



# 徽商銀行股份有限公司 Huishang Bank Corporation Limited

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

Stock Code : 3698

二零一三年

2013 Annual Report



Huishang Bank Corporation Limited Annual Report 2013



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# Definition

In this document, unless the context otherwise requires, the following terms shall have the meaning set out below.

“The Bank” or “Huishang Bank”	means Huishang Bank Corporation Limited
“CBRC”	means China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CSRC”	means China Securities Regulatory Commission (中國證券監督管理委員會)
“CBRC Anhui Office”	means China Banking Regulatory Commission Anhui Office (中國銀行業監督管理委員會安徽監管局)
“Domestic Shares”	means ordinary shares issued by our Bank in the PRC, with a nominal value of RMB1.00, which are subscribed for and paid for in RMB
“Hong Kong”	means Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	means Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Listing”	means the listing of H shares of the Bank on the Hong Kong Stock Exchange
“Listing Date”	means the date on which dealings in the H shares of the Bank first commence on the Hong Kong Stock Exchange, i.e. 12 November 2013
“Non-green Industries”	means the heavily-polluting, highly energy-consuming and over-capacity industries
“Three Dimensional Rural Issues”	abbreviation for issues related to agriculture, rural areas and farmers
“PBOC”	means the People’s Bank of China
“China” or “PRC”	means the People’s Republic of China
“Yuan” or “RMB”	means Renminbi, the lawful currency of China. The amount of this report unless otherwise specified, currency into Renminbi
“HK\$” or “Hong Kong dollars”	means Hong Kong dollars, the lawful currency of Hong Kong



## 1.1 Corporate Information

1.1.1 Statutory Chinese name: 徽商銀行股份有限公司

Statutory English name: Huishang Bank Corporation Limited

1.1.2 Statutory representative: Mr. Li Hongming

Authorized representatives: Mr. Wu Xuemin, Mr. Ngai Wai Fung

Board of Directors secretary: Mr. Hu Dongdong

Joint company secretary: Mr. Ngai Wai Fung, Mr. Hu Dongdong

1.1.3 Registered and business office: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC

1.1.4 Contact address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province PRC

Tel: 0551-62667787

Fax: 0551-62667787

Post code: 230001

Bank's website: [www.hsbank.com.cn](http://www.hsbank.com.cn)

E-mail: [djb@hsbank.com.cn](mailto:djb@hsbank.com.cn)

1.1.5 Principal place of business in Hong Kong<sup>(note)</sup>: 18/F, Tesbury Centre 28 Queen's Road East, Wanchai, Hong Kong

1.1.6 Certified public accountants: PricewaterhouseCoopers

22/F, Prince's Building, Central, Hong Kong

1.1.7 Legal advisor as to PRC laws: King & Wood Mallesons

Legal advisor as to Hong Kong laws: Latham & Watkins

Compliance Advisor: Guotai Junan Capital Limited

1.1.8 Domestic shares trustee agency: China Securities Depository and Clearing Corporation Limited

H shares registrar office: Computershare Hong Kong Investor Services Limited

(Note) The principal place of business in Hong Kong of the Bank was 3907-08, 39/F Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as from the date of listing on 12 November 2013 to 31 December 2013.

Huishang Bank Corporation Limited is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.

### 1.2 Company profile

The Bank is a joint stock commercial bank established on 4 April 1997 in Anhui. The Bank changed its name to Huishang Bank Corporation Limited on 28 December 2005, and officially merged with 5 city commercial banks of Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and 7 urban credit cooperatives of Lu'an, Huainan, Tongling, Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda. The Bank holds a financial institution license numbered B0162H234010001 from CBRC Anhui Office and a legal entity business license numbered 340000000026144 from Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, China. At the end of 2013, the total registered capital of the Bank was RMB11.05 billion.

The Bank's principal activities are taking of deposits from the corporate and retail customers and the use of these deposits to fund the loan and investment portfolios, and the treasury operations which mainly encompass money market activities, investment and trading activities and transactions on behalf of customers in the PRC. As at 31 December 2013, the Bank have 17 branches, 191 sub-branches and 447 self service areas in the PRC. The Bank also owned Jinzhai Huiyin Rural Bank Co., Ltd as its subsidiary and have less than majority shareholding in Chery Motor Finance Service Co. Ltd and Wuwei Huiyin County Bank Co., Ltd.

We are dedicated to serve local customers, with a focus on small and medium enterprises ("SME(s)"). Benefiting from our long-term commitment to deeply penetrate the Anhui market, we have built a broad SME customer base and a branch network strategically aligned with the regional economy, allowing us to become a renowned financial institution in Anhui and China.

On 12 November 2013, the Bank was listed on the Main Board of Hong Kong Stock Exchange.

### 1.3 Awards in 2013

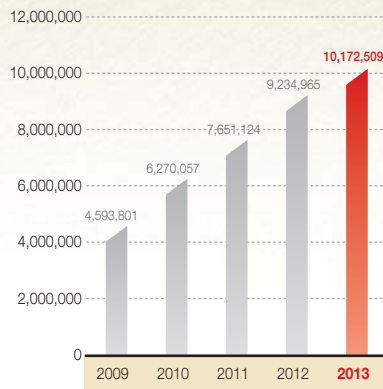
In 2013, the Bank has won numerous accolades and rewards in contests organised by domestic authorities:

- ◆ In January, the Bank was chosen as one of "The First 100 Banks of Inter-bank Domestic Currency Market in 2012".
- ◆ In February, the Bank was awarded "The Best Efficient Award" in 2012 China Banking Finance Knowledge Wan Li Xing.
- ◆ In March, the Bank was awarded the First Prize of "Non-tax Agency Work of Provincial Government in 2012" and "Advanced Entity and Star of Statistics of International Income and Expense". The Bank was rated as A-class bank in the evaluation of the implementation of foreign exchange rules.

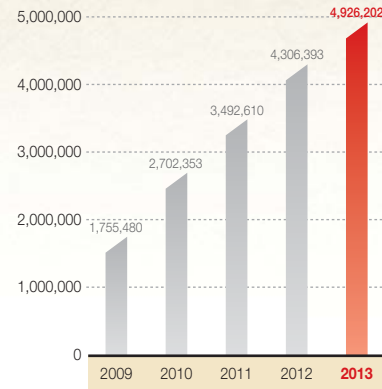
- ◆ In May, the Bank was awarded the First Prize of “Business Performance Evaluation of Support on Local Development” by Anhui financial work leading team.
- ◆ In October, the Bank was awarded “Best Development Prize of Syndicated Loan Business in 2012” by China Banking Association.
- ◆ In November, the Bank was awarded “Best Bank of Regional Cash and Treasury Management” by the 2013 Annual Conference of China Cash and Treasury Management.
- ◆ In December, the Bank was awarded the best regional commercial bank of innovative mobile bank and “2013 Gold Medals for Chinese Financial Institution — Annual Small and Medium-Sized Bank with the Best Potential Growth”.
- ◆ In December, the Bank ranked first place in the “First Resident Satisfactory Investigation of 10 Service Industries of Anhui Province”.

# Summary of Accounting Information and Financial Index

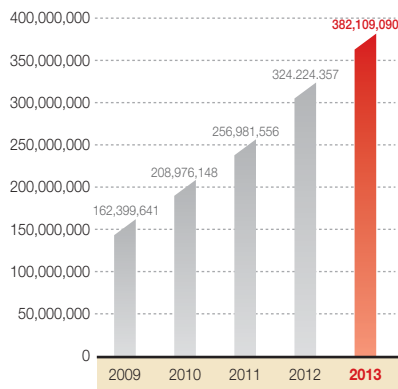
## Net Operating Income



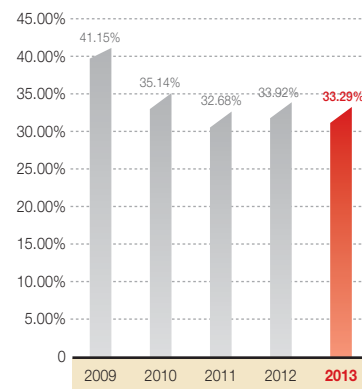
## Net Profit Attributable to Shareholders of the Bank



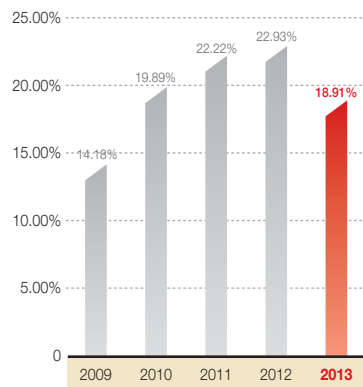
## Total Assets



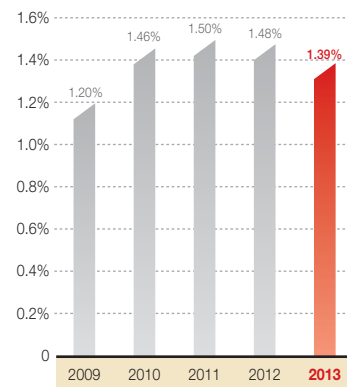
## Cost-to-income Ratio



## ROAE after Tax Attributable to Shareholders of the Bank



## ROAA after Tax Attributable to Shareholders of the Bank



## Summary of Accounting Information and Financial Index (Continued)

### 2.1 Main Financial Information

RMB'000

Results of operation	2013	2012	YoY +/- %
Net operating income	<b>10,172,509</b>	9,234,965	10.15%
Profit before income tax	<b>6,398,744</b>	5,680,038	12.65%
Net profit attributable to shareholders of the Bank	<b>4,926,202</b>	4,306,393	14.39%

RMB

By per share	2013	2012	YoY +/- %
Basic earnings attributable to shareholders of the Bank	<b>0.58</b>	0.53	9.43%
Diluted earnings attributable to shareholders of the Bank	<b>0.58</b>	0.53	9.43%
Net closing assets attributable to shareholders of the Bank	<b>2.86</b>	2.51	13.94%

RMB'000

Scale indicators	31 December		YoY +/- %
	2013	2012	
Total assets	<b>382,109,090</b>	324,224,357	17.85%
Including: Total loans and advances	<b>195,449,436</b>	163,794,766	19.33%
Total liabilities	<b>350,437,158</b>	303,743,433	15.37%
Including: Total deposits from customers	<b>272,798,242</b>	239,543,123	13.88%
Equity attributable to shareholders of the Bank	<b>31,625,121</b>	20,480,924	54.41%

Note: Net operating income comprises net interest income, net fee and commission income, net trade income, net income from investment in securities, dividends income and other operating income.

## Summary of Accounting Information and Financial Index (Continued)

### 2.2 Financial ratios

Profitability indicators	2013	2012	YoY +/-
Return on average assets ("ROAA") after tax attributable to shareholders of the Bank	<b>1.39%</b>	1.48%	-0.09%
Return on average equity ("ROAE") after tax attributable to shareholders of the Bank	<b>18.91%</b>	22.93%	-4.02%
Net interest spread	<b>2.44%</b>	2.88%	-0.44%
Net interest margin	<b>2.63%</b>	3.03%	-0.40%

% accounted for net operating income	2013	2012	YoY +/-
Net interest income	<b>94.40%</b>	92.79%	1.61%
Net non-interest income	<b>5.60%</b>	7.21%	-1.61%
Cost-to-income ratio (including business tax and surcharges) <sup>1</sup>	<b>33.29%</b>	33.92%	-0.63%

Capital adequacy indicators	31 December		
	2013	2012	YoY +/-
Core tier I capital adequacy ratio	<b>12.60%</b>	10.30%	2.30%
Capital adequacy ratio	<b>15.19%</b>	13.54%	1.65%
Total equity to total assets	<b>8.29%</b>	6.32%	1.97%

Asset quality indicators	31 December		
	2013	2012	YoY +/-
Non-performing loan ratio	<b>0.54%</b>	0.58%	-0.04%
Allowance to non-performing loan ratio	<b>396.61%</b>	406.00%	-9.39%
Allowance to loans	<b>2.13%</b>	2.35%	-0.22%

<sup>1</sup> Cost-to-income ratio = Operating expenses/Operating income



## Summary of Accounting Information and Financial Index (Continued)

### 2.3 Five-year financial summary

	2013	2012	2011	2010	2009 <sup>2</sup>
<b>Results for the year (RMB'000)</b>					
Net operating income	<b>10,172,509</b>	9,234,965	7,651,124	6,270,057	4,593,801
Operating expenses	<b>(3,386,435)</b>	(3,132,268)	(2,500,374)	(2,203,049)	(1,890,203)
Assets impairment loss	<b>(435,365)</b>	(457,715)	(578,853)	(578,375)	(477,562)
Profit before income tax	<b>6,398,744</b>	5,680,038	4,603,647	3,502,073	2,275,403
Net profit attributable to shareholders of the Bank	<b>4,926,202</b>	4,306,393	3,492,610	2,702,353	1,755,480
<b>By per share (RMB)</b>					
Dividends		0.10	0.10	0.10	0.10
Basic earnings	<b>0.58</b>	0.53	0.43	0.33	0.21
Diluted earnings	<b>0.58</b>	0.53	0.43	0.33	0.21
Closing net assets attributable to shareholders of the Bank	<b>2.86</b>	2.51	2.09	1.76	1.57
<b>At year end (RMB'000)</b>					
Paid-in capital stock	<b>11,049,819</b>	8,174,819	8,174,819	8,174,819	8,174,819
Total equity	<b>31,625,121</b>	20,480,924	17,083,526	14,357,293	12,809,236
Total liabilities	<b>350,437,158</b>	303,743,433	239,898,030	194,618,855	149,590,405
Deposits from customers	<b>272,798,242</b>	239,543,123	203,579,704	159,582,006	132,560,684
Total assets	<b>382,109,090</b>	324,224,357	256,981,556	208,976,148	162,399,641
Net loans and advances	<b>191,280,398</b>	159,941,475	133,922,883	114,058,443	94,086,821
<b>Key financial ratio</b>					
ROAA	<b>1.39%</b>	1.48%	1.50%	1.46%	1.20%
ROAE	<b>18.89%</b>	22.93%	22.22%	19.89%	14.18%
Cost-to-income ratio (including business tax and surcharges) <sup>3</sup>	<b>33.29%</b>	33.92%	32.68%	35.14%	41.15%
Non-performing loan ratio	<b>0.54%</b>	0.58%	0.48%	0.60%	0.93%
Core capital adequacy ratio	<b>12.60%</b>	10.30%	10.87%	11.19%	11.15%
Capital adequacy ratio	<b>15.19%</b>	13.54%	14.68%	12.06%	12.14%

2 Data of 2009 is from the Annual Report of 2009 which is prepared in accordance with CAS 2006.

3 Cost-to-income ratio = Operating expenses/Operating income



# Chairman's Statement



Li Hongming | Chairman

The year 2013 marked a milestone for Huishang Bank. The Bank successfully assessed the international capital market by listing on the Hong Kong Stock Exchange on 12 November 2013, which forms a strong foundation for becoming an excellent and valuable regional commercial bank. This allowed the Bank to greatly improve its capital position and brand image through the Listing. As of 31 December 2013, the total share capital of the Bank amounted to RMB11.05 billion, and capital adequacy ratio, tier one capital adequacy ratio and core capital adequacy ratio was 15.19%, 12.61% and 12.60% respectively.

During 2013, whilst facing complex domestic and international economic situations, the Bank has taken the Listing as an opportunity to further implement its “customer-oriented” principle through innovative products, optimize business processes as well as transform outlets to constantly improve its services and customer experience. Furthermore, the Bank accelerated its business transformation by actively promoting new business segments such as investment banking, cash management and inter-bank businesses. The Bank enhanced and streamlined

the SME-related services and expanded its retail operation and network for providing quality services to different customer segments. The Bank also explored new business modes such as community finance, mobile finance and internet finance. By steadily undergoing management transformation, the Bank has successfully realized tangible results in project initiatives such as centralized operation platform, overall risk management and construction of information system.

## Chairman's Statement (Continued)

The Bank could not achieve the above-mentioned achievements without the trust, support and assistance from the PRC Government at all levels, regulatory authorities, domestic and offshore investors, customers, industry partners and all sectors of the society, and more importantly the hardwork of the Bank's staff. I hereby, on behalf of the board of directors of Huishang Bank, give my sincere appreciation to you all.

In 2014, the economy shall continue to recover slowly with unsteady and uncertain factors. Economic exposure may be triggered by tapering of liquidity in many countries, deep domestic economic transformation, more dynamic economic developments, adjustments in real estate market, or matters of local debts and shadow banking. Traditional banking shall also be challenged by intensified regulations,

tightened liquidity, disintermediation, interest rate liberalization, admittance of private capital and online financial innovation. Institutional bonus from intensified reform, increase driving forces by urbanization, together with steady and faster economic development in Anhui Province, brings ample opportunities to the Bank. The Bank shall actively adapt to the changes in the economic situation by putting effort into perfecting the corporate governance mechanism in accordance with the requirements by capital market and domestic and offshore regulators, as well as by solidifying and amplifying the traditional business strengths, accelerating exploration of new business, continuing promotion of technological innovation, effectively implementing institutional reform, and strengthening risk management and internal control so as to improve the profitability and competitiveness in all respects.

The Bank is confident in the development of the Chinese economy as well as Huishang Bank. With the Listing as a starting point, Huishang Bank shall be able to turn a new chapter in its history of reform. Huishang Bank shall lead all of its staff in dedicating itself to the development of the regional economy with their broad perspective, innovative spirit, hard work and diligence, in building a splendid future for the Bank.

**Li Hongming**

*Chairman*

# President's Statement



Wu Xuemin | President

The year 2013 was a truly extraordinary year in the course of the Bank's reform and development. In face of complex domestic and international situations and increasingly fierce competition among industry peers, the staff at all levels of the Bank conscientiously implemented various requirements from regulators and the Board of Directors, comprehensively fulfilled all tasks and overcome various adverse factors by maintaining quality and efficiency as the core values, with an aim towards transformational development and structural adjustment. All these actions led to good momentum of sustainable and sound development of the Bank. Particularly, the Bank, from top to bottom, has the common goal of and powerful driving force in tackling all tough hurdles. Becoming the first city commercial bank in the Central area of the PRC to enter the international capital market through listing in Hong Kong has realised the long-cherished goal of the Bank.

At the end of 2013, the Bank's total assets increased by 17.85% over the beginning of the year to RMB382,109 million. Various deposits increased by 13.88% to RMB272,798 million. Loans increased by 19.33% year-on-year to RMB195,449 million. Non-performing loans amounted to RMB1,051 million, and non-performing loan ratio is at the level of 0.54%, a decrease of 0.04% in comparison with the beginning of the year. The Bank harvested a net profit of RMB4,926 million for the year with

an increase of 14.40% year-on-year, resulting a satisfactory close of the year.

In 2013, the Bank continuously expanded the businesses by focusing on debt marketing to constantly improve its market capabilities. By leveraging the corporate customers' connections and network, we extended our service chain by boosting cross-selling, business collaboration and advanced the growth in deposits, business restructuring and operational transformation.

We pushed forward the establishment of a small enterprise operation centre, optimised and improved business procedures, and enhanced the development of micro and small business. We steadily developed bank card and credit card businesses through vigorously developing “Huidaitong (徽貸通)”-based personal loans and aiming at consolidating and strengthening the foundation of retail banking business. Further, we accelerated the development of emerging businesses, such as international business, financial markets, investment banking, cash management, and wealth management, which led us to a further growth in income.

In 2013, the Bank continuously pushed forward the comprehensive risk management, gave priority to risk prevention and internal control, and strengthened the risk control over key industries, fields and regions. As a result, loans granted to government financing vehicles, real estate enterprises and non-green industries were controlled in a prescribed limit, and centralised risk was effectively lowered down. We implemented a 12-level classification for the quality of credit assets to improve our refined asset quality management, strictly controlled newly increased non-performing loans by strengthening the disposal of non-performing loans. Besides, we improved the

management over various risks, such as liquidity risk, market risk, operational risk and reputation risk, continued to enhance the internal audit, internal control assessment and compliance management, and focused on litigation prevention. As a result, no major litigation or serious incident involving severe consequences happened during the year.

The Bank strengthened its internal management by improving evaluation in branches' target-oriented responsibility system, reasonably optimising and adjusting indicators for evaluation, and steadily advancing the marketing evaluation over the marketing department. We focused on enhancing our capital, pricing and cost management capabilities, improved credit review effectiveness, optimised approval procedures and improved our service efficiency. We advanced centralised operations, improved our risk control over operational risks, and enhanced our operational management level. We carried out adjustment scheme for organisational framework, further specified responsibilities of departments, optimised the positions and responsibilities in departments and headquarter and matched staff with corresponding post. As per regulatory requirements, we further improved the assessment and performance evaluation system.



In 2013, the Bank continued to push forward financial innovation by improving its new products assessment and decision mechanism, and introduced incentives and constraint mechanism for product innovations. With respect to market and customer requirements, we vigorously enhanced our product innovation by actively developing a batch of marketable products needed by customers, leading to a broadened range of products. By actively applying for business qualifications, we successfully acquired the qualifications for fund custody, etc., and enhanced our comprehensive service abilities.

The Bank constantly enhanced the branch outlets by continuously optimising the distribution of branches, further broadening the coverage of branches to expand its financial service offerings. We have established 19 sub-branches in 2013. As at the end of the year, the total number of branches capable of providing financial services is 201. We established Jinzhai Huiyin Rural Bank Co. Ltd., and progressed to establish financial consumer company and leasing company to explore comprehensive operation.

Our successful listing and good operating results are dedicated to effort of staffs at all levels of the Bank, and to the vigorous support from massive

customers, investors and all sectors of society. I'd like to take this opportunity, on behalf of the Bank's senior management, to convey my sincere gratitude to friends from all walks of life for the concern and support conferred to the development of the Bank.

The year of 2014 will be the first year after the Listing, and also the key year of comprehensively deepening reforms and transformational development. We will further enhance our sense of responsibility, sense of honour and sense of mission, further strengthen our confidence, and work hard with encouraging morale, to create a brilliant and beautiful tomorrow for the Bank.

**Wu Xuemin**

*President*

# Management Discussion and Analysis

## 5.1 Overall business review

In face of the complex domestic and international situations and increasingly fierce competition among peer banks in 2013, the Bank made efforts to overcome various adverse factors by focusing on quality and efficiency utilizing transformational development and structure adjustment. All these led to a steady expansion of business scale, consistently good asset quality and improved profitability, realising steady growth in various business and continuous improvement in operations' management level.

## 5.2 Analysis of income statement

### 5.2.1 Particular of financial performance

Item	2013	2012	2011
	<i>Unit: In millions of RMB</i>		
Net interest income	<b>9,602</b>	8,569	7,089
Net fee and commission income	<b>540</b>	396	413
Other net income	<b>30</b>	270	149
Operating expenses	<b>3,386</b>	3,132	2,500
Provisions for insurance claims			
Share of profits of associates	<b>48</b>	35	32
Share of profits of joint ventures			
Impairment losses on assets	<b>435</b>	458	579
Profit before income tax	<b>6,399</b>	5,680	4,604
Income tax	<b>1,473</b>	1,374	1,111
Net profit	<b>4,926</b>	4,306	3,493
Net profit attributable to shareholders of the Bank	<b>4,926</b>	4,306	3,493

In 2013, the Bank harvested a profit before income tax of RMB6,399 million, an increase of 12.66% over 2012. The effective income tax rate was 23.02%, down 1.17 percentages from 2012.

In 2013, the Bank recorded a net profit attributable to shareholders of the Bank of RMB4,926 million, which is RMB84 million or 1.68% less than RMB5,010 million, being the forecast profit attributable to shareholders of the Bank contained in the Bank's prospectus dated 31 October 2013. This difference was mainly due to the exchange losses incurred during the conversion and remittance into Mainland China of the net proceeds raised in connection with the offering of H Shares of the Bank and the subsequent exercise of the over-allotment option.

The following table sets forth the movement in major profit and loss accounts on profit before income tax for the year ended 31 December 2013:

**Movement of profit before income tax**

Unit: In millions of RMB

Item	
<b>Profit before income tax in 2012</b>	5,680
Movement in 2013	
Net interest income	1,033
Net fee and commission income	144
Other net income	(240)
Operating expenses	254
Provisions for insurance claims	
Impairment losses on assets	(23)
Share of profits of associates and joint ventures	13
<b>Profit before income tax in 2013</b>	<b>6,399</b>

5.2.2 Net Operating Income

In 2013, the Bank had a net operating income of RMB10,173 million, up 10.15% from 2012. Net interest income accounted for 93.95%, up 1.51 percentage points from 2012. Net non-interest income accounted for 6.05%, a decrease of 1.51 percentage points year-on-year.





The follow table sets forth the year-on-year comparison of the net operating income for past three years:

Item	2013 (%)	2012 (%)	2011 (%)
Net interest income	<b>93.95</b>	92.44	92.27
Net fee and commission income	<b>5.28</b>	4.27	5.38
Other net income	<b>0.29</b>	2.91	1.94
Share of profits of associates and joint ventures	<b>0.48</b>	0.38	0.41
Total	<b>100.00</b>	100.00	100.00

### 5.2.3 Net interest income

In 2013, the Bank's net interest income was RMB9,603 million, representing an increase of 12.07% compared with the prior year.

The following table sets forth the average balance, interest income/expenses and average interest margin/cost ratio of the Bank's assets and liabilities for the period indicated. The average balances of interest-earning assets and interest-bearing liabilities represented the daily average balances.

Item	2013			2012		
	Average balance	Interest income	Average cost ratio (%)	Average balance	Interest income	Average cost ratio (%)
<i>Unit: In millions of RMB except percentages</i>						
<b>Interest-earning assets</b>						
Loans and advances	<b>184,449</b>	<b>12,494</b>	<b>6.77</b>	149,322	10,697	7.16
Bond investments	<b>60,194</b>	<b>2,524</b>	<b>4.19</b>	54,536	2,225	4.08
Cash and balances with central bank	<b>50,489</b>	<b>768</b>	<b>1.52</b>	42,616	647	1.52
Due from and placements with and loans to banks and other financial institutions	<b>69,529</b>	<b>3,071</b>	<b>4.42</b>	36,431	1,592	4.37
Total interest-earning assets and interest income	<b>364,661</b>	<b>18,857</b>	<b>5.17</b>	282,905	15,161	5.36

## Management Discussion and Analysis (Continued)

Item	2013			2012		
	Average balance	Interest expenses	Average cost ratio (%)	Average balance	Interest expenses	Average cost ratio (%)
<i>Unit: In millions of RMB except percentages</i>						
<b>Interest-bearing liabilities</b>						
Deposits from customers	241,728	4,928	2.04	205,210	4,061	1.98
Deposits and placements from banks and other institutions	89,581	3,893	4.35	56,430	2,269	4.02
Debt securities in issue	7,871	434	5.52	3,992	262	6.55
<b>Total interest-bearing liabilities and interest expenses</b>	<b>339,180</b>	<b>9,254</b>	<b>2.73</b>	265,632	6,592	2.48
<b>Net interest income</b>	/	9,603	/	/	8,569	/
<b>Net interest spread</b>	/	/	2.44	/	/	2.88
<b>Net interest margin</b>	/	/	2.63	/	/	3.03

In 2013, the net interest margin was 2.63% and the net interest spread was 2.44%, respectively representing a decrease of 0.4% and 0.44% compared with the prior year.

The following table sets forth the distribution of changes in interest income and interest expenses caused by the changes in scale and interest for the period indicated. The changes in scale was measured by the changes of average daily balances; while the changes in interests was measured by changes in average interest ratio. The scale changes and interest rate changes caused changes in interest income and expenses, which is included in the impact of scale changes on interest income and expense changes.

Item	2013 vs.2012		
	Scale	Interest rate	Net increase (decrease)
<b>Assets</b>			
Loans and advances	2,515	(577)	1,938
Investment securities	231	62	293
Balances with the central bank	120	0	120
Due from and placements with and loans to banks and other financial institutions	1,446	17	1,463
<b>Changes in interest income</b>	4,312	(498)	3,814
<b>Liabilities</b>			
Deposits from customers	723	120	843
Deposits and placements from banks and other financial institutions	1,333	184	1,517
Debt securities in issue	254	(41)	213
<b>Changes in interest expenses</b>	2,310	262	2,572
<b>Changes in net interest income</b>	2,002	(760)	1,243



## Management Discussion and Analysis (Continued)

### 5.2.4 Interest income

In 2013, the Bank realized an interest income of RMB18,857 million, an increase of 24.38% compared with the prior year. Interest income from loans and advances still form the largest component of the Bank's interest income.

#### **Interest income from loans**

In 2013, the Bank's interest income from loans and advances amounted to RMB12,495 million, representing an increase of RMB1,797 million or 16.80% compared with the prior year. The banks average interest margin of the loans and advances was 6.77% for the year 2013, representing a decrease of 0.39% compared with the prior year.

The following table sets forth the average balances, interest income and average return on each component of the Bank's loans and advances for the period indicated.

Items	2013			2012		
	Average balance	Interest income	Average yields	Average balance	Interest income	Average yields
<i>Unit: In millions of RMB except percentages</i>						
Corporate loans	129,762	9,268	7.14	103,716	7,868	7.59
Personal loans	44,218	2,667	6.03	33,494	2,107	6.29
Discounted bills	10,469	559	5.34	12,112	722	5.96
<b>Loans and advances</b>	<b>184,449</b>	<b>12,494</b>	<b>6.77</b>	149,322	10,697	7.16

### 5.2.5 Interest expenses

In 2013, the Bank's interest expenses amounted to RMB9,254 million representing an increase of RMB2,661 million or 40.37% compared with the prior year. It was primarily due to structure changing and scale expanding in interest-bearing liabilities.

#### **Interest expense on deposits from customers**

In 2013, the Bank's interest expense on deposits from customers recorded RMB4,928 million, which increased by RMB867 million or 21.35% compared with the prior year. On the one hand, the average balance on deposits from customers increased by 17.80% compared with the prior year; on the other hand, the average cost ratio on deposits from customers increased by 0.06% compared with the prior year.

## Management Discussion and Analysis (Continued)

The following table sets forth the principal components of average balance, interest expenses and average cost ratio of the Bank's corporate deposits and personal deposits for the period indicated.

Item	2013			2012			2011		
	Average balance	Interest expenses	Average cost ratio	Average balance	Interest expenses	Average cost ratio	Average balance	Interest expenses	Average cost ratio
<i>(In millions of RMB except percentages)</i>									
Corporate deposits									
Demand deposits	<b>97,395</b>	<b>721</b>	<b>0.74</b>	85,970	660	0.77	84,760	642	0.76
Time deposits	<b>60,105</b>	<b>2,861</b>	<b>4.76</b>	50,006	1,918	3.84	29,465	1,121	3.80
Sub-total	<b>157,499</b>	<b>3,582</b>	<b>2.27</b>	135,976	2,578	1.90	114,225	1,763	1.54
Personal deposits									
Demand deposits	<b>24,061</b>	<b>93</b>	<b>0.39</b>	19,787	85	0.43	16,435	80	0.49
Time deposits	<b>28,903</b>	<b>921</b>	<b>3.19</b>	23,178	731	3.15	19,520	517	2.65
Sub-total	<b>52,964</b>	<b>1,014</b>	<b>1.91</b>	42,965	816	1.90	35,955	597	1.66
Others	<b>31,265</b>	<b>332</b>	<b>1.06</b>	26,269	667	2.54	18,965	131	0.69
Total deposits	<b>241,728</b>	<b>4,928</b>	<b>2.04</b>	205,210	4,061	1.98	169,145	2,491	1.47

### **Interest expenses for deposits and placements from banks and other financial institutions**

In 2013, the Bank's interest expenses for deposits and placements from banks and other financial institutions increased by 71.53% compared with the prior year, mainly due to the increase in the scale.

#### 5.2.6 Net non-interest income

In 2013, the Bank realised a net non-interest income of RMB917 million, an increase of RMB251 million or 37.69% as compared with the prior year.

The table below sets forth the principal components of the Bank's net non-interest income for the period indicated.

Items	2013	2012	2011
<i>(In millions of RMB)</i>			
Fee and commission income	<b>624</b>	452	461
Less: Fee and commission expenses	<b>(84)</b>	(56)	(48)
Net fee and commission income	<b>540</b>	396	413
Other net non-interest income	<b>78</b>	305	181
Total net non-interest income	<b>618</b>	701	594



## Management Discussion and Analysis (Continued)

### 5.2.7 Net fee and commission income

In 2013, the Bank's net fee and commission income increased by RMB144 million or 36.36% compared with the prior year, mainly due to the increase of bank card fees, consultancy and advisory fees, custodian and other fiduciary service fees.

The following table sets forth the principal components of the Bank's net fee and commission income for the period indicated.

Items	2013	2012	2011
	<i>(In millions of RMB)</i>		
Fee and commission income			
Consultancy and advisory fees	<b>121</b>	65	159
Bank card fees	<b>109</b>	60	46
Custodian and other fiduciary service fees	<b>108</b>	66	21
Settlement and clearing fees	<b>85</b>	75	74
Guarantee and commitment fees	<b>42</b>	42	36
Agency commissions	<b>31</b>	42	73
Others	<b>128</b>	102	52
Fee and commission expenses	<b>(84)</b>	(56)	(48)
Net fee and commission income	<b>540</b>	396	413

### 5.2.8 Other net income

In 2013, other net income of the Bank increased by RMB107 million compared with the prior year, representing an increase of 39.63%.

The following table sets forth, for the period indicated, the principal components of the Bank's other net income.

Item	Other net income of Huishang Bank in recent 3 years		
	2013	2012	2011
	<i>(In millions of RMB)</i>		
Other net income			
Net gains on investment securities	<b>(7)</b>	67	30
Dividend income	<b>0</b>	0	2
Net trading income	<b>(83)</b>	40	52
Share of profits of associates	<b>48</b>	35	32
Other operating income	<b>120</b>	163	65
Other net income	<b>78</b>	305	181

### 5.2.9 Operating expenses

In 2013, the Bank's operating expenses amounted to RMB3,386 million, representing an increase of 8.11% compared with the prior year. The Bank had continuously improved the standardisation and refinement in the control of administrative expenses. Compared with the prior year, the changes in depreciation and amortization were relatively small, impacted by business expanding, staff increase and the related increasing costs.

The following table sets forth the principal components of the Bank's operating expenses for the period indicated.

Item	2013	2012	2011
	<i>(In millions of RMB)</i>		
staff costs	<b>1,402</b>	1,325	1,000
Taxes and surcharges	<b>773</b>	685	507
Depreciations and amortization	<b>239</b>	201	170
Lease expenses	<b>150</b>	123	75
Other general and administrative expenses	<b>822</b>	798	748
<b>Total operating expenses</b>	<b>3,386</b>	3,132	2,500

### 5.2.10 Asset impairment losses

In 2013, the Bank's asset impairment losses recorded RMB435 million, representing a decrease of 5.02% compared with the prior year. The following table sets forth, for the period indicated, the principal components of the Bank's asset impairment losses.

Item	2013	2012	2011
	<i>(In millions of RMB)</i>		
Provision for loan impairment	<b>(435)</b>	(467)	(597)
Provision for impairment of available-for-sale financial assets			
Reversal of provision for impairment of foreclosed assets	<b>0.025</b>	0.28	18
Reversal of provision for impairment of inter-bank borrowings		10	
<b>Asset impairment losses</b>	<b>(435)</b>	(457)	(579)

Loan impairment losses formed the largest components of assets impairment losses. In 2013, the loan impairment losses amounted to RMB435 million, representing a decrease of 5.02% compared with the prior year.

## Management Discussion and Analysis (Continued)

### 5.3 Balance sheet analysis

#### 5.3.1 Assets

As at 31 December 2013, the Bank's total assets recorded up to RMB382,109 million, representing an increase of 17.85% compared with the prior year-end. The increase of total assets was primarily due to the increase of loans and advances, balances with the central bank and balances due from banks and other financial institutions.

Items	31 December 2013		31 December 2012	
	Amounts	Proportion	Amounts	Proportion
<i>Unit: In millions of RMB</i>				
Total loans and advances	<b>195,449</b>	<b>51.15%</b>	163,795	50.52%
Provision for loan impairment losses	<b>(4,169)</b>	<b>-1.09%</b>	(3,853)	-1.19%
Net loans and advances	<b>191,280</b>	<b>50.06%</b>	159,941	49.33%
Investments	<b>60,271</b>	<b>15.77%</b>	57,056	17.60%
cash	<b>956</b>	<b>0.25%</b>	974	0.30%
Balances with the central bank	<b>75,222</b>	<b>19.69%</b>	56,676	17.48%
Due from banks and other financial institutions	<b>11,000</b>	<b>2.88%</b>	3,834	1.18%
Inter-bank loans and financial assets purchased under resale agreement	<b>37,965</b>	<b>9.94%</b>	41,012	12.65%
Investments in associates	<b>335</b>	<b>0.09%</b>	220	0.07%
Fixed assets	<b>1,512</b>	<b>0.40%</b>	1,404	0.43%
Deferred income tax assets	<b>1,113</b>	<b>0.29%</b>	851	0.26%
Other assets	<b>2,454</b>	<b>0.64%</b>	2,256	0.70%
Total assets	<b>382,109</b>	<b>100.00%</b>	324,224	100.00%

#### 5.3.1.1 Loans and advances

As at 31 December 2013, the Bank's total loans and advances amounted to RMB195,449 million, representing an increase of 19.33% compared with the prior year-end, and the loans and advances accounted for 51.16% of the Bank's total assets, representing a decrease of 0.64% compared with the prior year-end.

### Analysis of loans by product types

The following table set forth information on loans and advances by product types as of the date indicated.

Items	31 December 2013		31 December 2012	
	Amounts	Coverage	Amounts	Coverage
<i>Unit: In millions of RMB</i>				
Corporate loans	<b>136,856</b>	<b>70.02%</b>	116,808	71.31%
Discounted bills	<b>9,725</b>	<b>4.98%</b>	11,907	7.27%
Retail loans	<b>48,868</b>	<b>25.00%</b>	35,080	21.42%
Total loans and advances	<b>195,449</b>	<b>100.00%</b>	163,795	100.00%

#### Corporate loans

As at 31 December 2013, the Bank's total corporate loans recorded RMB136,856 million, which increased by 17.16% compared with the prior year-end, accounted for 70.02% of the total loans and advances of the Bank, and decreased by 1.29% compared with the prior year-end. In 2013, in view of the macro-economic environment and regulatory requirements, the Bank reasonably adjusted its total loan amount and fundamentally adjusted its loan structure and implemented systems to prevent various risks, by doing so, the Bank had achieved simultaneous optimization of loan structure and risk prevention.

#### Discounted bills

As of 31 December 2013, the balance of discounted bills amounted RMB9,725 million, 18.33% lower than last year. Since 2013, according to business development requirements and the customer financing demand, the Bank has adjusted the scope of bill financing and improved the comprehensive return of bill assets by optimizing the structure, accelerating the turnover, centralizing operation, etc.

#### Retail Loans

As of 31 December 2013, retail loans of the Bank amounted to RMB48,868 million with 39.30% increase from last year, representing 25.00% to our total loans and advances to customers, which is 3.58% higher than 2012. In 2013, through adjusting the internal transfer pricing and strengthening the evaluation system, the Bank has adjusted the direction of business development and has given relevant guidance to branches in developing the retail loan business. In 2003 retail loans grew faster than the corporate loans and the proportion of personal business loans in retail loans increased gradually.

Items	31 December 2013		31 December 2012	
	Amounts	% of the total	Amounts	% of the total
<i>In millions of RMB except the percentages</i>				
Residential Mortgage Loans	<b>34,790</b>	<b>71.19%</b>	25,202	71.84%
Personal Business Loans	<b>9,451</b>	<b>19.34%</b>	6,424	18.31%
Others	<b>4,626</b>	<b>9.47%</b>	3,454	9.85%
Total	<b>48,868</b>	<b>100.00%</b>	35,080	100.00%

### 5.3.1.2 Investments

#### Investments

Investments of the Bank consist of Renminbi-denominated listed and unlisted securities, including financial assets at fair value through profit or loss, available-for-sale investments, held-to-maturity investments and debt securities classified as receivables.

The table below sets forth the components of the investment portfolio of the Bank according to the accounting classification.

	31 December 2013		31 December 2012	
	Amounts	% of the total	Amounts	% of the total
<i>In millions of RMB except the percentages</i>				
Financial assets held for trading	1,805	3.00	3,599	6.31
Available-for-sale financial assets	29,965	49.72	25,581	44.83
Held-to-maturity investments	27,772	46.08	26,063	45.68
Loans and receivables	724	1.20	1,814	3.18
<b>Total investments</b>	<b>60,266</b>	<b>100.00</b>	<b>57,057</b>	<b>100.00</b>

#### Financial assets held for trading

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

	31 December 2013	31 December 2012
<i>(in millions of RMB)</i>		
Government bonds	275	663
PBOC bonds	10	60
Policy bank bonds	598	946
Corporate bonds	922	1,930
<b>Total financial assets held for trading</b>	<b>1,805</b>	<b>3,599</b>

#### Available-for-sale financial assets

As of 31 December, 2013, the Bank's available-for-sale financial assets increased by RMB4,384 million over the end of 2012, with an increase of 17.14%. Such investment is mainly based on the structure of assets and liabilities and the needs to improve business performance.



## Management Discussion and Analysis (Continued)

In 2013, the PBOC continued to implement prudent monetary policy, adhere to the stability and continuity of the policy through fine-tuning at appropriate times, and promoted interest rate liberalization process. In the first half of the year, due to the sufficient liquidity and pessimistic economic perspective, bond yields slightly decreased. In the second half of the year, especially after the “liquidity crisis”, because of the changes in foreign exchange as well as the impact of the implementation of prudent monetary policies, the market liquidity faced considerable fluctuation and bond yields increased substantially. Based on the in-depth research and timely tracking on both domestic and international macroeconomic and monetary policy, market liquidity conditions and the trend of CPI index, the Bank has adjusted its investment strategy in a timely manner.

The table below sets forth the components of available-for-sale financial assets of the Bank.

	31 December 2013	31 December 2012
<i>(in millions of RMB)</i>		
Government bonds	6,963	5,530
PBOC bonds	0	41
Policy bank bonds	10,698	9,162
Bonds issued by other banks and financial institutions	292	417
Corporate bonds	5,400	5,327
Asset management schemes by securities firms or trust companies	6,612	5,104
<b>Total available-for-sale financial assets</b>	<b>29,965</b>	<b>25,581</b>

### Held-to-maturity investments

As of 31 December 2013, net held-to-maturity investments held by the Bank increased by RMB1,709 million, with an increase of 6.56%. Held to maturity investments will be held in the long run for our investment strategy. In 2013, based on the requirements of our bank account interest rate risk management, the Bank increased the proportion of fixed-rate bonds when bond market yield was high, mainly focusing on Government Bonds and Policy Bank Bonds.

	31 December 2013	31 December 2012
<i>(in millions of RMB)</i>		
Government bonds	12,017	9,855
PBOC bonds	0	4,496
Policy bank bonds	8,408	5,850
Bonds issued by other banks and financial institutions	3,226	3,194
Corporate bonds	4,121	2,668
<b>Total held-to-maturity investments</b>	<b>27,772</b>	<b>26,063</b>

## Management Discussion and Analysis (Continued)

### Loans and receivables

Loans and receivables consist of principal-guaranteed wealth management products and certificates of PRC treasury bonds issued by commercial banks registered in China. And there is no open market for these investments.

	31 December 2013	31 December 2012
<i>(in millions of RMB)</i>		
principal-guaranteed wealth management products	594	1,596
certificates of PRC treasury bonds	130	218
<b>Total loans and receivables</b>	<b>724</b>	<b>1,814</b>

### Carrying value and Market value

All investment securities classified as financial assets held for trading or available-for sale investments are recorded at market value or fair value.

The table below sets forth the carry value and fair value of the held-to-maturity investments and debt loans and receivables in the bank's portfolio as of the date indicated.

	31 December 2013		31 December 2012	
	Carrying value	Fair Value	Carrying value	Fair Value
<i>in millions of RMB</i>				
Held -to-maturity investments	27,772	26,541	26,063	26,014
<b>Loans and receivables</b>	<b>724</b>	<b>713</b>	1,814	1,795

### Main subsidiary and associates

Name	Initial investment amount (in thousands of RMB)	Percentage of shareholdings (%)	Number of shares held at the end of the period	Carrying value	
				at the end of the period (in thousands of RMB)	Sources of shares held
Chery Motor Finance Service Co., LTD	100,000	20	200,000	264,430	Promotion
Wuwei Huiyin Rural Bank Co., LTD	40,000	40	40,000	70,311	Promotion
Jinzhai Huiyin Rural Bank Co., LTD	32,800	41	32,800	32,800	Promotion



### 5.3.2 Liabilities

As of 31 December 2013, total liabilities amounted to RMB350,437 million, an increase of 15.37% over the year ended of 2012, mainly due to steady growth of deposits from customers, deposits from banks and non-bank financial institutions and debt securities in issue.

Unit: In millions of RMB

Items	31 December 2013		31 December 2012	
	Amounts	% of the total	Amounts	% of the total
Deposits from banks and other financial institutions	17,433	4.97%	5,965	1.96%
Placements from banks and other financial institutions	1,537	0.44%	898	0.30%
Derivative financial liabilities	5	0.00%	—	—
Financial assets sold under repurchase agreements	42,728	12.19%	47,883	15.76%
Deposits from customers	272,798	77.85%	239,543	78.86%
Taxes payable	376	0.11%	504	0.17%
Debt securities in issue	8,986	2.56%	3,992	1.31%
Other liabilities	6,573	1.88%	4,957	1.63%
<b>Total liabilities</b>	<b>350,437</b>	<b>100.00%</b>	<b>303,743</b>	<b>100.00%</b>

#### Deposits from customers

The Bank has always placed great importance to customer deposits and has actively expanded the business. In 2013, through the implementation of various effective measures, the Bank maintained a steady growth of customer deposits. As of 31 December 2013, total deposits from customers amounted to RMB272,798 million, an increase of 13.88% from 2012, representing 77.85% of the total liabilities.



## Management Discussion and Analysis (Continued)

The table below sets forth customer deposits by product type and customer type as of the date indicated.

