustment under the principles of "Comprehensive, Professional, Independent and Balanced management". In 2013, against the background of complicated and volatile economic environment at home and abroad and the increasing risks in bank operations, the Company continued to improve its overall risk management system and proactively overcome and prevent various risks.

5.12.1 Credit risk management

Credit risk refers to risks arising from failure to fulfil the obligations by the borrowers or the counterparties under the negotiated terms and conditions. Credit risks borne by the Company were mainly from credit business, investment business, financing business and other businesses on and off balance sheet. The Company endeavors to formulate a credit risk management framework with independent functions, balanced and checked risks and three dedicated defence lines and implements bank-wide policies and processes regarding credit risk identification, measurement, monitoring and management to maintain a balance among risk, capital and profit of the Company.

Risk Control Committee of the Head Office is the highest authority of the Company in credit risk management. Under the framework of the risk management preference, strategies, policies and authorisations that has been approved by the Board, the Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies. Based on different credit risk conditions, the Company reviews the grant of its loans at different authorisation levels. The decision-making entities include: Risk Control Committee of the Head Office, the Loan Approval Committee of the Head Office, the Professional Loan Approval Committee of the Head Office, the Risk Control Committee of Branches and the Professional Loan Approval Committee of Branches. From business origination, due diligence, review and approval of credit, loan disbursement and post-loan management, the Company ensured that the risk management procedures were effectively implemented by introducing advanced risk quantifiable modelling tools and a risk management system. In accordance with regulatory requirements, based on factors like borrowers' ability and willingness to repay, guarantor's position, conditions of pledges and overdue period, and with the employment of the 5-category classification, the Company divided credit assets into different categories under an internal 10-category classification system. The classification of a credit may be initiated by a relationship manager or risk control officer and then reviewed by credit risk management departments of the Head Office and branches according to their respective authorisations.

In 2013, the Company continued to enhance its credit risk management in terms of comprehensiveness, effectiveness and pertinency under the principles of “making full risk coverage, upholding the baseline, seeking changes through innovation and encouraging transformation”. To this end, the Company took the following initiatives: optimised the “customer-centric” process and established a new credit risk management system meeting the requirements of the Second Transformation across the Bank; made innovations in the small and micro enterprise businesses and products and sped up the optimisation of small and micro enterprise business processes; encouraged the healthy development of emerging financing business, emerging strategic industries, growth companies and green loans while managing relevant risks; adapted to market changes and restructuring and refined its credit policies for local government financing platforms and real estate industry; strengthened the management of asset quality and made dynamic monitoring on risk-sensitive areas; conducted specific risk examination on photovoltaic, steel trade and other industries with overcapacities to prevent the occurrence of systemic risks; established and closely monitored private conglomerates and customers with high risks and took measures to mitigate risks as early as possible; optimised internal assessment tools and promoted the management and use of risk quantification results; officially implemented the 10-tier classification system across the Bank to strengthen the risk classification deviation management; and took various approaches to accelerate the disposal of non-performing assets. During the reporting period, the Company recorded an increase in its non-performing loans due to the impact of economic downturn at home and abroad. However, thanks to the comprehensive countermeasures including clearance, recovery and transfer of non-performing loans and accelerating the progress of writing off non-performing loans, the asset quality of the Company remained stable. For details of the Company’s loan structure, please refer to section “5.4 Loan quality analysis” in this report.

Currently, the domestic economy is at a transitional period due to changes in economic growth rate, structural adjustment and adaptation of previously implemented stimulating policies and thus, the domestic banking industry is facing unprecedented challenges in risk management. The risks in industries with overcapacities such as photovoltaic, steel trade and coal still exist. Credit risks in Jiangsu and Zhejiang provinces now have shown a trend of spreading outwards, the risks associated with loans granted to local government financing platforms and the real estate market have yet to be eliminated, the risks in the small and micro enterprise business have intensified, and the diversification in social financing structure have resulted in more complicated credit risk management with larger scope. Against such background, the Company will continue to improve its comprehensive risk management system with principles of “Prudence, Unification, Innovation and Professionalism”. The Company will focus on improving its capability in organizing assets and set up a credit asset structure that can mitigate the impact of economic cycles by dynamically optimising credit extension policy from various perspectives including industries, customer bases, products and regions; strive to develop supply chain finance and trade financing and accelerate the innovation of green loans products; explore proper management model in respect of mass data financial risks and internet-based financial risks; continue to optimise the process of risk management and control, innovate measures and approaches for risk management and enhance service efficiency and customer experience with principles of “enhancing efficiency, supporting marketing, encouraging innovation and controlling efficiently”; incorporate emerging financing business to the comprehensive risk management system so as to sketch out a clear and unified view in respect of risk management for customers; build a risk pre-warning model with forward-looking and sensitive features as well as expand and innovate measures for disposal of non-performing assets so as to speed up risk withdrawal while ensuring a controllable asset quality as a whole.

5.12.2 Country risk management

Country risk represents risk of business loss or other losses suffered by banks due to the incapability or unwillingness of changes and incidents occurred in the economy, politics and society in a specific country or region, which result in the borrowers or debtors in that country or region to pay off their debts owed to the banks, or the banks in that country or region suffering from commercial or other losses. Country risks may be triggered by conditions such as deterioration in the economy, chaos in the politics and society of a country or region, assets being nationalised or confiscated, governments refusing to pay their foreign debts, foreign exchange control or currency depreciation, etc.

The Company includes country risk management into its overall risk management system, dynamically monitors the change in its country risk in accordance with relevant regulatory requirements, sets limit on its country risk based on the rating results from international rating agencies, and evaluates its country risk and makes provisions on a quarterly basis. As at the end of 2013, the assets of the Company exposed to the country risks remained limited, which indicated low country risk ratings. Moreover, we have made adequate provision for country risks according to the regulatory requirements. As a result, country risk will not have any material effect on our operations.

5.12.3 Market risk management

Market risk is the risk of possible loss caused by the fluctuations of the fair value or future cash flows of the Company's financial instruments because of changes in market prices of observable market factors such as exchange rates, interest rates, commodities prices and equity prices. The Company is exposed to market risk primarily from two aspects, namely trading account and bank account, among which, trading account includes positions in financial instruments and commodities held for proprietary trading purposes or hedging risks of trading account; bank account refers to the asset and liability business and related financial instruments recorded in the bank's balance sheet and off-balance sheet, with relatively stable market value, and maintained by the bank for obtaining stable income or hedging risks and for which the bank is willing to held.

The historical analogy model for the Value at Risk ("VaR") analysis is used by the Company to measure and monitor the market risk of its trading account. Gap analysis and scenario analysis are used by the Group to measure and monitor the market risk of its bank account. The Company projects future cash flows in order to quantify the differences between assets and liabilities in a given future time duration. It also regularly conducts stress tests as supplement to the above measurement indicators.

In 2013, the Company constantly improved its existing policy system for market risk management and optimised the methods, processes and tools for market risk measurement and monitoring. Meanwhile, the Company promoted the deep application of market risk management tools and made great efforts to cultivate its market risk management team, resulting in significant improvement in its market risk management competence during the year.

In 2013, PBOC implemented its prudent monetary policy, proceeded with finance deleveraging and expedited interest rate liberalisation. During the first half of the year, driven by the economic slowdown and loose liquidity, the bonds market continued its strong momentum in the first five months. In June 2013, the industry encountered unexpected "liquidity shortage" and sharp decline in the bonds market. The Company has formulated the corresponding investment strategies based on the in-depth studies and close monitoring on domestic and overseas macro-economic situations, monetary policies and market conditions; the Company also took opportunities to increase investment in bonds by focusing on holding more interest-based bonds and moderate increase credit bonds to optimize the structure of assets and liabilities portfolio, and achieved ideal investment results. Currently, the Company's investment portfolios mainly include those bonds issued by the Chinese government, the People's Bank of China and China's policy banks, as well as large Chinese enterprises, commercial banks and insurance companies with high credit ratings. The indicators of market risk of the Company have achieved good performance.

5.12.4 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or problematic internal procedures, incompetent personnel or IT systems, or external events.

During the reporting period, the Company, by further improving the system and methodology of operational risk management, proactively carried out management innovation mainly in areas associated with bank-wide business transformation, system reform, process re-structuring and system upgrading, which involve strengthening the prevention and control of key operational risks, further implementation of risk monitoring and alerting, the improvement of risk management mechanism, the enhancement of outsourced management and financial consolidation management and the optimization of risk management system. As a result, the Company has further enhanced its operational risk management capability and effectiveness, with major risk indicators meeting the Company's risk preference requirements.

Facing challenges from internal and external operation and management, the Company will continue to take risk preference as a guideline and further enhance risk management techniques to strengthen the operational risk monitoring and control, in an effort to prevent and reduce operational risk loss.

5.12.5 Liquidity risk management

Liquidity risk is the risk that the Company cannot satisfy its customers by repaying deposits that fall due, granting new loans or providing financing, or that the Company cannot satisfy these requirements at a normal cost.

Under the principle of keeping the formulation, implementation and monitoring functions of liquidity risk management policy separated, the Company established its liquidity risk management governance structure, and specified the roles, duties and reporting process of the Board of Directors, the Board of Supervisors (supervisors), the senior management, specialised committees and related departments in liquidity risk management, so as to enhance the effectiveness of liquidity risk management. The Company's cautious attitude towards liquidity risk is more appropriate for the current development stage of the Company. The current liquidity risk management policies and systems of the Company are basically in line with regulatory requirements and its own management requirements.

The Company's liquidity risk management is coordinated by the Head Office with the branches acting in concert. The Planning and Finance Department of the Head Office as a treasurer of the Company is in charge of routine liquidity risk management. The treasurer is responsible for managing liquidity on a prudent basis to meet relevant regulatory requirements, and conducting centralised liquidity management through quota management, budget and control as well as internal funds transfer pricing, etc.

The Company measures, monitors and identifies liquidity risk for short-term reserves and duration structure and emergency purpose. It monitors the limit indicators closely at fixed intervals. Stress tests are regularly used to judge whether the Company is able to meet liquidity requirements under extreme circumstances. The Company has put in place liquidity contingency plans and organised liquidity contingency drillings to guard against any liquidity crisis.

In 2013, the domestic monetary market experienced a period of extremely tight liquidity which could hardly be seen in the past decade. In June 2013, the domestic monetary market was hampered by tight liquidity, leading to a soar in market interest rates and delay in shutoff of the trading and settlement systems and purported defaults in transactions by certain financial institutions. The Company also experienced certain liquidity pressure under the tightened market condition. Factors that caused the Company to experience liquidity pressure include significant decrease in deposits from customers, a large amount of deposits from banks and other financial institutions that fell due in June 2013, the placement of deposit in the deposit reserve fund and the payment of dividends for A Shares. In the second half of the year, in order to deleverage and revitalize the supply of funds, PBOC implemented moderately tightened monetary policies to control money supply at sources, leading to a "tight balance" of market capital. At the end of the year, affected by the replenishments to the deposit reserve fund, maturity of SLF and treasury term deposits, and PBOC's prolonged suspension in reverse repurchase from the open market, liquidity among domestic banks became tightened in the last quarter and almost restaged the "liquidity shortage" in June 2013. The liquidity of the Company generally remained stable except for some extra pressure at certain period of time.

The Company has adopted various measures to tackle this liquidity crisis recurring in monetary market during the year and ensured sound liquidity of the whole bank. Firstly, the Company improved its FTP management and fine-tuning mechanism, so as to enhance the flexibility of management under extreme market conditions. Secondly, the Company strengthened its overall management and control of fund, enhanced cash flow and balance management for investment activities, and controlled the increase of assets of financing nature, put in more efforts to increase deposits from banks and other financial institutions and maintained coordinated growth in inter-bank assets and liabilities. Thirdly, the Company promoted the negotiations between treasury and business lines, discussed its fund business strategies and established the positive interaction between liquidity management and the business with financial institutions, wealth management business as well as bill business. Finally, the Company optimised its liability structure through active financing activities in the debts and capital markets. In 2013, the Company broadened the sources of debts and diversified its liability structure through negotiated deposits, treasury term deposits, bonds issue, rights issue, inter-bank deposit certificates issue and other means, thus stabilizing the sources of funds.

In 2013, PBOC did not adjust the RMB deposit reserve ratio. As at the end of December 2013, 18% (December 2012: 18%) of the total RMB deposits and 5% (December 2012: 5%) of the foreign currency deposits of the Company were required to be placed with PBOC.

5.12.6 Interest rate risk management

Interest rate risk refers to the risk of unfavorable fluctuation of interest rates, maturity structure and other factors which results in losses of gross profit and economic value of bank accounts. The interest rate risk faced by the Company includes the benchmark risk, re-pricing risk, yield curve risk and option risk. In particular, benchmark risk and re-pricing risk are the primary risks faced by the Company.

The Company established the interest rate risk management governance structure in accordance with its interest rate risk management policies, and clearly defined the roles, duties and reporting process of the Board of Directors, senior management, specialised committees and relevant departments in interest rate risk management, thus ensuring the effectiveness of interest rate risk management. In adherence to our prudent approach in risk management, the Company's overall objective of interest rate risk management is to achieve steady growth of net interest income and economic value within the acceptable exposure of interest rate risk.

The Company mainly adopts the scenario simulation analysis, re-pricing gap analysis, duration analysis, stress test among other methods to measure and analyse interest rate risk. The Company monitors and reports interest rate risk on a monthly basis under its quota limit framework. The Company analyzes the causes of interest rate risk, puts forward management proposals and implements risk control measures through the system of routine assets and liabilities analysis meetings.

In 2013, the Company continued to manage its interest rate risk in a proactive and forward looking manner and further enhanced the management of on-and-off balance sheet items, thereby resulting in lowering interest rate risk. In respect of on-balance-sheet items, measures taken by the Company mainly include lengthening the duration of loans and debt investment. In respect of off-balance-sheet items, the Company deepened hedging operations and hedge accounting against interest rate risk, and explored various interest rate swap products linked to the benchmark interest rates for PBOC loans. The Company refined its interest rate risk management system and optimised its quota management system while proactively taking interest rate risk management measures.

In 2013, the Company steadily promoted the consolidated financial statements management of interest rate risk, and adjusted the alert and quota limits of quota indicators for its subsidiaries at the beginning of the year based on the results of implementation of quota for the previous year and calculation results. As at the reporting date, the various quota indicators of the Company were normal with overall interest rate risk under control.

In 2013, PBOC expedited the interest rate liberalisation by taking the following measures: the full deregulation of lending rates of financial institutions from 20 July 2013, the official announcement of lending benchmark rate on 25 October 2013 and the launch of inter-bank deposit certificates in December 2013. By taking a long-term perspective, the Company proactively made preparations and completed fundamental works such as system optimization and commissioning, and further enhanced interest rate risk management, thereby ensuring stable growth in its net interest income and economic value.

5.12.7 Exchange rate risk management

Exchange rate risk refers to the impairment risk of bank's gross profit caused by losses in positions of foreign exchange and foreign exchange derivatives due to the unfavorable fluctuation in exchange rate. The Company's functional currency is RMB. The majority of assets and liabilities of the Company are denominated in RMB and the rest mainly in USD and HKD.

Under the principle of keeping the formulation, implementation and monitoring functions of liquidity risk management policy separated, the Company established its liquidity risk management governance structure, specifying the roles, duties and reporting process of the Board of Directors, the Board of Supervisors (supervisors), the senior management, special committees and related departments in liquidity risk management to enhance the effectiveness of liquidity risk management. The Company's cautious attitude towards exchange rate risk, meaning in principle the Company does not bear risks voluntarily, is more appropriate for the current development stage of the Company. The current liquidity risk management policies and systems of the Company are basically in line with relevant regulatory requirements and its own management requirements.

The Company's exchange rate risk management is coordinated by the Head Office. The Planning and Finance Department of the Head Office as a treasurer of the Company is in charge of routine exchange rate risk management. The treasurer is responsible for managing exchange rate risk on a prudent basis to meet relevant regulatory requirements, and conducting centralised exchange rate management through quota management, budget and control, etc.

The primary exchange rate risk of the Company comes from the mismatch of non-RMB denominated assets and liabilities. Through rigorous management of exchange rate risk, the Company keeps the exposure within the acceptable range.

The Company mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, Value at Risk ("VaR") and other methods to measure and analyse exchange rate risk. The Company regularly measures and analyses changes in its foreign exchange exposure and monitors and reports exchange rate risk on a monthly basis under its quota limit framework. Based on the trend of foreign exchange movements, the Company adjusts its foreign exchange exposure accordingly to mitigate the relevant foreign exchange risk.

In 2013, the Company further optimized its foreign exchange risk assessment system which provides scientific reference standards for accurately assessing its foreign exchange risk and appropriately making management strategies, clearly specified the procedures for approval and management of foreign exchange risk limits at all various levels and further refined its foreign exchange risk management system.

5.12.8 Reputational risk management

Reputation risk refers to the risk that the Company might be negatively evaluated by relevant interested parties due to the Company's operations, management and other activities or external events.

Reputation risk management is an important part of the corporate governance and the overall risk management system of the Company, covering all activities, operations and businesses undertaken by the Company and its subsidiaries. The Company established and formulated the reputation risk management system and relevant requirements and took initiatives to effectively prevent the reputation risk and respond to any reputation events, so as to reduce loss and negative impact to the greatest extent.

In 2013, while improving management and services, the Company updated its management philosophy, established a systematic reputation risk management system, strengthened its reputation risk assessment and front-line management, further optimized its procedures to handle delicate media reports, enhanced the prevention and early warning mechanisms of reputation risk, and actively responded to crisis events, thereby effectively avoiding reputation loss.

In future, confronted with the complicated external environment, especially the new public opinion environment created by rapidly growing mobile internet media, the Company intends to take the following measures to enhance reputation risk management: firstly, the Company will enhance the precautions management, conduct reputation risk assessments and identification on a regular basis to prevent potential reputation risk; secondly, the Company will improve reputation risk monitoring system and expand monitoring scope to keep aware of public opinions; thirdly, the Company will carry out more positive propaganda to guide public opinions; fourthly, the Company will improve its warning mechanism and database of response plans in respect of reputation risk of the whole bank to reinforce response capacity; fifthly, the Company will strengthen the interaction among different businesses to promote the improvement of businesses, products and services; sixthly, the Company will offer more bank-wide trainings to nurture a reputation risk management culture for participation of all employees.

5.12.9 Compliance risk management

Compliance risk refers to the risks of commercial banks being subject to legal sanctions, regulatory punishments, major financial losses, or reputation damage as a result of violation of the laws, rules and guidelines. The Board of Directors of the Company is ultimately responsible for the compliance of the operating activities, and authorizes the Risk and Capital Management Committee under the Board to supervise the compliance risk management. The Compliance Management Committee of the Head Office is the supreme organisation to manage compliance risk of the whole company under the senior management. The Company has established a complete and effective compliance risk management system, improved the three defense lines for compliance risk management and the double-line reporting mechanism, and continued to improve the compliance risk management mechanism and the risk management techniques and procedures, so as to ensure effective management of compliance risk.

During the reporting period, the Company proactively adapted to adjustments in regulatory policy that prioritised risk control, devoted to building a solid foundation for internal compliance management, effectively prevented and mitigated compliance risk and risk of economic sanctions, deeply exploited the value of compliance-driven development without compromising the compliance bottom line, carried out legal compliance verification covering all businesses, products, systems and procedures, and carefully identified and assessed the compliance risk associated with new businesses and key projects. In addition, the Company actively encouraged business innovation to the extent that legal compliance framework permits. The Company also aggressively launched legal compliance education programs by attendees' level, including training courses lectured by branch heads, thus raising its staff's and compliance management personnel's capability in risk management and awareness of compliance during the deepening of management reform, promotion of business innovation and steady development. Furthermore, the Company optimized its compliance risk management techniques, strengthened the identification, assessment and monitoring of compliance risk and improved the efficiency of legal compliance risk management.

5.12.10 Anti-money laundering management

The Company takes anti-money laundering as its social responsibility and legal obligation. It attaches great importance to anti-money laundering through establishing a professional anti-money laundering team, launching a sound anti-money laundering system and procedures, developing and operating database of name list and filtering system, as well as a monitoring and reporting system for large-sum transactions and suspicious transactions.

In 2013, the Company vigorously took various measures to improve its anti-money laundering work in accordance with the regulatory requirements of the People's Bank of China. Firstly, the Company formulated the suspected transactions monitoring standards, developed a new anti-money laundering monitoring and analyzing system, and fully completed the comprehensive pilot tasks of reporting large and suspected transactions to the People's Bank of China; secondly, the Company made significant progress on the improvement of anti-money laundering monitoring workflow, and established an anti-money laundering monitoring and analyzing center at head-office level; thirdly, the Company formulated a money laundering risk rating system and promoted the development of a money laundering risk rating system; finally, the Company purchased a new name-list filtering system and set up a professional team of anti-money laundering name-list verification at head-office level to fend off economic sanction risk.

5.12.11 Implementation of Basel Accords

Since 2007, in order to implement its internationalisation strategy and improve its operation and management, the Company has strived to become one of the first banks approved by the CBRC to adopt the advanced methods for capital measurement under Basel Accords. Currently, having passed the on-site acceptance evaluation by the CBRC and submitted the application to adopt the advanced methods for capital measurement under Basel Accords, the Company is concentrating all its efforts on implementing the rectification measures according to the "Opinion of the General Office of CBRC on Implementation of Advanced Methods for Capital Measurement under Basel Accords by CMB". The Company has prepared for the disclosure of various information on the advanced methods for capital measurement under Basel Accords, so as to actively cooperate with the CBRC in its verification and inspection work.

5.13 Profit Appropriation

5.13.1 Proposal of the profit appropriation for the year 2013

As stated in the audited financial statements of the Company for 2013, 10% of the profit after tax of RMB48.842 billion, equivalent to RMB4.884 billion, was transferred to the statutory surplus reserve, while 1.5% of the total amount of the increased risk assets in this reporting period, namely RMB6.913 billion was appropriated to the general reserve.

Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend (tax included) of RMB6.20 for every 10 shares to all shareholders of the Company, payable in RMB for holders of A Shares and in HKD for holders of H Shares. The actual distribution amount in HKD will be calculated based on the average RMB/HKD benchmark rates to be released by PBOC for the week before the date of the general meeting (inclusive of the day of the general meeting). The retained profit will be carried forward to the next year. In 2013, the Company did not transfer any capital reserve into share capital. The above proposal of profit appropriation is subject to consideration and approval at the 2013 Annual General Meeting of the Company.

5.13.2 Profit appropriation for the previous 3 years:

Year	Number of bonus shares for every ten shares held (No. of shares)	Cash Dividend for every ten shares held (RMB, inclusive of tax)	Number of shares issued on capitalisation of surplus reserve for every ten shares held (No. of shares)	Total cash dividends (Tax included) (in millions of RMB)	Net profit attributable to shareholders in the consolidated financial statements for the year (in millions of RMB)	Proportion of cash bonus to net profit attributable to shareholders in the consolidated financial statements (%)
2011	–	4.20	–	9,062	36,129	25.08
2012	–	6.30	–	13,593	45,268	30.03
2013 ^{Note}	–	6.20	–	15,636	51,743	30.22

Note: The proposal of profit appropriation for 2013 is subject to consideration and approval at the 2013 Annual General Meeting of the Company.

5.13.3 The formulation and implementation of the Company's cash dividend policies

1. As specified in the Articles of Association (revised in 2013), the profit distribution policies of the Company are:
 - (1) profit distribution of the Company shall focus on reasonable returns on investment of the investors, and such policies shall maintain continuity and stability;
 - (2) the Company may distribute dividends in cash, shares or a combination of cash and shares, and it shall distribute dividends mainly in cash. Subject to compliance with prevailing laws, regulations and the requirements of relevant regulatory authority on the capital adequacy ratio, as well as the requirements of general working capital, business development and the need for substantial investment, merger and acquisition plans of the bank, the cash dividends to be distributed by the bank each year in principle shall not be less than 30% of the net profit after taxation audited in accordance with PRC accounting standards for that year. The bank may pay interim cash dividend. Unless another resolution is passed at the shareholders' general meeting, the Board of Directors shall be authorized at the shareholders' general meeting to approve the interim dividend distribution policy;
 - (3) if the Company generated profits in the previous accounting year but the Board of Directors did not make any cash profit distribution proposal after the end of the previous accounting year, the Company shall state the reasons for not distributing the profit and the usage of the profit retained in the periodic report and the independent directors shall give an independent opinion in such regard;
 - (4) if the Board of Directors opines that the price of the shares of the Company does not match the size of share capital of the Company or where the Board of Directors considers necessary, the Board of Directors may propose a dividend distribution plan and implement the same upon consideration and approval at a general meeting on the premise that the abovementioned cash dividend distribution methods are satisfied;
 - (5) the Company shall pay cash dividends and other amounts to holders of domestic shares and such sums shall be calculated, declared and paid in Renminbi. The Company shall pay cash dividends and other amounts to holders of H Shares and such sums shall be calculated and declared in Renminbi and paid in Hong Kong dollars. The foreign currencies required by the Company for payment of cash dividends and other sums to shareholders of overseas listed foreign shares shall be handled according to the relevant provisions on foreign exchange administration of the State;
 - (6) where appropriation of the Company's fund by a shareholder, which is in violation of relevant rules, has been identified, the Company shall make deduction against the cash dividend to be paid to such shareholder, and such amount shall be used as the reimbursement of the funds appropriated;
 - (7) the Company shall disclose the implementation progress of the cash dividend policy and other relevant matters in its periodic reports in accordance with the applicable requirements.
2. During the reporting period, the Company implemented the equity distribution plan for 2012 in strict compliance with the relevant provisions of the Articles of Association, which was passed at the 43rd meeting of the Eighth Session of the Board of Directors of the Company and approved at the 2012 Annual General Meeting. The criteria and proportion of cash dividend were clear and specific. The Board of directors of the Company has implemented this Profit Distribution Plan. The Company will also implement the 2013 Profit Distribution Plan in strict compliance with the relevant provisions of the Articles of Association, which was passed at the 14th meeting of the Ninth Session of the Board of Directors of the Company and will be submitted to the 2013 Annual General Meeting for approval. The independent Directors of the Company have expressed independent opinions on those profit distribution plans for 2012 and 2013 that the equity distribution plans of the Company and their implementation process have adequately protected the legal rights and interests of minority shareholders.

5.14 Social Responsibility

Sticking to the principle of “Gain from society and contribute to society”, the Company is always active in fulfilling its social responsibilities on poverty alleviation, green loans, charity activities and support of SMEs. The total amount of the charitable donations and other donations contributed by the Company and its employees for the reporting period was RMB43,345,200, representing a social contribution value of RMB7.33 per share at the end of the period. For details of the Company’s fulfilment of its social responsibilities, please refer to the “Corporate Social Responsibility Report of China Merchants Bank Co., Ltd. in 2013”.

5.15 Outlook and Measures

In 2014, the economic and financial situations at home and abroad will remain complicated and volatile. **Internationally**, the global economy is still recovering from the financial crisis while the general situation will become stable. The bulk commodities markets as a whole will remain sluggish, and the timing of US Fed’s QE tapering will become a dominant factor affecting the international foreign exchange market and capital flows. **Domestically**, China’s economy in general will maintain a sound and steady growth momentum. However, China’s economic development will also be coupled with many uncertainties and potential risks arising from the weakening traditional growth drivers and diminishing demographic advantages, significant overcapacity, threat of the real estate market downturn and increasing risks associated with credits granted to local government financing platform and the shadow banking system. Both M2 and aggregate social financing needs will maintain a stable growth while direct financing as a percentage of the social financing structure will continue to rise. Market liquidity may experience another round of challenge, and the RMB exchange rate will fluctuate in a prolonged period of time.

The complicated business environment will bring about more grim challenges to the Company. For example, **on the front of liabilities expansion**, we will feel greater pressure in growing our deposits due to re-allocation of liabilities between banks and various non-bank institutions as a result of financial disintermediation, interest rate liberalisation and internet finance. **On the front of assets utilisation**, banks will suffer greatly from the diversion of quality customers to the stock and bond markets due to the availability of diversified financing channels, and will find it even more difficult to seek quality low-risk assets that can generate higher yields. **On the front of risk management and control**, banks’ capability in risk management and control will face tough challenge due to diversified risk categories, extended risk chain and growing invisibility of the infection. **On the front of earnings growth**, given the economic slowdown, the accelerated interest rate liberalisation, increasing competition from peers and non-bank entities, we will face greater pressure in achieving sustainable and rapid earnings growth.

For the present time and in the foreseeable future, the Company also sees a number of good development opportunities. For example, China's economy will continue to grow at a relatively fast pace for a period of time in the future. Meanwhile, as the country speeds up its industrialisation, urbanisation, informatisation and agricultural modernisation, the aggregate social financing needs will grow at a moderate to fast pace, which will create huge development potential for banks. The proposal to further improve the financial market system introduced at the Third Plenary Session of the Eighteenth Central Committee of the CPC has created rare opportunities for banks to innovate their banking products and broaden income sources from intermediary business despite the negative impact on the current development mode of banks. The steady promotion of internationalisation of the RMB will bring about lots of new business opportunities and earnings drivers for banks. The vigorous development of mobile Internet, big data, cloud computing and other emerging technologies have put banks in a favourable position to innovate their business models and promote fine management. Moreover, the advent of the large asset management era provides a good opportunity for banks to speed up the construction of large-scale asset management platform with more than one interface that covers different markets and sectors.

Facing a scenario of mixed challenges and opportunities in the new situation, the Company will, in consistent adherence to its philosophies of "We are here, just for you" and "Change as situation does" and be customer-centric and market-oriented, expedite the realisation of new breakthroughs in the Second Transformation and, on the premise of steady business development, vigorously make innovations to achieve sustainable growth in a new historical period. In view of the current operation environment, in 2014, the Company will further reinforce its deposit base with a growth rate of over 15% in proprietary deposits, and a growth rate of about 13% in proprietary Loans. Meanwhile, the Company will further strengthen the management of risk assets to achieve slower growth in risk assets as compared with that of the year. In order to ensure the realisation of various operational goals, the Company intends to take the following approaches in 2014: firstly, the Company will endeavour to boost rapid growth in liabilities, expedite the construction of a new savings deposit growth model consisting mainly of "wealth management, deposits from small and micro enterprises and deposits from mass customers", and proactively explore major areas of corporate finance and new types of deposits through a combination of traditional and modern marketing activities; secondly, the Company will enhance its assets deployment capability, and effectively coordinate the relations between assets utilisation and risk management, fundraising and financing arrangement, and assets deployment and deposits growth; thirdly, the Company will vigorously expand the sources of non-interest income, make new breakthroughs in strategic emerging businesses such as wealth management, investment banking and cash management, and maintain steady growth in traditional renowned businesses such as agency services and online banking; fourthly, the Company will effectively manage its assets quality, improve its credit risk management through unifying risk preferences, adjusting assets portfolio, improving relevant management system and optimising business process, and further enhance the management of liquidity, cases, operations, compliance, anti-money laundering and reputational risk; and finally, the Company will intensify cost control, take various approaches to constantly improve the performance of its staff and outlets, further enhance the management of various key expense items, to increase the ratio of earnings to expenses.

By Order of the Board of Directors
Fu Yuning
Chairman of the Board of Directors
28 March 2014

Important Events

6.1 Principal business activities

The Company is engaged in banking and related financial services.

6.2 Financial highlights

Details are set out in Chapter II Summary of Accounting Data and Financial Indicators of this annual report.

6.3 Reserves

For details of changes in its reserve, please refer to the "Statement of changes in equity" of the Company.

6.4 Fixed assets

Changes in fixed assets as at 31 December 2013 of the Company are set out in Note 25 to the financial statements in this annual report.

6.5 Purchase, sale or repurchase of listed securities of the Company

Neither the Company, nor any of its subsidiaries had purchased, sold or repurchased any of the Company's listed securities during the reporting period.

6.6 Pre-emptive rights

There is no provision for pre-emptive rights for the subscription of shares by the Company's shareholders under the Articles of Association of the Company and the shareholders of the Company have not been granted any pre-emptive rights to subscribe shares.

6.7 Retirement and welfare

Details about retirement and welfare provided by the Company to its employees are set out in Note 37 to the financial statements in this annual report.

6.8 Principal customers

During the reporting period, the operating income of the top 5 customers of the Company did not exceed 30% of the total operating income of the Company. The directors and the related persons of the Company did not have any beneficial interests in the aforesaid top 5 customers.

6.9 Use of raised funds and major investment not financed by the raised funds

Use of funds raised from A+H Rights Issue in 2013

In 2011, the relevant resolution in respect of the Rights Issue was considered and approved at the 17th Meeting of the Eighth Session of the Board of Directors, the 2011 First Extraordinary General Meeting, the 2011 First A Shareholders Class Meeting and the 2011 First H Shareholders Class Meeting of the Company to raise total proceeds of not more than RMB35 billion. In 2012, the "Proposal regarding the Extension of the Validity Period of the Resolutions in respect of the A Share Rights Issue and H Share Rights Issue of China Merchants Bank Co., Ltd." was considered and approved at the 33rd Meeting of the Eighth Session of the Board of Directors, the 2012 First Extraordinary General Meeting, the 2012 First A Shareholders Class Meeting and the 2012 First H Shareholders Class Meeting of the Company to extend the validity period of the resolutions in respect of the Rights Issue for another 12 months immediately after its expiry date. In 2013, the Company obtained approval from CSRC in respect of the Rights Issue, implemented the A Share Rights Issue and H Share Rights Issue and completed the A Share Rights Issue and H Share Rights Issue in September and October 2013, respectively. The Company implemented both of the A Share Rights Issue and H Share Rights Issue on the basis of 1.74 rights shares for every 10 existing shares held. The subscription price of A rights shares and H rights shares was RMB9.29 for each A rights share and HK\$11.68 for each H rights share respectively, which were the same after exchange rate adjustment. The Company issued 2,962,813,544 A shares and 680,423,172 H shares in respect of the Rights Issue, raising the proceeds of RMB27,524,537,823.76 and HK\$7,947,530,217.86 (equivalent to RMB6,301,278,829.18) respectively, or total proceeds of RMB33,825,816,652.94. After deducting the expense of the Rights Issue, the net proceeds from the Rights Issue was RMB33,658,550,603.72, which was all used to improve the share capital base of the Company.

Major investment not financed by the raised funds

As of 31 December 2013, the aggregate investment in Shanghai Lujiazui Project amounted to RMB1,705 million, among which RMB145 million was invested during the reporting period. The project was completed on schedule at the end of June 2013, and is currently in preparation for occupation.

During the reporting period, the Company entered into a purchase agreement with Financial Street Holdings Co., Ltd., to purchase an office complex to be constructed at an agreed provisional consideration of RMB3,902 million. As at the end of the reporting period, the Company has paid 60% of the provisional consideration, totaling RMB2,341.2 million. For further details of the purchase agreement, please refer to the announcement regarding the discloseable transaction of the Company published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange, and the Company on 26 June 2013. Currently, the office complex is still under construction.

6.10 Interests and short positions of the Directors, Supervisors and Chief Executives under Hong Kong laws and regulations

As at 31 December 2013, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the Securities and Futures Ordinance (“SFO”)), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of shares	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued shares (%)
Peng Zhijian	Supervisor	A	Long position	Beneficial Owner	23,480	0.00011	0.00009

6.11 Directors' interests in competing business

None of the directors has interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Company.

6.12 Financial, business and kinship relations among directors, supervisors and senior management

Save as disclosed herein, the Company is not aware that the directors, supervisors and senior management of the Company have any relations between each other with respect to financial, business, kinship or other material or connected relations.

6.13 Contractual rights and service contacts of Directors and Supervisors

No contract of significance in relation to the business of the Company, to which the Company or any of its subsidiaries was a party and in which a director or supervisor of the Company had a material interest during the reporting period. None of the directors and supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (excluding statutory compensation).

6.14 Disciplinary actions imposed on the Company, directors, supervisors and senior management and the shareholders holding more than 5% of our shares

So far as the Company is aware, during the reporting period, none of the Company, its Directors, Supervisors or senior management or the shareholders holding more than 5% of our shares was subject to investigation by relevant authorities or subject to mandatory measures imposed by judicial organs or discipline inspection authorities. None of them was referred or handed over to judicial authorities or being prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, nor being prohibited from engagement in the securities markets, given notice of criticism, nor determined as unqualified, nor been publicly censured by any stock exchange. Neither the Company nor the shareholders holding more than 5% of the shares of the Company has been penalised by other regulatory bodies which have significant impact on the businesses of the Company.

6.15 Undertakings made by the Company and Shareholders holding more than 5% of our Shares

In the course of the rights issue of A shares and H shares (hereinafter referred to as the "Rights Issue") in 2013, the Company had made undertakings to the underwriters of its H shares. For details of the undertakings, please refer to the H Share Rights Issue prospectus published on the websites of Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (www.cmbchina.com) dated 5 September 2013. As at the date of the report, the Company has completed the fulfilment of the aforesaid undertakings.

In the course of the rights issue of A shares, China Merchants Group Limited, China Merchants Steam Navigation Co., Ltd. and China Ocean Shipping (Group) Company had individually undertaken that, they would not seek for related-party transactions on terms more favourable than those given to other shareholders; they would repay the principal and interest thereon to the Company when fell due; they would not intervene the ordinary operations of the Company; should they participate in the subscription of the rights shares, they would neither transfer or entrust others to manage the allocated shares within five years from the transfer of such shares, nor would they seek for a repurchase by the Company of the allocated shares held by them; upon expiration of the lock-up period of the allocated shares, they would not transfer their allocated shares until they obtain approval from the regulatory authorities on the share transfer and the shareholder qualification of transferees; they would continue to supplement the reasonable capital demand of the Company if an approval was granted by the Board of Directors and the shareholders' general meeting; they would not impose improper performance indicators on the Company. In the course of the rights issue of H shares, China Merchants Group Limited had also made a number of undertakings to the Company and joint global coordinators. For details of the aforesaid undertakings, please refer to the A Share Rights Issue prospectus dated 22 August 2013 and the H Share Rights Issue prospectus dated 5 September 2013 on the website of the Company (www.cmbchina.com). As far as the Company is aware, as at the date of the report, the above shareholders did not violate the aforesaid undertakings.

6.16 Significant connected transactions

6.16.1 Overview of connected transactions

All the connected transactions of the Company have been conducted on normal commercial terms which are fair and reasonable and in the interests of the Company and its shareholders as a whole. Pursuant to Chapter 14A of the Hong Kong Listing Rules, the non-exempt continuously connected transactions of the Company in the reporting period were those conducted between the Company and China Merchants Group Ltd. and its members, subject to the requirements of non-exempt continuously connected transactions required under the Hong Kong Listing Rules.

6.16.2 Non-exempt continuously connected transactions

Pursuant to Chapter 14A of Hong Kong Listing Rules, the non-exempt continuously connected transactions of the Company during the reporting period were those conducted between the Company and CMFM and CM Securities, respectively.

On 28 December 2011, with the approval of the Board of Directors, the Company announced, among others, the continuously connected transactions between the Company and (among others) CMFM and CM Securities. The Company approved the cap for each of the years of 2012, 2013 and 2014 to be RMB500,000,000 (for CMFM) and RMB300,000,000 (for CM Securities) respectively. Further details were disclosed in the Announcement on Continuously Connected Transactions issued by the Company on 28 December 2011.

CM Securities

The third-party custodian account, the wealth management agency services and collective investment products between the Company and CM Securities constituted continuously connected transactions of the Company under the Hong Kong Listing Rules.

China Merchants Steam Navigation Company Limited, a wholly owned subsidiary of CM Group, is a substantial shareholder of the Company. CM Group currently holds 18.80% of indirect equity interest in the Company (including those interest deemed to be held through connected companies). As CM Group also holds 45.88% equity interest in CM Securities, pursuant to the Hong Kong Listing Rules, CM Securities is an associate of the connected person of the Company and therefore a connected person of the Company.

The Company entered into a service co-operation agreement with CM Securities on 28 December 2011 for a term commencing on 1 January 2012 and expiring on 31 December 2014. The agreement was entered into on normal commercial terms. The service fees payable by CM Securities to the Company should be determined in accordance with the following pricing policies:

- (1) where there are State prescribed prices, to follow these prices; or
- (2) where there are no State prescribed prices but there are applicable State guided prices, to follow the State guided prices; or
- (3) where there are no State prescribed prices or State guided prices, to follow the market fee rates for ordinary business transactions agreed between the parties on arm's length negotiations.

The annual cap for continuously connected transactions between the Company and CM Securities for 2013 was set at RMB300 million which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would be subject only to the reporting, announcement and annual review requirements pursuant to Rules 14A.45 to 14A.47 and Rule 14A.37 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2013, the aggregate value of connected transactions between the Company and CM Securities amounted to RMB45.50 million.

CMFM

The fund distribution agency services between the Company and CMFM constituted continuously connected transactions of the Company under the Hong Kong Listing Rules.

The Company and CM Securities held 55% and 45% of the equity interest in CMFM respectively. Pursuant to the Hong Kong Listing Rules, CMFM is an associate of the connected person of the Company and therefore a connected person of the Company.

The Company entered into a service co-operation agreement with CMFM on 28 December 2011 for a term commencing on 1 January 2012 and expiring on 31 December 2014. The agreement was entered into on normal commercial terms. The agency service fees payable to the Company by CMFM pursuant to the service co-operation agreement will be calculated on an arm's length basis and normal commercial terms, having regard to the fees and charges specified in the funds offering documents and/or the offering prospectus.

The annual cap of the continuously connected transactions between the Company and CMFM for 2013 was set at RMB500 million which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements pursuant to Rules 14A.45 to 14A.47 and Rule 14A.37 of the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2013, the aggregate value of related transactions between the Company and CMFM amounted to RMB302.65 million.

The independent non-executive directors of the Company had reviewed the above-mentioned non-exempt continuously connected transactions between the Company and each of CMFM and CM Securities, respectively, and confirmed that:

- (1) the transactions were conducted in the ordinary and usual course of business of the Company;
- (2) the terms related to the transactions were fair and reasonable and in the interest of the Company and its shareholders as a whole;
- (3) the transactions were entered into on normal commercial terms and conditions which were no more favorable than those to or from independent third parties; and
- (4) the transactions were conducted in accordance with the terms of relevant agreements.

Furthermore, the Company engaged KPMG to report on the continuously connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuously Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. KPMG have issued their unqualified letter containing their findings and conclusions in respect of the aforesaid transactions in accordance with Rule 14A.38 of the Hong Kong Listing Rules. A copy of the letter has been provided by the Company to SEHK.

6.16.3 Material related-party transactions

The Company's material related-party transactions are set out in Note 55 to the financial statements. These transactions entered into with related-parties in the ordinary course of its business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. These transactions were entered into by the Company on normal commercial terms in the ordinary and usual course of business, and those which constituted connected transactions under the Hong Kong Listing Rules were in compliance with the applicable regulations of the Hong Kong Listing Rules.

6.17 Material litigations and arbitrations

So far as the Company is aware, as at 31 December 2013, the Company was involved in the following litigation cases in the course of business: the number of pending litigation and arbitration cases in which the Company was involved totalled 2,410 with a total principal amount of approximately RMB7,929,996,600 and total interest of approximately RMB315,895,500. Of which, there were a total of 175 pending litigation and arbitration cases against the Company as at 31 December 2013, with a total principal amount of approximately RMB845,700,400 and total interest of approximately RMB53,218,400. There was 5 pending case each with a principal amount exceeding RMB100,000,000, involving total principal amounts of approximately RMB935,909,200 and total interest of RMB73,706,200. None of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

6.18 Material contracts and their performance

Significant events in respect of holding in custody, contracting, hiring or leasing of assets

During the reporting period, none of the material contracts of the Company is involved in custody, contracting or hiring or leasing of any assets of other companies and vice versa out of the Company's normal business scope.

Significant entrustments in respect of fund and asset management

During the reporting period, there was no significant entrustment in respect of fund and asset management.

Significant guarantees

Guarantee business falls within the Company's ordinary course of business. During the reporting period, save for the financial guarantees entered into in our normal business scope approved by the PBOC and the CBRC, there was no other significant discloseable guarantee.

China Merchants Bank Co., Ltd.
Explanatory notes and independent opinions of the independent
non-executive directors towards the Company's guarantees

In accordance with CSRC Approval [2003] No.56 of China Securities Regulatory Commission and the relevant provisions of Shanghai Stock Exchange, the independent non-executive directors of China Merchants Bank Co., Ltd. carried out a due diligence review of the Company's guarantees for 2013 on an open, fair and objective basis, and their opinions are as follows:

After review, it was ascertained that the guarantee business of China Merchants Bank Co., Ltd. was approved by the People's Bank of China and CBRC, and it is carried out in the ordinary course of business of banks as a conventional business. As at 31 December 2013, the balance of the Company's guarantee business (including irrevocable letters of guarantees and shipping guarantees) was RMB172.642 billion, accounting for 64.83% of the Company's net assets.

The Company emphasises risk management of the guarantee business. It formulates specific management measures and operation workflow according to the risk characteristics of this business. In addition, the Company enhances risk monitoring and safeguards this business through management means such as on-site and offsite checks. During the reporting period, the Company's guarantee business was in normal operation and there was no non-compliant guarantees.

6.19 Significant event in respect of fund entrusting

During the reporting period, there was no event in respect of fund entrusting beyond our normal business.

6.20 Major activities in asset acquisition, disposal and reorganisation

6.20.1 Progress of the acquisition of equity interest in CIGNA & CMB Life Insurance

Upon approval by the Board of Directors of the Company, the Company and Shenzhen Dingzun Investment Advisory Company, Ltd. (“Dingzun”) entered into an agreement on 5 May 2008, pursuant to which the Company acquired from Dingzun its 50% equity interest in CIGNA & CMB Life Insurance. The Company has obtained all necessary regulatory approvals for this transaction, and has completed the relevant procedures for equity transfer and change of industrial and commercial registration. As at the end of the reporting period, the Company and Life Insurance Company of North America (信諾北美人壽保險公司) hold 50% equity interest in CIGNA & CMB Life Insurance, respectively.

Further details of the above transaction were set out in the announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 5 May 2008, 27 June 2008, 3 June 2011, 28 March 2013 and 24 October 2013, respectively.

For details about the business of CIGNA & CMB Life Insurance, please refer to section 5.11.10.

6.20.2 Progress of the acquisition of equity interest in China Merchants Fund

On 24 October 2012, the Company and ING Asset Management B.V. executed an Equity Transfer Agreement, pursuant to which the Company proposed to acquire a 21.6% equity interest in China Merchants Fund from ING Asset Management B.V. at a consideration of €63,567,567.57. After the acquisition, the Company's equity interest in China Merchants Fund will be increased from 33.4% to 55%. The Company has obtained all necessary regulatory approvals for this transaction, and has completed the relevant procedures for equity transfer and change of industrial and commercial registration. As at the end of the reporting period, the Company and CM Securities hold 55% and 45% equity interest in China Merchants Fund, respectively.

Further details of the above transaction were set out in the announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 8 October 2012, 4 June 2013, 20 August 2013 and 11 October 2013, respectively.

For details about the business of China Merchants Fund, please refer to section 5.11.9.

6.21 Implementation of the H-Share appreciation rights incentive scheme during the reporting period

For details about the implementation of the Company's H-Share Appreciation Rights Incentive Scheme, please refer to Chapter VIII.

6.22 Use of funds by related parties

During the reporting period, neither the major shareholders of the Company nor their related parties had used any funds of the Company for non-operating purposes, and none of them had used the funds of the Company through any related party transactions on anything other than an arm's length basis. KPMG Huazhen Certified Public Accountants, being the auditor of the Company, has issued a special audit opinion in this regard.

6.23 Appointment of accounting firm

According to the resolutions passed at the 2012 Annual General Meeting, the Company appointed KPMG Huazhen Certified Public Accountants as the auditor for domestic business for the year 2013 and KPMG Certified Public Accountants as the auditor for overseas business for the year 2013. Those two Certified Public Accountants have been engaged as auditors of the Company since 2002.

The financial statements of the Group for the year 2013 prepared under PRC GAAP and the internal control of the Group as at the year end of 2013 were audited by KPMG Huazhen Certified Public Accountants, and the financial statements for the year 2013 prepared under International Financial Reporting Standards were audited by KPMG Certified Public Accountants. The total audit fees amounted to approximately RMB16.00 million (including fees for the audit on the financial statements of our overseas branches and subsidiaries), among which the audit expenses for internal control was approximately RMB1.42 million. The auditor's responsibility statements made by KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants about their responsibilities on the financial statements are set out in the Auditors' Reports in the Annual Reports of the Company's A Shares and H Shares, respectively. Apart from the audit services, the non-audit service fee for the year paid by the Group to KPMG Certified Public Accountants was approximately RMB6.00 million.

6.24 Changes in accounting policies

In 2013, the Group adopted 7 IASs/IFRSs issued/revised by the International Accounting Standards Board. Implementation of the above IAS/IFRS had no material impact on the preparation and disclosure of the Group's financial statements. For details, please refer to note 2(b) to the financial statements for the year.

6.25 Review on annual results

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants, our external auditors, have audited the financial statements of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively, and each has issued an unqualified audit report respectively. The Audit Committee of the Company has reviewed the financial results and financial report of the Company for the year ended 31 December 2013.

6.26 Annual general meeting

The Company's 2013 Annual General Meeting will be convened on 30 June 2014, the notice of which will be further announced by the Company.

6.27 Publication of annual report

The Company prepared the annual report in both English and Chinese versions in accordance with the International Financial Reporting Standards and the Hong Kong Listing Rules. These reports are available on the websites of Hong Kong Stock Exchange and the Company. In the event of any discrepancies in interpretation between the English and Chinese versions, the Chinese version shall prevail.

The Company also prepared the annual report in Chinese in accordance with the PRC Generally Accepted Accounting Principles and the preparation rules for annual reports, which is available on the websites of Shanghai Stock Exchange and the Company.

Changes in Shares and Information on Shareholders

7.1 Changes in shares of the Company during the reporting period

	31 December 2012		Changes in the reporting period Increase as a result of the Rights Issue	31 December 2013	
	Quantity (share)	Percentage (%)		Quantity (share)	Percentage (%)
I. Shares subject to trading moratorium	-	-	-	-	-
II. Shares not subject to trading moratorium	21,576,608,885	100.00	3,643,236,716	25,219,845,601	100.00
1. Common shares in RMB (A Shares)	17,666,130,885	81.88	2,962,813,544	20,628,944,429	81.80
2. Foreign shares listed domestically	-	-	-	-	-
3. Foreign shares listed overseas (H Shares)	3,910,478,000	18.12	680,423,172	4,590,901,172	18.20
4. Others	-	-	-	-	-
III. Total shares	21,576,608,885	100.00	3,643,236,716	25,219,845,601	100.00

As at the end of the reporting period, the Company had a total of 522,003 shareholders, including 42,696 holders of H Shares and 479,307 holders of A Shares, and all the shares are not subject to trading moratorium.