	31 December 2013		31 December 2012	
	Amounts	% of the total	Amounts	% of the total
<i>In millions of RMB, except percentages</i>				
<b>Corporate Deposits</b>				
Demand	111,788	40.98%	107,042	44.69%
Time	65,915	24.16%	52,942	22.10%
<b>Subtotal</b>	<b>177,703</b>	<b>65.14%</b>	159,984	66.79%
<b>Retail Deposits</b>				
Demand	24,914	9.13%	21,960	9.17%
Time	37,530	13.76%	30,759	12.84%
<b>Subtotal</b>	<b>62,444</b>	<b>22.89%</b>	52,719	22.01%
Others	32,651	11.97%	26,840	11.20%
Include: Pledged Deposits	32,355	11.86%	26,579	11.10%
<b>Total deposits from customers</b>	<b>272,798</b>	<b>100.00%</b>	239,543	100.00%

As of 31 December 2013, retail deposits represented 22.89% of total customer deposits, an increase of 0.88% from 2012.

In 2013, deposits from customers of the Bank showed a regular trend. As of 31 December 2013, the Bank's demand deposits to total customer deposits ratio was 50.11%, a decrease of 3.74% from 2012. Among them, the proportion of demand deposits in corporate deposits was 62.91%, showing a decrease of 4.00% over the year ended of 2012; while the proportion of demand deposits in retail deposits was 39.90%, showing a decrease of 1.75% over the year ended of 2012.

### 5.3.3 Equity

*Unit: In millions of RMB*

Items	31 December 2013	31 December 2012
Share capital	11,050	8,175
Capital reserve	6,751	1,807
Surplus reserve	3,012	2,088
General reserve	3,063	1,472
Reserves for fair value changes of available-for-sale financial assets	(910)	(126)
Retained earnings	8,659	7,064
<b>Total equity</b>	<b>31,625</b>	20,481

## 5.4 Loan Quality Analysis

### 5.4.1 Distribution of Loans by the Five-Category Classification

The table below sets forth the distribution of the Group's loans by five-grading as at the dates indicated.

	31 December 2013		31 December 2012	
	Amounts	% of the total	Amounts	% of the total
<i>(In 100 millions of RMB, except percentages)</i>				
Pass	1,906.69	97.56	1,590.17	97.09
Special mention	37.29	1.91	38.29	2.34
Substandard	8.25	0.42	8.39	0.51
Doubtful	2.17	0.11	0.70	0.04
Loss	0.09	0.00	0.40	0.02
Gross loans and advances to customers	1,954.49	100.00	1,637.95	100.00
Non-performing loans	10.51	0.54	9.49	0.58

The non-performing loans ("NPL") include loans of substandard, doubtful and loss categories. In 2013, affected by the external business environment, the bank asset quality faced a serious challenge. By focusing on risk prevention and speeding up the disposal treatment, the Bank maintained stable quality of assets. By the end of the reporting period, non-performing loan ratio was 0.04 percentage points lower than 2012, mainly due to the increase of the total balance while maintaining stable NPL balance.

### 5.4.2 Distribution of loans and NPLs by product type

The table below sets forth the distribution of the Group's loans and NPLs by product type as at the dates indicated.

	31 December 2013				31 December 2012			
	Loans	% of the total	NPLs	NPL ratio (%)	Loans	% of the total	NPLs	NPL ratio (%)
<i>(in 100 millions of RMB, except percentages)</i>								
<b>Corporate loans and advances</b>	1,368.56	70.02	9.03	0.66	1,168.08	71.30	8.38	0.72
Working Capital loans	833.90	42.67	6.80	0.82	729.93	44.56	5.16	0.71
Fixed assets loans	479.17	24.52	2.04	0.43	389.22	23.76	2.98	0.77
Trade finance	51.94	2.66	0.18	0.35	45.34	2.77	-	-
Others <sup>(1)</sup>	3.55	0.18	0.01	0.28	3.59	0.22	0.24	6.69
<b>Discounted bills<sup>(2)</sup></b>	97.25	4.98	-	-	119.07	7.30	-	-
<b>Retail loans</b>	488.68	25.00	1.48	0.30	350.80	21.40	1.11	0.32
Residential mortgages	301.35	15.42	0.47	0.16	213.33	13.02	0.41	0.19
Personal business loans	161.27	8.25	0.71	0.44	119.85	7.31	0.41	0.34
Credit card loans	17.18	0.88	0.12	0.70	6.95	0.42	0.02	0.25
Personal consumption loans	8.88	0.45	0.18	2.03	10.67	0.65	0.27	2.53
<b>Total loans and advances to customers</b>	1,954.49	100.00	10.51	0.54	1,637.95	100.00	9.49	0.58

(1) Mainly include corporate mortgage loans.

(2) Overdue discounted bills are transferred into corporate loans.

## Management Discussion and Analysis (Continued)

### 5.4.3 Distribution of loans and NPLs by industry

The table below sets forth the distribution of the Group's loans and NPLs by industry as at the dates indicated.

	31 December 2013				31 December 2012			
	Loans	% of the total	NPLs	NPL ratio (%)	Loans	% of the total	NPLs	NPL ratio (%)
<i>(in 100 millions of RMB, except percentages)</i>								
<b>Corporate loans</b>	<b>1,368.56</b>	<b>70.02</b>	<b>9.03</b>	<b>0.66</b>	1,168.08	71.31	8.38	0.72
Commercial services	414.05	21.19	5.54	1.34	335.94	20.51	5.31	1.58
Manufacturing	410.55	21.01	3.09	0.75	362.12	22.11	2.22	0.61
Public service	139.28	7.13	0.00	0.00	125.07	7.64	0.00	0.00
Real estate	134.59	6.89	0.00	0.00	93.44	5.70	0.03	0.03
Construction	112.71	5.77	0.16	0.14	99.34	6.06	0.00	0.00
Energy and chemical industry	43.95	2.25	0.01	0.02	48.25	2.95	0.00	0.00
Transportation	44.89	2.30	0.01	0.02	44.86	2.74	0.07	0.16
Education and media	21.76	1.11	0.15	0.69	16.57	1.01	0.21	1.27
Food and tourism	21.82	1.12	0.02	0.09	15.49	0.95	0.09	0.58
Financial industry	9.84	0.50	0.00	0.00	15.75	0.96	0.00	0.00
Others	15.12	0.77	0.05	0.33	11.25	0.69	0.45	4.00
<b>Discounted bills</b>	<b>97.25</b>	<b>4.98</b>	<b>-</b>	<b>-</b>	119.07	7.27	-	-
<b>Retail loans</b>	<b>488.68</b>	<b>25.00</b>	<b>1.48</b>	<b>0.30</b>	350.80	21.42	1.11	0.32
<b>Total loans and advances to customers</b>	<b>1,954.49</b>	<b>100.00</b>	<b>10.51</b>	<b>0.54</b>	1,637.95	100.00	9.49	0.58

Others: mainly include planting, forestry, livestock industry and fishery industry.

In 2013, our overall credit strategy is “practice green concept of credit business, optimize the allocation of credit resources, actively support the development of the real economy, strengthen risk controls of key areas and key industries, and adhere to the bottom risk line”. To guide credit resources to better service the real economy, actively promote the credit resources into the “small” enterprises and develop “green credit”. The Bank implemented credit limit management over local government financing platform, real estate and industries with excess capacity, and implemented industry risk prevention and control on steel trade, PV and shipbuilding industries. During the reporting period, the increments of non-performing corporate loans were mainly from manufacturing, commercial and service sectors.



## 5.4.4 Distribution of loans and NPLs by Geographical Segment

The table below sets forth the distribution of the Group's loans and NPLs by geographical segment as at the dates indicated.

	31 December 2013				31 December 2012			
	Loans	% of the total	NPLs	NPL ratio (%)	Loans	% of the total	NPLs	NPL ratio (%)
<i>(in 100 millions of RMB, except percentages)</i>								
Anhui	1,804.37	92.32	10.18	0.56	1,531.97	93.53	9.49	0.62
Jiangsu	150.12	7.68	0.33	0.22	105.97	6.47	-	-
<b>Total loans and advances to customers</b>	<b>1,954.49</b>	<b>100.00</b>	<b>10.51</b>	<b>0.54</b>	<b>1,637.94</b>	<b>100.00</b>	<b>9.49</b>	<b>0.58</b>

The Bank expanded business into Nanjing, Jiangsu at the beginning of 2009. In 2013, total loans of Jiangsu accounted for 7.68% of the total amount of loans and advances to customers, while non-performing loans of Jiangsu accounted for 3.14% of the bank's total non-performing loans.

## 5.4.5 Distribution of loans and NPLs by type of collateral

The table below sets forth the distribution of the Group's loans and NPLs by type of collateral as at the dates indicated.

	31 December 2013				31 December 2012			
	Loans	% of the total	NPLs	NPL ratio (%)	Loans	% of the total	NPLs	NPL ratio (%)
<i>(in 100 millions of RMB, except percentages)</i>								
Loans secured by collateral	1,009.43	51.65	5.94	0.59	759.40	46.36	5.14	0.68
Loans secured by pledged assets	97.21	4.97	0.18	0.19	84.12	5.14	1.75	2.08
Guaranteed loans	620.73	31.76	1.97	0.32	540.00	32.97	2.00	0.37
Unsecured loans	129.87	6.64	2.42	1.86	135.36	8.26	0.60	0.44
Discounted Bills	97.25	4.98	-	-	119.07	7.27	-	-
<b>Total loans and advances to customers</b>	<b>1,954.49</b>	<b>100.00</b>	<b>10.51</b>	<b>0.54</b>	<b>1,637.95</b>	<b>100.00</b>	<b>9.49</b>	<b>0.58</b>

With the economic downturn, the Bank focused on the implementations of risk mitigation measures including increasing collaterals to prevent and control risk. As at the end of the reporting period, both non-performing loan ("NPL") and NPL ratio of loans secured by monetary assets decreased significantly. The quality of credit assets was under great pressure to remain stable, and NPLs and NPL ratio increased considerably compared to the previous year.

## Management Discussion and Analysis (Continued)

### 5.4.6 Loans of the top 10 borrowers

The table below sets forth the Group's loans of the top 10 borrowers as at the dates indicated.

10 borrowers	Industry borrower belongs to	Amount of loans as of December 31, 2013 (in millions of RMB)	% of net capital
A	Public utility	1,200	3.15%
B	Business & Services	1,200	3.15%
C	Manufacturing	1,200	3.15%
D	Manufacturing	1,040	2.73%
E	Manufacturing	933	2.45%
F	Public utility	910	2.39%
G	Public utility	852	2.24%
H	Other	795	2.09%
I	Public utility	764	2.00%
J	Energy and chemical industry	723	1.90%
Total		9,617	25.23%

### 5.4.7 Distribution of loans and NPLs by overdue period

The table below sets forth the Group's distribution of loans and NPLs by overdue period as at the dates indicated.

	2013-12-31	2012-12-31
Total overdue customers loans and advances listed by duration:		
Within 3 months	515,379	469,478
3 to 12 months	554,903	258,035
Above 12 months	442,178	192,601
Total	1,512,460	920,114
Percentage%		
With 3 months	34.07%	51.03%
3 to 12 months	36.69%	28.04%
Above 12 months	29.24%	20.93%
Total	100.00%	100.00%



#### 5.4.8 Restructuring loans

There is no restructuring loan during the reporting period.

#### 5.4.9 Change of loan impairment

The group reviews its loan portfolios to assess impairment on a periodic basis. In determining whether an impairment loss should be recorded in the income statement, the group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. Management made estimation on loan provision based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The table below illustrates the changes of impairment losses on loans and advances to customers.

	<b>2013</b> <i>(RMB million)</i>	2012
Balance at beginning of the year	<b>3,853</b>	3,490
Impairment losses for the year	<b>435</b>	468
Unwind of discount on allowance	<b>(34)</b>	(16)
Loans written-off	<b>(87)</b>	(90)
Loans collected	<b>2</b>	1
Balance at end of the year	<b>4,169</b>	3,853



### 5.5 Capital adequacy ratio

The Group calculated the capital adequacy ratio as at the end of the reporting period in accordance with the guidance issued by the CBRC. The capital adequacy ratio is 15.19%, core Tier 1 capital adequacy ratio is 12.60%, Tier 1 capital adequacy ratio is 12.61%. Benefiting from external supplement core capital as well as the strong ability of endogenous capital, all the above three ratios increased from 31 December 2012.

The table below sets forth the related capital adequacy ratio information of the Group at the date indicated.

	<b>2013-12-31</b> <i>(RMB million)</i>
<b>Core Tier 1 capital</b>	<b>31,682</b>
Paid-up capital	<b>11,050</b>
Capital reserve	<b>5,841</b>
Surplus reserve, general and statutory reserve	<b>6,074</b>
Retained earnings	<b>8,659</b>
Non-controlling interests	<b>57</b>
Regulation of deductions for Tier 1 Capital	<b>(66)</b>
<b>Total core Tier 1 capital, net of deductions</b>	<b>31,616</b>
Other Tier 1 capital	<b>7</b>
Total Tier 1 capital, net of deductions	<b>31,623</b>
<b>Tier 2 capital</b>	<b>6,488</b>
Tier 2 capital instruments and premium	<b>3,593</b>
Surplus loan loss provisions	<b>2,880</b>
Non-controlling interests	<b>15</b>
Regulation of deductions for Tier 2 capital	<b>–</b>
<b>Total capital, net of deductions</b>	<b>38,111</b>
<b>Total risk-weighted assets</b>	<b>250,822</b>
<b>Capital adequacy ratio</b>	<b>15.19%</b>
<b>Tier 1 capital adequacy ratio</b>	<b>12.61%</b>
<b>Core Tier 1 capital adequacy ratio</b>	<b>12.60%</b>

## 5.6 Segment performances

### Operating segment

The Group provides services through four main business segments: corporate banking, retail banking, treasury and others. The table below listed the performance of four operating segments during the reporting period.

	2013		2012	
	Profit before income tax	Percentage (%)	Profit before income tax	Percentage (%)
	<i>(RMB million, except percentage)</i>			
Corporate banking	3,427	53.56%	2,789	49.09%
Retail banking	1,837	28.71%	1,468	25.85%
Treasury	989	15.46%	1,248	21.97%
Others	146	2.27%	175	3.09%
<b>Total</b>	<b>6,399</b>	<b>100.00%</b>	<b>5,680</b>	<b>100.00%</b>

During the period, the percentage of corporate banking segment increased. Profit before income tax amounted to 3.43 billion, increased by 22.88% from last year. The proportion of corporate banking is 53.56%, which increased by 4.47% from last year. The percentage of retail banking segment increased as well. Profit before income tax amounted to 1.84 billion with an increase of 25.14% from last year. Proportion of retail banking segment is 28.71%, which increased by 2.86% from last year.

### Geographical segments

Geographically, the group's business are mainly in Anhui Province and Yangtze River Delta area. The table below listed the geographical segments performance during the reporting period.

	2013-12-31				
	Anhui Province	Yangtze River Delta	Head Office	Offsets	Total
	<i>(RMB million, except percentage)</i>				
Segment assets	292,783	25,925	154,700	(92,412)	380,996
Include: investments in associates			335		335
Deferred income tax assets					1,113
<b>Total assets</b>					<b>382,109</b>
Segment liability	(202,893)	(19,113)	(220,843)	92,412	(350,437)
Profit before income tax	5,173	191	1,035	–	6,399

## Management Discussion and Analysis (Continued)

	2012-12-31				Total
	Anhui Province	Yangtze River Delta	The Group	Offsets	
	<i>(RMB million, except percentage)</i>				
Segment assets	235,569	21,047	141,159	(74,402)	323,373
Include: investments in associates	–	–	220	–	220
Deferred income tax assets					851
<b>Total assets</b>					<b>324,224</b>
Segment liability	(171,472)	(13,606)	(193,067)	74,402	(303,743)
Profit before income tax	4,625	87	968	–	5,680

### 5.7 Others

5.7.1 Off-balance sheet balances and important circumstances may have significant impacts on the financial position and operating results

The off-balance sheet items include letter of guarantee, letter of credit, bank acceptance and commitment. Commitment includes loans commitment, operating leases, capital commitment and certificate bond honor commitments. Loan commitment is the main component. Contingencies and commitments can be found in Note 39 of the financial statements.

5.7.2 Overdue outstanding debt

As of the end of 2013, there is no overdue outstanding debt.

### 5.8 Operating environment, influence of the change in macro policy and the focuses of the operation

In 2013, the world economic recovered slowly, investment, consumption, imports and exports of the Bank experienced weak growth, and the economy has insufficient growth momentum. Throughout the year, macroeconomic growth faces the dual challenge of growth and transformation, economic operation faces the dual pressure of “remove excess capacity” and “remove excess stock”. The economic growth showed a slowing trend and macroeconomy is relatively stable. As interest rate liberalization accelerates, financial disintermediation deepens and competition intensifies, the China banking industry faces challenges such as maintaining asset quality and coping with the monetary policy.

Facing the significant changes in business environment, the Bank will strengthen its risk management, actively adjust and optimize the assets and liabilities structure, try to overcome the negative impact of the external environment, steadily expand its business scale, control asset quality and increase operating profit steadily.



### **5.8.1 The influence of interest rate liberalization reform**

Since 20 July 2013, the PBOC announced the full liberalization of the loan interest rate limit to financial institutions, which opened the prelude to a new round of financial reform. In 2013, due to the impact of cutting the loan interest rates twice, coupled with the high cost of increasing debt size, the Bank's net interest yield declined over the previous year. The Bank promoted business transformation, actively adjusted and optimized the assets and liabilities structure. Firstly, the Bank will actively promote the structural adjustment of loans and will improve the percentage of retail loans and SME loans. Secondly, the Bank will strengthen loan pricing management and will strive to improve the level of risk pricing and loan gains. Thirdly, the Bank aims to diversify the sources of debt and strives to absorb low-cost funds, reducing the cost of capital.

In the future, interest rate liberalization reform will be pushed further in the Chinese market, and domestic banks will face more intense pricing competition, which will result in the deposits and loans spread showing different degrees of narrowing. The Bank will strive to create diversified liability channels to absorb low-cost deposits and strengthen debt cost advantage. Meanwhile, the Bank will promote business transformation and improve risk pricing capabilities, continually increase the proportion of intermediary revenue. The Bank will deepen the reform of institutional mechanisms, strengthen cost management, and constantly improve capital efficiency and return on equity, and head down the road of organic growth and efficiency.

### **5.8.2 Liquidity management**

In 2013, PBOC continued to implement tight monetary policy, at the same time, with the impact of fierce industry competition and diversification of wealth management products, the banking industry faced unprecedented liquidity pressure. The Bank took the following measures: firstly, strengthen prospective study and meticulous position management, use a variety of tools to strengthen liquidity risk management, use daily calculations to forecast funding positions, monitor the Bank's capital positions in real-time, conduct quarterly stress testing, measure and monitor liquidity risk in real-time; secondly, optimize the assets and liabilities structure, timely adjust the speed of assets development progress according to that of the liabilities, maintain a balanced business development; thirdly, control the pace of the total amount of loans issued, set a deposit to debt ratio to guide the pace of lending, and control the growth of loans at an appropriate level; fourthly, strengthen the currency market financing capability and multi-channel pro-actively increase liabilities, make use of excess reserve deposits, deposit and loan business, investment and financing business, bill management business as the major means to establish dynamic coordination mechanism between capital requirements and liquidity, fifthly, complete the issuance and sale of SME financial bonds, which resolves the sources of funding to support SME and eases liquidity pressures. These measures ensure the continued smooth operation of liquidity management and fulfill the deposits to loan ratio indicator.

In the future, PBOC will regulate market liquidity through the open market, and unless the impact of large-scale cross-border capital flows occurs, the statutory deposit reserve ratio is expected to remain stable. The Bank will continue to analyse monetary policy and grasp the policy and market trends, so as to strengthen liquidity management.

### **5.8.3 Capital management**

In 2013, the Bank continued to strengthen and improve capital management. Firstly, the gradual establishment of the capital adequacy assessment process promotes the scientific implementation of capital management. Secondly, a system of capital management was built to enrich capital management measures. Thirdly, stress testing was conducted on capital adequacy ratios in order to have a reasonable measure of the Bank's capital adequacy. Fourthly, according to the regulatory policies issued on capital measurement methods, the measurement of economic capital, budget, evaluation, statistics and other functions was optimized. Fifthly, the effective integration between regulators' intention and internal management further strengthened the concept of capital constraints. As of the end of 31 December 2013, capital adequacy ratio is 15.19%, Tier 1 capital adequacy ratio is 12.61%, and core Tier 1 capital adequacy ratio is 12.60%.

In the future, the Bank will implement the Measures for Capital Management of Commercial Banks (Trial) to further strengthen risk identification and measurement capabilities, optimize internal capital allocation, strengthen capital performance management and the guidance function of economic capital return on the Bank's business, and constantly optimize the asset structure and profit structure. Meanwhile, the Bank will expand the source and use of capital resources, optimize the capital structure and improve return on capital.

### **5.8.4 Costs to revenues ratio**

In 2013, the Bank implemented the strategy of efficient operation, which strengthened budget control and financial expenditure, improved the performance assessment policy, optimized resource allocation. The cost efficiency continued to improve. As of the end of 31 December 2013, the costs to revenues ratio of the Bank is 33.29% (including income tax and surcharges). In the future, in order to sustain competitiveness and foster growth potential, together with the business transformation and upgrading of the core business, the Bank will increase investment in employees, infrastructures and facilities. Affected by factors such as increase in costs of goods, costs of the Bank will show a significant growth. Therefore, cost management and cost-effectiveness of the Bank will face some pressure.

## **5.9 Business Operations**

### **5.9.1 Wholesale Banking**

#### **Overview**

The Bank's wholesale banking business provides a full range of wholesale banking products and services to corporate, financial institutions and government agencies customers. In 2013, the Bank, based on its characteristics of a city commercial bank, strengthened the advantage with municipal, institutional customers in the traditional wholesale business, restructured its business, accelerated product innovation and transformation, and promoted the fast and healthy development of the wholesale business. As of the end of 2013, the Bank's foreign currency deposit market share ranked first in Anhui province for six consecutive years. Investment banks, interbank bills, trade finance and cash management all achieved rapid growth which were widely recognized by the market.



In 2013, wholesale business continued to grow in Anhui province. In the meanwhile, the Bank expanded its market to Nanjing and other provinces, which fostered new business growth, strengthened risk management and control to enhance the profitability of assets, promoted the steady growth in interest income and a rapid increase in the proportion of non-interest income.

In 2014, there are still many uncertainties with the domestic and international macroeconomy, especially the accelerating pace of interest rate liberalization and finance “disintermediation”, brings greater challenges to commercial banks. Generally speaking, there are more opportunities than challenges. Facing the new economic and financial situation changes, the Bank will focus on reform and innovation, accelerating business transformation and restructuring, developing SME businesses, re-engineering processes, promoting market-oriented assessment, enhancing service quality, and achieving sustainable and healthy development of the wholesale banking business.

### **Corporate loans**

The Bank’s corporate loans include working capital loans, fixed asset loans, real estate loans and other commercial housing loans. As of the end of 31 December 2013, the Bank’s corporate loans (including discounted bills) balance was 146.58 billion, increased by 17.87 billion, amounting to 75% of the total loan balance. In 2013, the Bank optimized the industry structure of corporate loans by prioritizing its support to structural upgrading industries, traditional industries with competitive advantages and modern services industries. At the same time, the Bank controlled the growth of government financing platforms and loans to non-green industries.

In 2013, the Bank orderly pushed forward professional and process-oriented services to SMEs, focusing on marketing, products specialization and risk management, and continually enhanced the ability to finance the SMEs. The main approaches are:

Firstly, to establish SMEs financial services system to meet customer demands. The Bank launched small business easy credit, little giants credit loans and other new products. Combined with regional customer characteristics and business model, the Bank developed “easy credit loan”, “gold Hui pass”, “premium assistance”, “golden leaf” and other regional financial services programme. The Bank developed a service system which was close to the operational characteristics and needs of SMEs, including convenient financing, commercial transactions, treasury management, supply chain finance, and cash value added services.

Secondly, the Bank built a specialized operating system named “Little Giants” club, which established a popular brand image. Through the six service platforms, the Bank focused on quality financial service, collaboration, venture investment, policy information, entrepreneurship and integrity culture. The Bank

## Management Discussion and Analysis (Continued)

offered SMEs a comprehensive suite of financial products and value-added services. The Bank newly set up five “Little Giant” clubs and launched 13 clubs to carry out the activities, such as standardized the club’s operating model, improved the construction of six service platforms, built the “little giant” club website, created an online platform for communication and collaboration.

Thirdly, to build a SMEs operating system, effectively supporting the development of SMEs. The Bank used the “Geo credit + credit factory + expertise” principle to build the SMEs business’ operating system. The Bank relied on professional organizations to achieve organized marketing and approval, appointed risk managers to establish a standardized credit processes within a specified time period and to achieve the entire process of risk management and control. Currently the Bank has established 10 small business centers, 44 specialty branches for SME businesses providing professional services to SMEs customers, formed franchise system from the head office to branches in order to achieve multi-level, urban-oriented community and county agencies.

### ***Syndicated loans***

In 2013, in order to increase our cooperation and information sharing among peers and diversification of large credit exposures, the Bank continued to promote its syndicated loan business. As of 31 December 2013, the balance of the syndicated loan was RMB7.4 billion. Realized syndicated loan management fee income amounted to RMB45.61 million, which was an increase of RMB19.75 million and an increase of 76.4% from previous year.

### ***Discounted bills***

In 2013, based on the overall balance of assets size, liquidity, profitability and risk, the Bank actively responded to changes in the operating environment, scientific grasped the rhythm of bills business development, enhanced the profitability of the bills business, and promoted the healthy and compliant development of bills business. As of 31 December 2013, the balance of discounted bills amounted to RMB9,725 million, representing a decrease of RMB2,182 million from the previous year.

### ***Corporate deposits***

In 2013, the scale of the Bank’s corporate deposits grew steadily. As of 31 December 2013, the balance of corporate deposits amounted to RMB177,703 million, representing an increase of RMB17,719 million from the previous year. The Bank focused on improving the efficiency of corporate deposits, through developing cash management, trade finance and other innovative businesses, continuously improving the quality of marketing, and broadening the sources of deposits, which brought substantial low-cost corporate deposits to the Bank.

### **Cash management business**

Cash management business was the basic and strategic business of the Bank in response to the challenge of the interest rate liberalization. It includes account management, collection and payment management, liquidity management, investment and financing service, risk management and information service. It provides customers with comprehensive, integrated cash management services. In particular, the Bank has a significant advantage in the financial industry overall cash management solutions and is in a leading position within the industry. The Bank is the only fund collection bank for fiscal revenue and expenditure and government procurement bidding security deposit management center of Anhui Province. The Bank achieved full coverage of the cash management business within the province's financial industry. In 2013, the Bank was named the best regional treasury management bank again, after Treasury China, a well-known Chinese financial periodical, named us "the Most Innovative Cash Management Bank in 2012" and "the Cash Management Bank with the Most Growth Potential in 2011".

### **International business**

Relying on the Bank's "Zhi Hui 360" product platform, the international business department shared resources and complementary advantages with the small business and corporate business department. It introduced five categories, more than 40 kinds of foreign exchange products, which include account services, international settlement, foreign guarantees, cross-border financing, and financial derivatives, to provide customers with comprehensive, varied, integrated foreign exchange financial services. As a corporate bank, we actively develop domestically guaranteed overseas loans, research and develop loan package under domestic letters of credit and forfeiting innovative trade finance products, to create fully integrated financing solutions for domestic and overseas trading chain, to positively supports small and medium enterprises to "step out".

In 2013, the Bank's international business maintained steady and rapid growth. The annual international settlements amounted to USD4,952 million, an increase of 25.94% as compared to last year. Sale and purchase of foreign exchange amounted to USD3,260 million, an increase of 12.49% as compared to last year, the compound growth rate reached 27.74% and 23.04%. Both the amount of international settlements and sale and purchase of foreign exchange ranked No.6 among the 23 financial institutions within Anhui Province, the market share is close to 10%. There are 2,152 international business clients, an increase of 22.97% over the beginning of the year. Customer base covered the whole province of Anhui and Jiangsu Nanjing area. Cross-border RMB settlement, forward foreign exchange and other innovative products developments have a strong momentum. Throughout the year cross-border RMB settlement amounted to RMB970 million, an increase of 574%. Forward foreign exchange transactions amounted to USD230 million. International trade finance (including domestic trade financing under the line of credit) accumulated to the amount of USD1,641 million. The asset quality remained excellent with no new overdue and non-performing loan balance. International non-interest income amounted to RMB68.03 million, an increase of 23.69%, representing 10.73% of the total intermediate business income. Foreign exchange business

## Management Discussion and Analysis (Continued)

overall yield increased year by year, and it close to 30% in 2013. The development of the foreign agency banking has progressed. As of the end of December 2013, it established agency banking with 776 banks within 87 countries on six continents and regions and opened 18 overseas settlement currency clearing accounts. Cross-border fund liquidation was timely and convenient, cross-border financial cooperation and communication further developed, and the brand's overseas influence continued to improve.

### 5.9.2 Retail banking business

#### **Business overview**

In 2013, the Bank, through increased marketing efforts, innovative financial products and services, accelerated the channels and team building, actively built wealth management center system, promoted customer segmentation, marketing services and other measures to achieve a solid basis for the retail business development, rapid growth of retail business indicators and regional competitiveness.

In 2013, the Bank has a rapidly growing active customer base. Among which high-value customers grow fast. Inactive and low-end customers were cleaned up. Customer structure was further optimized. High-value customers continued to grow. By the end of 2013, the number of customers with assets over RMB500,000 amounted to 15,989, an increase of 28.7% from the beginning of the year. The number of customers with assets over RMB2 million increased by 22.9% from the beginning of the year. Wealth management business maintained a rapid growth rate. Sales of wealth management products (WMPs) and non-principal-guaranteed WMPs significant increased. Debt sales were in a leading position in the province. Retail customer deposits and loans have expanded rapidly. Retail loans balance and average daily balances achieve the best historical growth level. Savings, market share of personal loans in the province, retail deposits and personal loans which as four indicators keep rising for three consecutive years. Retail business deposit and loan growth rate also exceeded the average growth rate of Anhui province.

In 2013, thanks to good historical growth in daily deposits and retail loan, and the rapid development of the bank card business, retail business profitability and intermediary retail business revenue achieved substantial growth; both grew more than 30%. This increasingly highlights the contribution and importance to the Bank. The bank card revenue amounted to RMB109.34 million, an increase of RMB49.33 million. Wealth management business revenue amounted to RMB37.14 million, an increase of RMB10.54 million.

While the business indicators grow fast, other aspects of the retail business also performed well. Throughout the year, it developed Buddhist culture card, Hua'an-branded cards, home cards and other new cards. Securities investment fund custody qualifications have been reviewed and approved by CSRC, consumer finance companies will be launched soon. The Bank has successful bid for the project with Anhui social security and obtained IC card issuer certification. It has been awarded the Chinese banking industry knowledge sharing activity "Best performance award" for advanced corporate, ranked the first in the survey of "Top ten service industry in Anhui province residents satisfaction survey" and "Golden reputation Award".



In 2014, with the Bank's successful listing in Hong Kong, interest rate liberalization, and the strong impact from the Internet finance, the pressures of retail business will become more acute. The bank will improve the retail business philosophy, management, innovation and technology, to strengthen the retail business talent pool, improve network capabilities, broaden wealth management product line, improve service quality and strengthen the ability of data analysis. At the same time, the Bank accelerates the securities investment fund custody business preparation, wealth management centers and the establishment of community branch, setting up of consumer finance companies, and a series of foundation work. The Bank continues to maintain a rapid and healthy development of the retail business. The Bank has achieved deposit and loan growth rate above the market average and industry average. The retail business has comprehensively improved the overall competitiveness and its contribution to the entire business.

### **Wealth management business**

The Bank's personal wealth management business primarily includes personal wealth management services, PRC treasury bonds agency services and other personal wealth management services. In 2013, intermediary personal wealth management business income amounted to RMB47.43 million, an increase of RMB13.15 million or 38.34%. Throughout the year, personal wealth management business has raised RMB31,131 million, an increase of 34.17%, achieved wealth management intermediary business income of RMB36.32 million, an increase of 36.58%. Sale of government bond amounted to RMB1,334 million, an increase of RMB461 million, government bond intermediary business income amounted to RMB7.32 million, an increase of 63.45% from the previous year. Other personal wealth management business achieved an intermediary business income of RMB3.78 million, an increase of 19.11%. Among those, fund distribution grew fast, the sales of open-end funds amounted to RMB1,073 million, an increase of 157.31%. Intermediary business income amounted to RMB577,100, an increase of 89.74%. Agency sales of insurance products intermediate business income amounted to RMB3,115,000, an increase of 8.42%. Agency sales of gold income amounted to RMB92,500.

### **Bank card business**

#### **One card**

In 2013, the Bank continued to deepen and expand the customer base of retail business, closely followed the needs of customers, widen the varieties of Huangshan debit card, and by strengthening service management and innovation, enhancing customer service experience, on behalf of the business to develop and strengthen settlement business and other measures to promote the rapid growth of the amount of card issuers. At the same time, through preferential merchant resource integration, and vigorously developing special merchants, providing customers with fast and convenient environment, to further expand the brand influence, inspire card customers' demand, improve customer loyalty, and steadily drive card transactions at the same time. As of 31 December 2013, a total of 5.92 million Huangshan debit cards were issued, with 1.41 million new cards issued during the year. Total deposits of Huangshan debit cards amounted to RMB23,517 million, accounted to 42.96% of total savings deposits. The average deposit of Huangshan debit card was RMB4,000. The Bank has realized an annual trading volume of RMB41,808 million, an increase of 71.24%.

### **Credit card**

In 2013, the Bank credit card business continued to strengthen management and innovation efforts in order to provide more convenient and efficient payment instruments and consumer finance, continued to enhance credit card sales persons' capacity, increase investment in technology, strengthen marketing efforts to establish the credit card differentiation competitive advantage. During the reporting period, the Bank actively used existing corporate and retail banking customer base, strengthened the linkage between the various business lines to develop cross-selling and to build valuable credit card customer base. It optimized the product mix and actively launched business card, IC card and other credit card products. It strengthened marketing, expanded business scale of the Bank credit card, and achieved good results.

At the end of the reporting period, the Bank accumulatively issued 176,255 credit cards, of which 161,256 were valid cards. The number of credit cards issued in reporting period increased by 80,339. The transaction amount of credit cards was RMB10,270 million in 2013, the average transaction amount of valid card was RMB7,068. The accumulative credit limit issued amounted to RMB4,229 million, representing an increase of RMB196 million as compared to the previous year. The outstanding overdraft amount was RMB1,727 million, an increase of RMB1,030 million as compared to the previous year. Credit card interest income amounted to RMB27.24 million, an increase of 336.32% under the same scope than the previous year. Credit card non-interest income amounted to RMB49.88 million, an increase of 373.64% under the same scope than the previous year. As of 31 December 2013, credit cards NPL ratio was 0.72%, an increase of 0.47 percentage points from previous year.

### **Retail loans**

In 2013, the scale of Bank personal loan grew sharply, market share continues to rise, business structure continues to optimize, and asset quality was generally good. As of 31 December 2013, the Bank retail loans amounted to RMB48,868 million, an increase of 39.30%. Among them, "Huidaitong" loan amounted to RMB9,434 million, an increase of RMB3,011 million or 46.88% as compared to previous year, representing 20.05% of total personal loans, an increase of 1.37 percentage points. The NPL ratio of personal loan was 0.29%, dropped by 0.03 percentage points as compared to previous year.

The Bank adopted various measures to constantly improve the personal loan market competitiveness, and promote the sustained and healthy development of the personal loan business. First, by strengthening marketing activities, establish a marketing linkage mechanism; strengthen the "Huidaitong" brand building, organizing and carrying out marketing activities, and batch develop personal loan customers. Second, through product innovation, market demand, strengthen product research and development, launched the "Fangdaibao", "Zhudaibao" and other new products, and continuously expanded new business space. Third, through optimizing process, simplify business procedures, centralized business operations, strengthen the monitoring process to achieve centralization of personal loan business, professional management, and constantly improve the management level and services efficiency, and establish a good business reputation.



Fourth, through the strengthening of risk management and control, establish and improve the personal loan business risk monitoring and early warning mechanisms, to build the entire risk management system, to enhance the level of risk management capabilities and asset quality.

### **Retail customer deposits**

In 2013, the Bank experienced substantial development of interest rate liberalization, diversification of customer financial needs, diversion effect of heat up capital market on customer deposits, and intense competition in the industry. The Bank adhere to customer-focus business philosophy, focus on customer wealth management, customer needs on demand payment settlement and loan financing, through product innovation, marketing innovation and multi-channel interaction model, achieved rapid growth in customer deposits. As of the end of December 2013, the Bank's retail customer deposits amounted to RMB62.4 billion, an increase of 18.45% over the previous year. The market share of deposits reached 4.6% at the year end, an increase of 0.05 percentage points from the beginning of the year. The characteristics of savings deposits were growing fast and steady with low cost and optimized structure.

### 5.9.3 Financial market business

#### **Business strategy**

In 2013, the bank based on the basis of accurate judgment on the movements of domestic bond market, timely adjust investment ideas, innovate investment philosophy, to avoid interest rate risk under the premise of maximizing bond portfolio returns. In the first half of 2013, market liquidity is relatively well-off, the Bank grasp investment opportunities to actively increase investment in short-term varieties. In the second half of 2013, facing huge fluctuations in market interest rates, the Bank actively adjusted its investing investment portfolio structure to avoid investment interest rate risk effectively. In addition, based on various types of conventional bonds, the Bank appropriately increase the variety of investment in various emerging markets, effectively increasing the level of investment income, asset structure is becoming more diversified. As of the end of reporting period, the average duration of the RMB bond portfolio is 3.27 years. Portfolio annual yield was 4.07%, take the consideration of interest income on treasury bonds, the after-tax yield was 4.44%.

#### **Business development**

In 2013, the Bank promoted its financial markets business area healthy growth by optimizing the Bank's asset portfolio structure, strengthen business innovation, rich varieties of business and other ways. In the field of traditional wealth management business, the Bank issued a total of 401 financial products in 2013, with total proceeds of RMB54,232 million, year-end wealth management products amounted to RMB11,292 million, representing an increase of 20.23%.

### 5.9.4 Distribution channels

The Bank through a variety of distribution channels to provide products and services. The Bank's distribution channels are divided into physical distribution channels and electronic banking channel.

### **Physical distribution channels**

The Bank distribution networks are mainly in the cities and rural areas of Anhui Province and Nanjing, Jiangsu Province. As of 31 December 2013, the Bank has 17 branches and 191 sub-branches, 447 self-service banks, including 223 off-bank self-service banks (including single-point), 214 in-bank self-service banks, 1294 bank self-service terminal, include: 905 cash self-service equipment (of which 536 ATMs, 389 cash recycle system), 389 self-inquire machines. A holding subsidiary – Jinzhai Huiyin Rural Bank Co., Ltd.; Equity investment in Chery Motor Finance Service Co., Ltd and Wuwei Huiyin Rural Bank Co., Ltd.

### **Electronic banking channels**

By expanding our product offerings and enhance service capabilities, the Bank further promoted the use of the Bank's electronic banking services, effective diversified the pressure of sales network. In 2013, the trading via alternative electronic channel accounted for 64.96%, the trading of retail alternative electronic channel accounted for 67.44%, the trading of alternative corporate electronic channel accounted for 48.30%, an increase of 7.12 percentage points, 6.25 percentage points, and 10.57 percentage points, respectively.

### **Online banking**

In 2013, the Bank's retail online banking business continued to maintain a rapid growth rate, carry out online banking customers through micro-blog, radio and other media channels, the number of customers substantially grew in three consecutive years. As of 31 December 2013, the number of online banking customers totaled 1.06 million. Alternative trading accounts transactions of online banking accounted for 25.68%, the transactions of retail online banking accumulated to 60.42 million, an increase of 58.34%, and the amounts of retail online banking accumulated to RMB686,469 million, an increase of 58.23%. Among them, 1,698,000 online payment transactions, an increase of 116.41%, accumulative total transaction value amounted to RMB685 million, an increase of 196.49%.

In recent years, the Bank's enterprise online banking experienced a comprehensive and rapid development, customer base continues to consolidate, and channel efficiency continued to improve. As of 31 December 2013, the coverage of enterprise online banking reached 59.43%, the transactions of enterprise online banking accumulated to 25.21 million, an increase of 37.85%. The amounts of enterprise online banking accumulated to RMB1,207,261 million, an increase of 37.79%.

### **Mobile banking**

In 2013, the Bank's mobile banking services officially released, it was quite popular among mobile banking customers using iPhone and Android phones. In addition to the great efforts to develop mobile banking, the Bank is also actively working with telecommunications operators and China UnionPay to launch mobile payment cooperation: collaborate with China Telecom to carry out "Huiyin Tianyi mobile payment" product and reached cooperation collaboration with China UnionPay to launch "Trustworthy Service Management".

Mobile banking users and trading volume developed rapidly, as of 31 December 31 2013, the total number of mobile banking customers reached 95,500, the trading transactions accumulated to 777,700; the accumulated transaction amount was RMB904 million.

### 5.9.5 Joint venture investment

#### **Chery Motor Finance Service Co., Ltd**

Established in 21 April 2009, as the first domestic independent brand auto financing company, it was established by the Bank and Chery Automobile Co., Ltd. The company registered in the city of Wuhu, with registered capital of RMB500 million, of which the Bank invested RMB100 million with a stake interest of 20%, Chery Automobile Co., Ltd. invested RMB400 million with a stake interest of 80%. According to the company 2011 annual general meeting, the company increased registered capital by RMB500 million. As of 6 January 2013, the company classified retained earnings of RMB167.70 million to registered capital, and received the new registered capital(paid-in capital) from the Bank and Chery Automobile Co., Ltd., for a total amount of RMB332.30 million. The registered capital has increased to RMB1 billion.

In September 2013, the Bank and Chery Automobile Co., Ltd. signed a written agreement on “change of equity and adjustment to equity structure and modify the articles of association”. Based on the agreement, Chery Automobile Co., Ltd. will transfer 31% out of the 80% shares it hold to a related party Chery Holding Co., Ltd. After the change in equity structure, Chery Automobile Co., LTD. invested RMB490 million, accounted for 49%. Chery Holdings Co., LTD. Invested RMB310 million, accounted for 31%. The Bank invested RMB200 million, accounted for 20% of the share capital.

Approved by the CBRC, the company’s principal business includes: (1) accepting shareholders time deposits of 3 months (inclusive); (2) accepting loan security deposits from the purchase of auto dealers and car rental deposits from lessees; (3) issuing financial bonds after approval; (4) engaging in inter-bank lending; (5) loans from financial institutions; (6) providing car loans; (7) providing car loans to auto dealer for purchases of vehicles and operating equipment, including showrooms construction loans and spare parts and maintenance equipment loans; (8) provides car financing and leasing business (excluding leaseback); (9) the sale or repurchase of auto loan and automobile finance lease services to financial institutions; (10) handling the sale and rental car salvage processing operations; (11) engaging with the car financing activities related consulting and agency services; (12) engaging in approved financial institutions equity investment business related to auto finance business. In 2013, the Bank earned operating income of RMB492 million, operating profit of RMB259 million. At the end of 2013, the Bank had total assets of RMB888 million, total liabilities of RMB7,558 million, and total owners’ equity of RMB1,322 million, including undistributed profits of RMB227 million Yuan, with an decrease of RMB37 million from last year. Capital adequacy ratio was 19.28%, core capital adequacy ratio was 18.37%, capital return was 2.51% and net profit after tax was RMB197 million.

### ***Wuwei Huiyin Rural Bank Co., Ltd***

The company officially opened on 8 August, 2010, registered in Wuwei, Wuhu. The registered capital was RMB100 million, of which the Bank invested RMB40 million, accounted for 40% of shareholdings. Other major shareholders were local individuals. The principal activities include: (1) deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement; (4) bill acceptance and discounting; (5) engaging in inter-bank lending; (6) bank card business; (7) issuing, redemption and underwriting government bonds as agents; (8) acting as agent for collection and payment, together with bank assurance business; (9) other businesses approved by the banking regulatory institution of the State Council.

Since the opening, the Bank adhered to Huishang Bank's operating philosophy, always uphold to the scientific concept of development. Based in Wuwei, the Bank strongly support the "Three Dimensional Rural Issues" (rural, farmer and agriculture) economy, individual business SME's development. In accordance with the "close to the towns, serve rural" business philosophy, take the advantage of comprehensive governance, sound internal control mechanism, advanced management and strong brand influence of the sponsoring bank. Under effective risk control mechanism, the bank innovated a variety of loans with different nature and operation processes; it tailored to provide a flexible, high quality and efficient financial services to the "Three Dimensional Rural Issues" customers, and supported the county's economic development, extended the service to the wider rural areas and gave supports to the agricultural production. Gaogou branch officially opened on 18 December 2013, which is the bank's third outlet in Wuwei, and it is also the first town bank. At the end of 2013, the bank had total assets of RMB2,376 million of the line, total liabilities of RMB2,201 million, deposit balance of RMB2,005 million, loan balance of 1,127 million, net profit of RMB30.15 million, and non-performing loan ration of 0. The main business indicators complied with regulatory standards.

### ***Jinzhai Huiyin Rural Bank Co., Ltd***

The company officially opened on 28 June, 2013, registered in Jinzhai, Lu'an, with registered capital of RMB80 million, jointly established by the Bank and Anhui GuoYuan Investment Co., Ltd. The Bank invested RMB32.8 million, accounted for 41% of total shares. The principal activities include: (1) deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement as agents; (4) bill acceptance and discounting; (5) engaging in inter-bank lending; (6) engaging in banking card business; (7) issuing, redemption and underwriting government bonds as agents; (8) acting as agent for collection and payments and bank assurance business; (9) other businesses approved by the banking regulatory institution of the State Council.

For the six months since opening, with the strong support from the shareholders, it actively sought government support, based in JinZhai, served "Three Dimensional Rural Issues" operating principals, adhered to agriculture, supported small business positioning, took advantage of flexibility, effectiveness and efficiency. The business development achieved good results with main business indicators for the year completed.



At the end of 2013, total assets reached RMB286 million Yuan, total liabilities of RMB206 million; deposits of RMB205 million, loan balance of RMB130 million and non-performing loan ratio of 0. The business income was RMB6.45 million, and operating profit of -0.88 million.

As a bank positioned with “Three Dimensional Rural Issues” strategy, it will continue to adhere to the “based JinZhai”, serving “Three Dimensional Rural Issues”, giving full support to old economy to accelerate development” requirement, vigorously expand the deposit and operation scale, actively support “Three Dimensional Rural Issues” and the credit needs of small and micro enterprises, optimise the corporate governance, management and risk control mechanism, strengthen ethics of the employees and avoid wastage, take advantage of small and medium financial institutions mechanisms, efficiency and other aspects of the business to ensure rapid and sustainable healthy development.

### 5.10 Risk Management

In 2013, the Bank kept a close eye on macroeconomic situation and policy changes, with adherence to a prudent, rational and stable risk preference in promoting the comprehensive risk management system. Guided by the annual risk management policy, the Bank consistently devoted itself to the optimization of its risk management structure, policy, procedures and tools in the hope of striking a balance among capital, risk and profit, while continuously keeping the regulatory indicators and overall risk condition stable under the pressure of the economic downturn and the rebound of NPL.

#### 5.10.1 Credit Risk Management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Bank. The Bank’s credit risk primarily comes from loan services, interbank lending, lending and investing off-balance sheet business.

Risk Management Committee under the Board of Directors together with Risk Management and Internal Control Committee are the highest decision-making body of the Bank’s credit management. They consider and make decision on significant credit risk management policies within the risk preferences, strategies, policies and authority framework approved by the Board. The Bank sets up a “business, risk and monitoring three lines of defense” system, placing credit risk management controls over every aspect of the credit business. Business sector as the first line of defense keeps the balance between risks and benefits, strictly screens and evaluates customers, develops appropriate risk control programme. Risk management department as the second line of defense is independent from the Bank’s business units, setting risk management standard for risk identification, monitoring, measuring, early warning, risk reporting and disposal, and etc., assesses the reasonableness of asset allocation, the ability to achieve risk management objectives set by the Board. Compliance, audit and other oversight authorities as the third line of defense, monitor the effectiveness and adequacy of various types of risk management policies, systems, methods, procedures and processes. In addition, the Bank has developed and standardized lending policies and procedures, as well as customer credit rating system. The Bank is also in compliance with the regulatory requirements. Based on the borrower’s ability and will to repay, together with the guarantor, mortgage and pledge status, as well as overdue period and the five-category classification, the Bank refines the risk assets classification and strengthens the security of assets management.

## Management Discussion and Analysis (Continued)

In 2013, the Bank strengthened its control in key areas to reinforce credit risk management. The Bank continued with its quota management of high-risk industries such as government financing platform, real estate development industries, and etc., to enhance the monitoring and analysis of credit risks. The Bank conducted stress tests on government financing platforms, real estate enterprises and their up- and down-stream enterprises to evaluate the quality and potential losses of loans granted in extreme scenarios. The Bank paid greater attention to centralizing control of customers by including group customers into comprehensive credit management while strengthening related party transaction control in which significant related party transactions should be submitted for approval by Related Party Transaction Control Committee. Risk screening was also conducted by the Bank, from the level of portfolio risk management to enhance higher level of asset control ability. Holding to macroeconomic control policies, the Bank adopted scientific allocation of credit resources, reinforced portfolio risk management featuring stricter credit authorization guidance for high-risk industries and withdrawal management for industries suffering from overcapacity. Therefore, the Bank optimised its credit structure while providing support to real economy. During the reporting period, the Bank's non-performing loan balance has increased. Thanks to the timely and effective risk mitigation, recovery and disposal, accelerated loan writing off and other measures, asset quality remained stable. Please refer to 5.4 Loan Quality Analysis for distribution structure.

Currently, as China's economic restructuring and financial market reform is deepening, the impact of the slowdown in the real economy on the credit risk of commercial banks is becoming increasingly significant. The situation in real estate, steel, chemical, photovoltaic and other industries as well as SMEs remain difficult. The overall rising trend of credit risk has not been fundamentally changed. Under this circumstance, the Bank will continue to be customer-centered, market-oriented, it will accelerate the risk management mechanism reform to further establish and improve overall risk management system compatible with the business development, further strengthen credit risk management, speed up the establishment and application of risk measuring tools, accurately grasp the risk trends, look at risk management perspective. No regional or systemic risk is the bottom line to ensure stable and controllable asset quality.

### 5.10.2 Market Risk Management

Market risk is the risk of loss in respect of the Bank's on and off-balance sheet activities, arising from adverse movements in interest rates, foreign exchange rates, and other market factors. The Bank faces market risk with both trading accounts and banking accounts. The primary risk related to the banking account is interest rate risk and exchange rate risk. The key market risk of trading accounts is from fluctuations in the market value of trading positions, which is affected by changes in observable market variables such as interest rates, exchange rates, etc. The Bank was committed to manage market potential



losses and provide earnings stability within acceptable range by independently identifying, assessing and monitoring inherent market risk existing in the ordinary course of business. The Bank's market risk management covers the whole process of identification, measurement, control and reporting of market risk. It measures and monitors market risk through the use of sensitivity analysis, exposure analysis, gap analysis, duration analysis, stress testing and VaR analysis, etc.

In 2013, the Bank strived to enhance market risk management tools, streamline market risk management processes, and optimise treasury risk management systems for complex external environment. Aiming at better daily market risk management, the Bank made use of various analytical tools such as cash flow analysis, sensitivity analysis, scenario analysis, VaR analysis and stress testing to conduct quantitative analysis on treasury business and stress testing on interest rate risk while enhancing market risk quotas management. With the improved of risk control and measurement capacity, the Bank managed to avoid market risk in an effective way.

### 5.10.3 Operational Risk Management

Operational risk is the risk of losses due to inadequate or flawed internal processes, people and systems, or external events. The operational risk involves each business unit, to establish uniform operational risk assessment method which enables identification and assessment of the risk of every business unit, to build and implement continuous and effective operational risk monitoring, controlling and reporting procedures.

In terms of operational risk management, the Bank further strengthened the overall operational risk management system. On one hand, the Bank implemented operational risk management through hierarchical methods, established operational risk management guidance to strengthen the operation monitoring, warning and control, practiced two-way reporting system. The Bank also carried out a series of risk investigation activities, collecting internal and external operational risk incidents and sharing classic cases. On the other hand, the Bank continued to improve operational risk management system, strengthened the capital measurement research and relevant data analysis, actively prepared the launching of the measurement tools with the aim of improving operational risk management techniques. The Bank further strengthened information technology risk management, taking various measures such as firewall, data encryption, intrusion detection and real-time data backup technology, strengthening information security prevention and guaranteeing information systems security's continuous service, strengthening business continuity management and external risk management.

Facing the challenges of internal and external operational management, the Bank will continue to promulgate the Board's risk appetite, improve risk management techniques, enhance monitoring and controlling operational risk, with efforts to prevent and reduce operational risk losses.

## Management Discussion and Analysis (Continued)

### 5.10.4 Liquidity Risk Management

Liquidity risk is the type of risk that occurs when the Bank cannot obtain sufficient funds in time, or at a reasonable cost, to meet the needs of customers to withdraw liabilities as they are due, loan insurance or reasonable financing activity, etc. Risk Management Committee, which under the Board of Directors together with Asset and Liabilities Management Committee, Risk and Internal Control Management Committee share joint responsibility for establishing policies and strategies on overall liquidity risk management. The main source of funding is customer deposits, which mainly include corporate, retail and interbank deposits. Bank deposits continued to grow in recent years, the type and duration of the deposit type continued to grow and with growing stability.

PBOC's neutral towards tight monetary policy, the acceleration of interest rate liberalization and the regulatory requirements for commercial banks to strengthen their asset-liability management and other factors. In 2013, the overall liquidity of commercial banks was severely affected, the level of tension and volatility the funds face are far more than in previous years. In June there was an outbreak of "money shortage". In this case, the Bank improved timely liquidity risk measurement and monitoring levels on the basis of using all kinds of tools to manage daily balance according to macroeconomic and capital market situation. In the meanwhile, it established dynamic mobility coordination mechanisms by means of collating excess deposits, reserves deposit and loan business, investment and financing business, bill management business, etc. Based on the liquidity stress testing results, a comprehensive, in-depth analysis of the factors affecting the Bank's liquidity was carried out, targeted to improve liquidity management, consolidated liquidity risk warning mechanism, real-time monitoring the funding positions, focused on tracking the allocation of large sums of money, increased the branches' cash management. As a result, the Bank achieved a good preventive liquidity risk.

### 5.10.5 Interest Rate Risk Management

Interest rate risk is the risk of loss in financial condition of the Bank as a result of adverse movements in interest rates. The main source of interest rate risk is the mismatch of re-priced on and off balance sheet assets and liabilities during the period. Maturity or re-pricing dates mismatch may lead to net interest income affected by the change of prevailing level of interest rates. In carrying out our daily borrowing and lending, deposits and capital operations, the Bank always face interest rate risk.

The Bank controlled interest rate risk exposure of assets and liabilities priced in RMB by adjusting interest rate and management maturity. The Bank carried out duration analysis on the debt investment in the investment portfolio, assessed bond's potential price volatility by measuring its sensitivity to interest rates. The Bank uses interest rate sensitivity analysis, stress testing and scenario analysis to measure potential interest rate exposure by the investment portfolio.

### 5.10.6 Exchange Rate Risk Management

Exchange rate risk mainly arises from the mismatch of on and off balance sheet assets and liabilities currency, as well as currency position mismatch resulted from foreign exchange trading. The Bank's foreign currency assets and liabilities are mainly denominated in U.S. dollars, while the rest are in Euros, Hong Kong dollars and Yen.

The Bank took advantage of each match for funding resources and use to manage exchange rate risk arising from mismatch of assets and liabilities, measured exchange rate risk through the use of qualitative and quantitative analysis. The Bank ensured the adverse effects of fluctuation in exchange rates remain within acceptable ranges by trading limits, risk limits, exposure limits and stop loss limits together with currency structure management of assets and liabilities.

In addition, the Bank tried to limit trading involving a high exchange rate risk, real-time monitored major indexes and checked the main foreign currency positions daily to manage exchange rate risk in foreign exchange trading center from foreign currency positions mismatch. The Bank also introduced an FTP internal transfer pricing tool, further guided the branches to adjust foreign currency assets and liabilities structure in appraisal system, strictly controlled exchange rate risk.

### 5.10.7 Reputation Risk Management

Reputation risk is the risk of stakeholders' negative evaluation to the Bank arising from the Bank's operations, management and other activities or external events. In 2013, the Bank's reputation risk control remained stable, the Listing attracted national media, especially financial media's attention, while media reviews provided favorable feedback overall. There was also frequent exchanges with the media, where no large-scale negative public opinion was found.

The Bank paid attention to the role of pro-active marketing, actively carried out positive guidance to control reputation risk. To deal with misleading messages, the Bank gave rapid responses, communicate pro-actively, respect the fact and the freedom of media, established positive interaction with the media, and effectively avoided reputational risk that may occur.

The Bank will focus on fostering the culture of prevention of reputation risk, developing an appropriate media management strategy, integrating the Bank's media investing resources, establishing inspection mechanism to reveal hidden risk by improving high-level public relations planning, brand influence and ability to resist risks in order to enhance the ability of crisis response fundamentally.

### 5.10.8 Compliance Risk Management

The compliance risk refers to the risk of commercial bank suffering from legal sanctions, regulatory punishment, material financial loss or reputational damage for failing to comply with laws and regulations, rules and guidance.

## Management Discussion and Analysis (Continued)

The Board of Directors of the Bank takes ultimate responsibility for the compliance of operating activities; authorize Risk Management Committee under the Board of Directors to monitor compliance risk effectively. Executive management and Internal Control Committee are responsible for managing compliance risks; submit compliance risk management reports to the Board annually. The Bank have established a more robust compliance risk management system and organizational structure, forming three interactive defense lines with foreground, middle-ground, background, and vertical dual reporting system between headquarter and branches. The measures enable the Bank to achieve effective compliance risk management and control through continuous improvement in working mechanism of risk management and technique as well as procedures.

During the reporting period, the Bank was focused on promoting business development and improving the quality of development, complete various tasks within the compliance risk management responsibilities. The compliance risk management mechanism operated effectively and external regulatory evaluation maintained favorable. The Bank actively adapted the changing business environment and regulatory policies, sustained sound system of internal rules and regulations, strengthened legal compliance review and product innovation to optimize compliance risk identification, assessment process, and promote the healthy development of the business on the basis of compliance.

### 5.10.9 Anti-money laundering (“AML”) Management

The Bank placed great importance on anti-money laundering. It actively practices drisk-based working methodology, in-depth development of anti-money laundering mechanisms, and have made more prominent achievements. In 2013, the Bank won the second prize of group and outstanding individual award in the anti-money laundering knowledge contest for financial institutions in Anhui Province.

During the reporting period, the Bank fully implemented anti-money laundering laws and regulations, fulfilled anti-money laundering statutory obligations. The Bank’s head office and branches set up anti-money laundering working groups which organized and coordinated the Bank’s anti-money laundering measures. The Bank issued a “Notice on the election of the best practice branches for AML”, “Notice on rewarding those reporting significant suspicious transactions on AML”, improved anti-money laundering incentives system, strengthened anti-money laundering foundation. The Bank summarized the trend of money laundering activities, analyzed money laundering features, researched to set out guidance to identify suspicious transactions, improved the staff’s ability to analyze and judge suspicious transactions. The Bank developed programmes of new standards for client money laundering risk, improved money laundering risk index system, organized the launch of money laundering risk dynamic adjustment. The Bank launched AML training through various channels to different level of staff, enhanced staff’s awareness of their duties on AML, nurtured an AML compliance environment. A total of 471 staff have received “Training for certified AML position” issued by the PBOC.

Currently, with complex international economic and financial situation, the methods of money laundering are getting more subtle and diverse. Anti-money laundering is facing increasingly severe challenge. In view of this, the Bank will further enhance the anti-money laundering efforts to continuously promote sound AML internal control mechanisms, effective measures and control, in order to prevent practically preventing AML compliance risk.



### 5.10.10 Implementation of Basel Accord

The Bank is one of city commercial banks which is dedicated to the Basel New Capital management in China. The Bank actively promoted the development construction and the implementation action of advanced methods of capital management in accordance with the “Capital Management of commercial Banks (Provisional)” and other regulatory policies. It optimised corporate governance, improved sound risk management system, strengthened data quality management, enhanced information systems to improve verification and audit. Based on the “Rules for Capital Management of Commercial Banks (Provisional)” and other regulatory requirements, the Bank expedited the launch and implementation of the capital measurement using the advance method. It meets the regulatory requirements by improving the effectiveness of verification and audit and the accuracy of measuring the risk weighted assets via improving the corporate governance, risk management system, data management and information technology system. Currently, the Bank has established a non-retail credit risk internal grading system by customers and launched it in 2012. Currently, the non-retail credit risk internal grading system by loan types is under construction and consultation. The Bank has also accomplished the construction of retail credit risk internal grading system in 2013. In addition, the projects on operational risk standards and market risk internal modelling are also in progress.

### 5.11 Information Technology

The Bank places great importance on the innovation of information technology and risk management. The development of information technology works closely with the Bank’s business development strategy to innovate the channel of online banking, mobile banking and telephone banking, etc. in order to improve service function and provide efficient and secure banking services to achieve customer satisfaction. Economic channel has become the main channel for the Bank’s retailing customer service. Meanwhile the Bank actively carries out projects, such as trade finance, wealth-management business, fund custody and risk evaluation, etc. to support the Bank’s business development and enhance internal control management. By relying on information technology, the Bank has set up an industry-leading standardized data warehouse platform, shared service platform, cash management platform and virtualized platform to effectively improve business-dealing efficiency, service response time, risk prevention and integrated data analysis and decision levels.

During the reporting period, the Bank implemented information safety risk evaluation, grade protection assessment and third-party information technology special audit, further enhancing the monitoring of information technology risk and improving the risk prevention control measures. The Bank organized a research on regional commercial banking business continuing management system and received the award of ranking fourth on the research of information technology risk management by the CBRC.



### 5.12 Social responsibilities

During the reporting period, in strict compliance with CBRC's "Views on Strengthening Banking Financial Institutions' Social Responsibility", China Banking Association's "Guidelines on China Banking Financial Institutions Corporate' Social Responsibility" and Ministry Of Finance's "Enterprise Internal Control Guideline No. 4 — Social Responsibility", the Bank formulated "Huishang Bank Interim Measures for Corporate Social Responsibility Management" and established the appropriate management structure and management processes. The Bank formulated the "Huishang Bank Corporate Social Responsibility Plan for 2013–2015", gradually improving its corporate social responsibility management system and mechanism. According to the Bank's plan in 2013, in order to maintain good performance and better serve the local economy, the Bank continued to improve governance and fully protect the interests of shareholders. The Bank actively conducted customer publicity and financial knowledge sharing. The Bank effectively improved service quality to meet the various financial needs of customers and made efficient allocation of resources to actively support the development of small and micro enterprises. The Bank builds a harmonious environment to promote employee's development. It makes effort to return to the community and continues to participate in charitable activities. Actively promoting green credit to support low-carbon economy, the Bank advocates green finance to build low-carbon financial service, implements green office to promote energy saving. The Bank has made considerable progress in corporate social responsibility. Please refer to "2013 Corporate Social Responsibility Report".

### 5.13 Prospects and measures

In 2014, the domestic and foreign economic and financial environment is expected to remain complicated. From an international point of view, the world economy will continue to maintain a trend of slow recovery. Domestically, China's economic growth is facing a period of change, a period of restructuring throes and pre-stimulus policy digestion. The overall effect of "three periods" on different regions, industries and fields varies, bringing great impact on sustainable development and business transformation.

Complex operating environment brought great challenge to the Bank. For example, from the liability expansion perspective, the rapid interest rate liberalization, finance disintermediation and expansion of Wealth management business brought great pressure and challenge to the expansion, which in turn resulted in increase in funding costs. From the asset perspective, the slowing down of the economic growth, operation difficulties faced by the SMEs, the rapid development of direct financing and the fierce competition among financial institutions all brought great challenge to the expansion of assets. The prominent conflict between the slowing economy and the excess capacity still exists. The economic structural change and reform of the traditional industries will bring the unavoidable challenge to managing the quality of the Bank's assets.

The Bank is experiencing great opportunities and benefiting factors currently and in the near future. Firstly, the successful Listing will bring in the obvious benefits of raising capital and branding in the market. Secondly, Anhui Province where the Bank mainly operates is undergoing a period of strategic opportunities and remains the ability in maintaining steady economic growth. Thirdly, the economy is undergoing a rapid reform with accelerated urbanisation, rapid development of the financial market and the booming internet finance. These can all be translated into new business and profit growth opportunities. Lastly, the Bank has developed a good foundation over the years and has formed a competitive advantage over the corporate business, SME business, retail business, etc.. These have formed a solid foundation for the Bank's continuous growth.

In 2014, facing the challenges and opportunities from the current situation, the Bank will seize the opportunity being listed on the Hong Kong Stock Exchange. Based on the principal of being "client centric and market oriented", the Bank will deepen the reform, accelerate the change and strengthen financial innovation. Focusing on quality, efficiency, sustainability, the Bank aims to become a leading city commercial bank, a prominent listed company and a benchmark regional bank.

The operation measures employed by the Bank in 2014 will be: firstly, to expand credit business and support the development of the real economy. The Bank will implement the strategic collaboration between banking and government sectors and expand the range and the depth of the collaboration. Focusing on the financing needs of the small and micro enterprises and it will adopt supply chain financing and business circle financing. Focusing on urbanisation it will increase its support to rural economy. Focusing on structural reform, it will increase its credit support to key and weak industries. Secondly, the Bank will emphasize on financial innovation and sustainable growth. The Bank will develop those new businesses with low capital requirement such as investment banking, wealth management, trade finance, businesses with financial institutions and asset management. It will also increase the proportion of income from intermediary businesses. The Bank develops innovative liability management model and established a dynamic assets liability matching mechanism, expanded the source of liabilities, pro-actively increase liability and aim to achieve liabilities with multiple sources. The Bank will increase outlets, improve the planning of outlet location and increase the coverage. Thirdly, the Bank will deepen the reform and improve the mechanism. By seizing the Listing, the Bank will have a balanced long-term and short term strategy and an appropriate mid-term development strategy in order to expedite the strategic implementation. The Bank will further improve the check-and-balance mechanism to ensure the smooth running and compliance of the corporate governance. Based on the reform of the performance evaluation system, the Bank will establish an effective incentive and constraint mechanism. The Bank will improve the risk management and internal control management in order to further establish a comprehensive risk and internal control management mechanism.

# Report of the Board of Directors

The Bank presents annual report and the audited financial statements of the Bank and its subsidiaries for the year ended 31 December 2013.

## 6.1 Principal activities

The Bank is engaged in a range of banking services and related financial services.

## 6.2 Summary of financial information

Please refer to Chapter II “Financial Highlights” of this annual report for the summary of financial information for the year ended 31 December 2013.

## 6.3 Reserves

Please refer to the statement of financial position for details of the movements in the reserves of the Bank for the year ended 31 December 2013.

## 6.4 Fixed Assets

Please refer to Note 25 “Fixed Assets” in the “Financial Statements” of this annual report for details of movements in the property and equipment of the Bank for the year ended 31 December 2013.

## 6.5 Holding and trading of shares of other listed companies

There was no holding and trading of shares of other listed companies during the reporting period.

## 6.6 Purchase, sale and redemption of shares

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the shares of the Bank during the reporting period.

## 6.7 Pre-emptive rights

The Articles of Association of the Bank does not have such provisions under which the Bank’s shareholders have pre-emptive rights. There are no pre-emptive rights for the shareholders of the Bank.

## 6.8 Retirement benefits

Please refer to Note 10 in the “Financial Statements” of this annual report for details of the retirement benefits provided to employees of the Bank.

## 6.9 Major Depositors/Borrowers

The Bank is not dependent on a single major depositor/borrower. For the year ended 31 December 2013, the aggregate amount of operating income generated from the five largest depositors/borrowers of the Bank represented an amount not exceeding 30% of the total operating income of the Bank. Directors of the Bank and its related persons do not have any real interest in the above-mentioned five largest depositors/borrowers.

### 6.10 Initial Public Offering

The Bank was listed on the Hong Kong Stock Exchange on 12 November 2013. After the full exercise of the over-allotment option, the Bank issued an additional 2.875 billion shares and raised funds of 10.147 billion Hong Kong dollar in total, which is the second city commercial bank to list on overseas capital market.

### 6.11 Use of proceeds

During the reporting period, the Bank issued H-shares and raised fund of HKD10,146,978,706.68, which is approximately RMB8,026,740,646 (after deduction of Hong Kong Stock Exchange trading fee, the bank charges, the Central Clearing and Settlement System transaction fees and other transaction costs). The proceeds raised from the issuance of H-shares are all used to strengthen the capital base of the Bank and to support the business development of the Bank.

### 6.12 Profile of Directors, Supervisors, Senior Management and Employees

Please refer to Chapter VIII “Profile of Directors, Supervisors, Senior Management and Employees” of this annual report for the year ended 31 December 2013.

### 6.13 Interests and short positions by the directors, the supervisors and senior management under Hong Kong laws and regulations

As at 31 December 2013, the directors, supervisors and senior management of the Bank had the following interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO of Hong Kong) as recorded in the register required to be kept under Section 352 of the SFO of Hong Kong or as otherwise notified to the Bank and Hong Kong Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules.

Name	Position	Class of Shares	Status	Number of shares (share) (Long position)	Percentage of related issued shares (%)	Percentage of all issued shares (%)
Ci Yaping	Director	Domestic Shares	Beneficial Owner	133,451	0.0017	0.0012
Xu Demei	Director	Domestic Shares	Beneficial Owner	84,861	0.0011	0.0008
Qian Zheng	Director	Domestic Shares	Beneficial Owner	32,212	0.0004	0.0003
Xu Chongding	Supervisor	Domestic Shares	Beneficial Owner	497,801	0.0063	0.0045
He Tao	Supervisor	Domestic Shares	Beneficial Owner	97,376	0.0012	0.0009

Note: Besides the above disclosures, none of the directors and supervisors of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations.



### 6.14 Directors' interests in competing businesses

None of the directors of the Bank directly or indirectly has any interest that constitutes or may constitute a competing business of the Bank.

### 6.15 Directors', supervisors' and senior management's financial, business and family relationships

There are no relationships among the directors, supervisors and senior management of the Bank, including financial, business, family or other material relationships.

### 6.16 Directors' and supervisors' interests in contracts and service contracts

For the year 2013, no director or supervisor of the Bank had any interest in any contract of significance in relation to the business with the Bank or any of its subsidiaries. None of the directors and supervisors of the Bank has entered into service contracts with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation).

### 6.17 Penalty and investigation of the Bank or directors, supervisors, senior management and shareholders holding 5% or more of the shares of the Bank

On 9 January 2014, the Bank was informed by independent and non-executive director, Wen Jinghui, which he was subject to CSRC's investigation due to alleged violations of certain PRC securities laws and regulations. Application has been made by Wen Jinghui to resign from the position of independent non-executive director and membership of relevant board committees. Based on our knowledge, the investigation has no relationship with the Bank. The Bank has made a timely notice published on the website of the Hong Kong Stock Exchange. With reference to the announcement dated 16 April 2014, Mr. Wen Jinghui's directorship in the Bank was terminated on 15 April 2014.

Except above information, during the reporting period, the Bank, the directors, the supervisors, the senior management and shareholders holding 5% or more of the shares of the Bank had no record of being subject to investigations by relevant authorities.

### 6.18 Continuing connected transaction

In the ordinary course of the business, the Bank provides commercial banking service and products to the public, including the Bank's directors, supervisors and their respective associates. During the reporting period, related party transactions are conducted under normal commercial terms and conditions, which is not superior to similar conditions for non-related party transactions. The transaction terms are fair and reasonable and in line with whole interests of the Bank and shareholders. The bank enters into all these transactions under normal commercial terms and are exempt from the requirements of reporting, annual review disclosure and independent shareholders' approval under Chapter 14A of the Listing Rules.

Commercial banking services in the ordinary and usual course of the business — Deposit taking  
The Bank is taking deposit from its connected persons (including directors, supervisors and their respective associates) under normal deposits interest rate and normal commercial terms. After global offering, these connected persons may continue to place deposits with the Bank. Such deposit activities will constitute continuing connected transactions under the Listing Rules.



The Bank takes deposits from its connected persons in the ordinary and usual course of the Bank's business and on normal commercial terms that are comparable or no more favourable than those offered to independent third parties. These transactions will be exempt continuing connected transactions under rule 14A.65 (4) of the Listing Rules, namely financial assistance provided by a connected person in the form of deposits placed with an issuer for the benefit of the issuer on normal commercial terms (or better to the issuer) where no security over the assets of the issuer is granted in respect of the financial assistance, and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements under rule 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

### Commercial banking services in the ordinary and usual course of the business — loans and credit facilities

The Bank extends loans and credit facilities to its connected persons (including the directors, supervisors and their respective associates) in the ordinary and usual course of its business on normal commercial terms with reference to prevailing market rates. After global offering, the Bank may continue to provide loans and credit facilities to these connected persons. Such loans and credit facilities will be continuing connected transactions under the Listing Rules. The loans and credit facilities offered by the Bank to its connected persons are in the ordinary and usual course of its business and on normal commercial terms and on comparable terms to independent third parties. Therefore, these transactions will constitute exempt continuing connected transactions under rule 14A.65(1) of the Listing Rules (namely, financial assistance provided by an issuer in its ordinary and usual course of business for the benefit of a connected person on normal commercial terms), and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements under rule 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

### Commercial banking services in the ordinary and usual course of the business — Other banking service and products

The Bank provides various commercial banking services and products (including credit card, debit card and wealth-management product) in the ordinary and usual course of its business to its connected persons (including the directors, supervisors and their respective associates) at normal prescription fees, service fees and charges and on normal commercial terms and conditions. After global offering, the Bank may continue to provide such service and products to these connected persons. Such services and products will constitute continuing connected transactions under the Listing Rules. It is expected that none of the applicable percentage ratios (as defined under Rule 14A.10 of the Listing Rules) in respect of the annual aggregate service and/or product fees paid to us by a particular connected person and its associates will exceed 0.1%. Therefore, these transactions will constitute exempt continuing connected transactions pursuant to Rule 14A.33(3)(a) of the Listing Rules, and thus, will be exempt from the reporting, announcement and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules.

Please refer to Note 45 in the “Financial Statement” for detailed related party transaction of the Bank.

### 6.19 Material litigations and arbitrations

As at 31 December 2013, ordinary litigation occurred by the Bank is as follows: The number of litigations and arbitrations that are out of final adjudication is 146, with total object amount of RMB519.6807 million. Of which, as at December 31 2013, the number of litigations and arbitrations that are out of final adjudication where the Bank is the defendant is 5, with total amount of RMB67.78 million. In all cases, single case amount is no more than RMB100 million. Loans that have been involved in the above cases are all provided for with expected losses and all the cases have no material adverse effect on the Bank’s financial and operating results.

### 6.20 Merger and acquisition and sale of major assets and restructuring of enterprises

During the reporting period, some assets have been pledged to other banks and Ministry of Finance as pledge of repurchase agreement and treasury deposits. Apart from that, the Bank has no other merger and acquisition and sale of major assets and restructuring of enterprises cases outside the ordinary course of business acquisitions. Please refer to Note 40 of “Financial Statement” for asset pledge matter.

### 6.21 Capital occupation by related parties

There was no non-operational capital occupation by the controlling shareholder or other related parties of the Bank during the reporting period. There was no occupation of listed funds in disguised form through unfair related party transactions, either. The auditors have issued their special audit opinion.

### 6.22 Review of annual results

The report of the Bank prepared under International Financial Reporting Standard has been audited by PricewaterhouseCoopers with standard and unqualified opinion. The Bank’s Audit Committee has reviewed the results of financial statements for the year ended 31 December 2013.

### 6.23 Profit and dividends

The profit of the Bank for the year ended 31 December 2013 and the Bank’s financial position as at that date are set out in the “Financial Statements” of this annual report. In accordance with the resolutions passed at the annual general meeting 2011 held on 16 April 2013, the Bank paid an annual cash dividend for 2012 of RMB0.1 per share (including tax), totaling approximately 817 million, to all of its shareholders whose names appeared on the register of members on 31 December 2012.

The Board recommends a cash dividend for 2013 of RMB0.16 per share (including tax) in an aggregate amount of RMB1,724 million, subject to the approval of the annual general meeting 2013. The Bank was listed on the Hong Kong Stock Exchange on 12 November 2013, hence the period from the listing to the end of the reporting period is short. Therefore the Board of Directors suggested no special dividend except for the above one.

During the reporting period, the Bank has not received any notice from shareholders about forfeiting or agreeing to forfeit dividends.

The profit distribution for the recent three years is as follows:

Year	Cash dividend per 10 shares (including tax) (in RMB)	The amount of cash dividend (including tax) (in RMB millions)
2010	1	817
2011	1	817
2012	1	817

#### Profit Distribution

The Bank's current year profits shall be distributed in the following order of priority:

- (a) offsetting the losses in previous years;
- (b) contributing 10% of them to its statutory reserve fund;
- (c) making general reserve;
- (d) contributing to its discretionary reserve fund;
- (e) distributing profits and paying dividends to its shareholders at the proportion of the shares held by a shareholder.

In the event that the accumulated statutory reserve exceeds 50 percent of the Bank's registered capital, no further allocation is needed. The shareholders' general meeting shall decide whether any further allocation to the discretionary reserve shall be made after making allocations to the statutory reserve and the general reserve. The Bank shall not distribute dividends to shareholders before making up losses, making allocations to the statutory reserve and the general reserve.

Any dividend distributed to shareholders by the shareholders' general meeting in contravention of the requirements provided above shall be refunded to the Bank by the shareholders.

## Report of the Board of Directors (Continued)

Shares of the Bank held by itself shall not participate in any distribution of profits.

Shareholders shall not be entitled to dividends in case that the capital adequacy ratio of the Bank fails to meet the requirements as stipulated by law.

Our reserve fund shall be applied to make up losses of the company, expand its business operations or be converted to increase the registered capital of the company. However, the capital reserve fund cannot be applied to make good the company's losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The Bank may distribute dividends in the form of cash or shares.

Those share which have been paid before the due date will be entitled to dividends. However, the shareholders will not be entitled to dividend from those prepaid shares.

For dividends that are not claimed by anyone, the Bank may exercise the right of expropriation under the precondition of complying with the relevant laws, administrative regulations and departmental rules, but the right shall be exercised only after the expiration of the applicable period.

The Bank shall have the right to terminate sending dividend warrants to holders of overseas-listed shares by mail, but the Bank shall exercise the right only after a dividend warrant fails to be redeemed for two consecutive occasions, however, the Bank can exercise the right after the first occasion on which such a dividend warrant is returned as undelivered.

The Bank shall have the right to sell the shares of shareholders of overseas-listed shares who are untraceable in a way deemed appropriate by the Board, provided the following conditions are met:

1. the Bank has distributed dividends at least three times to the shares within 12 years, and the dividends are not claimed by anyone during the period.
2. the Bank publishes announcements in one or more newspapers where the Bank's shares are listed after the expiration of the 12-year period, stating its intention to sell the shares, and informs the securities regulatory authorities where the Bank's shares are listed.

The Bank shall appoint receiving agents on behalf of the shareholders of overseas-listed shares. Receiving agents shall receive on behalf of the relevant shareholders dividends distributed and other monies payable by the Bank in respect of the overseas-listed shares.

The receiving agents appointed by the Bank shall comply with the laws and the requirements of the regulations of the securities regulatory authorities where the shares of the Bank are listed.



The receiving agents appointed by the Bank on behalf of H shareholders shall be a trust company registered in accordance with the Trustee Ordinance of Hong Kong.

#### 6.24 Annual General Meeting and Closure of Register of Members

The 2013 Annual General Meeting (“AGM”) will be held on 6 June 2014. The notice of AGM will be announced separately.

In order to determine the holders of shares who are eligible to attend and vote at the Annual General Meeting to be held on 6 June 2014, the register of members of the Bank will be closed from 7 May 2014 to 6 June 2014, both days inclusive. To be eligible to attend and vote at the said Annual General Meeting, unregistered holders of H shares of the Bank shall lodge relevant share transfer documents with the Bank’s H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 5 May 2014.

In order to determine the holders of shares who are entitled to receive the above-mentioned final dividend, the register of members of the Bank will be closed from 12 June 2014 to 17 June 2014, both days inclusive. To be eligible to receive the final dividend for the year ended 31 December 2013 (subject to the approval of the Bank’s shareholders), unregistered holders of H shares of the Bank shall lodge relevant share transfer documents with the Bank’s H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 11 June 2014.

The Bank has appointed Computershare Hong Kong Trustees Limited as the receiving agent in Hong Kong (the “Receiving Agent”) and will pay to such Receiving Agent the final dividends declared for payment to holders of H Shares. The final dividends will be paid on or about 31 July 2014 and will be despatched to holders of H Shares who are entitled to receive such dividend by ordinary post and at their own risk.

#### 6.25 Publication of annual report

The Bank has prepared its annual report under IFRS and Hong Kong Listing Rules in both Chinese and English languages. The annual report can be found on the website of the Hong Kong Stock Exchange and the Bank’s website. If there is any inconsistency between the English and Chinese annual reports, the Chinese version prevails.

#### 6.26 Charity donation

In 2013, the Bank has launched “Stock Code Balloting for Charity Scheme” via Hong Kong Exchanges and Clearing Limited. A donation of HKD1 million was made to the Community Chest of Hong Kong.



### 6.27 Change in paid-up capital

On 12 November 2013, the Bank conducted the initial public offer of H Shares. Such shares were listed on the Hong Kong Exchange. After exercising all of the over allotment options, the Bank totally offered 2,875 millions of shares. The registered capital was increased by RMB2,875 millions, from RMB8,174,819,283 to RMB11,049,819,283. The Bank completed the formalities for the registration of change in paid-in capital and filling with the industry and commerce authorities on 26 February 2014.

### 6.28 Sufficient public support of share volume

Based on the public information that the Bank obtained and the knowledge of the Board of Directors, the Bank holds sufficient public support of share volume before and after the reporting date which is regulated by the Hong Kong Stock Exchange.

### 6.29 Tax deduction

According to “Notice on the collection of personal income tax after the expiration of National Tax Bureau Notice No. 45” (Guo shui han [2011] No. 348), the responsible party should withhold overseas individual shareholders’ dividend income deriving from non-foreign funded companies. However, the overseas individual shareholders who receive dividend income deriving from H shares of non-foreign funded companies may enjoy tax deduction based on the double tax arrangements between the countries of their tax residency and China and the double tax arrangement between mainland China and Hong Kong (Macau).

Based on the above regulation, the Bank will withhold personal income tax based on 10% tax rate for the H shareholders. However, when other relevant tax regulations and tax arrangements have different requirements, the Bank will follow the requirement of the tax bureau.

The Bank will withhold 10% corporate tax for those non-resident corporate shareholders based on “the Law of the People’s Republic of China on Enterprise Income Tax” and relevant implementation rules which are effective since 1 January 2008.

If the H shareholders have any queries regarding the above tax arrangements, please consult your tax consultants regarding the tax impacts in China, Hong Kong and other countries (regions) for holding and selling the Bank’s H shares.

By order of the Board  
*Chairman*  
**Li Hongming**

26 March 2014

# Changes in Share Capital and Particulars of Shareholders

## 7.1 Changes in Shares of the Bank during the reporting period

	1/1/2013		Increase during the reporting period	12/31/2013	
	Number of shares	Percentage (%)	Number of shares	Number of shares	Percentage (%)
<b>Shares subject to selling restrictions</b>					
Domestic Shares	8,174,819,283	100.00	(287,500,000)	7,887,319,283	71.38
<b>Shares not subject to selling restrictions</b>					
Overseas listed foreign investment shares (H shares)	—	—	3,162,500,000	3,162,500,000	28.62
<b>Total number of shares</b>	<b>8,174,819,283</b>	<b>100.00</b>	<b>2,875,000,000</b>	<b>11,049,819,283</b>	<b>100.00</b>

Note:

- As at the end of the reporting term, the Bank had 19,014 shareholders, including 2,693 shareholders of H Shares and 16,321 shareholders of Domestic Shares.
- According to the Approval Concerning the Equity Management and Transfer of Domestic Shares of Huishang Bank Corporation Limited (Guo Zi Chan Quan [2013] No. 714) 《關於徽商銀行股份有限公司國有股權管理及國有股轉持有關問題的批覆》(國資產權[2013]714號) issued by the State-owned Assets Supervision and Administration Commission of the State Council, and the Letter in relation to the Transfer of Domestic Shares of Huishang Bank Corporation Limited to the National Council for Social Security Fund of the PRC upon its Listing in Hong Kong (She Bao Ji Jin Fa [2013] No. 129) 《社保基金會關於徽商銀行股份有限公司香港上市國有股減轉持有關問題的函》(社保基金發[2013]129號), 80 state-owned shareholders including Anhui Guoyuan Holding (Group) Company Ltd., Anhui Energy Group Company Ltd., Anhui Credit Guaranty Group Company Ltd., reduced their state-owned shares by transfer of an aggregate of 157,809,000 shares to the National Council for Social Security Fund of the PRC, and transferred the funds obtained from the sale of 129,691,000 state-owned shares to the designated account of the National Council for Social Security Fund of the PRC.
- Shares subject to selling restrictions means shares that are subject to selling restrictions by requirements of laws and regulations.
- Based on the public information available and as far as the Directors are aware, as at 31 December 2013, the Bank had met the public float requirement of the Hong Kong Listing Rules.

## Changes in Share Capital and Particulars of Shareholders (Continued)

### 7.2 Information on shareholdings of the top ten shareholders

No.	Name of shareholder	Nature of shareholder	Shares held at the end of the reporting period (share)	Percentage of total share capital (%)	Type of share	Share change in the reporting period (share)	Number of shares subject to selling restrictions (share)	Number of shares pledged or frozen (share)
1	HKSCC Nominees Limited <sup>1</sup>	—	3,156,460,000	28.57	H Share	3,156,460,000	—	—
2	Anhui Guoyuan Holding (Group) Company Ltd. <sup>2</sup>	State-owned enterprise	794,476,206	7.19	Domestic Share	(44,607,702)	794,476,206	—
3	Anhui Energy Group Company Ltd.	State-owned enterprise	766,694,381	6.94	Domestic Share	(50,620,194)	766,694,381	—
4	Anhui Credit Guaranty Group Company Ltd.	State-owned enterprise	752,416,446	6.81	Domestic Share	(49,677,508)	752,416,446	—
5	Anhui Highway Holding Group Company Ltd.	State-owned enterprise	469,032,613	4.24	Domestic Share	(30,967,387)	469,032,613	—
6	Zhongjing Sihai Company Ltd.	Domestic non-state-owned enterprise	444,696,160	4.02	Domestic Share	—	444,696,160	193,866,700
7	Hefei Xingtai Holding Group Company Ltd.	State-owned enterprise	343,591,483	3.11	Domestic Share	(20,895,664)	343,591,483	185,700,000
8	Wuhu Construction Investment Company Ltd.	State-owned enterprise	267,284,394	2.42	Domestic Share	(16,255,016)	267,284,394	—
9	CCB Trust Company Ltd.	State-owned enterprise	225,548,176	2.04	Domestic Share	—	225,548,176	—
10	Xiuning Xinhua Asset Investment Management Company Ltd.	Domestic non-state-owned enterprise	204,346,570	1.85	Domestic Share	—	204,346,570	100,000,000

Note:

1. Shares held by HKSCC Nominees Ltd. are the total shares in the accounts of holders of H Shares of the Bank trading on the transaction platform of HKSCC Nominees Ltd.
2. The shareholding of Anhui Guoyuan Holding (Group) Company Ltd. takes into account the shares of the Bank held by its subsidiaries, Anhui Guoyuan Ma'anshan Asset Management Company Ltd., Anhui Guoyuan Trust Company Ltd. and Guoyuan Securities Company Ltd.

## Changes in Share Capital and Particulars of Shareholders (Continued)

### 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 Bank) had interests and short positions in the shares of the Bank as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO (chapter 571 of the Laws of Hong Kong):

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Percentage of the relevant class of shares in issue (%)	Percentage of all issued shares (%)	Notes
Anhui Guoyuan Holding (Group) Company Ltd.	Domestic Share	Long	Interest of controlled corporation	149,087,330	1.89	1.35	1
	Domestic Share	Long	Beneficial owner	645,388,876	8.18	5.84	
Anhui Energy Group Company Ltd.	Domestic Share	Long	Beneficial owner	766,694,381	9.72	6.94	4
Anhui Credit Guaranty Group Company Ltd.	Domestic Share	Long	Beneficial owner	752,416,446	9.54	6.81	
Anhui Highway Holding Group Company Ltd.	Domestic Share	Long	Beneficial owner	469,032,613	5.95	4.24	
Zhongjing Sihai Company Ltd.	Domestic Share	Long	Beneficial owner	444,696,160	5.64	4.02	
China Vanke Co., Ltd	H share	Long	Interest of controlled corporation	883,986,000	27.95	8.00	2
Wkland Finance Holding Company Limited	H share	Long	Beneficial owner	511,140,000	16.16	4.63	2
Wkland Finance Holding II Company Limited	H share	Long	Beneficial owner	372,846,000	11.79	3.37	2
Sunshine Insurance Group Corporation Limited	H share	Long	Interest of controlled corporation	503,722,000	15.93	4.56	3
Sunshine Life Insurance Corporation Limited	H share	Long	Beneficial owner	503,722,000	15.93	4.56	3
Anhui Energy Group Company Ltd.	H share	Long	Interest of controlled corporation	280,000,000	8.85	2.53	4

Note:

- The shareholding of Anhui Guoyuan Holding (Group) Company Ltd. takes into account the shares of the Bank held by its subsidiaries, Anhui Guoyuan Ma'anshan Asset Management Company Ltd., Anhui Guoyuan Trust Company Ltd. and Guoyuan Securities Company Ltd.
- China Vanke Co., Ltd was deemed to hold interests in a total of 883,986,000 H shares (long position) in the Bank by virtue of its control over the following corporations, which held direct interests in the Bank:
  - Wkland Finance Holding Company Limited held 511,140,000 H shares in the Bank. Wkland Finance Holding Company Limited is the indirectly-controlled wholly-owned subsidiary of China Vanke Co., Ltd.
  - Wkland Finance Holding II Company Limited held 372,846,000 H shares (long position) in the Bank. Wkland Finance Holding II Company Limited is the indirectly-controlled wholly-owned subsidiary of China Vanke Co., Ltd.

## Changes in Share Capital and Particulars of Shareholders (Continued)

3. Sunshine Life Insurance Corporation Limited held 503,722,000 H shares (long position) of the Bank. Sunshine Life Insurance Corporation Limited is the directly-controlled subsidiary of Sunshine Insurance Group Corporation Limited. As such, Sunshine Insurance Group Corporation Limited was deemed to be interested in the shares held by Sunshine Life Insurance Corporation Limited.
4. Xing An Holdings Limited held 280,000,000 H shares (long position) of the Bank. Xing An Holdings Limited is the directly-controlled wholly-owned subsidiary of Anhui Energy Group Company Ltd. As such, Anhui Energy Group Company Ltd. was deemed to be interested in the shares held by Xing An Holdings Limited.

Save as disclosed above, the Bank 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 Bank) having any interests or short positions in the shares and underlying shares of the Bank as at 31 December 2013 as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

### 7.4 Information on the largest shareholder of the Bank

Anhui Energy Group Company Ltd. is the largest shareholder of the Bank, directly holding 766,694,381 Domestic Shares and indirectly holding 280,000,000 H Shares through its wholly-owned subsidiary Xing An Holdings Limited, thus holding a total of 1,046,694,381 shares of the Bank, which accounts for 9.47% of the total issued share capital of the Bank. The company was established in Hefei, Anhui Province on 9 April 1990, has a registered capital of RMB4.232 billion, and its legal representative is Mr Zhang Feifei. The company is a wholly state-owned company, and its principal business scope includes: engaging in management of state-owned assets of its wholly-owned subsidiary and its jointly-controlled entities; the investment, construction, production and operation, management of coal and other energy sources, and the exploration of raw materials for related investment projects.

There is no controlling shareholder or actual controller of the bank.

### 7.5 Information on other shareholders holding over 5% of the shares of the Bank

- 7.5.1 China Vanke Co., Ltd. is a listed company, holding 883,986,000 H Shares which accounts for 8.00% of the total issued share capital of the Bank. Established in Shenzhen on 30 May 1984, China Vanke Co., Ltd. has a registered capital of RMB10,995,210,218 and its legal representative is Mr Wang Shi. The company specializes in real estate development, industrial projects, domestic commercial, supply and marketing of materials, and import and export trades.
- 7.5.2 Anhui Guoyuan Holding (Group) Company Ltd. is a wholly state-owned company, directly holding 645,388,876 Domestic Shares, and indirectly holding 149,087,330 Domestic Shares through its subsidiaries Anhui Guoyuan Ma'anshan Asset Management Company Ltd., Anhui Guoyuan Trust Company Ltd. and Guoyuan Securities Company Ltd. The Company held 794,476,206 Domestic Shares, which accounts for 7.19% of the total issued share capital of the Bank. The Company was established in December 2000 in Hefei, Anhui Province, and has a registered capital of RMB3 billion. Its legal representative is Mr Guo Shigang. Its business scope includes: management of all of the state-owned assets and shares of the company and its holding company as authorised by the government, capital operation, capital management, mergers and acquisitions, asset restructuring and investment consulting.