As at the close of the fifth trading day preceding the date for disclosure of the annual report, the Company had a total of 537,837 shareholders, including 42,306 holders of H Shares and 495,531 holders of A Shares, and all the shares are not subject to trading moratorium.

Based on the public information available to the Company and as far as its directors are aware, as at 31 December 2013, the Company had met the public float requirement of the Hong Kong Listing Rules.

7.2 Top ten shareholders and top ten shareholders whose shareholdings are not subject to trading moratorium

Serial No.	Name of shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital (%)	Type of shares	Changes in the reporting period (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd. ⁽¹⁾	/	4,532,238,828	17.97	H shares	677,009,854	-	-
2	China Merchants Steam Navigation Company Ltd.	State-owned legal person	3,162,424,323	12.54	A Shares not subject to trading moratorium	486,811,723	-	-
3	China Ocean Shipping (Group) Company	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	233,392,560	-	-
4	An-Bang Insurance Group Co., Ltd. – Conventional Insurance Products	Domestic non-state-owned legal person	1,444,376,187	5.73	A Shares not subject to trading moratorium	1,417,961,810	-	-
5	Sino Life Insurance Co., Ltd. – Universal Insurance H	Domestic non-state-owned legal person	1,031,787,433	4.09	A Shares not subject to trading moratorium	699,787,958	-	-
6	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal person	747,589,686	2.96	A Shares not subject to trading moratorium	110,801,197	-	-
7	Guangzhou Maritime Transport (Group) Company Ltd.	State-owned legal person	668,649,167	2.65	A Shares not subject to trading moratorium	37,361,333	-	-
8	Shenzhen Chu Yuan Investment and Development Company Ltd.	State-owned legal person	653,135,659	2.59	A Shares not subject to trading moratorium	96,802,048	-	-
9	China Communications Construction Company Ltd.	State-owned legal person	450,164,945	1.78	A Shares not subject to trading moratorium	66,719,506	-	-
10	SAIC Motor Corporation Limited	Domestic non-state-owned legal person	432,125,895	1.71	A Shares not subject to trading moratorium	64,045,916	-	-

Notes: (1) Shares held by HKSCC Nominees Ltd. are the total shares in the accounts of holders of H Shares of the Company trading on the transaction platform of HKSCC Nominees Ltd.

(2) Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Company Ltd., Shenzhen Yan Qing Investment and Development Company Ltd. and Shenzhen Chu Yuan Investment and Development Company Ltd. are subsidiaries of China Merchants Group Ltd. The Company is not aware of any affiliated relationships among other shareholders.

(3) The above shareholders do not hold the shares of the Company through securities accounts.

7.3 Substantial shareholders' and other persons' interests and short positions in shares and underlying shares under Hong Kong laws and regulations

As at 31 December 2013, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO (chapter 571 of the Laws of Hong Kong) or as the Company is aware:

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all issued shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	4,689,389,293	1	22.73	18.59*
China Merchants Steam Navigation Co. Ltd.	A	Long	Beneficial owner	3,162,424,323	1	15.33	12.54
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Beneficial owner	126,239,625	1	7.40	6.05
		Long	Interest of controlled corporation	1,400,725,345	1		
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	747,589,686	1	6.79	5.55
		Long	Interest of controlled corporation	653,135,659	1		
				1,400,725,345			
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	1,574,729,111		7.63	6.24
China Shipping (Group) Company	A	Long	Interest of controlled corporation	857,940,946	2	4.16	3.40
Anbang Property & Casualty Insurance Company Ltd. – traditional products	A	Long	Beneficial owner	1,444,376,187		7.00	5.73
Sino Life Insurance Co., Ltd. – universal H	A	Long	Beneficial owner	1,031,787,433		5.00	4.09
JPMorgan Chase & Co.	H	Long	Beneficial owner	30,627,543		9.01	1.64
		Long	Investment manager	211,725,378			
		Long	Custodian	171,362,866			
		Long		413,715,787	3		
		Short	Beneficial owner	2,436,867	3	0.05	0.01
BlackRock, Inc	H	Long	Interest of controlled corporation	383,460,169	4	8.35	1.52
		Short	Interest of controlled corporation	116,500	4	0.003	0.0005
Templeton Asset Management Ltd.	H	Long	Investment manager	366,350,401		7.98	1.45
Genesis Asset Managers, LLP	H	Long	Investment manager	197,514,941		4.30	0.78

* As at 31 December 2013, China Merchants Group Ltd. indirectly held an aggregate of 18.80% of the total issued shares of the Company, consisting of 18.59% of the A shares of the Company and 0.21% of the H shares of the Company, respectively.

The above numbers of H shares were recorded in interests disclosure forms completed by the relevant substantial shareholders before 31 December 2013. During the period from the date on which the respective substantial shareholders submitted the said forms up to 31 December 2013, there would be some updates to the aforesaid numbers of H shares, but the changes did not result in a disclosure obligation under SFO.

Notes:

(1) China Merchants Group Ltd. was deemed to hold interests in a total of 4,689,389,293 A shares (long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(1.1) China Merchants Steam Navigation Co. Ltd. held 3,162,424,323 A shares (long position) in the Company. China Merchants Steam Navigation Co. Ltd. was a wholly-owned subsidiary of China Merchants Group Ltd..

(1.2) China Merchants Finance Investment Holdings Co. Ltd. held 126,239,625 A shares (long position) in the Company. China Merchants Finance Investment Holdings Co. Ltd. was owned as to 90% and 10% by China Merchants Group Ltd. and China Merchants Steam Navigation Co. Ltd., referred to in (1.1) above, respectively.

(1.3) Shenzhen Yan Qing Investment and Development Company Ltd. held 747,589,686 A shares (long position) in the Company. Shenzhen Yan Qing Investment and Development Company Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and China Merchants Group Ltd. respectively.

(1.4) Shenzhen Chu Yuan Investment and Development Company Ltd. held 653,135,659 A shares (long position) in the Company. Shenzhen Chu Yuan Investment and Development Company Ltd. was owned as to 50% by each of China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and Shenzhen Yan Qing Investment and Development Company Ltd., referred to in (1.3) above, respectively.

(2) China Shipping (Group) Company was deemed to hold interests in a total of 857,940,946 A shares (long position) in the Company by virtue of its control over the following enterprises which directly held interests in the Company:

(2.1) Guangzhou Maritime Transport (Group) Company Limited directly held 668,649,167 A shares (long position) in the Company;

(2.2) Shanghai Shipping (Group) Company directly held 75,617,340 A shares (long position) in the Company;

(2.3) Guangzhou Haining Maritime Service Co. directly held 103,552,616 A shares (long position) in the Company; and

(2.4) Shenzhen Tri-Dynas Oil & Shipping Co., Ltd. directly held 10,121,823 A shares (long position) in the Company.

(3) JPMorgan Chase & Co. was deemed to hold interests in a total of 413,715,787 H shares (long position) and 2,436,867 H shares (short position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(3.1) J.P. Morgan Clearing Corp held 167,105 H shares (long position) in the Company. J.P. Morgan Clearing Corp was an indirectly wholly-owned subsidiary of JPMorgan Chase & Co..

(3.2) JF Asset Management Limited held 11,898,000 H shares (long position) in the Company. JF Asset Management Limited was an indirectly wholly-owned subsidiary of JPMorgan Chase & Co..

(3.3) JPMorgan Asset Management (Japan) Limited held 749,874 H shares (long position) in the Company. JPMorgan Asset Management (Japan) Limited was an indirectly wholly-owned subsidiary of JPMorgan Chase & Co..

(3.4) JPMorgan Asset Management (Taiwan) Limited held 3,003,240 H shares (long position) in the Company. JPMorgan Asset Management (Taiwan) Limited was an indirectly wholly-owned subsidiary of JPMorgan Chase & Co..

(3.5) J.P. Morgan Investment Management Inc. held 48,736,773 H shares (long position) in the Company. J.P. Morgan Investment Management Inc. was an indirectly wholly-owned subsidiary of JPMorgan Chase & Co..

(3.6) J.P. Morgan Whitefriars Inc. held 24,615,064 H shares (long position) and 382,364 H shares (short position) in the Company. J.P. Morgan Whitefriars Inc. was an indirectly wholly-owned subsidiary of JPMorgan Chase & Co..

(3.7) J.P. Morgan Securities plc held 5,965,874 H shares (long position) and 2,054,503 H shares (short position) in the Company. J.P. Morgan Securities plc was owned as to 99.31% and 0.69% by J.P. Morgan Chase International Holdings and J.P. Morgan Capital Financing Limited, respectively, which in turn were an indirect wholly-owned subsidiary and a wholly-owned subsidiary of JPMorgan Chase & Co., respectively.

(3.8) JP Morgan Chase Bank, N.A. held 194,578,332 H shares (long position) in the Company. JP Morgan Chase Bank, N.A. was a wholly-owned subsidiary of JPMorgan Chase & Co..

- (3.9) JPMorgan Asset Management (UK) Limited held 124,122,025 H shares (long position) in the Company. JPMorgan Asset Management (UK) Limited was an indirect wholly-owned subsidiary of JPMorgan Chase & Co..

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 171,362,866 H shares. Besides, 4,626,315 H shares (long position) and 2,436,867 H shares (short position) were held through derivatives as follows:

114,575 H shares (long position) and 293,403 H shares (short position)	–	through physically settled derivatives (on exchange)
169,307 H shares (short position)	–	through cash settled derivatives (on exchange)
4,511,740 H shares (long position) and 1,974,157 H shares (short position)	–	through cash settled derivatives (off exchange)

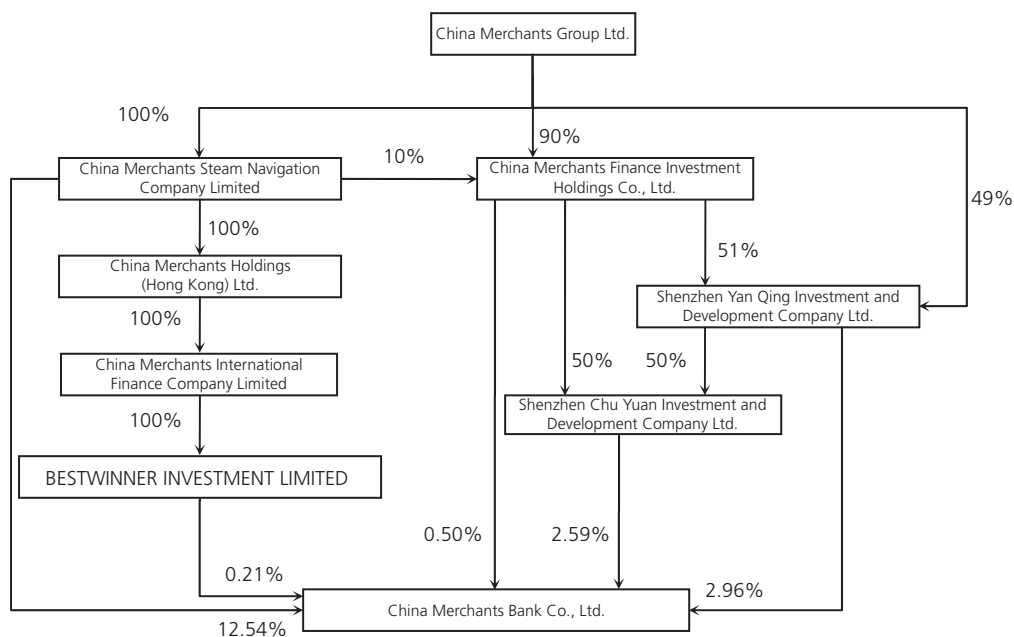
- (4) BlackRock, Inc. had a long position in 383,460,169 H shares (in which 2,215,776 H shares were held through cash settled derivatives (on exchange) and a short position in 116,500 H shares (in which 32,500 H shares were held through cash settled derivatives (on exchange)) of the Company by virtue of its control over a number of wholly-owned subsidiaries.

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 31 December 2013 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

7.4 Information about the Company's largest shareholder and its parent company

- (1) China Merchants Steam Navigation Company Ltd., being the largest shareholder of the Company, was founded on 11 October 1948 with a registered capital of RMB3.7 billion (organisation code: 10001145-2). Its legal representative is Mr. Fu Yuning. It is a wholly owned subsidiary of China Merchants Group Ltd. The said company is mainly engaged in passenger and cargo shipping businesses; dockyard, warehouse and vehicle transportation; sale, purchase and supply of various transportation equipments, spare parts and materials; ship and passenger/goods shipping agency, international maritime cargo, etc; as well as investment and management of transportation-related financial businesses including banking, securities and insurance.
- (2) China Merchants Group Ltd. directly holds 100% equity interest in China Merchants Steam Navigation Company Ltd. and is the parent company of the Company's largest shareholder. Its legal representative is Mr. Fu Yuning. China Merchants Group Ltd. is one of the state-owned backbone enterprises under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. Its predecessor, China Merchants Steam Navigation Company, was incorporated in 1872, a time when China was in its late Qing Dynasty and was undergoing the Westernisation Movement, and was one of the enterprises which played a significant role in promoting the modernisation of China's national industries and commerce at that time. Nowadays, it has developed into a conglomerate, specialising in transportation infrastructure, industrial zone development, port, finance, property and logistics businesses, etc.

The Company has no controlling shareholder or de facto controlling party. The equity relationship between the Company and its largest shareholder is illustrated as follows:



Note: As at 31 December 2013, China Merchants Group Ltd. indirectly held an aggregate of 18.80% of the total shares of the Company, consisting of 18.59% of A Shares and 0.21% of H Shares of the Company.

7.5 Particulars on share issuance and listing

2013 rights issue

On 19 July 2013, the Bank received from the CSRC a “Reply Regarding the Approval of China Merchants Bank Co., Ltd.’s Rights Issue” (CSRC Approval [2013] No. 950), approving the Bank to issue new shares to holders of A Shares. As at the last day (3 September 2013) for subscription and payment under the rights issue, a total of 2,962,813,544 new A Shares had been validly subscribed for at a price of RMB9.29 per share. The A Shares issued under the rights issue commenced trading on 11 September 2013.

On 13 August 2013, the Bank received from the CSRC a “Reply Regarding the Approval of China Merchants Bank Co., Ltd.’s Rights Issue for Overseas-listed Foreign Shares” (CSRC Approval [2013] No. 1072). After obtaining the approval from the Hong Kong Stock Exchange, the Bank issued 680,423,172 new shares to holders of H Shares at a price of HK\$11.68 per share, and the paid-up new H Shares under the rights issue commenced trading on 2 October 2013.

The above rights issue resulted in an increase of the total number of the Company’s shares by 3,643,236,716 shares.

Internal staff shares

The Company did not issue internal staff shares during the reporting period.

7.6 Issuance of bonds

Issuance of financial bonds in 2012

Approved by China Banking Regulatory Commission and the People's Bank of China (PBOC), the Company issued the financial bonds (the "Bonds") in the amount of RMB20 billion on 14 March 2012. The Bonds were divided into two types, type I is a 5-year bonds with fixed interest rate, issuance size of RMB6.5 billion with an annual coupon rate of 4.15%; type II is a 5-year bonds with floating interest rate, issuance size of RMB13.5 billion and a basic spread of 0.95%, and the coupon rate being the sum of benchmark interest rate plus basic spread. The benchmark interest rate represented the one-year lump-sum deposit and withdrawal time deposit rate published by PBOC and applicable for the first date of issuance and the value date in each interest-bearing year. The benchmark interest rate applicable to the first interest-bearing period is 3.50%. As at 31 December 2012, the proceeds raised from issuance of the financial bonds were fully used to support small- and micro-enterprise financings.

Issuance of subordinated debts in 2012

Approved by CBRC and PBOC, the Company issued subordinated debts in an amount of RMB11.7 billion within the domestic interbank debt markets on 27 December 2012. The total size for such issuance of subordinated debts amounted to RMB11.7 billion, all of which are fixed rate debts for a term of 15 years. The coupon rate is 5.20% and the issuer may select to redeem the debts by the end of the first 10 years. As at 31 December 2012, the proceeds raised from issuance of the subordinated debts were fully used to replenish the supplementary capital of the Company.

Directors, Supervisors, Senior Management, Employees and Organisational Structure

8.1 Directors, Supervisors and Senior Management

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year (share)	Shareholding at the end of the year (share)	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Aggregate pre-tax remunerations received from the shareholders' companies during the reporting period (RMB ten thousand)
Fu Yuning	Male	1957.3	Chairman & Non-Executive Director	2013.5-2016.5	-	-	-	-
Zhang Guanghua	Male	1957.3	Vice Chairman Executive Director	2013.8-2016.5 2013.5-2016.5	-	-	350.01	-
Ma Zehua	Male	1953.1	Vice Chairman Non-Executive Director	(note 1) 2014.3-2016.5	-	-	-	(note 3)
Tian Huiyu	Male	1965.12	Executive Director President (note 2) and Chief Executive Officer	2013.8-2016.5 2013.9-2016.5	-	-	316.40	-
Li Yinquan	Male	1955.4	Non-Executive Director	2013.5-2016.5	-	-	-	-
Fu Gangfeng	Male	1966.12	Non-Executive Director	2013.5-2016.5	-	-	-	-
Sun Yueying	Female	1958.6	Non-Executive Director	2013.5-2016.5	-	-	-	(note 3)
Fu Junyuan	Male	1961.5	Non-Executive Director	2013.5-2016.5	-	-	-	(note 4)
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2013.5-2016.5	-	-	-	-
Xiong Xianliang	Male	1967.10	Non-Executive Director	2013.5-2016.5	-	-	-	-
Li Hao	Male	1959.3	Executive Director, First Executive Vice President and Chief Financial Officer	2013.5-2016.5	-	-	350.01	-
Xu Shanda	Male	1947.9	Independent Non-Executive Director	2013.11-2016.5	-	-	-	-
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2013.5-2016.5	-	-	30.00	-
Pan Chengwei	Male	1946.2	Independent Non-Executive Director	2013.5-2016.5	-	-	30.00	-
Pan Yingli	Female	1955.6	Independent Non-Executive Director	2013.5-2016.5	-	-	30.00	-
Guo Xuemeng	Female	1966.9	Independent Non-Executive Director	2013.5-2016.5	-	-	30.00	-
Xiao Yuhuai	Male	1954.6	Independent Non-Executive Director	2014.3-2016.5	-	-	-	-
Han Mingzhi	Male	1955.1	Chairman of Board of Supervisors	2013.5-2016.5	-	-	346.06	-
Zhu Genlin	Male	1955.9	Shareholder Supervisor	2013.5-2016.5	-	-	-	(note 5)
An Luming	Male	1960.4	Shareholder Supervisor	2013.5-2016.5	-	-	-	-
Liu Zhengxi	Male	1963.7	Shareholder Supervisor	2013.5-2016.5	-	-	-	25.85
Peng Zhijian	Male	1948.11	External Supervisor	2013.5-2016.5	20,000	23,480 (note 6)	30.00	-
Pan Ji	Male	1949.4	External Supervisor	2013.5-2016.5	-	-	30.00	-
Shi Rongyao	Male	1950.10	External Supervisor	2013.5-(Note 7)	-	-	17.50	-
Yu Yong	Male	1962.7	Employee Supervisor	2013.5-2016.5	-	-	127.37	-
Guan Qizhi	Male	1965.1	Employee Supervisor	2013.5-2016.5	-	-	123.67	-
Tang Zhihong	Male	1960.3	Executive Vice President	2013.5-2016.5	-	-	312.45	-
Ding Wei	Male	1957.5	Executive Vice President	2013.5-2016.5	-	-	312.45	-

Name	Gender	Date of birth (Y/M)	Title	Term of office	Shareholding at the beginning of the year (share)	Shareholding at the end of the year (share)	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Aggregate pre-tax remunerations received from the shareholders' companies during the reporting period (RMB ten thousand)
Zhu Qi	Male	1960.7	Executive Vice President	2013.5-2016.5	-	-	(note 8)	-
Tang Xiaoping	Male	1954.8	Executive Vice President	2013.5-2016.5	-	-	312.45	-
Wang Qingbin	Male	1956.12	Executive Vice President	2013.5-2016.5	-	-	312.45	-
Liu Jianjun	Male	1965.8	Executive Vice President	2013.12-2016.5	-	-	27.69	-
Xu Shiqing	Male	1961.3	Secretary of Board of Directors	(note 9)	-	-	158.20	-
Shan Weijian	Male	1953.10	Candidate for Independent Non-Executive Director	(note 10)	-	-	-	-
Wei Jiafu	Male	1950.1	Former Vice Chairman, Non-Executive Director	2013.5-2013.11	-	-	-	(note 3)
Ma Weihua	Male	1948.6	Former Executive Director, President and Chief Executive Officer	2010.6-2013.5	-	-	197.75	-
Wang Daxiong	Male	1960.12	Former Non-Executive Director	2013.5-2014.3	-	-	-	(note 11)
Yi Xiqun	Male	1947.8	Former Independent Non-Executive Director	2013.5-2014.3	-	-	30.00	-
Yan Lan	Female	1957.1	Former Independent Non-Executive Director	2013.5-2013.11	-	-	25.00	-
Wen Jianguo	Male	1962.10	Former Shareholder Supervisor	2010.6-2013.5	-	-	-	(note 12)
Yang Zongjian	Male	1957.4	Former Employee Supervisor	2010.6-2013.5	-	-	88.67	-
Zhou Qizheng	Male	1964.11	Former Employee Supervisor	2010.6-2013.5	-	-	119.66	-
Yin Fenglan	Female	1953.7	Former Executive Vice President	2013.5-2013.9	-	-	229.39	-
Xu Lianfeng	Male	1953.7	Former Chief Technology Officer	2001.11-2013.7	-	-	110.74	-
Lan Qi	Male	1956.6	Former Secretary of Board of Directors	2010.6-2013.5	-	-	98.88	-

- Notes:
1. Mr. Ma Zehua was elected as the Vice Chairman at the 14th meeting of the Ninth Session of the Board of Directors of the Company, his qualification for serving as the Vice Chairman is still subject to approval by the banking regulator(s) in the PRC.
 2. Mr. Tian Huiyu was appointed as the President of the Company at the first meeting of the Ninth Session of the Board of Directors of the Company on 31 May 2013, whose qualification was approved by the banking regulator(s) in the PRC in September 2013.
 3. For details of the remuneration of Mr. Ma Zehua, Ms. Sun Yueying and Mr. Wei Jiafu received from the shareholders' company during the reporting period, please refer to the 2013 annual report of China COSCO Holdings Co., Ltd.;
 4. For details of the remuneration of Mr. Fu Junyuan received from the shareholders' company during the reporting period, please refer to the 2013 annual report of China Communications Construction Co., Ltd.;
 5. For details of the remuneration of Mr. Zhu Genlin received from the shareholders' company during the reporting period, please refer to the 2013 annual report of SAIC Motor Corporation Limited;

6. Mr. Peng Zhijian was issued additional 3,480 A shares of the Company by virtue of his participation of the Rights Issue of A shares of the Company in 2013;
7. Mr. Shi Rongyao submitted a letter of resignation to the Board of Supervisors in March 2014, whose resignation will take effect upon formal performance of duties by a new external supervisor elected at the general meeting of the Company. During the period, Mr. Shi shall continue to perform his duties as an external supervisor in accordance with relevant law, regulations and the Articles of Association of the Company;
8. Mr. Zhu Qi received his remuneration from WLB, a subsidiary of the Company;
9. Mr. Xu Shiqing was appointed as the Secretary of the Board of Directors at the first meeting of the Ninth Session of the Board of Directors of the Company (he has obtained the qualification as the Secretary of the Board of Directors from The Shanghai Stock Exchange, but this appointment qualification is still subject to approval by the banking regulator(s) in the PRC);
10. Mr. Shan Weijian was elected as the Independent Non-executive Director of the Company at the 2012 Annual General Meeting of the Company. The qualification of Mr. Shan Weijian for serving as a director is still subject to approval by the banking regulator(s) in the PRC.
11. For details of the remuneration of Mr. Wang Daxiong received from the shareholders' company during the reporting period, please refer to the 2013 annual report of China Shipping Development Co., Ltd.;
12. For details of the remuneration of Mr. Wen Jianguo received from the shareholders' company during the reporting period, please refer to the 2013 annual report of China Shipping Haisheng Co., Ltd.;
13. The remuneration received by newly appointed or resigned persons from the Company in the year is calculated on the length of their service in the Company in the reporting period;
14. The total pre-tax remuneration of the full-time Executive Directors, chairman of the Board of Supervisors and senior management of the Company is still under verification, and the information about the remaining part will be disclosed separately upon confirmation of payment;
15. None of the persons listed in the above table holds share options of the Company or has been granted with restricted shares of the Company.

8.2 Appointment and resignation of Directors, Supervisors and Senior Management

In 2013, the Company completed the election of the Ninth Session of the Board of Directors, the Ninth Session of the Board of Supervisors and new senior management.

According to the relevant resolutions passed at the 2012 Annual General Meeting of the Company, Mr. Tian Huiyu was newly elected as an Executive Director of the Company, Mr. Xu Shanda and Mr. Shan Weijian were both elected as Independent Non-executive Directors of the Company. The qualifications of Mr. Tian Huiyu and Mr. Xu Shanda for serving as directors were approved by the banking regulator(s) in the PRC in August and November 2013, respectively, and that of Mr. Shan Weijian for serving as a director is still subject to approval by the banking regulator(s) in the PRC. According to the relevant resolutions passed at the 2014 First Extraordinary General Meeting of the Company, Mr. Ma Zehua was newly elected as a Non-executive Director of the Company, Mr. Xiao Yuhuai was newly elected as an Independent Non-executive Director of the Company. The qualification of Mr. Ma Zehua and Mr. Xiao Yuhuai for serving as a director was approved by the banking regulator(s) in the PRC in March 2014.

Mr. Tian Huiyu was appointed as the President of the Company (whose qualification was approved by the banking regulator(s) in the PRC in September 2013), Mr. Zhang Guanghua was elected as the Vice Chairman of the Company (whose qualification was approved by the banking regulator(s) in the PRC in August 2013), Mr. Li Hao was appointed as First Executive Vice President and Chief Financial Officer, and Mr. Xu Shiqing was appointed as the Secretary of Board of Directors of the Company (he has obtained the qualification as the Secretary of the Board of Directors from the Shanghai Stock Exchange, but his appointment qualification is still subject to approval by the banking regulator(s) in the PRC) at the first meeting of the Ninth Session of the Board of Directors of the Company. Mr. Liu Jianjun was appointed as the Executive Vice President of the Company at the sixth meeting of the Ninth Session of the Board of Directors of the Company, whose qualification was approved by the banking regulator(s) in the PRC in December 2013.

Mr. Wei Jiafu ceased to be the Vice Chairman and Non-executive Director of the Company from November 2013, Mr. Ma Weihua ceased to be the Executive Director, President and Chief Executive Officer of the Company from May 2013, Mr. Wang Daxiong ceased to be the Non-executive Director of the Company from March 2014, Mr. Zhang Guanghua ceased to be the Executive Vice President of the Company from May 2013, Mr. Yi Xiqun and Ms. Yan Lan ceased to be an Independent Non-executive Director of the Company from March 2014 and November 2013 respectively, Ms. Yin Fenglan ceased to be the Executive Vice President of the Company from September 2013, Mr. Xu Lianfeng ceased to be the Chief Technology Officer of the Company from July 2013, Mr. Lan Qi ceased to be the Secretary of Board of Directors of the Company from May 2013.

According to the relevant resolutions passed at the 2012 Annual General Meeting of the Company as well as the election results of the employee supervisors for the Ninth Session of the Board of Supervisors of the Company, Mr. Shi Rongyao, Mr. Yu Yong and Mr. Guan Qizhi were elected as Supervisors of the Ninth Session of the Board of Supervisors of the Company. Among them, Mr. Shi Rongyao was elected as External Supervisor, and Mr. Yu Yong and Mr. Guan Qizhi were both elected as Employee Supervisors. Mr. Wen Jianguo (former Shareholder Supervisor) and Mr. Yang Zongjian and Mr. Zhou Qizheng (both being former Employee Supervisors) ceased to be Supervisors of the Company from May 2013. Mr. Shi Rongyao submitted a letter of resignation to the Board of Supervisors of the Company in March 2014, Mr. Shi's resignation will take effect upon formal performance of duties by a new external supervisor elected at the general meeting of the Company. During the period, Mr. Shi shall continue to perform his duties as an external supervisor in accordance with relevant law, regulations and the Articles of Association of the Company. There were no changes to other members of the Board of Supervisors.

For details, please refer to the relevant announcements published on *China Securities Journal*, *Shanghai Securities News* and *Securities Times*, and on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

8.3 Particular changes to Directors and Supervisors during the reporting period

1. Mr. Zhang Guanghua, an Executive Director of the Company, serves as the Vice Chairman of the Company as well as the chairman of CMB Financial Leasing, CIGNA & CMB Life Insurance and China Merchants Fund, and ceased to be an Executive Vice President of the Company.
2. Mr. Fu Junyuan, a Non-executive Director of the Company, serves as the chairman of CCCC Finance Company Limited.
3. Mr. Hong Xiaoyuan, a Non-executive Director of the Company, ceased to be a director of China Credit Trust Co., Ltd.
4. Mr. Li Hao, an Executive Director of the Company, ceased to be an Executive Vice President of the Company, and now serves as the First Executive Vice President of the Company.
5. Mr. Wong Kwai Lam, an Independent Non-executive Director of the Company, serves as an independent non-executive director of Langham Hospitality Investments Limited and LHIL Manager Limited, a member of the Hospital Governing Committee of Prince of Wales Hospital located in Shatin, Hong Kong and a member of the New Hospital Project Committee of Chinese University of Hong Kong.
6. Mr. Pan Chengwei, an Independent Non-executive Director of the Company, serves as an independent non-executive director of China International Marine Containers (Group) Co., Ltd.
7. Ms. Pan Yingli, an Independent Non-executive Director of the Company, ceased to be the independent supervisor of China Shipping Container Lines Company Ltd.
8. Mr. An Luming, Shareholders Supervisor of the Company, ceased to be the deputy general manager of the Financial Assets Department of the CNOOC.

8.4 Current positions held by the directors and supervisors in the shareholders' companies or associated companies

Name	Name of Company	Title	Term of office
Fu Yuning	China Merchants Group Ltd.	Chairman	From August 2010 up to now
Ma Zehua	China Ocean Shipping (Group) Company	Chairman	From July 2013 up to now
Li Yinquan	China Merchants Group Ltd.	Vice President	From July 2002 up to now
Fu Gangfeng	China Merchants Group Ltd.	Chief Financial Officer	From November 2011 up to now
Hong Xiaoyuan	China Merchants Group Ltd.	Executive Assistant President & Managing Director of China Merchants Finance Holdings Company Limited	From September 2011 up to now
Xiong Xianliang	China Merchants Group Ltd.	General Manager of the Strategy Research Department	From October 2011 up to now
Sun Yueying	China Ocean Shipping (Group) Company	Chief Accountant	From December 2000 up to now
Fu Junyuan	China Communications Construction Co., Ltd	Executive Director & Chief Financial Officer	From September 2006 up to now
Zhu Genlin	SAIC Motor Corporation Limited	Vice President	From January 2012 up to now
An Luming	CNOOC Investment Co., Ltd. ^{note}	General Manager	From December 2011 up to now
Liu Zhengxi	Shandong State-owned Assets Investment Holdings Co. Ltd	Vice President	From March 2011 up to now

Note: CNOOC Investment Co., Ltd. (a shareholder of the Company) is a subsidiary of China National Offshore Oil Corporation.

8.5 Major career profiles of directors, supervisors and senior management and information of their concurrent posts

Directors

Mr. Fu Yuning, Chairman and non-executive director of the Company. Mr. Fu obtained a doctorate degree from Brunel University, the United Kingdom. He has been a director of the Company since March 1999 and has been the Chairman of the Company since October 2010. He is a member of the Twelfth National Committee of CPPCC. Mr. Fu concurrently holds the posts as the chairman of China Merchants Group Ltd., the chairman of China Merchants Holdings (International) Co., Ltd. (a company listed on the Hong Kong Stock Exchange), the chairman of China Nanshan Development (Group) Inc, and an independent non-executive director of Li & Fung Limited (a company listed on the Hong Kong Stock Exchange), and a General Committee Member of the Hong Kong General Chamber of Commerce.

Mr. Zhang Guanghua, Vice Chairman and executive director of the Company. Mr. Zhang obtained a doctorate degree in economics from Southwestern University of Finance and Economics and is a senior economist. He has been an executive director of the Company since June 2007 and has been the Vice Chairman of the Company since August 2013. He is also the vice chairman of the board of directors of Wing Lung Bank, and the chairman of CIGNA & CMB Life Insurance, China Merchants Fund and CMB Financial Leasing. He is a member of the Standing Council of China Society for Finance and Banking, the deputy chairman of Guangdong Society for Finance and Banking, a member of the Fifth Committee of China Council for the Promotion of International Trade and an adjunct professor at Southwestern University of Finance and Economics and Jilin University. From September 2002 to April 2007, he served as the president of Guangdong Development Bank. From April 2007 to May 2013, he served as the Executive Vice President of the Company.

Mr. Ma Zehua, non-executive director of the Company. He graduated from Shanghai Maritime Institute (now known as Shanghai Maritime University) with a master's degree in international law, and he is a senior economist. He has been a non-executive director of the Company since March 2014. He has acted as chairman of China Ocean Shipping (Group) Company (COSCO Group). Mr. Ma is currently a deputy of the 12th session of the National People's Congress of the PRC and a member of the Foreign Affairs Committee. From 1990 to 2013, Mr. Ma had served as general manager of COSCO (UK) Ltd., general manager of development department and head of overseas business division of COSCO Group, assistant to president and general manager of development department of COSCO Group, president of COSCO Americas, Inc., deputy general manager of Guangzhou Ocean Shipping Company, general manager of Qingdao Ocean Shipping Company, vice president of COSCO Group, vice president of China Shipping (Group) Company, and director of the Board and president of COSCO Group.

Mr. Tian Huiyu, executive director, President and Chief Executive Officer of the Company. He obtained his bachelor's degree in infrastructure finance and credit from Shanghai University of Finance and Economics and his master's degree in public administration from Columbia University. He is a senior economist. Mr. Tian has been the controller of retail banking and head of Beijing Branch of China Construction Bank Corporation ("CCB") (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) from March 2011 to April 2011. Mr. Tian has served as the controller of retail banking and general manager of Beijing Branch of CCB from April 2011 to May 2013. He served consecutively as deputy general manager of Shanghai Branch of CCB, head and general manager of Shenzhen Branch of CCB from December 2006 to March 2011, executive vice president of Shanghai Bank from July 2003 to December 2006, and vice president of Trust Investment Branch of China Cinda Asset Management Co., Ltd from July 1998 to July 2003.

Mr. Li Yinquan, non-executive director of the Company. He obtained a master's degree in economics in the Graduate School of the People's Bank of China and a master's degree in finance in FINAFRICA, Italy, and is a senior economist. He has been a director of the Company since April 2001. He is a member of the Twelfth National Committee of CPPCC of Hong Kong Special Administrative Region. He is the vice president of China Merchants Group Ltd., the chairman of China Merchants Finance Holdings Company Limited and China Merchants China Direct Investments Ltd. (a company listed on the Hong Kong Stock Exchange), and the vice chairman of China Merchants Capital Management Ltd. He is also a director of China Merchants Holdings (International) Co., Ltd. (a company listed on the Hong Kong Stock Exchange). He was the chief financial officer, vice president and chief financial officer of China Merchants Group Ltd.

Mr. Fu Gangfeng, non-executive director of the Company. He obtained a bachelor's degree in finance and a master's degree in business administration from Xi'an Highway College and is a senior accountant. He has been a director of the Company since August 2010. He is the chief financial officer of China Merchants Group Ltd. He also serves as a director of China Merchants Securities (a company listed on the Shanghai Stock Exchange) and China Merchants Energy Shipping Company Co., Ltd (a company listed on the Shanghai Stock Exchange). He was the deputy director of the Shekou ZhongHua Certified Public Accountants, the director of the chief accountant office and deputy chief accountant of China Merchants Shekou Industrial Zone Co., Ltd. respectively, and the chief financial officer of China Merchants Shekou Holdings Co. Ltd. and China Merchants Shekou Industrial Zone Co., Ltd., and the general manager of the finance division of China Merchants Group Ltd.

Ms. Sun Yueying, non-executive director of the Company. She is a university graduate and is a senior accountant. She has been a director of the Company since April 2001. She has been the chief accountant of China Ocean Shipping (Group) Company. She has also been a non-executive director of China COSCO Holdings Company Ltd. (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange), the chairman of COSCO Finance Co., Ltd. and a director of China Merchants Securities (a company listed on the Shanghai Stock Exchange).

Mr. Fu Junyuan, non-executive director of the Company. He obtained a doctorate degree in management and is a senior accountant. He has been a director of the Company since March 2000. He has been the executive director and chief financial officer of China Communications Construction Ltd. (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange). He has also been the chairman of CCCC Finance Company Limited and the vice chairman of Jiang Tai Insurance Broker Co., Ltd.. He was the chief accountant of China Harbour Engineering (Group) Ltd. and the chief accountant of China Communications Construction (Group) Ltd. from October 1996 to September 2006.

Mr. Hong Xiaoyuan, non-executive director of the Company. He obtained a master's degree in economics from Peking University and a master's degree in science from Australian National University. He has been a director of the Company since June 2007. He has been an Executive Assistant President of China Merchants Group Ltd. and the General Manager of China Merchants Finance Holdings Company Ltd.. He is also the chairman of China Merchants China Investment Management Ltd., China Merchants Kunlun Equity Investment Fund Management Co., Ltd. (招商昆侖股權投資管理有限公司), Houlter Insurance Brokers Far East Ltd., China Merchants Finance Investment Holdings Co., Ltd., China Merchants Insurance Co. and China Merchants Holdings (U.K.) Co., Ltd.. He had also served as a director of China Merchants Securities (a company listed on the Shanghai Stock Exchange), China Merchants China Direct Investments Ltd. (a company listed on the Hong Kong Stock Exchange), Morgan Stanley Huaxin Fund Management Company Ltd., and Great Wall Securities Co., Ltd..

Mr. Xiong Xianliang, non-executive director of the Company. He obtained a doctorate degree in economics from Nankai University and is a researcher. He has been a director of the Bank since July 2012. He is currently the general manager of the Strategic Research Department of China Merchants Group Limited, and a standing committee member of the Youth Federation of the Central Government Departments. He was a director of the Industry Department of the Development Research Center of the State Council, deputy director of the Planning Committee and deputy director of the Western Development Office of Chongqing, deputy group leader of the Comprehensive Group of the Western Development Office of the State Council and inspector of the Research Office of the State Council.

Mr. Li Hao, executive director, First Executive Vice President and Chief Financial Officer of the Company. Mr. Li obtained a master's degree in business administration from the University of Southern California and is a senior accountant. He joined the Bank in May 1997 and has been an executive vice president of the Company since March 2002, and the Chief Financial Officer since March 2007. He served as an executive director of the Company since June 2007, and the First Executive Vice President of the Company since May 2013. He is also a non-executive director of Wing Lung Bank. He has been an executive assistant president and subsequently an executive vice president of the Bank. He was the general manager of the Shanghai Branch of the Bank from April 2000 to March 2002.

Mr. Xu Shanda, independent non-executive director of the Company. He received his bachelor's degree from Department of Automation, Tsinghua University, master's degree in Agricultural Economics & Management from the Chinese Academy of Agricultural Sciences, and master's degree in Finance from the University of Bath in UK. He is a certified public accountant and a senior economist and has been an independent non-executive director of the Company since November 2013. He is a member of the Chinese Economist 50 Forum and the Academic Committee as well as the president of the Liaison Office of Finance and Economic Institute. He is the part-time professor and invited researcher of Tsinghua University, Peking University, National School of Administration, Xi'an Jiaotong University, University of Science & Technology of China, Nankai University, Central University of Finance and Economics. He worked as Deputy Director-General of the Tax System Reformation Department of the State Administration of Taxation ("SAT"), Deputy Director-General and Director-General of the Policy and Legislation Department of SAT, Director-General of Local Taxes Department of SAT, and Director-General of Supervisory Bureau of SAT. From January 2000 to January 2007, he was appointed as Deputy Commissioner of SAT.

Mr. Wong Kwai Lam, independent non-executive director of the Company. He obtained a bachelor degree from the Chinese University of Hong Kong and Ph. D from Leicester University, England. He has been an independent non-executive director of the Company since July 2011. He is the chairman of IncitAdv Consultants Ltd. and a director of Opera Hong Kong, a member of the Strategic Investment Society of The Chinese University of Hong Kong, and a member of the Board of Trustee and the Strategic Investment Society of New Asia College of The Chinese University of Hong Kong. He also serves as the manager of Prosperity Real Estate Investment Trust and an independent non-executive director of K. Wah International Holdings Limited (a company listed on the Hong Kong Stock Exchange), and an independent non-executive director of both Langham Hospitality Investments Limited (a company listed on the Hong Kong Stock Exchange) and LHIL Manager Limited. He is a member of the New Hospital Project Committee of the Chinese University of Hong Kong and a member of the Governance Committee of Prince of Wales Hospital located in Shatin, Hong Kong. He once serviced at Merrill Lynch (Asia Pacific) Limited and acted as the managing director & Head of Asia Pacific Investment Banking and managing director & chairman of Asia Pacific Investment Banking. Mr. Wong used to be a member of Advisory Committee under the Securities and Futures Commission in Hong Kong and its committee on Real Estate Investment Trusts and a member of the China Committee to the Hong Kong Trade Development Council.

Mr. Pan Chengwei, independent non-executive director of the Company. He graduated from Cadre Institute under the Ministry of Transport with an associate bachelor's degree and is an accountant. He has been an independent non-executive director of the Company since July 2012. He is currently an independent director of both Shenzhen Nanshan Power Co., Ltd., (a company listed on the Shenzhen Stock Exchange) and the China International Marine Containers (Group) Co., Ltd. (a company listed on the Hong Kong Stock Exchange and the Shenzhen Stock Exchange). He once served as the general manager of finance department of China Ocean Shipping (Group) Company, the general manager of finance department of COSCO (Hong Kong) Group Limited, the general manager of COSCO (H.K.) Property Development Limited, the general manager of COSCO (H.K.) Industry & Trade Holdings Ltd., the chief representative of Shenzhen representative office of COSCO HK Group, the general manager of COSCO (Cayman) Fortune Holding Co., Ltd. and its Hong Kong branch, and the compliance manager of the Fuel Oil Futures Department of China Ocean Shipping (Group) Company.

Ms. Pan Yingli, independent non-executive director of the Company. She holds a Bachelor's degree in Economics from East China Normal University, a Master's degree in Economics from Shanghai University of Finance and Economics and a Doctor's degree in World Economics from East China Normal University. She has been an independent non-executive director of the Company since November 2011. She is currently a director of Research Center for Global Finance, Shanghai Jiao Tong University, a professor and a tutor of doctorate candidates in Finance at Antai College of Economics and Management of Shanghai Jiao Tong University, vice president of Shanghai World Economy Association, vice president of Shanghai Institute of International Financial Centers, chief expert of Pan Yingli (International Financial Center Construction) Studio at Shanghai Institute of Development Strategies under Development Research Center of Shanghai Municipal Government. She was an associate professor, a professor and a tutor of doctorate candidates in East China Normal University and then joined Shanghai Jiao Tong University in November 2005. From 1998 to 2007 she served as an invited expert of Shanghai Municipal Government on decision-making consultation.

Ms. Guo Xuemeng, independent non-executive director of the Company. She holds a Master's degree in accounting of economics department from Northern Jiaotong University (renamed as Beijing Jiaotong University in 2003) and a Doctor's degree in economics from Beijing Jiaotong University. She has been a director of the Company since July 2012. She is currently a professor, a tutor of doctorate candidates and a vice dean of the School of Economics and Management of Beijing Jiaotong University, a secretary general of Transportation and Economics Committee of China Communication and Transportation Association, a direct member of Railway Accounting Association (鐵道會計學會直屬學會理事), an independent non-executive director of both Gvitech Corporation (偉景行科技股份有限公司) and Beijing Bode Communication Equipment Co., Ltd. (北京博得交通設備股份有限公司). From July 2001 to November 2012, she successively served as the deputy secretary of the CCP committee and the vice dean of the School of Economics and Management of Beijing Jiaotong University and a deputy director of the general office of the university.

Mr. Xiao Yuhuai, independent non-executive director of the Company. He graduated from School of Economics and Management of Jilin University with a master's degree in economics. He has been a non-executive director of the Company since March 2014. From 1989 to 2013, he served as a deputy general manager of Industrial and Commercial Bank of China, Changchun Branch, a deputy general manager and general manager of People's Bank of China, Changchun Branch, a deputy general manager of People's Bank of China, Jilin Branch, general manager of People's Bank of China, Changchun Central Sub-branch and director of the State Administration of Foreign Exchange, Jilin office, leader of the preparatory team of CBRC, Jilin Office, director of CBRC, Jilin Office, and director of CBRC, Jiangxi Office as well as an inspector of CBRC Shenzhen Office.

Mr. Shan Weijian is the candidate for the independent non-executive director of the Company. He is a graduate from the Beijing Institute of Foreign Trade (北京對外貿易學院) majoring in English, Master of Business Administration of the University of San Francisco, Master of Arts in Economics and Doctor of Business Administration of the University of California, Berkeley. Mr. Shan is currently an independent non-executive director of BOC Hong Kong (Holdings) Limited, Chairman and Chief Executive Officer of the Pacific Alliance Group, an independent non-executive director of TCC International Holdings Limited, and a director of China Venture Capital and Private Equity Association. Mr. Shan had once taught in Wharton School of the University of Pennsylvania and worked in the World Bank and Graham & James LLP in San Francisco. He was the former General Manager of JP Morgan Chase & Co and Chief Representative of its Beijing and Shanghai Office, Co-managing Partner of New Bridge Capital and TPG Asia after combination, a director of Shenzhen Development Bank Co., Ltd., Taishin Financial Holdings and Chang Hwa Commercial Bank Ltd., an independent director of China Unicom (Hong Kong) Limited and a director of Taiwan Cement Corporation.

Supervisors

Mr. Han Mingzhi, Chairman of the Board of Supervisors of the Company since August 2010. He holds a Master's degree in International Economics from the Johns Hopkins University of the United States of America and is a senior economist. He was also assigned to the Executive Director for the seventh session of the Council for China Society for Finance and Banking. He had been the Deputy Executive Director for China in the International Monetary Fund from 1996 to 1998, Deputy Director-General of the International Department of the People's Bank of China from 1999 to 2003, and Director-General of the International Department of the CBRC from 2003 to June 2010.

Mr. Zhu Genlin, non-executive director of the Company from April 2001 to May 2003, and shareholder supervisor of the Company since May 2003. Mr. Zhu graduated from Shanghai University of Finance and Economics and obtained a master's degree in economics. He is a senior economist and associate researcher. He has been the chief financial officer of Shanghai Automotive Industry Corporation (Group) from February 2002 to August 2010, a vice president of Shanghai Automotive Industry Corporation (Group) from August 2010 to January 2012 and a vice president of SAIC Motor Corporation Limited (a company listed on the Shanghai Stock Exchange) since January 2012. He is concurrently the chairman of the Board of Supervisors of Shanghai Foundation for Promotion of Transformation of Scientific and Technological Achievements, the deputy chairman of Shanghai Cost Study Society, Shanghai Creative Industry Centre, the general manager of Shanghai Automotive Group (Beijing) Co., Ltd., the chairman of China Automotive Industry Investment and Development Co., Ltd., the chairman of Shanghai Automotive Asset Management Co., Ltd., the chairman of Shanghai Creative Industry Investment Corp., the vice chairman of the board of supervisors of Shenyin & Wanguo Securities Co., Ltd. and a director of Changjiang Pension Insurance Co., Ltd..

Mr. An Luming, shareholder supervisor of the Company since May 2012. Mr. An graduated from Beijing Institute of Economics majoring in political economics and is a senior economist. He joined China National Offshore Oil Corporation (the "CNOOC") in 1995, and had served as the Chief of the Corporate Management Office (企業管理處) of the Corporate Policy Research Department, the Chief of the System Reform Department of the Corporate Reform Office, the Restructure and Listing Manager of the Corporate Reform Office, General Manager Assistant and Deputy General Manager of Zhonghai Trust and Investment Co., Ltd., the deputy general manager of the Asset Management Department of the CNOOC, and the deputy general manager of the Financial Assets Department of the CNOOC. From December 2011 to present, Mr. An has acted as the general manager of the CNOOC Investment Holding Co., Ltd.

Mr. Liu Zhengxi, shareholder supervisor of the Company since May 2012. He graduated from the Hangzhou Institute of Commerce majoring in enterprise management. Mr. Liu served as a section officer, the deputy director of the Planning and Financial Division and the deputy director of the Labor Wage Division of Shandong Provincial Department of Labor and Social Security from 2000 to 2004, he had also served as the deputy director and the director of the Distribution Department and the Head of the Capital Operation and Gains Management Department of State-owned Assets Supervision and Administration Commission of Shandong Province from 2004 to 2011. From March 2011 to present, Mr. Liu has acted as the vice president of Shandong State-owned Assets Investment Holding Co., Ltd.

Mr. Peng Zhijian, external supervisor of the Company since October 2011. He holds a Master's degree in Financial Investment from Guangxi Normal University and is a senior economist. He serves as the independent non-executive director of Dongguan Trust Co., Ltd., and the external supervisor of Ping An Insurance (Group) Company of China, Ltd.. He has previously served as the deputy governor, governor of People's Bank of China (PBOC) Guangxi Branch, the deputy governor of PBOC Guangzhou Regional Branch, the governor of PBOC Shenzhen Central Branch, the governor of PBOC Wuhan Regional Branch and the head of the State Administration of Foreign Exchange Hubei Bureau, and the governor of Guangdong Regulatory Bureau of the CBRC.

Mr. Pan Ji, external supervisor of the Company since May 2011. He graduated in Labour Economics from Beijing Institute of Economics. He previously served as the supervisor (at director-general level) of the Board of Supervisors of the State-owned Assets Supervision and Administration Commission under the State Council. He successively served as the vice director of the Cadre Division Office of the Labour & Personnel Bureau, the deputy head of Planning & Recruitment Department, the vice director, office head, the chief of the Central Committee, the assistant inspector (at deputy director-general level) of the Recruitment Office of the Examination Recruitment Department of the Ministry of Personnel, the assistant to Commissioner and office head of the Investigating Commissioner Office under the State Council, the supervisor and office head of the Board of Supervisors of the Central Enterprises Work Committee, and the supervisor (at deputy director-general level) of the Board of Supervisors of the State-owned Assets Supervision and Administration Commission under the State Council.