## Changes in Share Capital and Particulars of Shareholders (Continued)

7.5.3 Anhui Credit Guaranty Group Company Ltd. is a wholly state-owned company, holding 752,416,446 Domestic Shares, which accounts for 6.81% of the total issued share capital of the Bank. The company was established in November 2005, Hefei Anhui Province, has a registered capital of RMB4.186 billion, and its legal representative is Mr Qian Zheng. Its principal business scope includes: provision of guarantees for SMEs and re-guarantees for guarantee institutions, project investment, capital operation, asset management and consulting, credit rating, financial and business consulting.

### 7.6 Issue and listing of shares

The Bank obtained the Approval of the Issue of Overseas Foreign Shares of Huishang Bank Corporation Limited (Zheng Jian Xu Ke [2013] No. 1295) on 11 October 2013 from the CSRC and upon the approval of the Hong Kong Stock Exchange, the Bank issued 2,875,000,000 new H Shares, and the shareholders of state-owned shares sold 129,691,250 state-owned shares, at the issue price of HKD3.53 per share. The H shares which were fully paid have been in circulation since 12 November 2013, and the state-owned shares sold by the state-owned shareholders and transferred to the National Council for Social Security Fund of the PRC, amounting to 287,500,000 H shares have been in circulation after completion of the over-allotment option.

### 7.7 Issuance of bonds

Upon the approval of the CBRC and the PBOC, the Bank issued RMB5 billion SME financial bonds on 19 March 2013, which contained 2 types. The first type was five-year fixed rate bonds, with an issuance size of RMB2.2 billion and an annual coupon rate of 4.50%. The second type was three-year fixed rate bonds, with an issuance size of RMB2.8 billion and an annual coupon rate of 4.30%. As at 31 December 2013, the proceeds raised from the issuance of the financial bonds were fully used to support SME financings.

Subject to the approval of the fourth meeting of the third session of the Board of Directors of the Bank, the approval of the 2013 annual general meeting of the Bank, and the approvals from the relevant regulatory authorities, the Bank will offer to members of the China national inter-bank bond market financial bonds used for loans for agricultural businesses in an aggregate principal amount of RMB6 billion to RMB8 billion, with a term of maturity of not less than 3 years, and the interest rates of which shall be determined with reference to market interest rates and the method of issue. The bonds will not be listed on the Hong Kong Stock Exchange.

# Profile of Directors, Supervisors, Senior Management and Employees

## 8.1 Directors, Supervisors and Senior Management

Name	Gender	Date of Birth	Age	Position Held	Term of Office	The remuneration from the Bank during the reporting period before tax (in ten thousands of RMB)
Li Hongming	Male	September, 1957	56	Chairman, executive director	2013.7.10.– 2016.7.10.	96.5
Xu Demei	Female	November, 1956	57	Vice Chairman, Executive Director	2013.7.10.– 2016.7.10.	146.8
Wu Xuemin	Male	February, 1968	46	President, Executive Director	2013.7.10.– 2016.7.10.	176.2
Zhang Renfu	Male	March, 1962	52	Executive Director	2013.7.10.– 2016.7.10.	146.7
Ci Yaping	Male	May, 1959	54	Vice President, Executive Director	2013.7.10.– 2016.7.10.	147.8
Zhang Feifei	Male	May, 1959	54	Non-Executive Director	2013.7.10.– 2016.7.10.	
Qian Zheng	Male	October, 1953	60	Non-Executive Director	2013.7.10.– 2016.7.10.	
Guo Shigang	Male	August, 1956	57	Non-Executive Director	2013.7.10.– 2016.7.10.	
Wu Tian	Male	October, 1964	49	Non-Executive Director	2013.7.10.– 2016.7.10.	
Gao Yang	Male	June, 1966	47	Non-Executive Director	2013.7.10.– 2016.7.10.	
Dai Genyou	Male	January, 1950	64	Independent Non Executive Director	2013.7.10.– 2016.7.10.	12.5
Wang Shihao	Male	December, 1951	62	Independent Non Executive Director	2013.7.10.– 2016.7.10.	10
Zhang Shenghuai	Male	June, 1962	51	Independent Non Executive Director	2013.7.10.– 2016.7.10.	12.5
Wen Jinghui	Male	April, 1970	43	Independent Non Executive Director	2013.7.10.– 2016.7.10. <sup>Note</sup>	11.3
Au Ngai, Daniel	Male	October, 1968	45	Independent Non Executive Director	2013.7.10.– 2016.7.10.	10
Zhang Zhen	Male	October, 1955	58	Chairman of the Board of Supervisors	2013.7.10.– 2016.7.10.	146.5
Xu Chongding	Male	November, 1957	56	Supervisor, Chairman of Labor Union	2013.7.10.– 2016.7.10.	128.2

## Profile of Directors, Supervisors, Senior Management and Employees (Continued)

Name	Gender	Date of Birth	Age	Position Held	Term of Office	The remuneration from the Bank during the reporting period before tax (in ten thousands of RMB)
He Tao	Male	September, 1969	44	Supervisor, General Manager of Compliance Department	2013.7.10.– 2016.7.10.	38.6
Cheng Rulin	Male	August, 1963	50	Supervisor	2013.7.10.– 2016.7.10.	
Wu Guozhong	Male	October, 1964	49	Supervisor	2013.7.10.– 2016.7.10.	
Cheng Hong	Male	March, 1966	48	Supervisor	2013.7.10.– 2016.7.10.	
Cheng Junpei	Female	October, 1963	50	External Supervisor	2013.7.10.– 2016.7.10.	10
Fan Libo	Male	September, 1964	49	External Supervisor	2013.7.10.– 2016.7.10.	9
Pan Shujuan	Female	October, 1955	58	External Supervisor	2013.7.10.– 2016.7.10.	7
Wang Guisheng	Male	December, 1954	59	Vice President	2013.7.10.– 2016.7.10.	146.7
Gao Guangcheng	Male	January, 1964	50	Vice President	2013.7.10.– 2016.7.10.	147.8
Zhang Youlin	Male	October, 1965	48	Vice President	2013.7.10.– 2016.7.10.	146.6
Yi Feng	Male	August, 1963	50	Assistant President	2013.7.10.– 2016.7.10.	129.9
Yan Dongshun	Male	August, 1963	50	Assistant President	2013.7.10.– 2016.7.10.	129.6
Hu Dongdong	Male	December, 1964	49	Secretary of the Board of Directors	2013.7.10.– 2016.7.10.	130.2
Xia Min	Male	April, 1971	42	Assistant President	2013.7.10.– 2016.7.10.	129.8
Liu Ming	Male	May, 1957	56	Chief Executive Officer	2013.7.10.– 2016.7.10.	129.6

Note: With reference to the announcement dated 16 April 2014, Mr. Wen Jinghui's duties as independent non-executive director and member of the committees of the Board of Directors was terminated on 15 April 2014.

### 8.2 Appointment and resignation during the reporting period

During the reporting period, Mr. Wang Xiaoxin has completed his term of appointment and resigned from the position as chairman, executive director and members of respective committees of the Board of Directors. Mr. Wu Xiaoqiu has completed his term of appointment and resigned from his position as non-executive director and member of respective committees of the Board of Directors. Based on the resolution passed during the Second Board of Directors' fifteenth meeting and the First extraordinary general meeting in 2013, Mr. Li Hongming has been appointed as executive director of the Third Board of Directors. Mr. Au Ngai, Daniel has been appointed as non-executive director of the Third Board of Directors. Mr. Li Hongming and Mr. Au Ngai, Daniel's appointments have been approved by the regulatory authorities. The term of office is the same as the term of the Third Board of Directors. According to the election during the First meeting by the Third Board of Directors, Mr. Li Hongming has been appointed as chairman of the Third Board of Directors and the term of office is the same as the term of the Third Board of Directors.

During the reporting period, Mr. Gao Tongguo has resigned from the Board of Supervisor and member of respective committees of the Board of Supervisors. Mr. Fan Xiaohui has completed his term of office and resigned from the position as employee supervisor and member of respective committee of the Board of Supervisors. Based on the resolution passed during the Second Board of Supervisor's fifteenth meeting and the first extraordinary general meeting in 2013, Mr. Cheng Rulin has been appointed as Supervisor of the Third Board of Supervisors. Ms. Pan Shujuan has been appointed as external supervisor of the Third Board of Supervisors. The term of office is the same as the term the Third Board of Supervisors. Based on the resolution passed during the Second Board of Supervisor's fifteenth meeting and the general election by the employee representatives, Mr. He Tao has been appointed as employee supervisor of the Third Board of Supervisors.

### 8.3 Directors, Supervisors and Senior Management

#### Directors

**Mr. Li Hongming** is an executive Director and chairman of the Bank. Mr. Li joined in July 2013 as an executive Director and chairman. Mr. Li's primary working experiences include: the first class inspector and then deputy head of the policy research division under the policy research office of the Anhui Provincial CPC Committee, deputy head of the production system division and head of the enterprises system division of the Anhui Provincial System Reform Commission, deputy director and director of the Development Research Center of Anhui Provincial Government, deputy secretary-general of the Anhui Provincial Committee of CPC and director of its policy research, deputy secretary of the Huangshan Municipal CPC Committee, mayor and secretary of the CPC Committee of Huangshan Municipal Government, director of the Management Committee of Huangshan Scenic District, secretary of the Suzhou Municipal Committee of CPC, director of the Standing Committee of the Suzhou Municipal People's Congress, and the first secretary of the Party Working Committee of Suzhou Ma'anshan Modern Industrial Park. Mr. Li obtained a bachelor's degree in automation from Hefei University of Technology and a research master's degree program in principles of Marxism as offered by the University of Science and Technology of China, and studied in the University of Maryland in the United States of America as a visiting scholar from February 1998 to August 1998.



**Ms. Xu Demei**, is an executive Director and a vice chairman of the Bank. Ms. Xu has over 35 years' working experience in the financial industry and joined in 2005 as a vice chairman and an executive Director. Her primary working experiences include: vice president of Fanchang County Sub-branch of Agricultural Bank of China, president of Fanchang County Sub-branch of Agricultural Bank of China, vice president of Wuhu Branch of Agricultural Bank of China, vice president of the Ma'anshan Branch of Agricultural Bank of China, chairman of the board of directors and president of Ma'anshan City Commercial Bank, and vice secretary-general of the Ma'anshan Municipal People's Government. Ms. Xu, Senior Economist, obtained a bachelor's degree in economic management from the Correspondence College of Party School of the Central Committee of CPC.







**Mr. Wu Xuemin** is an executive Director and president of the Bank. Mr. Wu has over 17 years' working experience in the financial industry and joined in October 2010 as the executive Director. His primary working experiences include: deputy director of the newspaper and theories department of China Construction Bank, deputy director of the office of the board of directors and the administrative office of China UnionPay Co., Ltd., general manager of the Anhui Branch of China UnionPay Co., Ltd., general manager of the strategic development department as well as the legal and compliance department of China UnionPay Co., Ltd.. Mr. Wu, Senior Economist, obtained a master's degree in economics from Renmin University of China and a master of business administration degree for senior management from Fudan University.



**Mr. Zhang Renfu** has been an executive Director of the Bank since December 2005. His primary working experiences include: deputy director of the liaison division of the general office of Anhui Provincial Government, researcher at the third division of the secretariat of the general office of Anhui Provincial Government, deputy director of the fifth division of the general office of Anhui Provincial, deputy director of the secretariat and then deputy director of the second division of the secretariat of the general office of Anhui Provincial, the deputy director in charge of the work of the finance office of Anhui Provincial Government. Mr. Zhang, Senior Economist, obtained a master's degree of laws from Renmin University of China.



**Mr. Ci Yaping** is an executive Director and vice president of the Bank. Mr. Ci has over 33 years' working experience in the financial industry and joined in December 2005 and has been the vice president ever since. His primary working experiences include: vice president of Anqing Branch of the Bank of Communications, chairman of the board of directors and president of Anqing City Commercial Bank. Mr. Ci graduated from the Correspondence College of Party School of the Anhui Provincial Committee of CPC with a bachelor's degree in economic management, and obtained the qualification of economist.

## Profile of Directors, Supervisors, Senior Management and Employees (Continued)

**Mr. Zhang Feifei** is a non-executive Director of the Bank. Mr. Zhang joined in April 2012 as the non-executive Director. His primary working experiences include: deputy director and then director of Anhui Provincial System Reform Commission, mayor of Feixi County, Anhui Province, deputy mayor and member of the standing committee of the government and then first deputy mayor of Huaibei, Anhui Province, member of the standing committee of the government, first deputy mayor and then mayor of Chaohu, Anhui Province, chairman of the board of directors of Anhui Energy Group Co., Ltd., chairman of the board of directors of Anhui Province Wenergy Company Limited, Mr. Zhang obtained a master's degree in management from University of Science and Technology of China.

**Mr. Qian Zheng** is a non-executive Director of the Bank. Mr. Qian has over 20 years' working experience in the financial industry and joined in December 2009 as a non-executive Director. His primary working experiences include: secretary and section chief of the general office of Anhui CPC Committee, deputy director and then director of the general office of Anhui People's Congress, deputy general manager of Anhui Trust and Investment Company, chairman of the board of directors of Anhui Innovation and Investment Company and general manager of Anhui Credit Guaranty Group Co., Ltd.. Mr. Qian obtained a bachelor's degree in economics from Anhui University and the qualification of senior economist.

**Mr. Guo Shigang** is a non-executive Director of the Bank. Mr. Guo has over 18 years' working experience in the financial industry and joined in December 2009 as a non-executive Director. His primary working experiences include: inspector (at deputy) of the integrated division of the administrative office of Anhui CPC Committee, secretary to the secretary-general of Anhui CPC Committee, assistant to the general manager and then deputy general manager of Anhui International Trust and Investment (Group) Co., Ltd., deputy general manager of Anhui Guoyuan Holding (Group) Co., Ltd. and general manager and chairman of the board of Anhui Guoyuan Trust and Investment Co., Ltd., general manager of Anhui Huangshan (Hong Kong) Co., Ltd., general manager of Anhui Guoyuan Holding (Group) Co., Ltd. and chairman of the board of directors of Anhui Guoyuan Trust Co., Ltd.. Mr. Guo obtained a bachelor's degree in literature from the Chinese Faculty of Anhui University.

**Mr. Wu Tian** is a non-executive Director of the Bank. Mr. Wu joined in December 2009 as a non-executive Director. His primary working experiences include: assistant researcher and researcher of the first division of the secretariat, director of the third department and deputy director (at director level) of the second division of the administrative office of the government of Anhui Province, deputy general manager and general counsel of Anhui Expressway Holding Group Co., Ltd. (formerly known as Anhui Highway Company), director, deputy general manager and general counsel of that company since then. Mr. Wu obtained a master's degree in engineering from Zhejiang University.

## Profile of Directors, Supervisors, Senior Management and Employees (Continued)

**Mr. Gao Yang** is a non-executive Director of the Bank. Mr. Gao joined in December 2009 as a non-executive Director. Mr. Gao was once chairman of the board of directors of China Strategic Holdings Limited, and now Mr. Gao is chairman of the board of Zhongjing Industry (Group) Co., Ltd., chairman of the board of directors of Zhongjing Sihai Company Ltd., director of Beijing Automobile Investment Company, director of Guilin Automobile Industrial Group Company Ltd., director of Beijing Automobile Co. Ltd., director of Mudanjiang Futong Automotive Air Conditioning Co., Ltd, and chairman of the board of directors of Guoshenghuaxing Investment Co., Ltd. Mr. Gao Yang studied hotel management at Meini Vocational School in Vienna from March 1985 to March 1987 as an auditing student.

**Mr. Au Ngai Daniel** is an independent non-executive Director of our Bank. Mr. Au joined us in July 2013 as our independent non-executive Director. Mr. Au once worked for A.T. Kearney Inc. in the United States and Bankers Trust Company. His other primary working experiences include: vice president, director, managing director and then partner of Newbridge Capital Limited and served as a director of Shenzhen Development Bank Co., Ltd. (currently known as PingAn Bank Co., Ltd.). Mr. Au was involved in the establishment of the Bohai Industrial Investment Fund and was the chief executive officer of that fund. He established Star Capital Partners Limited in March 2010, which is engaged in businesses such as fund management and financial advisory services for financing and merger and acquisition. Mr. Au obtained a Master in Business Administration from McGill University in Canada.

**Mr. Dai Genyou** is an independent non-executive Director of the Bank. Mr. Dai has over 38 years' working experience in the financial industry, including over 25 years of experience in management. Mr. Dai joined our Bank in October 2010 as our independent non-executive Director. His primary working experiences include: vice president of Anqing Branch of the PBOC, and then division head of the first economic analysis division of investigation and research office of the PBOC, and then division head of the economic analysis division and then the deputy director of investigation and statistics department of the PBOC., then the director of the monetary policy department and secretary general of monetary policy committee of the PBOC, director of the credit management department of the PBOC and director of the credit management center of the PBOC. Mr. Dai has been an independent non-executive director of Shanghai Zhangjiang Hi-Tech Park Development Co., Ltd, Haitong securities company Ltd and outside supervisor of agriculture bank of china. Mr. Dai obtained a bachelor's degree in political economy from Anhui Laodong University (the predecessor of Anhui University). Mr. Dai obtained the qualification of senior economist as accredited by PBOC, and was honored as an expert with special allowances from the State Council in October 2000.

## Profile of Directors, Supervisors, Senior Management and Employees (Continued)

**Mr. Wang Shihao** is an independent non-executive Director of the Bank. Mr. Wang joined us in October 2011 as our independent non-executive Director. Mr. Wang has over 34 years' working experience in the financial industry. His primary working experiences include: clerk, chief, deputy director and director of Shanghai Branch of the PBOC, director of Shanghai Urban Credit Cooperatives, vice president of Shanghai Bank, director of City Commercial Bank Clearing Centre, non-executive independent director of Shanghai JinFeng investment company Ltd. He is also the visiting professor of National Accounting Institute, Shanghai Jiao Tong University, Fudan University and Shanghai University of Finance and Economics, and a special expert for policy decision of Shanghai Government since March 2008. Mr. Wang obtained a master's degree in economics from East China Normal University in February, a master of business administration certificate jointly granted by Shanghai Jiao Tong University and University Konstanz in Germany, as well as an executive master of business administration certificate from Shanghai National Accounting Institute and a master of business administration degree from The University of Arizona in the United States. Mr. Wang obtained the qualification of senior economist as accredited by the Head Office of the PBOC.

**Mr. Zhang Shenghuai** is an independent non-executive Director of our Bank. Mr. Zhang joined us in October 2011 as our independent non-executive Director. Mr. Zhang was once the commissioner of the ninth session of the Public Offering Review Committee of CSRC. Mr. Zhang is now the senior partner of TianYin layer company Ltd, also be an independent director of Beijing Haohua Energy Resources Co., Ltd., an independent director of Beijing Trust & Far Technology Co., Ltd. Mr. Zhang obtained doctoral degree of law from Renmin University of China. Mr. Zhang obtained a lawyer's qualification from the Ministry of Justice of the People's Republic of China.

**Mr. Wen Jinghui** is an independent non-executive Director of our Bank. Mr. Wen joined us in October 2011 as our independent non-executive Director. His primary working experiences include: director partner and deputy general manager of Reanda Certified Public Accountants. Mr. Wen was also an independent director of Sinodata Co., Ltd., an independent director of Yonyou Software Co., Ltd., an independent director of Xinyu Iron & Steel Co., Ltd, and an independent director of Jiangsu Wuzhong Industrial Co., Ltd.. Mr. Wen obtained a bachelor's degree in Beijing Institute of Technology. Mr. Wen obtained the qualification of certified accountant from The Chinese Institute of Certified Public Accountants. With reference to the announcement dated 16 April 2014, Mr. Wen Jinghui's directorship in the Bank was terminated on 15 April 2014.



### Supervisors



**Mr. Zhang Zhen** is the chairman of our Board of Supervisors and an employee representative Supervisor. Mr. Zhang joined us in December 2005 as the chairman of our Board of Supervisors. Mr. Zhang has over 34 years' working experience in the financial industry. His primary working experiences include: joined Sixian Sub-branch of Agricultural Bank of China as a credit clerk, vice president of Suxian District Branch of the PBOC, during which he was seconded to the Tibet Autonomous Region Branch of the PBOC as deputy director of its planning and saving department from August 1987 to August 1989 to support the construction of Tibet, vice president and then president of Huaibei Center Sub-branch of the PBOC, director of the bank administration department of Hefei Center Sub-branch of the PBOC and the ICBC Supervision department of the CBRC Anhui Office. Mr. Zhang obtained a bachelor's degree in economic management from the Correspondence College of Party School of the Central Committee of CPC, the qualification of economist from Anhui Branch of the PBOC and the qualification of senior economist from PBOC's Head Office.



**Mr. Xu Chongding** is the chairman of labor union and an employee representative Supervisor and the chairman of labor union of our Bank since April 2011. Mr. Xu has over 21 years' working experience in the financial industry. Mr. Xu once worked as the director of the personnel division of Hefei City United Bank, director of the personnel division of Hefei City Commercial Bank Corporation Limited and general manager of the human resources department of our bank. Mr. Xu obtained a bachelor's degree in physical education from Anhui Normal University.

**Mr. He Tao** is an employee representative Supervisor since July 2013. Mr. He has more than 21 years working experience in financial industry. He Tao once worked as president of Daoxianglou Sub-branch of Hefei Branch of our Bank, assistant to the general manager of the business department of our Head Office, vice president of Hefei Branch of our Bank, deputy general manager of the corporate banking department of our Bank and deputy general manager in charge of the work of the compliance department of our Bank. He got a bachelor's degree from the Correspondence Institute of Party School of the Central Committee of CPC, and a master's degree in economic management from the Correspondence Institute of Party School of the Central Committee of CPC. He obtained the qualification of economist.

**Mr. Cheng Rulin** is a shareholder representative Supervisor of our Bank since July 2013. His primary working experiences include: assistant to the director and deputy director of the Liaison Office in Beijing of Hefei Municipal Government, deputy director of the Key Project Office of Hefei Municipal Office, deputy director of the Comprehensive Investigation and Research Department of the Economic Restructuring Office of the State Council, chairman of Hefei Xingtai Assets Management Co., Ltd., vice president of Hefei Xingtai Holding Group Co., Ltd., president of Hefei Xingtai Holding Group Co., Ltd., director of Guoyuan Agricultural Insurance Co., Ltd. Mr. Cheng obtained a master's degree in management from the Australian National University.



## Profile of Directors, Supervisors, Senior Management and Employees (Continued)

**Mr. Wu Guozhong** is a shareholder representative Supervisor of our Bank since December 2009. His primary working experiences include: head of the finance department and the securities department, deputy general manager, board secretary, and then director of Tongling Nonferrous Metal Group Co., Ltd., and deputy chief accountant and head of the finance department of Tongling Nonferrous Metal Group Holding Co., Ltd. Mr. Wu obtained a master of business administration degree from Anhui College of Business Administration. Mr. Wu obtained the qualification of senior accountant.

**Mr. Cheng Hong** is a shareholder representative Supervisor of our Bank since December 2009. His primary working experiences include: lecturer of Anhui Construction Industry Institute, general manager of Shenzhen Decorative Art Co., Ltd., chairman of the board of Hefei Talli Decorative Art Co., Ltd, chairman of the board of Anhui Hengtai Real Estate Company Limited, chairman of the board of Anhui Hengtai Group Co. Ltd., chairman of the board of Tongling Maoyuan Investment Company, and chairman of the board of Nanxiang Hengtai (Suzhou) Logistics Industry Co., Ltd.. Mr. Cheng obtained EMBA degree in business management for executives from Cheung Kong Graduate School of Business and he is a senior engineer.

**Ms Cheng Junpei** is the outside supervisor of our bank since December 2012. Her working experience including: the acting general manager of a German subsidiary of Metro Group, general manager of Swiss DKSH (Shanghai) International Trade, deputy manager of Sinopharm Group Co., Ltd, general manager of TianYi consulting company Ltd and DeKangHang international trading Company Ltd. Now She is the general manager medicine logistics company Ltd. She got a master of business administration degree from Nyenrode Business University in the Netherlands.

**Mr. Fan Libo** is an external Supervisor of our Bank since December 2009. Mr. Fan joined us in December 2009 as our external Supervisor. His primary working experiences include: professor of the International Business School of University of International Business and Economics since and a tutor of doctoral students. Mr. Fan was also an executive deputy dean of the Haier Business School of University of International Business and Economics, and has served as deputy dean of the International Business School of University of International Business and Economics. Mr. Fan was granted the State Council Special Allowance he obtained a doctoral degree in economics with a major in international trade from the University of International Business and Economics.

**Ms. Pan Shujuan** is an external Supervisor of our Bank since July 2013. Her primary working experiences include: professor of Anhui University of Finance & Economics, vice dean and dean of the School of Finance of Anhui University of Finance & Economics, member of Academic Committee of Anhui University of Finance & Economics, member of educational committee, director of Professor Committee of the School of Finance of Anhui University of Finance & Economics, member of Professor Committee of the School of Finance of Anhui University of Finance & Economics, director of china financial engineering committee, member of Finance Professional Collaboration Team under the Higher Financial Education Branch of China Higher Education Association. She got bachelor degree in Anhui Institute of Finance and Trade.

### Senior Management

**Mr. Wu Xuemin** is an executive Director and president of our Bank. See “Directors” section in this chapter for details of his biography.

**Mr. Zhang Renfu** is an executive Director of our Bank. See “Directors” section in this chapter for details of his biography.



**Mr. Wang Guisheng** is a vice president of our Bank since December 2005. Mr. Wang has over 33 years’ working experience in the banking industry. His primary working experiences include: vice president of the Wuhu Branch of the ICBC, president of the Xuancheng Branch of the ICBC, director of the supervisory office of ICBC Anhui Branch, chairman of the board of Wuhu Commercial Bank. Mr. Wang obtained a master degree in Anhui College of Finance and Trade. He is also a senior economist.

**Mr. Ci Yaping** is an executive Director and a vice president of our Bank. Please refer to “Directors” section in this chapter for details of his biography.



**Mr. Gao Guangcheng** is a vice president of our Bank since January 2007. Mr. Gao has over 21 years’ working experience in the banking industry. His primary working experiences include: president of Huaihe Road Sub-branch of Hefei City Commercial Bank Corporation Limited, assistant to the president, vice president and then president of Hefei City Commercial Bank Corporation Limited, president of Hefei Branch of our Bank. Mr. Gao obtained a bachelor’s degree in economics with a major in industrial accounting from Anhui Institute of Finance and Trade and the qualification of senior economist and certified public accountant in China.

## Profile of Directors, Supervisors, Senior Management and Employees (Continued)

**Mr. Zhang Youqi** is a vice president of our Bank since May 2011. Mr. Zhang has over 28 years of experience in banking sector. His primary working experiences include: Anhui Branch of the PBOC, vice president of Hefei Sub-branch of China Everbright Bank, chairman of the board of directors of Tongling Urban Credit Cooperatives, and executive Director of our Bank, during which Mr. Zhang also served as president of the Tongling Branch of our Bank, general manager of the business department and the institutional management department of our Bank and secretary of the Board. Mr. Zhang obtained a bachelor's degree in economics from Anhui Institute of Finance and Trade, and a master of business administration degree from Anhui Institute of Business Administration. Mr. Zhang obtained the qualification of senior economist.



**Mr. Yi Feng** is an assistant to the president of the Bank and president of Hefei Branch since May 2011. Mr. Yi has over 14 years' working experience in the banking industry. His primary working experiences include: deputy director of the administration office of CCB Anhui Branch, president of CCB Huangshan Branch, director of the entrustment loan department of CCB Anhui Branch, general manager of the institution and investment banking department of CCB Anhui Branch, president of CCB Hefei Sanxiaokou Sub-branch, and president of CCB Hefei City West Sub-branch. Mr. Yi obtained a master's degree in arts from Xiamen University and obtained the qualification of senior economist.



**Mr. Yan Dongshun** is an assistant to the president of the Bank and general manager of corporate banking department since May 2011. Mr. Yan has over 30 years' working experience in the banking industry. His primary working experiences include: holding a position in Xiangfan Branch of Agriculture Bank of China, director of the administration office of Wuhan Branch of China Minsheng Banking Corporation, general manager of corporate departments and director of the administration office of Shenzhen Branch of China Minsheng Banking Corporation. Mr. Yan graduated from Central China Normal University with a master's degree in management.







**Mr. Hu Dongdong** is the secretary to the Board of the bank since April 2011 and has over 28 years' working experience in the banking industry. He held a position in Wuhu Branch of the PBOC and served as an assistant to president and then vice president of Wuhu City Commercial Bank later. Besides, he had been the head of the office of the Board and head of the office of the Board of Supervisors of the bank. Mr Hu obtained a master's degree in business administration for senior management from Shanghai University of Finance and Economics and the qualification of economist.



**Mr. Xia Min** is an assistant to the president of the Bank since December 2011 with nearly 20 years' working experience in the banking industry. His primary working experiences include: assistant to the president of Changjiang Middle Road Sub-branch of Hefei City United Bank, president of Xiaoyaojin Sub-branch of Hefei City Commercial Bank Corporation Limited, general manager of the fund and finance department of Hefei City Commercial Bank Corporation Limited, assistant to the president and vice president of Hefei City Commercial Bank Corporation Limited, general manager of the assets and liabilities department of the Bank. Mr. Xia obtained the doctoral degree in economics from Research Institute for Fiscal Science of the MOF.



**Mr. Liu Ming** is the chief administration officer and director of the general office. Mr. Liu joined in December 2005 as the president of Wuhu Branch and has over 18 years' working experience in the banking industry. He held a position in the administrative office of the planning committee of Wuhu City. He served as an assistant to the president of Wuhu Branch of CCB, and was then joined Wuhu City Commercial Bank where he acted as its vice president and president later. He served as the president of Wuhu Branch of the Bank and general manager of compliance department and chief administration officer of the Bank. Mr. Liu obtained a bachelor's degree in finance from Anhui University of Finance and Economics (formerly known as Anhui Finance and Trade College) and obtained the qualification of economist.

#### 8.4 The assessment incentive mechanism and annual remuneration of directors, supervisors and senior management

According to “Resolution on the remuneration of the independent directors of Second Board of Directors of Huishang Bank” and “Resolution on the remuneration of the external supervisor of Second Board of Supervisor of Huishang Bank”, the Bank provides remuneration to the independent directors and external supervisors. According to “Measures of Huishang Bank directors’ remuneration”, “Measures of Huishang Bank supervisors’ remuneration”, “Measures of Huishang Bank senior management’s remuneration”(2010), the Bank provides remuneration to executive directors, employee supervisors and senior management.

The non-executive directors and supervisors do not receive any remuneration from the Bank.

According to the “Provisional guidance on the supervision and assessment of the Board of Directors due diligence by the Board of supervisor of HuiShang Bank”, “Provisional guidance on the supervision and assessment of the senior management and its members due diligence by the Board of supervisor of HuiShang Bank” and “Provisional guidance on the due diligence of Board of supervisor of HuiShang Bank”, the Bank assess annually the due diligence of directors, supervisors and senior management.

During the reporting period, the Bank did not have any situation that the directors give up or agree to give up any remuneration, under item 24A of Appendix 16 of the Hong Kong Listing Rules, the details of the directors, supervisors and senior management’s remuneration stated in Clause 8.1 of the report. The top five highest paid individuals are listed in note 11 of the financial statements.

#### 8.5 Employee

As at 31 December 2013, the Bank had a total of 6,036 employees in service (include 1,372 workers dispatched by labour leasing companies). The composition of employees is as follows:

(a) Responsibilities:

	Management	1,146	18.99%
Responsibilities	Marketing	3,518	58.28%
	Supporting	1,372	22.73%

(b) Academic qualification

	Master qualification	470	7.79%
Academic qualification	Bachelor qualification	4,129	68.40%
	Diploma degree and below	1,437	23.81%

#### Remuneration Policy

The Bank’s remuneration policy aims to establish scientific, efficient, motivative control mechanisms for realization of shareholders value, the Bank and employees’ interest. The policy will stimulate stable operation and sustainable development. It is useful to meet the strategic objectives, enhancing competitiveness, retaining talent and managing risk. Following the principal of being “advanced, sustainable, compliant, timely, and practical”, under the framework, the Bank will take initiative and be creative, prioritize efficient operation and fairness.



## Profile of Directors, Supervisors, Senior Management and Employees (Continued)

The Bank manages remuneration through the Board, Head office and branches. The Board is responsible for the total amount of remuneration and senior management's remuneration. Under the board's request, the head office allocates the total amount of remuneration and draft policy management. All branches manage employee salary under the policy.

### Staff training plan

According to our development strategic and training programme, the Bank will develop and implement the annual training plan to support our training and enhance staff professionalism. During the reporting period, the Bank arranged various important training programmes such as senior management training programmes, trainings for talent reserve, trainings for managerial staff, trainings for associate financial planner, trainings for new joiners and new accountant training. The Bank is with knowledge management and the establishment of the internal instructor team. In 2013, the Bank conducted 650 line assembly training sessions, with a total enrolment of 44,105.

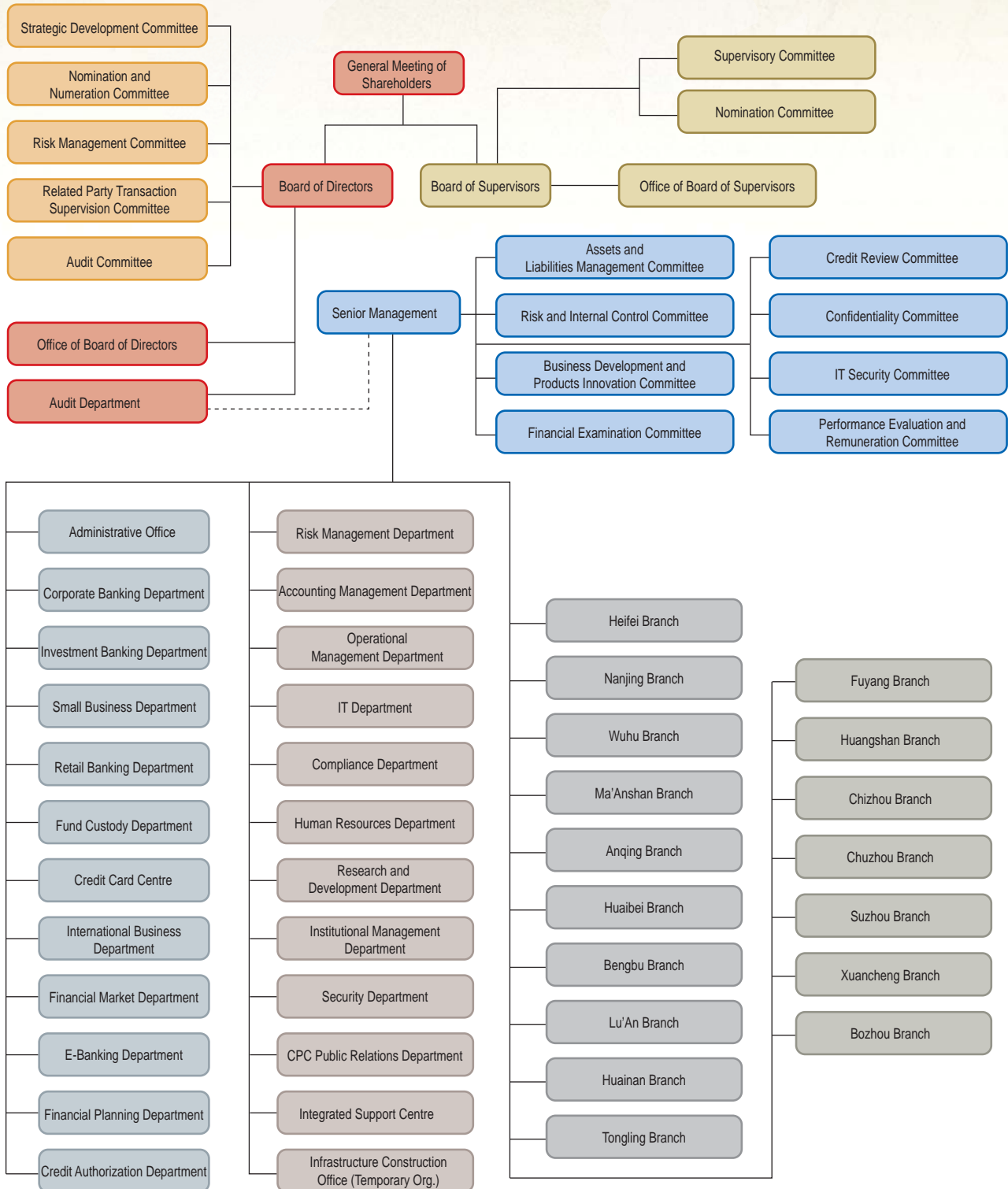
### 8.6 Branches

As at 31 December 2013, the composition of branches is as follows:

Region	Name of the Institution	Address	Postcode	Number of Branch
Head Office	Head Office	No. 79, Anqing Road, Heifei	230001	1
Anhui Province	Heifei Branch	No. 235, Anqing Road, Heifei	230001	42
	Wuhu Branch	No. 45, Beijingxi Road, Wuhu	241000	21
	Ma'an shan Branch	No. 75, Hunan Xi Road, Ma'Anshan	243000	17
	Anqing Branch	No. 528, Renmin Road, Anqing	246000	16
	Huaibei Branch	No. 282, Huaihai Road, Huaibei	235000	13
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	18
	Lu'an Branch	Kaixuan International Square, Meishan Nan Road, Lu'an	237000	13
	Huinan Branch	No. 39, Shungeng Xi Road, Huinan	232000	11
	Tonglin Branch	No. 999, Yanjiashan Road, Tonglin	244000	9
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	9
	Huangshan Branch	No. 39, Huangshan Xi Road, Huangshan	245000	4
	Chizhou Branch	No. 515, Changjiangzhong Road, Chizhou	247000	5
	Chuzhou Branch	No. 286, North Fengle Road, Chuzhou	239000	7
	Suzhou Branch	No. 32, Huaihaizhong Road, Suzhou	234000	6
	Xuancheng Branch	No. 1, West Aofeng Road, Xuancheng	242000	5
Bozhou Branch	No. 277, Plaza Xiangzhang, West Shaohua Road, Bozhou	236000	4	
Jiangsu Province	Nanjing Branch	No. 231, Zhongyan Road, Nanjing	210000	8

# Corporate Governance Report

## 9.1 Corporate Governance Structure



### 9.2 Corporate Governance

The Bank believes that to maintain high standards of corporate governance mechanisms and high quality corporate governance is one of the key factors to improve our core competitiveness and to build a modern commercial bank, therefore the Bank focuses on high quality of corporate governance, the best practice within both the domestic and international scope, to ensure the rights and interests of shareholders and improve the value of the enterprise.

The Bank established a relatively comprehensive corporate governance structure, clarifying the responsibilities of AGM, the Board of Directors, the Board of Supervisors and senior management, constantly improving the Bank's decision-making, execution and supervision mechanism, to ensure the independent operation and an effective check and balance.

The Bank's H shares are listed on the Hong Kong Stock Exchange on 12 November 2013. The Bank has complied with the Code of Corporate Governance and Corporate Governance Report set out in Appendix 14 of the Hong Kong Listing Rules. The Bank has also substantially complied with the recommended best practices set out therein.

The Bank incorporated the Code of Corporate Governance and Corporate Governance Report as set out in Appendix 14 of the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks into the Bank's governance structure and policies. It is especially reflected in the Bank's Articles of Association and the Rules of AGM, Board of Directors and special committees.

The Bank has also strictly complied with the management of insider information set by relevant laws and regulations and the Hong Kong Listing Rules.

The Bank will review the corporate governance and strengthen management constantly to comply with the Code of Corporate Governance and meet the higher expectations from the shareholders and investors.

#### The Board Diversity Policy

The Bank understands and believes that the diversity of the members of the Board of Directors could improve the performance of the Bank. It is critical to have a diversified Board of Directors in order for the Bank to support its strategic target and maintain good corporate governance.

In respect of appointing the Board of Directors, the Bank will consider the diversity of the members in several aspects including but not limited to gender, age, culture, education background, region, professional experience, skills, knowledge, service term and other regulatory requirements, etc.

The Board members were appointed in consideration of skills required for smooth operation of the Board and their rich experiences, based on the principle of the excellent skills. In addition, the Bank thoroughly considered the goals and requirements for having a diversified Board of Directors.

Members of the Board of Directors will be selected according to a series of diversification benchmarks including but not limited to gender, age, culture, education background, region, professional skills, and knowledge and service term. Eventually it will be decided according to the candidate's specialty and contributions made to the Board.

The Nomination and Remuneration Committee is responsible for reviewing the structure, name, and composition of the Board of Directors. In addition, the committee is supposed to make recommendations to the Board as to the size and structure of the Board of Directors considering the Bank strategic planning, business operations, asset size and equity investment structure and discuss and review the selection standard, the nomination and appointment process, and make recommendations to the Board of Directors, which will be approved by the Board of Directors.

This policy needs to be followed when the Nomination and Remuneration Committee of the Board make a recommendation about the candidates or a nomination. The committee is responsible for monitoring the execution of this policy and checking this policy at the appropriate time to ensure the policy is effective. Nomination and Remuneration Committee will discuss any amendments when necessary and make recommendations to the Board of Directors, which will be taken to be effective after the Board's approval.

This policy has been discussed and passed at the third meeting of the third session of Board of Directors.

### 9.3 General Meeting of Shareholders

During the reporting period, the Bank held 2 shareholders meeting, details are as follows:

1. On 16 April 2013, the Bank held the 2012 general meeting of shareholders in Hefei, discussed and approved the resolutions on 2012 work report of the Board of Directors, 2012 work report of the Board of Supervisors, 2012 annual report, 2012 annual financial budget report, 2012 annual profit distribution plan, proposal on appointment of external auditors in 2013, the Bank's issuance of H shares on the Hong Kong Stock Exchange, the Bank's conversion into a limited company obtaining financing from overseas, the Bank's plan of issuing H shares and capital investment and obtaining shareholders' approval to issue H shares during AGM, etc.



2. On 10 July 2013, the Bank held the first Extraordinary general meeting in Hefei, discussed and passed the resolution on approving the bank accumulated profits distribution plan before publicly issuing H shares and listing, the Bank's general authorisation of the issuance procedure, amending the Bank's Article of Association and the policies on AGM, Board of Directors' meeting and Board of Supervisors' meeting, electing the third session of Board of Directors, Board of Supervisors and external supervisors, etc.

The convening, notification, holding and voting procedures of the meeting are in compliance with the Company Law, other relevant laws and regulations in China and the relevant clauses of the Articles of Association of the Bank.

### 9.4 The Board of Directors

The Board of Directors is core to the corporate governance. The Bank's president takes the responsibility of the Bank under the leadership of the Board of Directors. The Board is the independent decision-making body, which is supposed to be responsible for implementing the resolution of the AGM, making the Bank's strategy, policy and development plan, deciding the operation plan, investment plan and the Bank's internal management setup, formulating the annual financial budget, final accounts and profit distribution plan, appointing the senior management. The senior management has the rights to making decision in daily operation independently and the Board of Directors will not interpose anything.

The Bank's Board of Directors emphasise the consistency between both external and internal policy making and the business operation, making the Board's decision more scientific and reasonable through the diversity, improving the Board's efficiency through the operation of the special committees. It adheres to grasp key points, direction and strategy in the aspect of Board operation. Constantly strengthened balanced, healthy and sustainable development concept, it is to ensure the rapid, sustainable and healthy development of the Bank through the effective management of the strategy, risk, capital, compensation and audit.

#### 9.4.1 The members of the Board of Directors

The Bank elects its directors based on the qualification requirements and election procedures set out in the Articles of Association. As of 31 December 2013, The Board of Directors consists of 15 Directors, including 5 executive directors, namely Mr. Li Hongming (chairman), Ms Xu Demei (vice chairman), Mr. Wu Xueming (president), Mr. Zhang Renfu, Mr. Ci Yaping, 5 non-executive directors, namely Mr. Zhang Feifei, Mr. Qianzheng, Mr. Guo Shigang, Mr. Wu Tian, Mr. Gao Yang; 5 independent non-executive directors, namely Mr. Dai Genyou, Mr. Wang Shihao, Mr. Zhang Shenghuai, Mr. Wen Jinghui, Mr. Au Ngai Daniel. The

number of directors and the composition of the Board are in compliance with relevant laws and regulations. The decision making, authorization and voting procedures strictly follow the relevant company policies and procedures. During the reporting period, the Board of Directors fulfilled its duties diligently, discussed all matters that were significant to the Bank's future development, improved the Board operation mechanism, strengthened the corporate governance framework, implemented organizational changes, facilitated prudent decision making, ensured financial stability and safeguarded the Bank and the shareholders' interests.

With reference to the announcement dated 16 April 2014, Mr. Wen Jinghui's directorship in the Bank was terminated on 15 April 2014.

#### 9.4.2 The appointment, re-election and removal of the directors

According to the Bank's Articles of Association, directors shall be elected or removed from office by shareholders at a general meeting. The term of office of a director shall be three (3) years, and a director may be re-elected and re-appointed upon expiry of their term of office. Subject to the relevant laws and administrative regulations, a director whose term of office has not expired may be removed by shareholders' ordinary resolution, without prejudice to any claim which may be instituted under any contract.

The term of service of non-executive directors and independent directors shall be the same as that of other directors of the Bank and may be re-elected and re-appointed upon the expiration of their term of office, provided that such term of office shall not be more than six (6) years on an accumulative basis.

The Bank directors' appointment, re-election and removal procedures are contained in the Articles of Association. The Nomination and Remuneration Committee is responsible for discussing and reviewing the qualification and experience of each candidate and recommend the suitable candidates to the Board of Directors. After the approval from the Board of Directors, it will be recommended for the further approval from the shareholders at a general meeting. Except for the individual independent non-executive directors who have to be treated for separately due to the expiration of office, the other new directors will be elected by general meeting at the expiration of the term for that Board session (each session has a term of three years), instead of being elected during the first general meeting after his/her appointment.

During the reporting period, the Bank successfully completed the change of session of the Board of Directors, Board of Supervisors and senior management.

### 9.4.3 The responsibility of the Directors

During the reporting period, all the Bank's directors are prudent and earnest, diligent to exercise their rights allowed under the domestic and overseas regulatory authority, spending enough time and effort to deal with the Bank's affairs, to ensure the Bank's operation complies with the requirement of national laws, administrative regulations and the requirements of national economic policies, treating all the shareholders equally, understanding the status of the bank business operation and management in a timely manner, implementing the laws and administrative regulations, departmental rules and other diligence obligations prescribed by the Articles of Association. This year, the average attendance rate of directors was more than 93.33%, which is satisfactory. The Board of Directors confirmed that they are responsible for the preparation of the financial statements for the year ended 31 December 2013.

The independent non-executive directors of the Bank make use of their respective professional expertise to provide professional and independent advices on the corporate governance, operation and management of the Company in various Board committees, including the Strategic Development Committee, Nomination Committee, Remuneration Committee, Risk Management Committee, Related Party Transaction Control Committee and Audit Committee, ensuring that scientific decision-making could be made by the Board of Directors.

The Bank also pays attention to the ongoing training of the directors, to make sure they have proper understanding of the operation and business and they understand the laws and regulations conferred by CBRC, CSRC, Hong Kong Stock Exchange and the Articles of Association. The Bank has bought the liability insurance for all the directors.

During the reporting period, the Bank has carried out the processes of the evaluating the Board of Directors and the directors' performance summary by the Board of Supervisors and independent non-executive directors and External supervisors' assessment with each other and presented the results to shareholders at the general meeting.

### 9.4.4 The Chairman and President

The role and responsibilities of the Bank's chairman and president are taken by different persons, with their respective responsibilities defined clearly and complying with the recommendations of the Hong Kong Listing Rules. Mr. Li Hongming, chairman of the Bank, leading and managing the Board of Directors, is responsible to ensure that all the directors are aware of the current issues within the Board of Directors meeting and that each issue could be discussed in the timely and constructively manner. To assist the Board of Directors to discuss all the important or other related matters, the chairman of the Board will be working with senior management to ensure that all the directors receive timely, appropriate, complete and reliable information for their consideration and review.

Mr. Wu Xuemin serves as the president of the Bank, who is responsible for business operations, implementing the Bank's strategy and carrying out the business plan.

## 9.4.5 Summary of the directors attending the board and board committee meetings

Directors	Directors	Board of Directors					Board Committee	
		The development strategy committee	The Nomination and Remuneration Committee	The risk management committee	Related transaction control committee	Audit Committee	The amount of actual attendance/The amount of required attendance	
Executive director	Mr. Li Hongming <sup>(3)</sup>	6/6	3/3	1/1	/	/	/	/
	Mr. Wang Xiaoxin <sup>(3)</sup>	6/6	2/2	2/2	/	/	/	/
	Mrs. Xu Demei	12/12	/	/	6/6	3/3	1/1	/
	Mr. Wu Xuemin	12/12	5/5	/	/	/	/	/
	Mr. Zhang Renfu	12/12	5/5	/	/	/	/	/
	Mr. Ci Yaping	11/12	/	/	6/6	3/3	/	/
Non-executive directors	Mr. Zhang Feifei	11/12	5/5	/	/	/	2/2	2/2
	Mr. Qian Zheng	12/12	5/5	/	/	/	2/2	2/2
	Mr. Guo Shigang	12/12	5/5	1/2	/	/	/	/
	Mr. Wu Tian	12/12	/	/	6/6	3/3	/	/
	Mr. Gao Yang	12/12	5/5	3/3	/	/	/	/
	Mr. Wu Xiaoqiu <sup>(3)</sup>	6/6	2/2	2/2	/	/	/	/
Independent non-executive directors	Mr. Dai Genyou	12/12	/	3/3	/	/	3/3	3/3
	Mr. Wang Shihao	10/12	5/5	1/2	4/4	3/3	/	/
	Mr. Zhang Shengbei	12/12	/	3/3	/	6/6	2/2	2/2
	Mr. Wen Jinghui	11/12	/	/	/	3/3	3/3	3/3
	Mr. Au Ngai, Daniel <sup>(3)</sup>	6/6	/	1/1	/	3/3	/	/

Note:

- (1) During the reporting period, the Bank held 12 Board of Directors meetings in total, among which, 5 times physically held and 7 times via communication means.
- (2) The actual attendance does not include the proxy attendance. In the circumstance that the above directors are absent from the Board meeting, they have appointed other directors as their proxy to attend.
- (3) During the reporting period, the bank completed the change of board session. Mr. Wang Xiaoxin and Mr. Wu Xiaoqiu, expiring their term, resigned the related positions from the board. The Board of Directors elected Mr. Li Hongming and Mr. Au Ngai, Daniel as the third session of board directors with the related position. See section 8.2 "Appointment and Resignation during the reporting period" for details.
- (4) During the reporting period, the Bank completed the change of session of the board committee of the Board. See section 9.5 "The committees of the board" for details.



### 9.4.6 Securities Transaction for Directors and Supervisors

The Bank has adopted the Model Code for Securities Transactions by directors of Listed Companies (“Model Code”) set out in Appendix 10 of the Hong Kong Listing Rules as its codes of conduct regarding securities transactions by the directors and the supervisors of the Bank. Having made specific enquiry of all directors and supervisors, all of them confirmed that they had complied with the Model Code during the period from 12 November 2013 up to 31 December 2013.

### 9.4.7 The performance of the independent non-executive directors

The Bank’s Board of Directors consists of 5 independent non-executive directors and the qualification, number and proportion are in accordance with the regulations of CBRC, CSRC and the Hong Kong Listing Rules. The five independent non-executive directors are not involved in any conflict with the independence issue described in the rule 3.13 of the Hong Kong Listing Rules. The Bank has received from each of the independent non-executive director the annual independence confirmation in accordance with the rule 3.13 of the Hong Kong Listing Rules. So the Bank confirms that all the independent non-executive directors complied with Hong Kong Listing Rules in respect of their independence. The majority of the Bank’s Nomination and Remuneration Committee, Audit Committee and Related Party Transaction Control Committee consist of independent non-executive directors. During the reporting period, the five independent non-executive directors keep in touch with the Bank’s management through attending the meeting and holding symposiums. They participate the meeting together with Board of Directors and the board committee seriously and actively and give positive opinion and play a significant role in management as well as paying attention to the interests of minority shareholders. The non-executive independent directors have dully fulfilled their responsibilities.

During the reporting period, the Bank’s independent non-executive directors give an independent opinion on the Bank’s related party transactions and change of board session of the Board of Directors. They have not raised any objections to the resolutions passed during the meeting of the Board of Directors and resolutions passed during other meetings.

## 9.5 The Board committee of the Board

The Bank’s Board of Directors has delegated some of its responsibilities to the different board committees. The Bank has set up five board committee, including Strategic Development Committee, Audit Committee, Nomination and Remuneration Committee, Risk Management Committee and Related Party Transaction Control Committee according to the relevant laws, regulations, and Articles of Association and the Hong Kong Listing Rules.

Our Board Committees of Board of Director exercises the functions and powers independently, legally and effectively. In the year of 2013, they have held a total of 23 meetings and deliberated 110 motions which not only have great significance to sustainable development of the Bank and the improvement of corporate governance, but also promote the efficiency of the Board of Directors, scientific decision-making ability and the development of the business.

Board committees of Board of Directors had changed session during the reporting period. On July 10 2013, the members of the third session of Board of Directors Committees were elected in accordance with the resolution at the first meeting of the third session of Board of Directors Committees. The Board committee members have been revised from the second session of Board of Directors and set out as follows:

NO.	Board of Directors Committees	Members of the Second Session of Board of Directors	Members of the Third Session of Board of Directors
1	Strategic Development Committee	Chairman: Wang Xiaoxin, Members: Wu Xuemin, Zhang Renfu, Wu Xiaoqiu, Wang Shihao, Qian Zheng, Guo Shigang, Zhang Feifei, Gao Yang	Chairman: Li Hongming Members: Wu Xuemin, Zhang Renfu, Zhang Feifei, Qian Zheng, Guo Shigang, Gao Yang, Wang Shihao
2	Nomination and Remuneration Committee	Chairman: Wu Xiaoqiu Members: Wang Xiaoxin, Dai Genyou, Wang Shihao, Zhang Shenhuai, Guo Shigang, Gao Yang	Chairman: Dai Genyou, Members: Li Hongming, Gao Yang, Zhang Shenhuai, Ou Wei
3	Risk Management Committee	Chairman: Xu Demei Members: Wu Tian, Ci Yaping	Chairman: Wang Shihao Members: Wu Tian, Xu Demei, Ci Yaping
4	Related party Transaction Control Committee	Chairman: Wang Shihao Members: Zhang Shenhuai, Ci Yaping	Chairman: Zhang Shenhuai, Members: Wen Jinghui, Ou Wei, Xu Demei, Wu Tian
5	Audit Committee	Chairman: Dai Genyou Members: Wen Jinghui, Xu Demei	Chairman: Wen Jinghui Members: Dai Genyou, Zhang Sheihuai, Zhang Feifei, Qian Zheng

#### 9.5.1 Strategic Development Committee

Our strategic development committee consists of three executive Directors, four non-executive Directors and one independent non-executive Director. The three executive Directors are Mr. Li Hongming, Mr. Wu Xuemin and Mr. Zhang Renfu. The four non-executive Directors are Mr. Zhang Feifei, Mr. Qian Zheng, Mr. Guo Shigang and Mr. Gao Yang. The independent non-executive Director is Mr. Wang Shihao. Currently, Mr. Li Hongming is the chairman of the committee.

## Corporate Governance Report (Continued)

The principal responsibilities of the strategic development committee include:

- drafting operational and management goals, medium to long-term development strategy and listing plans of our Bank and making recommendations to the Board;
- reviewing the strategic capital allocation and management objectives of assets and liabilities and making recommendations to the Board;
- preparing plans for the overall development of various financial businesses and making recommendations to the Board;
- considering strategic development plans for human resources and making recommendations to the Board;
- supervising and examining the implementation of annual operating plans and investment proposals;
- considering annual financial budgets and final accounting and making recommendations to the Board;
- considering plans for significant restructuring and re-organization and making recommendations to the Board;
- designing significant investment and financing projects, considering proposals in that respect as submitted by the senior management, and making recommendations to the Board;
- designing merger and acquisition plans, considering proposals in that respect as submitted by the senior management, and making recommendations to the Board;
- considering plans for information technology development and other special strategic development plans and making suggestions in that respect to the Board; and
- reviewing and evaluating the robustness of our corporate governance structure so as to ensure that the financial reporting, risk management and internal control meet our standards for corporate governance.

Our strategic development committee has held 5 meetings in total in the year 2013, in which the work report of the board, financial accounting report, profit-sharing plans, the annual general business plan, issue of H shares listed on the Hong Kong Stock Exchange Limited and reduction of state-owned shares in the process of issuing H shares, revised “Capital management interim measures”, establishment of consumer finance companies and the issue of special “Three Dimensional Rural Issues” financial bonds were deliberated and passed.

### 9.5.2 Nomination and Remuneration Committee

Our nomination and remuneration committee consists of one executive Director, one Non-executive Director and three Independent Non-executive Directors. Mr. Li Hongming is the executive Director; Mr. Gao Yang is the non-executive Director; Mr. Dai Genyou, Mr. Zhang Shenghuai and Mr. Au Ngai, Daniel are the three independent non-executive directors. Currently, Mr. Dai Genyou is the chairman of the committee.

The principal responsibilities of the nomination and remuneration committee include:

- preliminarily reviewing the qualifications of candidates for Directors and candidates for senior management (especially the chairman and president), and making recommendations to the Board;
- making recommendations to the Board on the structure, number, size and composition (including the skills, knowledge and experience) of the Board, based on our business operation, asset scale and equity structure;
- identifying candidates with suitable qualifications to serve as Directors and senior management, and establishing a mechanism for key talents pool;
- evaluating the independence of independent non-executive Directors;
- developing appraisal criteria for Directors and senior management, organizing performance appraisals for Directors and senior management on a regular basis, and submitting the appraisal results to the Board;
- considering our remuneration management system and policies, preparing the appraisal and remuneration proposals for Directors and senior management, and making recommendations to the Board, developing policies and approval plans, and monitoring the implementation of such plans;
- Making recommendations to the Board on the remuneration package of individual executive Directors and senior management. The factors that shall be considered by the Committee include salaries paid by comparable companies, time commitment of directors and their responsibilities, employment conditions of other positions within the Bank and whether salaries should be determined on the basis of performance;
- reviewing compensation payable to executive Directors and senior management for any loss or termination of office or appointment, and making recommendations to the Board;



- reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct, and making recommendations to the Board;
- ensuring that no Director or any of his associates (based on the definition of Hong Kong Listing Rules) is involved in deciding his own remuneration.

Our nomination and remuneration committee has held 3 meetings in total in the year 2013, in which the assessment report of the board of directors and management, the 2012 annual performance results of Executive directors and senior management, the candidates of the third session of the Board of Directors and senior management were deliberated and passed.

### 9.5.3 Risk Management Committee

Our risk management committee consists of two executive Directors, one non-executive Director and one independent non-executive Director. Ms. Xu Demei and Mr. Ci Yaping are the two executive Directors; Mr. Wu Tian is the non-executive Director; and Mr. Wang Shihao is the independent non executive Director. Currently, Mr. Wang Shihao is the chairman of the committee.

The principal responsibilities of the risk management committee include:

- reviewing our risk management policies in line with our overall strategy, supervising and evaluating their implementation and effectiveness, and making recommendations in that respect to our Board;
- providing guidance on building our risk management systems;
- supervising and evaluating the establishment, organizational structure, working procedures and effects of the risk management department, and making suggestions for improvement;
- considering our risk report, conducting regular assessments on risk policy, management status and risk exposure, and making suggestions on improving our risk management and internal control;
- supervising and assessing the risk control by our senior management in respect of credit, market and operation; and
- examining and approving significant risk management affairs or transactions that are beyond the authority of the president or submitted by the president to the risk management committee for consideration, according to the authorization of the Board.

Our risk management committee has held 6 meetings in total in the year of 2013, in which it researched the risk management policy of 2013, risk limit management work program, risk supervision and evaluation report, liquidity risk management situation, analysis and resolution of significant risk assets etc.

#### 9.5.4 Related Party Transaction Control Committee

Our related party transaction control committee consists of one executive Director, one non-executive Director and three independent non-executive Directors. Ms. Xu Demei is the executive Director; Mr. Wu Tian is the non-executive Director; and Mr. Zhang Shenghuai, Mr. Wen Jinghui and Mr. Au Ngai, Daniel are the three independent non-executive Directors. Currently, Mr. Zhang Shenghuai is the chairman of the committee. With reference to the announcement dated 16 April 2014, Mr. Wen Jinghui's directorship in the Bank was terminated on 15 April 2014.

The principal responsibilities of the related party transaction control committee include:

- identifying related parties and connected persons, the relationship among them and with us and related party transactions and connected transactions, managing the risks arising from related party transactions and connected transactions;
- identifying and reviewing significant related party transactions and connected transactions, and submitting to the Board for consideration;
- formulating our rules for the management of related party transactions and connected transactions; and
- submitting to the Board, upon completion of each year, a detailed report of the overall status, risk analysis and structural distribution of our related party transactions and connected transactions that occurred in the year.

Our related party transaction control committee has held 6 meetings in total during 2013, in which it deliberated and passed 2013 annual financial market and daily related party transaction business plan, 2012 annual reports of related party transaction, confirmation of the related party information, some significant related party transactions and revised "Related party transaction control measures of Huishang Bank Corporation Limited".

#### 9.5.5 Audit Committee

Our audit committee consists of two non-executive Directors and three independent non-executive Directors. Mr. Zhang Feifei and Mr. Qian Zheng are the two non-executive Directors; and Mr. Wen Jinghui, Mr. Dai Genyou and Mr. Zhang Shenhuai are the three independent non-executive Directors. As at the date of this report, Mr. Wen Jinghui is the chairman of the committee. With reference to the announcement dated 16 April 2014, Mr. Wen Jinghui's directorship in the Bank was terminated on 15 April 2014. As such, there is a vacancy for chairman of the Audit Committee of the Bank.

## Corporate Governance Report (Continued)

The principal responsibilities of the audit committee include:

- checking our financial statements, annual report and accounting records, half-year report and (if drafted for publication) quarterly reports, if prepared for publication, and reviewing significant opinion on financial reporting contained in accounting statements and financial reports and other information related to our business operation, and conducting an audit on our operating efficiency, profit distribution and capital utilization;
- checking the letter of recommendations for management (or any equivalent document) to be given by an external auditor to the senior management and ensuring that the Board responds to it in a timely manner, and checking any major questions raised by the external auditor to the senior management with respect to our accounting records, financial accounts or control system, and any responses given by the senior management;
- reviewing our disclosure made at the general meeting and to the public, and verifying the integrity, validity, completeness, and accuracy of our financial reports, capital utilization reports and major events;
- reviewing our internal control and financial control systems, and auditing our material connected transactions, monitoring the implementation of our risk management system and its compliance, discussing the internal control system with the senior management and reporting it to the Board. Considering major investigation findings on matters relating to the internal control system as delegated by the Board or on its own initiative and the senior management's response to these findings;
- overseeing the implementation of our internal audit system;
- organizing and guiding the internal audit under the authorization of the Board;
- taking in charge of our annual audit, making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and preparing reports for the truthfulness, accuracy, completeness and timeliness of information contained in the audited financial statements based on its own judgment, and submitting them to the Board for discussion and consideration. The audit committee should require the appointed external auditor to give an explanation on their services provided, terms of appointment, fees charged and other relationships or matters that may affect the independence of the audit, and make an evaluation on the independence of external auditor and submit it to the Board for approval. The audit committee should deal with any issue related to the resignation of external auditor or the removal of the external auditor;

- reviewing our financial and accounting policies and practice;
- taking charge of the communication and coordination between the internal auditor and external auditor, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Bank;
- evaluating the mechanisms for our employees to make whistle blowing on financial statements, internal control or other irregularities, and conducting independent and fair investigations on matters relating to whistle blowing by us, and adopting any mechanism for appropriate actions.

In 2013, our audit committee has held 3 meetings in total in 2013, in which it reviewed the annual report, engaged external auditor, deliberated the internal audit regulations and plan within the 3 years, etc. The audit committee has reviewed the annual financial report, discussed the main accounting policies, accounting estimates and internal control with the management. Besides, it also communicated with the external auditors regarding the audit opinion and internal control, and submitted the 2012 annual report to the Board for consideration.

During the reporting period, the audit committee listened to the audit work report, and revised the guidance of internal audit regulations to ensure it meet the requirements of the relevant policies and by the internal audit. It supervised the Internal Audit department on formulating “Internal audit plan from 2014-2016” and submitted the report on “Further improvements of the internal audit system to the Board”.

### 9.6 Enterprise management function

During the reporting period, the Board of Directors takes the responsibilities of corporate governance as follows:

- Revising and improving rules and regulations related to corporate governance, and making necessary changes to ensure the effectiveness of the policy;
- Training of supervisors and senior management and their sustained performance;
- Supervising the policies and conventions on bank abiding by the laws and regulations;
- Supervising standards and guidelines applicable to directors and employees.



### 9.7 Board of Supervisors

Our Board of Supervisors aim to guarantee the Bank, the shareholder, employees, depositors, and other related parties' interest and has responsibilities to oversees the compliance of our Directors and senior management's performance, conducts off-site audits of our executive Directors and senior management, examines and supervises our financial activities, risk management and internal control, and is accountable to the AGM.

#### 9.7.1 Composition of Board of Supervisors

Our Board of Supervisors currently consists of 9 Supervisors, of whom three are external Supervisors, three are shareholder representative Supervisors and three are employee representative Supervisors. The structure of our Board of Supervisors is reasonable, professional and independent to ensure its effective supervisory. About the biographical details of the Board of Supervisors, please see our annual report "personal profile of director, supervisors and senior management".

During the reporting period, the Board of Supervisors fulfilled its duties diligently, supervised the performance of the Board of Directors, the Directors, the Senior Management and its members. They also performed exit audit to the executive directors and senior managements as required. They audited and supervised the financial activities, risk management and internal control and investigated any abnormal operating activities.

#### 9.7.2 Responsibility and operating model of the board of supervisors

The principal responsibilities of the Board of Supervisors include: (1) reviewing the financial report compiled by the bank regulatory and making written opinions; (2) supervising the performance of duties of senior management as well as the board of directors; (3) monitoring the due diligence of the chairman of the board of directors and senior management and its performing in violation of the law, the administrative regulations as well as the articles; (4) conducting exit audits of our executive directors and senior management when necessary; (5) Correcting the harmful behavior of directors and senior management; (6) checking and supervising financial activities of our banks; (7) supervising the rectification of our operating, risk management and internal control; (8) demanding the recall of deputies and instituting proceedings against directors and senior management who is in violation of laws, administrative regulations or the articles the shareholder meetings; (9) proposing for an interim meeting of the shareholders; convening and presiding over the shareholders' meeting when the board of directors fails to perform its duties in accordance with the Company Law; (10) putting forward the proposal to the shareholders; (11) proposing for a temporary meeting of the board; (12) checking the financial report, business report and profit distribution plans and other financial information submitted to the shareholders. Having right to investigation when finding questions, or abnormal situation, and hiring an accounting firm, law firms or other professional personnel to assist its investigation when necessary. Fees shall be borne by our bank. (13) paying arrangements of supervisors; (14) other functions and powers granted bylaw, administrative regulations, department rules, other relevant regulators and the articles, as well as the shareholders.

The Boards of Supervisors fulfill their supervisory responsibilities as follows: Convening regular supervisor meetings, attending shareholders' meeting, attending the board of directors and some special committee meetings, review of various kinds of documents from the senior management, listening to work report and project report of the senior management, evaluating the annual performance of our directors and senior management, facilitating communications with directors and senior management, conducting off-site audits of our executive directors and senior management, inspecting the foreign investment institutions, inspection on branches, carrying out a variety of special investigation etc. Through the above work, the Board of Supervisors monitors and evaluates our operation, risk management and internal control, as well as performance of directors and senior management.

During the reporting period, the Board of Supervisors supervised the 2012 annual performance of Board of Directors, Directors as well as senior management and supervisors, and held the symposium of head office, symposium of branches, symposium of shareholders, evaluating score on-site, and asking for advice to senior management members. Finally it formed "2012 annual supervision and evaluation of the Board of Supervisors", gave feedback to Board of Directors and senior management, and reported to the 2012 annual meeting of shareholders.

#### 9.7.3 Meeting of the Board of Supervisors during the reporting period

During the reporting period, the Boards of Supervisors held 5 regular meetings, 4 nomination committee meetings and 4 Supervisory Committee meetings, and deliberated 31 items related to our operation, risk management, as well as evaluation performance of Directors, Supervisors and senior management and H Shares listing.

During the reporting period, there is no objection on the matters concerning the supervision of the Board of Supervisors.

The Attendance of supervisors during the reporting period.

	No. of Required Attendance	Attendance in Person	Attendance through Proxy
Zhang Zhen	5	5	
Xu Chongding	5	5	
Fan Xiaohui	2	2	
Gao Tongguo	2	2	
Wu Guozhong	5	3	2
Cheng Hong	5	5	
Fang Xiao	2		2
He Tao	3	3	
Pan Shujuan	3	2	1
Cheng Rulin	3	2	1
Fan Libo	5	4	1
Cheng Junpei	5	5	

Note:

- (1) During the reporting period, our Board of Supervisors has been re-elected. Pan Shujuan and Cheng Rulin would be the Supervisors from the first meeting of the third session of Board of Supervisors instead of Fan Xiaohui, Gao Tongguo, Fang Xiaozhi
- (2) During the reporting period, our Board of Supervisors has held 5 meetings. In case of absence, he/she has appointed proxy to attend on his/her behalf.

### 9.7.4 Attendance at the general meeting of shareholders

We have held 2 general meetings of shareholders in the year 2013. The Supervisors have sent representatives to attend all of the meetings, and the chairman of the Board of Supervisors has supervised compliance of the content of the meetings, procedure of the meetings as well as the process of on-site voting.

### 9.7.5 Attendance of the meeting by the Board of Directors and senior management

We have held 5 meetings of the Board of Directors in the year of 2013. The Supervisors have sent representatives to attend all of the meetings and some of special meetings of the Board of Directors Committees, and supervised legal compliance of the meeting, procedure of voting as well as the attendance, speech and voting of directors. The Supervisors have also sent representatives to attend the meetings of senior management and supervised the execution of the resolution by the Board of Directors and the business operation according to the Articles of Association and authorization by the Board of Directors.

### 9.7.6 The function of the Committees of the Board of Supervisors

The Board of Supervisors has a Nomination Committee and a Supervisory Committee. During the reporting period, our supervisory committee has been re-elected. On 10 July 2013, the members of the third session of Committee of the Board of Supervisors were elected in accordance with the resolution at the first meeting of the third session of the Board of Supervisors, which have been revised since the second Board of Supervisors as follows:

No.	Committee of the Board of Supervisors	Members of the Second Board of Supervisors	Members of the Third Board of Supervisors
1	Nomination Committee	Chairman: Cheng Junpei, Members: Zhang Zhen, Xu Chongding, Fang Xiao, Cheng Hong	Chairman: Cheng Junpei, Members: Zhang Zhen, Xu Chongding, Pan Shujuan, Cheng Hong
2	Supervisory Committee	Chairman: Fan Libo, Members: Zhang Zhen, Gao Tongguo, Wu Guozhong, Fan Xiaohui	Chairman: Fan Libo, Members: Zhang Zhen, Chen Rulin, Wu Guozhong, He Tao

***Nomination Committee of Board of Supervisors***

The principal responsibilities of Nomination Committee include:

- formulating the selection standards and procedures of supervisors, and making recommendations to the Board of Supervisors;
- preliminary reviewing and giving recommendations to candidate's qualifications and condition of the Supervisors nominated by the shareholders;
- candidate reservation of Supervisors;
- evaluation of the performance of the supervisors and reporting to the Board of Supervisors;

The Nomination Committee has held 4 meetings in the year 2013 and deliberated the items including self-assessment of the supervisors and external supervisors, 2012 annual performance of Zhang Zhen and Xu Chongding, candidates of the third Board of Supervisors and evaluation of performance in 2013 etc.

***Supervisory Committee of the Board of Supervisors***

The principal responsibilities of Supervisory Committee include:

- making plan of supervision of the due diligence of the Board of Directors and senior management;
- making plan of supervision of the due diligence of the directors, chairman as well as member of the senior management;
- making plan of the off-site audit of the directors and member of the senior management;
- making plan of the examination and supervision of our financial activities;
- According to the needs, formulate the inspection plan about business decision-making, risk management, internal control of the Bank;
- Organizing, inspection and supervision of the implementation of the above scheme.

In 2013, four meetings were held by the Board of Supervisors, approved the resolution of the Board of Directors and directors 2012 annual performance evaluation, the resolution of senior management and members 2012 annual performance evaluation, the Board of Supervisors assessment and evaluation feedback in 2012, carried out the special investigations against the external risk, carried out the resolution of the Board of Directors and directors, senior management and members 2013 annual performance assessment and evaluation, and the investigation report on the prevention of external risks.



### 9.7.7 External Supervisors work report

Chairman of the Board of Supervisors committees by external supervisors served to strengthen the external supervisors in performance assessment, internal control and other aspects of independent oversight functions, and played a positive role in improving the management quality and governance structure.

In 2013, external supervisors actively participated in the meeting, serious studied and actively participated in discussions and decision-making about each of the issues, considered from the perspective of the development and maintenance of the Bank shareholders interests, carefully gave independent opinions, and fulfilled the responsibilities of the external supervisor.

### 9.8 Training and research of directors and supervisors during the reporting period

During the reporting period, the Board of Directors and Supervisors organized nine workshops and training activities which improved performance and decision-making effectiveness of the Directors and Supervisors.

#### Trainings to Directors and Supervisors

- Trainings were provided by CITIC Securities Corporate Finance (HK) Limited, Latham & Watkins, Clifford Chance respectively to compare capital market environment in Hong Kong, H shares/A-share listing rules, H-share listing requirements and processes, related party transactions, matters relating to listing prospectus, H share prospectus verification. All directors and supervisors attended the training.
- Trainings were provided by the law firm Latham & Watkins on the responsibilities and obligations of the Hong Kong listed company directors, supervisors and senior executives under the Corporate Governance Code and Corporate Governance Report and H shares listing requirement. All directors and supervisors attended the training.
- Asset securitization trainings were provided by Morgan Stanley Asia Limited. Basics knowledge of asset securitization, a detailed analysis over domestic asset securitization development and the classic cases were shared. Executive directors and supervisors attended the training.
- Interest rate liberalization and performance evaluation related trainings were provided by McKinsey, a consulting firm. Executive director and supervisors attended the training.

#### Survey and research by the Board of Supervisors

- The various branches carried out special investigation over the protection of external risks directed by the Board of Supervisors. "Huishang Bank's survey on protection against external risk claims effects were launched. The Bank's employee supervisors participated in the survey.
- The Board of Supervisors respectively launched inspections over Wuwei Huiyin Rural County Bank Co. Ltd, Jinzhai Huiyin Rural Bank Co., Ltd, and Chery Motor Finance Service Co. Limited. The Bank's employee supervisors participated in the research.



### 9.9 Company secretary under Hong Kong Listing Rules

Mr. Hu Dongdong company secretary of the Board of Director and office director of the Board of Supervisors and Dr. Ngai Wai Fung are the joint company secretaries under Hong Kong Listing Rules. The key internal contact is Mr. Hu Dongdong. They have attended the relevant professional training.

### 9.10 Litigation Reports and allegations

In 2013, the Bank did not have any material internal disputes, nor malignant external theft and robbery cases or material litigation.

### 9.11 Communication with shareholders

#### Investors Relationship

We place great importance over the Bank's shareholders' opinions and suggestions. We actively take part in all kinds of communication activities with investors and analysts in order to maintain a good relationship, and meet reasonable requirement by the shareholders on a timely matter.

For investors inquiries, please contact the Board of Directors:

The Board of Directors and Supervisors of Huishang Bank Corporation Limited

Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC

Telephone: (0551) 62667787

Fax: (0551) 62667787

E-Mail: [djb@hsbank.com.cn](mailto:djb@hsbank.com.cn)

Investors can read the report from our website ([www.hsbank.com.cn](http://www.hsbank.com.cn)) and the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)).

#### Information Disclosure

The Board of Directors and senior management place great importance to the information disclosure. They rely on good corporate governance and internal control to provide timely, accurate and fair information for the investors. During the reporting period, no insider trading was noted.

In accordance with the requirement of "Measures for the Information Disclosure of Commercial Banks" and "Notice on the Normative Content of the Annual Report of the Joint-stock Commercial Banks" requirements, the Bank continuously improved the timeliness, accuracy and completeness of the information to be disclosed. During the reporting period, the 2012 annual report summary of the Bank is published in the "Financial Times", and the full version of the annual reports in both English and Chinese is available on the website of the Bank. Meanwhile, the Chinese and English versions of the annual report are available for review by the investors and stakeholders in Board of Director's office of the Bank.

### 9.12 Shareholders' Rights

#### Convening an extraordinary shareholders' meeting

When individual or joint shareholders of the Bank who have more than 10% of voting right present a written request, the Board of Directors shall hold the extraordinary shareholders' general meeting within 2 months from the date of the request:

The shareholders shall put forward the proposal to the Board in writing. The Board of Directors shall, in accordance with the legislation, administrative regulations and the Articles of Association, give a written feedback in within 10 days from the date of receiving the proposal; express an opinion of agreements or disagreements with calling an extraordinary shareholders' general meeting or a class shareholders meeting.

The Board of Directors agreed to an extraordinary general meeting or class shareholders' meeting, should issue a notice to call for a shareholders' general meeting within 5 days from the date of agreement. The amendments to the original resolution should be notified to the individual or joint shareholders of the Bank who initiated the amendments.

#### Proposing resolution during annual general meeting

Shareholders individually or jointly holding more than 3% of the voting shares have the right to submit provisional proposal to the shareholders' general meeting and should submit written request 10 days before the meeting. The convener shall issue a supplementary notice of the general meeting to the convener within two days after receiving the proposal. The contents of the provisional proposal will be announced.

Shareholders individually or jointly holding more than 3% of the voting shares may propose candidates to the Board of Directors or to propose candidates for the Board of Supervisors.

Shareholders individually or jointly holding more than 1% of the voting shares have the right be nominated as independent directors to the Board and to be elected during the AGM. Those who have been nominated as directors shall not nominated independent directors.

Shareholders individually or jointly holding more than 1% of the voting shares have the right to nominate candidates as external Supervisors. External supervisors will be selected during the shareholders' Meeting.

#### Convene an extraordinary meeting of the Board

When shareholders individually or jointly holding more than 10% of the total voting shares raise a proposal, the chairman of the Board of Directors shall, within 10 days after receiving the proposal, call for an interim board meeting.

#### Making inquiries to the Board

The shareholders are entitled to supervise business activities, make recommendations or inquiries.

Shareholders are entitled to, in accordance with the laws, administrative regulations and departmental rules and normative documents relevant regulations of the local supervision authorities where the share are listed, and provisions of the Articles of Association, the following information:

1. Paid Articles of Association;
2. Free or reasonably paid inspection of the following files:
  - (1) Name list of all shareholders;
  - (2) The Bank's directors, supervisors and senior management of personal information;
  - (3) The Bank's share capital;
  - (4) Report of the Bank's repurchase of its own shares, the par value, quantity, highest and lowest prices, and full cost;
  - (5) The shareholders' general meetings minutes;
  - (6) The Bank's most recent audited financial statements, and report from the directors, auditors and supervisors' reports.

Shareholders, who request the above information, shall provide written documents to proof the type of shareholding and quantity, after verification, the bank shall provide the required document.

### 9.13 Appointment of certified public accountants and their remuneration

We have appointed PricewaterhouseCoopers Zhong Tian LLP as our domestic auditor for the year ended 31 December 2013, and have appointed PricewaterhouseCoopers as our offshore auditor. PricewaterhouseCoopers Zhong Tian LLP has provided audit services to the Bank for 8 years since 2006.

As of 31 December 2013, the total amount of fees paid by the Bank to PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers and other member firms for the financial statements audit is RMB8.21 million.

# Internal Control

## 10.1 Internal Control

### 10.1.1 Internal control system and operation

The Board of Directors is responsible for ensuring the bank to establish and implement the effective internal control system. The Board of Supervisors is responsible for the supervision the Board of Directors and senior management to establish and implement internal control. Management is responsible for organizing the daily operation of the bank's internal control. Currently, the bank formulated the "Huishang bank internal control basic norms (Trial)" on the basis of "The Enterprise Internal Control Basic Norms and Guidance", "The Commercial Banks Internal Control Guidelines" and other laws and regulations, as well as the relevant requirement of the Hong Kong Stock Exchange, clarify the objectives, principles and the organization of the internal control system, set up internal control system comprises of five elements, including the internal environment, risk assessment, control activities, information and communication and monitoring.

During the reporting period, the Bank launched the "Compliance establishment" special work, organized the management to participate in the banking industry compliance knowledge contest in Anhui province, and won the second place. Meanwhile the bank organized risk investigation work, a comprehensive investigation of compliance and operational risk, and analyzed the compliance of business operation and reliability of risk management. The bank made a timely rectification on the in-depth analysis issue. The bank strengthened the established rules and regulations and the mechanisms for compliance audit work, during the reporting period 183 rules and regulations were printed and distributed to further standardize the management and business development. The bank strengthen the capacity of internal control and information management, developed on-line system of internal control and compliance risk management, made an innovation of compliance management tool, and effectively improved the capacity of the standardization, process and systems of internal control and compliance management.

According to "Accounting System for Business Enterprises", "Accounting System for Business Enterprises — Application Guide" and "Internal Accounting Control Standard" and other relevant requirements, the Bank has developed a "Huishang Banking Accounting Internal Control Basic Standard (Trial)" and accounting policies for various business lines system and establishes a standardized accounting rules to ensure the accuracy and fairness of the financial statements. During the reporting period, the Bank did not find any significant deficiencies about the internal control of financial reporting.

The bank highly concerned about management of the information disclosure. The information disclosure follows the principles of being true, accurate, complete, timely and fair to ensure effective internal and external communication. The bank strengthens information security management, and control it to a minimum range before the information is publicly disclosed to prevent spread of information. No significant errors of disclosure occur during the reporting period.

We place importance to compliance risk management, formulated "Huishang Bank Compliance Policy", "Interim Measures of identifying, assessing and reporting compliance risk management of Huishang Bank", "Interim Measures of identifying responsibility of Huishang Bank", "Interim Measures of site inspections of Huishang Bank" and other related systems. They clarified the contents of compliance and risk management requirements, established a more complete and effective compliance risk management system, regularly carries out risk assessments to achieve effective identification and control of compliance risk.



### 10.1.2 Implementation of the “Basic Norms of Enterprise Internal Control” and the guidelines

We place great importance to the implementation of the “Basic Norms of Enterprise Internal Control” and supporting guidelines work. Firstly, we assessed the daily work on internal control organization and coordination, clarified the responsibility of internal control and compliance department, internal audit department and other functional departments of the head office, branches, outlets. We further clarified the internal control organization and responsibility. Compliance department is appointed as the coordinating department responsibility for internal control implementation and other routine work. Secondly, we further standardized the internal management, formulated a “Huishang Bank internal control assessment (Trial)”, “Huishang Bank internal control self-assessment management approach(Trial)” and other systems to build a internal control, internal rectification, and internal self-assessment management mechanisms. Thirdly, we completed a general launching the internal control system to the branch, as and further improved the internal control system of the branches. Fourthly, we formulated “Huishang bank internal control improvement and management improvement plan in 2013”. In accordance with the internal control findings in 2012, follow up on the rectification, continued to improve the ability of internal control management. Fifthly, we organized the implementation of internal control self-assessment, carried out internal control self-assessment from three perspectives to total branches. Self-assessment covered 10 business lines at company level, 35 business lines at business level, more than 200 people in the head office departments and more than 600 people in branches participated in the self-assessment. Looking from the self-assessment results, design and implementation of the Bank’s internal control is satisfactory, the basic internal control mechanism and control measures are effectively implemented.

## 10.2 Internal Audit

The Bank set up internal audit department, with full-time auditors, and established the independence and vertical internal audit management system to adapt to the internal audit report system and channels, established a complete audit system and inspection system with the on-site and off-site audit. The internal audit is independent from the management and risk-oriented to ensure the objectivity and fairness. The responsible person reports to the Board of Directors and the audit committee. The internal audit department regularly reports their work to the Board and senior management.

The Bank’s internal audit department is responsible for the Bank’s financial statement and business activities provide recommendation to the management, through a systematic and disciplined approach to evaluate and improve the Bank’s business activities, risk profile, internal control and corporate governance, and promote the healthy development of the Bank.

In 2013, the Bank’s internal audit department adhere to the audit principal of being “risk oriented, service central and value added”, used the tools of comprehensive audit, special audit, audit investigations, and other forms of economic responsibility audit to conduct an audit of internal controls, and strengthen the inspection of the key business, the key link, the key risks and the key positions, and put forward some recommendations to improve the internal control management and risk control, in order to improve the quality of the management.

# Report of the Board of Supervisors

During the reporting period, the Board of Supervisors in accordance with the “Company Law”, “Commercial Bank Law” and responsibilities defined by the Articles of Association, supervised the bank’s internal control, risk management, financial activities, compliance management in accordance with the legislations, as well as the Board of Directors and senior management role and responsibilities.

The Board of Supervisors published an independent opinion on following matters:

- (1) Legal compliance operation. During the reporting period, the Bank business activities complied with the provisions of the “Company Law”, “Commercial Bank Law” and the Bank’s Articles of Association, the Board of Directors decision-making procedures is appropriate, the contents is legally compliant, the senior management managed the Bank in compliance with laws and regulations and the Bank’s policies. No serious violation behaviour that damage the interests of the shareholders were noted in accordance with legislations and the Bank’s regulations.
- (2) The financial report. The Bank’s 2013 annual financial report has been audited by PricewaterhouseCoopers in accordance with International Financial Reporting Standards and issued a standard audit report without reservations. Financial report truly, objectively and accurately reflects the Bank’s financial activities and operating results.
- (3) Related party transactions. The Board of Supervisors is not aware of any related party transactions that occurred during the reporting period which damage the interests of the shareholders and the Bank.
- (4) Internal Control. During the reporting period, the Bank continued to improve internal control, carried out the “compliance development year” activity. The compliance culture has been greatly improved. The remarkable results in terms of enhanced risk management capabilities and sophisticated management had been achieved.
- (5) The implementation of the resolutions of AGM. The Board of Supervisors had no objection regarding the reports and resolutions submitted by the Board of Directors during the Bank’s 2013 AGM, and supervised the implementation of the resolutions. The Board of Directors was considered to have well implemented the relevant resolutions from the AGM.

By Order of the Board of Supervisors  
*Supervisor*  
**Zhang Zhen**

25 March 2014

# Independent Auditor's Report



羅兵咸永道

**To the shareholders of Huishang Bank Corporation Limited  
(Incorporated in the People's Republic of China with limited liability)**

We have audited the consolidated financial statements of Huishang Bank Corporation Limited (the "Bank") and its subsidiary (together, the "Group") set out on pages 119 to 229, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2013, and the consolidated statements of comprehensive income, the consolidated and the Bank's statements of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

## Independent Auditor's Report (Continued)

### 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 financial performance 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.

### Other Matters

This report, including the opinion, has been prepared for and only for 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.

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 26 March 2014



# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

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

	Note	2013	2012
Interest income	5	18,856,829	15,161,363
Interest expense	5	(9,253,978)	(6,592,515)
<b>Net interest income</b>		9,602,851	8,568,848
Fee and commission income	6	623,544	451,515
Fee and commission expense	6	(83,968)	(55,784)
<b>Net fee and commission income</b>		539,576	395,731
Net trading income/ (losses)	7	(82,971)	40,494
Net gains /(losses) on investment securities		(6,954)	66,593
Dividend income		320	305
Other operating income, net	8	119,687	162,994
<b>Operating income</b>		10,172,509	9,234,965
Operating expenses	9	(3,386,435)	(3,132,268)
Impairment losses on assets	12	(435,365)	(457,715)
Operating profit		6,350,709	5,644,982
Share of profits of associates		48,035	35,056
<b>Profit before income tax</b>		6,398,744	5,680,038
Income tax expense	13	(1,472,931)	(1,373,645)
<b>Profit for the year</b>		4,925,813	4,306,393
<b>Other comprehensive income</b>			
Fair value changes on available-for-sale financial assets	42	(1,045,151)	(122,018)
Less: related income tax impact	42	261,287	30,505
<b>Net other comprehensive income</b>		(783,864)	(91,513)
<b>Comprehensive income for the year</b>		4,141,949	4,214,880
Net profit attributable to:			
Shareholders of the Bank		4,926,202	4,306,393
Non-controlling interests		(389)	—
		4,925,813	4,306,393
Total comprehensive income attributable to:			
Shareholders of the Bank		4,142,338	4,214,880
Non-controlling interests		(389)	—
		4,141,949	4,214,880
Earnings per share for profit attributable to the shareholders of the Bank (express in RMB per share)			
Basic/Diluted	14	0.58	0.53

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Financial Statements (Continued)

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

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

	Note	As at 31 December	
		2013	2012
<b>Assets</b>			
Cash and balances with central bank	15	76,178,455	57,649,283
Due from banks and other financial institutions	16	10,999,655	3,833,665
Placements with and loans to banks and other financial institutions	17	1,192,253	2,813,377
Financial assets held for trading	18	1,805,291	3,598,834
Derivative financial assets	19	5,698	—
Financial assets held under resale agreements	20	36,772,428	38,198,123
Loans and advances to customers	21	191,280,398	159,941,475
Investment securities			
— available-for-sale	22	29,964,720	25,580,605
— held-to-maturity	22	27,772,207	26,062,726
— loans and receivables	22	723,568	1,814,189
Investment in associates	24	334,741	220,246
Property, plant and equipment	25	1,512,190	1,404,413
Deferred income tax assets	34	1,113,242	851,158
Other assets	26	2,454,244	2,256,263
<b>Total assets</b>		<b>382,109,090</b>	<b>324,224,357</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

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

	Note	As at 31 December	
		2013	2012
<b>Liabilities</b>			
Deposits from banks and other financial institutions	28	17,433,406	5,965,250
Placements from banks and other financial institutions	29	1,537,045	898,200
Derivative financial liabilities	19	5,052	—
Financial assets sold under repurchase agreements	30	42,727,917	47,883,466
Deposits from customers	31	272,798,242	239,543,123
Taxes payable	32	375,775	504,455
Debt securities in issue	35	8,986,415	3,991,828
Other liabilities	33	6,573,306	4,957,111
<b>Total liabilities</b>		<b>350,437,158</b>	<b>303,743,433</b>
<b>Equity</b>			
Share capital	36	11,049,819	8,174,819
Capital reserve	36	6,751,041	1,806,700
Surplus reserve	37	3,011,585	2,088,299
General reserve	37	3,062,782	1,472,380
Reserve for fair value changes of available-for-sale financial assets	37	(909,547)	(125,683)
Retained earnings		8,659,441	7,064,409
Total equity attributable to shareholders of the Bank		31,625,121	20,480,924
Non-controlling interests		46,811	—
<b>Total equity</b>		<b>31,671,932</b>	<b>20,480,924</b>
<b>Total equity and liabilities</b>		<b>382,109,090</b>	<b>324,224,357</b>

The accompanying notes form an integral part of these consolidated financial statements.

Approved and authorized for issue by the Board of Directors on 26 March 2014.