Mr. Shi Rongyao, external supervisor of the Company since May 2013. Mr. Shi graduated from the Department of Management Science and Engineering of the Harbin Institute of Technology with a master's degree. He successively served as the secretary and the deputy director of the General Office of the State Planning Commission from June 1991 to September 1995, the deputy director of the Planning Commission of Hebei Province from September 1995 to May 1997, the director of the Office of Foreign Co-operation of the People's Government of Hebei Province, the governor of Investment Co-operation Bureau and the deputy director of the Planning Commission of Hebei Province from May 1997 to November 2000, the director of the General Office of the State Development Planning Commission from November 2000 to March 2003, the director of the General Office of National Development and Reform Commission from April 2003 to February 2012. From March 2012 to present, he has acted as the chairman of China Development Zone Association.

Mr. Yu Yong, employee supervisor of the Company since May 2013. He is a postgraduate and a senior economist. He had been a Vice Dean of the Beijing Branch of the PBOC. He joined Beijing Branch of the Company in March 1994 and successively served as General Manager of the Planning and Treasury Department of Beijing Branch, assistant general manager of Chongqing Branch, deputy general manager of Tianjin Branch, etc. He also served as general manager of Dalian Branch from September 2003 to February 2009 and general manager of Nanning Branch from February 2009 to January 2013. He has been a Deputy Director of the Labor Union of the Company since January 2013.

Mr. Guan Qizhi, employee supervisor of the Company since May 2013. He is a university graduate. He joined Lanzhou Branch of the Company in February 1996 and successively served as Assistant Director of the General Office, the Deputy Director of the General Office, the Director of the General Office and General Manager of the Human Resources Department, assistant general manager and deputy general manager of Lanzhou Branch. He also served as deputy general manager of Urumqi Branch (in charge of daily management), general manager of Urumqi Branch from September 2006 to June 2009 and general manager of Lanzhou Branch from July 2009 to January 2013. He has been a Deputy Secretary of the Disciplinary Committee, Chief Officer of the Disciplinary Committee Office, General Manager of the Inspection and Security Department of the Company since January 2013.

Senior Management

Mr. Tian Huiyu, please refer to Mr. Tian Huiyu's biography under the paragraph headed "Directors" above.

Mr. Zhang Guanghua, please refer to Mr. Zhang Guanghua's biography under the paragraph headed "Directors" above.

Mr. Li Hao, please refer to Mr. Li Hao's biography under the paragraph headed "Directors" above.

Mr. Tang Zhihong, Executive Vice President of the Bank. Mr. Tang graduated from Jilin University and is a senior economist. He joined the Bank in May 1995. He successively served as the deputy general manager of the Shenyang Branch, the deputy head of the Shenzhen Administration Unit, the general manager of the Lanzhou Branch, the general manager of the Shanghai Branch, head of the Shenzhen Administration Unit, and Executive Assistant President of the Bank. He has been Executive Vice President of the Bank since April 2006.

Mr. Ding Wei, Executive Vice President of the Bank. Mr. Ding is a graduate from Hangzhou University and associate researcher. He joined the Bank in December 1996. He successively served as the director of the General Office and the general manager of the Operation Department of Hangzhou Branch, the assistant general manager and the deputy general manager of Hangzhou Branch, the general manager of Nanchang sub-branch, the general manager of Nanchang Branch, and the general manager of the Human Resources Department of the Head Office, and an executive assistant president of the Head Office. He has served as Executive Vice President of the Bank since April 2008. He is concurrently the Chairman of CMB International Capital and a director of China UnionPay Co., Ltd.

Mr. Zhu Qi, Executive Vice President of the Bank. Mr. Zhu obtained a master's degree in economics from Zhongnan Finance and Economics University and is a senior economist. He joined the Bank in August 2008, and he has been executive director and Chief Executive Officer of Wing Lung Bank since September 2008. He has been the Executive Vice President of the Bank since December 2008, and previously served as an independent non-executive director of Great Eagle Holdings Limited (a company listed on the Hong Kong Stock Exchange). He worked in the Industrial and Commercial Bank of China (a company listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange) from 1986 to 2008, and successively served as the deputy general manager and general manager of Industrial and Commercial Bank of China Ltd., Hong Kong Branch, a director, the managing director and the chief executive officer of Industrial and Commercial Bank of China (Asia) Ltd. and the chairman of Chinese Mercantile Bank.

Mr. Tang Xiaoping, Executive Vice President of the Bank. Mr. Tang obtained a doctorate degree in economics from Zhongnan Finance and Economics University. He is a senior economist. He has been the Executive Vice President of the Bank since April 2012. He joined the Bank in November 2008, and served as the Secretary of the Party Discipline Committee of the Bank. Prior to joining the Bank, he successively served as the deputy director of Chinese Academy of Sciences, the director of National Development and Reform Commission (the former State Planning Committee), the deputy director-general of Agricultural Bank of China and the director-general of People's Bank of China and the CBRC. He worked in the CBRC from March 2003 to December 2008, and successively served as a deputy director of its Cooperative Finance Supervision Department, the CPC Committee secretary general and director of CBRC Inner Mongolia Bureau, the CPC Committee secretary general and director of CBRC Shanxi Bureau, the director of the Banking Regulatory Department I of CBRC and the director of its Finance and Accounting Department.

Mr. Wang Qingbin, Executive Vice President of the Bank. He is a graduate from Chinese Academy of Social Sciences with a master's degree and also a senior economist. He joined the Bank in May 2000 and successively served as the general manager of Jinan Branch and Shanghai Branch. He has been Executive Assistant President of the Bank since May 2009 and Executive Vice President of the Bank since June 2011 and is concurrently the general manager of Beijing Branch since November 2013.

Mr. Liu Jianjun, Executive Vice President of the Bank. Mr. Liu obtained a master's degree from Dongbei University of Finance and Economics and he is a senior economist. He has been the Executive Vice President of the Bank since December 2013. He successively served as the deputy general manager of Weifang Sub-branch and Jinan Sub-branch and the general manager of Dezhou Sub-branch under China Construction Bank, Shandong Branch from 1995 to 2000. He served as the deputy general manager of Jinan Branch of the Bank, the general manager of the Overall Retail Management Department, the business executive and a senior executive vice president of the General Office of Retail Finance and the Director of the Credit Card Center, and concurrently is the director of CIGNA & CMB Life Insurance from 2000 to 2013.

Mr. Xu Shiqing, Secretary of the Board of Directors (his qualification is subject to approval by the banking regulator(s) in the PRC), one of the joint company secretaries and the President of Hong Kong Branch. He was a doctor of philosophy in Business Administration of the Southern California University and a senior economist. Mr. Xu joined the Company in 1993. He held various positions such as the executive assistant in the General Office of the head office, assistant general manager of International Business Department of the head office, deputy general manager of International Business Department, deputy general manager of Offshore Business Department of the head office, assistant general manager of the Fuzhou Branch, deputy general manager of the Planning and Treasury Department of the head office, the person-in-charge of Custodian Department of the head office, the general manager of Planning and Financial Department and Custodian Department of the head office, general manager of Planning and Financial Department of the head office, general manager of Strategic Development Department and Overseas Development Department of the head office.

Joint Company Secretary

Mr. Xu Shiqing, please refer to his biography above.

Mrs. Seng Sze Ka Mee, Natalia, one of the joint company secretaries of the Company since August 2006. Mrs. Seng is the Chief Executive Officer – China & Hong Kong of Tricor Group/Tricor Services Limited (hereinafter referred to as "Tricor"). Prior to joining Tricor in 2002, she was a Director of Company Secretarial Services with Ernst & Young/Tengis Limited in Hong Kong. Mrs. Seng is a Chartered Secretary, a former President (2007-2009) and a retired Council Member (1996-2012) and a Fellow of The Hong Kong Institute of Chartered Secretaries; a Fellow and a Council Member of The Institute of Chartered Secretaries and Administrators in the United Kingdom in her capacity as representative of its China Division from 2010 to date, and a Fellow of The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong. Mrs Seng is an appointed lay member of the Council of the Hong Kong Institute of Certified Public Accountants and an appointed member of the Inland Revenue Department Users Group (since 2009). Mrs. Seng holds a master's degree in Business Administration (Executive) from City University of Hong Kong. Up till present, apart from the Company, she has also been providing professional secretarial services to other listed companies with the support of her professional team.

8.6 Explanation on the office location of Chairman of the Company

Mr. Fu Yuning, Chairman of the Company' also acts as the chairman of China Merchants Group Ltd.. China Merchants Group Ltd. is the parent company of the Company's largest shareholder and is directly managed by the State-owned Assets Supervision and Administration Committee under the State Council. It is a state-owned large-sized business group with business operations headquartered in Hong Kong. Therefore, Mr. Fu Yuning's daily office place is located in Hong Kong.

8.7 Evaluation and incentive system for directors, supervisors and senior management

The Company offers remuneration to independent directors and external supervisors according to the “Resolution in respect of Adjustment to Remuneration of Independent Directors and External Supervisors”; offers remuneration to executive directors and other senior executives according to the “Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd.” (released on 13 June 2013) of the Company; and offers remuneration to employee supervisors in accordance with the policies on remuneration of employees of the Company. Directors and supervisors nominated by shareholders of the Company do not receive any remuneration from the Company.

According to the “Policies on Evaluation of Performance of Directors by the Board of Supervisors (Provisional)”, the Board of Supervisors evaluates the annual duty performance of the directors through monitoring their duty performance in the ordinary course, reviewing their annual duty performance record (including but not limited to, attendance of meetings, participation of researches, provision of recommendations and the term of office in the Company), the “Annual Duty Performance Self-Evaluation Questionnaire” completed by each director and work summaries, and then reports the same to the general meeting and regulatory authorities. The Board of Directors evaluates the performance of the senior management through the “Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd.” (released on 13 June 2013) and the “Assessment Standards of H-Share Appreciation Rights Incentive Scheme for the Senior Management”.

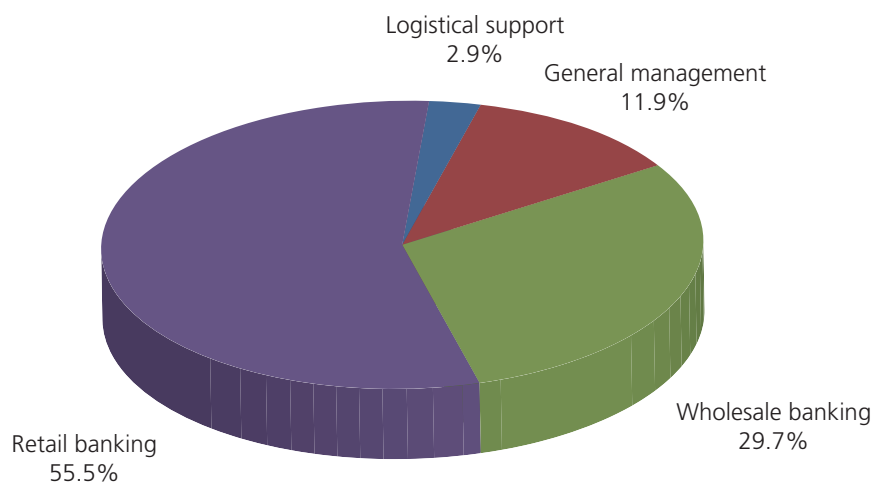
8.8 H Share Appreciation Rights Incentive Scheme during the reporting period

To further establish and enhance its incentive system for reconciling the interests of shareholders, the Company and the senior management members, the Company approved the H Share Appreciation Rights Incentive Scheme for senior management at the 2007 First Extraordinary General Meeting held on 22 October 2007. On 30 October 2007, 7 November 2008, 16 November 2009, 18 February 2011, 4 May 2012 and 22 May 2013, the Board of Directors of the Company granted the H Share appreciation rights of Phases I, II, III, IV, V and VI under the Scheme respectively. Please refer to the relevant announcements published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company for details.

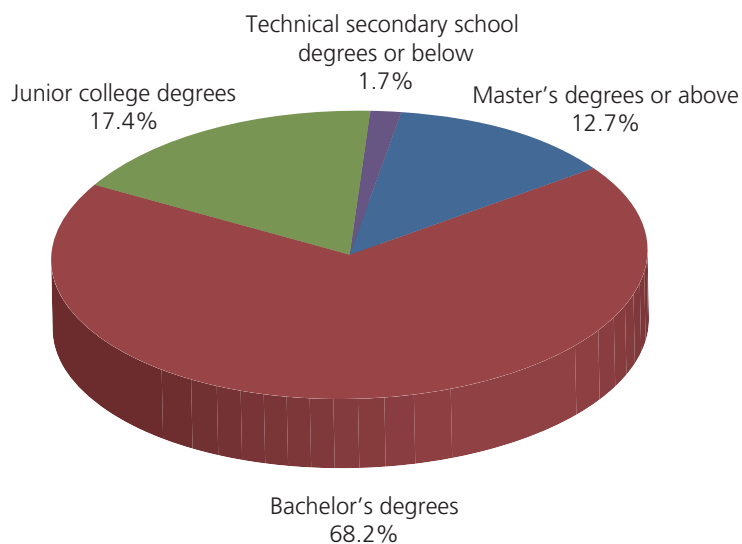
8.9 Information about employees

As at 31 December 2013, the Company had 68,078 employees (including dispatched employees). In addition, the Company is responsible for payment of costs for 306 retired employees. The composition of our employees in service is set out as follows:

(1) Professional Structure



(2) Educational Structure



Core technical team and key technical personnel

During the reporting period, there was no change in the personnel (including the Company's core technical team and key technical staff other than directors, supervisors or senior management members) who may exercise significant influence on the Company's core competitiveness.

Staff Remuneration Policies

The Company's remuneration policy is in line with its operation targets, cultural philosophy and value concept. It aims to refine and improve its incentive and restrictive mechanism, realize its corporate goals, enhance its organizational performance and minimize its operating risk, adheres to the remuneration management principles featuring "strategic orientation, performance enhancement, risk restraints, internal fairness and market adaption" and upholds the remuneration package concepts of "fixing remunerations based on positions and workload".

Staff Training Program

The Company formulated its multilevel staff training plans covering all its staff, and educated its staff mainly on its business and products, professional ethics and security, management skills and leadership. During the reporting period, the Company fully completed all its training plans.

8.10 Branches and representative offices

The Company steadily expanded its branch network in 2013. During the reporting period, 12 domestic branches were approved to commence business, namely Fushun Branch, Shenzhen Qiannhai Branch, Daqing Branch, Xuchang Branch, Sanming Branch, Lvliang Branch, Jinzhou Branch, Shanghai Pilot Free Trade Zone Branch, Qingyuan Branch, Liaocheng Branch, Lianyungang Branch and Anqing Branch; and one overseas branch, namely Singapore Branch, was also approved to commence business. In addition, the setup of another two branches, Liupanshui Branch and Tangshan Branch, were also approved during the reporting period.

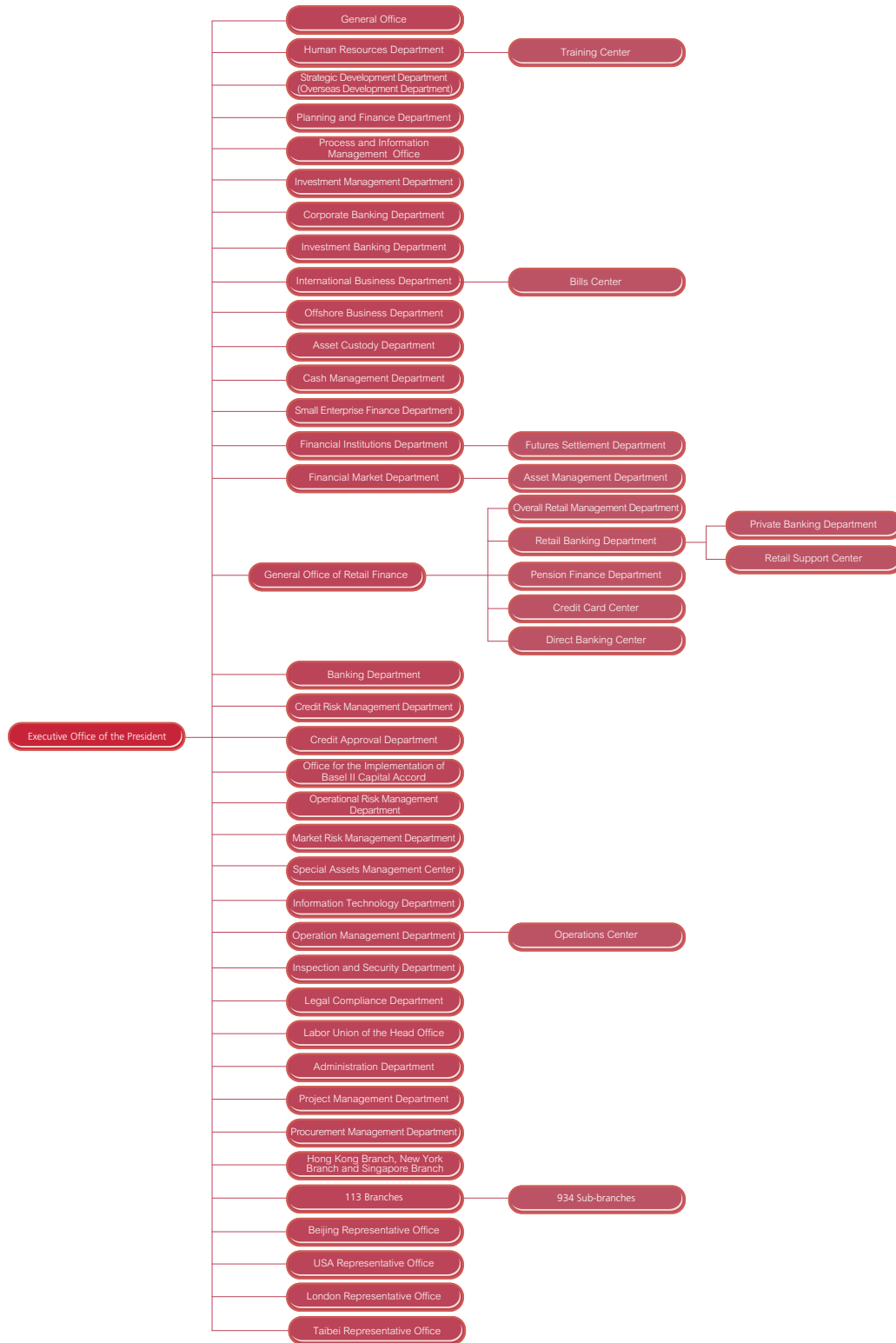
In 2014, the Company will accelerate the setup of physical outlets (mainly densely located small retail sub-branches and community/micro sub-branches) in economically developed first and second tier cities to give full play to the economy of scale, and moderately expedite the establishment of county-level sub-branches mainly in the top 100 counties. As for its regional layout, the Company will penetrate deeper into the three largest markets, namely Yangtze River Delta, Pearl River Delta and Bohai Rim, to further strengthen its development advantage, thus enhancing its regional competitiveness in these key regions.

The following table sets forth the branches and representative offices as at 31 December 2013:

Regions	Name of branches	Business address	Postal Code	No. of branches	No. of Staff	Size of assets (In millions of RMB)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	4,881	1,448,088
	Credit Card Center	316 Lao Shan Road, Pudong New District, Shanghai	200120	1	11,312	154,247
Yangtze River Delta	Shanghai Branch	161 Lujiazui Road East, Pudong, Shanghai	200120	66	3,493	142,449
	Shanghai Pilot Free Trade Zone Branch	333 Fute 1st Road West, Waigaoqiao Bonded Area	200131	1	1	-
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	58	2,828	110,634
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	54	2,500	110,880
	Ningbo Branch	342 Min'an Road East, Jiandong District, Ningbo	315042	24	1,202	48,644
	Suzhou Branch	489 Ganjiang Road West, Suzhou	215004	25	1,398	94,905
Bohai Rim	Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	9	1
	Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	65	3,762	166,873
	Qingdao Branch	65 Hai'er Road Laoshan District, Qingdao	266103	38	1,923	56,975
	Tianjin Branch	Yujia Building, 255, Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300204	32	1,466	58,859
	Jinan Branch	8 Kuangshi Street, Jinan	250012	38	1,752	60,367
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	4	256	9,815
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510620	49	2,202	92,934
	Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	76	4,633	211,592
	Fuzhou Branch	60 Guping Road, Fuzhou	350003	30	1,367	55,315
	Xiamen Branch	No. 6 Complex Building, Hongtai Industrial Park, 309 Hudong Road, Siming District, Xiamen	361001	17	893	35,792
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523129	21	840	25,910
	Foshan Branch	Hongye Mansion, 23 Jihua 5th Road, Foshan	528000	22	962	69,331
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	27	1,614	41,549
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	24	1,102	51,875
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	16	884	30,452
	Changchun Branch	1111 Ziyou Avenue, Zhaoyang District, Changchun	130000	11	508	22,247

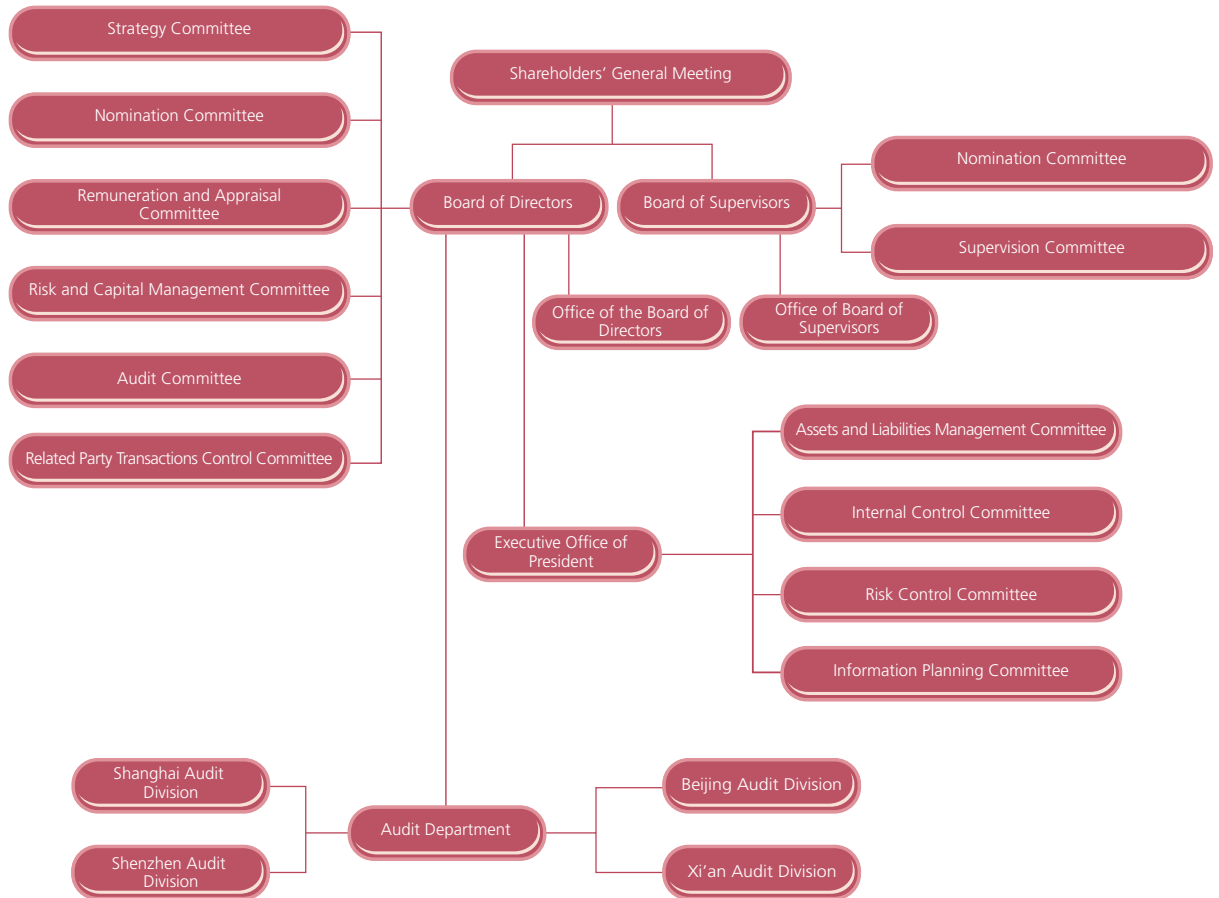
Regions	Name of branches	Business address	Postal Code	No. of branches	No. of Staff	Size of assets (In millions of RMB)
Central China	Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	43	2,003	82,236
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330003	26	1,224	49,187
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	31	1,353	45,183
	Hefei Branch	China Merchant Bank Mansion, 169 Funan Road, Hefei	230061	25	1,133	43,084
	Zhengzhou Branch	39 Huayuan Road, Zhengzhou	450000	23	997	35,836
	Taiyuan Branch	8 Xinjian Road South, Taiyuan	030001	17	779	25,208
	Haikou Branch	1-3/F Complex Building C, Hainan Yihao, 1 Shimao Road North, Haikou	570100	1	132	5,576
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	32	1,440	47,038
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	17	745	21,265
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710001	31	1,557	51,837
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	29	1,273	48,923
	Urumchi Branch	China Merchants Bank Mansion, 2 Huanghe Road, Urumchi	830000	12	592	23,723
	Kunming Branch	48 Dongfeng Road East, Kunming	650051	26	1,157	50,239
	Hohhot Branch	9 Chileichuan Street, Saihan District, Hohhot City, Inner Mongolia	010098	11	570	25,137
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	11	386	16,219
	Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	7	328	16,512
	Yinchuan Branch	217 Xinhua Street East, Xingqing District, Yinchuan	750000	5	263	9,527
Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	2	130	5,989	
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	-	1	130	74,012
	USA Representative Office	509 Madison Avenue, Suite 306, New York, New York 10022, U.S.A	-	1	1	2
	New York Branch	535 Madison Avenue	-	1	46	23,700
	Singapore Branch	One Raffles Place, Tower 2, #32-61, Singapore	-	1	22	1,824
	London Representative Office	39 Cornhill EC3V 3ND, London, UK	-	1	2	2
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	-	1	1	1
Other assignments					26	-
Total			-	1,056	68,078	3,801,994

8.11 The Company's Organisational Structure:



Corporate Governance

9.1 Corporate Governance Structure:



9.2 Overview of Corporate Governance

Confronted with a more complicated operating environment in 2013, the Shareholders' General Meeting, Board of Directors, Board of Supervisors and the specialised committees of the Company had consistently followed the nation's macroeconomic control policy and regulatory requirements, performed duties with diligence, forged ahead aggressively and operated effectively according to laws and regulations, successfully completed analysis and review of important issues of the operation and management of the Company, and guaranteed compliant operation and sustainable and steady development of the Company. Particulars of which are set out as follows:

During the year, the Company convened a total of 63 important meetings at which 183 proposals were reviewed and 50 reports were delivered. Among which, there was 1 shareholders' general meeting (17 proposals were reviewed), 17 meetings of the Board of Directors (70 proposals were reviewed and 9 reports were delivered), 12 meetings of the Board of Supervisors (34 proposals were reviewed and 8 reports were delivered), 24 meetings of the specialised committees of the Board of Directors (49 proposals were reviewed and 28 reports were delivered), 6 meetings of the specialised committees of the Board of Supervisors (12 proposals were reviewed), 1 board meeting of non-executive directors without presence of executive directors (1 report was delivered) and 2 meetings of independent non-executive directors (1 proposal was reviewed and 4 reports were delivered). 16 activities including research, field study and training were organized by the Board of Directors, and 16 activities including research and field studies were organized by the Board of Supervisors.

The Board of Directors continued to play the role of wise decision-making and strategic management, continuously strengthened risk management and capital management, made scientific decisions after review and deliberation of important issues regarding development of the Bank including results and distribution of profits, process re-engineering, business strategies implementation, changes of directors and senior management, risk and capital management, remuneration and appraisal, financial supervision and internal control, opening new branches, material external investments and material connected transactions so as to guarantee compliant operation and steady development of the Company. During the year, the specialised committees of the Board of Directors diligently performed their duties and made full advantage of their expertise and research capability. The matters under their review had covered most of the resolutions proposed to the Board of Directors, thus enhancing the efficiency and scientific decision-making ability of the Board of Directors, and promoted the healthy development of various businesses of the Company.

Through their presence at meetings of the Board of Directors and the specialised committees of the Board of Directors and the Shareholders' General Meetings, the Board of Supervisors supervised the compliance of convening, reviewing and voting procedures of the meetings of the Board of Directors and the specialised committees of the Board of Directors and the Shareholders' General Meetings, and supervised the performance of duties by the Directors.

For details of information disclosure and management of investors relations of the Company, please refer to section 9.11 of this report.

Having conducted thorough self-inspection, the Company was not aware of any non-compliance of its corporate governance practice during the reporting period with the requirements set out in CSRC's regulatory documents governing the corporate governance of listed companies, nor had there been any provision of undisclosed information regarding any irregularities in the Company's corporate governance to its major shareholders.

During the reporting period, the Company received recognitions from the capital markets and regulatory authorities in respect of corporate governance, information disclosure as well as investor relations management, and won a number of awards, including 'Excellent Board of Directors' from the *9th Golden Round Table*, 'Top 100 Chinese Listed Companies in Terms of Capital Brand Value for 2013' and 'Top 100 Chinese Listed Companies in Terms of Management Performance of Market Value for 2013' from the *7th Summit Forum on Market Value Management of Chinese Listed Companies*, 'Best Long-term Investment Value Award' from the *8th Public Securities Cup* in respect of the competitiveness and credibility of Chinese listed companies, 'Top 10 Enterprises from the Top 100 Chinese Companies Listed on Main Board by Market Value for 2012', 'Best Investor Relations Award' from *South Metropolis Daily* in selecting China's most valuable listed company for 2013, 'Top 50 Listed Companies with Excellent Annual Reports' for 2012 and a silver award from LACP, one of the ten 'Listed Companies Good in Disclosure of Management Discussion and Analysis for 2012' from *Shanghai Stock Exchange*, gold award of the '2nd Best Annual Report Awards for Chinese Listed Companies' organised by *Investor Relations* and the *Hong Kong Management Association*.

9.3 Information about General Meetings

During the reporting period, the Company convened one shareholders' general meeting, which was the 2012 Annual General Meeting held on 31 May 2013 in Shenzhen. For details of the resolutions, please refer to the document on shareholders' general meeting published on the websites of Shanghai Stock Exchange and the Company as well as the circulars regarding the shareholders' general meeting published on the website of the Hong Kong Stock Exchange. The notifying, convening, holding and voting procedures of the meeting complied with the Company Law, the Articles of Association of the Company and the relevant requirements of the Hong Kong Listing Rules. Relevant resolutions were published on the websites of the Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company and on China Securities Journal, Shanghai Securities News and Securities Times. For more information on the attendance of directors at the above-mentioned shareholders' general meeting, please refer to section 9.4.5 of this report.

9.4 Board of Directors

The Board of Directors is the core of our corporate governance. The Company implements a system in which the President assumes full responsibility under the leadership of the Board of Directors, which in turn is an independent policy-making body of the Company, responsible for execution of resolutions passed by the general meetings; devising the Company's major principles, policies and development plans; deciding on the Company's operating plans, investment proposals and the establishment of internal management organs; preparing annual financial budgets, final accounts and profit appropriation plans; and appointing members of senior management. The Company's management team has discretionary powers in terms of operation, and the Board of Directors would not interfere with any specific matters in the Company's daily operation and management.

In institution development and actual operation, the Company places great emphasis on the "Unity of Form and Spirit". With respect to the development of organisational structure of the Board of Directors, the Company facilitates more scientific and reasonable decision-making by the Board of Directors through the establishment of a diversified director structure, and improves the decision-making ability and operational efficiency of the Board of Directors through promoting the effective operation of each specialised committee. With respect to the operation of the Board of Directors, the Company focuses on key issues, major direction, and strategy. The Board of Directors continues to strengthen the scientific concept of development to seek balance, health and sustainability; ensures the Company's rapid, sustainable and sound development through effective management of its strategy, risks, capital, remuneration, and audit, etc., and provides a solid basis for the Company to promote the "Second Transformation" and enhance its operation and management capabilities.

9.4.1 Composition of the Board of Directors

As at 31 December 2013, the Board of Directors of the Company had 17 members, including 8 non-executive directors, 3 executive directors, and 6 independent non-executive directors. All eight non-executive directors come from large state-owned enterprises where they hold key positions such as the chairman of the board of directors, president, vice president or financial controller and have extensive experience in management, finance and accounting fields. All three executive directors have extensive experience in financial management. Among the six independent non-executive directors, two are renowned experts in finance and accounting fields, three are renowned experts in finance and management, and one is an investment banker with international background, and they all have extensive knowledge of the development of domestic and overseas banking industry, with one from Hong Kong who is proficient in international accounting standards and the requirements of Hong Kong capital market. Currently, the Board of Directors of the Company has three female directors who, together with other directors of the Company, offer professional opinions to the Company in their respective fields. Such diversified composition of the Board of Directors of the Company has brought about a wide spectrum of vision and high professional experience, and also has maintained strong independence which enables the Board of Directors to make independent judgments and scientific decisions effectively when studying and considering important issues.

The Company values the diversity of the members of the Board of Directors. The Company has had in place policies under which the Nomination Committee of the Company shall review the structure, number of directors and composition (including their skills, knowledge and experience) of the Board of Directors at least once a year and put forward proposals in respect of any intended changes to the Board of Directors in line with the strategies of the Company.

The list of directors of the Company is set out in Section VIII of this report. To comply with the Hong Kong Listing Rules, the independent non-executive directors have been clearly identified in all corporate communications of the Company which disclose their names.

9.4.2 Appointment, re-election and removal of directors

In accordance with the Articles of Association of the Company, the directors of the Company shall be elected or replaced by shareholders at general meetings, and the term of office for a director shall be three years. The term of office for a director of the Company shall commence from the date on which the approval from the banking regulatory authority of the State Council is obtained. A director is eligible for re-election upon the expiry of his/her current term of office. The director's term of office shall not be terminated without any justification at a general meeting before expiry of his term.

A director may be removed by an ordinary resolution at a general meeting before the expiry of his term of office in accordance with relevant laws and administrative regulations (however, any claim which may be made in accordance with any contract will not be affected).

The term of office for independent non-executive directors of the Company shall be the same as that for other directors of the Company. The term of office for an independent non-executive director of the Company shall comply with the relevant laws and requirements of the governing authority.

The procedures for appointment, re-election and removal of directors of the Company are set out in the Articles of Association of the Company. The Nomination Committee of the Company carefully considers the qualifications and experience of every candidate for director and recommends suitable candidates to the Board of Directors. Upon passing the candidate nomination proposal, the Board of Directors proposes election of related candidates at a general meeting and proposes the relevant resolution at a general meeting for consideration and approval. Except the independent non-executive directors, who will be treated individually due to the restriction of their terms of office, other new directors shall, upon expiry of the current session of the Board of Directors (the term of office for each session is 3 years), be subject to re-election at the general meeting together with other members of the Board.

9.4.3 Responsibilities of directors

During the reporting period, all directors of the Company had cautiously, seriously and diligently exercised their rights as a director granted by the Company and by domestic and overseas regulatory authorities, devoted sufficient time and attention to the business of the Company, ensured the business practices of the Company were fully compliant with the requirements of the laws and administrative regulations and economic policies of the country, gave all shareholders fair treatment, readily reviewed the business operation and management of the Company, and fulfilled the responsibilities stipulated under the laws and administrative regulations, departmental regulations and the Articles of Association of the Company. All directors of the Company are aware of their joint and individual responsibilities towards shareholders. During the year, their attendance of meetings has been satisfactory, with the attendance rates of each director reaching 96% or above.

The independent non-executive directors of the Company have presented their professional advice on the resolutions reviewed by the Board of Directors, including offering independent written opinions on significant matters regarding the profit appropriation preliminary plan, major connected party transactions, the Company's guarantees the appointment and removal of directors and senior management and the remuneration for senior management. In addition, the independent non-executive directors of the Company played an active role in 6 specialised committees of the Board of Directors. They have made full advantage of their professional edges, provided a lot of valuable, professional and independent advice regarding corporate governance and operation management of the Company, and played a positive role in facilitating the scientific decision-making of the Board of Directors.

The Board of Directors of the Company reviewed its work during the reporting period, for which it also consulted the senior management for their opinions and took consideration of those opinions set out in the Report of the Board of Supervisors. The Board of Directors believes that it has effectively performed its duties and safeguarded the interests of the Company and shareholders during the reporting period. The Company is of the opinion that all the directors have spent enough time to perform their duties.

The Company also pays high attention to the continuous training of directors, so as to ensure that they have a proper understanding of the operations and businesses of the Company, and that they are fully aware of their responsibilities and obligations under the laws and the regulatory requirements of CBRC, CSRC, Shanghai Stock Exchange, Hong Kong Stock Exchange and the Articles of Association of the Company. The Company has renewed the "insurance for liabilities of directors and senior management".

During the reporting period, the Company also initiated the practice of annual appraisal of the performance of directors performed by the Board of Supervisors, the practice of making an annual report on their duty performance and cross-evaluation performed by independent non-executive directors and external supervisors respectively. The appraisal results have been reported to the general meeting.

9.4.4 Chairman of the Board and the President

The positions of the chairman of the Board of Directors and the president of the Company have been taken up by different persons and their duties have been clearly defined in accordance with the requirements of the Hong Kong Listing Rules. Mr. Fu Yuning serves as the Chairman of the Board of Directors and has been responsible for leading the Board of Directors, chairing board meetings, ensuring that all directors receive briefings on issues arising at board meetings, managing the operations of the Board of Directors, and ensuring that all major and relevant issues are discussed by the Board of Directors in a constructive and timely manner. To enable the Board of Directors to discuss all important and relevant matters timely, the Chairman and senior management have worked together to ensure that the directors duly receive appropriate, complete and reliable information for their consideration and review. Mr. Tian Huiyu serves as the President, responsible for the business operations and implementation of the strategic and business plans of the Company.

9.4.5 Attendance of Directors at Relevant Meetings

The following table sets forth the records of attendance of the respective directors at physical board meetings, meetings of specialised committees under the Board of Directors and shareholders' general meeting held in 2013.

Directors	Specialised Committees under the Board of Directors							
	Board of Directors Note ⁽¹⁾	Strategy Committee	Nomination Committee	Remuneration and Appraisal Committee	Risk and Capital Management Committee	Audit Committee	Related Party Transactions Control Committee	Shareholders' General Meeting
					Actual attendance/Number of meetings requiring attendance			
Non-executive directors								
Fu Yuning	17/17	2/2	4/4	/	/	/	/	1/1
Li Yinquan	17/17	/	/	4/4	/	/	/	1/1
Fu Gangfeng	17/17	/	/	/	/	5/5	/	1/1
Hong Xiaoyuan	17/17	/	/	/	6/6	/	/	1/1
Xiong Xianliang	17/17	/	/	/	/	/	3/3	1/1
Sun Yueying	17/17	/	/	/	6/6	5/5	/	1/1
Wang Daxiong	17/17	2/2	/	/	6/6	/	/	1/1
Fu Junyuan	17/17	0/2	/	4/4	/	/	/	1/1
Wei Jiafu ⁽³⁾	8/14	1/2	/	/	/	/	/	1/1
Executive directors								
Tian Huiyu	8/8	/	2/2	/	/	/	/	/
Zhang Guanghua	17/17	/	/	/	6/6	/	/	1/1
Li Hao	17/17	/	/	/	/	/	3/3	1/1
Ma Weihua ⁽³⁾	6/6	1/1	2/2	/	/	/	/	1/1
Independent non-executive directors								
Yi Xiqun	15/17	1/1 ⁽⁴⁾	/	4/4	6/6	/	/	1/1
Xu Shanda	2/2	/	/	/	/	1/1	/	/
Wong Kwai Lam	17/17	/	/	4/4	/	/	3/3	1/1
Pan Chengwei	17/17	/	4/4	/	/	5/5	3/3	1/1
Pan Yingli	17/17	/	4/4	4/4	/	/	/	1/1
Guo Xuemeng	17/17	/	/	/	/	5/5	3/3	1/1
Yan Lan ⁽³⁾	11/15	/	4/4	/	/	4/4	/	1/1

- Notes:
- During the reporting period, the Board of Directors held 17 meetings, of which 5 were physical and telephone meetings and 12 were meetings convened and voted by correspondence.
 - Actual attendance does not include attendance by proxy. The above directors who did not attend the meetings in person had appointed other directors to attend such meetings on their behalf.
 - During the reporting period, Mr. Wei Jiafu resigned as Vice Chairman, Non-Executive Directors of the Company and the relevant positions in the specialised committees under the Board of Directors; Mr. Ma Weihua resigned as Executive Directors of the Company and the relevant positions in the specialised committees under the Board of Directors; Ms. Yan Lan resigned as Independent Non-Executive Directors of the Company and the relevant positions in the specialised committees under the Board of Directors.
 - Mr. Yi Xiqun, as a member of the Risk and Capital Management Committee under the Board of Directors, was invited to attend the sixth meeting of the eighth session of the Strategy Committee under the Board of Directors.

9.4.6 Securities transactions of directors, supervisors and the relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made specific enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the year ended 31 December 2013.

The Company has also established guidelines for the relevant employees' securities transactions, which are no less exacting than the Model Code. The Company is not aware of any non-compliance with the mentioned guidelines by employees.

9.4.7 Performance of duties by independent non-executive directors

The Board of Directors of the Company currently comprises 6 independent non-executive directors, which meets the requirement that the number of independent directors shall at least account for one third of total directors of a company. The qualification, number and proportion of whom meet the relevant requirements of the CBRC, CSRC, the Shanghai Stock Exchange and the Hong Kong Listing Rules. All 6 independent non-executive directors of the Company are not involved in the circumstances set out in Rule 3.13 of Hong Kong Listing Rules which would cause doubt on their independence. The Company has received from those independent non-executive directors their respective annual confirmation of independence which was made in accordance with Rule 3.13 of Hong Kong Listing Rules. Therefore, the Company is of the opinion that all independent non-executive directors have complied with the requirement of independence set out in Hong Kong Listing Rules. Among all members of the Nomination Committee, the Remuneration and Appraisal Committee, the Audit Committee and the Related Party Transactions Control Committee under the Board of Directors of the Company, the majority are independent non-executive directors, who also act as chairmen of the said specialised committees. During the reporting period, the 6 independent non-executive directors maintained communication with the Company through personal attendance at the meetings, on site visits, research and investigations and conferences, and diligently attended meetings of the Board and the specialised committees, actively expressed their opinions and attended to the interests and requests of small and medium shareholders, thus fully performed their roles as independent non-executive directors.

During the reporting period, the independent non-executive directors expressed independent opinions on material issues including change of Directors, appointment of senior management, profit appropriation and related party transactions of the Company. They made no objection to the proposals made by the Board of Directors or to the proposals not made by the Board of Directors.

According to the "Rules Governing Independent Directors' Work on Annual Reports" of the Company, the independent non-executive directors of the Company performed the following duties in preparing and reviewing the annual report for the year.

1. The independent non-executive directors received reports from the management and Chief Financial Officer on the Second Transformation, operating efficiency and risk management of the Company in 2013 and on significant matters such as investment and financing activities, and carried out on-site inspection on the overall risk management. The independent non-executive directors believed that the reports prepared by the management of the Company had fully and objectively reflected the operating results of the Company in 2013 as well as the progress of significant matters, and they recognised and were satisfied with the measures taken by the management team and the results recorded in 2013.
2. The independent non-executive directors reviewed the Company's work plan prepared for its annual report as well as its unaudited financial statements.

3. Prior to the annual audit conducted by the accounting firm in charge of the annual audit, the independent non-executive directors discussed with the certified public accountants in respect of the composition of the auditing team, the auditing plan, risk judgement, tests and assessment on risks and embezzlement as well as the key aspects of audit for the year.
4. After receiving the initial audit opinions from the auditors, the independent non-executive directors discussed the major issues with the auditors and prepared their written opinions.
5. The independent non-executive directors reviewed the procedures for convening board meetings, the decision-making procedures for matters to be considered and the adequacy of the information used for making reasonable and accurate judgment in the year.

9.5 Specialised committees of the Board of Directors

There are six specialised committees under the Board of Directors of the Company, namely the Strategy Committee, the Nomination Committee, the Remuneration and Appraisal Committee, the Risk and Capital Management Committee, the Audit Committee and the Related Party Transactions Control Committee.

In 2013, all specialised committees under the Board of Directors of the Company carried out their duties in an independent, compliant and effective manner. During the year, these committees held a total of 24 meetings to study and review 77 significant issues, including operating results and profit appropriation, process re-engineering, strategies implementation, change of directors and senior management, risk and capital management, remuneration and appraisal, financial supervision and internal control, establishment of branches and sub-branches, significant external investments, significant connected transactions, and reported their audit opinions and advices to the Board of Directors by way of meeting minutes and on-site meetings, thus playing its full role in assisting the Board of Directors to make scientific decisions.

The composition and duties of the six specialised committees and their work performed in 2013 are summarized as follows:

9.5.1 Strategy Committee

The Strategy Committee consists of equity holding directors and directors from senior management. The members of the Strategy Committee include Fu Yuning (chairman), Wang Daxiong and Fu Junyuan (all being Non-executive Directors), and Tian Huiyu (an Executive Director) at the end of the reporting period. It is mainly responsible for studying the middle and long term development strategies and significant investment decisions of the Bank and making relevant proposals.

Main authorities and duties:

- (1) formulate the operational goals and medium-to-long term development strategies of the Bank, and make an overall assessment on its strategic risk;
- (2) consider material investment and financing projects and make proposals to the Board of Directors;
- (3) supervise and review the implementation of the annual operational and investment plans;

- (4) evaluate and monitor the implementation of Board resolutions; and
- (5) put forward proposals and plans on important issues for discussion and determination by the Board of Directors.

In 2013, the Strategy Committee considered a number of proposals on the profit appropriation plan for 2012, establishment of Luxembourg Branch and a capital increase of not more than RMB475 million to CIGNA & CMB Life Insurance, and listened to a number of reports on the China Merchants Bank Strategies Implementation and Review Report (2012) and the “customer-centric” process re-engineering project.

9.5.2 Nomination Committee

The members of the Nomination Committee include Pan Chengwei and Pan Yingli (both being Independent Non-executive Directors), Fu Yuning (a Non-executive Director) and Tian Huiyu (an Executive Director) at the end of the reporting period. It is mainly responsible for selecting the candidates for directors and senior management of the Company, determining the standards and procedures for such selection and making relevant proposals.

Main authorities and duties:

- (1) review the structure, size and composition of the Board of Directors (including their skills, knowledge and experience) at least once a year and put forward proposals on any changes to the Board of Directors to implement the strategies of the Company in accordance with the business operations, asset scale and shareholding structure of the Bank;
- (2) study the standards and procedures for election of directors and senior management, and put forward proposals to the Board of Directors;
- (3) conduct extensive searches for qualified candidates for directors and senior management;
- (4) conduct preliminary examination on the appointment or re-appointment of directors, the director (especially the Chairman) succession plans and the qualifications of the candidates for senior management and put forward proposals to the Board of Directors; and
- (5) any other tasks delegated by the Board of Directors.

The Eighth Session of the Board of Directors has expired in 2013. In accordance with the terms of reference set out in the “Implementation Rules for the Nomination Committee under the Board of Directors of China Merchants Bank Co., Ltd.”, the Nomination Committee searched extensively for qualified candidates for directors and senior management, and conducted preliminary examination on their qualifications. It considered and approved a number of proposals on re-election of the Ninth Session of the Board of Directors of China Merchants Bank, the list of candidates for directors for the Ninth Session of the Board of Directors, appointment of Liu Jianjun as an Executive Vice President of China Merchants Bank and nomination of Ma Zehua as a Non-executive Director and Xiao Yuhuai as an Independent Non-executive Director.

9.5.3 Remuneration and Appraisal Committee

The majority of the members of the Remuneration and Appraisal Committee were independent non-executive directors, with one of them serving as the chairman. The members include Xu Shanda (chairman), Wong Kwai Lam, Pan Yingli (all being independent non-executive directors), Li Yinquan and Fu Junyuan (both being non-executive directors) at the end of the reporting period. It is responsible mainly for formulating the appraisal standards of directors and senior management of the Bank and conducting appraisals on them, as well as formulating and reviewing the remuneration policies and plans for directors and senior management of the Company.

Main authorities and duties:

- (1) study the assessment standards of directors and senior management and make assessment and put forward proposals depending on the actual conditions of the Bank;
- (2) study and review the remuneration policies and proposals in respect of directors and senior management of the Bank, put forward proposals to the Board of Directors and supervise the implementation of such proposals;
- (3) review the administrative measures for total remuneration of the Bank; and
- (4) any other tasks delegated by the Board of Directors.

In 2013, the Remuneration and Appraisal Committee considered and approved a number of proposals on amendment of certain provisions in the "Remuneration Management Measures of Senior Management of China Merchants Bank", the relevant issues regarding H shares appreciation rights of certain senior management staff of China Merchants Bank, the approval of 2013 appraisal on H Shares appreciation rights of China Merchants Bank coming into effect, and listened to the reports on the implementation of administrative measures for remuneration of senior management staff and the administrative measures for total remuneration of the Bank for 2012 and the performance-linked incentives for senior management staff of the Bank for 2012.

9.5.4 Risk and Capital Management Committee

The members of the Risk and Capital Management Committee are Hong Xiaoyuan (chairman), Sun Yueying and Wang Daxiong (all being non-executive directors), Zhang Guanghua (an executive director) and Yi Xiqun (an independent non-executive director) at the end of the reporting period. It is mainly responsible for control, management, supervision and assessment of risks of the Bank.

Main authorities and duties:

- (1) supervise the status of risk control by the senior management of the Bank in relation to credit risk, market risk, operation risk, liquidity risk, strategic risk, compliance risk, reputation risk, country risk and other risks;
- (2) make regular assessment on the status of risks and capital of the Bank;
- (3) perform the relevant duty of the advanced capital measurement method under the authorization of the Board of Directors;

- (4) submit proposals on perfecting the management of risks and capital of the Bank;
- (5) any other tasks delegated by the Board of Directors.

In 2013, the Risk and Capital Management Committee considered and approved a number of proposals on the overall risk report for each quarter of 2012 and 2013, the adjustment of quantitative indicators for market risk appetite, recommending the Board of Directors to adjust the authorization of senior management to write off doubtful loans and authorizing senior management to transfer and dispose of non-performing assets, the write-off of large doubtful loans, the summary of consolidated financial statement management for 2012 and the work plan for 2013, the management measures for service outsourcing of China Merchants Bank Co., Ltd., the profit appropriation plan for 2012, a capital increase of not more than RMB475 million to CIGNA & CMB Life Insurance, the Basel II verification policies, the annual audit on the internal credit risk assessment system, the internal assessment model optimization report, the annual classification of credit risk exposure of bank accounts, the relevant Basel II reports such as the report on implementation of annual verification policies and the management measures for risk exposure in the internal credit risk rating system, listened to the report on development of emerging financing businesses, the report on write-off of annual doubtful loans, the determination and treatments of liabilities, several special reports on credit risk and the report on implementation of Basel II.