**Li Hongming**

Chairmen

**Wu Xuemin**

Director

**Ci Yaping**

Vice Director of Finance

**Xia Min**

Head of  
Financial Department

## Consolidated Financial Statements (Continued)

### STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

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

	Note	As at 31 December	
		2013	2012
<b>Assets</b>			
Cash and balances with central bank	15	76,149,465	57,649,283
Due from banks and other financial institutions	16	10,894,655	3,833,665
Placements with and loans to banks and other financial institutions	17	1,192,253	2,813,377
Financial assets held for trading	18	1,805,291	3,598,834
Derivative financial assets	19	5,698	—
Financial assets held under resale agreements	20	36,772,428	38,198,123
Loans and advances to customers	21	191,152,035	159,941,475
Investment securities			
— available-for-sale	22	29,964,720	25,580,605
— held-to-maturity	22	27,772,207	26,062,726
— loans and receivables	22	723,568	1,814,189
Investment in subsidiary	23	32,800	—
Investment in associates	24	334,741	220,246
Property, plant and equipment	25	1,510,327	1,404,413
Deferred income tax assets	34	1,113,022	851,158
Other assets	26	2,452,122	2,256,263
<b>Total assets</b>		<b>381,875,332</b>	<b>324,224,357</b>

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

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

	Note	As at 31 December	
		2013	2012
<b>Liabilities</b>			
Deposits from banks and other financial institutions	28	17,452,555	5,965,250
Placements from banks and other financial institutions	29	1,537,045	898,200
Derivative financial liabilities	19	5,052	—
Financial assets sold under repurchase agreements	30	42,727,917	47,883,466
Deposits from customers	31	272,592,926	239,543,123
Taxes payable	32	375,644	504,455
Debt securities in issue	35	8,986,415	3,991,828
Other liabilities	33	6,572,386	4,957,111
<b>Total liabilities</b>		<b>350,249,940</b>	<b>303,743,433</b>
<b>Equity</b>			
Share capital	36	11,049,819	8,174,819
Capital reserve	36	6,751,041	1,806,700
Surplus reserve	37	3,011,585	2,088,299
General reserve	37	3,062,782	1,472,380
Reserve for fair value changes of available-for-sale financial assets	37	(909,547)	(125,683)
Retained earnings		8,659,712	7,064,409
<b>Total equity</b>		<b>31,625,392</b>	<b>20,480,924</b>
<b>Total equity and liabilities</b>		<b>381,875,332</b>	<b>324,224,357</b>

The accompanying notes form an integral part of these consolidated financial statements.

Approved and authorized for issue by the Board of Directors on 26 March 2014.

**Li Hongming**

Chairmen

**Wu Xuemin**

Director

**Ci Yaping**

Vice Director of Finance

**Xia Min**

Head of  
Financial Department



## Consolidated Financial Statements (Continued)

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

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

	Attributable to shareholders of the Bank							
	Share capital Note 36	Capital reserve Note 36	Surplus reserve Note 37	General reserve Note 37	Reserve for fair value changes of available-for-sale financial assets Note 37	Retained earnings	Non-controlling interests	Total equity
<b>As at 1 January 2013</b>	8,174,819	1,806,700	2,088,299	1,472,380	(125,683)	7,064,409	—	20,480,924
Profit for the year	—	—	—	—	—	4,926,202	(389)	4,925,813
Changes in fair value taken to other comprehensive income	—	—	—	—	(783,864)	—	—	(783,864)
<b>Total comprehensive income</b>	—	—	—	—	(783,864)	4,926,202	(389)	4,141,949
Capital injection by non-controlling interests in setting up subsidiary	—	—	—	—	—	—	47,200	47,200
Shares issued	2,875,000	4,944,341	—	—	—	—	—	7,819,341
Dividends	—	—	—	—	—	(817,482)	—	(817,482)
Appropriation to surplus reserve	—	—	923,286	—	—	(923,286)	—	—
Appropriation to general reserve	—	—	—	1,590,402	—	(1,590,402)	—	—
<b>As at 31 December 2013</b>	11,049,819	6,751,041	3,011,585	3,062,782	(909,547)	8,659,441	46,811	31,671,932
<b>As at 1 January 2012</b>	8,174,819	1,806,700	1,308,399	1,277,380	(34,170)	4,550,398	—	17,083,526
Profit for the year	—	—	—	—	—	4,306,393	—	4,306,393
Changes in fair value taken to other comprehensive income	—	—	—	—	(91,513)	—	—	(91,513)
<b>Total comprehensive income</b>	—	—	—	—	(91,513)	4,306,393	—	4,214,880
Dividends	—	—	—	—	—	(817,482)	—	(817,482)
Appropriation to surplus reserve	—	—	779,900	—	—	(779,900)	—	—
Appropriation to general reserve	—	—	—	195,000	—	(195,000)	—	—
<b>As at 31 December 2012</b>	8,174,819	1,806,700	2,088,299	1,472,380	(125,683)	7,064,409	—	20,480,924

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

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

	Year ended 31 December	
	2013	2012
<b>Cash flows from operating activities:</b>		
Profit before income tax	6,398,744	5,680,038
Adjustments:		
Depreciation and amortization	238,802	201,204
Loan impairment provision	435,390	467,333
Recovery of written-off loans	1,800	1,184
Impairment of other assets	—	276
Net gains on disposals of property, plant and equipment	(8,734)	(26,143)
Net (gains)/ losses on de-recognition of investment securities	6,954	(66,593)
Fair value changes in financial assets held for trading and derivatives	23,551	(18,840)
Dividends received	(320)	(305)
Share of results of associates	(48,035)	(35,056)
Interest income arising from investment securities	(2,523,563)	(2,225,375)
Interest expense arising from debt securities in issue	434,482	262,367
Net changes in operating assets:		
Net increase in balances with the central bank	(7,447,902)	(7,290,562)
Net decrease in due from and placements with and loans to banks and other financial institutions	1,001,793	557,401
Net decrease in financial assets held for trading	1,769,346	1,455,813
Net decrease/(increase) in financial assets held under resale agreements	1,425,695	(32,880,747)
Net increase in loans and advances to customers	(31,740,220)	(26,470,079)
Net increase in other assets	(127,211)	(710,927)
Net changes in operating liabilities:		
Net increase/(decrease) in deposits and placements from banks and other financial institutions	12,107,001	(5,994,558)
Net (decrease)/increase in financial assets sold under repurchase agreements	(5,155,549)	31,698,670
Net increase in deposits from customers	33,255,119	35,963,419
Net increase in other liabilities	1,390,044	2,179,845
Income taxes paid	(1,541,572)	(1,438,663)
<b>Net cash inflow from operating activities</b>	<b>9,895,615</b>	<b>1,309,702</b>

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Financial Statements (Continued)

### CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

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

	Note	Year ended 31 December	
		2013	2012
<b>Cash flows from investing activities:</b>			
Dividends received		320	305
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets		13,575	29,178
Purchase of property, plant and equipment, intangible assets and other long-term assets		(374,960)	(415,597)
Cash received from investment securities' interest income		2,451,971	1,975,598
Cash received from investment securities		18,211,002	45,992,682
Purchase of investment securities		(24,266,082)	(56,729,060)
Cash paid in increasing the investment in associates		(66,460)	—
<b>Net cash outflow from investing activities</b>		<b>(4,030,634)</b>	<b>(9,146,894)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of share		7,819,341	—
Proceeds from issuance of debt securities		4,992,700	—
Cash received from non-controlling interests in investing in subsidiary		47,200	—
Dividends and interests paid on debt issued		(1,076,225)	(1,085,987)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>11,783,016</b>	<b>(1,085,987)</b>
<b>Impact on cash and cash equivalents resulted from interest rate changes</b>		<b>(20,068)</b>	<b>(9,345)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>17,627,929</b>	<b>(8,932,524)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>19,901,283</b>	<b>28,833,807</b>
<b>Cash and cash equivalents at end of year</b>	44	<b>37,529,212</b>	<b>19,901,283</b>

The accompanying notes form an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

*(All amounts expressed in thousands of RMB unless otherwise stated)*

## 1 General Information

Huishang Bank Corporation Limited (the “Bank”) is a joint stock commercial bank registered in Anhui Province, the People’s Republic of China (the “PRC”). The Bank was formerly known as Hefei City Cooperatives Bank, which was established on 4 April 1997 with the approval of the People’s Bank of China (“PBOC”), Anhui branch of PBOC Anhui Branch and Anhui Economic Reform Committee and was renamed as Hefei Commercial Bank Co., Ltd. on 28 July 1998. The Bank was further renamed as Huishang Bank Corporation Limited on 30 November 2005 with approval of the general office of China Banking Regulatory Commission (“CBRC”) and CBRC Anhui Branch. Approved by CBRC Anhui Branch, the Bank acquired five former city commercial banks in Wuhu, Ma’anshan, Anqing, Huaibei and Bengbu and seven city credit cooperatives in Lu’an, Huainan, Tongling and Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda on 28 December 2005. The Bank holds the financial institution license B0162H234010001 from CBRC Anhui Branch and the legal entity business license No. 340000000026144(1-1) from Anhui Provincial Administration of Industry and Commerce. The registered address of the Bank is Block A, Tianhui Building, No. 79, Anqing Road, Hefei, China. In November 2013, the Bank’s H-shares were listed on the Hong Kong Stock Exchange (Stock Code: 3698). As at 31 December 2013, the registered and paid-in capital of the Bank is RMB 11.05 billion.

The Bank and its subsidiary (together the “Group”) provide corporate, banking, retail banking, and treasury operations which mainly encompass money market activities, investment and trading activities and transactions for customers in the PRC.

These consolidated financial statements were authorized for issue by the Board of Directors on 26 March 2014.

## 2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.2.

## Notes to the Consolidated Financial Statements (Continued)

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

### 2 Basis of preparation (continued)

#### 2.1 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

Standards, amendments and interpretations that have been issued but not effective and have not yet been early adopted by the Group for 2013 are as follows:

	Effective from financial years starting on or after
IAS 32 Amendment: Financial instruments — Presentation on asset and liability offsetting	1 January 2014
IFRS 10, 12 and IAS 27 Amendments: Consolidation for Investment Entities	1 January 2014
IAS 36 Amendments: Impairment of assets — Recoverable amount disclosures for non-financial assets	1 January 2014
IAS 39 Amendments: 'Financial instruments: Recognition and measurement' — Novation of derivatives and continuation of hedge accounting	1 January 2014
IFRIC 21: Levies	1 January 2014
IAS19 Amendments: Defined Benefit Plans	1 July 2014
IFRS annual improvements 2012	1 July 2014
IFRS annual improvements 2013	1 July 2014
IFRS 9, Financial instruments	To be determined

IAS 32 Amendment provides additional application guidance to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position.

IFRS 10, IFRS 12 and IAS 27 Amendments apply to a particular class of business that qualifies as investment entities. Investment entity refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

Amendments to IAS 36, Impairment of assets, involve the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

IAS 39 amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.



## Notes to the Consolidated Financial Statements (Continued)

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

### 2 Basis of preparation (continued)

2.1 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group (continued)

IFRIC 21, 'Levies', sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized.

IFRS annual improvements 2012 include changes from the 2010–2012 cycle of the annual improvements project, that affect 7 standards:

- IFRS 2, 'Share-based payment'
- IFRS 3, 'Business combinations' and consequential amendments to IFRS 9, 'Financial instruments', IAS, 'Provisions, contingent liabilities and contingent assets', and IAS 39, 'Financial instruments – Recognition and measurement'
- IFRS 8, 'Operating segments'
- IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets'
- IAS 24, 'Related Party Disclosures'

IFRS annual improvements 2013 include changes from the 2011–2013 cycle of the annual improvements project that affect 4 standards:

- IFRS 3, 'Business combinations'
- IFRS 13, 'Fair value measurement'
- IAS 40, 'Investment property'

IFRS 9 and IFRS 9 Amendments replaced those parts of IAS 39 relating to the classification, measurement and de-recognition of financial assets and liabilities with key changes mainly related to the classification and measurement of financial assets and certain types of financial liabilities. Together with the amendments to IFRS 9, IFRS 7 – Financial Instruments: Disclosures are also amended to require additional disclosures on transition from IAS 39 to IFRS 9.

The Group is in the process of assessing the impact of these new standards and amendments on the consolidated financial statements. The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below.

### 3 Summary of significant accounting policies and accounting estimates

3.1 Summary of significant accounting policies

#### **3.1.1 Accounting year**

The Group's accounting year starts on 1 January and ends on 31 December.

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### 3.1.2 Functional and presentation currency

The Group's functional and presentation currency is RMB.

##### 3.1.3 Consolidation

The consolidated financial statements comprise the financial statements of the Bank and all of its subsidiaries.

###### (a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control, that is having the power to govern the financial and operating policies, so as to obtain benefits from their activities generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group.

Inter-company transactions, balances and unrealized profits on transactions between group companies are eliminated in the consolidated financial statements. The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Group are recognized as non-controlling interests and presented separately in the consolidated financial statements within equity and net profits respectively.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The results of subsidiaries are accounted for by the Bank on the basis of dividend received and receivable. The Group assesses at each financial reporting date whether there is objective evidence that investment in subsidiaries is impaired. An impairment loss is recognized for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

###### (b) Associates

Associates are all entities over which the Group has significant influence, through which the Group are entitled to participate in but have no control or joint control over the decision making of the associates' financial and operation policies.

Investments in associates are accounted for using the equity method of accounting. Where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially recognized at cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is recognized in income statement and the cost of investment in associates is adjusted upwards accordingly.

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### 3.1.3 Consolidation (continued)

###### (b) Associates (continued)

Under the equity method of accounting, the Group recognizes the investment gains or losses according to its share of net profit or loss of the investee. The Group discontinues recognizing its share of net losses of an investee after the carrying amount of the investment in associates together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognizing the investment losses and the provisions. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into equity, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee.

The unrealized profits or losses arising from the transactions between the Group and its associates are eliminated in proportion to the Group's equity interest in the associates, and then based on which the investment gains or losses are recognized. Unrealized losses on the intra-bank transactions between the Group and its associates attributable to asset impairment cannot be eliminated.

In the Bank's statement of financial position, the investments in associates are stated at cost less provision for impairment loss. Where the carrying amount of an investment in associates is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.16).

##### 3.1.4 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as at the reporting date and translation differences are recognized in the income statement. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

##### 3.1.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, such as cash, surplus reserve with the central bank, due from or placements with banks and other financial institutions with original tenors less than 3 months.

##### 3.1.6 Financial instruments

###### Recognition and De-recognition of financial instruments

A financial asset or financial liability is recognized on trade-date, the date when the Group becomes a party to the contractual provisions of the instrument.

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### 3.1.6 Financial instruments (continued)

###### Recognition and De-recognition of financial instruments (continued)

Financial assets are derecognized when one of the following conditions is met: (1) the contractual rights to receive cash flows from the investments have expired; (2) when the Group has transferred substantially all risks and rewards of ownership; (3) when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been directly recognized in equity is recognized in the current profit or loss.

Financial liabilities are de-recognized when they are extinguished — that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognised in current profit or loss.

###### Classification and measurement

Financial assets are classified into the following categories at initial recognition:

- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets;
- held-to-maturity investments.

Financial liabilities are classified into the following categories at initial recognition:

- financial liabilities at fair value through profit and loss;
- the Group does not hold any financial liabilities at fair value through profit or loss;
- other financial liabilities.

The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

###### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss have two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading unless they are financial guarantee contracts or designated and effective as hedging instruments.

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### 3.1.6 Financial instruments (continued)

###### Classification and measurement (continued)

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

Financial assets at fair value through profit or loss are initially recognized and subsequently measured at fair value on the balance sheet. The related transaction costs incurred at the time of acquisition are expensed in the income statement. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in the income statement through net trading income in the period in which they arise. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognized in the income statement.

There are no financial assets designated at fair value through profit or loss at inception for the Group.

###### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets will be classified as loans and receivables when the Group provides funds or services directly to customers and does not sell them intentionally. Loans and receivables are recognized initially at fair value plus transaction costs that are attributable to the acquisition of the financial assets. Loans and receivables are subsequently measured at amortized cost using effective interest method.

###### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognized at fair value plus related transaction costs at time of acquisition, and are measured subsequently at amortized cost using the effective interest method.

The Group shall not classify any financial assets as held-to-maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than restricted circumstances such as sales or reclassifications due to a significant deterioration in the issuer's creditworthiness or industry's regulatory requirements.

###### Financial assets classified as available-for-sale

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories mentioned above. Such financial assets are recognized at fair value plus related transaction costs at time of acquisition, and are subsequently measured at fair value at balance sheet dates. Except for impairment losses and foreign exchange gains or losses arising from foreign currency monetary financial assets, gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognized directly in other comprehensive income, and ultimately in the equity, until the financial assets are derecognized at which time the cumulative gains or losses previously recognized in equity should be reclassified from equity to the income statement. Interest income of available-for-sale debt instruments calculated using effective interest method and dividend income declared are recognized in the income statement through investment income.



## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### 3.1.6 Financial instruments (continued)

###### **Classification and measurement (continued)**

###### *Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss have two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing or redeeming it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Financial liabilities at fair value through profit or loss are initially recognized and subsequently measured at fair value on the balance sheet. The related transaction costs incurred at the time of incurrence are expensed in the income statement.

Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are recognized in the income statement through net trading income.

###### *Other financial liabilities*

Other financial liabilities are initially recognized at fair value less transaction costs, and are subsequently measured at amortized cost using the effective interest method.

###### **Determination of fair value**

The fair value is the prices from recent arm's length market transactions between knowledgeable and willing parties. The fair values of quoted financial instruments in active markets are based on current bid prices, as appropriate. Bid prices in active markets are the prices that are readily and regularly available from a stock exchange, dealer, broker, industrial association, or pricing service agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If there is no active market, the Group establishes fair value by using valuation techniques.

Valuation techniques include the use of recent arm's length transactions, fair values of substantially similar financial instruments, discounted cash flow analysis and option pricing models etc. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation technique and tests for validity using prices from any observable current market transactions in the same instruments rather than specific factors related to the Group.

##### 3.1.7 Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

##### 3.1.8 Resale and repurchase agreements

Assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognized on the statement of financial position at time of acquisition. The corresponding cash paid is recognized on the balance sheet as "financial assets held under resale agreements". Conversely, assets sold under agreements to repurchase at a specified future date with a specific price ("repos") are not derecognized. The corresponding cash received is recognized on the balance sheet as "financial assets sold for repurchase agreements".

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### 3.1.8 Resale and repurchase agreements (continued)

The differences between the purchase and resale prices and sale and repurchase prices are recognized as interest income and interest expense respectively and are accrued over the term of the agreement using the effective interest rate method.

##### 3.1.9 Impairment of financial assets

###### Financial assets carried at amortized cost

The Group assesses at each financial reporting date whether there is 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 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 (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (iv) it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- (v) the disappearance of an active market for that financial asset because of financial difficulties;
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and then collectively assesses financial assets that are not individually significant. The Group performs a collective assessment for individually assessed financial assets with no objective evidence indicating impairment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of loss is recognized in income statement.

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### 3.1.9 Impairment of financial assets (continued)

###### Financial assets carried at amortized cost (continued)

As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for acquiring and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective assessment of impairment, financial assets are grouped on the basis of similar and relevant credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed and the amount of loss is determined. Subsequent recoveries of amounts previously written off are recognized in income statement against impairment losses on assets.

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 recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in the income statement.

###### Financial assets as available-for-sale

A significant or prolonged decline in the fair value of an equity instrument classified as available-for-sale indicates there is objective evidence that the equity instrument is impaired. The Group assesses the fair value of available-for-sale equity instruments individually at balance sheet date and determines that it is impaired if the fair value of the equity instrument declines to less than 50% (inclusive) or more of its initial cost or the fair value has been lower than its initial cost for more than one year (inclusive). If the fair value of the equity instruments is lower than 80% (inclusive) of the initial cost but higher than 50%, the Group would take into account other factors, such as price fluctuation etc, to determine whether the instrument is impaired. When the available-for-sale financial assets are impaired, the cumulative loss from declines in fair value that had been recognized directly in other comprehensive income are transferred out, and then recognized in the income statement. The amount of the cumulative loss that is transferred out and recognized in the income statement equals to the difference between its initial cost (net of principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in income statement.

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### **3.1.9 Impairment of financial assets (continued)**

###### **Financial assets as available-for-sale (continued)**

If, in a subsequent period, the fair value of an impaired debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement. Impairment losses on equity instruments are not reversed through the income statement; increases in their fair value subsequent to impairment are recognized as other comprehensive income.

##### **3.1.10 Offsetting of financial instruments**

Financial assets and financial liabilities are separately presented in the balance sheet without any offsetting, except when:

- (i) the Group has a legally enforceable right to offset the recognized amounts; and
- (ii) the Group has intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

##### **3.1.11 Property, plant and equipment**

The Group's property, plant and equipment are buildings and architectures, electronic and other equipments and motor vehicles that are used for operation purpose and have useful lives of more than one year.

Property, plant and equipment shall be recognized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The assets purchased or constructed are initially measured at acquisition cost or deemed cost as appropriate. Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognized. All other subsequent expenditures are recognized in the income statement during the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### 3.1.11 Property, plant and equipment (continued)

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	20 years	3%	4.85%
Motor vehicles	5 years	3%	19.40%
Electronic and other equipments	5–10 years	3%	9.7%–19.40%

The estimated useful life, the estimated residual value and the depreciation method applied to an asset are reviewed, and adjusted as appropriate by the Group at each year-end.

Property, plant and equipment are derecognized on disposal or when no future economic benefits are expected from their use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of property, plant and equipment net of their carrying amounts and related taxes and expenses is recognized in the income statement. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.16).

Construction in progress consists of assets under construction or being installed and is stated at cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to “property, plant and equipment” when the assets are ready for their intended use, and depreciation begins from the following month. Where the carrying amount of construction in progress is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.16).

##### 3.1.12 Land use rights

Land use rights are initially recognized at costs and amortized using the straight-line basis over the legal term of use. If the acquisition costs of the land and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as “property, plant and equipment”.

Where the carrying amount of land use rights is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.16).

##### 3.1.13 Intangible assets

Intangible assets mainly include computer software which are measured at cost. Computer software are amortized on a straight-line basis over their estimated useful lives. For an intangible asset with a definite useful life, review of its useful life and amortization method is performed at each year-end, with adjustment made as appropriate.

Where the carrying amount of an intangible asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount (Note 3.1.16).



## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### **3.1.14 Long-term prepaid expenses**

Long-term prepaid expenses include expenditures that have been incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortized on the straight-line basis over the expected useful economic lives and are presented at actual expenditure net of accumulated amortization.

##### **3.1.15 Foreclosed assets**

Foreclosed assets are measured at the fair value on the date of acquisition and are recognized by the lower of the book value and the recoverable amount. The impairment allowance is accrued in accordance with the excess amount of carrying amount over net recoverable amount.

The difference between the amount obtained from the disposal of foreclosed assets (minus any corresponding fees incurred in the disposal process) and the net book value is recorded in other operating income or operating expenses. The impairment allowance is reversed simultaneously.

##### **3.1.16 Impairment of long-term non-financial assets**

Property, plant and equipment, construction in progress, land use rights, intangible assets with definite useful lives, and investments in associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, an allowance for impairment and an impairment loss are recognized in accordance with the difference. The recoverable amount is the higher of an asset's fair value less costs of disposal and the discounted value of the future cash flows expected to be derived from the asset.

Impairment allowance is calculated and recognized on individual basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount is determined based on that of a group of assets to which the asset belongs. A group of assets is the smallest group of assets that is able to generate separately identifiable cash inflows.

Non-financial assets that are suffered from an impairment are reviewed for possible reversal of impairment at each reporting date.

##### **3.1.17 Employee benefits**

Employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

Salary and welfare are expensed in operating expenses in the accounting period of services rendered.

In accordance with the relevant laws and regulations, domestic employees of the Group participate in various social insurance schemes such as basic pension insurance, medical insurance, housing fund schemes and other social security schemes. In addition, the Group has participated in commercial medical insurance schemes provided by commercial insurance companies since October 2012. Insurance expenses and pensions are calculated based on certain percentage of gross salary and are paid to the Labor and Social Security Bureau, and insurance companies, etc. The contribution ratios are defined by stipulating regulations or commercial contracts, which should be no higher than statutory upper ceilings. Contributions are recognized in the income statement for the current period.

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### **3.1.17 Employee benefits (continued)**

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date. Under the plan, the participants who voluntarily leave the position before reaching the regulatory retirement age will receive benefit package upon approval from the management of the Group. The Group has recorded a liability for its obligation to employees retired before normal retirement age, which is the present value of the Group's future payment obligation, calculated by discounting the expected cash outflow based on the treasury bond interest rate for the term similar to that of the liability.

##### **3.1.18 Interest income and expense**

Interest income and expense for all interest-bearing financial assets and liabilities are recognized using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

##### **3.1.19 Fee and commission income and expense**

Fees and commissions are recognized on an accrual basis when the service has been provided.

##### **3.1.20 Deferred income tax assets and liabilities**

Deferred income tax assets and liabilities are calculated and recognized based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred income tax asset is recognized for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. As at the balance sheet date, deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred income tax assets are only recognized for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilized.

Deferred income tax related to fair value re-measurement of available-for-sale financial assets is charged or credited directly to equity and is subsequently transferred to the income statement when the financial assets are derecognized.

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### **3.1.20 Deferred income tax assets and liabilities (continued)**

Deferred income tax assets and liabilities are offset when:

- (a) the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority;
- (b) there is a legally enforceable right to offset current tax assets against current tax liabilities.

##### **3.1.21 Leases**

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. All leases other than finance leases are classified as operating leases.

Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are charged as an expense for the current period.

##### **3.1.22 Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

##### **3.1.23 Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition of financial guarantee contracts not designated at fair value through profit or loss at inception, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized, and the best estimate of the amount required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to the comprehensive income statement.

##### **3.1.24 Provisions**

Provisions for restructuring costs and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are initially recognized using best estimates of expenditures expected to be required to settle the obligation, taking into consideration the risks, uncertainties and time value of money related to contingencies. Where the effect of time value of money is significant, provisions shall be determined by discounting the related future cash flows. The carrying amount of provisions is reviewed, and adjusted if appropriate, to reflect the best estimates at each balance sheet date.

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.1 Summary of significant accounting policies (continued)

##### **3.1.25 Fiduciary activities**

The Group commonly acts as appointees, trustees, agents and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

##### **3.1.26 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group's reporting segments are decided based on its operating segments while taking full consideration of various factors such as products and services, geographical location and regulatory environment related to administration of the management. Operating segments meeting the same qualifications are allocated as one reporting segment, providing independent disclosures.

The purpose of segment reporting is to assist the chief operating decision maker in resource allocation and performance assessment of each segment. The same accounting policies as adopted in preparation of the Group's financial statements are used for segment reporting.

#### 3.2 Critical accounting estimates and judgments

The Group continually evaluates the significant accounting estimates and judgments applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below. It is possible that actual results may be materially different from the estimates and judgments referred to below.

##### **3.2.1 Impairment allowances on loans and advances**

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

## Notes to the Consolidated Financial Statements (Continued)

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

### 3 Summary of significant accounting policies and accounting estimates (continued)

#### 3.2 Critical accounting estimates and judgments (continued)

##### 3.2.2 Fair value of financial instruments

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

##### 3.2.3 Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investments to maturity. This classification requires significant judgment. If the Group fails to keep these investments to maturity other than for the specific circumstances, it will be required to reclassify the entire class as available-for-sale investments and is prohibited from recognizing this kind of investments as held-to-maturity investment within the following two accounting years.

##### 3.2.4 Income taxes

The Group is subject to income taxes and significant judgment is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Taxation matters such as deductibility of asset impairment loss are subject to the decision of taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax and deferred tax assets and liabilities in the period in which such determination is made.

### 4 Taxation

The principal taxes to which the Group is subject are listed below:

	Tax basis	Tax rate
Corporate income tax	Taxable profit	25%
Business tax	Taxable operating income	5%
City construction and maintenance tax	Business tax paid	7%
Education surcharges	Business tax paid	3%



## Notes to the Consolidated Financial Statements (Continued)

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

### 5 Net interest income

	2013	2012
<b>Interest income</b>		
Balances with central bank	768,194	646,690
Due from and placement with and loans to banks and other financial institutions	3,070,553	1,591,502
Loans and advances to customers	12,494,519	10,697,796
Investment securities and financial assets held for trading	2,523,563	2,225,375
	18,856,829	15,161,363
Including: Interest income accrued on impaired loans to customers	34,093	15,846
<b>Interest expense</b>		
Deposits and placements from banks and other financial institutions	(3,891,918)	(2,269,499)
Deposits from customers	(4,927,578)	(4,060,649)
Debt securities in issue	(434,482)	(262,367)
	(9,253,978)	(6,592,515)
<b>Net interest income</b>	9,602,851	8,568,848

### 6 Net fee and commission income

	2013	2012
<b>Fee and commission income</b>		
Guarantee and commitment fees	41,586	42,082
Consultancy and advisory fees	120,540	65,115
Bank card fees	109,342	60,008
Settlement and clearing fees	84,763	75,290
Custodian and other fiduciary service fees	107,660	66,047
Syndicated loan fees	40,349	25,855
Agency commissions	30,586	41,999
Arrangement fees for international trade financing	14,560	12,404
Domestic factoring fees	19,724	10,658
Others	54,434	52,057
	623,544	451,515
<b>Fee and commission expense</b>	(83,968)	(55,784)
<b>Net fee and commission income</b>	539,576	395,731

## Notes to the Consolidated Financial Statements (Continued)

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

### 7 Net trading income

	2013	2012
Net gains/(losses) from foreign exchange	(58,774)	21,654
Net gains/(losses) from interest rate instruments	(24,197)	18,840
	(82,971)	40,494

Net gains/(losses) from interest rate instruments include gains or losses arising from fair value changes of financial assets held for trading.

### 8 Other operating income

	2013	2012
Net gains on bills	85,685	99,350
Others	34,002	63,644
	119,687	162,994

### 9 Operating expenses

	2013	2012
Employee benefit expenses (Note 10)	(1,402,396)	(1,325,424)
Administrative expenses	(817,027)	(784,001)
Business tax and surcharges	(773,177)	(684,804)
Depreciation (Note 25)	(162,571)	(139,733)
Amortization expenses for intangible assets (Note 26(e))	(26,335)	(21,794)
Amortization expenses for land use rights (Note 26(d))	(262)	(262)
Amortization expenses for long-term prepaid expenses	(49,634)	(39,415)
Operating lease rental expenses	(150,231)	(122,889)
Others	(4,802)	(13,946)
	(3,386,435)	(3,132,268)

### 10 Employee benefit expenses

	2013	2012
Salaries and bonuses	(950,576)	(986,174)
Pension costs	(134,493)	(94,461)
Labor union fee and staff education fee	(46,833)	(39,107)
Other social insurance and welfare costs	(270,494)	(205,682)
	(1,402,396)	(1,325,424)

## Notes to the Consolidated Financial Statements (Continued)

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

### 11 Directors' and Supervisors' emoluments

(a) Details of the Directors' and Supervisors' emoluments are as follows:

Name	2013				Total
	Fees	Salaries, bonuses and benefits	Employer's contribution To pension schemes	Discretionary bonuses	
<b>Executive Directors</b>					
Li Hongming <sup>(1)</sup>	—	644	17	304	965
Wang Xiaoxin <sup>(2)</sup>	—	1,333	34	355	1,722
Wu Xuemin (Chief Executive)	—	1,183	32	547	1,762
Zhang Renfu	—	982	29	456	1,467
Xu Demei	—	983	29	456	1,468
Ci Yaping	—	993	29	456	1,478
<b>Non-executive Directors</b>					
Zhang Feifei	—	—	—	—	—
Qian Zheng	—	—	—	—	—
Guo Shigang	—	—	—	—	—
Wu Tian	—	—	—	—	—
Gao Yang	—	—	—	—	—
Ou Wei <sup>(3)</sup>	100	—	—	—	100
Wu Xiaoqiu <sup>(4)</sup>	25	—	—	—	25
Dai Genyou	125	—	—	—	125
Wang Shihao	100	—	—	—	100
Zhang Shenghuai	125	—	—	—	125
Wen Jinghui	113	—	—	—	113
<b>Supervisors</b>					
Zhang Zhen	—	980	29	456	1,465
Xu Chongding	—	1,254	28	—	1,282
Fan Xiaohui <sup>(5)</sup>	—	752	23	—	775
Cheng Rulin <sup>(6)</sup>	—	—	—	—	—
Fang Xiao <sup>(7)</sup>	—	—	—	—	—
Gao Tongguo <sup>(8)</sup>	—	—	—	—	—
Wu Guozhong	—	—	—	—	—
Cheng Hong	—	—	—	—	—
He Tao <sup>(9)</sup>	—	376	10	—	386
Cheng Junpei	100	—	—	—	100
Fan Libo	90	—	—	—	90
Pan ShuJuan <sup>(10)</sup>	70	—	—	—	70
<b>Total</b>	<b>848</b>	<b>9,480</b>	<b>260</b>	<b>3,030</b>	<b>13,618</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 11 Directors' and Supervisors' emoluments (continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows: (continued)

Name	Fees	Salaries, bonuses and benefits	2012		Total
			Employer's contribution to pension schemes	Discretionary bonuses	
<b>Executive Directors</b>					
Wang Xiaoxin	—	1,280	32	497	1,809
Wu Xuemin (Chief Executive)	—	1,272	31	484	1,787
Zhang Renfu	—	1,267	28	456	1,751
Xu Demei	—	1,269	28	456	1,753
Ci Yaping	—	1,273	28	456	1,757
<b>Non-executive Directors</b>					
Zhang Feifei <sup>(1)</sup>	—	—	—	—	—
Qian Zheng	—	—	—	—	—
Guo Shigang	—	—	—	—	—
Wu Tian	—	—	—	—	—
Gao Yang	—	—	—	—	—
Bai Taiping <sup>(12)</sup>	—	—	—	—	—
Wu Xiaoqiu	70	—	—	—	70
Dai Genyou	80	—	—	—	80
Wang Shihao	20	—	—	—	20
Zhang Shenghuai	80	—	—	—	80
Wen Jinghui	70	—	—	—	70
<b>Supervisors</b>					
Zhang Zhen	—	1,267	28	456	1,751
Xu Chongding	—	1,494	27	—	1,521
Fan Xiaohui	—	874	18	—	892
Fang Xiao	—	—	—	—	—
Gao Tongguo	—	—	—	—	—
Wu Guozhong	—	—	—	—	—
Cheng Hong	—	—	—	—	—
Cheng Junpei	56	—	—	—	56
Fan Libo	56	—	—	—	56
<b>Total</b>	<b>432</b>	<b>9,996</b>	<b>220</b>	<b>2,805</b>	<b>13,453</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 11 Directors' and Supervisors' emoluments (continued)

(a) Details of the Directors' and Supervisors' emoluments are as follows: (continued)

- (1) Li Hongming was elected to be executive director effective from July 2013.
- (2) Wang Xiaoxin ceased to be executive director effective from July 2013.
- (3) Ou Wei was elected to be non-executive director effective from July 2013.
- (4) Wu Xiaoqiu ceased to be non-executive director effective from July 2013.
- (5) Fan Xiaohui was elected to be supervisors effective from June 2013.
- (6) Cheng Rulin was elected to be supervisors effective from July 2013.
- (7) Fang Xiao ceased to be supervisors effective from July 2013.
- (8) Gao Tongguo ceased to be supervisors effective from July 2013.
- (9) He Tao was elected to be supervisors effective from June 2013.
- (10) Pan Shujuan was elected to be supervisors effective from July 2013.
- (11) Zhang Feifei was elected to be non-executive director effective from April 2012.
- (12) Bai Taiping ceased to be non-executive director effective from April 2012.

(b) Five highest paid individuals

For the year ended 31 December 2013, five highest paid individuals include 4 directors (2012: 3 directors). Details are listed above.

The emoluments for the rest of the five highest paid individuals are as follows:

	2013	2012
Salaries, housing allowances, other allowances and benefits in kind	993	2,541
Employer's contribution to pension schemes	29	56
Discretionary bonuses	456	912
	1,478	3,509

The emoluments fell within the following bands:

	2013	2012
RMB500,001–RMB1,000,000	—	—
RMB1,000,001–RMB1,500,000	1	—
RMB1,500,001–RMB2,000,000	—	2
	1	2

No emolument was paid by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.



## Notes to the Consolidated Financial Statements (Continued)

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

### 12 Impairment losses on assets

	2013	2012
Loans and advances to customers (Note 21(b))		
— Collectively assessed	(267,223)	(422,244)
— Individually assessed	(168,167)	(45,089)
Available-for-sale financial assets	—	(276)
Reversal of provision for placements with and loans to banks and other financial institutions (Note 17)	—	9,664
Reversal of provision for foreclosed assets	25	230
	(435,365)	(457,715)

### 13 Income tax expense

	2013	2012
Current income tax		
— PRC mainland income tax	(1,473,728)	(1,442,828)
Deferred income tax (Note 34)	797	69,183
	(1,472,931)	(1,373,645)

The provision for China mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	2013	2012
Profit before tax	6,398,744	5,680,038
Tax calculated at applicable statutory tax rate of 25%	(1,599,686)	(1,420,010)
Income not subject to tax <sup>(a)</sup>	179,078	145,135
Items not deductible for tax purposes <sup>(b)</sup>	(22,323)	(47,660)
Tax filing differences from previous years	(30,000)	(51,110)
Income tax expense	(1,472,931)	(1,373,645)

(a) The income not subject to tax mainly represents interest income arising from PRC treasury bonds, which is income tax free in accordance with the PRC tax regulations.

(b) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

## Notes to the Consolidated Financial Statements (Continued)

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

### 14 Earnings per share

- (a) Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2013	2012
Profit attributable to shareholders of the Bank (in RMB thousands)	4,926,202	4,306,393
Weighted average number of ordinary shares in issue (in thousands)	8,539,888	8,174,819
Basic earnings per share (in RMB Yuan)	0.58	0.53

- (b) Diluted earnings per share

For the year ended 31 December 2013 and 2012, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

### 15 Cash and balances with the central bank

#### The Group

	As at 31 December	
	2013	2012
Cash	956,373	973,723
Balances with the central bank		
– Statutory reserves	48,359,292	40,911,390
– Surplus reserves	26,862,790	15,764,170
	76,178,455	57,649,283

#### The Bank

	As at 31 December	
	2013	2012
Cash	955,670	973,723
Balances with the central bank		
– Statutory reserves	48,331,005	40,911,390
– Surplus reserves	26,862,790	15,764,170
	76,149,465	57,649,283

- (a) The Group places statutory deposit reserves with the People's Bank of China ("PBOC"). The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates of the bank were as follows:

	As at 31 December	
	2013	2012
Statutory reserve rate for RMB deposits	18%	18%
Statutory reserve rate for foreign currency deposits	5%	5%

- (b) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

## Notes to the Consolidated Financial Statements (Continued)

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

### 16 Due from banks and other financial institutions

#### **The Group**

	As at 31 December	
	2013	2012
Due from banks in PRC mainland	10,519,882	3,477,736
Due from banks in other countries and regions	479,776	361,932
	10,999,658	3,839,668
Less: allowances for impairment loss		
— Individually assessed	(3)	(6,003)
	10,999,655	3,833,665

#### **The Bank**

	As at 31 December	
	2013	2012
Due from banks in PRC mainland	10,414,882	3,477,736
Due from banks in other countries and regions	479,776	361,932
	10,894,658	3,839,668
Less: allowances for impairment loss		
— Individually assessed	(3)	(6,003)
	10,894,655	3,833,665

### 17 Placement with and loans to banks and other financial institutions

#### **The Group and the Bank**

	As at 31 December	
	2013	2012
Placement with and loans to:		
— Banks in PRC mainland	41,285	—
— Other financial institutions in PRC mainland	1,150,000	38,417
Re-discounted Bills	968	2,813,377
	1,192,253	2,851,794
Less: impairment allowances		
— Individually assessed	—	(38,417)
	1,192,253	2,813,377

## Notes to the Consolidated Financial Statements (Continued)

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

### 17 Placement with and loans to banks and other financial institutions (continued)

Movements of allowances for impairment losses on loans and advances to banks and other financial institutions are as follows:

#### The Group and the Bank

	As at 31 December	
	2013	2012
Balance at beginning of the year	(38,417)	(48,081)
Recoveries	—	9,664
Write-offs	38,417	—
Balance at end of the year	—	(38,417)

### 18 Financial assets held for trading

#### The Group and the Bank

	As at 31 December	
	2013	2012
Government bonds		
— Listed outside Hong Kong	274,838	662,827
Other debt securities		
— Listed outside Hong Kong	1,530,453	2,936,007
	1,805,291	3,598,834

As at 31 December 2013, no major restrictions were imposed on the realization of financial assets held for trading of the Group. As at 31 December 2012, no major restrictions were imposed on the realization of financial assets held for trading of the Group despite the fact that part of these assets were pledged to third parties (Note 40).

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

Financial assets held for trading analyzed by categories of issuer are as follows:

#### The Group and the Bank

	As at 31 December	
	2013	2012
Debt securities		
Issuers in PRC mainland		
— Government	274,838	662,827
— Public sector and quasi-government	9,975	59,972
— Other financial institutions	597,921	945,751
— Corporates	922,557	1,930,284
	1,805,291	3,598,834

## Notes to the Consolidated Financial Statements (Continued)

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

### 19 Derivative financial instruments

#### The Group and the Bank

	As at 31 December 2013		
	Notional Amount	Fair value	
		Assets	Liabilities
Derivative financial instruments held for trading:			
– Foreign exchange forwards	1,644,002	5,698	(5,052)

There were no derivative financial instruments as of 31 December 2012.

### 20 Financial assets held under resale agreements

#### The Group and the Bank

	As at 31 December	
	2013	2012
Securities held under resale	734,800	–
Bills held under resale	35,537,628	38,198,123
Trust of beneficiary under resale <sup>(a)</sup>	500,000	–
	36,772,428	38,198,123

- (a) The investment orientation of beneficiary rights under trust mainly is the trust loan managed by trust company as the trustee.

### 21 Loans and advances to customers

- (a) Analysis of loans and advances to customers:

#### The Group

	As at 31 December	
	2013	2012
Corporate loans and advances		
– Corporate loans	136,855,920	116,807,646
– Discounted bills	9,725,240	11,907,252
Subtotal	146,581,160	128,714,898
Retail loans		
– Mortgage loans	34,790,468	25,201,772
– Revolving loans for individual business	9,451,425	6,423,598
– Others	4,626,383	3,454,498
Subtotal	48,868,276	35,079,868
Total	195,449,436	163,794,766
Less: Allowance for impairment losses		
– Collectively assessed	(3,797,825)	(3,598,626)
– Individually assessed	(371,213)	(254,665)
Total allowance for impairment losses	(4,169,038)	(3,853,291)
Loans and advances to customers, net	191,280,398	159,941,475



## Notes to the Consolidated Financial Statements (Continued)

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

### 21 Loans and advances to customers (continued)

(a) Analysis of loans and advances to customers: (continued)

#### The Bank

	As at 31 December	
	2013	2012
Corporate loans and advances		
— Corporate loans	136,834,520	116,807,646
— Discounted Bills	9,725,240	11,907,252
Subtotal	146,559,760	128,714,898
Retail loans		
— Mortgage loans	34,785,068	25,201,772
— Revolving loans for individual business	9,434,125	6,423,598
— Others	4,540,823	3,454,498
Subtotal	48,760,016	35,079,868
Total	195,319,776	163,794,766
Less: Allowance for impairment losses		
— Collectively assessed	(3,796,528)	(3,598,626)
— Individually assessed	(371,213)	(254,665)
Total allowance for impairment losses	(4,167,741)	(3,853,291)
Loans and advances to customers, net	191,152,035	159,941,475

(b) Reconciliation of allowance for impairment losses on loans and advances to customers by collective and individual assessments:

#### The Group

	31 December 2013		31 December 2012	
	Collectively assessed allowance	Individually assessed allowance	Collectively assessed allowance	Individually assessed allowance
Balance at beginning of the year	3,598,626	254,665	3,242,207	247,919
Impairment losses for the year (Note 12)	267,223	168,167	422,244	45,089
Unwind of discount on allowance	(7,585)	(26,508)	(7,265)	(8,581)
Recoveries	521	1,279	250	934
Loans written-off	(60,960)	(26,390)	(58,810)	(30,696)
Balance at end of the year	3,797,825	371,213	3,598,626	254,665

## Notes to the Consolidated Financial Statements (Continued)

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

### 21 Loans and advances to customers (continued)

- (b) Reconciliation of allowance for impairment losses on loans and advances to customers by collective and individual assessments: (continued)

#### The Bank

	31 December 2013		31 December 2012	
	Collectively assessed allowance	Individually assessed allowance	Collectively assessed allowance	Individually assessed allowance
Balance at beginning of the year	3,598,626	254,665	3,242,207	247,919
Impairment losses for the year (Note 12)	265,926	168,167	422,244	45,089
Unwind of discount on allowance	(7,585)	(26,508)	(7,265)	(8,581)
Recoveries	521	1,279	250	934
Loans written-off	(60,960)	(26,390)	(58,810)	(30,696)
Balance at end of the year	3,796,528	371,213	3,598,626	254,665

- (c) Reconciliation of allowance for impairment losses on loans and advances to customers by customer type:

#### The Group

	31 December 2013		31 December 2012	
	Corporate	Retail	Corporate	Retail
Balance at beginning of the year	3,363,107	490,184	3,047,495	442,631
Impairment losses for the year (Note 12)	339,734	95,656	410,762	56,571
Unwind of discount on allowance	(31,988)	(2,105)	(15,219)	(627)
Recoveries	1,279	521	934	250
Loans written-off	(75,275)	(12,075)	(80,865)	(8,641)
Balance at end of the year	3,596,857	572,181	3,363,107	490,184

#### The Bank

	31 December 2013		31 December 2012	
	Corporate	Retail	Corporate	Retail
Balance at beginning of the year	3,363,107	490,184	3,047,495	442,631
Impairment losses for the year (Note 12)	339,520	94,573	410,762	56,571
Unwind of discount on allowance	(31,988)	(2,105)	(15,219)	(627)
Recoveries	1,279	521	934	250
Loans written-off	(75,275)	(12,075)	(80,865)	(8,641)
Balance at end of the year	3,596,643	571,098	3,363,107	490,184

## Notes to the Consolidated Financial Statements (Continued)

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

### 21 Loans and advances to customers (continued)

(d) Analysis of loans and advances to customers by collective and individual allowance assessments:

#### The Group

As at 31 December 2013

	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances		Subtotal	Total
		for which allowance is collectively assessed	for which allowance is individually assessed		
Total loans and advances					
— Corporate loans	145,678,381	86,851	815,928	902,779	146,581,160
— Retail loans	48,719,877	148,399	—	148,399	48,868,276
Allowance for impairment losses	(3,676,318)	(121,507)	(371,213)	(492,720)	(4,169,038)
Loans and advances to customers, net	190,721,940	113,743	444,715	558,458	191,280,398

#### The Bank

As at 31 December 2013

	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances		Subtotal	Total
		for which allowance is collectively assessed	for which allowance is individually assessed		
Total loans and advances					
— Corporate loans	145,656,981	86,851	815,928	902,779	146,559,760
— Retail loans	48,611,617	148,399	—	148,399	48,760,016
Allowance for impairment losses	(3,675,021)	(121,507)	(371,213)	(492,720)	(4,167,741)
Loans and advances to customers, net	190,593,577	113,743	444,715	558,458	191,152,035

#### The Group and the Bank

As at 31 December 2012

	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances		Subtotal	Total
		for which allowance is collectively assessed	for which allowance is individually assessed		
Total loans and advances					
— Corporate loans	127,877,046	161,504	676,348	837,852	128,714,898
— Retail loan	34,968,625	111,243	—	111,243	35,079,868
Allowance for impairment losses	(3,431,938)	(166,688)	(254,665)	(421,353)	(3,853,291)
Loans and advances to customers, net	159,413,733	106,059	421,683	527,742	159,941,475

## Notes to the Consolidated Financial Statements (Continued)

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

### 22 Investment securities

#### The Group and the Bank

	As at 31 December	
	2013	2012
<b>Available-for-sale financial assets</b>		
Debt securities		
– Listed outside Hong Kong	23,352,439	20,475,612
Asset management schemes by securities firms or trust companies		
– Unlisted	1,061,231	–
Equity securities		
– Unlisted	9,500	16,383
Others		
– Unlisted	5,541,550	5,088,610
Subtotal	29,964,720	25,580,605
<b>Held-to-maturity investments</b>		
Debt securities		
– Listed outside Hong Kong	27,025,214	26,020,303
– Unlisted	746,993	42,423
Subtotal	27,772,207	26,062,726
<b>Loans and receivables</b>		
Debt securities		
– Unlisted	130,067	218,496
Wealth management products issued by other financial institutions		
– Unlisted	593,501	1,595,693
Subtotal	723,568	1,814,189
Total	58,460,495	53,457,520
<i>Including: fair value of listed held-to-maturity securities</i>	25,818,564	25,971,015

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

## Notes to the Consolidated Financial Statements (Continued)

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

### 22 Investment securities (continued)

Investment securities analyzed by issuer as follows:

#### The Group and the Bank

	As at 31 December	
	2013	2012
<b>Available-for-sale financial assets</b>		
Issuers in PRC mainland		
– Government	6,962,867	5,529,672
– Public sector and quasi-governments	—	40,565
– Financial institutions	10,989,891	9,578,778
– Corporate	5,399,681	5,326,597
– Asset management schemes by securities firms or trust companies	1,061,231	—
– Equity securities	9,500	16,383
– Others <sup>(1)</sup>	5,541,550	5,088,610
	29,964,720	25,580,605
<b>Held-to-maturity investments</b>		
Issuers in PRC mainland		
– Government	12,016,981	9,854,663
– Public sector and quasi-governments	—	4,495,682
– Other financial institutions	11,634,176	9,044,210
– Corporate	4,121,050	2,668,171
	27,772,207	26,062,726
<b>Loans and receivables</b>		
Issuers in PRC mainland		
– Government	130,067	218,496
– Wealth management products issued by other financial institutions	593,501	1,595,693
	723,568	1,814,189

- (1) The Group entrust funds from issuing the principal guaranteed wealth management products to securities firms and trust companies to invest in bonds issued by government, financial institutions and corporates, and other fixed-income financial instruments.

### 23 Investment in subsidiary

#### The Bank

	As at 31 December	
	2013	2012
Investment cost	32,800	—

As at 31 December 2013, background of the subsidiary is as follows:

Corporate Name	Incorporation Date	Place of incorporation	Registered capital	Proportion of ownership	Proportion of voting power	Business sector
Jinzhai Huiyin Rural Bank Co., Ltd.	25 June 2013	Lu An, PRC	80,000	41%	41%	Banking



## Notes to the Consolidated Financial Statements (Continued)

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

### 23 Investment in subsidiary (continued)

The Bank signed contracts with 3 shareholders who hold in total 29% of ownership and voting power of this company. These 3 shareholders will vote consistently with the Bank in deciding the financial and operating policies. Hence, the Bank has control of this company, and this company is in scope of consolidation.

### 24 Investment in associates

Investments in associates of the Group comprise of ordinary shares of unlisted companies as follows:

As at 31 December 2013

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Motor Finance Service Co., Ltd.	PRC	8,880,046	7,557,899	492,052	196,912	20%
Wuwei Huiyin Rural Bank Co., Ltd.	PRC	2,376,866	2,201,089	117,677	30,152	40%

As at 31 December 2012

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Motor Finance Service Co., Ltd.	PRC	5,087,228	4,294,293	303,283	106,571	20%
Wuwei Huiyin Rural Bank Co., Ltd.	PRC	1,790,334	1,644,709	74,352	30,804	40%

### The Group and the Bank

	2013	2012
Balance at beginning of the year	220,246	185,190
Additions	66,460	—
Share of results, net of tax	48,035	35,056
Balance at end of the year	334,741	220,246

Chery Motor Finance Service Co., Ltd. was established in 2009, with registered capital of RMB500 million, among which the Group accounted for RMB100 million or 20%. With the approval of CBRC Anhui Branch on 24 December 2012, the registered capital of Chery Motor Finance Service Co., Ltd. was authorized to increase to RMB1 billion. As at 31 December 2013, the Group's ownership in this associate has been increased to RMB200 million or 20%.

Wuwei Huiyin Rural Bank Co., Ltd. was established in 2010, with registered capital of RMB100 million, among which the Group accounted for RMB40 million or 40%. Wuwei Huiyin Rural Bank Co., Ltd. officially commenced business the approval of CBRC on 9 July 2010.

## Notes to the Consolidated Financial Statements (Continued)

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

### 25 Property, plant and equipment

#### The Group

	Buildings	Motor Vehicles	Electronic and other equipments	Construction in progress	Total
Cost					
<b>As at 1 January 2013</b>	1,189,975	57,963	704,693	225,616	2,178,247
Additions	28,901	12,209	123,879	128,220	293,209
Transfers in/(out)	23,593	—	1,911	(25,504)	—
Disposals	(16,113)	(9,578)	(6,418)	—	(32,109)
Other transfers out	—	—	—	(18,020)	(18,020)
<b>As at 31 December 2013</b>	1,226,356	60,594	824,065	310,312	2,421,327
Accumulated depreciation					
<b>As at 1 January 2013</b>	(376,882)	(36,056)	(360,896)	—	(773,834)
Depreciation charge	(55,558)	(8,013)	(99,000)	—	(162,571)
Disposals	12,937	9,230	5,101	—	27,268
<b>As at 31 December 2013</b>	(419,503)	(34,839)	(454,795)	—	(909,137)
Net book value					
<b>As at 31 December 2013</b>	806,853	25,755	369,270	310,312	1,512,190

#### The Bank

	Buildings	Motor vehicles	Electronic and other equipments	Construction in progress	Total
Cost					
<b>As at 1 January 2013</b>	1,189,975	57,963	704,693	225,616	2,178,247
Additions	28,155	11,575	123,279	128,220	291,229
Transfers in/(out)	23,593	—	1,911	(25,504)	—
Disposals	(16,113)	(9,578)	(6,418)	—	(32,109)
Other transfers out	—	—	—	(18,020)	(18,020)
<b>As at 31 December 2013</b>	1,225,610	59,960	823,465	310,312	2,419,347
Accumulated depreciation					
<b>As at 1 January 2013</b>	(376,882)	(36,056)	(360,896)	—	(773,834)
Depreciation charge	(55,530)	(7,962)	(98,962)	—	(162,454)
Disposals	12,937	9,230	5,101	—	27,268
<b>As at 31 December 2013</b>	(419,475)	(34,788)	(454,757)	—	(909,020)
Net book value					
<b>As at 31 December 2013</b>	806,135	25,172	368,708	310,312	1,510,327

## Notes to the Consolidated Financial Statements (Continued)

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

### 25 Property, plant and equipment (continued)

#### The Group and the Bank

	Buildings	Motor Vehicles	Electronic and other equipments	Construction in progress	Total
Cost					
<b>As at 1 January 2012</b>	1,158,879	51,861	575,400	53,401	1,839,541
Additions	17,569	8,136	144,861	209,185	379,751
Transfers in/(out)	16,582	—	1,729	(18,311)	—
Disposals	(3,055)	(2,034)	(17,297)	—	(22,386)
Other transfers out	—	—	—	(18,659)	(18,659)
<b>As at 31 December 2012</b>	1,189,975	57,963	704,693	225,616	2,178,247
Accumulated depreciation					
<b>As at 1 January 2012</b>	(328,456)	(31,540)	(293,456)	—	(653,452)
Depreciation charge	(49,208)	(6,476)	(84,049)	—	(139,733)
Disposals	782	1,960	16,609	—	19,351
<b>As at 31 December 2012</b>	(376,882)	(36,056)	(360,896)	—	(773,834)
Net book value					
<b>As at 31 December 2012</b>	813,093	21,907	343,797	225,616	1,404,413

For the year ended 31 December 2013, net gains from disposals of property, plant and equipment of the Group were RMB 8,743,000 (2012: gain of RMB 26,143,000).

All lands and buildings of the Group are located outside Hong Kong.

The net book value of lands and buildings is analyzed based on the remaining lease terms as follows:

#### The Group

	As at 31 December	
	2013	2012
Held in PRC mainland		
— on long-term lease (over 50 years)	30,991	30,570
— on medium-term lease (10–50 years)	775,862	782,523
	806,853	813,093

#### The Bank

	As at 31 December	
	2013	2012
Held in PRC mainland		
— on long-term lease (over 50 years)	30,991	30,570
— on medium-term lease (10–50 years)	775,144	782,523
	806,135	813,093

## Notes to the Consolidated Financial Statements (Continued)

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

### 26 Other assets

#### The Group

	As at 31 December	
	2013	2012
Interest receivable (a)	1,550,199	1,357,804
Funds to be settled	540,707	608,103
Other receivables (b)	136,473	127,442
Less: impairment allowance	(33,134)	(76,039)
Land use rights (c, d)	8,671	8,933
Long-term prepaid expenses	177,089	153,463
Intangible assets (e)	66,277	73,045
Foreclosed assets	—	985
Others	7,962	2,527
	2,454,244	2,256,263

#### The Bank

	As at 31 December	
	2013	2012
Interest receivable (a)	1,549,669	1,357,804
Funds to be settled	540,707	608,103
Other receivables (b)	136,443	127,442
Less: impairment allowance	(33,134)	(76,039)
Land use rights (c, d)	8,671	8,933
Long-term prepaid expenses	175,527	153,463
Intangible assets (e)	66,277	73,045
Foreclosed assets	—	985
Others	7,962	2,527
	2,452,122	2,256,263

#### (a) Interest receivable

##### The Group

	As at 31 December	
	2013	2012
Placements with and loans and advances to banks, other financial institutions, and the central bank	55,793	27,570
Investment securities and financial assets held for trading	1,037,541	965,949
Loans and advances to customers	456,865	364,285
	1,550,199	1,357,804

## Notes to the Consolidated Financial Statements (Continued)

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

### 26 Other assets (continued)

#### (a) Interest receivable (continued)

##### The Bank

	As at 31 December	
	2013	2012
Placements with and loans and advances to banks, other financial institutions, and the central bank	55,617	27,570
Investment securities and financial assets held for trading	1,037,541	965,949
Loans and advances to customers	456,511	364,285
	1,549,669	1,357,804

#### (b) Other receivable

The Group's and Bank's other receivable are analyzed by age as follows:

##### The Group

As at 31 December 2013

	Within 1 year	1–3 years	Over 3 years	Total
Other receivable	65,772	3,643	67,058	136,473
Bad debt allowance	(2,773)	(7,167)	(23,194)	(33,134)
Net	62,999	(3,524)	43,864	103,339

##### The Bank

As at 31 December 2013

	Within 1 year	1–3 years	Over 3 years	Total
Other receivable	65,742	3,643	67,058	136,443
Bad debt allowance	(2,773)	(7,167)	(23,194)	(33,134)
Net	62,969	(3,524)	43,864	103,309

##### The Group and the Bank

As at 31 December 2012

	Within 1 year	1–3 years	Over 3 years	Total
Other receivable	62,177	18,388	46,877	127,442
Bad debt allowance	(16,791)	(12,371)	(46,877)	(76,039)
Net	45,386	6,017	—	51,403



## Notes to the Consolidated Financial Statements (Continued)

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

### 26 Other assets (continued)

- (c) The net book value of land use rights is analyzed based on the remaining terms of the leases as follows:

#### **The Group and the Bank**

	2013	2012
Held in PRC mainland		
— on medium-term lease (10–50 years)	8,671	8,933

- (d) Land use rights

#### **The Group and the Bank**

	2013	2012
Cost		
Balance at beginning of the year	10,429	10,429
Additions	—	—
Disposals	—	—
Balance at end of the year	10,429	10,429
Accumulated amortization		
Balance at beginning of the year	(1,496)	(1,234)
Additions	(262)	(262)
Disposals	—	—
Balance at end of the year	(1,758)	(1,496)
Net book value		
At end of the year	8,671	8,933

- (e) Intangible assets

Intangible assets of the Group mainly are computer software.

#### **The Group and the Bank**

	2013	2012
Cost		
Balance at beginning of the year	125,183	110,093
Additions	19,567	15,090
Disposals	—	—
Balance at end of the year	144,750	125,183
Accumulated amortization		
Balance at beginning of the year	(52,138)	(30,344)
Additions	(26,335)	(21,794)
Disposals	—	—
Balance at end of the year	(78,473)	(52,138)
Net book value		
At end of the year	66,277	73,045

## Notes to the Consolidated Financial Statements (Continued)

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

### 27 Impairment allowance

#### The Group

	As at	Additions	Recovery	Deductions		As at
	1 January 2013			Reversal	Write-off	31 December 2013
Loans and advances	(3,853,291)	(435,390)	(1,800)	34,093	87,350	(4,169,038)
Due from banks and other financial institutions	(6,003)	—	—	—	6,000	(3)
Placement with and loan to banks and other financial institutions	(38,417)	—	—	—	38,417	—
Foreclosed assets	(1,542)	—	—	—	1,542	—
Financial assets available-for-sale	(2,077)	—	—	—	2,017	(60)
Other receivables	(76,039)	—	—	—	42,905	(33,134)
	(3,977,369)	(435,390)	(1,800)	34,093	178,231	(4,202,235)

#### The Bank

	As at	Additions	Recovery	Deductions		As at
	1 January 2013			Reversal	Write-off	31 December 2013
Loans and advances	(3,853,291)	(434,093)	(1,800)	34,093	87,350	(4,167,741)
Due from banks and other financial institutions	(6,003)	—	—	—	6,000	(3)
Placement with and loan to banks and other financial institutions	(38,417)	—	—	—	38,417	—
Foreclosed assets	(1,542)	—	—	—	1,542	—
Financial assets available-for-sale	(2,077)	—	—	—	2,017	(60)
Other receivables	(76,039)	—	—	—	42,905	(33,134)
	(3,977,369)	(434,093)	(1,800)	34,093	178,231	(4,200,938)

#### The Group and the Bank

	As at	Additions	Recovery	Deductions		As at
	1 January 2012			Reversal	Write-off	31 December 2012
Loans and advances	(3,490,126)	(467,333)	(1,184)	15,846	89,506	(3,853,291)
Due from banks and other financial institutions	(6,003)	—	—	—	—	(6,003)
Placement with and loan to banks and other financial institutions	(48,081)	—	—	9,664	—	(38,417)
Foreclosed assets	(2,287)	—	—	230	515	(1,542)
Financial assets available-for-sale	(4,939)	(276)	—	—	3,138	(2,077)
Other receivables	(81,568)	—	—	—	5,529	(76,039)
	(3,633,004)	(467,609)	(1,184)	25,740	98,688	(3,977,369)

## Notes to the Consolidated Financial Statements (Continued)

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

### 28 Deposits from banks and other financial institutions

#### **The Group**

	As at 31 December	
	2013	2012
Banks in PRC mainland	16,846,652	5,135,887
Other financial institutions in PRC mainland	439,065	666,017
Banks outside PRC mainland	147,689	163,346
	17,433,406	5,965,250

#### **The Bank**

	As at 31 December	
	2013	2012
Banks in PRC mainland	16,865,801	5,135,887
Other financial institutions in PRC mainland	439,065	666,017
Banks outside PRC mainland	147,689	163,346
	17,452,555	5,965,250

### 29 Placements from banks and other financial institutions

#### **The Group and the Bank**

	As at 31 December	
	2013	2012
Banks in PRC mainland	1,476,220	898,200
Banks outside PRC mainland	60,825	—
	1,537,045	898,200

### 30 Financial assets sold under repurchase agreements

#### **The Group and the Bank**

	As at 31 December	
	2013	2012
Securities sold under repurchase agreements	18,983,950	15,525,200
Bills sold under repurchase agreements	23,743,967	32,358,266
	42,727,917	47,883,466

## Notes to the Consolidated Financial Statements (Continued)

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

### 31 Deposits from customers

#### The Group

	As at 31 December	
	2013	2012
Corporate demand deposits	111,787,682	107,041,690
Corporate time deposits	65,915,544	52,942,799
Retail demand deposits	24,913,935	21,959,702
Retail time deposits	37,530,458	30,758,789
Other deposits	32,650,623	26,840,143
	272,798,242	239,543,123
Including:		
Pledged deposits held as collateral	32,354,660	26,578,984

#### The Bank

	As at 31 December	
	2013	2012
Corporate demand deposits	111,671,262	107,041,690
Corporate time deposits	65,884,494	52,942,799
Retail demand deposits	24,905,631	21,959,702
Retail time deposits	37,504,286	30,758,789
Other deposits	32,627,253	26,840,143
	272,592,926	239,543,123
Including:		
Pledged deposits held as collateral	32,331,290	26,578,984

### 32 Tax payable

#### The Group

	As at 31 December	
	2013	2012
Corporate income tax	123,971	191,815
Business tax and surcharges	224,633	277,911
Others	27,171	34,729
	375,775	504,455

#### The Bank

	As at 31 December	
	2013	2012
Corporate income tax	123,971	191,815
Business tax and surcharges	224,502	277,911
Others	27,171	34,729
	375,644	504,455

## Notes to the Consolidated Financial Statements (Continued)

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

### 33 Other liabilities

#### The Group

	As at 31 December	
	2013	2012
Interest payable (a)	2,897,809	1,937,535
Funds to be settled	1,120,191	1,643,459
Salary and welfare payable (b)	1,101,371	1,155,569
Entrusted service	635,955	30,224
Payable relevant to IPO (c)	575,753	—
Dividends payable	68,878	65,621
Suspense accounts	36,859	32,095
Project funds payable	15,699	24,233
Others	120,791	68,375
	6,573,306	4,957,111

#### The Bank

	As at 31 December	
	2013	2012
Interest payable (a)	2,897,229	1,937,535
Funds to be settled	1,120,191	1,643,459
Salary and welfare payable (b)	1,101,031	1,155,569
Entrusted service	635,955	—
Payable related to IPO (c)	575,753	—
Dividends payable	68,878	65,621
Suspense accounts	36,859	32,095
Project funds payable	15,699	24,233
Others	120,791	98,599
	6,572,386	4,957,111

#### (a) Interest payable

##### The Group

	As at 31 December	
	2013	2012
Deposits and placement from banks and other financial institutions	29,557	32,047
Deposits from customers	2,500,978	1,708,809
Debt securities in issue	367,274	196,679
	2,897,809	1,937,535



## Notes to the Consolidated Financial Statements (Continued)

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

### 33 Other liabilities (continued)

#### (a) Interest payable (continued)

##### **The Bank**

	As at 31 December	
	2013	2012
Deposits and placement from banks and other financial institutions	29,559	32,047
Deposits from customers	2,500,396	1,708,809
Debt securities in issue	367,274	196,679
	2,897,229	1,937,535

#### (b) Salary and welfare payable

##### **The Group**

	As at 1 January 2013	Accrual	Payment	As at 31 December 2013
	Salary, bonus, subsidy and allowances			1,135,225
Social insurance	12,720	230,805	(228,926)	14,599
Labour union fee and staff education fee	7,624	22,317	(16,544)	13,397
	1,155,569	1,271,459	(1,325,657)	1,101,371

##### **The Bank**

	As at 1 January 2013	Accrual	Payment	As at 31 December 2013
	Salary, bonus, subsidy and allowances			1,135,225
Social insurance	12,720	230,283	(228,444)	14,559
Labour union fee and staff education fee	7,624	22,281	(16,539)	13,366
	1,155,569	1,269,506	(1,324,044)	1,101,031

##### **The Group and the Bank**

	As at 1 January 2012	Accrual	Payment	As at 31 December 2012
	Salary, bonus, subsidy and allowances			1,157,968
Social insurance	12,028	162,720	(162,028)	12,720
Labour union fee and staff education fee	7,616	17,749	(17,741)	7,624
	1,177,612	1,212,262	(1,234,305)	1,155,569

## Notes to the Consolidated Financial Statements (Continued)

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

### 33 Other liabilities (continued)

#### (c) Payable related to IPO

Payable related to IPO mainly includes H share issuance costs payable and amount payable to social security fund as a result of shares selling during IPO.

### 34 Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority. The movement in the deferred income tax account is as follows:

#### The Group

	2013	2012
Balance at beginning of the year	851,158	751,470
Charged to income statement	797	69,183
Credited to shareholders' equity	261,287	30,505
Balance at end of the year	1,113,242	851,158

Items included in deferred income tax assets and liabilities are as follows:

#### The Group

	2013	2012
Deferred income tax assets		
Impairment allowance for assets	595,408	587,206
Salary and welfare payable	200,333	218,342
Fair value changes of available-for-sale financial assets	307,695	41,895
Others	9,968	5,251
	1,113,404	852,694
Deferred income tax liabilities		
Fair value changes of financial assets held-for-trading	(162)	(1,536)
Deferred income tax assets, net	1,113,242	851,158

## Notes to the Consolidated Financial Statements (Continued)

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

### 34 Deferred income taxes (continued)

Deferred taxes taken to the statement of comprehensive income comprise the following temporary differences:

#### The Group

	31 December 2013	31 December 2012
Impairment allowance for assets	8,337	68,459
Salary and welfare payable	(17,924)	7,107
Fair value changes of financial assets held for trading	5,887	(3,174)
Others	4,497	(3,209)
	797	69,183

#### The Bank

	2013	2012
Balance at beginning of the year	851,158	751,470
Charged to income statement	577	69,183
Credited to shareholders' equity	261,287	30,505
Balance at end of the year	1,113,022	851,158

Items included in deferred income tax assets and liabilities are as follows:

#### The Bank

	31 December 2013	31 December 2012
Deferred income tax assets		
Impairment allowance for assets	595,408	587,206
Salary and welfare payable	200,333	218,342
Fair value changes of available-for-sale financial assets	307,695	41,895
Others	9,748	5,251
	1,113,184	852,694
Deferred income tax liabilities		
Fair value changes of financial assets held-for-trading	(162)	(1,536)
Deferred income tax assets, net	1,113,022	851,158

Deferred taxes taken to the statement of comprehensive income comprise the following temporary differences.

#### The Bank

	31 December 2013	31 December 2012
Impairment allowance for assets	8,202	68,459
Salary and welfare payable	(18,009)	7,107
Fair value changes of financial assets held for trading	5,887	(3,174)
Others	4,497	(3,209)
	577	69,183

## Notes to the Consolidated Financial Statements (Continued)

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

### 35 Debt securities in issue

#### **The Group and the Bank**

	As at 31 December	
	2013	2012
Subordinated debts		
Subordinated debts with fixed rate–2026 <sup>(a)</sup>	3,992,219	3,991,828
Financial bonds		
Financial bonds for SMEs–2016 <sup>(b)</sup>	2,796,944	—
Financial bonds for SMEs–2018 <sup>(c)</sup>	2,197,252	—
	8,986,415	3,991,828

- (a) The Group issued RMB 4 billion of subordinated debts on 2 April 2011 in China's inter-bank bond market, with a maturity of 15 years and a fixed coupon rate of 6.55%, paid annually. The Group has an option to redeem these debts at face value on 2 April 2021.

Claims on subordinated debts are posterior to other liabilities but prior to the Group's share capital. According to CBRC's requirement, these debts are qualified for inclusion as supplementary capital in the calculation of capital adequacy ratio in 2012. From 1 January 2013, they are qualified for inclusion as Tier 2 capital in the calculation of capital adequacy ratio in accordance with "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC.

- (b) The Group issued RMB2.8 billion of financial bonds designated for lending to small and medium size enterprises ("SMEs") on 19 March 2013 in China's inter-bank bond market, with a maturity of 3 years and a fixed coupon rate of 4.30%, paid annually.
- (c) The Group issued RMB2.2 billion of financial bonds designated for SMEs lending on 19 March 2013 in China's inter-bank bond market, with a maturity of 5 years and a fixed coupon rate of 4.50%, paid annually.

As of 2013, there are no defaults on principal and interest or other breaches to the agreements with respect to these debt securities.

### 36 Share capital and capital reserve

The Bank's share capital is comprised of fully paid common shares in issue, with par value of RMB1 per share. The number of shares is as follows:

#### **The Group and the Bank**

	As at 31 December	
	2013	2012
Number of authorized shares fully paid in issue (in thousands)	11,049,819	8,174,819

Generally speaking, transactions of the following natures are recorded in the capital reserve:

- (I) share premium arising from the issuance of shares at prices in excess of their par value;
- (II) donations received from shareholders; and
- (III) any other items required by the PRC regulations.

## Notes to the Consolidated Financial Statements (Continued)

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

### 36 Share capital and capital reserve (continued)

Capital surplus can be utilized for the issuance of stock dividend or for increasing paid-up capital as approved by the shareholders.

The Group's capital surplus is as follows:

#### The Group and the Bank

	As at 31 December	
	2013	2012
Share premium	6,751,041	1,806,700

### 37 Other reserve

#### The Group and the Bank

	Surplus reserve (a)	General reserve (b)	Reserve for fair value changes of available-for-sale financial assets	Total
As at 1 January 2012	1,308,399	1,277,380	(34,170)	2,551,609
Changes in fair value taken to other comprehensive income	—	—	(91,513)	(91,513)
Appropriation to surplus reserve	779,900	—	—	779,900
Appropriation to general reserve	—	195,000	—	195,000
As at 31 December 2012	2,088,299	1,472,380	(125,683)	3,434,996
Changes in fair value taken to other comprehensive income	—	—	(783,864)	(783,864)
Appropriation to surplus reserve	923,286	—	—	923,286
Appropriation to general reserve	—	1,590,402	—	1,590,402
As at 31 December at 2013	3,011,585	3,062,782	(909,547)	5,164,820

#### (a) Surplus reserve

Pursuant to the "Company Law of the PRC" and the Group's Articles of Association, the Group is required to appropriate 10% of its net profit in statutory financial statements to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. The Bank appropriates for the discretionary surplus reserve after statutory surplus have been made.

As at 31 December 2013 and 2012, the Bank's statutory surplus reserve balances were RMB1,961,450,000 and RMB1,468,803,000 respectively. The others were discretionary surplus reserve.



## Notes to the Consolidated Financial Statements (Continued)

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

### 37 Other reserve (continued)

#### (b) General reserve

In accordance with Cai Jin [2005] No.49 “Administrative Procedures on Provision for Non-performing Debts of Financial Enterprises” (the “Procedures”) and “Notice on the Relevant Issues Concerning the Provision for Non-performing Debts” (Cai Jin [2005] No. 90) issued by Ministry of Finance on 17 May and 5 September 2005 respectively, financial enterprises are required to transfer a certain amount of its net income to the statutory general reserve, which is considered as part of shareholders’ equity, through its profit appropriation to prepare for potential operational risks and to strengthen its capacity to withstand risks. The portion of general reserve is determined based on the degree of overall unidentified loss exposure, normally no lower than 1% of the ending balance of risk assets.

Pursuant to Cai Jin [2012] No. 20 “Requirements on Impairment Allowance for Financial Institutions” (the “Requirements”) issued by Ministry of Finance on 20 March 2012, the general reserve should not be less than 1.5% of the aggregate amount of risk assets, and the minimum threshold can be accumulated over a period of no more than five years. The Requirements were effective from 1 July 2012 and replaced the Procedures.

### 38 Dividends

#### *The Group and the Bank*

	2013	2012
Dividends declared for the year	817,482	817,482
Dividends per ordinary share (in RMB Yuan)	0.10	0.10
Dividends paid during the year	814,225	823,987

Under the “Company Law of the PRC” and the Bank’s Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (i) Making up cumulative losses from prior years, if any;
- (ii) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank;
- (iii) Allocations to the discretionary reserve with approval from the General Meetings of Shareholders. These funds form part of the shareholders’ equity.

In accordance with the relevant regulations, after the Bank’s initial public offering, the net profit after tax of the Group for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with PRC Generally Accepted Accounting Principles and (ii) the retained profit determined in accordance with IFRS.

## Notes to the Consolidated Financial Statements (Continued)

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

### 39 Financial guarantees and credit commitments, other commitments and contingent liabilities

#### (a) Financial guarantees and credit commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit commitments that the Group has committed to extend to its customers:

##### **The Group and the Bank**

	As at 31 December	
	2013	2012
Bank bill acceptance	52,567,298	46,602,041
Unused credit card lines	2,675,056	1,708,977
Letters of guarantee issued	2,490,218	1,674,944
Letters of credit issued	1,445,716	2,023,348
Loan commitment	468,400	466,540
	59,646,688	52,475,850

#### (b) Capital commitments

##### **The Group and the Bank**

	As at 31 December	
	2013	2012
Contracted but not provided for	41,531	54,024
Authorized but not contracted for	116,574	32,068
	158,105	86,092

#### (c) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings under non-cancellable operating leases are as follows:

##### **The Group and the Bank**

	As at 31 December	
	2013	2012
Within 1 year	145,910	109,798
Between 1 year to 5 years	441,867	320,753
Later than 5 years	75,826	65,737
	663,603	496,288

#### (d) Treasury bond redemption commitments

The Group is entrusted by the MOF to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2013 and 2012, the outstanding principal value of the treasury bonds sold by the Group were RMB 1.4 billion and RMB 1.226 billion respectively.

## Notes to the Consolidated Financial Statements (Continued)

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

### 39 Financial guarantees and credit commitments, other commitments and contingent liabilities (Continued)

#### (e) Legal proceedings

As at 31 December 2013 and 2012, there were no significant legal proceedings outstanding against the Group.

### 40 Pledged assets

Assets are pledged as collateral under repurchase agreements and for treasury deposits with other banks and Ministry of Finance.

#### The Group and the Bank

	As at 31 December	
	2013	2012
Financial assets held for trading	—	410,633
Available-for-sale financial assets	7,810,600	4,511,808
Held-to-maturity investments	10,663,981	15,154,733
Bills held under resale agreements	21,571,270	31,182,881
Discounted bills	2,119,283	1,141,551
<b>Total</b>	<b>42,165,134</b>	<b>52,401,606</b>

### 41 Credit risk weighted amount of financial guarantees and credit commitments

#### The Bank

	As at 31 December	
	2013	2012
Financial guarantees and credit related commitments	35,830,827	22,413,330

#### The Bank

	As at 31 December	
	2013	2012
Financial guarantees and credit related commitments	35,719,123	22,413,330

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit related commitments.

## Notes to the Consolidated Financial Statements (Continued)

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

### 42 Other comprehensive income

#### *The Group and the Bank*

	2013		
	Pre-tax amount	Tax charge	Net-of-tax amount
<b>Other comprehensive income</b>			
Fair value changes in available-for-sale financial assets	(1,045,151)	261,287	(783,864)
<b>Other comprehensive income for the year</b>	(1,045,151)	261,287	(783,864)

#### *The Group and the Bank*

	2012		
	Pre-tax amount	Tax charge	Net-of-tax amount
<b>Other comprehensive income</b>			
Fair value changes in available-for-sale financial assets	(122,018)	30,505	(91,513)
<b>Other comprehensive income for the year</b>	(122,018)	30,505	(91,513)

### 43 Structured entities

#### Unconsolidated structured entities

#### (a) Unconsolidated structured entities managed by the group

The unconsolidated structure entities managed by the Group are mainly wealth management products issued and managed by the Bank acting as an agent. Based on the analysis and research of the potential target customers, the Group designs and offers wealth management products to meet the needs of the customers. The raised funds were invested in related financial market or financial products in accordance with the product contracts. Gains would be allocated to investors after the Group gained from investment. The Group receives commission income as the manager of wealth management products. The Group regarded that the variable returns of the structured entities are insignificant. As at 31 December 2013, the maximum exposure of loss of the unconsolidated wealth management products is zero.

As at 31 December 2013, the carrying value of the off-balance sheet wealth management the Group issued and managed is RMB2.521 billion.

#### (b) Unconsolidated structured entities invested by the group

To maximize the usage of capital, the Group enters into transactions with unconsolidated structured entities which include wealth management products and the asset management schemes issued by other independent third parties in 2013. The Group classifies these assets into "loans and receivables" or "available-for-sale financial assets" based on their nature. As the investor of these entities, the Group earns interest from these transactions. The Group has not provided any liquidity support to these unconsolidated structured entities in 2013.

## Notes to the Consolidated Financial Statements (Continued)

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

### 43 Structured entities (Continued)

#### (b) Unconsolidated structured entities invested by the group (continued)

The table below shows the total assets and scale of unconsolidated structured entities invested by the Group as at 31 December 2013, as well as its maximum exposure to loss in relation to those interests.

At 31 December 2013

	Carrying Value	Maximum Exposure to Loss	Total Scale
<b>Loans and receivables</b>			
– wealth management products	593,501	593,501	Note 1
<b>Available-for-sale financial assets</b>			
– Asset management schemes by securities firms or trust	1,061,231	1,061,231	1,061,231

Note 1: There's no public available information to disclose regarding to total scale of wealth management products issued and managed by other independent third parties.

### 44 Notes to the statement of cash flows

For the purpose of the statement of cash flow, cash and cash equivalents comprises the following balances with an original maturity of less than three months and are used for the purpose of meeting short-term cash commitments:

#### The Group

	As at 31 December	
	2013	2012
Cash	956,373	973,723
Surplus reserve with central bank	26,862,790	15,764,170
Due from banks and other financial institutions	9,710,049	3,163,390
	37,529,212	19,901,283

#### The Bank

	As at 31 December	
	2013	2012
Cash	955,670	973,723
Surplus reserve with central bank	26,862,790	15,764,170
Due from banks and other financial institutions	9,605,049	3,163,390
	37,423,509	19,901,283

## Notes to the Consolidated Financial Statements (Continued)

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

### 45 Related party transactions

#### (1) Related parties

The table below listed major related legal entities of the Group:

Major related legal entities with the Group	Relationship with the Group	Share percentage (%)
Anhui Province Energy Group Co.,	Major shareholder	9.47
China Vanke Co., Ltd.	Major shareholder	8.00
Anhui Guoyuan Holding (Group) Co.,	Major shareholder	7.19
Anhui Credit Guaranty Group Co.,	Major shareholder	6.81
Chery Motor Finance Service Co., Ltd.	Associate	
Wuwei Huiyin Rural Bank Co., Ltd.	Associate	

#### (2) Related party transactions and balances

Related-party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

##### (a) Transactions with major shareholders

As at balance sheet dates stated above, the balances and interest rate ranges of transactions with major shareholders of the Group are as follows:

	As at 31 December	
	2013	2012
Loans and advances to customers	181,000	700,600
Investment securities	48,892	249,829
Placements from banks and other financial institutions	153,126	573,475
Deposits from customers	416,668	434,305
Letters of guarantee	—	1,367

	As at 31 December	
	2013	2012
Loans and advances to customers	5.89%–8.40%	5.76%–8.83%
Investment securities	4.72%–5.38%	4.22%–5.75%
Placements from banks and other financial institutions	0.72%–5.45%	0.39%–4.57%
Deposits from customers	0.385%–3.3%	0.39%–4.75%

As for the periods stated above, the interest income and expense of loans and deposits with respect to major shareholders are as follows:

	2013	2012
Interest income	16,177	55,700
Interest expense	7,991	6,000



## Notes to the Consolidated Financial Statements (Continued)

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

### 45 Related party transactions (continued)

#### (2) Related party transactions and balances (continued)

##### (b) Transactions with other related parties

As at the balance sheet date, the balances and interest rate ranges of transactions with other related parties of the Group are as follows:

	As at 31 December	
	2013	2012
Placements with and loans to banks and other financial institutions	500,499	57,436
Loans and advances to customers	1,111	1,343
Placements from banks and other financial institutions	401,915	111,404
Deposits from customers	13,861	3,211

	As at 31 December	
	2013	2012
Placements with and loans to banks and other financial institutions	4.4%–7.5%	4.56%–7.20%
Loans and advances to customers	4.58%–6.45%	4.50%–6.45%
Placements from banks and other financial institutions	0.72%	0.39%–0.72%
Deposits from customers	0.385%–5.225%	0.39%–4.75%

The interest income and expense of loans and deposits with respect to other related parties are as follows:

	2013	2012
Interest income	62	53
Interest expense	77	13

##### (c) Emoluments for directors, supervisors and senior management

	2013	2012
Emoluments for directors, supervisors and senior management	24,520	27,061

##### (d) Transactions with subsidiaries

The balance of transactions with subsidiaries in the statement of financial position is as follow:

	As at 31 December	
	2013	2012
Placements from banks and other financial institutions	19,149	—

## Notes to the Consolidated Financial Statements (Continued)

*(All amounts expressed in thousands of RMB unless otherwise stated)*

### 46 Segment Analysis

The Group manages the business from both business and geographic perspectives. From the business perspective, the Group provides services through four main business segments listed below:

#### Corporate banking

Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products.

#### Retail banking

Services to retail customers including savings deposits, retail loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

#### Treasury

Treasury segment conducts securities investment, money market and repurchase transactions. The results of this segment include the intersegment funding income and expenses, resulting from interest bearing assets and liabilities and foreign currency translation gains and losses.

#### Others

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

Geographically, the Group mainly conducts its business in Anhui Province and the Yangtze River Delta area of the PRC. All information disclosed is based on the locations of bank branches.

## Notes to the Consolidated Financial Statements (Continued)

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

### 46 Segment Analysis (continued)

	2013				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	9,990,215	2,664,415	6,197,284	4,915	18,856,829
Net interest expense to external customers	(3,912,521)	(1,013,939)	(4,326,400)	(1,118)	(9,253,978)
Intersegment net interest income/(expense)	(375,009)	1,101,107	(726,098)	—	—
<b>Net interest income</b>	<b>5,702,685</b>	<b>2,751,583</b>	<b>1,144,786</b>	<b>3,797</b>	<b>9,602,851</b>
<b>Net fee and commission income</b>	<b>349,397</b>	<b>156,736</b>	<b>33,445</b>	<b>(2)</b>	<b>539,576</b>
Net trading income	—	—	(82,971)	—	(82,971)
Net gains/losses from investment securities	—	—	(6,954)	—	(6,954)
Dividends	—	—	320	—	320
Other operating income	—	—	—	119,687	119,687
Operating expenses	(2,285,300)	(976,638)	(99,793)	(24,704)	(3,386,435)
— Depreciation and amortization	(129,095)	(108,890)	(672)	(145)	(238,802)
Impairment losses on assets	(339,519)	(94,549)	—	(1,297)	(435,365)
Share of profits of associates	—	—	—	48,035	48,035
<b>Profit before income tax</b>	<b>3,427,263</b>	<b>1,837,132</b>	<b>988,833</b>	<b>145,516</b>	<b>6,398,744</b>
<b>Capital expenditure</b>	<b>168,116</b>	<b>141,805</b>	<b>875</b>	<b>1,980</b>	<b>312,776</b>

	As at 31 December 2013				
	Corporate banking	Retail banking	Treasury	Others	Total
<b>Segment assets</b>	144,164,140	49,981,854	185,421,270	1,428,584	380,995,848
<i>Including: investment in associates</i>	—	—	—	334,741	334,741
<b>Deferred income tax assets</b>					1,113,242
<b>Total assets</b>					382,109,090
<b>Segment liabilities</b>	(212,724,029)	(63,811,822)	(71,113,524)	(2,787,783)	(350,437,158)
<b>Off-balance sheet credit commitments</b>	56,971,632	2,675,056	—	—	59,646,688

## Notes to the Consolidated Financial Statements (Continued)

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

### 46 Segment Analysis (continued)

	2012				Total
	Corporate banking	Retail banking	Treasury	Others	
Net interest income from external customers	8,735,834	2,107,319	4,318,210	—	15,161,363
Net interest expense to external customers	(3,244,768)	(815,881)	(2,531,866)	—	(6,592,515)
Intersegment net interest income/(expense)	(399,506)	1,001,889	(602,383)	—	—
<b>Net interest income</b>	5,091,560	2,293,327	1,183,961	—	8,568,848
<b>Net fee and commission income</b>	241,658	100,867	53,206	—	395,731
Net trading income	—	—	40,494	—	40,494
Net gains/losses from investment securities	—	—	66,593	—	66,593
Dividends income	—	—	305	—	305
Other operating income	—	—	—	162,994	162,994
Operating expenses	(2,134,129)	(869,434)	(106,014)	(22,691)	(3,132,268)
— Depreciation and amortization	(109,649)	(91,015)	(540)	—	(201,204)
Impairment losses on assets	(410,526)	(56,577)	9,388	—	(457,715)
Share of profits of associates	—	—	—	35,056	35,056
<b>Profit before income tax</b>	2,788,563	1,468,183	1,247,933	175,359	5,680,038
<b>Capital expenditure</b>	215,176	178,607	1,058	—	394,841

	As at 31 December 2012				Total
	Corporate banking	Retail banking	Treasury	Others	
<b>Segment assets</b>	129,228,042	36,347,223	156,761,207	1,036,727	323,373,199
<i>Including: investment in associates</i>	—	—	—	220,246	220,246
<b>Deferred income tax assets</b>					851,158
<b>Total assets</b>					324,224,357
<b>Segment liabilities</b>	(188,536,633)	(53,867,769)	(58,970,569)	(2,368,462)	(303,743,433)
<b>Off-balance sheet credit commitments</b>	50,766,873	1,708,977	—	—	52,475,850

## Notes to the Consolidated Financial Statements (Continued)

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

### 46 Segment Analysis (continued)

	2013				Total
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	
Net interest income from external customers	11,129,018	814,205	6,913,606	—	18,856,829
Net interest expense to external customers	(5,101,625)	(532,517)	(3,619,836)	—	(9,253,978)
Intersegment net interest income/(expense)	1,474,285	108,132	(1,582,417)	—	—
<b>Net interest income</b>	7,501,678	389,820	1,711,353	—	9,602,851
<b>Net fee and commission income</b>	353,090	36,264	150,222	—	539,576
Net trading income	22,915	1,265	(107,151)	—	(82,971)
Net gains/losses from investment securities	—	—	(6,954)	—	(6,954)
Dividends	—	—	320	—	320
Other operating income	32,667	—	87,020	—	119,687
Operating expenses	(2,336,203)	(202,217)	(848,015)	—	(3,386,435)
— Depreciation and amortization	(148,537)	(14,800)	(75,465)	—	(238,802)
Impairment losses on assets	(401,508)	(33,857)	—	—	(435,365)
Share of profits of associates	—	—	48,035	—	48,035
<b>Profit before income tax</b>	5,172,639	191,275	1,034,830	—	6,398,744
<b>Capital expenditure</b>	206,652	6,153	99,971	—	312,776

	As at 31 December 2013				Total
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	
<b>Segment assets</b>	292,783,686	25,924,666	154,699,961	(92,412,465)	380,995,848
<i>Including: investment in associates</i>	—	—	334,741	—	334,741
<b>Deferred income tax assets</b>					1,113,242
<b>Total assets</b>					382,109,090
<b>Segment liabilities</b>	(202,894,164)	(19,112,552)	(220,842,907)	92,412,465	(350,437,158)
<b>Off-balance sheet credit commitments</b>	40,988,840	14,158,246	4,499,602	—	59,646,688

## Notes to the Consolidated Financial Statements (Continued)

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

### 46 Segment Analysis (continued)

	2012				Total
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	
Net interest income from external customers	9,412,865	597,622	5,150,876	—	15,161,363
Net interest expense to external customers	(3,950,022)	(486,118)	(2,156,375)	—	(6,592,515)
Intersegment net interest income/(expense)	1,450,999	136,130	(1,587,129)	—	—
<b>Net interest income</b>	6,913,842	247,634	1,407,372	—	8,568,848
<b>Net fee and commission income</b>	243,571	23,522	128,638	—	395,731
Net trading income	20,654	815	19,025	—	40,494
Net gains/losses from investment securities	—	—	66,593	—	66,593
Dividends income	—	—	305	—	305
Other operating income	60,928	—	102,066	—	162,994
Operating expenses	(2,162,772)	(169,395)	(800,101)	—	(3,132,268)
— Depreciation and amortization	(123,803)	(14,057)	(63,344)	—	(201,204)
Impairment losses on assets	(451,398)	(15,705)	9,388	—	(457,715)
Share of profits of associates	—	—	35,056	—	35,056
<b>Profit before income tax</b>	4,624,825	86,871	968,342	—	5,680,038
<b>Capital expenditure</b>	185,592	3,873	205,376	—	394,841

	As at 31 December 2012				Total
	Anhui Province	Pan Yangtze River Delta	Head Office	Intersegment eliminations	
<b>Segment assets</b>	235,569,202	21,046,886	141,158,867	(74,401,756)	323,373,199
<i>Including: investment in associates</i>	—	—	220,246	—	220,246
<b>Deferred income tax assets</b>					851,158
<b>Total assets</b>					324,224,357
<b>Segment liabilities</b>	(171,472,840)	(13,605,798)	(193,066,551)	74,401,756	(303,743,433)
<b>Off-balance sheet credit commitments</b>	35,803,295	12,799,875	3,872,680	—	52,475,850

There were no material transactions with a single external customer that the Group mainly relies on.



## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management

#### Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in the business. The Group's aim is therefore to achieve an appropriate balance between risks and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The most important types of risks are credit risk, liquidity risk and market risk which also currency risk and interest rate risk.

The Board of Directors is responsible for establishing the overall risk appetite of the Group. Management establishes corresponding risk management policies and procedures covering areas of credit risk, market risk and liquidity risk under the risk appetite approved by the Board of Directors.