9.5.5 Audit Committee

The majority of the members of the Audit Committee were independent non-executive directors, with one of them serving as the chairman. The members include Guo Xuemeng (chairman), Xu Shanda and Pan Chengwei (all being independent non-executive directors), Fu Gangfeng and Sun Yueying (both being non-executive directors) at the end of the reporting period. It was verified that no member of the Audit Committee has ever served as a partner of the current auditors of the Company. The Audit Committee is mainly responsible for communication, supervision and verification of internal and external auditing issues of the Bank.

Main authorities and duties:

- (1) propose the appointment or replacement of external auditors;
- (2) monitor the internal audit system of the Bank and its implementation, and evaluate the work procedures and work effectiveness of its internal audit department;
- (3) coordinate the communications between internal auditors and external auditors;
- (4) audit the financial information of the Bank and its disclosure;
- (5) examine the internal control system of the Bank, and put forward the advices to improve the internal control of the Bank;
- (6) review and supervise the mechanism for the Bank's employees to whistleblow any misconducts in respect of financial reports, internal control or other aspects, so as to ensure that the Bank always handles the whistleblowing issues in a fair and independent manner and takes appropriate actions;
- (7) any other tasks delegated by the Board of Directors.

In 2013, the Audit Committee held a total of five meetings to consider and approve a number of proposals on the annual report and interim report of the Company, the annual audit plan and audit conclusions of its accounting firm, the re-appointment of its accounting firm and its internal control assessment report, listened to its internal audit work report, the annual work plan for internal audit, the report on the status of accelerating the development of small micro enterprise businesses, and reviewed the meeting minutes for 2012 of the audit and risk management committee of Wing Lung Bank.

According to “Work Procedures on Annual Reports for Audit Committee of the Board of Directors” adopted by the Company, the Audit Committee of the Board of Directors of the Company performed the following duties in preparing and reviewing the report for 2013:

1. Before the auditors commenced their annual audit, the Audit Committee considered and discussed the 2013 audit plan of the accounting firm, including the composition of the auditing team, scope of audit work and schedule of audit, methods adopted for auditing the internal control, the priorities of 2013 audit, latest updates of accounting standards. They also reviewed the plan for preparing the annual report and the unaudited financial statements of the Company.
2. In the course of conducting annual audit and after a preliminary audit opinion being issued by the external auditors, the Audit Committee reviewed the management’s report on the operations of the Company for 2013. The Audit Committee exchanged opinions on the significant matters and the audit progress with the external auditors conducting annual audit, and reviewed the financial statements of the Company. The Audit Committee then made written opinions for the above issues.
3. Before the annual meeting of the Board of Directors was held, the Audit Committee voted on and made a resolution on the Company’s Annual Report for 2013 which was submitted to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and issued a conclusion report on the audit work performed by the external auditors in respect of the Company’s financial statements for the year 2013 to the Board of Directors.

9.5.6 Related Party Transactions Control Committee

The majority of the members of the Related Party Transactions Control Committee are independent non-executive directors, with one of them serving as the chairman. The members include Pan Chengwei (chairman), Wong Kwai Lam and Guo Xuemeng (all being independent non-executive directors), Xiong Xianliang (non-executive director) and Li Hao (executive director) at the end of the reporting period. It is mainly responsible for inspection, supervision and reviewing of related party transactions of the Company.

Main authorities and duties:

- (1) to identify related parties of the Company according to relevant laws and regulations;
- (2) to inspect, supervise and review major related party transactions and continuously connected transactions, and to control the risks associated with related party transactions;
- (3) to review the administrative measures on related party transactions of the Company, and to monitor the establishment and improvement of the related party transactions management system of the Company; and
- (4) to review the announcements on related party transactions of the Company.

In 2013, the Related Party Transactions Control Committee considered and passed the resolutions on the report and special audit report on the related party transactions of the Company for 2012, the management plan for the related party transactions and the name list of related parties for 2013, and the major related party transaction projects with China Petroleum & Chemical Corporation and China Shipping (Group) Company.

9.6 Corporate governance functions

During the reporting period, the Board of Directors has performed the following duties on corporate governance:

- formulating and inspecting the policies and practices on corporate governance of the Company and making certain amendments as it deems necessary, to ensure the effectiveness of those policies and practices;
- inspecting and supervising the trainings and continuing professional development of directors and senior management;
- inspecting and supervising the policies and practices of the Company for compliance with laws and regulatory requirements;
- formulating, reviewing and supervising the Code of Conduct and the Compliance Handbook applicable to directors and employees; and
- reviewing the status of compliance of the Company with the Code of Corporate Governance and the disclosures in the Report of Corporate Governance.

9.7 Board of Supervisors

The Board of Supervisors oversees the financial activities, internal control, risk management of the Company and its compliance with relevant laws and regulations, the duty performance of the Board of Directors and the senior management with an aim to protect the legitimate rights and interests of the Company, its shareholders, employees, creditors and other stakeholders.

9.7.1 Composition of the Board of Supervisors

The Board of Supervisors of the Company consists of 9 members, 3 of whom are shareholder supervisors, 3 are employee supervisors and 3 are external supervisors. The number of employee supervisors and external supervisors each accounts for not less than one-third of the members of the Board of Supervisors. The 3 shareholder supervisors from large state-owned enterprises where they hold key responsible positions and have extensive experience in business management and professional knowledge in finance and accounting; the 3 employee supervisors have long participated in banking operation and administration, accumulating rich professional experience in finance; and the 3 external supervisors have extensive experience in corporate governance of financial institutions and large state-owned enterprises as well as the economic and trade field. The composition of the Board of Supervisors of the Company has adequate expertise and independence which ensures the effective supervision by the Board of Supervisors

A Nomination Committee and a Supervision Committee are established under the Board of Supervisors.

9.7.2 How the Board of Supervisors performs its supervisory duties

The Board of Supervisors discharges its supervisory duties primarily by: holding regular meetings, attending shareholders' general meetings, board meetings and special committee meetings, attending various meetings on operation and management held by the senior management; reviewing various documents submitted by the Company, reviewing work reports and specific reports of the senior management, exchanging their opinions and holding further discussions, conducting investigations and surveys at domestic and overseas branches (on a collective or specific basis) of the Company, performing off-site investigation and having talks with directors and the senior management over their performance of duties, etc. By doing so, the Board of Supervisors comprehensively monitors the operations and management of the Company as well as duty performance of the directors and the senior management, and provides constructive and specific advice and recommendations.

9.7.3 Duty performance of the Board of Supervisors during the reporting period

During the reporting period, the Board of Supervisors convened 12 meetings, of which 4 were physical meetings and 8 were meetings convened and voted by correspondence. 34 proposals regarding strategic planning, business operations, internal control, risk management and evaluation of the duty performance of the directors and supervisors were considered, and 8 reports involving internal audit and related party transactions, asset quality and the prevention and control of crimes were reviewed at these meetings.

In 2013, the Company convened 1 general meeting and 5 physical board meetings. Supervisors attended the general meeting and were present at all the physical board meetings, and supervised compliance with the relevant laws and regulations, voting procedures of the general meetings and board meetings, the Directors' attendance, statements made and voting at the general meetings and board meetings respectively.

During the reporting period, all 3 external supervisors were able to perform their supervisory duties independently. The external supervisors discharged their supervisory duties by attending meetings of the Board of Supervisors, convening special committee meetings of the Board of Supervisors, participating in meetings of the Board of Directors or any of its special committees, participating in the Board of Supervisors' investigations and surveys conducted (on a collective or separate basis) at branch level, proactively familiarizing themselves with the operations and management of the Company, and giving opinions and suggestions on significant matters. During the adjournment of the Board of Directors and Board of Supervisors, the external supervisors were able to review various documents and reports of the Company and exchange opinions with the Board of Directors and senior management in a timely manner, thereby playing an active role in performing their supervisory duties.

During the reporting period, the Board of Supervisors of the Company had no objection to the matters supervised.

9.7.4 Operation of the special committees under the Board of Supervisors

The Nomination Committee and the Supervision Committee are established under the Board of Supervisors, each consisting of 4 supervisors. The chairman of the Nomination Committee and the Supervision Committee is each served by an external supervisor respectively.

The Nomination Committee under the Board of Supervisors

The members of the Nomination Committee of the Ninth Session of the Board of Supervisors were Pan Ji (chairman), Zhu Genlin, Shi Rongyao and Yuyong. The major duties of the Nomination Committee are as follows: to make proposals to the Board of Supervisors on the size and composition of the Board of Supervisors; to study the standards and procedures for the election of supervisors and propose the same to the Board of Supervisors; to conduct extensive searches for qualified candidates for supervisors; to undertake preliminary examination on the qualifications of the candidates for supervisors nominated by shareholders and provide relevant recommendations, to evaluate the duty performance of the members of the Board of Directors, Board of Supervisors and senior management.

In 2013, the Nomination Committee under the Board of Supervisors convened four meetings where proposals regarding the change of the Ninth Session of the Board of Supervisors, the list of candidates for shareholder supervisors and external supervisors of the Ninth Session of the Board of Supervisors, the evaluation reports on duty performance of the shareholder supervisors in 2012 and the first half of 2013 and the amendment on the methods taken by the Board of Supervisors to evaluate the duty performance of the directors and supervisors were reviewed and considered.

The Supervision Committee under the Board of Supervisors

The members of the Supervision Committee the Ninth Session of the Board of Supervisors were Peng Zhijian (chairman), An Luming, Liu Zhengxi and Guan Qizhi. The major duties of the Supervision Committee are to formulate detailed plans on the performance of supervisory duties by the Board of Supervisors; to conduct supervision and assessment on the important financial decisions of the Board of Directors and the senior management members and their implementations, the establishment and improvement of the internal control governance structure and the overall risk management governance structure and the division of duties of relevant parties and the performance of their duties; to formulate the specific plans for reviewing the operation decisions, internal control and risk management of the Bank under the authorization of the Board of Supervisors when necessary; to formulate the plans for reviewing the resignations of directors, president and other senior management members when necessary.

In 2013, the Supervisory Committee under the Board of Supervisors convened a total of two meetings where the audit opinions on resignation of four senior executives of the Company were reviewed and considered. In addition, the members of the Supervisory Committee under the Board of Supervisors were also present at various physical meetings convened by the Strategy Committee, Risk and Capital Management Committee and Audit Committee of the Board of Directors. They also reviewed the consideration and discussion on the development strategies, financial decisions, risk management, internal management and capital management of the Company, and supervised the duty performance of the directors and offered comments and suggestions on some issues.

9.8 Trainings and investigations/surveys conducted by Directors and Supervisors during the reporting period

During the reporting period, the Company's Board of Directors and Board of Supervisors organised 32 investigations/surveys and training activities. The Chairman of the Board of Supervisors conducted investigations/surveys on 16 operating entities of the Company, leading to continuous improvement in the performance and effectiveness of decision-making of Directors and Supervisors.

During the reporting period, the Company organised Directors and Supervisors who were newly appointed to participate in training sessions provided by relevant regulatory authorities and authorised institutions as well as banking management training. The purpose of which is to have considerable understanding of the operation and businesses of the Company and its duties under relevant laws, regulations and rules. 14 investigations/surveys/visits by Directors were organised which involved 27 persons visiting on a total of 18 departments under the Head Office, various branches and sub-branches and subsidiaries to get familiar with business operations of the Head Office, branches and subsidiaries, the progress of the Second Transformation, development progress of small and micro enterprise businesses, risk management, as well as problems and challenges encountered.

During the reporting period, the Board of Supervisors organised 16 investigations/surveys on 27 operating subsidiaries of the Company. Through organising investigations/surveys in various forms, the supervisors familiarized themselves with the business operations, risk management and internal control of those operating subsidiaries of the Company under local economic and financial environment, carefully analysed and concluded the difficulties and problems confronted by the Company, and proposed relevant management opinions and suggestions to the Board of Directors and senior management in the form of investigation/research reports, thereby performing an active role in enhancing the operation and management capability of the Company as well as strengthening risk management and internal control during the process of strategic transformation.

The Company also provided its directors with the latest information and relevant trainings on the Hong Kong Listing Rules and other applicable regulatory requirements to ensure that they follow and better understand good corporate governance, and took a number of approaches such as the provision of special reports and reference information to improve and update their knowledge and skills.

According to the training records for 2013 kept by the Company for Directors, the status of relevant trainings is as follows:

Name of Directors	Provision of Information and Scope of Trainings		
	Corporate Governance	Policies and Regulations	Business/Management
Non-executive directors			
Fu Yuning	√	√	√
Li Yinquan	√	√	√
Fu Gangfeng	√	√	√
Hong Xiaoyuan	√	√	√
Xiong Xianliang	√	√	√
Sun Yueying	√	√	√
Fu Junyuan	√	√	√
Wei Jiafu (resigned)	√	√	√
Wang Daxiong (resigned)	√	√	√
Executive directors			
Tian Huiyu	√	√	√
Zhang Guanghua	√	√	√
Li Hao	√	√	√
Ma Weihua (resigned)	√	√	√
Independent non-executive directors			
Xu Shanda	√	√	√
Wong Kwai Lam	√	√	√
Pan Chengwei	√	√	√
Pan Yingli	√	√	√
Guo Xuemeng	√	√	√
Yi Xiqun (resigned)	√	√	√
Yan Lan (resigned)	√	√	√

9.9 Company Secretary under Hong Kong Listing Rules

Mr. Xu Shiqing, Secretary of the Board of Directors of the Company, and Mrs. Seng Sze Ka Mee, Natalia of Tricor, an external services provider, are both the joint company secretaries of the Company under Hong Kong Listing Rules. Mr. Xu Shiqing is the major contact person of the Company for internal issues.

During the reporting period, Mr. Xu Shiqing and Mrs. Seng Sze Ka Mee, Natalia both attended relevant professional trainings of not less than 15 hours in accordance with the requirements of Rule 3.29 of Hong Kong Listing Rules.

9.10 Misconduct reporting and monitoring

In 2013, the Company reported no material internal cases or external malignant cases of consummated theft and robbery or severe accidents.

9.11 Communications with shareholders

Investor Relations

The Company attaches great importance to the opinions and proposals of its shareholders, proactively communicates with investors and analysts to maintain good relationship, and strives to satisfy the reasonable demands of each shareholder in a timely manner.

The Board of the Company maintains regular dialogues with shareholders, especially through the Annual General Meetings where shareholders are encouraged to participate. The senior management of the Company communicates regularly with institutional investors and analysts with regard to the operations and management of the Company. To ensure effective communication, the Company has also maintained a website (www.cmbchina.com), which provides information about the business developments and operations, financial information, corporate governance and other information of the Company. Inquiries from the investors will be dealt with immediately. For any inquiries, investors may write directly to the Company at its principal operating venues in Shenzhen or Hong Kong, or login to the Company's web page on investor relations (www.cmbchina.com/CMBIR) and click "Email" under the subdirectory "Contact Us" to leave a message.

In 2013, adhering to the basic investor-oriented principle of improving investor experience and increasing efficiency, the Company maintained positive communication with various investors and analysts in the capital markets with a positive, professional, open and innovative attitude. We delivered the strategies, operating results, business highlights and investment value of the Company to investors across the world in various forms in a timely, comprehensive and objective manner. During the year, the Company held two regular results announcement and analyst meetings, one press conference, one global roadshow for annual results to conduct in-depth and effective communications with 107 institutional investors at home and abroad. We received 99 visits from 273 institutional investors and analysts, answered 986 inquiry calls from investors and analysts, promptly handled 1,219 online messages from investors, and participated in 33 investment banking presentations in China and abroad and held 152 one-to-one meetings and one-to-many meetings with hundreds of institutional investors.

In order to expand the channels and forms of communication with investors, the Company has set up a contact system for investor relations management at each business unit of the Head Office and its branches to extend investor relations management from the Head Office to the branches, and received positive feedbacks. The Bank takes initiatives to collect and listen to various reasonable opinions and recommendations from investors, and submitted two reports on capital market feedbacks to the management. We have completed the system development of the investor online reservation system of phase II. We also updated, maintained and improved the web pages of investor relations to ensure the contents are current, accurate and valid, which has further improved the experience and satisfaction of investors.

Information Disclosure

Disclosure of the Company's information is based on our well-established corporate governance and comprehensive internal control system, and governed by a sound information disclosure system, ensuring that the investors could receive information in a timely, accurate and fair manner.

During the reporting period, the Company has disclosed material information in a true, accurate, complete, timely and fair manner in strict accordance with the requirements of relevant laws and regulations governing information disclosure. It has issued more than 330 disclosure documents in aggregate on Shanghai Stock Exchange and the Hong Kong Stock Exchange, including periodic reports, interim announcements, corporate governance documents, general meeting circulars, proxy forms and reply slips in a total size of more than 2.90 million words. Apart from fulfilling its statutory obligation of information disclosure, the Company continued to be more initiative in information disclosure in its periodic reports, placing special emphasis on hot issues that concern investors and information particularly related to the banking sector, deepening industry research and improving efficiency and transparency in information disclosure in periodic reports.

During the reporting period, the Company amended the "Rules of China Merchants Bank Co., Ltd on Inside Information and Persons with Knowledge of Inside Information" in accordance with new regulations and daily work to further improve its information disclosure system, and that no material errors in information disclosure would occur in the year.

In addition, during the reporting period, the Company, through offering specific trainings and organizing tests on prevention of insider trading, further enhanced the confidentiality management of its inside information and took effective measures to prevent the leaks of inside information and insider trading.

9.12 Shareholders' rights

The Convening of Extraordinary General Meeting

An extraordinary general meeting shall be convened by the Board of Directors within two months upon request in writing by shareholders individually or jointly holding 10% or more of the Company's voting shares.

Two or more shareholders holding more than 10% of the voting shares at the proposed general meeting may sign one or several same written requests requisitioning the Board of Directors to convene an extraordinary general meeting or class meeting and stating the subjects to be considered at the meeting. The number of shares held referred to above shall be calculated on the date the shareholders submit their written request. The Board of Directors shall give written replies as to whether it agrees or disagrees to the convening of the extraordinary general meeting or class meeting within 10 days after receiving the request according to the provisions of laws, administrative regulations and the Articles of Association of the Company.

If the Board of Directors agrees to convene an extraordinary general meeting or class meeting, it shall issue a notice on convening the shareholders' general meetings or class meeting within 5 days after passing the board resolution. Any changes to the original proposal as stated in the notice shall be approved by the relevant shareholders.

Making Proposals at the Shareholders' General Meeting

If the Company convenes a shareholders' general meeting, shareholders individually or jointly holding more than 3% of the total issued voting shares of the Company may submit interim proposals in writing to the Company 10 days before convening the shareholders' general meeting and submit the same to the convenor. The convenor shall issue a supplemental notice to the shareholders' general meeting and announce the contents of the interim proposal within two days after receiving the proposal.

Shareholder individually or jointly holding more than 1% of the issued shares of the Company may nominate candidate(s) for independent director(s) for election at the shareholders' general meeting.

The Convening of Extraordinary Board Meeting

An extraordinary Board meeting may be held if it is requisitioned by shareholders representing more than one-tenth (10%) of the voting rights. The Chairman shall convene and preside over the extraordinary Board meeting within ten (10) days upon receiving such proposal.

Making Inquiries to the Board of Directors

Shareholders are entitled to review the information about the Company (including the Articles of Association, the status of share capital, the minutes of shareholders' general meeting, resolutions of board meetings, resolutions of meetings of the Board of Supervisors, financial and accounting reports, etc.) in accordance with the provisions of the Articles of Association after submitting written documents certifying the class and quantity of shares of the Company held by them and the Company verifies the identity of such shareholders.

9.13 Major Amendments to the Articles of Association of the Company

During the reporting period, according to the actual situation of the Company and certain requirements of the laws and regulations and regulatory documents of the PRC and Hong Kong, the Company made certain amendments to its Articles of Association (including the Rules of Procedures for Shareholders' General Meetings, the Rules of Procedures for Meetings of the Board of Directors and the Rules of Procedures for Meetings of the Board of Supervisors), and such amendments were approved at the 2012 Annual General Meeting of the Company held on 31 May 2013 as a special resolution. For details of the amendments, please refer to the document regarding Shareholders' General Meeting available on the website of the Shanghai Stock Exchange and website of the Company and the circular dated 31 May 2013 on the website of the Hong Kong Stock Exchange.

9.14 Statement on Compliance with the Banking (Disclosure) Rules

The 2013 annual financial statements of the Company (H shares) have been prepared in accordance with the guidelines set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.

9.15 Statement made by the directors about their responsibility on the financial statements

The senior management of the Company provided the Board of Directors with adequate explanation and sufficient information to enable the Board of Directors to make informed assessment on the financial and other information submitted to it for approval. The directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2013 to present a true view of the operating results of the Company. So far as the directors are aware, there is no material uncertainties related to events or conditions that might have a significant adverse effect on the Company's ability of sustainable operation.

9.16 Statement of Compliance with the Corporate Governance Code

During the reporting period, the Company has fully complied with the principles of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules and has complied with all code provisions and recommended best practices (if applicable).

Internal Control

10.1 Internal Control

In accordance with the laws and regulations such as the “Basic Principles for Internal Control of Enterprises” and the relevant guidelines, the “Internal Control Guidelines for Commercial Banks” as well as the requirements of Shanghai Stock Exchange and Hong Kong Stock Exchange, the Company formulated the objectives and principles of internal control, and established an internal control system consisting of five elements, namely internal environment, risk assessment, control measures, information and communication and internal supervision, to exert control over the whole process of operation management of the Company, and continued to enhance the integrity, rationality and effectiveness of our internal control system in practice.

Pursuant to the requirements of relevant laws and regulations, the Company has established a relatively sound corporate governance structure to achieve effective checks and balances and interaction between and among the Board of Directors, the Board of Supervisors and the senior management. The Board of Directors shall make sure that the Company has established and implemented an adequate and effective internal control system; the Board of Supervisors shall supervise the Board of Directors and senior management in establishing and implementing internal control; and the senior management shall oversee the daily operation of internal control of the Company. In consideration of the needs of internal management and risk management, the Company has established an internal control and management structure which specifies clear division of responsibilities and separation of duties between and among each of the executive and ordinary staff of various departments at all levels of the Company and requires everyone to play his/her functional role. The internal control committees of the Head Office and the branches shall consider and decide on material events and management measures regarding internal control. The Legal and Compliance Department shall organize and coordinate internal control matters. All departments shall establish and execute internal control measures under their respective business lines. The Audit Department shall supervise and assess internal control work. All employees shall actively report material information regarding internal control measures and their implementation.

During the reporting period, the Company continued to implement the re-engineering of “customer-centric” process in accordance with the general requirements of “pushing ahead with the Second Transformation with a focus on service improvement”, further streamlined administrative procedures and decentralized powers through concentrated operation and process optimization to increase the overall operational efficiency, and investigated case risks and misconducts of employees to lay a solid foundation for case prevention. The Company enhanced system improvement and subsequent evaluation with a total of 179 regulations issued or amended throughout the year to improve its management systems, enhanced risk prevention and control over key areas, carried out specific risk monitoring and warning, optimized risk management system and consolidated risk management base. The Company endeavored to meet all the regulatory requirements for advanced capital measurement methods, promoted implementation of the Second Pillar of Basel II, made more effort to develop and monitor the risk capital measurement model, and further implemented Basel II. The Company continued to upgrade computer hardware and develop computer software, strengthened IT support for various operation management, conducted onsite and offsite inspections on all business lines and audit supervision to find out any misconducts in business and management activities and urged relevant departments to make rectifications on a timely basis.

In accordance with the requirements of the PRC GAAP and the International Financial Reporting Standards, the Company has formulated “China Merchants Bank Accounting Policy Handbook” and the accounting systems for various businesses and established a standardised accounting process, so as to ensure the truthfulness and completeness of its accounting information as well as the truthfulness and fairness of its financial statements. During the reporting period, no material defects were identified in the Company’s internal control system in terms of financial reporting.

The Company has formulated the “Accountability System of China Merchants Bank Co., Ltd. in relation to Serious Faults in Information Disclosure in the Annual Report”, and complied with the principles of truthfulness, accuracy, completeness, timeliness and fairness in information disclosure, ensuring effective communication within the Company and that between the Company and external parties. No material mistake occurred in information disclosure during the reporting period.

During the reporting period, the Company assessed the status of its internal control in 2013. As reviewed by the Board of Directors of the Company, no significant defects were found in the Company's internal control system in terms of completeness, reasonableness and effectiveness. For more details, please refer to the “2013 Report on Assessment of Internal Control of China Merchants Bank Co., Ltd.”, and the “Auditors’ Report on Internal Control” issued by KPMG Huazhen Certified Public Accountants with standard unqualified opinions.

10.2 Internal Audit

The Company has established a complete internal audit mechanism. Firstly, the Company formulated a set of systems comprising of general rules, operation rules and work standards based on the “Internal Audit Memorandum of China Merchants Bank” and established an inspection model that plays equal emphasis on onsite and offsite checks. Secondly, the Company set up an audit department which can exercise the inspection, supervision and appraisal functions independently from operation management. Among which, the Audit Department at the Head Office has four local audit divisions in Beijing, Shanghai, Shenzhen and Xi’an. All first-tier branches can have their respective audit divisions based on the criteria for organizational establishments and the requirements of their operation management. Thirdly, the Company established a vertical reporting system from the audit department at the Head Office to the Board of Directors where the head of the audit department shall be appointed by the Board of Directors, the annual audit plans shall be approved by the Audit Committee under the Board of Directors, the audit results shall be reported directly to the Board of directors and the Board of Supervisors. Routine audit work is supervised by the vice-chairman of the Company and guided by the Board of Supervisors and senior management.

The Audit Department of the Company shall supervise, inspect and assess the effectiveness of the management activities, risk profile and internal control of the whole Bank (including domestic and overseas branches, business management departments, affiliates), follow up the rectification of audit findings, and provide independent audit advices and the recommendations on operation management to the Board of Directors and senior management.

In 2013, in accordance with the guiding ideology of “specifying accountability, strengthening supervision, improving internal control to uphold bottom-line for the healthy development of the whole bank and the ‘Secondary Transformation’” and to implement our strategy, control our risks and increase our value, the Company further intensified our audit and inspection efforts and optimized our audit management process and mode by conducting additional assessment of bank-wide internal control and risk profile and identifying more regional and systemic risks. As a result, the independent internal audit has effectively played its monitoring and evaluation role and the internal control standards of China Merchants Bank are improved.

Report of the Board of Supervisors

During the reporting period, the Board of Supervisors has proactively and effectively carried out supervision on the financial activities, internal control, risk management, lawful operation as well as the duty performance of the Board of Directors and the senior management of the Company pursuant to the Company Law, Articles of Association of the Company and supervisory duties delegated by relevant supervisory authorities.

Independent opinions on relevant matters from the Board of Supervisors:

Lawful operation

During the reporting period, the business activities of the Company complied with the Company Law, Commercial Banking Law and Articles of Association, the internal control system was improved, and the decision making procedures were lawful and valid. None of the directors and senior management of the Company was found to have violated the relevant laws, regulations or the Articles of Association or had done anything detrimental to the interests of the Company and shareholders.

Authenticity of financial statements

KPMG Huazhen and KPMG audited the financial reports for 2013 in accordance with the PRC accounting standards and the international accounting standards respectively and have each produced a standard unqualified audit report, stating that the financial reports give a true, objective and accurate view of the financial position and operating results of the Company.

Use of capital raised

The application of fund from the capital raised for specific projects was consistent with the committed uses as stated in the relevant prospectus/offering memorandum.

Purchase and sale of assets

During the reporting period, the Company has no new acquisition or disposal of assets.

Related party transactions

During the reporting period, the Board of Supervisors was not aware of any related party transactions which were not conducted on an arm's length basis or were detrimental to the interests of the Company and its shareholders.

Implementation of resolutions passed at the general meeting(s)

The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meeting in 2013, and concluded that the Board of Directors had duly implemented relevant resolutions passed at the general meeting(s).

Internal control

The Board of Supervisors had reviewed the "Report on Assessment of Internal Control of China Merchants Bank Co., Ltd. for 2013", and concurred with the Board of Directors' representations regarding the completeness, reasonableness, effectiveness and implementation of the internal control system of the Company.

By Order of the Board of Supervisors
Han Mingzhi
Chairman of the Board of Supervisors

28 March 2014

Financial Report

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Independent Auditor's Report



Independent auditor's report to the shareholders of
China Merchants Bank Co., Ltd

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

We have audited the consolidated financial statements of China Merchants Bank Co., Ltd (the "Bank") and its subsidiaries (together the "Group") set out on pages 156 to 321 which comprise the consolidated and Bank statements of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated and Bank statements of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the 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 issued by the International Accounting Standards Board 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. This report is made solely to you, as a body, 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 the 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 Bank'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.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

28 March 2014

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2013	2012 (Restated)
Interest income	3	173,495	150,101
Interest expense	4	(74,582)	(61,727)
Net interest income		98,913	88,374
Fee and commission income	5	31,365	21,167
Fee and commission expense		(2,181)	(1,428)
Net fee and commission income		29,184	19,739
Other net income	6	4,933	5,641
Operating income		133,030	113,754
Operating expenses	7	(54,144)	(48,356)
Charge for insurance claims		(331)	(321)
Operating profit before impairment losses		78,555	65,077
Impairment losses	11	(10,218)	(5,583)
Share of profits of associates		53	31
Share of profits of joint ventures		35	33
Profit before taxation		68,425	59,558
Income tax	12	(16,683)	(14,286)
Profit for the year		51,742	45,272
Attributable to:			
Equity shareholders of the Bank		51,743	45,268
Non-controlling interests		(1)	4

The notes on pages 167 to 321 form part of these financial statements.

	Note	2013	2012 (Restated)
Earnings per share			
Basic and Diluted (RMB)	14	2.30	2.10
Other comprehensive income for the year	13		
Items that are or may be reclassified to profit or loss			
Exchange differences		(471)	(118)
Equity-accounted investees-share of other comprehensive income		(8)	–
Available for sale investments: net movement in fair value reserve		(5,576)	(120)
Cash flow hedge: net movement in hedging reserve		(690)	(539)
Items that will never be reclassified to profit or loss			
Remeasurement of defined benefit scheme recognised through reserve		74	30
Other comprehensive income for the year, net of tax		(6,671)	(747)
Total comprehensive income for the year		45,071	44,525
Total comprehensive income attributable to:			
Equity shareholders of the Bank		45,072	44,521
Equity shareholders of the non-controlling interests		(1)	4

The notes on pages 167 to 321 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2013

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2013	2012 (Restated)
Assets			
Cash		15,662	12,719
Precious metals		6,633	23
Balances with central bank	15	501,577	458,673
Balances with banks and other financial institutions	16	38,850	280,870
Placements with banks and other financial institutions	17	148,047	103,420
Amounts held under resale agreements	18	318,905	106,965
Loans and advances to customers	19	2,148,330	1,863,325
Interest receivable	20	17,699	13,009
Financial assets at fair value through profit or loss	21(a)	23,223	25,489
Derivative financial assets	53(h)	5,925	1,975
Available-for-sale investments	21(b)	289,911	285,344
Held-to-maturity debt securities	21(c)	208,927	175,417
Receivables	21(d)	235,415	32,221
Interest in associates	23	19	290
Interest in joint ventures	24	759	165
Fixed assets	25	24,199	20,392
Investment properties	26	1,701	1,638
Intangible assets	27	2,996	2,851
Goodwill	28	9,953	9,598
Deferred tax assets	29	8,064	4,993
Other assets	30	9,604	8,722
Total assets		4,016,399	3,408,099
Liabilities			
Deposits from banks and other financial institutions	31	514,182	258,692
Placements from banks and other financial institutions	32	125,132	109,815
Amounts sold under repurchase agreements	33	153,164	157,953
Deposits from customers	34	2,775,276	2,532,444
Interest payable	35	30,988	24,065
Financial liabilities designated at fair value through profit or loss	21(e)(f)	21,891	6,854
Derivative financial liabilities	53(h)	8,235	2,745
Debts issued	36	68,936	77,111
Salaries and welfare payable	37(a)	5,119	4,056
Tax payable	38	8,722	6,679
Deferred tax liabilities	29	770	813
Other liabilities	39	38,028	26,471
Total liabilities		3,750,443	3,207,698

The notes on pages 167 to 321 form part of these financial statements.

	Note	2013	2012 (Restated)
Equity			
Share capital	40	25,220	21,577
Capital reserve	41	67,515	37,508
Investment revaluation reserve	42	(5,539)	37
Hedging reserve	43	(951)	(261)
Surplus reserve	44	23,502	18,618
Regulatory general reserve	45	46,347	39,195
Retained profits		95,471	71,326
Proposed profit appropriations	46(b)	15,636	13,593
Exchange reserve	47	(1,736)	(1,265)
Total equity attributable to shareholders of the Bank		265,465	200,328
Non-controlling interests	56	491	73
Total equity		265,956	200,401
Total equity and liabilities		4,016,399	3,408,099

Approved and authorised for issue by the board of directors on 28 March 2014.

Fu Yuning
Director

Tian Huiyu
Director

Company Chop

The notes on pages 167 to 321 form part of these financial statements.

Statement of Financial Position

At 31 December 2013

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2013	2012
Assets			
Cash		14,918	12,122
Precious metals		6,633	23
Balances with central bank	15	496,469	454,498
Balances with banks and other financial institutions	16	28,660	274,614
Placements with banks and other financial institutions	17	144,968	85,981
Amounts held under resale agreements	18	318,023	106,965
Loans and advances to customers	19	1,962,035	1,720,403
Interest receivable	20	16,819	12,346
Financial assets at fair value through profit or loss	21(a)	20,394	22,058
Derivative financial assets	53(h)	5,515	1,866
Available-for-sale investments	21(b)	273,923	274,812
Held-to-maturity investments	21(c)	203,503	172,994
Receivables	21(d)	236,585	33,426
Investments in subsidiaries	22	35,273	34,565
Interest in an associates	23	–	191
Interest in joint ventures	24	171	–
Fixed assets	25	20,653	16,676
Investment properties	26	507	325
Intangible assets	27	1,973	1,760
Deferred tax assets	29	7,820	4,838
Other assets	30	7,152	7,087
Total assets		3,801,994	3,237,550
Liabilities			
Deposits from banks and other financial institutions	31	509,640	253,134
Placements from banks and other financial institutions	32	69,828	66,431
Amounts sold under repurchase agreements	33	151,861	157,753
Deposits from customers	34	2,654,881	2,426,474
Interest payable	35	29,779	23,281
Financial liabilities at fair value through profit or loss	21(e)(f)	21,360	6,355
Derivative financial liabilities	53(h)	7,802	2,673
Debts issued	36	50,143	69,083
Salaries and welfare payable	37(a)	4,634	3,766
Tax payable	38	8,219	6,401
Other liabilities	39	27,543	18,009
Total liabilities		3,535,690	3,033,360

The notes on pages 167 to 321 form part of these financial statements.

	Note	2013	2012
Equity			
Share capital	40	25,220	21,577
Capital reserve	41	76,681	46,666
Investment revaluation reserve	42	(5,641)	(46)
Hedging reserve	43	(951)	(261)
Surplus reserve	44	23,502	18,618
Regulatory general reserve	45	45,762	38,849
Retained profits		86,099	65,194
Proposed profit appropriations	46(b)	15,636	13,593
Exchange reserve	47	(4)	–
Total equity		266,304	204,190
Total equity and liabilities		3,801,994	3,237,550

Approved authorised for issue by the board of directors on 28 March 2014.

Fu Yuning
Director

Tian Huiyu
Director

Company Chop

The notes on pages 167 to 321 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

(Expressed in millions of Renminbi unless otherwise stated)

		2013											
		Total equity attributable to shareholders of the Bank											
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal	Non-controlling interests	Total
At 1 January 2013		21,577	37,508	37	(261)	18,618	39,195	71,432	13,593	(1,265)	200,434	73	200,507
Adoption of IAS 19 Amendment		-	-	-	-	-	-	(106)	-	-	(106)	-	(106)
Restated at 1 January 2013		21,577	37,508	37	(261)	18,618	39,195	71,326	13,593	(1,265)	200,328	73	200,401
Amounts increase/(decrease) for the year		3,643	30,007	(5,576)	(690)	4,884	7,152	24,145	2,043	(471)	65,137	418	65,555
(a) Profit for the year		-	-	-	-	-	-	51,743	-	-	51,743	(1)	51,742
(b) Other comprehensive income for the year	13	-	(8)	(5,576)	(690)	-	-	74	-	(471)	(6,671)	-	(6,671)
Total comprehensive income for the year		-	(8)	(5,576)	(690)	-	-	51,817	-	(471)	45,072	(1)	45,071
(c) Changes by the shareholder's equity													
(i) Establishment of non-wholly owned subsidiaries	56	-	-	-	-	-	-	-	-	-	-	81	81
(ii) Issuing shares		3,643	30,015	-	-	-	-	-	-	-	33,658	-	33,658
(iii) Acquisition of subsidiary		-	-	-	-	-	-	-	-	-	-	338	338
(d) Distribution of profits													
(i) Transfer of retained profits to regulatory general reserve	45	-	-	-	-	-	7,152	(7,152)	-	-	-	-	-
(ii) Appropriations to statutory surplus reserve for the year 2013	46(a)	-	-	-	-	4,884	-	(4,884)	-	-	-	-	-
(iii) Dividends paid for the year 2012		-	-	-	-	-	-	-	(13,593)	-	(13,593)	-	(13,593)
(iv) Proposed dividends for the year 2013		-	-	-	-	-	-	(15,636)	15,636	-	-	-	-
At 31 December 2013		25,220	67,515	(5,539)	(951)	23,502	46,347	95,471	15,636	(1,736)	265,465	491	265,956

The notes on pages 167 to 321 form part of these financial statements.

2012												
Total equity attributable to shareholders of the Bank												
Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Subtotal	Non-controlling interests	Total
At 1 January 2012	21,577	37,508	157	278	14,325	18,794	64,446	9,062	(1,150)	164,997	13	165,010
Adoption of IAS 19 Amendment	-	-	-	-	-	-	(131)	-	3	(128)	-	(128)
Restated at 1 January 2012	21,577	37,508	157	278	14,325	18,794	64,315	9,062	(1,147)	164,869	13	164,882
Amounts increase/(decrease) for the year	-	-	(120)	(539)	4,293	20,401	7,011	4,531	(118)	35,459	60	35,519
(a) Profit for the year	-	-	-	-	-	-	45,268	-	-	45,268	4	45,272
(b) Other comprehensive income for the year	13	-	-	(120)	(539)	-	30	-	(118)	(747)	-	(747)
Total comprehensive income for the year	-	-	(120)	(539)	-	-	45,298	-	(118)	44,521	4	44,525
(c) Changes by the shareholder's equity												
(i) Establishment of non-wholly owned subsidiaries	56	-	-	-	-	-	-	-	-	-	56	56
(d) Distribution of profits												
(i) Appropriations to statutory surplus reserve for the year 2012	44	-	-	-	-	4,293	(4,293)	-	-	-	-	-
(ii) Transfer of retained profits to regulatory general reserve	45	-	-	-	-	20,401	(20,401)	-	-	-	-	-
(iii) Dividends paid for the year 2011	46(a)	-	-	-	-	-	-	(9,062)	-	(9,062)	-	(9,062)
(iv) Proposed dividends for the year 2012	46(b)	-	-	-	-	-	(13,593)	13,593	-	-	-	-
At 31 December 2012	21,577	37,508	37	(261)	18,618	39,195	71,326	13,593	(1,265)	200,328	73	200,401

The notes on pages 167 to 321 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2013

(Expressed in millions of Renminbi unless otherwise stated)

		2013									
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Total
At 1 January 2013		21,577	46,666	(46)	(261)	18,618	38,849	65,194	13,593	-	204,190
Amounts increase/(decrease) for the year		3,643	30,015	(5,595)	(690)	4,884	6,913	20,905	2,043	(4)	62,114
(a) Profit for the year		-	-	-	-	-	-	48,338	-	-	48,338
(b) Other comprehensive income for the year	13	-	-	(5,595)	(690)	-	-	-	-	(4)	(6,289)
Total comprehensive income for the year		-	-	(5,595)	(690)	-	-	48,338	-	(4)	42,049
(c) Issuing shares		3,643	30,015	-	-	-	-	-	-	-	33,658
(d) Distribution of profits											
(i) Appropriations to statutory surplus reserve for the year 2013	44	-	-	-	-	4,884	-	(4,884)	-	-	-
(ii) Transfer of retained profits to regulatory general reserve	45	-	-	-	-	-	6,913	(6,913)	-	-	-
(iii) Dividends paid for the year 2012	46(a)	-	-	-	-	-	-	-	(13,593)	-	(13,593)
(iv) Proposed dividends for the year 2013	46(b)	-	-	-	-	-	-	(15,636)	15,636	-	-
At 31 December 2013		25,220	76,681	(5,641)	(951)	23,502	45,762	86,099	15,636	(4)	266,304

		2012								
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Total
At 1 January 2012		21,577	46,666	130	278	14,325	18,571	60,417	9,062	171,026
Amounts increase/(decrease) for the year		-	-	(176)	(539)	4,293	20,278	4,777	4,531	33,164
(a) Profit for the year		-	-	-	-	-	-	42,941	-	42,941
(b) Other comprehensive income for the year	13	-	-	(176)	(539)	-	-	-	-	(715)
Total comprehensive income for the year		-	-	(176)	(539)	-	-	42,941	-	42,226
(c) Distribution of profits										
(i) Appropriations to statutory surplus reserve for the year 2012	44	-	-	-	-	4,293	-	(4,293)	-	-
(ii) Transfer of retained profits to regulatory general reserve	45	-	-	-	-	-	20,278	(20,278)	-	-
(iii) Dividends paid for the year 2011	46(a)	-	-	-	-	-	-	-	(9,062)	(9,062)
(iv) Proposed dividends for the year 2012	46(b)	-	-	-	-	-	-	(13,593)	13,593	-
At 31 December 2012		21,577	46,666	(46)	(261)	18,618	38,849	65,194	13,593	204,190

The notes on pages 167 to 321 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2013

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2013	2012 (Restated)
Cash flows from operating activities			
Profit before tax		68,425	59,558
Adjustments for:			
– Impairment losses on loans and advances		10,196	5,491
– Impairment losses on investments and other assets		22	92
– Unwind of discount income on impaired loans		(406)	(215)
– Fixed assets and investment properties depreciation		3,224	2,864
– Operating lease of fixed assets depreciation		71	60
– Amortization of other assets		335	310
– Amortisation of discount and premium of debt investments		53	6
– Amortisation of discount and premium of issued debts		61	113
– Gains on debt and share investments		(2,357)	(3,355)
– Interest income on investments		(21,674)	(15,950)
– Interest expense on issued debts		3,220	2,658
– Share of profits of associates		(53)	(31)
– Share of profits of joint ventures		(35)	(33)
– Gains on disposal of fixed assets		(6)	(21)
Changes in:			
Balances with central bank		(34,993)	(48,605)
Balances and placements with banks and other financial institutions with original maturity over 3 months		(131,822)	(7,572)
Loans and advances to customers		(294,708)	(264,075)
Other assets		(11,584)	(14,310)
Deposits from customers		242,832	312,578
Deposits and placements from banks and other financial institutions		266,018	211,017
Other liabilities		38,127	24,053
Cash generated from operating activities		134,946	264,633
Income tax paid		(15,793)	(14,920)
Cash flows from investing activities			
Payment for investments purchased		(798,001)	(958,709)
Proceeds from investments disposed		552,287	913,430
Gains received from investments		21,849	17,302
Payment for purchase of fixed assets and other assets		(8,211)	(6,494)
Proceeds from sale of fixed assets and other assets		405	243
Repayment of loan to joint ventures		2	19
Net cash flow from investing activities		(231,669)	(34,209)

The notes on pages 167 to 321 form part of these financial statements.

	Note	2013	2012
Financing activities			
Proceeds from issuance of financial debts		4,000	19,970
Proceeds from issuance of subordinated notes		–	12,877
Proceeds from issuance of Interbank deposits		2,968	–
Proceeds from issuance of share capital		33,658	–
Cash received from minority shareholders		81	56
Proceeds from issuance of certificates of deposit		29,120	18,107
Repayment of certificates of deposit issued		(18,706)	(21,447)
Repayment of subordinated notes		(23,000)	–
Dividends paid		(13,593)	(9,062)
Interest paid on issued debts		(3,516)	(2,054)
Net cash inflow from financing activities		11,012	18,447
Net (decrease)/increase in cash and cash equivalents		(101,504)	233,951
Cash and cash equivalents at 1 January		452,855	219,151
Effect of foreign exchange rate changes		(1,402)	(247)
Cash and cash equivalents at 31 December	48(a)	349,949	452,855
Cash flows from operating activities include:			
Interest received		149,145	136,584
Interest paid		64,020	52,986

The notes on pages 167 to 321 form part of these financial statements.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

1 Organisation, principal activities and details of subsidiaries

(a) Organisation

China Merchants Bank Company Limited (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002.

On 22 September 2006, the Bank's H-Shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "HKEx").

As at 31 December 2013, apart from the Head Office, the Bank had branches in Shenzhen, Shanghai, Beijing, Shenyang, Nanjing, Guangzhou, Wuhan, Lanzhou, Xi'an, Chengdu, Chongqing, Hangzhou, Fuzhou, Jinan, Tianjin, Dalian, Urumqi, Kunming, Hefei, Zhengzhou, Harbin, Nanchang, Changsha, Xiamen, Ningbo, Wenzhou, Wuxi, Suzhou, Qingdao, Dongguan, Quanzhou, Taiyuan, Foshan, Changchun, Hohhot, Nanning, Guiyang, Yinchuan, Shijiazhuang, Haikou, Xining, CMB China (Shanghai) Pilot Free Trade Zone Branch, Hong Kong, New York and Singapore. In addition, the Bank has four representative offices in Beijing, London, the United States of America and Taipei.

(b) Principal activities

The principal activities of the Bank and its subsidiaries ("the Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management and trustee services and other financial services.

2 Significant accounting policies

(a) Statement of compliance and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and its interpretations promulgated by the International Accounting Standards Board (“IASB”), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(b) Changes in accounting policies and accounting estimations

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 2 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

IAS 1 Presentation of items of OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

IFRS 7 Offsetting financial assets and financial liabilities

As a result of the amendments to IFRS 7, the disclosure of offsetting between financial assets and financial liabilities has been expanded under the revised IFRS 7. Such change does not have impact on relevant disclosures of the Group.

IFRS 10 Consolidated Financial Statements

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 (2011) requires the Group consolidated investees that it controls on the basis of de facto circumstances.

The adoption does not change any of the control conclusions reached by the group in respect of its involvement with other entities as at 1 January 2013.

2 Significant accounting policies *(continued)*

(b) Changes in accounting policies and accounting estimations *(continued)*

IFRS 11 Joint Arrangements

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group has classified its interests in joint arrangements as either joint operations (if the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Group has rights only to the net assets of an arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

Notwithstanding the reclassification, the investment continues to be recognized by applying the equity method and there has been no impact on the recognized assets, liabilities and comprehensive income of the Group.

IFRS 12 Interests in other entities

As a result of IFRS 12, the Group has expanded disclosures about its interests in subsidiaries (see Note 2) and involvement with unconsolidated structured entities. The disclosure requirements related to its involvement in unconsolidated structured entities are not included in the comparative information.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRS, including IFRS 7 Financial instruments: Disclosures. Such change does not have significant impact on the measurement of the Group's assets and liabilities.

IAS 19 Employee Benefits

As a result of IAS 19(2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to its post-employment defined benefit plans.

Under IAS 19 (2011), the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

2 Significant accounting policies *(continued)*

(b) Changes in accounting policies and accounting estimations *(continued)*

IAS 19 Employee Benefits *(continued)*

This change in accounting policy has been applied retrospectively by restating the balances at 31 December 2012, and the result for the twelve months ended 31 December 2012 as follows:

	As previously report	Adoption of amendment to IAS 19	As restated
Consolidated statement of comprehensive income for the year ended 31 December 2012			
Operating expenses	(48,350)	(6)	(48,356)
Income tax expense	(14,287)	1	(14,286)
Profit for the period	45,277	(5)	45,272
Remeasurement of defined benefit scheme recognised through reserve	–	30	30
Foreign currency translation difference	(115)	(3)	(118)
Total comprehensive income for the year	44,503	22	44,525
Consolidated statement of financial position at 1 January 2012			
Other assets	5,888	(153)	5,735
Deferred tax assets	4,337	5	4,342
Deferred tax liabilities	864	(20)	844
Retained earnings	64,446	(131)	64,315
Foreign currency translation difference	(1,150)	3	(1,147)
Consolidated statement of financial position at 31 December 2012			
Other assets	8,848	(126)	8,722
Deferred tax assets	4,987	6	4,993
Deferred tax liabilities	827	(14)	813
Retained earnings	71,432	(106)	71,326

This change in accounting policy does not have any material impact on current or deferred taxation and earnings per share.

2 Significant accounting policies *(continued)*

(c) Basis of measurement

Unless stated otherwise, the financial statements are presented in Renminbi (“RMB”), which is the Group’s functional and presentation currency, rounded to the nearest million.

The financial statements are prepared using the historical cost basis except that financial assets and liabilities at fair value through profit or loss including derivatives, and available-for-sale assets are stated at their fair value.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the subsequent period are discussed in note 54.

(d) Subsidiaries and non-controlling interests

The financial statements include the financial statements of the Bank and its subsidiaries. Subsidiaries are enterprises controlled by the Bank. The group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The results and affairs of the subsidiaries are included from the date that control commences until the date that control ceases.

The results of the subsidiaries are included in the consolidated result of the Group. All significant intercompany transactions and balances, and any unrealised gains or losses arising from intercompany transactions, have been eliminated on consolidation.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary’s identifiable net assets. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the net profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Bank.

Changes in the group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(e)) or, joint venture (see note 2(f)).

In the Bank’s statement of financial position, its investments in subsidiaries are stated at cost less allowances for impairment losses.

2 Significant accounting policies *(continued)*

(e) Associates

Associates are entities in which the Group or the Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

Investment in associates is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any acquisition-date excess over cost, the consolidated statement of comprehensive income includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see notes 2(g) and (n)).

The investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associate.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have significant influence over an associate entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)).

In the Bank's statement of financial position, its interests in associates are stated at cost less impairment losses, if any. The results of associates are accounted for by the Bank on the basis of dividends received and receivable.

(f) Joint ventures

A joint venture is an arrangement in which the group has joint control, where by the group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

The consolidated statement of comprehensive income includes the Group's share of the results of joint ventures for the year and the consolidated statement of financial position includes the Group's share of the net assets of the joint ventures.

In the Bank's statement of financial position, the interests in joint ventures are stated at cost less allowance for impairment losses. The results of joint ventures are accounted for by the Bank on the Basis of dividends received and receivable.

When the group ceases to have jointly control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate.

2 Significant accounting policies *(continued)*

(g) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(n)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Intangible assets (other than goodwill)

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see note 2(n)). Amortisation of intangible assets with finite useful lives is charged to the consolidated statement of comprehensive income on a straight-line basis over the assets' estimated useful lives (2 – 50 years).

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods of 40 – 50 years.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at 31 December 2013.

(i) Financial instruments

(i) Initial recognition

All financial assets and financial liabilities are recognised in the consolidated statement of financial position when and only when, the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised on the date when the contractual rights to the cash flows expire or substantially all the risks and rewards of ownership are transferred.

Except for loans and advances to customers that is recognised using settlement date accounting, purchase or sale of financial assets is recognised using trade date accounting.

Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expired.

At initial recognition, all financial assets and liabilities are measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data.

2 Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

(i) Initial recognition *(continued)*

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are:

- financial assets and financial liabilities at fair value through profit or loss include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those financial assets and liabilities that are designated by the Group upon recognition as at fair value through profit or loss. They are not allowed to reclassify into or out of this category which it is held or issued.

All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative;

- Financial instruments are designated at fair value through profit or loss upon initial recognition when:
 - the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
 - the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
 - the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
 - the separation of the embedded derivative from the financial instrument is not prohibited;
- held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity;
- loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and those that are designated as available-for-sale upon initial recognition;
- available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity financial assets; and
- financial liabilities, other than that at fair value through profit or loss and designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

2 Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

(i) Initial recognition *(continued)*

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities not at fair value through profit or loss, which are measured at amortised cost using the effective interest method. Financial assets and financial liabilities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the consolidated statement of comprehensive income when they arise.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the consolidated statement of comprehensive income.

For financial assets and liabilities carried at amortised cost, a gain or loss is recognised in the consolidated statement of comprehensive income when the financial asset or liability is derecognised, impaired and amortised.

(ii) Fair value measurement principles

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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted an active market for that instrument. A market is regarded as active if transactions for or liability take place with sufficient frequency and volume to provide pricing information ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable chosen valuation technique incorporates all of the factors that market participants would account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and value is evidenced neither by a quoted price in an active market for an identical asset based on a valuation technique that uses only data from observable markets, then the instrument is initially measured at fair value, adjusted to defer the difference between value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than valuation is wholly supported by observable market data or the transaction is closed out.

2 Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

(ii) Fair value measurement principles *(continued)*

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities.

The fair value of a demand deposit is not less than the amount payable on demand.

The Group recognises transfers between levels of the fair value hierarchy as of the end reporting period during which the change has occurred.

(iii) Hedge accounting

The Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"). Hedge accounting is applied to derivatives designated as hedging instruments in cash flow hedge provided certain criteria are met.

It is the Group's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items attributable to the hedged risks.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognized in other comprehensive income and accumulated separately in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of comprehensive income within "Trading profits" of "Other net income".

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from equity to the statement of comprehensive income in the same periods during which the hedged cash flow affect profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in equity until the forecast transaction is ultimately recognised in the consolidated statements of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the consolidated statement of comprehensive income.

Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the change in cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

2 Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

(iii) Hedge accounting *(continued)*

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognized immediately in the consolidated statement of comprehensive income. These gains and losses are reported in "Trading profits" of "Other net income", except where derivatives are managed in conjunction with financial instruments designated at fair value, in which case gains and losses are reported in "Net income on financial instruments designated at fair value through profit or loss".

(iv) Specific items

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Placements with and takings from banks and other financial institutions

Banks represent other banks approved by the PBOC and other authorities. Other financial institutions represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC") and insurance companies, securities firms, and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Placements with banks and other financial institutions are accounted for as loans and receivables.

Investments

Equity investments are accounted for as trading or available-for-sale financial assets. Debt investments are classified as financial assets at fair value through profit or loss, held-to-maturity debt securities, receivables, and available-for-sale financial assets in accordance with the Group's holding intention at acquisition.

Loans and advances

Loans and advances directly granted by the Group to customers or participation in syndicated loans are accounted for as loans and advances.

(v) Derivative financial instruments

The Group's derivative financial instruments include mainly spot, forward and foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Bank enters into similar derivative contracts with other banks.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated statement of comprehensive income.

2 Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

(vi) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

(vii) Securitisations

The Group securitises various corporate loans, which generally results in the sale of these assets to special purpose entity, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or subordinated tranches, or other residual interests (retained interests). Retained interests are carried at fair value on inception date on the Group's statement of financial position. Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. Gains or losses on securitisation are recorded in "Other net income".

In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred and the degree of control exercised by the Group over the financial assets:

- when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;
- when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and
- when the Group neither transfers nor retains substantially all the risk and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

2 Significant accounting policies *(continued)*

(j) Fixed assets and depreciation

Fixed assets, including investment properties, are stated at cost or deemed cost less accumulated depreciation. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of fixed assets over their following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Land and buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Motor vehicles and others	3 – 5 years
Leasehold improvements (leasing property)	3 years
Leasehold improvements (self-owned property)	the estimated useful lives

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property and equipment when the asset is ready for its intended use. No depreciation is provided for construction in progress.

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of comprehensive income. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values.

Subsequent expenditure relating to a fixed asset is capitalised only when it is probable that future economic benefits associated with the fixed assets will flow to the Group. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense as incurred.

Profits or losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the fixed assets and are accounted for in the consolidated statement of comprehensive income as they arise.

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

Repossessed assets are measured at the lower of the carrying value of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the consolidated statement of comprehensive income.

2 Significant accounting policies *(continued)*

(l) Finance and operating lease

(i) Classification

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as "Loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Finance income implicit in the lease payment is recognised as "Interest income" over the period of the leases in proportion to the funds invested. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n).

(iii) Operating leases

– *Operating leases charges*

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent lease expense is charged to profit and loss when actually happened.

– *Assets leased out under operating leases*

Fixed assets other than investment properties leased out under operating leases are depreciated in accordance with the depreciation policies described in Note 2(j) and if impaired, impairment losses are provided for in accordance with the accounting policy described in Note 2(n). Income derived from operating leases is recognised in the statement of comprehensive income using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent lease income is charged to profit and loss when actually happened.

(m) Resale and repurchase agreements

Payments for purchase of securities or loans under resale agreements are accounted for "purchase of financial assets for resale". Payments from sale of securities under repurchase agreements are accounted for "payments from sale of financial assets for repurchase".

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense, as appropriate.

2 Significant accounting policies *(continued)*

(n) Impairment

(i) Financial assets

Financial assets are assessed at the end of each reporting period to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidences include:

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in consolidated statement of comprehensive income.

Impairment losses on loans and advances

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

– *Individually assessed*

Loans and advances which are considered individually significant are assessed individually for impairment.

Impairment allowances are made on individually impaired significant loans when there is objective evidence of impairment that will impact the estimated future cash flows of the loan. Individually impaired loans and advances are graded as substandard or below.

Impairment allowances of an individually impaired significant loan is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of the allowances for impairment losses.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2 Significant accounting policies *(continued)*

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

Impairment losses on loans and advances (continued)

– *Collectively assessed*

Impairment allowances are calculated on a collective basis for the following:

- no objective evidence of impairment exists for an individually assessed loans; and
- for homogeneous groups of loans that are not individually significant with similar credit risk characteristics.

Incurred but not yet identified impairment

If no objective evidence of impairment exists for an individually assessed loan on an individual basis, whether significant or not, the loans are grouped in a pool of loans with similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans that are impaired at the end of the reporting period but will not be individually identified as such until some time in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual loans in the pool of loans, those loans are removed from the pool. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment. The collective assessment allowance is determined after taking into account:

- the structure and risk characteristics of the Group's loan portfolio (indicating the borrower's ability to repay all loans) and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience;
- the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and
- management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans

Portfolios of homogeneous loans are collectively assessed using roll rate or historical loss rate methodologies. Overdue period represents the major observable objective evidence for impairment.

Impairment losses are recognised in the consolidated statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The reversal shall not result in a carrying amount of the loan that exceeds the amortised cost at the date the impairment is reversed had the impairment not been recognised. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

2 Significant accounting policies *(continued)*

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

Impairment losses on loans and advances (continued)

– *Collectively assessed (continued)*

Homogeneous groups of loans *(continued)*

When the Group determines that a loan has no reasonable prospect of recovery after the group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. Amount recovered from a loan that has been written off will be recognised as income through the impairment loss account in the consolidated statement of comprehensive income.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remained as impaired or overdue.

In the recovery of impaired loans, the Group may take repossession of the collateral assets through court proceedings or voluntary delivery of repossession by the borrowers. Upon the seizure of these assets, the carrying value of the related loan principal and interest receivable are initially transferred to "Repossession assets", and the respective allowances for impairment losses are transferred to "impairment allowance for repossessed assets".

Impairment losses on available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in equity and there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated statement of comprehensive income even though the financial assets has not been derecognised.

The amount of the cumulative loss that is recognised in the consolidated statement of comprehensive income is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated statement of comprehensive income. For an available-for-sale asset that is not carried at fair value as its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed, with the amount of the reversal being recognised in the consolidated statement of comprehensive income.

Impairment losses recognised in the consolidated statement of comprehensive income for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated statement of comprehensive income. Any subsequent increase in the fair value of these assets is recognised directly in equity.

2 Significant accounting policies *(continued)*

(n) Impairment *(continued)*

(ii) Other assets

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that other assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in the consolidated statement of comprehensive income whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated statement of comprehensive income in the year in which the reversals are recognised.

(o) Convertible bonds issued

At initial recognition the liability component of the convertible bonds issued is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar debt securities that do not have a conversion option. The liability component is subsequently carried at amortised cost until it is converted or redeemed. Any excess of proceeds over the amount initially recognised as the liability component is in substance an option and is recognised as the equity component in the capital reserve.

If the bond is converted into shares, the carrying value of the liability component and any interest payable at the time of conversion, are transferred to "share capital" based on the numbers of shares issued at par and the differences are recognised as share premium in capital reserve.

2 Significant accounting policies *(continued)*

(p) Financial guarantee issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities.

The deferred income is amortised in the consolidated statement of comprehensive income over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(p)(ii) and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Income recognition

(i) Interest income

Interest income is recognised in the consolidated statement of comprehensive income on an accruals basis, taking into account the effective interest rate of the instrument or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of any interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

When a financial asset or a group of financial assets are impaired, interest income is recognised on the impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Interest income and expenses on all financial assets and liabilities that are classified as trading or designated at fair value through profit or loss are considered to be incidental and are therefore presented together with all other changes in fair value arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

(ii) Fee and commission income

Fee and commission income is recognised in the consolidated statement of comprehensive income when the corresponding service is provided.

2 Significant accounting policies *(continued)*

(q) Income recognition *(continued)*

(iii) Dividend income

- Dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.
- Where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

(iv) Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

(r) Taxation

Current income tax and movements in deferred tax balances are recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies *(continued)*

(s) Foreign currency translations

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated into RMB at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities, and share capital which are measured at historical cost in a foreign currency are translated into RMB at the foreign exchange rates ruling at the date of the transaction, whilst those stated at fair value are translated into RMB at the foreign exchange rate ruling at the date of valuation. Income and expenses denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. When the gain or loss on a non-monetary item, including available-for-sale equity instrument, is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the consolidated statement of comprehensive income.

The assets and liabilities of operations outside Mainland China are translated into RMB at the spot exchange rates ruling at the end of the reporting period. The equity items, excluding "Retained profits", are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from translation are recognised as "Exchange reserve" in equity.

(t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(u) Employee benefits

(i) Salaries and staff welfare

Salaries, bonus and other benefits are accrued in the period in which the associated services are rendered by employees.

(ii) Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of comprehensive income as incurred.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

2 Significant accounting policies *(continued)*

(u) Employee benefits *(continued)*

(ii) Post employment benefits *(continued)*

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment of a defined benefit plan when the settlement occurs.

(iii) Share-based payment

The Group offers equity incentives to its employee, namely H-share Appreciation Rights Scheme for the Senior Management ("the Scheme"). The scheme is accounted for as cash settled plan. The fair value of the equity incentives is measured at grant date using Black-Scholes model, taking into account the terms and condition upon which the equity incentives were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity incentives, the total estimated fair value of the equity incentives is spread over the vesting period, taking into account the probability that the equity incentives will vest.

(v) Related parties

During the vesting period, the equity incentives that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the consolidated statement of comprehensive income for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual amount of equity incentives that vest.

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(w) Segmental reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Significant accounting policies *(continued)*

(x) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the statement of financial position as the risks and rewards of the assets reside with the customers.

(y) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

3 Interest income

	2013	2012
Loans and advances (note)		
– corporate loans	72,765	68,719
– retail loans	50,120	41,303
– discounted bills	4,745	5,904
Balances with central bank	7,296	6,392
Balances and placements with		
– banks	3,306	6,414
– other financial institutions	2,084	1,754
Amounts held under resale agreements	11,558	3,671
Investments (note)		
– listed	16,623	13,575
– unlisted	4,998	2,369
Interest income on financial assets that are not at fair value through profit or loss	173,495	150,101

Note: Included in the above is interest income of RMB406 million accrued on impaired loans for the year ended 31 December 2013 (2012: RMB215 million) and none accrued on impaired debt securities investments for the year ended 31 December 2013 (2012: Nil).

4 Interest expense

	2013	2012
Deposits from customers	48,475	42,308
Deposits and placements from		
– banks	11,656	6,654
– other financial institutions	8,519	7,338
Amounts sold under repurchase agreements	2,651	2,656
Issued debts	3,281	2,771
Interest expense on financial liabilities that are not at fair value through profit or loss	74,582	61,727

5 Fee and commission income

	2013	2012
Bank cards fees	8,309	5,825
Remittance and settlement fees	2,756	2,211
Agency services fees	5,143	3,924
Commissions from credit commitment and loan business	2,873	2,229
Commissions on trust and fiduciary activities	7,187	4,594
Others	5,097	2,384
	31,365	21,167

6 Other net income

	2013	2012
Trading profits arising from		
– foreign exchange	891	1,296
– bonds, derivatives and other trading activities	(560)	425
Net (losses)/gains on financial instruments designated at fair value through profit or loss	580	180
Net gains/(losses) on disposal of available-for-sale financial assets	104	78
Distributions from investment in funds	19	24
Rental income on operating leases assets	414	318
Gain on disposal of bills	2,469	2,766
Insurance operating income	426	414
Others	590	140
	4,933	5,641

7 Operating expenses

	2013	2012
Staff costs		
– salaries and bonuses (note (i))	18,208	16,132
– Social insurance and corporate supplementary insurance	4,008	3,507
– Others	4,774	4,299
	26,990	23,938
Business tax and surcharges	8,579	7,555
Depreciation		
– Fixed assets and investment properties depreciation	3,224	2,864
– Operating leases of fixed assets depreciation	71	60
Rental expenses	2,801	2,462
Other general and administrative expenses	12,479	11,477
	54,144	48,356

Notes:

- (i) Performance bonus is included in the above salaries and bonuses, the details of which are disclosed in note 37(c).
- (ii) Auditors' remuneration amounted to RMB1,600 million for 2013 (2012: RMB1,400 million).

8 Directors' and supervisors' emoluments

The emoluments of the Directors and Supervisors during the year are as follows:

	2013				Total RMB'000
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 Note (i)	Retirement scheme contributions RMB'000	
Executive directors					
Tian Huiyu(iii)	–	2,800	–	364	3,164
Zhang Guanghua	–	3,097	–	403	3,500
Li Hao	–	3,097	–	403	3,500
Non-executive directors					
Fu Yuning	–	–	–	–	–
Ma Zehua(iii)	–	–	–	–	–
Li Yinquan	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Sun Yueying	–	–	–	–	–
Fu Junyuan	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Xiong Xianliang	–	–	–	–	–
Wang Daxiong	–	–	–	–	–
Independent non-executive directors and supervisors					
Yi Xiqun	300	–	–	–	300
Xu Shanda(iii)	–	–	–	–	–
Wong Kwai Lam	300	–	–	–	300
Pan Chengwei	300	–	–	–	300
Pan Yingli	300	–	–	–	300
Guo Xuemeng	300	–	–	–	300
Xiao Yuhuai(iii)	–	–	–	–	–
Shan Weijian(iii)	–	–	–	–	–
Han Mingzhi	–	3,063	–	398	3,461
Zhu Genlin	–	–	–	–	–
An Luming	–	–	–	–	–
Liu Zhengxi	–	–	–	–	–
Peng Zhijian	300	–	–	–	300
Pan Ji	300	–	–	–	300
Shi Rongyao(iii)	175	–	–	–	175
Yu Yong(iii)	–	1,127	–	147	1,274
Guan Qizhi(iii)	–	1,095	–	142	1,237

8 Directors' and supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

	2013				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 Note (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive and Non-executive directors					
Wei Jiafu(iv)	–	–	–	–	–
Ma Weihua(iv)	–	1,750	–	228	1,978
Yan Lan(iv)	250	–	–	–	250
Wen Jianguo(iv)	–	–	–	–	–
Yang Zongjian(iv)	–	785	–	102	887
Zhou Qizheng(iv)	–	1,059	–	138	1,197
	2,525	17,873	–	2,325	22,723

Notes:

- (i) The total remuneration before tax for the full-time executive directors and senior management personnel of the Group is not yet finalised. Details of their remaining compensation will be disclosed separately when their total remuneration is confirmed.
- (ii) Apart from the above emoluments, the Bank has also offered H-Share Appreciation Rights Scheme phase I, phase II, phase III, phase IV, phase V and phase VI to its senior management ("the Scheme") on 30 October 2007, 7 November 2008, 16 November 2009, 18 February 2011, 4 May 2012 and 22 May 2013 respectively. In 2012, none of the granted share appreciation rights were exercised. Details of this Scheme are set out in note 37(d).
- (iii) On 31 May 2013, the Company's 2012 general meeting of shareholders considered and approved the Resolution regarding the addition of an executive director and an independent non-executive director, and gave consent to the appointment of Tian Huiyu as executive director of the Company's nine board of directors.

On 31 May 2013, the Company's 2012 general meeting of shareholders considered and approved the Resolution regarding the addition of an executive director and an independent non-executive director, and gave consent to the appointment of Xu Shanda as independent non-executive director of the Company's nine board of directors.

On 31 May 2013, the Company's 2012 general meeting of shareholders considered and approved the Resolution regarding the election of shareholder representative Supervisors and external Supervisors for the Ninth Session of the Board of Supervisors of China Merchants Bank, and gave consent to the appointment of Shi Rongyao as external supervisor of the Company's nine supervisory committee. and Yu Yong and Guan Qizhi as employee representative Supervisors.

On 31 May 2013, the Company's 2012 general meeting of shareholders considered and approved the Resolution regarding the election of members of the Ninth Session of the Board of Directors of China Merchants Bank, and gave consent to the appointment of Shan Weijian as independent non-executive director of the Company's nine board of directors. The qualification of directorship of Shan Weijian shall be subject to the approval by the supervisory organ(s) of the banking industry in China.

On 13 January 2014, the Company's first 2014 extraordinary general meeting of shareholders considered and approved the Resolutions on election of Ma Zehua as a nonexecutive Director and Xiao Yuhuai as an independent non-executive Director.

- (iv) During the reporting period, Wei Jiafu retired as the Company's non executive director due to the change of job assignment.

During the reporting period, Ma Weihua retired as the Company's executive director upon expiry of their term of office.

During the reporting period, Yan Lan retired as the Company's independent non executive director upon expiry of their term of office.

During the reporting period, Wen Jianguo, Yang Zongjian and Zhou Qizheng retired as the Company's independent non-executive directors upon expiry of their term of office.

8 Directors' and supervisors' emoluments *(continued)*

	2012						
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 Note (i)	Retirement scheme contributions RMB'000	Total RMB'000	Discretionary RMB'000	Total RMB'000
Executive directors							
Ma Weihua	–	4,200	–	546	4,746	1,845	6,591
Zhang Guanghua	–	2,730	–	355	3,085	1,199	4,284
Li Hao	–	2,730	–	355	3,085	1,199	4,284
Non-executive directors							
Fu Yuning	–	–	–	–	–	–	–
Wei Jiafu	–	–	–	–	–	–	–
Li Yinquan	–	–	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–	–	–
Xiong Xianliang (i)	–	–	–	–	–	–	–
Sun Yueying	–	–	–	–	–	–	–
Wang Daxiong	–	–	–	–	–	–	–
Fu Junyuan	–	–	–	–	–	–	–
Independent non-executive directors and supervisors							
Yi Xiqun	300	–	–	–	300	–	300
Wong Kwai Lam	300	–	–	–	300	–	300
Yan Lan	300	–	–	–	300	–	300
Pan Chengwei (i)	125	–	–	–	125	–	125
Edward Chow Kwong Fai (ii)	175	–	–	–	175	–	175
Pan Yingli	300	–	–	–	300	–	300
Guo Xuemeng (i)	125	–	–	–	125	–	125
Liu Hongxia (ii)	175	–	–	–	175	–	175
Han Mingzhi	–	2,940	–	382	3,322	1,107	4,429
An Luming (i)	–	–	–	–	–	–	–
Zhu Genlin	–	–	–	–	–	–	–
Hu Xupeng (ii)	–	–	–	–	–	–	–
Wen Jianguo	–	–	–	–	–	–	–
Liu Zhengxi (i)	–	–	–	–	–	–	–
Li Jiangning (ii)	–	–	–	–	–	–	–
Pan Ji	300	–	–	–	300	–	300
Peng Zhijian	50	–	–	–	50	–	50
Yang Zongjian	–	1,093	702	233	2,028	–	2,028
Zhou Qizheng	–	1,068	695	229	1,992	–	1,992
	2,150	14,761	1,397	2,100	20,408	5,350	25,758

8 Directors' and supervisors' emoluments *(continued)*

Notes:

- (i) On 30 May 2012, the Company's 2011 general meeting of shareholders considered and approved the Resolution on the Appointment of Additional Equity Directors, and gave consent to the appointment of Xiong Xianliang as member of the Company's eighth board of directors.

On 30 May 2012, the Company's 2011 general meeting of shareholders considered and approved the Resolution on the Change of Independent Non-Executive Directors, and gave consent to the appointment of Pan Chengwei as independent non-executive director of the Company's eighth board of directors.

On 30 May 2012, the Company's 2011 general meeting of shareholders considered and approved the Resolution on the Change of Independent Non-Executive Directors, and gave consent to the appointment of Guo Xuemeng as independent non-executive director of the Company's eighth board of directors.

On 30 May 2012, the Company's 2011 general meeting of shareholders considered and approved the Resolution on the Change of the Supervisory Committee, and gave consent to the appointment of An Luming as member of the Company's eighth supervisory committee.

On 30 May 2012, the Company's 2011 general meeting of shareholders considered and approved the Resolution on the Change of the Supervisory Committee, and gave consent to the appointment of Liu Zhengxi as member of the Company's eighth supervisory committee.

- (ii) During the reporting period, Edward Chow Kwong Fai and Liu Hongxia retired as the Company's independent non-executive directors upon expiry of their term of office.

During the reporting period, Hu Xupeng and Li Jiangning retired as the Company's supervisors due to the change of job assignment.

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below:

	2013	2012 (note)
RMB		
Nil – 500,000	22	25
500,001 – 1,000,000	–	–
1,000,001 – 1,500,000	2	–
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	–	1
3,000,000 – 3,500,000	4	–
3,500,001 – 4,000,000	–	–
4,000,001 – 4,500,000	–	3
4,500,001 – 5,000,000	–	–
6,500,000 – 7,000,000	–	1
	28	31

None of the Directors and Supervisors received any inducements, compensation for loss of office or waived any emoluments during the year.

Note: On 21 June 2013, the Board of Directors approved the discretionary bonuses of the Bank's executive directors and senior management personnel for 2012. Disclosures in 2012 (note 8, 9 & 55(h)) had been adjusted correspondingly.

9 Individuals with highest emoluments

Of the 5 individuals with the highest emoluments for the year ended 31 December 2013, 4 (2012: 4) are Directors or Supervisors whose emoluments are included in Note 8 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2013 RMB'000	2012 RMB'000 (Note 8)
Salaries and other emoluments	15,384	15,120
Discretionary bonuses (note 8(i))	–	6,457
Contributions to defined contribution retirement schemes	1,900	1,966
	17,284	23,543

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

RMB	2013	2012 (Note 8)
3,000,001 – 3,500,000	4	–
3,500,001 – 4,000,000	1	1
4,000,001 – 5,000,000	–	3
6,000,001 – 7,000,000	–	1

10 Loans to directors, supervisors and officers

Loans to Directors, Supervisors and Officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	2013	2012
Aggregate amount of relevant loans made by the Group outstanding at year end	49	31
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	53	41

11 Impairment losses

	2013	2012
Loans and advances (Note 19(c))	10,196	5,491
Placement with banks and other financial institution	(32)	(2)
Investments		
– available-for-sale investments	(16)	26
– held-to-maturity debt securities	(1)	2
– investment receivable	1	1
Other assets	70	65
	10,218	5,583

12 Income tax

(a) Income tax in the consolidated statement of comprehensive income represents:

	2013	2012
Current tax		
– Mainland China	17,142	14,306
– Hong Kong	486	386
– Overseas	36	49
Subtotal	17,664	14,741
Deferred tax	(981)	(455)
Total	16,683	14,286

12 Income tax *(continued)*

- (b) A reconciliation of income tax expense in the consolidated statement of comprehensive income and that calculated at the applicable tax rate is as follows:

	2013	2012
Profit before tax	68,425	59,558
Notional tax on profit before tax, calculated at the statutory tax rate of 25% (2012: 25%)	17,106	14,890
(Less)/add the tax effect of the following items:		
– Non-deductible expenses	847	689
– Non-taxable income	(1,253)	(1,264)
– Different income tax rates in other areas	(17)	(29)
Actual income tax expense	16,683	14,286

Notes:

- (i) The income tax rates applicable to the Bank's operations in mainland of People's Republic of China is 25% (2012: 25%) during the year.
- (ii) The provision for Hong Kong profit tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits from Hong Kong operations for the year.
- (iii) Taxation for other overseas operations is charged at the appropriate current rates of taxation ruling in the relevant countries.

13 Other comprehensive income

- (a) Tax effects relating to each component of other comprehensive income

	2013			2012		
	Before-tax amount	Tax benefit	Net-of-tax amount	Before-tax amount	Tax (expense)	Net-of-tax amount
Exchange differences	(471)	–	(471)	(118)	–	(118)
Equity-accounted investees – share of other comprehensive income	(8)	–	(8)	–	–	–
Available-for-sale financial assets:						
– net movement in fair value reserve	(7,445)	1,869	(5,576)	(164)	44	(120)
Cash flow hedge:						
– net movement in hedging reserve	(920)	230	(690)	(719)	180	(539)
Remeasurement of defined benefit scheme redesigned through reserve	89	(15)	74	36	(6)	30
Other comprehensive income	(8,755)	2,084	(6,671)	(965)	218	(747)

13 Other comprehensive income *(continued)*

(b) Movement in the fair value reserve relating to components of other comprehensive income

	2013	2012
Cash flow hedge:		
Effective portion of changes in fair value of hedging instruments	(864)	(546)
Reclassification adjustment for amount transferred to profit or loss		
– Realised losses	174	7
Net movement in the hedging reserve during the period recognised in other comprehensive income	(690)	(539)
Available-for-sale financial assets:		
Changes in fair value recognised during the period	(5,355)	(57)
Reclassification adjustments for amounts transferred to profit or loss:		
– losses/(gains) on disposal	(221)	(63)
Net movement in the fair value reserve during the period recognised in other comprehensive income	(5,576)	(120)

14 Earnings per share

Movements of the share capital are included in Note 40 of the financial statements.

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of shares in issue, calculated as follows:

	2013	2012
Net profit	51,743	45,268
Weighted average number of shares in issue (in million)	22,488	21,577
Basic earnings per share (in RMB)	2.30	2.10

14 Earnings per share *(continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the diluted net profit and the weighted average number of shares after adjusting for the effect of all dilutive potential shares, calculated as follows:

	2013	2012
Net profit	51,743	45,268
Diluted net profit	51,743	45,268
Weighted average number of shares in issue (in million)	22,488	21,577
Weighted average number of shares in issue after dilution (in million)	22,488	21,577
Diluted earnings per share (in RMB)	2.30	2.10

15 Balances with central bank

	Group		Bank	
	2013	2012	2013	2012
Statutory deposit reserve funds (note (i))	443,958	407,897	442,004	406,520
Surplus deposit reserve funds (note (ii))	55,997	48,086	52,843	45,288
Fiscal deposits	1,622	2,690	1,622	2,690
	501,577	458,673	496,469	454,498

Notes:

- (i) Statutory deposit reserve funds are deposited with the People's Bank of China as required and are not available for the group's daily operations. The statutory deposit reserve funds are calculated at 18% and 5% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2013 (2012: 18% and 5% for eligible RMB deposits and foreign currency deposits). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, net credit balances of entrusted business and other deposits.
- (ii) The surplus deposit funds reserve maintained with the People's Bank of China and central banks of overseas countries are mainly for the purpose of clearing.

16 Balances with banks and other financial institutions

(a) Analysed by nature of counterparties

	Group		Bank	
	2013	2012	2013	2012
Balances with banks	37,881	280,753	27,691	274,497
Balances with other financial institutions	1,022	183	1,022	183
	38,903	280,936	28,713	274,680
Less: Impairment allowances				
– banks	(49)	(62)	(49)	(62)
– other financial institutions	(4)	(4)	(4)	(4)
	(53)	(66)	(53)	(66)
	38,850	280,870	28,660	274,614

(b) Analysed by geographical location

	Group		Bank	
	2013	2012	2013	2012
Balances with				
– banks in the Mainland	26,513	260,688	17,230	255,364
– other financial institutions in the Mainland	1,022	183	1,022	183
	27,535	260,871	18,252	255,547
Balances with				
– banks outside the Mainland	11,368	20,065	10,461	19,133
	38,903	280,936	28,713	274,680
Less: Impairment allowances				
– banks	(49)	(62)	(49)	(62)
– other financial institutions	(4)	(4)	(4)	(4)
	(53)	(66)	(53)	(66)
	38,850	280,870	28,660	274,614

16 Balances with banks and other financial institutions

(continued)

(c) Movements of allowances for impairment losses

	Group and Bank	
	2013	2012
As at 1 January	66	92
Release for the year	(13)	(26)
Recoveries of previously written off	–	–
As at 31 December	53	66

(d) Impaired balances with banks and other financial institutions and impairment allowances

	Group and Bank	
	2013	2012
Gross impaired balances with banks and other financial institutions	53	66
Impairment allowances	(53)	(66)
Net balances	–	–

	Group		Bank	
	2013	2012	2013	2012
Gross impaired balances with banks and other financial institutions as a percentage of total balances with banks and other financial institutions	0.14%	0.02%	0.18%	0.02%

17 Placements with banks and other financial institutions

(a) Analysed by nature of counterparties

	Group		Bank	
	2013	2012	2013	2012
Money market placements				
– banks	72,228	63,935	69,149	46,496
– other financial institutions	75,829	39,514	75,829	39,514
	148,057	103,449	144,978	86,010
Less: Impairment allowances				
– banks	(10)	(29)	(10)	(29)
	148,047	103,420	144,968	85,981

(b) Analysed by remaining maturity

	Group		Bank	
	2013	2012	2013	2012
Maturing				
– within one month	69,147	31,400	69,147	17,728
– between one month and one year	75,086	61,998	72,007	58,236
– after one year	3,814	10,022	3,814	10,017
	148,047	103,420	144,968	85,981

(c) Analysed by geographical location

	Group		Bank	
	2013	2012	2013	2012
Placements with				
– banks in the Mainland	49,479	24,561	57,396	21,803
– other financial institutions in the Mainland	75,829	39,514	75,829	39,514
	125,308	64,075	133,225	61,317
Placements with				
– banks outside the Mainland	22,749	39,374	11,753	24,693
	148,057	103,449	144,978	86,010
Less: Impairment allowances				
– banks	(10)	(29)	(10)	(29)
	148,047	103,420	144,968	85,981

18 Amounts held under resale agreements

(a) Analysed by nature of counterparties

	Group		Bank	
	2013	2012	2013	2012
Amounts held under resale agreements				
– banks	232,489	19,814	231,607	19,814
– other financial institutions and others (note)	86,416	87,151	86,416	87,151
	318,905	106,965	318,023	106,965

Note: On 31 December 2013, the balance of reverse repurchase transactions between the Group and its self-established non-guaranteed wealth management products was RMB79.881 billion. In 2013, the maximum exposure of reverse repurchase transactions between the Group and its self-established non-guaranteed wealth management products was RMB215.318 billion. The above transactions were made in accordance with normal business terms and conditions.

(b) Analysed by remaining maturity

	Group		Bank	
	2013	2012	2013	2012
Maturing				
– within one month	143,758	79,433	142,876	79,433
– between one month and one year	90,172	25,926	90,172	25,926
– after one year	84,975	1,606	84,975	1,606
	318,905	106,965	318,023	106,965

(c) Analysed by geographical location

	Group		Bank	
	2013	2012	2013	2012
Amounts held under resale agreements				
– banks in the Mainland				
– other financial institutions in the Mainland and others	232,489	19,814	231,607	19,814
	86,416	87,151	86,416	87,151
	318,905	106,965	318,023	106,965

(d) Analysed by assets types

	Group		Bank	
	2013	2012	2013	2012
Bonds issued by				
– PRC government	31,013	2,866	31,013	2,866
– issued by policy banks	10,452	11,644	10,452	11,644
– others	77,915	77,388	77,915	77,388
	119,380	91,898	119,380	91,898
Loans	325	532	325	532
Bills	43,696	935	42,814	935
Trust beneficiary rights	117,391	13,600	117,391	13,600
Asset management plans	38,113	–	38,113	–
	318,905	106,965	318,023	106,965

19 Loans and advances to customers

(a) Loans and advances to customers

	Group		Bank	
	2013	2012	2013	2012
Corporate loans and advances	1,325,810	1,152,837	1,162,140	1,033,545
Discounted bills	71,035	64,842	61,592	55,097
Retail loans and advances	800,249	686,784	785,525	671,900
Gross loans and advances to customers	2,197,094	1,904,463	2,009,257	1,760,542
Less: impairment allowances				
– individually-assessed	(7,002)	(4,995)	(6,921)	(4,921)
– collectively-assessed	(41,762)	(36,143)	(40,301)	(35,218)
	(48,764)	(41,138)	(47,222)	(40,139)
Net loans and advances to customers	2,148,330	1,863,325	1,962,035	1,720,403

(b) Analysis of loans and advances to customers

(i) Analysed by legal form of borrowers:

	Group		Bank	
	2013	2012	2013	2012
Domestic enterprises:				
State-owned enterprises	162,634	134,108	135,094	126,779
Joint-stock enterprises	138,666	123,101	123,423	112,980
Other limited liability enterprises	475,452	427,601	430,437	392,122
Others	278,678	213,423	277,905	213,256
	1,055,430	898,233	966,859	845,137
Foreign-invested enterprises	160,225	141,214	159,414	135,032
Enterprises operating in the Mainland	1,215,655	1,039,447	1,126,273	980,169
Enterprises operating outside the Mainland	110,155	113,390	35,867	53,376
Corporate loans and advances	1,325,810	1,152,837	1,162,140	1,033,545
Discounted bills	71,035	64,842	61,592	55,097
Retail loans and advances	800,249	686,784	785,525	671,900
Gross loans and advances to customers	2,197,094	1,904,463	2,009,257	1,760,542

19 Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by industry sector:

Operation in Mainland China

	Group		Bank	
	2013	2012	2013	2012
Manufacturing and processing	373,458	354,863	350,145	337,126
Wholesale and retail	258,251	195,608	248,361	194,138
Transportation, storage and postal services	120,598	135,985	118,917	128,103
Property development	98,367	73,998	96,432	72,697
Construction	89,314	59,393	70,236	56,423
Mining	64,199	54,507	51,378	45,489
Production and supply of electric power, heating power, gas and water	58,028	79,081	57,517	65,102
Leasing and commercial services	37,561	31,949	33,663	30,653
Water, environment and public utilities management	34,383	29,208	27,561	28,784
Telecommunications, software and computer services	15,535	11,721	15,400	11,403
Others	47,217	31,509	41,497	29,572
Corporate loans and advances	1,196,911	1,057,822	1,111,107	999,490
Discounted bills	71,035	64,842	61,592	55,097
Credit cards	154,971	106,189	154,971	106,189
Residential mortgage	261,501	328,199	261,432	328,131
Personal operating loans	318,195	180,706	315,453	177,139
Others	53,772	60,574	53,669	60,441
Retail loans and advances	788,439	675,668	785,525	671,900
Gross loans and advances to customers	2,056,385	1,798,332	1,958,224	1,726,487

19 Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(ii) Analysed by industry sector: *(continued)*

Operation outside Mainland China

	Group		Bank	
	2013	2012	2013	2012
Wholesale and retail	36,923	28,064	23,136	14,532
Property development	32,694	34,455	6,229	7,763
Financial concerns	18,677	6,554	209	241
Manufacturing	14,882	10,041	6,112	4,096
Transportation and transportation equipment	6,818	7,066	1,567	3,127
Information technology	841	200	696	22
Recreational activities	35	26	–	–
Others	18,029	8,609	13,084	4,274
Corporate loans and advances	128,899	95,015	51,033	34,055
Credit cards	264	330	–	–
Residential mortgage	7,105	7,547	–	–
Personal operating loans	1,527	1,306	–	–
Others	2,914	1,933	–	–
Retail loans and advances	11,810	11,116	–	–
Gross loans and advances to customers	140,709	106,131	51,033	34,055

Notes: At 31 December 2013, over 90% of the Group's loans and advances to customers was classified under People's Republic of China (unchanged from the positions at 31 December 2012).

The Company has implemented China's new Industrial classification for National Economic Activities (GT/T4754-2011), since January 2013, and made retrospection adjustments to the date as at 31 December 2012 according to the new above standard.

19 Loans and advances to customers *(continued)*

(c) Movements of allowances for impairment losses

	Group			Total
	2013			
	Impairment losses of loan and advances which are collectively assessed	Impairment losses of impaired loans and advances		
For which impairment losses are collectively assessed		For which impairment losses are individually assessed		
At 1 January	34,202	1,941	4,995	41,138
Charge for the year (Note 11)	4,405	1,661	4,861	10,927
Releases for the year (Note 11)	(8)	(1)	(722)	(731)
Write-offs	–	(398)	(1,736)	(2,134)
Unwinding of discount	–	(1)	(405)	(406)
Recoveries of loans and advances previously written off	–	26	39	65
Transfers	–	–	(8)	(8)
Exchange difference	(65)	–	(22)	(87)
At 31 December	38,534	3,228	7,002	48,764

	Group			Total
	2012			
	Impairment losses of loan and advances which are collectively assessed	Impairment losses of impaired loans and advances		
For which impairment losses are collectively assessed		For which impairment losses are individually assessed		
At 1 January	30,190	1,389	5,125	36,704
Charge for the year (Note 11)	4,046	707	1,523	6,276
Releases for the year (Note 11)	(17)	(1)	(767)	(785)
Write-offs	–	(168)	(723)	(891)
Unwinding of discount	–	(1)	(214)	(215)
Recoveries of loans and advances previously written off	–	15	50	65
Transfers	–	–	13	13
Exchange difference	(17)	–	(12)	(29)
At 31 December	34,202	1,941	4,995	41,138

19 Loans and advances to customers *(continued)*

(c) Movements of allowances for impairment losses *(continued)*

	Bank			Total
	2013			
	Impairment losses of loan and advances which are collectively assessed	Impairment losses of impaired loans and advances		
For which impairment losses are collectively assessed		For which impairment losses are individually assessed		
At 1 January	33,277	1,941	4,921	40,139
Charge for the year	3,857	1,657	4,822	10,336
Releases for the year	–	–	(686)	(686)
Write-offs	–	(394)	(1,733)	(2,127)
Unwinding of discount	–	–	(404)	(404)
Recoveries of loans and advances previously written off	–	24	30	54
Transfers	–	–	(8)	(8)
Exchange difference	(61)	–	(21)	(82)
At 31 December	37,073	3,228	6,921	47,222

	Bank			Total
	2012			
	Impairment losses of loan and advances which are collectively assessed	Impairment losses of impaired loans and advances		
For which impairment losses are collectively assessed		For which impairment losses are individually assessed		
At 1 January	29,572	1,389	5,018	35,979
Charge for the year	3,721	701	1,485	5,907
Releases for the year	–	–	(737)	(737)
Write-offs	–	(163)	(686)	(849)
Unwinding of discount	–	–	(211)	(211)
Recoveries of loans and advances previously written off	–	14	50	64
Transfers	–	–	13	13
Exchange difference	(16)	–	(11)	(27)
At 31 December	33,277	1,941	4,921	40,139

19 Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses

	Group			Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (Note (iii))
	Loans and advances for which impairment losses are collectively assessed (Note (i))	Impaired loans and advances for which impairment losses are collectively assessed (Note (ii))	Impaired loans and advances for which impairment losses are individually assessed (Note (ii))			
Gross loans and advances to						
– financial institutions	54,574	–	1	54,575	0.00	–
– non-financial institution customers	2,124,225	5,005	13,289	2,142,519	0.85	3,663
	2,178,799	5,005	13,290	2,197,094	0.83	3,663
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(56)	–	(1)	(57)		
– non-financial institution customers	(38,478)	(3,228)	(7,001)	(48,707)		
	(38,534)	(3,228)	(7,002)	(48,764)		
Net loans and advances to						
– financial institutions	54,518	–	–	54,518		
– non-financial institution customers	2,085,747	1,777	6,288	2,093,812		
	2,140,265	1,777	6,288	2,148,330		

19 Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	Group					
	2012					
	Loans and advances for which impairment losses are collectively assessed (Note (i))	Impaired loans and advances		Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (Note (iii))
	for which impairment losses are collectively assessed (Note (ii))	for which impairment losses are individually assessed (note (ii))				
Gross loans and advances to						
– financial institutions	20,859	–	1	20,860	0.00	–
– non-financial institution customers	1,872,070	3,215	8,318	1,883,603	0.61	1,870
	1,892,929	3,215	8,319	1,904,463	0.61	1,870
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(25)	–	(1)	(26)		
– non-financial institution customers	(34,177)	(1,941)	(4,994)	(41,112)		
	(34,202)	(1,941)	(4,995)	(41,138)		
Net loans and advances to						
– financial institutions	20,834	–	–	20,834		
– non-financial institution customers	1,837,893	1,274	3,324	1,842,491		
	1,858,727	1,274	3,324	1,863,325		

19 Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	Bank					
	2013					
	Loans and advances for which impairment losses are collectively assessed (Note (i))	Impaired loans and advances		Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (Note (iii))
	for which impairment losses are collectively assessed (Note (ii))	for which impairment losses are individually assessed (note (ii))				
Gross loans and advances to						
– financial institutions	23,462	–	1	23,463	0.00	–
– non-financial institution customers	1,967,726	4,996	13,072	1,985,794	0.91	3,512
	1,991,188	4,996	13,073	2,009,257	0.90	3,512
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(36)	–	(1)	(37)		
– non-financial institution customers	(37,037)	(3,228)	(6,920)	(47,185)		
	(37,073)	(3,228)	(6,921)	(47,222)		
Net loans and advances to						
– financial institutions	23,426	–	–	23,426		
– non-financial institution customers	1,930,689	1,768	6,152	1,938,609		
	1,954,115	1,768	6,152	1,962,035		

19 Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	Bank			Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (Note (iii))
	2012					
	Loans and advances for which impairment losses are collectively assessed (Note (i))	Impaired loans and advances for which impairment losses are collectively assessed (Note (ii))				
		for which impairment losses are collectively assessed (Note (ii))	for which impairment losses are individually assessed (note (ii))			
Gross loans and advances to						
– financial institutions	4,708	–	1	4,709	0.02	–
– non-financial institution customers	1,744,446	3,208	8,179	1,755,833	0.65	1,774
	1,749,154	3,208	8,180	1,760,542	0.65	1,774
Less:						
Allowances for impairment losses on loans and advances to						
– financial institutions	(13)	–	(1)	(14)		
– non-financial institution customers	(33,264)	(1,941)	(4,920)	(40,125)		
	(33,277)	(1,941)	(4,921)	(40,139)		
Net loans and advances to						
– financial institutions	4,695	–	–	4,695		
– non-financial institution customers	1,711,182	1,267	3,259	1,715,708		
	1,715,877	1,267	3,259	1,720,403		

Notes:

- (i) These loans and advances include those for which no objective evidence of impairment has been identified on individual basis.
- (ii) Impaired loans and advances include loans for which objective evidence of impairment has been identified:
- collectively: that is portfolios of homogeneous loans; or
 - individually.
- (iii) The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realization experience as well as market situation.

19 Loans and advances to customers *(continued)*

(e) Finance leases receivables

The table below provides an analysis of finance lease receivables for leases of certain property and equipment in which the Group is the lessor.

	Group			
	2013		2012	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	27,442	30,503	20,773	23,602
After 1 year but within 5 years	43,594	48,386	31,486	34,791
After 5 years	4,791	5,267	2,397	2,677
	75,827	84,156	54,656	61,070
Impairment allowances:				
– individually assessed	(91)	(91)	(20)	(20)
– collectively assessed	(1,213)	(1,213)	(781)	(781)
Unearned future income on finance lease	–	(8,329)	–	(6,414)
Net investment in finance leases, receivable	74,523	74,523	53,855	53,855

Note: As at 31 December 2013, the Bank's net investments in finance leases, included in "Loans and advances" were nil (2012: Nil).

20 Interest receivable

	Group		Bank	
	2013	2012	2013	2012
Debt securities	9,252	6,885	9,075	6,772
Loans and advances to customers	5,697	4,537	5,501	4,399
Others	2,750	1,587	2,243	1,175
	17,699	13,009	16,819	12,346

21 Investments

	Note	Group		Bank	
		2013	2012	2013	2012
Financial assets at fair value through profit or loss	21(a)	23,223	25,489	20,394	22,058
Derivative financial assets	53(h)	5,925	1,975	5,515	1,866
Available-for-sale investments	21(b)	289,911	285,344	273,923	274,812
Held-to-maturity debt securities	21(c)	208,927	175,417	203,503	172,994
Receivables	21(d)	235,415	32,221	236,585	33,426
		763,401	520,446	739,920	505,156

(a) Financial assets at fair value through profit or loss

	Note	Group		Bank	
		2013	2012	2013	2012
Trading financial assets	(i)	14,611	19,139	14,001	16,201
Financial assets designated at fair value through profit or loss	(ii)	8,612	6,350	6,393	5,857
		23,223	25,489	20,394	22,058

21 Investments *(continued)*

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

	Group		Bank	
	2013	2012	2013	2012
(i) Trading financial assets				
<i>Listed</i>				
In the Mainland				
– PRC government bonds	4,129	1,221	4,129	1,221
– bonds issued by the PBOC	–	23	–	23
– bonds issued by policy banks	339	2,931	339	2,931
– bonds issued by commercial banks and other financial institutions	5,703	11,012	5,703	11,012
– other debt securities	2,465	276	2,445	276
– investments in funds	3	3	–	–
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	939	428	939	428
– other debt securities	534	596	446	248
– equity investments	340	157	–	–
– investments in funds	2	10	–	–
	14,454	16,657	14,001	16,139
<i>Unlisted</i>				
In the Mainland				
– bonds issued by commercial banks and other financial institutions	–	16	–	–
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	–	62	–	62
– other debt securities	157	2,390	–	–
– investment in funds	–	14	–	–
	157	2,482	–	62
	14,611	19,139	14,001	16,201

21 Investments *(continued)*

(b) Available-for-sale investments

	Group		Bank	
	2013	2012	2013	2012
<i>Listed</i>				
In the Mainland				
– PRC government bonds	49,846	29,829	49,846	29,829
– bonds issued by the PBOC	229	5,928	199	5,928
– bonds issued by policy banks	27,922	39,270	25,455	37,789
– bonds issued by commercial banks and other financial institutions	94,278	98,525	91,263	97,044
– other debt securities	89,849	85,815	89,571	85,815
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	2,611	3,373	1,624	2,399
– other debt securities	5,219	3,718	3,989	2,896
– equity investments	771	612	427	303
– investments in funds	20	18	–	–
	270,745	267,088	262,374	262,003
Less: Impairment allowances	(166)	(185)	(166)	(185)
	270,579	266,903	262,208	261,818
<i>Unlisted</i>				
In the Mainland				
– bonds issued by commercial banks and other financial institutions	863	701	863	600
– other debt securities	1,922	–	1,922	–
– equity investments	649	644	434	434
– investments in funds	30	–	–	–
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	7,995	6,641	1,040	1,926
– other debt securities	8,066	10,721	7,783	10,369
– equity investments	117	78	6	8
– investments in funds	24	–	–	–
	19,666	18,785	12,048	13,337
Less: Impairment allowances	(334)	(344)	(333)	(343)
	19,332	18,441	11,715	12,994
	289,911	285,344	273,923	274,812

21 Investments *(continued)*

(b) Available-for-sale investments *(continued)*

	Group		Bank	
	2013	2012	2013	2012
Issued by:				
Sovereigns	58,383	46,909	58,314	46,748
Banks and other financial institutions	134,565	149,255	120,748	140,176
Corporates	96,963	89,180	94,861	87,888
	289,911	285,344	273,923	274,812

Movements of allowances for impairment losses

	Group		Bank	
	2013	2012	2013	2012
As at 1 January	529	508	528	507
Charge for the year	–	34	–	34
Releases for the year	(16)	(8)	(16)	(8)
Exchange difference	(13)	(5)	(13)	(5)
As at 31 December	500	529	499	528

21 Investments *(continued)*

(c) Held-to-maturity investments

	Group		Bank	
	2013	2012	2013	2012
<i>Listed</i>				
In the Mainland				
– PRC government bonds	90,383	74,780	90,383	74,780
– bonds issued by the PBOC	–	15,373	–	15,373
– bonds issued by policy banks	18,055	10,503	18,055	10,503
– bonds issued by commercial banks and other financial institutions	91,467	68,479	91,467	68,479
– other debt securities	2,838	2,869	2,838	2,869
Outside the Mainland				
– PRC government bonds	100	–	–	–
– bonds issued by commercial banks and other financial institutions	392	610	320	388
– other debt securities	1,485	1,317	518	563
	204,720	173,931	203,581	172,955
Less: Impairment allowances	(78)	(81)	(78)	(81)
	204,642	173,850	203,503	172,874
<i>Unlisted</i>				
In the Mainland				
– Other debt securities	–	120	–	120
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	169	1,355	–	–
– other debt securities	4,116	185	–	–
	4,285	1,660	–	120
Less: Impairment allowances	–	(93)	–	–
	4,285	1,567	–	120
	208,927	175,417	203,503	172,994

21 Investments *(continued)*

(c) Held-to-maturity investments *(continued)*

	Group		Bank	
	2013	2012	2013	2012
Issued by:				
Sovereigns	94,608	90,444	90,349	90,200
Banks and other financial institutions	110,063	80,789	109,816	79,306
Public sector entities	–	10	–	–
Corporates	4,256	4,174	3,338	3,488
	208,927	175,417	203,503	172,994
Fair value of listed debt securities	195,499	173,941	190,068	172,979

Movements of allowances for impairment losses

	Group		Bank	
	2013	2012	2013	2012
As at 1 January	174	174	81	80
Charge for the year	–	7	–	7
Releases for the year	(1)	(5)	(1)	(5)
Write-offs for the year	(91)	–	–	–
Exchange difference	(4)	(2)	(2)	(1)
As at 31 December	78	174	78	81

(d) Receivables

	Group		Bank	
	2013	2012	2013	2012
<i>Unlisted</i>				
In the Mainland				
– PRC government bonds	822	1,769	822	1,769
– bonds issued by commercial banks and other financial institutions	9,993	11,360	9,993	11,360
– other debt securities	12,462	19,093	12,462	19,093
– Insurance asset management plan	40,670	–	40,670	–
– Trust beneficiary rights and others	171,470	–	171,470	–
Outside the Mainland				
– bonds issued by commercial banks and other financial institutions	61	62	1,231	1,267
	235,478	32,284	236,648	33,489
Less: Impairment allowances	(63)	(63)	(63)	(63)
	235,415	32,221	236,585	33,426
Issued by:				
Sovereigns	822	1,769	822	1,769
Banks and other financial institutions	222,131	11,359	223,301	12,564
Corporates	12,462	19,093	12,462	19,093
	235,415	32,221	236,585	33,426

All of the above receivables are unlisted.

21 Investments *(continued)*

(d) Receivables *(continued)*

Movements of allowances for impairment losses

	Group and Bank	
	2013	2012
As at 1 January	63	63
Charge for the year	1	1
Releases for the year	–	–
Exchange difference	(1)	(1)
As at 31 December	63	63

(e) Trading liabilities

	Group		Bank	
	2013	2012	2013	2012
Short positions in equity securities at fair value				
– listed	67	25	–	–
Short positions in funds at fair value				
– listed	28	16	–	–
Short positions in paper precious metals at fair value	1,216	243	1,216	243
	1,311	284	1,216	243

(f) Financial liabilities designated at fair value through profit or loss

	Group		Bank	
	2013	2012	2013	2012
<i>Unlisted</i>				
In the Mainland				
– Paper precious metals from other bank	14,848	3,056	14,848	3,056
Outside the Mainland				
– certificates of deposit issued	5,732	3,514	5,296	3,056
	20,580	6,570	20,144	6,112

As at the end of reporting period, the difference between the fair value of the Group's and the Bank's financial liabilities at fair value through profit or loss and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2013 and 2012.

21 Investments *(continued)*

(g) Fair values of financial instruments

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements including level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 – Valuation techniques based on observable inputs, either directly (i. e., quoted prices) or indirectly (i. e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2013							
	The Group				The Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading assets								
– Debt securities	1,662	12,604	–	14,266	1,473	12,528	–	14,001
– Derivative financial assets	–	5,800	–	5,800	–	5,442	–	5,442
– Equity investments	340	–	–	340	–	–	–	–
– Investment in funds	5	–	–	5	–	–	–	–
	2,007	18,404	–	20,411	1,473	17,970	–	19,443
Financial assets designated at fair value through profit or loss								
– Debt securities	750	7,737	125	8,612	249	6,019	125	6,393
– Derivative liabilities	–	94	31	125	–	73	–	73
	750	7,831	156	8,737	249	6,092	125	6,466
Available-for-sale financial assets								
– Debt securities	24,577	263,724	–	288,301	14,900	258,156	–	273,056
– Equity investments	818	40	238	1,096	427	–	–	427
– Investments in funds	50	–	24	74	–	–	–	–
	25,445	263,764	262	289,471	15,327	258,156	–	273,483
	28,202	289,999	418	318,619	17,049	282,218	125	299,392
Liabilities								
Trading liabilities								
– Short position in paper precious metals at fair value	–	1,216	–	1,216	–	1,216	–	1,216
– Short position in equity securities at fair value	67	–	–	67	–	–	–	–
– Short position in funds at fair value	28	–	–	28	–	–	–	–
– Derivative financial liabilities	–	8,150	–	8,150	–	7,732	–	7,732
	95	9,366	–	9,461	–	8,948	–	8,948
Financial liabilities designated at fair value through profit or loss								
– Paper precious metals from other financial institutions	–	14,848	–	14,848	–	14,848	–	14,848
– Certificates of deposit issued	–	436	5,296	5,732	–	–	5,296	5,296
– Derivative financial liabilities	–	85	–	85	–	70	–	70
	–	15,369	5,296	20,665	–	14,918	5,296	20,214
	95	24,735	5,296	30,126	–	23,866	5,296	29,162

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

	2012							
	The Group				The Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading assets								
– Debt securities	3,078	15,877	–	18,955	457	15,744	–	16,201
– Derivative financial assets	–	1,975	–	1,975	–	1,866	–	1,866
– Equity investments	157	–	–	157	–	–	–	–
– Investment in funds	10	17	–	27	–	–	–	–
	3,245	17,869	–	21,114	457	17,610	–	18,067
Financial assets designated at fair value through profit or loss								
– Debt securities	493	5,661	196	6,350	–	5,661	196	5,857
Available-for-sale financial assets								
– Debt securities	10,369	273,624	–	283,993	5,207	268,860	–	274,067
– Equity investments	645	40	–	685	303	–	–	303
– Investments in funds	18	–	–	18	–	–	–	–
	11,032	273,664	–	284,696	5,510	268,860	–	274,370
	14,770	297,194	196	312,160	5,967	292,131	196	298,294
Liabilities								
Trading liabilities								
– Short position in paper precious metals at fair value	–	243	–	243	–	243	–	243
– Short position in equity securities at fair value	16	9	–	25	–	–	–	–
– Short position in funds at fair value	16	–	–	16	–	–	–	–
– Derivative financial liabilities	–	2,745	–	2,745	–	2,673	–	2,673
	32	2,997	–	3,029	–	2,916	–	2,916
Financial liabilities designated at fair value through profit or loss								
– Paper precious metals from other financial institutions	–	3,056	–	3,056	–	3,056	–	3,056
– Certificates of deposit issued	–	458	3,056	3,514	–	–	3,056	3,056
	–	3,514	3,056	6,570	–	3,056	3,056	6,112
	32	6,511	3,056	9,599	–	5,972	3,056	9,028

During the year there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

Assets

	The Group			Total
	Financial assets designated at fair value through profit or loss – derivative financial assets	Financial assets designated at fair value through profit or loss – debt securities	Available-for-sale financial asset	
At 1 January 2013	–	196	–	196
In profit or loss				
– Net income from financial instruments designated at fair value through profit and loss	2	(4)	–	(2)
– Exchange difference	–	(4)	–	(4)
In OCI				
– Net change in fair value of available-for-sale financial assets	–	–	(2)	(2)
Purchases	44	–	264	308
Payment on maturity	(15)	(63)	–	(78)
At 31 December 2013	31	125	262	418
Changes in unrealised gains and losses included in the consolidated statement of comprehensive income for assets held at the end of the reporting period				
– Net income from financial instruments designated at fair value through profit and loss	1	(5)	–	(4)

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy (continued):

Liabilities

	The Group	
	Financial liabilities designated at fair value through profit or loss – debt securities	Total
At 1 January 2013	3,056	3,056
In profit or loss		
– Net income from financial instruments designated at fair value through profit and loss	(19)	(19)
– Exchange difference	(96)	(96)
Issues	2,939	2,939
Payment on maturity	(584)	(584)
At 31 December 2013	5,296	5,296
Changes in unrealised gains or losses included in the consolidated statement of comprehensive income for liabilities held at the end of the reporting period		
– Net income from financial instruments designated at fair value through profit and loss	(85)	(85)

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy (continued):

Assets

	The Group	
	Financial assets designated at fair value through profit or loss – debt securities	Total
At 1 January 2012	325	325
In profit or loss		
– Net income from financial instruments designated at fair value through profit and loss	2	2
– Exchange difference	(2)	(2)
Payment on maturity	(129)	(129)
At 31 December 2012	196	196
Total gains and losses included for the year in the consolidated statement of comprehensive income for assets held at the end of the reporting period recorded in:		
– Net income from financial instruments designated at fair value through profit and loss	17	17

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy (continued):

Liabilities

	The Group		Total
	Trading liabilities derivative financial liabilities	Financial liabilities designated at fair value through profit or loss – debt securities	
At 1 January 2012	10	3,558	3,568
In profit or loss			
– Net trading income	(10)	–	(10)
– Net income from financial instruments designated at fair value through profit and loss	–	47	47
– Exchange difference	–	(20)	(20)
Issues	–	852	852
Payment on maturity	–	(1,381)	(1,381)
At 31 December 2012	–	3,056	3,056
Total gains or losses for the year included in the consolidated statement of comprehensive income for liabilities held at the end of the reporting period recorded in:			
– Net income from financial instruments designated at fair value through profit and loss	–	(140)	(140)

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy (continued):

Assets

	The Bank	
	Financial assets designated at fair value through profit or loss – debt securities	Total
At 1 January 2013	196	196
In profit or loss		
– Net income from financial instruments designated at fair value through profit and loss	(4)	(4)
– Exchange difference	(4)	(4)
Payment on maturity	(63)	(63)
At 31 December 2013	125	125
Changes in unrealised gains and losses included in the statement of comprehensive income for assets held at the end of the reporting period		
– Net income from financial instruments designated at fair value through profit and loss	(5)	(5)

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy (continued):

Liabilities

	The Bank	
	Financial liabilities designated at fair value through profit or loss – debts securities	Total
At 1 January 2013	3,056	3,056
In profit or loss		
– Net income from financial instruments designated at fair value through profit and loss	(19)	(19)
– Exchange difference	(96)	(96)
Issues	2,939	2,939
Payment on maturity	(584)	(584)
At 31 December 2013	5,296	5,296
Changes in unrealised gains and losses included in the statement of comprehensive income for liabilities held at the end of the reporting period		
– Net income from financial instruments designated at fair value through profit and loss	(85)	(85)

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy *(continued)*:

Assets

	The Bank	
	Financial assets designated at fair value through profit or loss – debt securities	Total
At 1 January 2012	325	325
In profit loss		
– Net income from financial instruments designated at fair value through profit and loss	2	2
– Exchange difference	(2)	(2)
Payment on maturity	(129)	(129)
At 31 December 2012	196	196
Total gains or losses for the year included in the statement of comprehensive income for assets held at the end of the reporting period recorded in:		
– Net income from financial instruments designated at fair value through profit and loss	17	17

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(i) Valuation of financial instruments with significant unobservable inputs *(continued)*

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy *(continued)*:

Liabilities

	The Bank	
	Financial liabilities designated at fair value through profit or loss – debt securities	Total
At 1 January 2012	3,558	3,558
In profit or loss		
– Net income from financial instruments designated at fair value through profit and loss	47	47
– Exchange difference	(20)	(20)
Issues	852	852
Payment on maturity	(1,381)	(1,381)
At 31 December 2012	3,056	3,056
Total gains or losses for the year included in the statement of comprehensive income for liabilities held at the end of the reporting period recorded in:		
– Net income from financial instruments designated at fair value through profit and loss	(140)	(140)

(ii) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values due to parallel movement of plus or minus 10 per cent of change in fair value to reasonably possible alternative assumptions.

21 Investments *(continued)*

(g) Fair values of financial instruments *(continued)*

(ii) Effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions *(continued)*

	The Group		The Bank	
	2013		2013	
	Effect on profit or loss or OCI		Effect on profit or loss or OCI	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets designated at fair value through profit or loss				
– Derivation financial assets	3	(3)	–	–
– Debt securities	13	(13)	13	(13)
Available-for-sale financial assets				
– Equity investments	24	(24)	–	–
– Investments in funds	2	(2)	–	–
Financial liabilities designated at fair value through profit loss				
– Certificates of deposit issued	530	(530)	530	(530)

	The Group		The Bank	
	2012		2012	
	Effect on profit or loss		Effect on profit or loss	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets designated at fair value through profit or loss				
– Debt securities	20	(20)	20	(20)
Financial liabilities designated at fair value through profit loss				
– Certificates of deposit issued	306	(306)	306	(306)

22 Investments in subsidiaries

	Bank	
	2013	2012
Unlisted shares, at cost	37,041	36,333
Less: Impairment loss	(1,768)	(1,768)
	35,273	34,565

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under note 2(d) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activities
CMB International Capital Corporation Limited (note (i))	Hong Kong	HK\$250	100%	Financial advisory services
CMB Finance Lease Company Limited (note (ii))	Shanghai	RMB4,000	100%	Finance lease
Wing Lung Bank Limited (note (iii))	Hong Kong	HK\$1,161	100%	Banking
China Merchants Fund Management Limited (note (iv))	Shenzhen	RMB210	55%	Asset management

- (i) CMB International Capital Corporation Limited, formerly known as Jiangnan Finance Company Limited is the Bank's wholly-owned subsidiary approved by the People's Bank of China ("PBOC") through its Yin Fu [1998] No. 405, and was renamed as CMBICC on 22 February 2002 upon approval of PBOC through its Yin Fu [2002] No. 30.
- (ii) CMB Financial Leasing Company Limited is a wholly-owned subsidiary of the Bank approved by the CBRC through its Yin Jian Fu [2008] No. 110 and commenced its operation in April 2008. In March 2012, China Merchants Bank made an additional capital contribution of RMB2 billion to CMBFLC.
- (iii) Wing Lung Bank, Limited is a wholly owned subsidiary of the Bank acquired in 2008 by way of agreement. The acquisition was completed on 15 January 2009. Wing Lung Bank had withdrawn from listing on the Hong Kong Stock Exchange as of 16 January 2009.

22 Investments in subsidiaries *(continued)*

- (iv) In 2012, the Bank acquired 21.6% equity interest in China Merchants Fund Management Limited (“CMFM”), its former associate, from an investment company in Netherlands at a consideration of €63,567,567.57. Following the settlement of the above consideration in cash, the Bank’s shareholdings in CMFM was increased from 33.4% to 55% in 2013. As a result, the bank obtains its control over CMFM, which became the Bank’s subsidiary on 28 November 2013. CMFM’s financial information is listed out below:

Item	Acquisition date to 31 December 2013
Revenue	78
Net profit	3
Cash generated from operating activities	35

CMFM identifiable assets acquired and liabilities assumed:

	Acquisition date	
	Carrying value	Fair value
Cash and balances with banks and other financial	697	697
Investment	139	139
Other assets	202	202
Salaries and welfare payable	(89)	(89)
Other liabilities	(197)	(197)
Total identifiable net assets acquired	752	752
NCI	(338)	(338)
	414	414

Goodwill arising from the acquisition has been recognized as follows:

Item	Acquisition date
Consideration transferred	518
NCI, based on their proportionate interest in the recognized amount of the assets and liabilities of CMFM	338
Fair value of pre-existing interest in CMFM	251
Fair value of identifiable net assets	(752)
Goodwill	355

The goodwill is attributable mainly to the skills and technical talent of CMFM’s work force and the synergies expected to be achieved from integrating the company into the Group’s existing finance business. None of the goodwill recognized is expected to be deductible for tax purpose.

23 Interest in associates

	Group		Bank	
	2013	2012	2013	2012
Unlisted shares, at cost	–	–	–	191
Share of net assets	18	177	–	–
Goodwill	2	114	–	–
	20	291	–	191
Less: Impairment allowance	(1)	(1)	–	–
	19	290	–	191

The following list contains only the particulars of associates as of 31 December 2013, which are unlisted corporate entities and principally affected the results or assets of the Group:

Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Bank	Held by the subsidiary	
Professional Liability Underwriting Services Limited	Incorporated	Hong Kong	HK\$3,000	27.00%	–	27.00%	Insurance underwriting
CMB Sinolink Investment Limited	Incorporated	Shenzhen	RMB20,000	40.00%	–	40.00%	Investment
Beijing Zhongguancun Gazelle Investment Fund Management Limited	Incorporated	Beijing	RMB30,000	25.00%	–	25.00%	Fund Management

Summary financial information on associates

	Assets	Liabilities	Equity	Revenues	Profit
2013					
100 per cent	107	47	60	20	2
Group's effective interest	31	13	18	5	–
2012					
100 per cent	86	69	17	15	7
Group's effective interest	24	19	5	4	2

24 Interest in joint ventures

	Group		Bank	
	2013	2012	2013	2012
Unlisted shares, at cost	–	–	171	–
Share of net assets	750	153	–	–
Loan to joint ventures	9	12	–	–
	759	165	171	–
Share of profits for the period	35	33	–	–
Share of other comprehensive income for the period	(9)	–	–	–

Details of the Group's interest in the joint ventures are as follows:

Name of joint ventures	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Bank	Held by the subsidiary	
CIGNA & CMB Life Insurance Company Limited (Note(i))	Incorporated with limited liabilities	Shenzhen	RMB500,000	50.00%	50.00%	–	Life Insurance Business
Bank Consortium Holding Limited (note (ii))	Incorporated with limited liabilities	Hong Kong	HK\$150,000	13.33%	–	14.29%	Provision of trustee, administration and custodian services for retirement schemes
Joint Electronic Teller Services Limited (note (iii))	Incorporated with limited liabilities	Hong Kong	HK\$10,024	2.88%	–	20.00%	Provision of ATM network services
Hong Kong Life Insurance Limited	Incorporated with limited liabilities	Hong Kong	HK\$420,000	16.67%	–	16.67%	Life insurance Business
BC Reinsurance Limited	Incorporated with limited liabilities	Hong Kong	HK\$200,000	21.00%	–	21.00%	Reinsurance Business
i-Tech Solutions Limited	Incorporated with limited liabilities	Hong Kong	HK\$6,000	50.00%	–	50.00%	Electronic document processing

24 Interest in joint ventures *(continued)*

Summary financial information on joint ventures (CIGNA & CMB Life Insurance Company Limited):

	Assets	Liabilities	Equity	Revenues	Profit
2013					
100 per cent	10,678	9,504	1,174	929	14
Group's effective interest	5,339	4,752	587	465	7
2012					
100 per cent	–	–	–	–	–
Group's effective interest	–	–	–	–	–

Summary financial information on joint ventures (others):

	Assets	Liabilities	Equity	Revenues	Profit
2013					
100 per cent	6,906	5,729	1,177	1,760	187
Group's effective interest	1,129	966	163	284	28
2012					
100 per cent	6,498	5,366	1,132	1,679	194
Group's effective interest	1,058	905	153	273	33

Notes:

- (i) In March 2013, the Bank was approved by China Banking Regulatory Commission and China Insurance Regulatory Commission to transfer 50% equity interest of CIGNA & CMB Life Insurance Company Limited ("CIGNA & CMB Life") held by Shenzhen Dingzun Investment Advisory Company. On 21 October 2013, CIGNA & CMB Life completed the procedure for change of business registration, such that the Bank and Life had equal shares over CIGNA & CMB Life.

CIGNA & CMB Life is a limited liability company and is the only joint venture arrangement on the Bank's level. The Bank and Insurance Company of North America share the company's profits, risks and losses based on the above proportion of their shareholdings. The Bank's investment in CIGNA & CMB Life shall be accounted for as an investment in a joint venture.

The insurance license from CIGNA & CMB Life has a significant strategic meaning for the Bank to further streamline its revenue structure and expand its business scope and operational channel.

- (ii) The Bank's subsidiary, Wing Lung Bank holds 14.29% of the entity's common share and is entitled to 13.33% of the paid dividends.
- (iii) The Bank's subsidiary, Wing Lung Bank is one of the five founders of the entity and jointly control the entity. Wing Lung Bank holds 20% of the entity's common share and is entitled to 2.88% of the paid dividends.

25 Fixed assets

2013

	Group						Total
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts and vessels	Motor vehicles and others	
Cost:							
At 1 January 2013	13,705	3,476	5,148	5,103	1,389	5,081	33,902
Additions through acquisition of subsidiaries	1	–	6	–	–	3	10
Additions	760	3,615	1,002	1,058	88	840	7,363
Reclassification and transfers	2,548	(2,849)	(7)	55	–	36	(217)
Disposals/write-offs	(44)	–	(157)	(21)	–	(413)	(635)
Exchange difference	(91)	(1)	(3)	(10)	(69)	(14)	(188)
At 31 December 2013	16,879	4,241	5,989	6,185	1,408	5,533	40,235
Accumulated depreciation:							
At 1 January 2013	3,387	–	3,643	2,866	114	3,500	13,510
Depreciation	746	–	850	833	70	686	3,185
Reclassification and transfers	(9)	–	(4)	–	–	4	(9)
Disposals/write-offs	(17)	–	(173)	(13)	–	(377)	(580)
Exchange difference	(1)	–	1	(16)	(31)	(23)	(70)
At 31 December 2013	4,106	–	4,317	3,670	153	3,790	16,036
Net book value:							
At 31 December 2013	12,773	4,241	1,672	2,515	1,255	1,743	24,199
At 1 January 2013	10,318	3,476	1,505	2,237	1,275	1,581	20,392

2012

	Group						Total
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts and vessels	Motor vehicles and others	
Cost:							
At 1 January 2012	10,704	4,023	4,388	4,081	1,001	4,629	28,826
Additions	501	2,654	986	858	156	783	5,938
Reclassification and transfers	2,642	(3,201)	6	253	231	24	(45)
Disposals/write-offs	(116)	–	(231)	(88)	–	(345)	(780)
Exchange difference	(26)	–	(1)	(1)	1	(10)	(37)
At 31 December 2012	13,705	3,476	5,148	5,103	1,389	5,081	33,902
Accumulated depreciation:							
At 1 January 2012	2,808	–	3,191	2,047	54	3,226	11,326
Depreciation	608	–	681	846	60	621	2,816
Reclassification and transfers	1	–	(1)	–	–	1	1
Disposals/write-offs	(26)	–	(227)	(25)	–	(336)	(614)
Exchange difference	(4)	–	(1)	(2)	–	(12)	(19)
At 31 December 2012	3,387	–	3,643	2,866	114	3,500	13,510
Net book value:							
At 31 December 2012	10,318	3,476	1,505	2,237	1,275	1,581	20,392
At 1 January 2012	7,896	4,023	1,197	2,034	947	1,403	17,500

25 Fixed assets *(continued)*

2013

	Bank					Total
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	
Cost:						
At 1 January 2013	10,841	3,475	4,996	4,948	5,037	29,297
Additions	760	3,616	908	1,038	831	7,153
Reclassification and transfers	2,548	(2,849)	(8)	55	36	(218)
Disposals/write-offs	(44)	-	(157)	(19)	(412)	(632)
Exchange difference	(7)	-	-	(1)	(12)	(20)
At 31 December 2013	14,098	4,242	5,739	6,021	5,480	35,580
Accumulated depreciation:						
At 1 January 2013	2,781	-	3,556	2,808	3,476	12,621
Depreciation	605	-	801	807	678	2,891
Reclassification and transfers	(9)	-	(4)	-	4	(9)
Disposals/write-offs	(17)	-	(169)	(9)	(375)	(570)
Exchange difference	14	-	-	1	(21)	(6)
At 31 December 2013	3,374	-	4,184	3,607	3,762	14,927
Net book value:						
At 31 December 2013	10,724	4,242	1,555	2,414	1,718	20,653
At 1 January 2013	8,060	3,475	1,440	2,140	1,561	16,676

2012

	Bank					Total
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	
Cost:						
At 1 January 2012	7,825	3,792	4,252	3,980	4,590	24,439
Additions	501	2,653	962	793	773	5,682
Reclassification and transfers	2,634	(2,970)	6	253	24	(53)
Disposals/write-offs	(116)	-	(224)	(78)	(340)	(758)
Exchange difference	(3)	-	-	-	(10)	(13)
At 31 December 2012	10,841	3,475	4,996	4,948	5,037	29,297
Accumulated depreciation:						
At 1 January 2012	2,345	-	3,125	2,002	3,206	10,678
Depreciation	465	-	652	823	615	2,555
Reclassification and transfers	(1)	-	(1)	-	1	(1)
Disposals/write-offs	(26)	-	(220)	(17)	(334)	(597)
Exchange difference	(2)	-	-	-	(12)	(14)
At 31 December 2012	2,781	-	3,556	2,808	3,476	12,621
Net book value:						
At 31 December 2012	8,060	3,475	1,440	2,140	1,561	16,676
At 1 January 2012	5,480	3,792	1,127	1,978	1,384	13,761

25 Fixed assets *(continued)*

(a) Analysed by remaining terms of leases

The net book value of land and buildings at the end of the reporting period is analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2013	2012	2013	2012
Held in Mainland China				
– long leases (over 50 years)	282	306	280	304
– medium-term leases (10 – 50 years)	10,420	7,727	10,415	7,727
	10,702	8,033	10,695	8,031
Held in Hong Kong				
– long leases (over 50 years)	1,084	1,173	–	–
– medium-term leases (10 – 50 years)	967	1,090	29	29
	2,051	2,263	29	29
Held in Overseas				
– freehold	20	22	–	–
	12,773	10,318	10,724	8,060

- (b) As at 31 December 2013, the Board of Directors considered that there was no impairment loss on fixed assets (2012: nil).
- (c) As at 31 December 2013, ownership documentation for the Group's properties with a net carrying value of RMB876 million (2012: RMB826 million) was being finalised.
- (d) As at 31 December 2013, the Group has no significant unused fixed assets (2012: nil).

26 Investment properties

	Group		Bank	
	2013	2012	2013	2012
Cost:				
At 1 January	2,207	2,175	540	487
Transfers	226	45	218	53
Exchange difference	(54)	(13)	–	–
At 31 December	2,379	2,207	758	540
Accumulated depreciation:				
At 1 January	569	465	215	189
Depreciation	110	108	28	25
Transfers	10	(1)	9	1
Exchange difference	(11)	(3)	(1)	–
At 31 December	678	569	251	215
Net book value:				
At 31 December	1,701	1,638	507	325
At 1 January	1,638	1,710	325	298

(a) Analysed by remaining terms of leases

The net book value of investment properties at the end of the reporting period is analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2013	2012	2013	2012
Held in Mainland China				
– long leases (over 50 years)	–	–	–	–
– medium-term leases (10 – 50 years)	523	349	507	325
	523	349	507	325
Held in Hong Kong				
– long leases (over 50 years)	8	1	–	–
– medium-term leases (10 – 50 years)	1,170	1,288	–	–
	1,178	1,289	–	–
	1,701	1,638	507	325

(b) Investment properties of the Group mainly represent WLB leasing properties and the portion of the Bank's headquarters in Shenzhen that has been leased out under operating leases or is available for lease. As at 31 December 2013, fair value of these properties was RMB4.09 billion (2012: RMB3.44 billion). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	Group		Bank	
	2013	2012	2013	2012
1 year or less	184	130	52	53
5 years or less but over 1 year	330	121	105	59
Over 5 years	32	1	32	1
	546	252	189	113

27 Intangible assets

2013

	Group			
	Land use right	Software	Core deposit	Total
Cost/Valuation:				
At 1 January 2013	1,138	1,656	1,056	3,850
Additions through acquisition of subsidiaries	–	10	–	10
Additions	172	325	–	497
Transfers	(9)	–	–	(9)
Exchange difference	(4)	–	(22)	(26)
At 31 December 2013	1,297	1,991	1,034	4,322
Amortization:				
At 1 January 2013	145	695	159	999
Additions	29	263	36	328
Transfers	(1)	–	–	(1)
Exchange difference	(2)	(2)	4	–
At 31 December 2013	171	956	199	1,326
Net book value:				
At 31 December 2013	1,126	1,035	835	2,996
At 1 January 2013	993	961	897	2,851

2012

	Group			
	Land use right	Software	Core deposit	Total
Cost/Valuation:				
At 1 January 2012	1,009	1,230	1,064	3,303
Additions	130	426	–	556
Exchange difference	(1)	–	(8)	(9)
At 31 December 2012	1,138	1,656	1,056	3,850
Amortization:				
At 1 January 2012	121	455	122	698
Additions	24	240	38	302
Exchange difference	–	–	(1)	(1)
At 31 December 2012	145	695	159	999
Net book value:				
At 31 December 2012	993	961	897	2,851
At 1 January 2012	888	775	942	2,605

27 Intangible assets *(continued)*

2013

	Bank		
	Land use right	Software	Total
Cost/Valuation:			
At 1 January 2013	934	1,649	2,583
Additions	172	325	497
At 31 December 2013	1,106	1,974	3,080
Amortization:			
At 1 January 2013	129	694	823
Additions	25	262	287
Exchange difference	(2)	(1)	(3)
At 31 December 2013	152	955	1,107
Net book value:			
At 31 December 2013	954	1,019	1,973
At 1 January 2013	805	955	1,760

2012

	Bank		
	Land use right	Software	Total
Cost/Valuation:			
At 1 January 2012	804	1,225	2,029
Additions	130	424	554
At 31 December 2012	934	1,649	2,583
Amortization:			
At 1 January 2012	109	454	563
Additions	20	240	260
At 31 December 2012	129	694	823
Net book value:			
At 31 December 2012	805	955	1,760
At 1 January 2012	695	771	1,466

28 Goodwill

	As at 1 January	Addition in the year	Release in the year	As at 31 December	Impairment loss
Wing Lung Bank (note i)	10,177	–	–	10,177	(579)
China Merchants Fund Management (note ii)	–	355	–	355	–
Total	10,177	355	–	10,532	(579)

- (i) On 30 September 2008, the Bank acquired a 53.12% equity interest in Wing Lung Bank. On the acquisition date, the fair value of Wing Lung Bank's identifiable net asset was RMB12.898 billion of which the Bank accounted for RMB6.851 billion. A sum of RMB10.177 billion being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill. Wing Lung Bank is a licensed bank incorporated in Hong Kong which provides various personal and commercial banking products and services.
- (ii) On 28 November 2013, the Bank acquired a 55% equity interest in China Merchants Fund Management. On the acquisition date, the fair value of China Merchants Fund Management's identifiable net asset was RMB7.52 million of which the Bank accounted for RMB4.14 million. A sum of RMB3.55 million being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill. China Merchants Fund Management is the first Sino-foreign joint venture licensed Fund Management company approved by China Securities Regulatory Commission, which provides fund establishment, fund management and other services approved by China Securities Regulatory Commission.

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU"), Wing Lung Bank which was acquired on 30 September 2008 and China Merchants Fund Management which was acquired on 28 November 2013.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In assessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of Wing Lung Bank and China Merchants Fund Management. A pre-tax discount rate of 12% (2012: 12%) was used.

29 Deferred tax assets/liabilities

	Group		Bank	
	2013	2012	2013	2012
Deferred tax assets	8,064	4,993	7,820	4,838
Deferred tax liabilities	(770)	(813)	–	–
Total	7,294	4,180	7,820	4,838

29 Deferred tax assets/liabilities *(continued)*

(a) Nature of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) are as follows:

	Group			
	2013		2012	
	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Impairment losses on loans and advance to customers and other assets	15,917	3,986	14,167	3,549
Investment revaluation reserve	7,519	1,880	56	15
Deductible salary expenses	6,486	1,621	4,401	1,100
Others	2,358	577	1,405	329
Total	32,280	8,064	20,029	4,993
Deferred tax liabilities				
Impairment losses on loans and advance to customers and other assets	142	23	114	19
Investment revaluation reserve	40	7	19	3
Others	(4,848)	(800)	(5,057)	(835)
Total	(4,666)	(770)	(4,924)	(813)
	Bank			
	2013		2012	
	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)
Deferred tax assets				
Impairment losses on loans and advance to customers and other assets	15,331	3,833	13,873	3,468
Investment revaluation reserve	7,521	1,880	62	16
Deductible salary expenses	6,370	1,593	4,303	1,076
Others	2,056	514	1,112	278
Total	31,278	7,820	19,350	4,838
Deferred tax liabilities				
Impairment losses on loans and advance to customers and other assets	-	-	-	-
Investment revaluation reserve	-	-	-	-
Others	-	-	-	-
Total	-	-	-	-

29 Deferred tax assets/liabilities *(continued)*

(b) Movements of deferred tax

	Group				Total
	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	
At 1 January 2013	3,568	18	1,100	(506)	4,180
Addition through acquisition of subsidiaries	–	–	7	20	27
Recognised in the consolidated statement of comprehensive income	442	–	514	25	981
Recognised in reserves	–	1,869	–	215	2,084
Due to exchange difference	(1)	–	–	23	22
At 31 December 2013	4,009	1,887	1,621	(223)	7,294

	Group				Total
	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	
At 1 January 2012	3,984	(26)	559	(1,019)	3,498
Recognised in the consolidated statement of comprehensive income	(416)	–	541	330	455
Recognised in reserves	–	44	–	174	218
Due to exchange difference	–	–	–	9	9
At 31 December 2012	3,568	18	1,100	(506)	4,180

29 Deferred tax assets/liabilities *(continued)*

(b) Movements of deferred tax *(continued)*

	Bank				Total
	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	
At 1 January 2013	3,468	16	1,076	278	4,838
Recognised in the consolidated statement of comprehensive income	365	–	517	6	888
Recognised in reserves	–	1,864	–	230	2,094
At 31 December 2013	3,833	1,880	1,593	514	7,820

	Bank				Total
	Impairment losses on loans and advances to customers and other assets	Investment revaluation reserve	Deductible salary expenses	Others	
At 1 January 2012	3,909	(35)	558	(225)	4,207
Recognised in the consolidated statement of comprehensive income	(441)	–	518	323	400
Recognised in reserves	–	51	–	180	231
At 31 December 2012	3,468	16	1,076	278	4,838

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China ("New Tax Law") which will take effect on 1 January 2008. As a result of New Tax Law, the income tax rate applicable to the Bank's business is 25%.

30 Other assets

	Group		Bank	
	2013	2012	2013	2012
Amounts pending for settlement	3,709	1,536	3,180	947
Repossessed assets (note (a))	62	61	62	61
Prepaid lease payments	781	710	768	701
Deposits	478	168	278	152
Prepayment for lease improvement and other miscellaneous items	303	393	141	213
Premium receivables	131	142	–	–
Recoverable from reinsurers	227	233	–	–
Retirement benefit scheme (note 37(b)(ii))	106	34	–	–
Accounts receivable certificate of deposit issued	–	1,246	–	1,246
Others	3,807	4,199	2,723	3,767
Total	9,604	8,722	7,152	7,087

(a) Repossessed assets

	Group and Bank	
	2013	2012
Residential properties	650	662
Others	303	312
Total	953	974
Less: Impairment allowances	(891)	(913)
Net repossessed assets	62	61

Notes:

- (i) In 2013, the Group has disposed repossessed assets with total cost of RMB19 million (2012: RMB7 million).
- (ii) The Group plan to dispose the repossessed assets by auction, bid and transfer.

31 Deposits from banks and other financial institutions

	Group		Bank	
	2013	2012	2013	2012
Deposits from banks				
– In the Mainland	221,121	106,635	216,605	101,060
– Outside Mainland	55,896	6,400	55,870	6,417
Deposits from other financial institutions				
– In the Mainland	237,165	145,657	237,165	145,657
Total	514,182	258,692	509,640	253,134

32 Placements from banks and other financial institutions

	Group		Bank	
	2013	2012	2013	2012
Banks in the Mainland	104,396	99,079	55,985	59,517
Banks outside the Mainland	20,736	10,736	13,843	6,914
	125,132	109,815	69,828	66,431

33 Amounts sold under repurchase agreements

(a) Analysed by geographical location

	Group		Bank	
	2013	2012	2013	2012
Balances under repurchase agreements				
– banks in the Mainland	149,336	157,753	148,033	157,753
– other financial institution in the Mainland	3,114	200	3,114	–
– Banks outside the Mainland	714	–	714	–
	153,164	157,953	151,861	157,753

(b) Analysed by assets type

	Group		Bank	
	2013	2012	2013	2012
Securities				
– PRC government bonds	31,900	–	31,900	–
– Bond issued by PBOC	–	7,134	–	7,134
– Bonds issued by policy banks	19,371	36,832	19,371	36,832
– Bonds issued by commercial banks and other financial institutions	82,017	104,825	82,017	104,825
– Other debt securities	143	–	143	–
	133,431	148,791	133,431	148,791
Discounted bills	18,430	8,962	18,430	8,962
Loans	1,303	200	–	–
	153,164	157,953	151,861	157,753

34 Deposits from customers

	Group		Bank	
	2013	2012	2013	2012
Corporate customers				
– Demand deposits	864,224	797,577	854,900	788,136
– Time deposits	942,728	809,364	900,988	774,568
	1,806,952	1,606,941	1,755,888	1,562,704
Retail customers				
– Demand deposits	547,363	524,970	524,823	503,224
– Time deposits	420,961	400,533	374,170	360,546
	968,324	925,503	898,993	863,770
	2,775,276	2,532,444	2,654,881	2,426,474

Customers' deposits include deposit of guarantee as follows:

	Group		Bank	
	2013	2012	2013	2012
Guarantee for acceptance bills	165,808	140,429	165,678	140,291
Guarantee for loans	44,754	24,531	36,611	18,913
Guarantee for issuing letters of credit	36,397	24,097	36,389	24,091
Deposit for letters of guarantee	28,405	20,811	28,285	20,687
Others	26,572	22,507	26,520	22,464
	301,936	232,375	293,483	226,446

35 Interest payable

	Group		Bank	
	2013	2012	2013	2012
Issued debt securities	928	1,286	831	1,259
Customer deposit and others	30,060	22,779	28,948	22,022
	30,988	24,065	29,779	23,281

36 Debt issued

	Note	Group		Bank	
		2013	2012	2013	2012
Certificates of deposit issued		20,941	13,013	8,519	7,426
Subordinated notes issued	36(a)	21,047	44,124	18,676	41,683
Long-term debt securities Issued	36(b)	23,980	19,974	19,980	19,974
Interbank deposits issued		2,968	–	2,968	–
		68,936	77,111	50,143	69,083

(a) Subordinated notes issued

As at the end of the reporting period, subordinated notes issued by the Bank were as follows:

Particulars	Terms	Date of issue	Annual fixed interest rate (%)	Nominal Value (in RMB million)	Carrying amount	
					2013	2012
Fixed rate notes (note (i))	120 months	4 September 2008	5.70 (for the first 5 years); 8.70 (from 6 year onwards, if the notes are not called by the Bank)	19,000	–	18,994
Fixed rate notes (note (i))	180 months	4 September 2008	5.90 (for the first 10 years); 8.90 (from 11 year onwards, if the notes are not called by the Bank)	7,000	6,991	6,990
Floating rate notes (note (i))	120 months	4 September 2008	R*+1.53% (for the first 5 years); R*+4.53% (from 6 years onwards, if the notes are not called by the Bank)	4,000	–	3,999
Fixed rate notes (note (ii))	180 months	28 December 2012	5.20%	11,700	11,685	11,700
					18,676	41,683

36 Debt issued *(continued)*

(a) Subordinated notes issued *(continued)*

As at the end of the reporting period, subordinated note issued by WLB was as follows:

Particulars	Terms	Date of issue	Annual fixed interest rate (%)	Nominal Value (in RMB million)	Carrying amount	
					2013	2012
Fixed rate notes	144 months	28 December 2009	5.70	HK\$1,500	1,171	1,206
Fixed to floating rate notes	120 months	6 November 2012	3.5 (for the first 5 years); T*+2.8% (from 6 years onwards, if the notes are not called by the Bank)	US\$200	1,200	1,235
					2,371	2,441

* R represents the 1-year fixed deposit rate ("Rate") promulgated by PBOC. The Rate on 4 September 2008, 2009, 2010, 2011 and 2012 was 4.14%, 2.25%, 2.25%, 3.50% and 3.00%. T represents the 5 years US Treasury rate.

Notes:

- (i) The CBRC and PBOC approved the Bank's issuance of RMB30 billion subordinated notes on 12 August 2008 (Yin Jian Fu [2008] No.304 entitled "The Approval of the issuance of subordinated bonds by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi [2008] No.25 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB26 billion fixed rate notes and RMB4 billion floating rate notes on 4 September 2008 to institutional investors on the China Interbank Bond Market. The Bank exercised its redemption right on 4 September 2013 and redeemed a total of RMB23 billion subordinated bonds, including two types of bonds valued at RMB19 billion and RMB4 billion respectively.
- (ii) The CBRC and PBOC approved the Bank's issuance of RMB11.7 billion subordinated notes on 29 November 2012 (Yin Jian Fu [2012] No.703 entitled "The Approval of the issuance subordinated bonds by China Merchants Bank") and on 20 December 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.91 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11.7 billion fixed rate notes on 28 December 2012 to institutional investors on the China Interbank Bond Market.

36 Debt issued *(continued)*

(b) Long-term debt securities

As at the balance sheet date, long-term debt securities issued by the Bank were as follows:

Particulars	Terms	Date of issue	Fixed annual interest rate (%)	Nominal Value (in RMB million)	Carrying amount	
					2013	2012
12 CMB 01(note(ii))	60 months	14 March 2012	4.15%	6,500	6,494	6,492
12 CMB 02(note(ii))	60 months	14 March 2012	R*+0.95%	13,500	13,486	13,482
					19,980	19,974

* R represents the 1-year fixed deposit rate ("Rate") promulgated by the PBOC. The Rate on 14 March 2012 was 3.50%.

Note:

- (i) The CBRC and PBOC approved the Bank's issuance of RMB20 billion long-term debt securities on 12 December 2011 (Yin Jian Fu [2011] No.557 entitled "The Approval of the issuance of long-term debt securities by China Merchants Bank") and on 16 January 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.2 entitled "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB6.5 billion fixed rate debt and RMB13.5 billion floating rate debt on 14 March 2012 on the China Interbank Bond Market.

As at the end of the reporting period, long-term debt securities issued by CMB leasing were as follows:

Particulars	Terms	Date of issue	Fixed annual interest rate (%)	Nominal value (in RMB million)	Carrying amount	
					2013	2012
Fixed rate notes (Note (ii))	36 months	26 June 2013	4.99%	1,000	1,000	–
Fixed rate notes (Note (ii))	60 months	26 June 2013	5.08%	1,000	1,000	–
Fixed rate notes (Note (ii))	36 months	24 July 2013	4.87%	1,000	1,000	–
Fixed rate notes (Note (ii))	60 months	24 July 2013	4.98%	1,000	1,000	–
					4,000	–

Note:

- (ii) As approved by CBRC under its Official Reply on the Issue of Financial Bonds by CMB Financial Leasing Company Limited under ref. Yin Jian Fu [2012] No.758 and the People's Bank of China under its Decision on the Grant of Administrative Permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2013] No.33, CMB Financial Leasing Company Limited issued the first tranche of RMB2 billion in financial bonds of CMB Financial Leasing Company Limited for 2013 on 26 June 2013 and the second tranche of RMB2 billion on 24 July 2013.

37 Staff welfare scheme

(a) Salaries and welfare payable

	Group				
	2013				
	Beginning balance	Additions through acquisition of subsidiaries	Change in the year	Payment/transfers in the year	Ending balance
Salary and bonus	2,589	81	13,408	(12,502)	3,576
Welfare expense	37	–	79	(80)	36
Social insurance and corporate supplementary insurance	337	–	4,008	(4,124)	221
Housing reserve	90	–	1,267	(1,249)	108
Trade union and employee education expenses	986	8	791	(620)	1,165
Others	17	–	(4)	–	13
Including: Cash settled share-based transactions	17	–	(4)	–	13
	4,056	89	19,549	(18,575)	5,119

	Group			
	2012			
	Beginning balance	Change in the year	Payment/transfers in the year	Ending balance
Salary and bonus	2,189	12,132	(11,732)	2,589
Welfare expense	38	43	(44)	37
Social insurance and corporate supplementary insurance	258	3,507	(3,428)	337
Housing reserve	73	1,174	(1,157)	90
Trade union and employee education expenses	744	697	(455)	986
Others	18	(1)	–	17
Including: Cash settled share-based transactions	18	(1)	–	17
	3,320	17,552	(16,816)	4,056

37 Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

	Bank			
	2013			
	Beginning balance	Change in the year	Payment/transfers in the year	Ending balance
Salary and bonus	2,303	12,617	(11,814)	3,106
Welfare expense	37	–	(1)	36
Social insurance and corporate supplementary insurance	337	3,988	(4,105)	220
Housing reserve	90	1,259	(1,241)	108
Trade union and employee education expenses	982	783	(614)	1,151
Others	17	(4)	–	13
Including: Cash settled share-based transactions	17	(4)	–	13
	3,766	18,643	(17,775)	4,634

	Bank			
	2012			
	Beginning balance	Change in the year	Payment/transfers in the year	Ending balance
Salary and bonus	1,960	11,411	(11,068)	2,303
Welfare expense	38	–	(1)	37
Social insurance and corporate supplementary insurance	256	3,489	(3,408)	337
Housing reserve	73	1,169	(1,152)	90
Trade union and employee education expenses	740	693	(451)	982
Others	18	(1)	–	17
Including: Cash settled share-based transactions	18	(1)	–	17
	3,085	16,761	(16,080)	3,766

37 Staff welfare scheme *(continued)*

(b) Retirement benefits

(i) Defined contribution schemes

In accordance with the regulations in the PRC, the Group participates in statutory retirement schemes organised by the municipal and provincial governments for its employees (endowment insurance). The Group's contributions to the schemes are determined by local governments and vary at a range of 10% to 35% (2012: 10% to 35%) of the staff salaries.

In addition to the above statutory retirement schemes, the Group has established a supplementary defined contribution plan for its employees (annuity insurance). The Group's annual contributions to this plan are determined based on 8.33% of the staff salaries since 1 January 2004.

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practise and regulations.

(ii) Defined benefit schemes

The Group operates a retirement benefit scheme and a pension scheme (collectively known as "Defined benefit scheme") for the staff of a subsidiary of the Bank. The contributions of the Defined benefit scheme are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the Defined benefit scheme. The Defined benefit scheme provides benefits based on members' final salary. The costs are solely funded by the group.

The latest actuarial valuation of the Defined benefit scheme was performed in accordance with IAS 19 issued by the IASB as at 31 December 2013 by professional actuarial firm Towers Watson Hong Kong Limited. The present values of the defined benefit obligation and current service cost of the Defined benefit scheme are calculated based on the projected unit credit method. At the valuation date, the Plan had a funding level of 136% (2012:109%).

The amounts recognised in the statement of financial position as at 31 December 2013 are analysed as follows:

	The Group	
	2013	2012
Fair value of Defined benefit scheme assets	400	418
Present value of the funded defined benefit obligation	(294)	(384)
Net asset recognised in the statement of financial position	106	34

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the Defined benefit scheme is expected to pay in 2014.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2013 and 2012.

37 Staff welfare scheme *(continued)*

(b) Retirement benefits *(continued)*

(ii) Defined benefit schemes *(continued)*

The amounts recognised in the statement of comprehensive income are as follows:

	The Group	
	2013	2012
Current service cost	(15)	(15)
Net interest income	-	-
Net income for the year included in retirement benefit costs	(15)	(15)

The actual gains on Defined benefit scheme assets for the year ended 31 December 2013 was RMB43 million (2012: actual benefit RMB48 million).

The movements in the defined benefit obligation during the year are as follows:

	The Group	
	2013	2012
Present value of obligation at 1 January	384	382
Current service cost	15	15
Interest cost	3	6
Actual benefits paid	(48)	(24)
Actuarial (gain)/loss due to liability experience	(23)	3
Actuarial (gain)/loss due to financial assumption changes	(37)	22
Actuarial gain due to demographic assumption changes	-	(20)
Actual obligation at 31 December	294	384

The movements in the fair value of the Defined benefit scheme assets during the year are as follows:

	The Group	
	2013	2012 (Restated)
Fair value of Defined benefit scheme assets at 1 January	418	397
Interest income	3	6
Expected return on Defined benefit scheme assets	40	43
Actual benefits paid	(48)	(24)
Actuarial losses	(13)	(4)
Fair value of Defined benefit scheme assets at 31 December	400	418

The major categories of the Defined benefit scheme assets are as follows:

	The Group			
	2013		2012	
		%		%
Equities	269	67.3	277	66.3
Bonds	66	16.5	70	16.7
Cash	65	16.2	71	17.0
Total	400	100	418	100

No deposit with the Bank was included in the amount of Defined benefit scheme assets (2012: Nil).

37 Staff welfare scheme *(continued)*

(b) Retirement benefits *(continued)*

(ii) Defined benefit schemes *(continued)*

The principal actuarial assumptions adopted in the valuation are as follows:

	The Group	
	2013	2012
	%	%
Discount rate		
– Retirement benefit scheme	2.1	0.7
– Pension scheme	0.75	0.1
Long-term average rate of salary increase for the defined benefit scheme of the Scheme	5.0	5.0
Pension increase rate for the defined benefit pension scheme	3.0	3.0

(iii) Supplementary retirement scheme

Supplementary retirement scheme was an annuity contract purchased from independent life insurance company by the Bank to provide supplementary defined contribution retirement benefits to its full time employees. It was a voluntary payment and the Bank has no further obligations to make future contributions. In 2013, the Bank purchased annuity contracts of RMB3,000 million (2012: RMB2,800 million).

The Group has no other material obligations for the payment of other post retirement benefits other than the contributions described above.

(c) Staff salary and incentive scheme

The performance bonus was accrued at a fixed percentage based on the net profit for the year as approved by the board of directors.

(d) Cash settled share-based transactions

The Bank has H-share Appreciation Rights Scheme phase I, phase II, phase III, phase IV and phase V and phase VI for the Senior Management ("the Scheme") which was adopted on 30 October 2007, 7 November 2008, 16 November 2009, 18 February 2011 and 4 May 2012 and 22 May 2013 respectively whereby the directors of the Bank are authorized, at their discretion, to invite the Senior Management of the Bank to take up options at nil consideration to subscribe for shares of the Group. The options vest after 2 years or 3 years from the date of grant and are then exercisable within a period of 8 years or 7 years. Each of the share appreciation right is linked to one H-share.

37 Staff welfare scheme *(continued)*

(d) Cash settled share-based transactions *(continued)*

(i) All share appreciation rights shall be paid in cash. The terms and conditions of the scheme are listed below:

	Number of unexercised options at the end of 2013 (in millions) Note (i)	Exercise conditions	Contract period of options
Options granted on 30 October 2007	1.177	2 years after date of grant	10 years
Options granted on 7 November 2008	1.209	2 years after date of grant	10 years
Options granted on 16 November 2009	1.534	2 years after date of grant	10 years
Options granted on 18 February 2011	1.688	3 years after date of grant	10 years
Options granted on 4 May 2012	1.750	3 years after date of grant	10 years
Options granted on 22 May 2013	1.750	3 years after date of grant	10 years

Note (i): In 2009, the Bank paid dividends for 2008, 3 bonus shares for every 10 shares. As a result, the number of H-share appreciation rights for phase I granted in 2007 increased from 1.29 million to 1.68 million; and the number of H-share appreciation rights for phase II granted in 2008 increased from 1.32 million to 1.72 million.

At the third meeting of the eighth board of directors of the Bank in 2010, it was agreed that the senior management, on their own initiative, would waive 25% of the H-share appreciation rights for both phases I and II to be effective in 2010, and these appreciation rights would be cancelled. The number of H-share appreciation rights for phase I granted by the Bank in 2007 thus decreased from 1.68 million to 1.26 million; and that for phase II granted in 2008 decreased from 1.72 million to 1.29 million.

Note (ii): The Bank placed 1.3 H-shares for every 10 H-shares in 2010. As a result, the number of the Bank's H-share appreciation rights granted in 2007 was adjusted from 1.26 million to 1.34 million; that for 2008 was adjusted from 1.29 million to 1.37 million; and that for 2009 was adjusted from 1.59 million to 1.69 million.

Note (iii): The Bank offered H-share placing in 2013 on a placement of 1.74 shares for every 10 shares. In accordance with Article 8 under Chapter 5 of the Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd., upon the retirement of holders of share appreciation rights, their shares in all share appreciation rights granted will be released at one time on the day of retirement and should be fully exercised within 6 months. Any H-share appreciation rights outstanding over 183 days shall be cancelled. The Bank's former audit director Fan Peng retired on 1 April 2012. His rights were not exercised within the required period and should be cancelled. In accordance with Article 2 under Chapter 9 of the H-Share Appreciation Rights Incentive Scheme for the Senior Management of China Merchants Bank Co., Ltd., all of the outstanding share appreciation rights of employees resigned on their own from the dates of their resignation shall be cancelled. The Bank's former Board secretary Lan Qi resigned on 9 August 2013. His H-share appreciation rights were cancelled. As a result, the Bank's H-share appreciation rights granted in 2007 has been adjusted from 1.34 million to 1.18 million, from 1.37 million to 1.21 million in 2008, from 1.69 million to 1.53 million in 2009, from 1.89 million to 1.69 million in 2011, from 1.86 million to 1.75 million in 2012 and from 1.86 million to 1.75 million in 2013.

37 Staff welfare scheme *(continued)*

(d) Cash settled share-based transactions *(continued)*

(iii) Fair value of share options and assumptions *(continued)*

	2012				
	Phase I	Phase II	Phase III	Phase IV	Phase V
Fair value at measurement date (in RMB)	1.19	7.64	2.90	3.35	4.01
Share price (in HK\$)	17	17	17	17	17
Exercise price (in HK\$)	27.02	8.05	19.54	18.38	16.13
Expected volatility	26%	26%	26%	26%	26%
Option life (year)	4.83	5.83	6.83	8.17	9.33
Expected dividends rate	3.33%	3.33%	3.33%	3.33%	3.33%
Risk-free interest rate	2.85%	2.85%	2.85%	2.85%	2.85%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

(iv) The number of share appreciation rights granted to members of senior management:

	2013							No. of shares exercised	Total no. of shares
	Phase I	Phase II	Phase III	Phase IV	Phase V	Phase VI			
	No. of shares granted (in thousand)	No. of shares granted (in thousand)	No. of shares granted (in thousand)	No. of shares granted (in thousand)	No. of shares exercised (in thousand)	No. of shares exercised (in thousand)			
Ma Wei Hua (note(i))	318	318	327	307	307	307	-	1,884	
Zhang Guang Hua	159	159	163	200	200	200	-	1,081	
Li Hao	159	159	163	200	200	200	-	1,081	
Tang Zhi Hong	159	159	163	184	184	184	-	1,033	
Yin Feng Lan (note(i))	159	159	163	184	184	184	-	1,033	
Ding Wei	127	159	163	184	184	184	-	1,001	
Tang Xiao Qing	-	-	163	153	184	184	-	684	
Wang Qing Bin	-	-	131	153	184	184	-	652	
Xu Lian Feng (note(i))	96	96	98	123	123	123	-	659	
Total	1,177	1,209	1,534	1,688	1,750	1,750	-	9,108	

37 Staff welfare scheme *(continued)*

(d) Cash settled share-based transactions *(continued)*

(iv) The number of share appreciation rights granted to members of senior management: *(continued)*

	2012						Total no. of shares (in thousand)
	Phase I	Phase II	Phase III	Phase IV	Phase V	No. of shares exercised (in thousand)	
	No. of shares granted (in thousand)	No. of shares granted (in thousand)	No. of shares granted (in thousand)	No. of shares granted (in thousand)	No. of shares exercised (in thousand)		
Ma Wei Hua	311	311	320	300	300	-	1,542
Zhang Guang Hua	155	155	159	195	195	-	859
Li Hao	155	155	159	195	195	-	859
Tang Zhi Hong	155	155	159	180	180	-	829
Yin Feng Lan	155	155	159	180	180	-	829
Ding Wei	124	155	159	180	180	-	798
Tang Xiao Qing	-	-	159	150	180	-	489
Wang Qing Bin	-	-	128	150	180	-	458
Xu Lian Feng	94	94	96	120	120	-	524
Fan Peng	94	94	96	120	-	-	404
Lan Qi	94	94	96	120	150	-	554
Total	1,337	1,368	1,690	1,890	1,860	-	8,145

Notes: (i) The terms of office the Bank's former President Ma Wei Hua, former Executive Vice President Yin Feng Lan and former Technology Director Xu Lian Feng expired on 6 September 2013, 14 October 2013 and 8 August 2013 respectively. They no longer occupy the above positions in the Bank.

(ii) In 2013, no members of senior management had exercised any share appreciation rights (2012: Nil).

38 Tax payable

	Group		Bank	
	2013	2012	2013	2012
Income tax	5,805	3,912	5,341	3,654
Business tax and surcharges payable	2,369	2,198	2,349	2,184
Individual income tax	493	533	489	532
Stamp tax	15	11	8	8
Housing property tax	7	5	7	5
Others	33	20	25	18
	8,722	6,679	8,219	6,401

39 Other liabilities

	Group		Bank	
	2013	2012	2013	2012
Salary risk allowances (Note)	4,800	3,000	4,800	3,000
Clearing and settlement accounts	6,373	5,226	6,373	5,226
Cheques and remittances returned	106	195	106	195
Payment and collection account	1,086	921	1,086	920
Insurance liabilities	1,558	1,499	–	–
Debt securities acquisition payable	2,887	1,002	2,887	999
Others	21,218	14,628	12,291	7,669
	38,028	26,471	27,543	18,009

Note: According to CBRC Yin Jian Ban Fa [2009] No.15, the Bank has established salary risk allowances. Salary risk allowances are specific funds withheld from the employees' (excluding senior management of the Bank) annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances. As at 31 December 2013, these allowances amounted to RMB4.8 billion (2012: RMB3.0 billion) and were included in "Other liabilities".

40 Share capital

By type of share:

	Registered capital	
	2013	2012
Listed shares		
– A-Shares (without trading moratorium)	20,629	17,666
– H-Shares	4,591	3,911
	25,220	21,577

All H-Shares are ordinary shares and rank pari passu with the A-Shares.

	Capital	
	No. of shares (in million)	Amount
At 1 January 2013	21,577	21,577
Shares issued	3,643	3,643
At 31 December 2013	25,220	25,220

On 24 February 2006, bonus shares were issued at a ratio of 0.8589 bonus shares for every 10 A-Shares of the Bank by capitalisation of an amount of RMB971 million from the capital reserve. In addition, the Bank issued 938 million A-Shares upon conversion of the convertible bonds of RMB5,169 million during the year ended 31 December 2006, resulting in the increase in share capital and capital reserve of RMB938 million and RMB4,327 million respectively.

On 22 September 2006, a total of 2,200 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK\$8.55 per share as part of the Initial Public Offering.

On 27 September 2006, a total of 220 million H-Shares with a par value of RMB1 each were issued by the Bank at a subscription price of HK\$8.55 per share as a result of the exercise of the over-allotment option.

As a result of the Initial Public Offering and the exercise of the over-allotment option, a total of 242 million A-Shares, representing 10% of the number of H-Shares issued by the Bank were converted into H-Shares of equivalent value and transferred to Social Security Fund from state-owned shareholders of the Bank at no consideration. These H-Shares were eligible for trading since 5 October 2006.

As a result of the above events in 2006, the Bank's registered and issued capital increased from RMB10,374 million to RMB14,703 million.

The Bank issued 2 million A-Shares upon conversion of the convertible bonds of RMB10 million during the year ended 31 December 2007, resulting in the increase in share capital and capital reserve of RMB2 million and RMB9 million respectively. The Bank's registered and issued capital increased from RMB14,703 million to RMB14,705 million.

The Bank issued 2 million A-Shares upon conversion of the convertible bonds of RMB13 million during the year ended 31 December 2008, resulting in the increase in share capital and capital reserve of RMB2 million and RMB11 million respectively.

40 Share capital *(continued)*

As a result, the Bank's registered and issued capital increased from RMB14,705 million to RMB14,707 million.

The Bank issued 0.144 million A-Shares upon conversion of the convertible bonds of RMB0.663 million during the year ended 31 December 2009, resulting in the increase in share capital and capital reserve of RMB0.144 million and RMB0.519 million respectively. On 3 July 2009, the Bank transferred its retained profits totalling RMB4,412 million to its share capital, thus increasing its registered capital to RMB19.119 billion, for which KPMG Huazhen issued a capital verification report (KPMG-D (2009) CR No.0001) on 9 July 2009.

For the year ended 31 December 2010, the Bank had placed 2,007,240,869 A-Shares and 449,878,000 H-Shares on the basis of 1.3 shares for every 10 shares held to its shareholders, resulting in an enlarged total share capital of RMB21.577 billion, for which KPMG Huazhen issued a capital verification report KPMG-D (2010) CR No.0001 and KPMG-D (2010) CR No.0002 on 20 April 2010.

For the year ended 31 December 2013, the Bank had placed 2,962,813,544 A-Shares and 680,423,172 H-Shares on the basis of 1.74 shares for every 10 shares held to its shareholders. Net income from placement (excluding issuance expense) was totaled at RMB33.658 billion. Total capital was increased by RMB3.643 billion and the share premium was RMB30.015 billion. KPMG Huazhen (SGP) issued a capital verification report KPMG Huazhen's verification certificates No. 1300211 on 5 September 2013 and No. 1400444 on 10 March 2014.

41 Capital reserve

The capital reserve primarily represents share premium and equity component of the convertible bonds issued by the Bank. The capital reserve can be used to issue shares with the shareholders' approval.

	Group		Bank	
	2013	2012	2013	2012
At 1 January	37,508	37,508	46,666	46,666
Share issued (note 40)	30,015	–	30,015	–
Equity-accounted investees-share of other comprehensive income	(8)	–	–	–
At 31 December	67,515	37,508	76,681	46,666

42 Investment revaluation reserve

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

The movement of investment revaluation reserve:

	Group		Bank	
	2013	2012	2013	2012
At 1 January	37	157	(46)	130
Realised loss/(gain) on disposal of available-for-sale financial assets, net of deferred tax	(221)	(63)	(240)	(57)
Changes in fair value of available-for-sale financial assets, net of deferred tax	(5,355)	(57)	(5,355)	(119)
At 31 December	(5,539)	37	(5,641)	(46)

43 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2(i)(iii).

44 Surplus reserve

Surplus reserve includes statutory surplus reserve and statutory public welfare fund.

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises (2006) and other relevant regulations issued by the MOF and is provided at 10% of the audited profit after tax. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

The purpose of statutory public welfare fund is to provide staff facilities and other staff benefits. It is not distributable other than in liquidation.

	Group and Bank	
	2013	2012
At 1 January	18,618	14,325
Statutory surplus reserve	4,884	4,293
At 31 December	23,502	18,618

45 Regulatory general reserve

Pursuant to relevant MOF notices, the Bank and the Group's financial services subsidiaries in Mainland China are required to set aside a general reserve to cover potential losses against their assets. Effective from 1 July 2012, the minimum general reserve balance should increase to 1.5% of the ending balance of gross risk-bearing assets with a transition period of five years. The Bank and the Group's financial services subsidiaries in Mainland China have complied with the above requirements as of 31 December 2013.

	The Group		The Bank	
	2013	2012	2013	2012
At 1 January	39,195	18,794	38,849	18,571
Statutory general reserve	7,152	20,401	6,913	20,278
At 31 December	46,347	39,195	45,762	38,849

46 Profit appropriations

(a) Dividends declared and paid

	2013	2012
Dividends in respect of the previous year, approved, declared and paid during the year of RMB6.30 per every 10 shares (2012: RMB4.20 per every 10 shares)	13,593	9,062

(b) Proposed profit appropriations

	2013	2012
Statutory surplus reserve	4,884	4,293
Dividends		
– cash dividend: RMB6.20 (2012: RMB6.30) per every 10 shares	15,636	13,593
Total	20,520	17,886

2013 profit appropriation is proposed in accordance with the resolution passed at the meeting of the board of directors held on 28 March 2014 and will be submitted to the 2013 annual general meeting for approval.

47 Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China.

48 Notes to consolidated cash flow statements

(a) Analysis of the balances of cash and cash equivalents (with original maturity within 3 months):

	Group	
	2013	2012
Cash and balances with central bank	71,659	60,828
Balance with banks and other financial institutions	29,983	269,902
Placements with banks and other financial institutions	72,976	21,147
Amounts held under resale agreements	159,184	88,920
Debt security investments	16,147	12,058
	349,949	452,855

(b) Significant non-cash transactions

There are no other significant non-cash transactions during the year.

49 Operating segments

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

The group manages its businesses by divisions, which are organised by a mixture of both business lines and geography.

Operating segments and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following three reportable segments:

– Wholesale banking

The provision of financial services to corporations and institutions includes lending and deposit taking activities, project and structured finance products, syndicated loans, cash management, investment advice, treasury business operating in the regional market (such as fund transfers between its branches and other banking institutions, and discounted bill business in the regional market) and other investment service.

– Retail banking

The provision of financial services to retail customers includes lending and deposit taking activities, credit card facilities and investment services.

– Treasury business

It covers interbank and capital market activities and proprietary trading.

– Other business

Others include insurance underwriting, insurance agency, securities and future brokerage services, investment properties, interest in associates. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

For the purposes of operating segment analysis, external net interest income/expense represents the net interest income earned or expenses incurred on banking business originated by these segments. Internal net interest income/expense represents the allocation of revenue to reflect the benefits of funding sources allocated to the reportable segments by way of internal funds transfer pricing mechanism. The internal funds transfer pricing mechanism has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on the direct cost incurred by the respective reportable segments and apportionment of management overheads. The allocation of capital operation profit is based on assumptions and estimates. The management amended these assumptions and estimates according to the actual situation.

49 Operating segments *(continued)*

(a) Segment results, assets and liabilities

	The Group									
	Corporate banking		Retail banking		Treasury business		Others		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
External net interest income	43,744	46,228	35,721	27,278	18,716	14,397	732	471	98,913	88,374
Internal net interest income/(expense)	19,057	10,417	4,071	7,703	(21,998)	(17,123)	(1,130)	(997)	-	-
Net interest income	62,801	56,645	39,792	34,981	(3,282)	(2,726)	(398)	(526)	98,913	88,374
Net fee and commission income	12,085	7,086	15,717	11,631	1,108	790	274	232	29,184	19,739
Other net income/(expense)	4,610	4,432	1,170	868	(772)	(174)	(501)	101	4,507	5,227
Insurance operating income	-	-	14	7	-	-	412	407	426	414
Operating income/ (expense)	79,496	68,163	56,693	47,487	(2,946)	(2,110)	(213)	214	133,030	113,754
Operating expenses										
- depreciation	(1,366)	(1,166)	(1,735)	(1,576)	(12)	(7)	(182)	(175)	(3,295)	(2,924)
- others	(22,553)	(19,826)	(27,202)	(24,633)	(644)	(614)	(450)	(359)	(50,849)	(45,432)
Charge for insurance claims	-	-	-	-	-	-	(331)	(321)	(331)	(321)
	(23,919)	(20,992)	(28,937)	(26,209)	(656)	(621)	(963)	(855)	(54,475)	(48,677)
Reportable segment profit before impairment losses	55,577	47,171	27,756	21,278	(3,602)	(2,731)	(1,176)	(641)	78,555	65,077
Impairment losses	(5,511)	(2,981)	(4,570)	(2,571)	35	(28)	(172)	(3)	(10,218)	(5,583)
Share of profit of associates and joint ventures	-	-	-	-	-	-	88	64	88	64
Reportable segment profit/(loss) before tax	50,066	44,190	23,186	18,707	(3,567)	(2,759)	(1,260)	(580)	68,425	59,558
Capital expenditure (note)	2,897	2,799	3,536	3,623	2	1	96	76	6,531	6,499
Reportable segment assets	1,730,627	1,717,302	1,046,259	908,877	1,166,250	726,161	47,301	34,246	3,990,437	3,386,586
Reportable segment liabilities	2,391,814	1,891,311	1,006,969	976,572	307,048	299,671	24,037	20,888	3,729,868	3,188,442
Interest in associates and joint ventures	-	-	-	-	-	-	778	455	778	455

Note: Capital expenditure represents total amount incurred for acquiring assets that are expected to be used for some period.

49 Operating segments *(continued)*

(b) Reconciliations of reportable segment revenues, profit or loss, assets, liabilities and other material items

	The Group	
	2013	2012
Revenues		
Total revenues for reportable segments	133,030	113,754
Other revenues	–	–
Consolidated revenue	133,030	113,754
Profit		
Total profit or loss for reportable segments	68,425	59,558
Other profit	–	–
Consolidated profit before income tax	68,425	59,558
Assets		
Total assets for reportable segments	3,990,437	3,386,586
Goodwill	9,953	9,598
Intangible assets	835	897
Deferred tax assets	8,064	4,993
Other unallocated assets	7,110	6,025
Consolidated total assets	4,016,399	3,408,099
Liabilities		
Total liabilities for reportable segments	3,729,868	3,188,442
Tax payable	8,722	6,679
Deferred tax liabilities	770	813
Other unallocated liabilities	11,083	11,764
Consolidated total liabilities	3,750,443	3,207,698

49 Operating segments *(continued)*

(c) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government. The Group also has branches operation in Hong Kong, New York and Singapore;; subsidiaries operating in Hong Kong and Shanghai and representative offices in London and the United States of America and Taiwan.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

- “Headquarter” refers to the Group headquarter, special purpose vehicles at the branch level which are directly under the headquarter, associates and joint ventures, including the headquarter and credit card centres, etc;
- “Yangtze River Delta region” refers to branches in Shanghai municipality, Zhejiang province and Jiangsu province;
- “Bohai Rim region” refers to branches in Beijing municipality, Tianjin municipality, Shandong province and Hebei province;
- “Pearl River Delta and West Coast region” refers to branches in Guangdong province and Fujian province;
- “Northeast region” refers to branches in Liaoning province, Heilongjiang province and Jilin province;
- “Central region” refers to branches in Henan province, Anhui province, Hunan province, Hubei province, Jiangxi province, Shanxi province and Hainan province;
- “Western region” refers to branches in Sichuan province, Chongqing municipality, Guizhou province, Yunnan province, Shanxi province, Gansu province, Ningxia Hui Autonomous region, Xinjiang Uyghur autonomous region, Guangxi Zhuang autonomous region, Inner Mongolia autonomous region, Qinghai province and Tibet autonomous region;
- “Overseas” refers to overseas branches in Hong Kong, New York, Singapore and representative offices in London, United States of America and Taiwan; and
- “Subsidiaries” refers to subsidiaries wholly owned by the Group as a controlling shareholder, including Wing Lung Bank, CMB International, CMB Financial Leasing and CMFM.

49 Operating segments *(continued)*

(c) Geographical segments *(continued)*

Geographical information	The Group									
	Total asset		Total liabilities		Profit		Income		Non-current assets	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Headquarter	1,566,355	1,275,164	1,371,100	1,138,797	2,711	(881)	17,644	12,798	20,208	16,864
Yangtze River Delta region	507,514	447,120	497,711	436,498	13,295	14,172	25,650	23,464	2,373	2,377
Bohai Rim region	352,891	310,429	343,143	301,591	12,996	11,798	20,735	18,687	2,514	2,184
Pearl River Delta and West Coast region	490,874	460,229	480,480	450,917	13,877	12,423	23,074	20,463	1,946	1,719
Northeast region	146,125	119,457	143,285	117,013	3,800	3,257	6,853	5,832	1,148	1,072
Central region	286,311	242,866	280,598	237,551	7,642	7,105	14,270	12,312	2,336	1,795
Western region	316,410	273,931	309,422	267,868	9,316	8,117	16,180	13,863	2,475	2,187
Overseas	99,536	76,043	98,869	75,700	925	568	1,462	948	86	57
Subsidiaries	250,383	202,860	225,835	181,763	3,863	2,999	7,162	5,387	5,763	6,384
Total	4,016,399	3,408,099	3,750,443	3,207,698	68,425	59,558	133,030	113,754	38,849	34,639

50 Assets pledged as security

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

	Group		Bank	
	2013	2012	2013	2012
Amounts sold under repurchase agreements	153,164	157,953	151,861	157,753
Assets pledged				
– Available-for-sale financial assets	12,960	80,495	12,960	80,495
– Held-to-maturity debt securities	119,352	52,845	119,352	52,845
– Trading assets	8,030	15,930	8,030	15,930
– Other assets	19,733	9,162	18,430	8,962
	160,075	158,432	158,772	158,232

These transactions are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

51 Contingent liabilities and commitments

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the end of the reporting period if counterparties failed completely to perform as contracted.

	Group		Bank	
	2013	2012	2013	2012
Contractual amount				
Irrevocable guarantees	173,562	118,288	172,613	117,840
Irrevocable letters of credit	173,124	104,420	172,874	104,245
Bills of acceptances	354,816	301,399	354,443	300,850
Irrevocable loan commitments				
– with an original maturity of under one year	1,628	2,949	209	186
– with an original maturity of one year or over	37,931	30,872	31,413	23,931
Credit card commitments	213,532	160,995	206,236	154,592
Shipping guarantees	31	2	29	–
Others	8,811	6,392	10,015	6,392
	963,435	725,317	947,832	708,036

Irrevocable loan commitments only include credit limits granted to offshore customers, and onshore and offshore syndicated loans. The Group will not assume any risks on the unused credit limits for other loan customers as such limits are revocable and subject to the loan approval process. As a result, such balances are not included in the above contingent liabilities and commitments.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB1,271,815 million at 31 December 2013 (2012: RMB1,080,611 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective loan agreements.

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assesses and makes allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

51 Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

	2013	
	The Group	The Bank
Credit risk weighted amounts of contingent liabilities and commitments		
Contingent liabilities and commitments	362,533	356,318

- (1) Credit risk weighted amounts of contingent liabilities and commitments are determined based on counterparties' credit and maturity profiles in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial). Risk weights for contingent liabilities and commitments range from 0% to 100%.
- (2) The group's credit risk weighted amounts of contingent liabilities and commitments as at 31 December 2012 stood at RMB300.99 billion(The bank: RMB297.30 billion), calculated in accordance with the CBRC's Administrative Measures on Capital Adequacy Ratios of Commercial Banks and other relevant regulations. The Measures were abrogated on 1 January 2013.

(b) Capital commitments

Authorised capital commitments were as follows:

	Group		Bank	
	2013	2012	2013	2012
For purchase of fixed assets:				
– Contracted for	899	657	829	544
– Authorised but not contracted for	543	121	479	41
	1,442	778	1,308	585

(c) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	Group		Bank	
	2013	2012	2013	2012
Within 1 year	1,346	1,597	1,299	1,547
After 1 year but within 5 years	8,643	7,120	8,580	7,037
After 5 years	1,703	2,907	1,700	2,901
	11,692	11,624	11,579	11,485

The Group and the Bank lease certain properties under operating leases. The leases typically run for an initial period of 1 to 5 years, and may include an option to renew the lease when all terms are renegotiated. None of the lease include contingent rental.

51 Contingent liabilities and commitments *(continued)*

(d) Outstanding litigations

At 31 December 2013, the Group was a defendant in certain pending litigations with gross claims of RMB905 million (2012: RMB665 million) arising from its banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. The Board of Directors consider that no material losses would be incurred by the Group as a result of these pending litigations and therefore no provision has been made in the financial statements.

(e) Redemption obligations

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

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	Group and Bank	
	2013	2012
Redemption obligations	19,194	11,430

The Group expects that the amount of redemption before the maturity date of these government bonds through the Group will not be material.

52 Transactions on behalf of customers

(a) Entrusted lending business

The Group's entrusted lending business refers to activities where principals such as government departments, business entities and individuals provide capital for loan advances by the Group to their specified targets on their behalf in accordance with specific terms and conditions, with the help of the Group in monitoring loan usage and seeking loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

Trust assets are not assets of the Group and are not recognised in the statement of financial position. Surplus funding is accounted for as deposits from customers. Income received and receivable for providing these services is recognised in the statement of comprehensive income as fee and commission income.

52 Transactions on behalf of customers *(continued)*

(a) Entrusted lending business *(continued)*

At the end of the reporting period, the entrusted assets and liabilities were as follows:

	Group		Bank	
	2013	2012	2013	2012
Entrusted loans	138,962	89,104	138,262	89,104
Entrusted funds	(138,962)	(89,104)	(138,262)	(89,104)

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes and entrusted loans. The Group initiated the launch of wealth management products. The investment risk associated with these products are borne by the customers who invest in these products. The Group only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the statement of comprehensive income as commission income. An income of RMB2,977 million was recognised in 2013.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the statement of financial position. The funds obtained from wealth management services that have not yet been invested are recorded under deposits from customers.

At the end of the reporting period, funds received from customers under wealth management services were as follows:

	Group		Bank	
	2013	2012	2013	2012
Funds received from customers under wealth management Services	582,521	369,903	582,519	369,893

The total amount of non-guaranteed wealth management products issued by the Group after 1 January 2013 with a maturity date of 31 December 2013 was RMB1,302,514 million.

53 Risk management

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk and Capital Management Committee is set up and is appointed by the Board to be responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, coordinates and monitors the work of other risk management functions, including all business departments and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate and institutional business, the Group formulated the credit policy baseline for credit approval, and enhanced the credit acceptance and exit policies. These policies with quota limit management have contributed to the improvement in asset quality.

With respect to the personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant.

The Group monitors borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the recovery process according to standard personal loan recovery procedures.

To mitigate risks, where appropriate, the Group requests customers to provide collateral and guarantees. It also sets guidelines as to the use and suitability of specific types of collateral. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

53 Risk management *(continued)*

(a) Credit risk *(continued)*

In respect of the loan portfolio, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a ten-grade loan classification basis. The loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances (normal (grades 1-5), special mention (grades 1-2), substandard, doubtful and loss). The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, post-lending monitoring and collateral requirements.

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group formulated the quota limit management policy to analyse the loan portfolio.

Analyses of loans and advances by industry, customer type and nature are stated in Note 19.

The Group's credit risk management policy for financial derivatives is the same as that for other transactions. In order to mitigate the credit risk arising from the financial derivatives, the Group has signed netting agreements with certain counterparties.

(i) Maximum exposure

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. Except for the financial guarantees given by the Group as set out in Note 51, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note 51.

The carrying amount of interests held by the group in specific asset management plan, trust investment plan and fund investment sponsored by third party institutions has been disclosed in the financial statement (note 18(d) and note 21(b)(d)). The maximum exposure is their carrying amount at reporting date.

53 Risk management *(continued)*

(a) Credit risk *(continued)*

(ii) The credit quality of loans and advances to customers can be analysed as follows:

	Group		Bank	
	2013	2012	2013	2012
Impaired loans and advances to customers				
For which impairment losses are individually assessed				
Gross amount	13,290	8,319	13,073	8,180
Less: impairment allowances	(7,002)	(4,995)	(6,921)	(4,921)
Carrying amount	6,288	3,324	6,152	3,259
For which impairment losses are collectively assessed				
Gross amount	5,005	3,215	4,996	3,208
Less: impairment allowances	(3,228)	(1,941)	(3,228)	(1,941)
Carrying amount	1,777	1,274	1,768	1,267
Overdue but not impaired				
Within which				
– Less than 3 months	15,315	10,391	13,254	8,446
– 6 months or less but over 3 months	236	30	23	19
– 1 year or less but over 6 months	1	–	–	–
– Over 1 year	4	2	–	–
Gross amount	15,556	10,423	13,277	8,465
Less: impairment allowances				
– collectively assessed	(1,769)	(614)	(1,718)	(594)
Carrying amount	13,787	9,809	11,559	7,871
Neither past due nor impaired				
Gross amount	2,163,243	1,882,506	1,977,911	1,740,689
Less: impairment allowances				
– collectively assessed	(36,765)	(33,588)	(35,355)	(32,683)
Carrying amount	2,126,478	1,848,918	1,942,556	1,708,006
Total carrying amount	2,148,330	1,863,325	1,962,035	1,720,403

Loans and advances that would be past due or impaired had the terms been renegotiated amounted to RMB1,068 million as at 31 December 2013 (2012: RMB1,503 million).

53 Risk management *(continued)*

(a) Credit risk *(continued)*

(iii) Credit quality of debt investments

At the end of the reporting period, the credit quality of debt investments analysed by designation of external credit assessment institution, Standard & Poors, is as follows:

	Group		Bank	
	2013	2012	2013	2012
Individually assessed and impaired gross amount	622	733	622	640
Allowance for impairment carrying amount	(560)	(669)	(560)	(576)
Sub-total	62	64	62	64
Neither overdue nor impaired				
AAA	12,852	3,719	8,487	950
AA- to AA+ (note)	375,099	358,887	365,603	352,881
A- to A+	10,538	13,245	6,509	9,838
Lower than A-	9,248	4,989	7,320	3,166
	407,737	380,840	387,919	366,835
Unrated	135,582	136,032	133,417	135,646
Total	543,381	516,936	521,398	502,545

Note: Included bonds issued by the PRC Government, PBOC and PRC Policy Banks held by the Group amounted to RMB193,104 million (2012: RMB182,940 million (credit quality: AA-)).

(iv) Collateral and other credit enhancements

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	Group		Bank	
	2013	2012	2013	2012
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	43,531	18,233	38,062	15,236

53 Risk management *(continued)*

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and market risk comprises currency risk, interest rate risk and other price risk. The Group is exposed to market risk primarily through trading accounts and banking accounts. Trading accounts include financial instruments and commodity positions held for proprietary trading or risk hedging; banking accounts refer to assets and liabilities and related financial instruments willingly held by the Bank for stable income or risk hedging, which have been recorded on- and off-balance sheet with relatively stable market values.

The Board of Directors is ultimately responsible for monitoring market risk management. The Executive Office of the President is authorised by the Board of Directors to make market risk management decisions. The Asset and Liability Management Committee ("ALCO") performs duties as authorised by the Executive Office and is responsible for formulating market risk management policies and procedures, supervising the implementation of the policies and procedures and making decision on significant market risk management issues. The Market Risk Management Department and the Planning and Finance Department, tasked with the market risk management function for trading and banking accounts, centrally manage the Group's market risk on those accounts. As an independent model verification department, the Office for the Implementation of Basel II Capital Accord continues to verify market risk measurement models while the Audit Department regularly conducts market risk management audit.

The historical simulation model for the Value-at-risk ("VaR") analysis is used by the Group to measure and monitor the market risk of its trading portfolio. VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. Effective from October 2007, the Group's Planning and Finance Department calculates VaR using the historical movement in market rates and prices, at a 99% confidence level, the observation period is 250 trading days and the holding period is 10 days.

As for market risk of banking accounts, gap analysis and scenario analysis are used by the Group to measure and monitor the market risk of its non-trading business. Gap analysis is a technique to project future cash flows in order to quantify the differences, for a range of future dates, between assets and liabilities, it also regularly conducts stress tests as supplement to the above measurement indicators.

By adhering to its sound and prudent market risk management principle, the Group takes its market risk within the limit set by its Board of Directors. Engagement in new businesses for which risk is hard to quantify and assess as well as businesses in risky areas such as in emerging countries and emergent markets are stringently controlled. As a result, market risk is kept within a tolerable level.

In 2013, the Group continued to streamline its market risk management policy based on its existing practice. It optimised the procedure, process and tool for measuring and monitoring market risks and promoted the enhanced application of management tools for market risks. It also focused on training the management team for market risks and enhanced the professionalism of market risk management.

53 Risk management *(continued)*

(b) Market risk *(continued)*

In 2013, the central bank implemented sound monetary policies and adhered to the policy of financial deleveraging amid quickened interest rate liberalisation. During the first five months of 2013, bond markets continued to be bullish against the backdrop of economic downsizes and the continued easing of liquidity. The sudden cash crunch in June led to a significant retreat in bond markets. After intensive research on and updated tracking of macro-economics, monetary policies and market liquidity at home and abroad, the Group developed corresponding investment strategies. The Group also increased its investment in bonds and optimised the allocation between assets and liabilities with major holdings on interest rate bonds and moderate holdings on credit bonds, contributing to better investment performance. At present, the Group's investment portfolios largely comprise bonds issued by the Chinese government, the People's Bank of China (PBOC), Chinese policy banks, as well as leading Chinese enterprises, commercial banks and insurance companies with good credit ratings, on back of various favourable market risk indicators.

(c) Currency risk

The Group is exposed to currency risks primarily arising from the mismatch of its holdings of foreign currency denominated financial assets and liabilities, and manages other currency risk by spot and forward foreign exchange transactions and by matching its foreign currency denominated assets with corresponding liabilities in the same currency, and also uses derivatives (principally foreign exchange swaps) in the management of its own foreign currency asset and liability portfolios. The Group's functional currency is RMB. Foreign currency transactions are mainly in US dollar and HK dollar. The Group's assets and liabilities are mainly denominated in RMB, with the rest being mainly in US dollar and HK dollar.

The Group mainly uses the foreign exchange exposure analysis, scenario simulation analysis, stress testing and VaR methods to measure and analyse foreign currency risk. Based on the trend of foreign exchange movements, the Group adjusts its foreign exchange exposure to mitigate foreign currency risk.

In 2013, the Group further streamlined its management and evaluation system on currency risk management to enhance the objectivity, scientific level and sensitivity of its risk indicators. The new system includes significant enhancement on risk sensitivity to provide a scientific benchmark for the accurate assessment of currency risks and formulation of management strategies. It also clarifies the approval process of currency risk limits at different levels, while revising the currency risk management system. The Group improved the consolidated financial statement management of its currency risk by adjusting the risk limits of its subsidiaries based on their risk status and management requirements.

53 Risk management *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows:

	Group				
	2013				
	Equivalent in RMB million				
	RMB	US dollar	HKD	Others	Total
Assets					
Cash and balances with central bank	506,261	10,586	6,267	758	523,872
Amounts due from banks and other financial institutions	461,613	36,502	2,942	4,745	505,802
Loans and advances to customers	1,887,354	178,500	66,808	15,668	2,148,330
Investments	718,769	24,196	17,312	3,124	763,401
Other assets	51,954	4,199	18,538	303	74,994
	3,625,951	253,983	111,867	24,598	4,016,399
Liabilities					
Amounts due to banks and other financial institutions	753,301	36,448	1,309	1,420	792,478
Deposits from customers	2,490,848	167,009	90,414	27,005	2,775,276
Financial liabilities at fair value through profit or loss (including derivatives)	5,638	20,235	3,984	269	30,126
Debts issued	54,106	9,579	5,251	–	68,936
Other liabilities	73,082	4,105	5,598	842	83,627
	3,376,975	237,376	106,556	29,536	3,750,443
Net on-balance sheet position	248,976	16,607	5,311	(4,938)	265,956
Off-balance sheet position:					
Credit commitments (note)	585,998	107,290	4,918	8,037	706,243
Derivatives:					
– forward purchase	126,702	317,668	77,911	48,319	570,600
– forward sales	(173,392)	(308,801)	(47,766)	(42,729)	(572,688)
– net option position	–	(34)	2	84	52
	(46,690)	8,833	30,147	5,674	(2,036)

53 Risk management *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	Group				
	2012				
	Equivalent in RMB million				Total
RMB	US dollar	HKD	Others		
Assets					
Cash and balances with central bank	458,829	7,547	4,406	633	471,415
Amounts due from banks and other financial institutions	423,293	33,372	8,721	25,869	491,255
Loans and advances to customers	1,665,467	126,644	66,884	4,330	1,863,325
Investments	482,522	18,613	16,475	2,836	520,446
Other assets	42,020	1,723	16,107	1,808	61,658
	3,072,131	187,899	112,593	35,476	3,408,099
Liabilities					
Amounts due to banks and other financial institutions	492,218	27,868	4,992	1,382	526,460
Deposits from customers	2,272,864	140,615	80,714	38,251	2,532,444
Financial liabilities at fair value through profit or loss (including derivatives)	2,396	5,391	1,812	–	9,599
Debts issued	66,279	8,069	2,763	–	77,111
Other liabilities	48,804	8,135	4,429	716	62,084
	2,882,561	190,078	94,710	40,349	3,207,698
Net on-balance sheet position	189,570	(2,179)	17,883	(4,873)	200,401
Off-balance sheet position:					
Credit commitments (note)	757,300	95,047	15,432	1,331	869,110
Derivatives:					
– forward purchase	85,637	118,443	8,573	25,550	238,203
– forward sales	(102,603)	(100,370)	(3,461)	(15,667)	(222,101)
– net option position	–	(89)	68	65	44
	(16,966)	17,984	5,180	9,948	16,146

53 Risk management *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	Bank				Total
	2013				
	Equivalent in RMB million				
	RMB	US dollar	HKD	Others	
Assets					
Cash and balances with central bank	504,245	10,565	2,683	527	518,020
Amounts due from banks and other financial institutions	458,175	28,642	1,135	3,699	491,651
Loans and advances to customers	1,790,305	150,199	9,528	12,003	1,962,035
Investments	711,468	16,200	10,570	1,682	739,920
Other assets	54,087	2,214	33,967	100	90,368
	3,518,280	207,820	57,883	18,011	3,801,994
Liabilities					
Amounts due to banks and other financial institutions	701,608	27,495	889	1,337	731,329
Deposits from customers	2,458,500	143,476	37,727	15,178	2,654,881
Financial liabilities at fair value through profit or loss (including derivatives)	5,638	20,104	3,151	269	29,162
Debts issued	43,112	4,412	2,619	–	50,143
Other liabilities	64,064	3,198	2,134	779	70,175
	3,272,922	198,685	46,520	17,563	3,535,690
Net on-balance sheet position	245,358	9,135	11,363	448	266,304
Off-balance sheet position:					
Credit commitments (note)	585,102	106,574	(8,500)	7,784	690,960
Derivatives:					
– forward purchase	117,763	297,867	71,985	37,660	525,275
– forward sales	(166,976)	(284,304)	(38,550)	(37,482)	(527,312)
– net option position	–	(33)	–	85	52
	(49,213)	13,530	33,435	263	(1,985)

53 Risk management *(continued)*

(c) Currency risk *(continued)*

Assets and liabilities by original currency are shown as follows: *(continued)*

	Bank				Total
	2012				
	Equivalent in RMB million				
	RMB	US dollar	HKD	Others	
Assets					
Cash and balances with central bank	457,263	7,484	1,446	450	466,643
Amounts due from banks and other financial institutions	419,661	23,382	4,658	19,859	467,560
Loans and advances to customers	1,595,321	110,205	10,901	3,976	1,720,403
Investments	477,632	14,257	11,919	1,348	505,156
Other assets	42,637	910	32,699	1,542	77,788
	2,992,514	156,238	61,623	27,175	3,237,550
Liabilities					
Amounts due to banks and other financial institutions	447,604	24,083	4,584	1,047	477,318
Deposits from customers	2,254,344	123,363	22,537	26,230	2,426,474
Financial liabilities at fair value through profit or loss (including derivatives)	2,397	5,312	1,319	–	9,028
Debts issued	63,226	4,300	1,557	–	69,083
Other liabilities	42,237	7,693	891	636	51,457
	2,809,808	164,751	30,888	27,913	3,033,360
Net on-balance sheet position	182,706	(8,513)	30,735	(738)	204,190
Off-balance sheet position:					
Credit commitments (note)	756,686	92,569	4,935	1,246	855,436
Derivatives:					
– forward purchase	84,557	113,259	5,746	20,666	224,228
– forward sales	(100,106)	(91,683)	(963)	(15,381)	(208,133)
– net option position	–	(39)	–	84	45
	(15,549)	21,537	4,783	5,369	16,140

Note: Credit commitments generally expire before they are drawn; therefore the above net position (net of pledged deposits) does not represent the future cash flows need.

53 Risk management *(continued)*

(c) Currency risk *(continued)*

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and loss. The following table sets forth, as at 31 December 2013 and 31 December 2012, the results of the Group's currency risk sensitivity analysis on the assets and liabilities at the same date.

	2013		2012	
	Change in foreign currency exchange rate (in basis points)		Change in foreign currency exchange rate (in basis points)	
	(100)	100	(100)	100
Increase/(decrease) in annualised net profit	51	(51)	23	(23)

This sensitivity analysis is based on a static foreign currency exposure profile of assets and liabilities. In view of the nature of the RMB exchange rate regime, the analysis is based on the following assumptions:

- (i) the foreign exchange sensitivity is the gain and loss recognised as a result of a standard 100 basis point fluctuation in the foreign currency exchange rates against RMB;
- (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously; and
- (iii) the foreign exchange exposures calculated include spot foreign exchange exposures, forward foreign exchange exposures and options.

Based on the assumptions above, actual changes in the Group's net foreign exchange gain and loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

53 Risk management *(continued)*

(d) Interest rate risk

Interest rate risk arises from adverse change in interest rates and maturity profiles which may result in loss on the overall income and economic value of bank accounts. The Group's interest rate risk includes benchmark risk, re-pricing risk, yield curve risk and option risk. In particular, benchmark risk and re-pricing risk are the primary risk faced by the group. The overall objective of the Group's interest rate risk management is to meet sound risk preference and achieve steady growth in net interest income and economic value within the tolerance level of interest rate risk.

The Group primarily adopts scenario simulation analysis, re-pricing gap analysis, duration analysis and stress testing methods to measure and analyse interest rate risk. Under its limit framework, it monitors and reports interest rate risk on a monthly basis. The Group strengthens its treasury operation mechanism by setting rules for regular meetings, adjusting work procedures, and specifying roles and responsibilities. Such a mechanism enables the Group to effectively analyse the causes of interest rate risk, and propose and implement control measures, and also uses interest rate swaps and other derivatives to manage interest rate risk.

As the reference interest rates for RMB loans and deposits are determined by the PBOC, the Group follows the interest rates set by the PBOC when carrying out lending and deposit taking activities. The Group's monetary assets and liabilities are mainly in RMB.

In 2013, the Group continued with its proactive and forward-looking interest rate risk management and various enhanced on- and off-balance sheet management measures – all aimed at lowering its interest rate exposure. For on-balance sheet activities, major measures included extending loan and bond investment duration. For off-balance sheet activities, more efforts were made to hedge against interest rate risk and hedging accounting, and to explore the possibility of interest swap products linked PBOC base interest rate. The Group implemented proactive risk management measures and revised the risk management system, while optimising its control over risk limits.

The Group made progress on the consolidated financial statement management of its currency risk in 2013. It revised the alert and limit settings of its subsidiaries' risk indicators at the beginning of the year based on prior year's implementation outcome and computed results. As at the date of this report, all risk indicators of the Bank and its subsidiaries are normal, indicating that the Group's overall interest rate risk is under control.

The PBOC accelerated the reform of interest rate liberalisation by introducing several measures, including the liberalisation of loan rate control over financial institutions beginning 20 July, the announcement of loan prime rate (LPR) on 25 October and the announcement of interbank deposit in December. The Group bases itself on its long-term vision and proactivity, planning in advance so that fundamental tasks such as system optimisation and testing could be completed promptly, strengthening its management on interest rate risks and ensuring the steady growth of its net interest income and economic value.

53 Risk management *(continued)*

(d) Interest rate risk *(continued)*

The following table indicates the effective interest rates and the expected next repricing dates (or maturity dates whichever are earlier) for interest bearing assets and liabilities at the end of the reporting period.

	Group						
	2013						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.54%	523,872	498,494	-	-	-	25,378
Amounts due from banks and other financial institutions	4.19%	505,802	327,070	96,675	80,100	-	1,957
Loans and advances to customers (note)	6.12%	2,148,330	1,107,124	923,482	90,771	26,891	62
Investments	3.98%	763,401	128,044	207,603	272,736	147,072	7,946
Other assets	-	74,994	-	-	-	-	74,994
Total assets		4,016,399	2,060,732	1,227,760	443,607	173,963	110,337
Liabilities							
Amounts due to banks and other financial institutions	3.95%	792,478	583,879	180,077	27,258	12	1,252
Deposits from customers	1.90%	2,775,276	1,981,305	515,757	258,315	13,858	6,041
Financial liabilities at fair value through profit or loss (including derivatives)	2.38%	30,126	9,523	10,359	1,748	167	8,329
Debts issued	4.30%	68,936	12,582	24,686	18,812	12,856	-
Other liabilities	-	83,627	89	40	50	-	83,448
Total liabilities		3,750,443	2,587,378	730,919	306,183	26,893	99,070
Asset-liability gap		265,956	(526,646)	496,841	137,424	147,070	11,267

53 Risk management *(continued)*

(d) Interest rate risk *(continued)*

	Effective interest rate	Total	Group				Non-interest bearing
			3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	
Assets							
Cash and balances with central bank	1.54%	471,415	456,052	–	–	–	15,363
Amounts due from banks and other financial institutions	3.63%	491,255	407,371	69,418	12,722	–	1,744
Loans and advances to customers (note)	6.57%	1,863,325	1,060,777	706,215	64,837	31,434	62
Investments	3.75%	520,446	75,244	169,297	164,022	108,469	3,414
Other assets	–	61,658	–	–	–	–	61,658
Total assets		3,408,099	1,999,444	944,930	241,581	139,903	82,241
Liabilities							
Amounts due to banks and other financial institutions	3.69%	526,460	446,492	78,692	300	1	975
Deposits from customers	1.93%	2,532,444	1,873,587	453,308	190,553	8,703	6,293
Financial liabilities at fair value through profit or loss (including derivatives)	2.87%	9,599	3,727	173	2,913	–	2,786
Debts issued	4.83%	77,111	8,390	17,009	31,816	19,896	–
Other liabilities	–	62,084	58	44	–	70	61,912
Total liabilities		3,207,698	2,332,254	549,226	225,582	28,670	71,966
Asset-liability gap		200,401	(332,810)	395,704	15,999	111,233	10,275

53 Risk management *(continued)*

(d) Interest rate risk *(continued)*

	Bank						
	2013						
	Effective interest rate	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets							
Cash and balances with central bank	1.54%	518,020	496,469	-	-	-	21,551
Amounts due from banks and other financial institutions	4.37%	491,651	314,771	95,551	80,100	-	1,229
Loans and advances to customers (note)	6.27%	1,962,035	1,006,015	843,028	86,725	26,267	-
Investments	4.02%	739,920	112,681	204,846	268,939	147,072	6,382
Other assets	-	90,368	-	-	-	-	90,368
Total assets		3,801,994	1,929,936	1,143,425	435,764	173,339	119,530
Liabilities							
Amounts due to banks and other financial institutions	3.89%	731,329	560,885	143,030	27,258	12	144
Deposits from customers	1.91%	2,654,881	1,898,058	488,462	253,949	13,858	554
Financial liabilities at fair value through profit or loss (including derivatives)	2.38%	29,162	9,486	10,359	1,348	167	7,802
Debts issued	4.47%	50,143	8,935	16,038	13,485	11,685	-
Other liabilities	-	70,175	-	-	-	-	70,175
Total liabilities		3,535,690	2,477,364	657,889	296,040	25,722	78,675
Asset-liability gap		266,304	(547,428)	485,536	139,724	147,617	40,855

53 Risk management *(continued)*

(d) Interest rate risk *(continued)*

	Effective interest rate	Total	Bank				Non-interest bearing
			3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	
Assets							
Cash and balances with central bank	1.54%	466,643	454,498	–	–	–	12,145
Amounts due from banks and other financial institutions	3.76%	467,560	389,255	64,693	12,722	–	890
Loans and advances to customers (note)	6.75%	1,720,403	973,878	652,264	63,932	30,329	–
Investments	3.77%	505,156	64,063	168,350	161,675	108,457	2,611
Other assets	–	77,788	–	–	–	–	77,788
Total assets		3,237,550	1,881,694	885,307	238,329	138,786	93,434
Liabilities							
Amounts due to banks and other financial institutions	3.60%	477,318	432,977	44,040	300	1	–
Deposits from customers	1.94%	2,426,474	1,795,304	434,391	187,728	8,703	348
Financial liabilities at fair value through profit or loss (including derivatives)	2.87%	9,028	3,728	173	2,454	–	2,673
Debts issued	5.43%	69,083	5,445	15,463	29,484	18,691	–
Other liabilities	–	51,457	–	–	–	–	51,457
Total liabilities		3,033,360	2,237,454	494,067	219,966	27,395	54,478
Asset-liability gap		204,190	(355,760)	391,240	18,363	111,391	38,956

Note: For loans and advances to customers, the above "3 months or less" category includes overdue amounts as at 31 December 2013 and 31 December 2012 (net of allowances for impairment losses). Overdue amounts represent loans of which the whole or part of the principals was overdue.

53 Risk management *(continued)*

(d) Interest rate risk *(continued)*

The Group uses scenario simulation analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth, as at 31 December 2013 and 31 December 2012, the results of the Group's interest rate sensitivity analysis on the assets and liabilities at the same date.

	2013		2012	
	Change in interest rates (in basis points)		Change in interest rates (in basis points)	
	25	(25)	25	(25)
(Decrease)/increase in annualised net profit	(790)	790	(389)	389

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Group's assets and liabilities within a year, on annualised interest income. The analysis is based on the following assumptions:

- (i) all assets and liabilities that reprice or are due within one year reprice or are due at the beginning of the respective periods;
- (ii) there is a parallel shift in the yield curve and in interest rates; and
- (iii) there are no other changes to the portfolio.

Actual changes in the Group's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

(e) Liquidity risk

Liquidity risk is the risk the Group cannot satisfy the customers by repaying deposits that fall due, granting new loans or providing financing, or that the Group cannot satisfy these requirements at a normal cost. The Group's liquidity is managed by the Planning and Finance Department. The Planning and Finance Department is responsible for managing liquidity on a prudent basis to meet regulatory requirement.

The majority of the Group's assets come from customer deposits, mainly deposits from companies, retail customers and financial institutions. An analysis of the current years' data shows that the Group's deposits from customers have been growing continuously, with a rising variety of deposit products with various maturities and have become a stable source of funds for the Group.

53 Risk management *(continued)*

(e) Liquidity risk *(continued)*

The Group adopts a centralised liquidity management approach. Through the internal funds transfer pricing mechanism, branches are guided to adjust the durations and product structures of their assets and liabilities. The Group closely monitors its daily position, monthly liquidity ratio and liquidity gap ratio, and performs stress testing to verify the bank's ability to meet liquidity needs under extreme circumstances. In addition, the Group has a liquidity risk warning system and a liquidity contingency plan in place to tackle any liquidity crises.

In 2013, the Group refined its risk limits to strengthen its liquidity risk management system. This laid a solid basis for further improving its management standards in this regard.

In 2013, the Group achieved milestones in consolidated financial statement management of its liquidity risk and imposed limits on liquidity risk exposure onto four of its subsidiaries.

The first five months of 2013 showed an easing trend of market liquidity. However, the sudden cash crunch in June drove up the interest rate of the money market dramatically. Some of the term rates reached their historical highs. Overall market liquidity remained at neutral to tightened level afterwards, and in December, the money market was tense once again. The Group underwent liquidity pressure as a result. In view of this, the Group adopted a series of measures to enhance its proactive management on liquidity risk and ensure the stability of its liquidity level. Specific measures include: 1) maintaining and increasing deposits, so as to drive core liabilities growth and increase the stability of self-operating deposits; 2) increasing the incentive and ability of branches to expand interbank liabilities; 3) establishing a discussion platform on which treasury officer and business lines can formulate treasury business strategies, as well as a coordination system between the liquidity risk management team and interbank business, wealth management and bill business; 4) adopting a more flexible FTP pricing policy for enhanced adjustment and guidance; 5) improving the Bank's debt structure by enhancing its control over debt business and capital financing. Examples included the Bank's issuance of its largest single transferrable interbank deposit in December; and 6) ensuring the investment on credit assets and stepping up its control over other asset investments.

The PBOC did not revise the statutory deposit reserve ratio in 2013. As at the end of December 2013, 18% (2012: 18%) and 5% (2012:5%) of eligible RMB and foreign currency deposits respectively were deposited with PBOC as required.

53 Risk management *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by remaining maturity is as follows:

	2013							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	118,598	-	-	-	-	-	405,274	523,872
Amounts due from banks and other financial institutions	30,325	233,149	68,355	93,867	80,106	-	-	505,802
Loans and advances to customers (note (ii))	2,017	69,933	319,005	939,006	416,354	356,785	45,230	2,148,330
Investments (note (iii))	112	44,456	40,423	177,753	323,551	169,644	7,462	763,401
– at fair value through profit or loss	82	2,950	2,961	4,428	11,343	1,459	5,925	29,148
– available-for-sale	30	12,592	12,992	52,745	179,731	30,284	1,537	289,911
– held-to-maturity	-	692	4,248	9,385	67,431	127,171	-	208,927
– receivables	-	28,222	20,222	111,195	65,046	10,730	-	235,415
Other assets	9,124	4,243	4,654	6,075	395	542	49,961	74,994
Total assets	160,176	351,781	432,437	1,216,701	820,406	526,971	507,927	4,016,399
Amounts due to banks and other financial institutions	86,568	301,420	199,440	174,757	29,722	571	-	792,478
Deposits from customers (note (iv))	1,408,373	324,901	288,927	471,148	270,924	11,003	-	2,775,276
Financial liabilities at fair value through profit or loss (including derivatives)	1,233	1,814	6,492	10,359	1,826	167	8,235	30,126
Debt issued	-	5,798	5,926	11,322	24,843	21,047	-	68,936
Other liabilities	38,468	16,917	4,251	7,814	8,463	1,263	6,451	83,627
Total liabilities	1,534,642	650,850	505,036	675,400	335,778	34,051	14,686	3,750,443
(Short)/long position	(1,374,466)	(299,069)	(72,599)	541,301	484,628	492,920	493,241	265,956

53 Risk management *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by remaining maturity is as follows: *(continued)*

	2012							Total
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	
Cash and balances with central bank (note (i))	101,128	-	-	-	-	-	370,287	471,415
Amounts due from banks and other financial institutions	27,343	348,499	35,800	66,885	12,728	-	-	491,255
Loans and advances to customers (note (ii))	3,109	77,923	257,336	740,064	357,239	415,233	12,421	1,863,325
Investments (note (iii))	54	14,171	20,351	111,529	229,693	141,190	3,458	520,446
- at fair value through profit or loss	54	1,100	1,078	1,908	17,826	3,391	2,107	27,464
- available-for-sale	-	12,858	15,490	79,046	141,860	34,739	1,351	285,344
- held-to-maturity	-	210	3,195	28,945	51,223	91,844	-	175,417
- receivables	-	3	588	1,630	18,784	11,216	-	32,221
Other assets	8,606	1,945	2,026	3,223	4,805	879	40,174	61,658
Total assets	140,240	442,538	315,513	921,701	604,465	557,302	426,340	3,408,099
Amounts due to banks and other financial institutions	79,386	283,116	83,320	79,129	933	576	-	526,460
Deposits from customers (note (iv))	1,333,585	266,441	272,415	458,809	200,447	747	-	2,532,444
Financial liabilities at fair value through profit or loss (including derivatives)	253	245	3,238	173	2,913	-	2,777	9,599
Debt issued	-	3,035	1,151	5,344	23,457	44,124	-	77,111
Other liabilities	26,934	12,258	4,730	7,407	7,560	1,838	1,357	62,084
Total liabilities	1,440,158	565,095	364,854	550,862	235,310	47,285	4,134	3,207,698
(Short)/long position	(1,299,918)	(122,557)	(49,341)	370,839	369,155	510,017	422,206	200,401

53 Risk management *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Bank's assets and liabilities by remaining maturity is as follows:

	2013							Total
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	
Cash and balances with central bank (note (i))	114,701	-	-	-	-	-	403,319	518,020
Amounts due from banks and other financial institutions	27,830	220,354	65,938	97,423	80,106	-	-	491,651
Loans and advances to customers (note (ii))	1,030	63,708	302,830	887,882	324,125	337,793	44,667	1,962,035
Investments (note (iii))	-	43,332	37,204	171,017	312,342	169,643	6,382	739,920
- at fair value through profit or loss	-	2,872	2,961	4,308	8,795	1,459	5,515	25,910
- available-for-sale	-	12,085	12,781	47,146	170,760	30,284	867	273,923
- held-to-maturity	-	153	1,240	8,368	66,570	127,170	-	203,501
- receivables	-	28,222	20,222	111,195	66,217	10,730	-	236,586
Other assets	9,214	3,134	3,980	5,488	263	243	68,046	90,368
Total assets	152,775	330,528	409,952	1,161,810	716,836	507,679	522,414	3,801,994
Amounts due to banks and other financial institutions	85,489	292,812	182,746	142,978	27,259	45	-	731,329
Deposits from customers (note (iv))	1,376,050	297,648	259,773	443,847	266,560	11,003	-	2,654,881
Financial liabilities at fair value through profit or loss (including derivatives)	1,216	1,814	6,456	10,359	1,348	167	7,802	29,162
Debt issued	-	3,766	4,434	2,552	20,715	18,676	-	50,143
Other liabilities	36,921	15,817	3,508	5,667	3,651	220	4,391	70,175
Total liabilities	1,499,676	611,857	456,917	605,403	319,533	30,111	12,193	3,535,690
(Short)/long position	(1,346,901)	(281,329)	(46,965)	556,407	397,303	477,568	510,221	266,304

53 Risk management *(continued)*

(e) Liquidity risk *(continued)*

Analysis of the Bank's assets and liabilities by remaining maturity is as follows: *(continued)*

	2012							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	97,733	-	-	-	-	-	368,910	466,643
Amounts due from banks and other financial institutions	26,698	333,850	32,196	62,094	12,722	-	-	467,560
Loans and advances to customers (note (ii))	2,224	73,300	242,354	700,181	293,111	397,101	12,132	1,720,403
Investments (note (iii))	-	12,877	18,028	110,018	220,445	141,177	2,611	505,156
- at fair value through profit or loss	-	7	218	1,406	17,036	3,391	1,866	23,924
- available-for-sale	-	12,858	15,186	78,221	133,064	34,738	745	274,812
- held-to-maturity	-	9	2,036	28,761	50,355	91,833	-	172,994
- receivables	-	3	588	1,630	19,990	11,215	-	33,426
Other assets	8,336	1,246	1,343	2,515	4,563	62	59,723	77,788
Total assets	134,991	421,273	293,921	874,808	530,841	538,340	443,376	3,237,550
Amounts due to banks and other financial institutions	79,035	279,279	73,661	45,042	300	1	-	477,318
Deposits from customers (note (iv))	1,301,898	240,019	246,295	439,892	197,623	747	-	2,426,474
Financial liabilities at fair value through profit or loss (including derivatives)	243	245	3,238	173	2,456	-	2,673	9,028
Debt issued	-	866	592	3,581	22,361	41,683	-	69,083
Other liabilities	27,015	11,321	3,869	5,408	3,408	436	-	51,457
Total liabilities	1,408,191	531,730	327,655	494,096	226,148	42,867	2,673	3,033,360
(Short)/long position	(1,273,200)	(110,457)	(33,734)	380,712	304,693	495,473	440,703	204,190

Notes:

- (i) For balances with central bank, indefinite amount represents statutory deposit reserve funds and fiscal balances maintained with the PBOC.
- (ii) For loans and advances to customers, indefinite amounts represent loans of which the whole or part of the principals was overdue for more than 1 month. The indefinite amounts are stated net of appropriate allowances for impairment losses.
- (iii) The remaining maturities of trading assets and assets designated at fair value through profit or loss included in investments do not represent the Bank's intention to hold them to maturity.
- (iv) The deposits from customers that are repayable on demand included time deposits matured and awaiting for customers' instructions.

53 Risk management *(continued)*

(e) Liquidity risk *(continued)*

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments may vary significantly from this analysis.

	2013								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	523,872	523,872	118,598	-	-	-	-	-	405,274
Amounts due from banks and other financial institutions	505,802	524,737	31,108	240,008	73,950	98,260	80,944	-	467
Loans and advances to customers	2,148,330	2,534,256	2,649	75,861	337,386	999,338	533,860	538,156	47,006
Investments									
– at fair value through profit or loss	23,223	27,248	82	3,024	3,069	4,724	13,569	2,780	-
– available-for-sale	289,911	332,034	30	13,291	14,206	55,609	205,521	41,840	1,537
– held-to-maturity	208,927	274,367	-	1,199	5,195	11,306	78,906	177,761	-
– receivables	235,415	243,513	-	28,426	20,590	112,100	66,438	15,959	-
Other assets	10,382	10,382	7,015	1,332	298	527	132	300	778
	3,945,862	4,470,409	159,482	363,141	454,694	1,281,864	979,370	776,796	455,062
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	792,478	890,412	90,720	309,596	222,174	201,695	63,966	2,261	-
Deposits from customers	2,775,276	3,074,967	1,485,801	382,881	352,394	533,187	303,152	17,552	-
Financial liabilities at fair value through profit or loss	21,891	21,929	1,233	1,814	6,497	10,392	1,826	167	-
Debts issued	68,936	74,487	-	5,851	6,671	11,959	28,543	21,463	-
Other liabilities	51,869	51,869	27,290	15,754	743	2,147	4,811	1,043	81
	3,710,450	4,113,664	1,605,044	715,896	588,479	759,380	402,298	42,486	81
Gross loan commitments		253,091	253,091	-	-	-	-	-	-

53 Risk management *(continued)*

(e) Liquidity risk *(continued)*

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments may vary significantly from this analysis. *(continued)*

	2012								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	471,415	471,415	101,128	-	-	-	-	-	370,287
Amounts due from banks and other financial institutions	491,255	497,266	28,505	349,094	36,442	69,074	13,992	-	159
Loans and advances to customers	1,863,325	2,282,527	4,087	84,524	273,410	791,838	485,682	628,393	14,593
Investments									
– at fair value through profit or loss	25,489	28,980	54	1,141	1,219	2,062	19,968	4,405	131
– available-for-sale	285,344	327,015	-	13,184	16,399	82,007	167,785	46,286	1,354
– held-to-maturity	175,417	240,059	-	381	3,999	30,540	62,702	142,436	1
– receivables	32,221	39,247	-	6	647	1,973	20,176	16,445	-
Other assets	9,183	9,183	6,850	477	311	560	81	51	853
	3,353,649	3,895,692	140,624	448,807	332,427	978,054	770,386	838,016	387,378
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	526,460	533,769	79,724	284,377	85,583	82,365	1,081	639	-
Deposits from customers	2,532,444	2,614,302	1,342,212	269,335	278,983	479,333	243,291	1,148	-
Financial liabilities at fair value through profit or loss	6,854	6,883	253	251	3,242	192	2,913	32	-
Debts issued	77,111	92,466	-	3,051	1,877	8,020	31,197	48,321	-
Other liabilities	37,192	37,192	17,900	10,999	620	1,628	3,879	809	1,357
	3,180,061	3,284,612	1,440,089	568,013	370,305	571,538	282,361	50,949	1,357
Gross loan commitments		194,816	194,816	-	-	-	-	-	-

53 Risk management *(continued)*

(e) Liquidity risk *(continued)*

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Bank as at the end of the reporting period. The Bank's expected cash flow on these instruments may vary significantly from this analysis.

	2013								
	Carrying Amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	518,020	518,020	114,701	-	-	-	-	-	403,319
Amounts due from banks and other financial institutions	491,651	497,168	27,830	220,758	66,818	100,351	80,944	-	467
Loans and advances to customers	1,962,035	2,330,358	1,658	69,620	320,153	944,053	432,300	516,337	46,037
Investments									
– at fair value through profit or loss	20,394	23,788	-	2,917	3,043	4,473	10,882	2,473	-
– available-for-sale	273,923	315,289	-	12,727	13,934	49,707	196,221	41,833	867
– held-to-maturity	203,501	268,816	-	656	2,171	10,240	77,988	177,761	-
– receivables	236,586	244,684	-	28,426	20,590	112,100	67,608	15,960	-
Other assets	42,597	42,597	7,153	-	-	-	-	-	35,444
	3,748,707	4,240,720	151,342	335,104	426,709	1,220,924	865,943	754,564	486,134
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	731,329	804,592	87,277	296,888	191,791	165,654	61,308	1,674	-
Deposits from customers	2,654,881	2,702,244	1,385,440	298,454	262,558	448,935	289,305	17,552	-
Financial liabilities at fair value through profit or loss	21,360	21,399	1,216	1,815	6,461	10,392	1,348	167	-
Debts issued	50,143	61,323	-	3,792	4,476	4,716	27,231	21,108	-
Other liabilities	40,396	40,396	25,743	14,653	-	-	-	-	-
	3,498,109	3,629,954	1,499,676	615,602	465,286	629,697	379,192	40,501	-
Gross loan commitments		237,858	237,858	-	-	-	-	-	-

53 Risk management *(continued)*

(e) Liquidity risk *(continued)*

The following table provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Bank as at the end of the reporting period. The Bank's expected cash flow on these instruments may vary significantly from this analysis. *(continued)*

	2012								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	466,643	466,643	97,733	-	-	-	-	-	368,910
Amounts due from banks and other financial institutions	467,560	473,280	26,972	335,289	32,800	64,131	13,929	-	159
Loans and advances to customers	1,720,403	2,125,157	3,199	79,447	258,153	748,587	414,729	607,702	13,340
Investments									
– at fair value through profit or loss	22,058	25,444	-	46	340	1,530	19,123	4,405	-
– available-for-sale	274,812	315,746	-	13,159	16,057	80,971	158,524	46,288	747
– held-to-maturity	172,994	237,521	-	177	2,828	30,319	61,773	142,423	1
– receivables	33,426	40,452	-	6	646	1,973	21,382	16,445	-
Other assets	41,843	41,843	7,087	-	-	-	-	-	34,756
	3,199,739	3,726,086	134,991	428,124	310,824	927,511	689,460	817,263	417,913
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	477,318	483,328	79,419	280,468	75,815	47,262	324	40	-
Deposits from customers	2,426,474	2,507,690	1,310,520	242,832	252,697	460,235	240,258	1,148	-
Financial liabilities at fair value through profit or loss	6,355	6,380	243	250	3,241	191	2,455	-	-
Debts issued	69,083	82,368	-	871	597	6,075	30,711	44,114	-
Other liabilities	28,176	28,176	18,009	10,167	-	-	-	-	-
	3,007,406	3,107,942	1,408,191	534,588	332,350	513,763	273,748	45,302	-
Gross loan commitments		178,709	178,709	-	-	-	-	-	-

53 Risk management *(continued)*

(f) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The Group manages this risk through a controls-based environment by establishing a framework of policies and procedures to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, asset recovery and legal affairs. This has allowed the Group to identify and address the operational risk inherent in key products, activities, processes and systems.

(g) Capital management

The objectives of the Group's capital management are to:

- keep capital adequacy ratios at reasonable levels, satisfy capital-specific regulatory provisions and policy requirements on an ongoing basis, and maintain a solid capital base in support of its business expansion and strategic planning implementation for comprehensive, coordinated and sustainable growth;
- comply with capital-specific regulatory provisions, gradually adopt advanced capital measurement approaches, improve internal capital adequacy assessment procedures, publicly disclose capital management information, fully address various risks, and ensure safe operations;
- put in place an economic capital-centred banking value management system by fully applying various risk-specific quantitative deliverables, enhance decision-making processes and management application regimes, strengthen capital restraint and capital incentive mechanisms, reinforce capabilities to facilitate product pricing and decision-making, and increase capital deployment efficiency; and
- reasonably use all kinds of capital instruments, continue to upgrade capital strengths, improve capital structures, raise capital quality, lower capital costs, and create the best returns to shareholders.

The Group manages its capital structure and adjust the same based on economic settings and risk characteristics of its operations. To maintain or adjust its capital structure, the Group may modify its profit distribution policy; issue or repurchase shares, other tier-1 capital instruments, eligible tier-2 capital instruments, and convertible debentures. The Group's management regularly monitors capital adequacy ratio levels under an approach as required by the CBRC. The Group and the Bank file required information with the CBRC in a half yearly and quarterly manner.

53 Risk management *(continued)*

(g) Capital management *(continued)*

The Group's capital adequacy ratio calculation covers China Merchants Bank Co., Ltd. and its subsidiaries. The Company's capital adequacy ratio calculation covers China Merchants Bank Co., Ltd.'s all branch entities at home and abroad. As at 31 December 2013, the Group's subsidiaries that were within the scope of consolidated statements in respect of the capital adequacy ratio included: Wing Lung Bank, CMB International Capital, CMB International Leasing Management and China Merchants Fund Management.

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial) and other relevant regulations. Under the new Measures, the Group has adopted the weighted method, the standard method, and the basic indicator approach to measure credit risk weighted assets, market risk weighted assets and operational risk weighted assets, respectively. During the reporting period, the Group complied with the regulatory capital charge.

Capital adequacy ratio management is the focus of the Group's capital management. The capital adequacy ratio reflects the Group's capability of sound operations and risk combat. The Group's capital adequacy ratio management objectives are to carefully determine capital adequacy ratio goals, as legally required by regulators, according to actual risk profiles and with reference to capital adequacy ratio levels of globally leading market peers and the Group's operating conditions.

The Group adopts the scenario simulation and stress testing methods to forecast, plan and manage its capital adequacy ratio with considerations of factors such as strategic development planning, business expansion status, and risk movement trends.

(h) Use of derivatives

Derivatives are off-balance sheet financial instruments which include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. All of the group's derivative financial instruments are traded over the counter.

The Group enters into financial derivative transactions for treasury business and its assets and liabilities management purpose. Derivative financial instruments include but are not limited to foreign exchange swaps, forward foreign exchange trading, currency swaps, forward rate agreements, interest rate swaps, interest rate options, credit default swaps, bond options, equity swaps, interest rates and credit derivatives. The Group's derivative financial instruments can be divided into trading derivative financial instruments, cash flow hedge financial instruments and derivative financial instruments, which are managed together with financial instruments designated at fair value through profit or loss according to the purposes of holding.

The Group will choose appropriate hedging strategies and tools in light of the risk profile of interest/exchange rates of its assets and liabilities, as well as its analyses and judgement regarding future interest/exchange rate movements.

The Group is exposed to risk on assets or liabilities denominated in foreign currencies as their value may fluctuate due to changes in exchange rates. Such risk can be offset through the use of forward foreign exchange contracts or foreign exchange option contracts.

The following tables provide an analysis of the notional amounts of derivatives of the Group by maturity groupings based on the remaining periods to settlement and the corresponding fair values at the end of the reporting period. The notional amounts of the derivatives indicate the transaction volume outstanding at the end of the reporting period; they do not represent amounts at risk.

53 Risk management *(continued)*

(h) Use of derivatives *(continued)*

	Group						
	2013						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	9,439	15,291	19,565	261	44,556	390	(435)
Currency derivatives							
Spot	16,908	–	–	–	16,908	5	(10)
Forwards	169,746	254,607	18,603	–	442,956	4,519	(5,153)
Foreign exchange swaps	77,019	21,327	550	–	98,896	391	(568)
Options purchased	4,375	464	–	–	4,839	357	–
Options written	5,046	479	1	–	5,526	–	(580)
	273,094	276,877	19,154	–	569,125	5,272	(6,311)
Other derivatives							
Credit default swaps	–	780	605	–	1,385	2	–
Equity options purchased	88	3	–	–	91	2	–
Equity options written	88	3	–	–	91	–	(2)
	176	786	605	–	1,567	4	(2)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	12,300	2,863	49,350	–	64,513	134	(1,402)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	224	4,525	4,512	186	9,447	32	(30)
Currency derivatives							
Foreign exchanges swaps	–	1,993	2,135	–	4,128	62	(55)
Other derivatives							
Equity options	–	–	555	–	555	31	–
	224	6,518	7,202	186	14,130	125	(85)
Total						5,925	(8,235)

53 Risk management *(continued)*

(h) Use of derivatives *(continued)*

	Group						
	2012						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	8,867	12,551	13,391	62	34,871	152	(229)
Currency derivatives							
Spot	6,093	–	–	–	6,093	2	(1)
Forwards	30,173	35,731	2,442	–	68,346	673	(743)
Foreign exchange swaps	86,292	2,347	4,325	–	92,964	710	(991)
Options purchased	1,976	363	–	–	2,339	29	(3)
Options written	3,573	2	–	–	3,575	2	(60)
	128,107	38,443	6,767	–	173,317	1,416	(1,798)
Other derivatives							
Credit default swaps	1,558	414	–	–	1,972	4	–
Forward rate agreement	116	–	–	944	1,060	1	(1)
	1,674	414	–	944	3,032	5	(1)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	1,246	10,207	56,900	–	68,353	322	(670)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	748	259	3,326	–	4,333	35	(35)
Currency derivatives							
Foreign exchanges swaps	245	–	–	–	245	14	(11)
Other derivatives							
Equity options	153	9	40	–	202	31	(1)
	1,146	268	3,366	–	4,780	80	(47)
Total						1,975	(2,745)

53 Risk management *(continued)*

(h) Use of derivatives *(continued)*

	Bank						
	2013						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	9,439	15,291	19,455	121	44,306	385	(428)
Currency derivatives							
Spot	16,908	–	–	–	16,908	5	(10)
Forwards	168,872	251,022	17,422	–	437,316	4,498	(5,137)
Foreign exchange swaps	52,034	12,344	437	–	64,815	61	(175)
Options purchased	4,328	463	–	–	4,791	357	–
Options written	5,022	475	–	–	5,497	–	(580)
	247,164	264,304	17,859	–	529,327	4,921	(5,902)
Other derivatives							
Credit default swaps	–	780	605	–	1,385	2	–
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	12,300	2,863	49,350	–	64,513	134	(1,402)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	188	4,464	1,955	186	6,793	11	(15)
Currency derivatives							
Foreign exchanges swaps	–	1,993	2,135	–	4,128	62	(55)
	188	6,457	4,090	186	10,921	73	(70)
Total						5,515	(7,802)

53 Risk management *(continued)*

(h) Use of derivatives *(continued)*

	Bank						
	2012						
	Notional amounts with remaining life of					Fair values	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	5,388	11,155	13,391	62	29,996	143	(215)
Currency derivatives							
Spot	6,093	–	–	–	6,093	2	(1)
Forwards	29,345	34,663	2,442	–	66,450	661	(733)
Foreign exchange swaps	76,489	70	4,325	–	80,884	674	(963)
Options purchased	1,976	363	–	–	2,339	29	(3)
Options written	3,150	2	–	–	3,152	–	(60)
	117,053	35,098	6,767	–	158,918	1,366	(1,760)
Other derivatives							
Credit default swaps	1,558	414	–	–	1,972	4	–
Forward rate agreement	116	–	–	944	1,060	1	(1)
	1,674	414	–	944	3,032	5	(1)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	1,246	10,207	56,900	–	68,353	322	(670)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	281	259	2,887	–	3,427	16	(16)
Currency derivatives							
Foreign exchanges swaps	245	–	–	–	245	14	(11)
	526	259	2,887	–	3,672	30	(27)
Total						1,866	(2,673)

53 Risk management *(continued)*

(h) Use of derivatives *(continued)*

The credit risk weighted amounts in respect of these derivatives are as follows. These amounts take into account the effects of bilateral netting arrangements.

Credit risk weighted amounts

	31 December 2013
Default risk weighted assets of counterparties	
Interest rate derivatives	389
Monetary derivatives	2,181
Other derivatives	4
Credit valuation adjustment risk weighted assets	3,879
	6,453

- (i) Credit risk weighted amounts are determined in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial), covering default risk weighted assets of counterparties and credit valuation adjustment risk weighted assets.
- (ii) Below is an analysis of the Group's credit risk weighted amounts of financial derivatives as at 31 December 2012, calculated in accordance with the CBRC's Administrative Measures on Capital Adequacy Ratios of Commercial Banks and other relevant regulations. The Measures were abrogated on 1 January 2013.

	31 December 2012
Interest rate derivatives	2,724
Monetary derivatives	3,766
Other derivatives	283
	6,773

53 Risk management *(continued)*

(i) Fair value information

(i) Financial assets

The Group's financial assets mainly include cash, deposits and placements with the central banks, banks and other financial institutions, loans and advances to customers and investments.

Except for loans and advances and held-to-maturity investments, most of the financial assets mature within 1 year or are already stated at fair value, and therefore their carrying values approximate their fair values.

Loans and advances are stated at amortised costs less allowances for impairment loss (Note 19). Loans and advances are mostly priced at floating rates close to the PBRC rates and repriced at market rates annually at lease, and impairment allowance is made to reduce the carrying amount of impaired loans to estimate the recoverable amount. Accordingly, the carrying values of loans and advances are close to the fair values.

Held-to-maturity debt securities investments are stated at amortised costs less impairment, and the fair values are disclosed in Note 21(c).

(ii) Financial liabilities

Financial liabilities mainly include customer deposits, deposits and placements from banks and other financial institutions, and debts issued by the Bank. The carrying values of financial liabilities approximate their fair values at the end of the reporting period of the year presented, except the financial liabilities set out below:

Carrying value

	2013	2012
Subordinated notes issued	21,047	44,124
Long-term bonds issued	23,980	19,974
	45,027	64,098

Fair value

	2013	2012
Subordinated notes issued	19,285	44,474
Long-term bonds issued	22,874	19,461
	42,159	63,935

54 Significant accounting estimates and judgements

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Impairment losses on loans and advances

Loan portfolios are assessed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual loan. Objective evidence for impairment is described in accounting policy 2(n). The impairment loss for a loan that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loan. When loans and advances are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data on market volatility and historical share price of the specific equity investment as well as other factors, such as sector performance and financial information regarding the investee.

(c) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

54 Significant accounting estimates and judgements

(continued)

(d) Held-to-maturity investments

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

(e) Income taxes

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

(f) Defined benefit scheme

Actuarial assumptions are made in valuing future pension obligations as set out in note 37(b). There is uncertainty that these assumptions will hold true in the future. They are reviewed periodically and are updated where necessary.

(g) Ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Group's critical accounting estimates. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of loss events that have been incurred but not reported ("IBNR") to the Group as of the end of the reporting period. The estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim events is available. IBNR claims may not be apparent to the insured until many years after the event that gives rise to the claim has happened.

Estimation of the ultimate cost of certain liability claims can be a complex process. There are several sources of uncertainty that need to be considered in the estimating of the liability that the Group will ultimately pay for such claims. In particular, the claims arising from the employees' compensation and other liability policies can be longer in tail and difficult to estimate. The Group has appointed an independent actuary to estimate the claim liabilities using established actuarial methodologies. The methodologies are statistical in nature and can be affected by various factors. The more significant factors that can affect the reliability of the liability estimation include jurisprudence that can broaden the intent and scope coverage of the protections offered in the insurance contracts issued by the Group, the extent to which actual claim results differ from historical experience and the time lag between the occurrence of the event and the report of such claim to the Group.

(h) Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation.

55 Material related-party transactions

(a) Material connected person information

The Bank's largest shareholder and its parent company and the Bank's subsidiaries.

Company name	Registered location	Issued and fully paid capital	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	the relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB 11,550 million	18.80% (note (i))	–	Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service	Largest shareholder's parent company	Limited company	Fu Yuning
China Merchants Steam Navigation Company Limited (CMSNCL)	Beijing	RMB 3,700 million	12.54% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services	Largest shareholder	Joint stock limited company	Fu Yuning
CMB International Capital Corporation Limited (CMBICCL)	Hong Kong	HKD 250 million	–	100%	Financial advisory and services	Subsidiary	Limited company	Ding Wei
CMB Financial Leasing Corporation Limited (CMBFLCL)	Shanghai	RMB 4,000 million	–	100%	Financial leasing and advisory	Subsidiary	Limited company	Zhang Guanghua
Winglung Bank Limited (WLB)	Hong Kong	HKD 1,161 million	–	100%	Banking	Subsidiary	Limited company	Ma Weihua
China Merchants Fund Management Corporation Limited (CMFM)	Shenzhen	RMB 210 million	–	55%	Fund launching and establishing	Subsidiary	Limited company	Zhang Guanghua

Notes:

(i) CMG holds 18.80% of the Bank (2012: 18.63%) through its subsidiaries.

(ii) As the largest shareholder, CMSNCL who is the subsidiary of CMG, holds 12.54% of the Bank (2012: 12.40%).

55 Material related-party transactions *(continued)*

(a) Material connected person information *(continued)*

The registered capital of each company

Connected person	2013	2012
CMG	RMB11,550,000,000	RMB10,050,000,000
CMSNCL	RMB3,700,000,000	RMB2,200,000,000
CMBICCL	HKD250,000,000	HKD250,000,000
CMBFLCL	RMB4,000,000,000	RMB4,000,000,000
WLB	HKD1,160,950,575	HKD1,160,950,575
CMFM	RMB210,000,000	RMB210,000,000

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	The Bank held by the largest shareholder		The subsidiaries held by the bank							
	CMSNCL		CMBICCL		CMBFLCL		WLB		CMFM	
	RMB	%	HKD	%	RMB	%	HKD	%	RMB	%
At 1 January 2013	2,675,612,600	12.40	250,000,000	100.00	4,000,000,000	100.00	1,160,950,575	100.00	-	-
Change	486,811,723	0.14	-	-	-	-	-	-	115,500,000	55.00
At 31 December 2013	3,162,424,323	12.54	250,000,000	100.00	4,000,000,000	100.00	1,160,950,575	100.00	115,500,000	55.00

(b) Transaction terms and conditions

During the year, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. The Directors are of the opinion that the Group's material related-party transactions were all entered into on normal commercial terms. The banking transactions were priced at the relevant market rates prevailing at the time of each transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2013	2012
Short-term loans	5.60% to 6.00% p.a.	5.60% to 6.56% p.a.
Medium to long-term loans	6.15% to 6.55% p.a.	6.15% to 7.05% p.a.
Saving deposits	0.35% p.a.	0.35% to 0.50% p.a.
Time deposits	2.60% to 4.75% p.a.	2.60% to 5.50% p.a.

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the year.

55 Material related-party transactions *(continued)*

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 18.80% (2012: 18.63%) shares of the Bank as at 31 December 2013 (among them 12.54% shares is held by CMSNCL (2012: 12.40%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	Group		Bank	
	2013	2012	2013	2012
On-balance sheet:				
– Loans and advances	4,428	4,549	3,830	4,334
– Investments	2,966	2,163	2,965	2,162
– Deposits from customers	18,645	28,009	18,358	27,964
Off-balance sheet:				
– Irrevocable guarantee	880	390	880	390
– Irrevocable letters of credit	487	157	487	157
– Bills of acceptances	59	197	59	197
Interest income	430	339	407	324
Interest expense	372	410	371	408
Net fees and commission	97	241	96	240
Net trading gain or loss	27	101	27	101

(d) Companies controlled by directors and supervisors other than those under Note 55(b) above

	Group		Bank	
	2013	2012	2013	2012
On-balance sheet:				
– Loans and advances	3,555	2,676	2,560	1,890
– Investments	4,870	3,990	4,870	3,990
– Deposits from customers	35,393	14,467	35,393	14,155
Off-balance sheet:				
– Irrevocable guarantee	458	502	458	502
– Irrevocable letters of credit	–	3	–	3
– Bill of acceptances	–	490	–	490
Interest income	154	253	154	239
Interest expense	180	78	174	77
Net fees and commission	208	128	189	116
Net trading gain or loss	88	37	88	37

55 Material related-party transactions *(continued)*

(e) Investment in associates and joint ventures other than those under Note 55(b) above

	Group		Bank	
	2013	2012	2013	2012
On-balance sheet:				
– Loans and advances	9	12	–	–
– Deposits from customers	420	465	271	347
Interest expense	2	6	1	3
Net fees and commission	249	250	247	241

(f) Others

	Group		Bank	
	2013	2012	2013	2012
On-balance sheet:				
– Investments	200	–	200	–
– Deposits from customers	1,108	–	1,108	–
Off-balance sheet:				
– Irrevocable guarantee	14	–	14	–
Interest income	6	–	6	–
Interest expense	115	–	115	–
Net fees and commission	3	–	3	–

(g) Subsidiaries

	2013	2012
On-balance sheet		
– Investments	1,611	1,206
– Deposits from customers	733	434
– Balances with banks and other financial institutions	715	1,116
– Placement with other banks	7,489	3,623
– Deposits from banks and other financial institutions	11,385	3
– Placement from other banks	428	11
Off-balance sheet		
– Irrevocable guarantee	117	117
Interest income	150	150
Interest expense	23	4
Net fees and commission	315	(10)
Net trading gain or loss	(95)	30

Any significant balances and transactions between the Bank and its subsidiaries have been offset in the consolidated financial statements.

55 Material related-party transactions *(continued)*

(h) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Executive Officers.

	2013 RMB'000	2012 RMB'000 (Note 8)
Salaries and other emoluments	37,790	34,530
Discretionary bonuses (note 8(i))	–	13,942
Share-based payment	(3,515)	(1,283)
Contributions to defined contribution retirement schemes	4,813	4,571
	39,088	51,760

The above share-based payments represent the estimated fair value of the share appreciation rights granted (note 37(d)) to senior management under the Bank's H-Share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in note 2(u)(iii); and the amounts have been charged to the consolidated statement of comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

(i) Annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other transactions were conducted between the Group and the annuity scheme for the years ended 31 December 2013 and 31 December 2012.

56 Non-controlling interests

Non-controlling interests arise from the establishment of respective non-wholly owned subsidiaries by the Bank, namely CMFM and non-wholly owned subsidiaries by the Bank's subsidiaries, namely WLB and CMBICCL.

57 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2013

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
IAS 32, <i>Financial instruments: Presentation</i>	1 January 2014
IFRS 9, <i>Financial instruments</i>	1 January 2015

So far the Group has concluded that the adoption of other standards is unlikely to have a significant impact on its operating results and financial position, except for IFRS 9 "Financial instruments". Since the Group is in the process of making an assessment on overall impact of IFRS 9, the Group cannot quantify the impact on its operating results and financial position.

58 Non-adjusting events after the reporting period

Save as otherwise disclosed in Note 46, the Group has no significant discloseable post reporting date event as at the date of approval to the financial statements.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial) issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries.

The Group's capital adequacy ratio and relevant components as at 31 December 2013 were as follows:

	31 December 2013
Core tier-1 capital adequacy ratio	9.27%
Tie-1 capital adequacy ratio	9.27%
Capital adequacy ratio	11.14%
Components of capital base	
Core tier-1 capital:	
Portion of paid-in capital that may be included	25,220
Portion of capital surplus that may be included	60,992
Surplus reserves	23,502
General risk provision	46,347
Undistributed profit	111,065
Non-controlling interest capital that may be included	186
Others (Note (i))	(1,736)
Total core tier-1 capital	265,576
Regulatory deductions from core tier-1 capital:	11,183
Net core tier-1 capital	254,393
Other tier-1 capital	-
Net other tier-1 capital	-

(A) Capital adequacy ratio *(continued)*

The Group's capital adequacy ratio and relevant components as at 31 December 2013 were as follows: *(continued)*

	31 December 2013
Tier-2 capital:	
Portion of tier-2 capital instruments and their premium that may be included	18,700
Provision for excess loan loss	30,432
Portion of minority shareholders' capital that may be included	2,179
Total tier-2 capital	51,311
Regulatory deductions from core tier-2 capital:	-
Net tier-2 capital	51,311
Net capital	305,704
Total risk-weighted assets	2,744,991

Note (i): Others' represent translation differences of foreign currency financial statements under the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial).

Below are the Group's core capital adequacy ratio and capital adequacy ratio as at 31 December 2012 computed in accordance with the CBRC's Administrative Measures on the Capital Adequacy Ratio of Commercial Banks and other relevant regulations:

	31 December 2012
Core capital adequacy ratio	8.49%
Capital adequacy ratio	12.14%

(B) Liquidity ratios

	Bank	
	2013	2012
Liquidity ratios		
RMB current assets to RMB current liabilities	57.0%	47.5%
Foreign currency current assets to foreign currency current liabilities	74.4%	60.4%

The above liquidity ratios are calculated in accordance with the formula promulgated by the PBOC and the CBRC and based on PRC GAAP.

(C) Currency concentrations other than RMB

	Group			
	2013			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
<i>Non-structural position</i>				
Spot assets	257,253	110,677	24,618	392,548
Spot liabilities	(236,045)	(106,077)	(29,536)	(371,658)
Forward purchases	317,668	77,911	48,319	443,898
Forward sales	(308,801)	(47,766)	(42,729)	(399,296)
Net option position	(34)	2	84	52
Net long position	30,041	34,747	756	65,544
Net structural position	1,291	35,964	5	37,260
	Group			
	2012			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
<i>Non-structural position</i>				
Spot assets	225,493	113,174	35,288	373,955
Spot liabilities	(190,310)	(94,816)	(40,586)	(325,712)
Forward purchases	118,443	8,573	25,550	152,566
Forward sales	(100,370)	(3,461)	(15,667)	(119,498)
Net option position	(89)	68	65	44
Net long position	53,167	23,538	4,650	81,355
Net structural position	1,295	23,882	5	25,182

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches 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; and
- Investments in subsidiaries.

(D) Cross-border claims

The Group is principally engaged in business operations within the Mainland China, and regards all claims on third parties outside the Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different country or geographical areas. A country or geographical areas is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in 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.

	2013			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	24,036	15,986	123,727	163,749
– of which attributed to Hong Kong	17,417	15,246	112,653	145,316
Europe	2,354	–	2,160	4,514
North and South America	7,399	1,066	10,322	18,787
	33,789	17,052	136,209	187,050
	2012			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	40,807	17,062	101,967	159,836
– of which attributed to Hong Kong	26,895	16,265	93,404	136,564
Europe	9,810	24	1,526	11,360
North and South America	8,823	755	6,138	15,716
	59,440	17,841	109,631	186,912

(E) Further analysis on loans and advances to customers analysed by industry sector

Operation in Mainland China

	Group			
	2013		2012	
	Total	% of gross loans and advances covered by collateral or other security	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	373,458	41	354,863	33
Wholesale and retail	258,251	59	195,608	48
Transportation, storage and postal services	120,598	29	135,985	30
Property development	98,367	81	73,998	80
Construction	89,314	50	59,393	34
Mining	64,199	45	54,507	38
Production and supply of electric power, heating power gas and water	58,028	18	79,081	28
Leasing and commercial services	37,561	41	31,949	31
Water, environment and public utilities management	34,383	49	29,208	33
Telecommunications, software and computer services	15,535	26	11,721	25
Others	47,217	36	31,509	28
Corporate loans and advances	1,196,911	47	1,057,822	38
Discounted bills	71,035	100	64,842	100
Credit cards	154,971	–	106,189	–
Residential mortgage loans	261,501	100	328,199	100
Personal operating loans	318,195	88	180,706	86
Others	53,772	94	60,574	95
Retail loans and advances	788,439	75	675,668	80
Gross loans and advances to customers	2,056,385	59	1,798,332	56

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China

	Group			
	2013		2012	
	Total	% of gross loans and advances covered by collateral or other security	Total	% of gross loans and advances covered by collateral or other security
Wholesale and retail	36,923	93	28,064	89
Property development	32,694	69	34,455	55
Financial concerns	18,677	74	6,554	23
Manufacturing and processing	14,882	63	10,041	67
Transportation, storage and postal services	6,818	61	7,066	55
Information technology	841	93	200	45
Recreational activities	35	50	26	24
Others	18,029	68	8,609	40
Corporate loans and advances	128,899	76	95,015	63
Credit cards	264	–	330	–
Residential mortgage	7,105	100	7,547	100
Personal operating loans	1,527	99	1,306	100
Others	2,914	75	1,933	97
Retail loans and advances	11,810	92	11,116	96
Gross loans and advances to customers	140,709	77	106,131	66

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation in Mainland China *(continued)*

	Bank			
	2013		2012	
	Total	% of gross loans and advances covered by collateral or other security	Total	% of gross loans and advances covered by collateral or other security
Manufacturing and processing	350,145	37	337,126	29
Wholesale and retail	248,361	58	194,138	47
Transportation, storage and postal services	118,917	28	128,103	26
Property development	96,432	82	72,697	80
Construction	70,236	36	56,423	30
Production and supply of electric power, heating power gas and water	57,517	18	65,102	13
Mining	51,378	32	45,489	26
Leasing and commercial services	33,663	35	30,653	29
Water, environment and public utilities management	27,561	36	28,784	32
Telecommunications, software and computer service	15,400	25	11,403	23
Others	41,497	33	29,572	26
Corporate loans and advances	1,111,107	43	999,490	35
Discounted bills	61,592	100	55,097	100
Credit cards	154,971	–	106,189	–
Residential mortgage	261,432	100	328,131	100
Personal operating loans	315,453	87	177,139	86
Others	53,669	94	60,441	95
Retail loans and advances	785,525	75	671,900	80
Gross loans and advances to customers	1,958,224	57	1,726,487	54

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China *(continued)*

	Bank			
	2013		2012	
	Total	% of gross loans and advances covered by collateral or other security	Total	% of gross loans and advances covered by collateral or other security
Wholesale and retail	23,136	97	14,532	98
Property development	6,229	100	7,763	28
Manufacturing and processing	6,112	55	4,096	77
Transportation, storage and postal services	1,567	100	3,127	90
Information technology	696	100	22	–
Financial concerns	209	100	241	–
Others	13,084	77	4,274	28
Corporate loans and advances	51,033	87	34,055	69
Gross loans and advances to customers	51,033	87	34,055	69

The Company has implemented China's new Industrial classification for National Economic Activities (GT/T4754-2011), since January 2013, and made retrospection adjustments to the date as at 31 December 2012 according to the new above standard.

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to consolidated statement of comprehensive income and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

	Group					
	2013					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of comprehensive income during the year	Impaired loans and advances written off during the year
Manufacturing and processing	7,609	6,903	3,396	9,177	4,505	1,052
Wholesale and retail	4,987	4,249	2,232	6,078	3,204	402
Residential mortgage loans	3,505	913	–	3,066	95	43
Personal operating loans	6,194	1,882	–	7,476	3,591	27

	Group					
	2012					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of comprehensive income during the year	Impaired loans and advances written off during the year
Manufacturing and processing	3,876	3,622	2,016	7,469	2,214	214
Wholesale and retail	2,655	2,355	1,316	4,190	1,422	47
Residential mortgage loans	3,939	728	–	3,018	230	6
Personal operating loans	2,271	817	–	3,858	2,307	–

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to statement of comprehensive income and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are: *(continued)*

	Bank					
	2013					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of comprehensive income during the year	Impaired loans and advances written off during the year
Manufacturing and processing	7,437	6,755	3,359	8,822	4,335	1,050
Wholesale and retail	4,941	4,227	2,213	5,937	3,172	402
Residential mortgage loans	3,248	910	–	3,058	91	43
Personal operation loans	4,837	1,882	–	7,415	3,587	27

	Bank					
	2012					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of comprehensive income during the year	Impaired loans and advances written off during the year
Manufacturing and processing	3,788	3,542	1,995	7,239	2,066	213
Wholesale and retail	2,579	2,355	1,315	4,162	1,401	33
Residential mortgage loans	3,618	724	–	3,011	228	6
Personal operation loans	2,241	817	–	3,855	2,037	–

(F) Overdue loans and advances to customers

(i) By geographical segments

	2013	2012
Headquarter	2,520	2,359
Yangtze River Delta region	6,929	3,776
Bohai Rim region	1,202	917
Pearl River Delta and West Coast region	2,139	1,464
Northeast region	529	373
Central region	1,499	882
Western region	774	550
Subsidiaries	386	92
Total	15,978	10,413

(ii) By overdue period

	2013	2012
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months	3,843	1,865
– between 6 and 12 months	4,846	2,685
– over 12 months	7,289	5,863
Total	15,978	10,413
As a percentage of total gross loans and advances:		
– between 3 and 6 months	0.18%	0.10%
– between 6 and 12 months	0.22%	0.14%
– over 12 months	0.33%	0.31%
Total	0.73%	0.55%

(iii) Collateral information

	2013	2012
Secured portion of overdue loans and advances	5,106	2,816
Unsecured portion of overdue loans and advances	10,872	7,597
Value of collaterals held against overdue loans and advances	5,396	2,883
Provision of overdue loans and advances for which impairment losses are individually assessed	6,090	4,473

(G) Overdue loans and advances to financial institutions

(i) By geographical segments

	2013	2012
Yangtze River Delta region	1	1

(ii) By overdue period

	2013	2012
Gross loans and advances to financial institutions which have been overdue with respect to either principal or interest for period of		
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	1	1
Total	1	1
As a percentage of total gross loans and advances		
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	–	–
Total	–	–

(iii) Collateral information

	2013	2012
Secured portion of overdue loans and advances	–	–
Unsecured portion of overdue loans and advances	1	1
Value of collaterals held against overdue loans and advances	–	–
Provision of overdue loans and advances for which impairment losses are individually assessed	1	1

Note:

The above analysis, (F) and (G), includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collaterals of the Group included cash deposit, shares, land use right, property, motor vehicles and equipment, etc. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance had been included in the “secured portion of overdue loans and advances” as set out in the above tables.

(H) Rescheduled loans and advances to customers

	2013		2012	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	1,068	0.05%	1,503	0.08%
Less:				
– rescheduled loans and advances but overdue more than 90 days	687	0.03%	981	0.05%
Rescheduled loans and advances overdue less than 90 days	381	0.02%	522	0.03%

There were no rescheduled loans and advances to financial institutions as at 31 December 2013 (2012: Nil).

(I) Non-bank Mainland exposures

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 31 December 2013 and 31 December 2012, over 90% of the Bank's exposures arose from businesses with Mainland entities or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial report.

(J) Corporate governance

Board committees

The board of directors has established six committees including the Strategy Committee, Audit committee, Related Party Transactions Control Committee, Risk and Capital Management Committee, Remuneration and Appraisal Committee and Nomination Committee.

(i) Strategy Committee

Main authorities and duties of the Executive Committee are:

- to formulate the operational goals and medium-to-long term development strategies of the Bank;
- to supervise and review the implementation of the annual operational plan and investment plan;
- to evaluate and monitor the implementation of Board resolutions; and
- to put forth proposals and plans on important issues for discussion and determination by the Board of Directors.

(J) Corporate governance *(continued)*

Board committees *(continued)*

(ii) Audit Committee

Main authorities and duties of the Audit Committee are:

- to propose the engagement or replacement of external auditors;
- to monitor the internal audit system of the Bank and its implementation;
- to be responsible for the liaison between internal auditors and external auditors;
- to review the financial information of the Bank and its disclosure;
- to examine the internal control system of the Bank; and
- to deal with other matters authorized by the Board of Directors.

(iii) Related Party Transactions Control Committee

Main authorities and duties of the Related Party Transactions Control Committee are:

- to identify related parties of the Bank according to relevant laws and regulations;
- to inspect, supervise and review material related parties transactions and continuing related parties transactions and to control the risks associated with related party transactions;
- to review the administrative measures on related party transactions of the Bank, and to monitor the establishment and improvement of the related party transactions management system of the Bank; and
- to review the announcement on related parties transaction of the Bank.

(iv) Risk and Capital Management committee

Main authorities and duties of the Risk and Capital management Committee are:

- to monitor the risk control of the Bank's exposures to credit risks, market risks and operational risks, etc. by senior management;
- to conduct regular assessment of the risk position of the Bank and to conduct evaluations of the procedures and performances of internal auditors;
- to put forward proposals on the improvement of the risk management and internal control of the Bank; and
- other matters that authorized by the Board of Directors.

(v) Remuneration and Appraisal Committee

Main authorities and duties of the Remuneration and Appraisal Committee are:

- to study the standard for appraising directors and senior management personnel, conduct appraisals and put forward proposals based on the actual situation of the Bank;
- to study and review the remuneration policies and plans for directors and senior management personnel; and
- any other matters authorized by the Board of Directors.

(J) Corporate governance *(continued)*

Board committees *(continued)*

(vi) Nomination Committees

Main authorities and duties of the Nomination Committee are:

- to put forward proposals to the Board on the size and composition of the Board according to the business operations, asset scale and shareholding structure of the Bank;
- to study the standards and procedures for the election of directors and senior management personnel, and propose suggestion to the Board;
- to conduct extensive searches for qualified candidates as directors and senior management personnel;
- to conduct preliminary examination on the qualifications of the candidates for directors and senior management personnel and put forward proposals; and
- any other matters authorized by the Board of Directors.

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