#### 47.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally in loans and advances to banks, customers and securities. There is also credit risk in off-balance sheet financial arrangements: such as loan commitments. The Group mainly conducts its business in Anhui Province of the PRC, indicating a concentration risk in the Group's credit portfolio which makes it vulnerable to economic changes in the region. Management therefore carefully manages its exposure to credit risks. The credit risk management and control are centralized in the Risk Management Department of Head Office and reported to management regularly.

##### **47.1.1 Credit risk measurement**

###### **(i) Loans and advances and off-balance sheet commitments**

The Group measures and manages the credit quality of its credit assets through five-category system based on the "Guideline for Loan Credit Risk Classification" (the "Guideline") issued by the CBRC. The Guideline requires commercial banks to classify their credit assets into five categories, namely pass, special-mention, sub-standard, doubtful and loss categories, among which loan classified in sub-standard, doubtful and loss categories are regarded as non-performing loans.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.1 Credit risk measurement (continued)

###### (i) Loans and advances and off-balance sheet commitments (continued)

The five categories are defined by the Guideline as follows:

**Pass:** loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

**Special-mention:** loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

**Substandard:** loans for which borrowers' ability to service the loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

**Doubtful:** loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

**Loss:** principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

###### (ii) Debt securities and other bills

The Group manages the credit risk through restriction on the types of and management of issuers of debt securities and other bills invested. It is prohibited to purchase RMB bonds issued by companies not from State Owned Enterprises ("SOE") background. So far, the Group holds no foreign currency bonds.

###### (iii) Loans and advances to banks and other financial institutions

The Group's Head Office executes regular review and management of credit risk related to individual financial institutions, and sets credit lines for individual banks and other financial institutions that it conducts business with.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.2 Risk limit control and mitigation policies

The Group manages and controls concentrations of credit risk wherever they are identified — in particular, to individual counterparties and groups, and to industries and regions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The Group grants branches and business departments operational authority from Head Office. Based on the status of geographical economy, management level of branches, types of credit products, types of credit rating, collateral type, and scale of customers, Head Office gives dynamic authority to its branches with respect to credit business. Such authorities are monitored on a revolving basis and subject to a regular review to make sure operations of the branches are within limits of authority granted.

##### (i) Credit risk mitigation policies

The Group employs a range of policies and practices to mitigate credit risk. The most prevalent of these is taken by the Group include the taking of physical or cash collaterals, cash deposit and corporate or individual guarantees.

The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types are:

- Property and land use rights
- General movable assets
- Time deposit certificates, debt securities and commodity warehouse receipts etc

The fair value of collaterals should be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral) for different collaterals. The principal collateral types and maximum loan-to-value ratio for corporate and retail loans are as follows:

Collateral	Maximum loan-to-value ratio
Residential property, commercial property, and construction land use rights	70%
Office buildings	60%
General movable assets	50%
RMB deposit receipts, bank notes, government bonds	90%
Debt securities issued by financial institutions	80%
Commodity warehouse receipt	60%

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.2 Risk limit control and mitigation policies (continued)

##### (ii) Credit-related off-balance sheet commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees are irrevocable commitments made by the Group for which the Group must make payments to the third party when its customers fail to satisfy this obligation. Hence, they carry the same credit risks as loans. The Group usually takes cash collateral to mitigate such credit risk. The Group's maximum exposure to credit risk equals the total amount of credit-related off-balance sheet commitments.

##### 47.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

##### The Group

	As at 31 December	
	2013	2012
<b>Credit risk exposures relating to on-balance sheet financial assets are as follows:</b>		
Balances with the central bank	75,222,082	56,675,560
Due from banks and other financial institutions	10,999,655	3,833,665
Placement with and Loans to banks and other financial institutions	1,192,253	2,813,377
Financial assets held for trading	1,805,291	3,598,834
Derivative financial assets	5,698	—
Financial assets held under resale agreements	36,772,428	38,198,123
Loans and advances to customers	191,280,398	159,941,475
Investment securities-available-for-sale	29,955,220	25,564,222
Investment securities-held-to-maturity	27,772,207	26,062,726
Investment securities-loans and receivables	723,568	1,814,189
Other financial assets	2,194,245	2,017,310
	377,923,045	320,519,481
<b>Credit risk exposures relation to off-balance sheet items are as follows:</b>		
Bank acceptance	52,567,298	46,602,041
Letters of credit	1,445,716	2,023,348
Letters of guarantee	2,490,218	1,674,944
Loan commitments	468,400	466,540
Unused credit card lines	2,675,056	1,708,977
	59,646,688	52,475,850

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

(continued)

##### The Bank

	As at 31 December	
	2013	2012
<b>Credit risk exposures relating to on-balance sheet financial assets are as follows:</b>		
Balances with the central bank	75,193,795	56,675,560
Due from banks and other financial institutions	10,894,655	3,833,665
Placement with and Loans to banks and other financial institutions	1,192,253	2,813,377
Financial assets held for trading	1,805,291	3,598,834
Derivative financial assets	5,698	—
Financial assets held under resale agreements	36,772,428	38,198,123
Loans and advances to customers	191,152,035	159,941,475
Investment securities — available-for-sale	29,955,220	25,564,222
Investment securities — held-to-maturity	27,772,207	26,062,726
Investment securities — loans and receivables	723,568	1,814,189
Other financial assets	2,193,685	2,017,310
	377,660,835	320,519,481
<b>Credit risk exposures relation to off-balance sheet items are as follows:</b>		
Bank acceptance	52,567,298	46,602,041
Letters of credit	1,445,716	2,023,348
Letters of guarantee	2,490,218	1,674,944
Loan commitments	468,400	466,540
Unused credit card lines	2,675,056	1,708,977
	59,646,688	52,475,850

The above table represents the worst case scenario of credit risk exposure to the Group and the Bank at 31 December 2013 and 2012, without taking into account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As mentioned above, 50.61% of on-balance-sheet exposure is attributable to loans and advances to customers (2012: 49.90%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from its loans and advances portfolio based on the following:

- 97.55% of the loans and advances portfolio is categorized as Pass of the five-category system (2012: 97.08%);
- Collateralized loans and mortgage loans, which represents the biggest group in the corporate and retail portfolio respectively, are backed by collateral;
- 99.22% of the loans and advances portfolio are considered to be neither past due nor impaired (2012: 99.22%);

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### **47.1.4 Placement with and loans to banks and other financial institutions and financial assets held under resale agreements**

###### **The Group and the Bank**

	31 December 2013	31 December 2012
Neither overdue nor impaired (i)	37,964,681	41,011,500
Impaired (ii)	—	38,417
	37,964,681	41,049,917
Less: impairment allowance	—	(38,417)
Net	37,964,681	41,011,500

#### (i) Neither past due nor impaired

##### **The Group and the Bank**

	31 December 2013	31 December 2012
Commercial banks in PRC mainland	27,320,204	39,463,865
Other financial institutions in PRC mainland	10,644,477	1,547,635
	37,964,681	41,011,500

#### (ii) Impaired

As at 31 December 2013, the Group has no impaired placement with and loans to banks or impaired financial assets held under resale agreements. As at 31 December 2012, the Group has provided 100% impairment allowance for impaired placement with and loans to banks and other financial institutions and financial assets held under resale agreements.



## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.5 Loans and advances to customers

###### (a) Analysis of loans and advances to customers by industry

Concentrations of credit risk of loans and advances to customers by industry are analyzed as follows:

###### The Group

	As at 31 December			
	2013		2012	
	Amount	%	Amount	%
Corporate loans				
Commerce and Service	41,405,678	21	33,594,295	20
Manufacturing	41,055,136	21	36,212,063	22
Public utility	13,927,546	7	12,506,560	8
Real estate	13,458,953	7	9,344,416	6
Construction	11,271,145	6	9,933,991	6
Transportation	4,488,747	2	4,486,120	3
Energy and chemistry	4,395,490	2	4,825,041	3
Catering and travelling	2,181,588	1	1,548,834	1
Education and media	2,176,267	1	1,656,666	1
Financial services	983,815	1	1,575,350	1
Others	1,511,555	1	1,124,310	1
Discounted bills	9,725,240	5	11,907,252	7
<b>Subtotal</b>	<b>146,581,160</b>	<b>75</b>	<b>128,714,898</b>	<b>79</b>
Retail loans				
Mortgages	34,790,468	18	25,201,772	15
Revolving loans for private business	9,451,425	5	6,423,598	4
Others	4,626,383	2	3,454,498	2
<b>Subtotal</b>	<b>48,868,276</b>	<b>25</b>	<b>35,079,868</b>	<b>21</b>
<b>Total loans and advances to customers, before impairment allowance</b>	<b>195,449,436</b>	<b>100</b>	<b>163,794,766</b>	<b>100</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.5 Loans and advances to customers (continued)

##### (a) Analysis of loans and advances to customers by industry (continued)

###### The Bank

	As at 31 December			
	2013		2012	
	Amount	%	Amount	%
Corporate loans				
Commerce and Service	41,399,678	21	33,594,295	20
Manufacturing	41,047,736	21	36,212,063	22
Public utility	13,927,546	7	12,506,560	8
Real estate	13,458,953	7	9,344,416	6
Construction	11,271,145	6	9,933,991	6
Transportation	4,488,747	2	4,486,120	3
Energy and chemistry	4,395,490	2	4,825,041	3
Catering and travelling	2,181,588	1	1,548,834	1
Education and media	2,176,267	1	1,656,666	1
Financial services	983,815	1	1,575,350	1
Others	1,503,555	1	1,124,310	1
Discounted bills	9,725,240	5	11,907,252	7
Subtotal	146,559,760	75	128,714,898	79
Retail loans				
Mortgages	34,785,068	18	25,201,772	15
Revolving loans for private business	9,434,125	5	6,423,598	4
Others	4,540,823	2	3,454,498	2
Subtotal	48,760,016	25	35,079,868	21
Total loans and advances to customers, before impairment allowance	195,319,776	100	163,794,766	100

Analysis of loans and advances to customers by industry is conducted based on the industries of the borrowers.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.5 Loans and advances to customers (continued)

###### (b) Analysis of loans and advances to customers by collateral type

The contractual amounts of loans and advances to customers are analyzed by security type:

###### The Group

	As at 31 December	
	2013	2012
Unsecured	12,987,004	13,535,831
Guaranteed	62,073,305	54,000,075
Collateralized	100,942,694	75,939,391
Pledged	19,446,433	20,319,469
<b>Total loans and advances to customers</b>	<b>195,449,436</b>	<b>163,794,766</b>

###### The Bank

	As at 31 December	
	2013	2012
Unsecured	12,986,344	13,535,831
Guaranteed	61,954,505	54,000,075
Collateralized	100,934,294	75,939,391
Pledged	19,444,633	20,319,469
<b>Total loans and advances to customers</b>	<b>195,319,776</b>	<b>163,794,766</b>

###### (c) Analysis of loans and advances to customers by geographical area

###### The Group

	As at 31 December					
	2013			2012		
	Total	%	NPL ratio	Total	%	NPL ratio
Anhui Province	180,437,349	92.32%	0.56%	153,197,324	93.53%	0.62%
Pan Yangtze River Delta	15,012,087	7.68%	0.22%	10,597,442	6.47%	—
<b>Total loans and advances to customers</b>	<b>195,449,436</b>	<b>100.00%</b>	<b>0.54%</b>	<b>163,794,766</b>	<b>100.00%</b>	<b>0.58%</b>

###### The Bank

	As at 31 December					
	2013			2012		
	Total	%	NPL ratio	Total	%	NPL ratio
Anhui Province	180,307,689	92.31%	0.56%	153,197,324	93.53%	0.62%
Pan Yangtze River Delta	15,012,087	7.69%	0.22%	10,597,442	6.47%	—
<b>Total loans and advances to customers</b>	<b>195,319,776</b>	<b>100.00%</b>	<b>0.54%</b>	<b>163,794,766</b>	<b>100.00%</b>	<b>0.58%</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.5 Loans and advances to customers (continued)

##### (d) Analysis of loans and advances to customers by overdue and impaired status

###### The Group

	31 December 2013		31 December 2012	
	Corporate loans	Retail loans	Corporate loans	Retail loans
Neither overdue nor impaired (e)	145,573,013	48,357,106	127,857,120	34,663,296
Overdue but not impaired (f)	105,368	362,771	19,926	305,329
Impaired (g)	902,779	148,399	837,852	111,243
<b>Total</b>	<b>146,581,160</b>	<b>48,868,276</b>	<b>128,714,898</b>	<b>35,079,868</b>
Less: collectively assessed impairment allowance	(3,225,644)	(572,181)	(3,108,442)	(490,184)
Individually assessed impairment allowance	(371,213)	—	(254,665)	—
<b>Total impairment allowance</b>	<b>(3,596,857)</b>	<b>(572,181)</b>	<b>(3,363,107)</b>	<b>(490,184)</b>
<b>Net</b>	<b>142,984,303</b>	<b>48,296,095</b>	<b>125,351,791</b>	<b>34,589,684</b>

###### The Bank

	31 December 2013		31 December 2012	
	Corporate loans	Retail loans	Corporate loans	Retail loans
Neither overdue nor impaired (e)	145,551,613	48,248,846	127,857,120	34,663,296
Overdue but not impaired (f)	105,368	362,771	19,926	305,329
Impaired (g)	902,779	148,399	837,852	111,243
<b>Total</b>	<b>146,559,760</b>	<b>48,760,016</b>	<b>128,714,898</b>	<b>35,079,868</b>
Less: collectively assessed impairment allowance	(3,225,430)	(571,098)	(3,108,442)	(490,184)
Individually assessed impairment allowance	(371,213)	—	(254,665)	—
<b>Total impairment allowance</b>	<b>(3,596,643)</b>	<b>(571,098)</b>	<b>(3,363,107)</b>	<b>(490,184)</b>
<b>Net</b>	<b>142,963,117</b>	<b>48,188,918</b>	<b>125,351,791</b>	<b>34,589,684</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.5 Loans and advances to customers (continued)

##### (e) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired of single corporate customer can be assessed by reference to the five-category system adopted by the Group.

##### The Group

As at 31 December 2013

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special-mention	
Corporate loans			
— Commercial loans	132,405,011	3,442,762	135,847,773
— Discounted bills	9,711,414	13,826	9,725,240
Subtotal	142,116,425	3,456,588	145,573,013
Retail loans	48,352,067	5,039	48,357,106
Total	190,468,492	3,461,627	193,930,119

##### The Bank

As at 31 December 2013

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special-mention	
Corporate loans			
— Commercial loans	132,383,611	3,442,762	135,826,373
— Discounted bills	9,711,414	13,826	9,725,240
Subtotal	142,095,025	3,456,588	145,551,613
Retail loans	48,243,807	5,039	48,248,846
Total	190,338,832	3,461,627	193,800,459

##### The Group and the Bank

As at 31 December 2012

Neither overdue nor impaired	Five-category classification		Total
	Pass	Special-mention	
Corporate loans			
— Commercial loans	112,578,554	3,371,314	115,949,868
— Discounted bills	11,633,073	274,179	11,907,252
Subtotal	124,211,627	3,645,493	127,857,120
Retail loans	34,658,597	4,699	34,663,296
Total	158,870,224	3,650,192	162,520,416

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.5 Loans and advances to customers (continued)

##### (f) Loans and advances overdue but not impaired

Analysis of assets overdue but not impaired by overdue days:

##### The Group and the Bank

As at 31 December 2013

	Up to 30 days	30–60 days	60–90 days	over 90 days	Total
Corporate loans	22,362	26,148	16,688	40,170	105,368
Retail loans	185,680	67,827	39,049	70,215	362,771
<b>Total</b>	<b>208,042</b>	<b>93,975</b>	<b>55,737</b>	<b>110,385</b>	<b>468,139</b>

##### The Group and the Bank

As at 31 December 2012

	Up to 30 days	30–60 days	60–90 days	over 90 days	Total
Corporate loans	13,242	1,984	2,100	2,600	19,926
Retail loans	157,600	59,692	29,420	58,617	305,329
<b>Total</b>	<b>170,842</b>	<b>61,676</b>	<b>31,520</b>	<b>61,217</b>	<b>325,255</b>

##### (g) Impaired loans and advances

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

##### The Group and the Bank

	As at 31 December	
	2013	2012
Corporate loans	902,779	837,852
Retail loans	148,399	111,243
<b>Total</b>	<b>1,051,178</b>	<b>949,095</b>
Fair value of collateral		
Corporate loans	750,475	289,770
Retail loans	97,977	74,034
<b>Total</b>	<b>848,452</b>	<b>363,804</b>

The fair value of collateral is estimated based on the latest external valuations available, the realization experience of the current collateral and the market conditions.



## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.5 Loans and advances to customers (continued)

###### (h) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. As of 31 December 2013, there were no renegotiated loans that would otherwise be overdue or impaired for the Group and the Bank (2012: Nil).

###### (i) Overdue loans and advances by overdue days and collateral type<sup>(a)</sup>

###### The Group and the Bank

	As at 31 December 2013				Total
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	
Unsecured	24,780	10,114	2,359	430	37,683
Guaranteed	30,225	161,403	94,867	2,331	288,826
Collateralized	450,993	358,665	164,478	18,470	992,606
Pledged	9,381	24,721	159,243	—	193,345
	515,379	554,903	420,947	21,231	1,512,460

###### The Group and the Bank

	As at 31 December 2012				Total
	Overdue 1 to 90 days (inclusive)	Overdue 90 days to 1 year (inclusive)	Overdue 1 year to 3 years (inclusive)	Overdue over 3 years	
Unsecured	147	12,318	1,591	13,882	27,938
Guaranteed	104,592	11,264	4,486	27,239	147,581
Collateralized	293,016	139,609	97,236	39,294	569,155
Pledged	71,723	94,844	—	8,873	175,440
	469,478	258,035	103,313	89,288	920,114

- (a) The loan as a whole will be classified as overdue if the principal scheduled to repay during a certain term past due for 1 day.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.6 Debt securities

The table below presents an analysis of debt securities by external credit rating companies:

##### The Group and the Bank

As at 31 December 2013

	Held-for-trading	Available-for-sale	Held-to-maturity	Loans and receivables	Total
RMB securities					
AAA	135,391	1,410,288	2,112,452	—	3,658,131
AA- to AA+	776,723	4,085,640	3,184,447	—	8,046,810
A- to A+	10,443	51,404	596,447	—	658,294
Unrated <sup>(a)</sup>	882,734	24,407,888	21,878,861	723,568	47,893,051
<b>Total</b>	<b>1,805,291</b>	<b>29,955,220</b>	<b>27,772,207</b>	<b>723,568</b>	<b>60,256,286</b>

##### The Group and the Bank

As at 31 December 2012

	Held-for-trading	Available-for-sale	Held-to-maturity	Loans and receivables	Total
RMB securities					
AAA	250,927	1,803,261	1,067,322	—	3,121,510
AA- to AA+	1,534,934	7,208,576	1,899,350	—	10,642,860
A- to A+	144,423	354,319	—	—	498,742
Unrated <sup>(a)</sup>	1,668,550	16,198,066	23,096,054	1,814,189	42,776,859
<b>Total</b>	<b>3,598,834</b>	<b>25,564,222</b>	<b>26,062,726</b>	<b>1,814,189</b>	<b>57,039,971</b>

- (a) Debt securities (held-for-trading, available-for-sale and held-to-maturity) held by the Group mainly represent investments and trading securities issued by Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks which are creditworthy issuers in the market, but are not rated by independent rating agencies as well as trust schemes and targeted asset management schemes of brokers. Loans and receivables mainly include the principal-guaranteed wealth management products issued by other banks.

There are no overdue or impaired debt securities as of the reporting periods stated above. The Group holds no collateral, and no impairment provision has been provided against the gross amount.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.7 Foreclosed collateral

###### The Group and the Bank

	As at 31 December	
	2013	2012
Property and land use rights	—	985
Others	—	—
<b>Total</b>	<b>—</b>	<b>985</b>

Foreclosed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Foreclosed property cannot be used for operating activities. Foreclosed property is classified in the balance sheet within other assets.

##### 47.1.8 Concentration of risks of financial assets with credit risk exposure

Geographical sectors

###### The Group

As at 31 December 2013

	PRC mainland	Hong Kong	Others	Total
<b>Financial assets</b>				
Balances with the central bank	75,222,082	—	—	75,222,082
Due from banks and other financial institutions	10,520,647	264,487	214,521	10,999,655
Placements with and loans to banks and other financial institutions	1,192,253	—	—	1,192,253
Financial assets held for trading	1,805,291	—	—	1,805,291
Derivative financial assets	5,698	—	—	5,698
Financial assets held under resale agreements	36,772,428	—	—	36,772,428
Loans and advances to customers	191,280,398	—	—	191,280,398
Investment securities — available-for-sale	29,955,220	—	—	29,955,220
Investment securities — held-to-maturity	27,772,207	—	—	27,772,207
Investment securities — loans and receivables	723,568	—	—	723,568
Other financial assets	2,194,245	—	—	2,194,245
	<b>377,444,037</b>	<b>264,487</b>	<b>214,521</b>	<b>377,923,045</b>
<b>Off-balance sheet assets</b>				
Bank acceptance	52,567,298	—	—	52,567,298
Letters of credit	1,445,716	—	—	1,445,716
Letters of guarantee	2,490,218	—	—	2,490,218
Loan commitments	468,400	—	—	468,400
Unused credit card lines	2,675,056	—	—	2,675,056
	<b>59,646,688</b>	<b>—</b>	<b>—</b>	<b>59,646,688</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.8 Concentration of risks of financial assets with credit risk exposure (continued)

###### The Bank

As at 31 December 2013

	PRC mainland	Hong Kong	Others	Total
<b>Financial assets</b>				
Balances with the central bank	75,193,795	—	—	75,193,795
Due from banks and other financial institutions	10,415,647	264,487	214,521	10,894,655
Placements with and loans to banks and other financial institutions	1,192,253	—	—	1,192,253
Financial assets held for trading	1,805,291	—	—	1,805,291
Derivative financial assets	5,698	—	—	5,698
Financial assets held under resale agreements	36,772,428	—	—	36,772,428
Loans and advances to customers	191,152,035	—	—	191,152,035
Investment securities — available-for-sale	29,955,220	—	—	29,955,220
Investment securities — held-to-maturity	27,772,207	—	—	27,772,207
Investment securities — loans and receivables	723,568	—	—	723,568
Other financial assets	2,193,685	—	—	2,193,685
	377,181,827	264,487	214,521	377,660,835
<b>Off-balance sheet assets</b>				
Bank acceptance	52,567,298	—	—	52,567,298
Letters of credit	1,445,716	—	—	1,445,716
Letters of guarantee	2,490,218	—	—	2,490,218
Loan commitments	468,400	—	—	468,400
Unused credit card lines	2,675,056	—	—	2,675,056
	59,646,688	—	—	59,646,688

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.1 Credit risk (continued)

##### 47.1.8 Concentration of risks of financial assets with credit risk exposure (continued)

###### The Group and the Bank

As at 31 December 2012

	PRC mainland	Hong Kong	Others	Total
<b>Financial assets</b>				
Balances with the central bank	56,675,560	—	—	56,675,560
Due from banks and other financial institutions	3,471,733	5,745	356,187	3,833,665
Placements with and loans to banks and other financial institutions	2,813,377	—	—	2,813,377
Financial assets held for trading	3,598,834	—	—	3,598,834
Financial assets held under resale agreements	38,198,123	—	—	38,198,123
Loans and advances to customers	159,941,475	—	—	159,941,475
Investment securities				
— available-for-sale	25,564,222	—	—	25,564,222
Investment securities				
— held-to-maturity	26,062,726	—	—	26,062,726
Investment securities				
— loans and receivables	1,814,189	—	—	1,814,189
Other financial assets	2,017,310	—	—	2,017,310
	320,157,549	5,745	356,187	320,519,481
<b>Off-balance sheet assets</b>				
Bank acceptance	46,602,041	—	—	46,602,041
Letters of credit	2,023,348	—	—	2,023,348
Letters of guarantee	1,674,944	—	—	1,674,944
Loan commitments	466,540	—	—	466,540
Unused credit card lines	1,708,977	—	—	1,708,977
	52,475,850	—	—	52,475,850

The Group's and the Bank's counterparties are mainly located in PRC mainland.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.2 Market risk

##### 47.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

The Groups' market risk mainly includes trading risks arising from trading portfolio and interest rate and foreign exchange rate risks for non-trading portfolio resulted from changes in interest rates, foreign exchange rates and term structures.

The market risks arising from trading and non-trading activities are monitored by the Bank's Risk Management Department. Market risks arising from non-trading activities at the Bank level are monitored and controlled by Financial Planning Department while market risks resulting from trading activities at Bank level and non-trading activities of Financial Market Department are monitored and controlled by Financial Market Department. The Group also established daily, monthly and quarterly reporting mechanism in relation to market risk in which Financial Planning Department and Financial Market Department monitor and analyze market risk changes and quota execution before reporting to Risk Management Department and management on a regular basis.

##### 47.2.2 Market risk measurement techniques

The Group adopts sensitivity analysis to evaluate the exposure to interest rate and foreign exchange rate risks for its trading and non-trading investment portfolio, in which the Group calculates the gap between interest-bearing assets and liabilities which will mature within certain period or require re-pricing on a regular basis and performs sensitivity analysis under changes of bench mark rates, market rates and foreign exchange rates based on the gap computed above.

##### 47.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The Group performs business in PRC mainland in accordance with interest rate system set by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest bearing loans and deposits in the same direction but not in parallel.

According to PBOC's requirement, RMB loan rates could differ from PBOC's stipulated rates, whilst the floor for loan interest rates is 10% below the stipulated rates. Discount rate for RMB bills is market-oriented but cannot be lower than PBOC's stipulated rediscount rate. RMB deposit rate cannot exceed PBOC's benchmark rate. From 6 July 2012, the floor for RMB loan rate is 30% below the stipulated rate while the ceiling for RMB deposit rate is 10% above the stipulated rate.

The table below summarizes the Group's exposure to interest rate risks. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.



## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.2 Market risk (continued)

##### 47.2.3 Interest rate risk (continued)

###### The Group

As at 31 December 2013

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
<b>Assets</b>							
Cash and balances with the central bank	75,222,080	—	—	—	—	956,375	76,178,455
Due from banks and other financial institutions	6,919,425	2,897,530	1,182,700	—	—	—	10,999,655
Placements with and loans to banks and other financial institutions	42,253	—	1,150,000	—	—	—	1,192,253
Financial assets held for trading	58,856	303,653	545,191	788,667	108,924	—	1,805,291
Derivatives financial assets	—	—	—	—	—	5,698	5,698
Financial assets held under resale agreements	1,338,078	2,619,878	32,314,472	500,000	—	—	36,772,428
Loans and advances to customers	90,204,526	17,812,161	75,815,858	6,893,123	554,730	—	191,280,398
Investment securities							
— available-for-sale	2,672,568	5,018,295	6,668,846	11,718,167	3,877,344	9,500	29,964,720
— held-to-maturity	572,201	949,408	4,756,409	11,546,417	9,947,772	—	27,772,207
— loans and receivables	—	438,220	214,706	70,642	—	—	723,568
Other financial assets	—	—	—	—	—	2,194,245	2,194,245
<b>Total assets</b>	<b>177,029,987</b>	<b>30,039,145</b>	<b>122,648,182</b>	<b>31,517,016</b>	<b>14,488,770</b>	<b>3,165,818</b>	<b>378,888,918</b>
<b>Liabilities</b>							
Deposits from banks and other financial institutions	(3,473,011)	(1,106,200)	(6,206,506)	(6,500,000)	(147,689)	—	(17,433,406)
Placements from banks and other financial institutions	(1,537,045)	—	—	—	—	—	(1,537,045)
Derivatives financial liabilities	—	—	—	—	—	(5,052)	(5,052)
Financial assets sold under repurchase agreements	(19,477,436)	(4,123,931)	(19,126,550)	—	—	—	(42,727,917)
Deposits from customers	(164,904,150)	(26,855,870)	(49,432,677)	(31,442,261)	(163,284)	—	(272,798,242)
Debt securities in issue	—	—	—	(4,994,195)	(3,992,220)	—	(8,986,415)
Other financial liabilities	—	—	—	—	—	(4,139,436)	(4,139,436)
<b>Total liabilities</b>	<b>(189,391,642)</b>	<b>(32,086,001)</b>	<b>(74,765,733)</b>	<b>(42,936,456)</b>	<b>(4,303,193)</b>	<b>(4,144,488)</b>	<b>(347,627,513)</b>
<b>Total interest rate sensitivity gap</b>	<b>(12,361,655)</b>	<b>(2,046,856)</b>	<b>47,882,449</b>	<b>(11,419,440)</b>	<b>10,185,577</b>	<b>(978,670)</b>	<b>31,261,405</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.2 Market risk (continued)

##### 47.2.3 Interest rate risk (continued)

###### The Bank

As at 31 December 2013

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
<b>Assets</b>							
Cash and balances with the central bank	75,193,793	—	—	—	—	955,672	76,149,465
Due from banks and other financial institutions	6,814,425	2,897,530	1,182,700	—	—	—	10,894,655
Placements with and loans to banks and other financial institutions	42,253	—	1,150,000	—	—	—	1,192,253
Financial assets held for trading	58,856	303,653	545,191	788,667	108,924	—	1,805,291
Derivatives financial assets	—	—	—	—	—	5,698	5,698
Financial assets held under resale agreements	1,338,078	2,619,878	32,314,472	500,000	—	—	36,772,428
Loans and advances to customers	90,204,318	17,812,161	75,751,845	6,828,981	554,730	—	191,152,035
Investment securities							
— available-for-sale	2,672,568	5,018,295	6,668,846	11,718,167	3,877,344	9,500	29,964,720
— held-to-maturity	572,201	949,408	4,756,409	11,546,417	9,947,772	—	27,772,207
— loans and receivables	—	438,220	214,706	70,642	—	—	723,568
Other financial assets	—	—	—	—	—	2,193,685	2,193,685
<b>Total assets</b>	<b>176,896,492</b>	<b>30,039,145</b>	<b>122,584,169</b>	<b>31,452,874</b>	<b>14,488,770</b>	<b>3,164,555</b>	<b>378,626,005</b>
<b>Liabilities</b>							
Deposits from banks and other financial institutions	(3,492,160)	(1,106,200)	(6,206,506)	(6,500,000)	(147,689)	—	(17,452,555)
Placements from banks and other financial institutions	(1,537,045)	—	—	—	—	—	(1,537,045)
Derivatives financial liabilities	—	—	—	—	—	(5,052)	(5,052)
Financial assets sold under repurchase agreements	(19,477,436)	(4,123,931)	(19,126,550)	—	—	—	(42,727,917)
Deposits from customers	(164,756,057)	(26,824,839)	(49,407,898)	(31,440,849)	(163,283)	—	(272,592,926)
Debt securities in issue	—	—	—	(4,994,195)	(3,992,220)	—	(8,986,415)
Other financial liabilities	—	—	—	—	—	(4,138,856)	(4,138,856)
<b>Total liabilities</b>	<b>(189,262,698)</b>	<b>(32,054,970)</b>	<b>(74,740,954)</b>	<b>(42,935,044)</b>	<b>(4,303,192)</b>	<b>(4,143,908)</b>	<b>(347,440,766)</b>
<b>Total interest rate sensitivity gap</b>	<b>(12,366,206)</b>	<b>(2,015,825)</b>	<b>47,843,215</b>	<b>(11,482,170)</b>	<b>10,185,578</b>	<b>(979,353)</b>	<b>31,185,239</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.2 Market risk (continued)

##### 47.2.3 Interest rate risk (continued)

##### The Group and the Bank

As at 31 December 2012

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non- interest bearing	Total
<b>Assets</b>							
Cash and balances with the central bank	56,675,560	—	—	—	—	973,723	57,649,283
Due from banks and other financial institutions	3,140,097	540,060	153,508	—	—	—	3,833,665
Placements with and loans to banks and other financial institutions	1,240,902	1,456,011	116,464	—	—	—	2,813,377
Financial assets held for trading	98,911	410,809	440,432	1,617,518	1,031,164	—	3,598,834
Financial assets held under resale agreements	2,824,895	14,097,089	21,276,139	—	—	—	38,198,123
Loans and advances to customers	52,704,958	15,791,263	85,818,880	4,328,260	1,298,114	—	159,941,475
Investment securities							
— available-for-sale	1,663,122	4,517,150	6,482,264	8,997,831	3,903,855	16,383	25,580,605
— held-to-maturity	521,661	933,385	7,833,578	8,844,991	7,929,111	—	26,062,726
— loans and receivables	—	89,930	1,636,377	87,882	—	—	1,814,189
Other financial assets	—	—	—	—	—	2,017,310	2,017,310
<b>Total assets</b>	<b>118,870,106</b>	<b>37,835,697</b>	<b>123,757,642</b>	<b>23,876,482</b>	<b>14,162,244</b>	<b>3,007,416</b>	<b>321,509,587</b>
<b>Liabilities</b>							
Deposits from banks and other financial institutions	(2,716,110)	(725,794)	(278,148)	(2,172,591)	(72,607)	—	(5,965,250)
Placements from banks and other financial institutions	(748,200)	—	(150,000)	—	—	—	(898,200)
Financial assets sold under repurchase agreements	(17,137,597)	(14,977,688)	(15,768,181)	—	—	—	(47,883,466)
Deposits from customers	(148,775,136)	(23,756,344)	(47,317,151)	(18,894,492)	(800,000)	—	(239,543,123)
Debt securities in issue	—	—	—	—	(3,991,828)	—	(3,991,828)
Other financial liabilities	—	—	—	—	—	(3,702,943)	(3,702,943)
<b>Total liabilities</b>	<b>(169,377,043)</b>	<b>(39,459,826)</b>	<b>(63,513,480)</b>	<b>(21,067,083)</b>	<b>(4,864,435)</b>	<b>(3,702,943)</b>	<b>(301,984,810)</b>
<b>Total interest rate sensitivity gap</b>	<b>(50,506,937)</b>	<b>(1,624,129)</b>	<b>60,244,162</b>	<b>2,809,399</b>	<b>9,297,809</b>	<b>(695,527)</b>	<b>19,524,777</b>

The Group mainly narrows its interest rate sensitivity gap between assets and liabilities through shorter durations for investments and resetting loan price.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.2 Market risk (continued)

##### 47.2.3 Interest rate risk (continued)

The currency for the Group's majority of interest-bearing assets is RMB. The potential impact on net interest income as at the balance sheet dates stated below with 100 bps changes along the yield curve is as follows:

##### The Group

	Estimated changes in net interest income As at 31 December	
	2013	2012
100 bps up along the yield curve	1,354,093	964,629
100 bps down along the yield curve	(1,354,093)	(964,629)

##### The Bank

	Estimated changes in net interest income As at 31 December	
	2013	2012
100 bps up along the yield curve	1,354,161	964,629
100 bps down along the yield curve	(1,354,161)	(964,629)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index:

- The fluctuation rates of different interest-bearing assets and liabilities are the same;
- Demand deposits will not be re-priced;
- All assets and liabilities are re-priced in the middle of relevant periods;
- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on customers' behaviour resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of actions taken by the Group and the Bank.

Therefore, the actual changes of net profit may differ from the analysis above.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.2 Market risk (continued)

##### **47.2.4 Currency risk**

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The major principle for control over currency risk of the Group is to match assets and liabilities in different currencies and to keep currency risk within limits. Based on the guidelines provided by Risk Management Committee, relevant laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimize the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. Authorization management of foreign currency exposure is categorized by business type and traders' limits of authority.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at balance sheet date. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency:

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.2 Market risk (continued)

##### 47.2.4 Currency risk (continued)

###### The Group

As at 31 December 2013

	RMB	USD	EUR	Others	Total
<b>Assets</b>					
Cash and balances with the central bank	76,160,053	17,100	31	1,271	76,178,455
Due from banks and other financial institutions	10,486,059	132,241	94,831	286,524	10,999,655
Placements with and loans to banks and other financial institutions	1,150,717	—	41,536	—	1,192,253
Financial assets held for trading	1,805,291	—	—	—	1,805,291
Derivative financial assets	5,698	—	—	—	5,698
Financial assets held under resale agreements	36,772,428	—	—	—	36,772,428
Loans and advances to customers	189,446,121	1,829,451	4,826	—	191,280,398
Investment securities					
— available-for-sale	29,964,720	—	—	—	29,964,720
— held-to-maturity	27,772,207	—	—	—	27,772,207
— loans and receivables	723,568	—	—	—	723,568
Other financial assets	2,194,230	15	—	—	2,194,245
<b>Total assets</b>	<b>376,481,092</b>	<b>1,978,807</b>	<b>141,224</b>	<b>287,795</b>	<b>378,888,918</b>
<b>Liabilities</b>					
Deposits from banks and other financial institutions	(17,285,645)	(71)	(147,690)	—	(17,433,406)
Placements from banks and other financial institutions	(512,053)	(1,024,992)	—	—	(1,537,045)
Derivative financial liabilities	—	(5,052)	—	—	(5,052)
Financial assets sold under repurchase agreements	(42,727,917)	—	—	—	(42,727,917)
Deposits from customers	(272,334,964)	(416,126)	(1,798)	(45,354)	(272,798,242)
Debt securities in issue	(8,986,415)	—	—	—	(8,986,415)
Other financial liabilities	(3,489,323)	(8,118)	(2)	(641,993)	(4,139,436)
<b>Total liabilities</b>	<b>(345,336,317)</b>	<b>(1,454,359)</b>	<b>(149,490)</b>	<b>(687,347)</b>	<b>(347,627,513)</b>
<b>Net on-balance sheet financial position</b>	<b>31,144,775</b>	<b>524,448</b>	<b>(8,266)</b>	<b>(399,552)</b>	<b>31,261,405</b>
Financial guarantees and credit commitments	58,342,077	1,228,528	65,682	10,401	59,646,688



## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.2 Market risk (continued)

##### 47.2.4 Currency risk (continued)

###### The Bank

As at 31 December 2013

	RMB	USD	EUR	Others	Total
<b>Assets</b>					
Cash and balances with the central bank	76,131,063	17,100	31	1,271	76,149,465
Due from banks and other financial institutions	10,381,059	132,241	94,831	286,524	10,894,655
Placements with and loans to banks and other financial institutions	1,150,717	—	41,536	—	1,192,253
Financial assets held for trading	1,805,291	—	—	—	1,805,291
Derivative financial assets	5,698	—	—	—	5,698
Financial assets held under resale agreements	36,772,428	—	—	—	36,772,428
Loans and advances to customers	189,317,758	1,829,451	4,826	—	191,152,035
Investment securities					
— available-for-sale	29,964,720	—	—	—	29,964,720
— held-to-maturity	27,772,207	—	—	—	27,772,207
— loans and receivables	723,568	—	—	—	723,568
Other financial assets	2,193,670	15	—	—	2,193,685
<b>Total assets</b>	<b>376,218,179</b>	<b>1,978,807</b>	<b>141,224</b>	<b>287,795</b>	<b>378,626,005</b>
<b>Liabilities</b>					
Deposits from banks and other financial institutions	(17,304,794)	(71)	(147,690)	—	(17,452,555)
Placements from banks and other financial institutions	(512,053)	(1,024,992)	—	—	(1,537,045)
Derivative financial liabilities	—	(5,052)	—	—	(5,052)
Financial assets sold under repurchase agreements	(42,727,917)	—	—	—	(42,727,917)
Deposits from customers	(272,129,648)	(416,126)	(1,798)	(45,354)	(272,592,926)
Debt securities in issue	(8,986,415)	—	—	—	(8,986,415)
Other financial liabilities	(3,488,743)	(8,118)	(2)	(641,993)	(4,138,856)
<b>Total liabilities</b>	<b>(345,149,570)</b>	<b>(1,454,359)</b>	<b>(149,490)</b>	<b>(687,347)</b>	<b>(347,440,766)</b>
<b>Net on-balance sheet financial position</b>	<b>31,068,609</b>	<b>524,448</b>	<b>(8,266)</b>	<b>(399,552)</b>	<b>31,185,239</b>
Financial guarantees and credit commitments	58,342,077	1,228,528	65,682	10,401	59,646,688

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.2 Market risk (continued)

##### 47.2.4 Currency risk (continued)

##### The Group and the Bank

As at 31 December 2012

	RMB	USD	EUR	Others	Total
<b>Assets</b>					
Cash and balances with the central bank	57,566,091	82,693	47	452	57,649,283
Due from banks and other financial institutions	3,295,530	227,812	207,924	102,399	3,833,665
Placements with and loans to banks and other financial institutions	2,813,377	—	—	—	2,813,377
Financial assets held for trading	3,598,834	—	—	—	3,598,834
Financial assets held under resale agreements	38,198,123	—	—	—	38,198,123
Loans and advances to customers	158,098,655	1,837,747	5,073	—	159,941,475
Investment securities					
— available-for-sale	25,580,605	—	—	—	25,580,605
— held-to-maturity	26,062,726	—	—	—	26,062,726
— loans and receivables	1,814,189	—	—	—	1,814,189
Other financial assets	2,015,784	1,030	496	—	2,017,310
<b>Total assets</b>	<b>319,043,914</b>	<b>2,149,282</b>	<b>213,540</b>	<b>102,851</b>	<b>321,509,587</b>
<b>Liabilities</b>					
Deposits from banks and other financial institutions	(5,613,339)	(188,565)	(163,346)	—	(5,965,250)
Placements from banks and other financial institutions	(457,200)	(441,000)	—	—	(898,200)
Financial assets sold under repurchase agreements	(47,883,466)	—	—	—	(47,883,466)
Deposits from customers	(238,333,585)	(998,079)	(47,602)	(163,857)	(239,543,123)
Debt securities in issue	(3,991,828)	—	—	—	(3,991,828)
Other financial liabilities	(3,701,165)	(1,516)	(253)	(9)	(3,702,943)
<b>Total liabilities</b>	<b>(299,980,583)</b>	<b>(1,629,160)</b>	<b>(211,201)</b>	<b>(163,866)</b>	<b>(301,984,810)</b>
<b>Net on-balance sheet financial position</b>	<b>19,063,331</b>	<b>520,122</b>	<b>2,339</b>	<b>(61,015)</b>	<b>19,524,777</b>
<b>Financial guarantees and credit commitments</b>	<b>50,467,418</b>	<b>1,284,867</b>	<b>597,494</b>	<b>126,071</b>	<b>52,475,850</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.2 Market risk (continued)

##### 47.2.4 Currency risk (continued)

The Group's foreign currency exposure is not material. The major foreign currency exposure is with USD and EUR. The potential impact on net profits resulted from foreign currency translation gain or loss with 1% fluctuation of foreign currency against RMB is as follows:

##### **The Group and the Bank**

	Estimated change in net profits/(losses) As at 31 December	
	2013	2012
1% of appreciation of FX against RMB	875	3,461
1% of depreciation of FX against RMB	(875)	(3,461)

During the sensitivity analysis, the Group adopts the following assumptions when determining business conditions and financial index, regardless of:

- Analysis is based on static gap on balance sheet date, regardless of subsequent changes;
- No consideration of impact on the customers' behaviour resulted from interest rate changes;
- No consideration of impact on market price resulted from interest rate changes;
- No consideration of actions taken by The Group and the Bank.

Therefore, the actual changes of net profit may differ from the analysis above.

#### 47.3 Liquidity risk

##### 47.3.1 Overview

Keep a match between the maturity dates of assets and liabilities and maintain an effective control over mismatch is of great importance to the Group. Due to the uncertainty of terms and types of business, it is difficult for banks to keep a perfect match. Unmatched position may increase revenues but it also exposes the Group to greater risks of losses.

The match between maturity dates of assets and liabilities as well as a banks' ability to replace due liabilities with acceptable costs are all key factors when evaluating its' exposure to liquidity, interest rate and foreign exchange rate risks.

The Group is exposed to daily calls on its available cash resources from overnight deposits, demand accounts, time deposits fall due, debt securities payable, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. According to previous experience, a large portion of matured deposits are not withdrawn on the maturity date. The Group sets limits on the minimum proportion of funds to be made available to cover different levels of unexpected withdrawals.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.3 Liquidity risk (continued)

##### 47.3.2 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows receivable and payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flow, and the Group manages the liquidity risk based on the estimation of future cash flow.

#### The Group

As at 31 December 2013

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities</b>						
Deposits from banks and other financial institutions	(3,475,082)	(1,121,587)	(6,395,665)	(7,139,086)	(181,492)	(18,312,912)
Placements from banks and other financial institutions	(1,539,356)	—	—	—	—	(1,539,356)
Financial assets sold under repurchase agreements	(19,481,512)	(4,159,505)	(19,634,290)	—	—	(43,275,307)
Deposits from customers	(164,930,996)	(26,978,520)	(50,313,379)	(36,881,151)	(205,965)	(279,310,011)
Debt securities in issue	—	(219,400)	(262,000)	(6,684,800)	(6,096,000)	(13,262,200)
Other financial liabilities	(1,241,627)	—	—	—	—	(1,241,627)
<b>Total liabilities (contractual maturity)</b>	<b>(190,668,573)</b>	<b>(32,479,012)</b>	<b>(76,605,334)</b>	<b>(50,705,037)</b>	<b>(6,483,457)</b>	<b>(356,941,413)</b>
<b>Assets</b>						
Cash and balances with the central bank	76,178,455	—	—	—	—	76,178,455
Due from banks and other financial institutions	6,945,430	2,925,404	1,211,135	—	—	11,081,969
Placements with and loans to banks and other financial institutions	42,546	15,940	1,184,812	—	—	1,243,298
Financial assets held for trading	64,525	337,457	580,722	841,780	112,900	1,937,384
Financial assets held under resale agreements	1,338,478	2,646,081	33,195,540	575,103	—	37,755,202
Loans and advances to customers	11,411,854	22,250,809	91,907,867	54,713,588	45,838,533	226,122,651
Investment securities						
— available-for-sale	2,791,279	5,404,566	7,713,408	13,479,635	4,147,100	33,535,988
— held-to-maturity	688,090	1,156,654	5,436,053	13,179,060	9,974,998	30,434,855
— loans and receivables	—	429,900	226,988	88,847	—	745,735
Other financial assets	644,046	—	—	—	—	644,046
<b>Financial assets held for managing liquidity risk (contractual maturity)</b>	<b>100,104,703</b>	<b>35,166,811</b>	<b>141,456,525</b>	<b>82,878,013</b>	<b>60,073,531</b>	<b>419,679,583</b>
<b>Net liquidity</b>	<b>(90,563,870)</b>	<b>(2,687,799)</b>	<b>64,851,191</b>	<b>32,172,976</b>	<b>53,590,074</b>	<b>62,738,170</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.3 Liquidity risk (continued)

##### 47.3.2 Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

###### The Bank

As at 31 December 2013

	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
<b>Liabilities</b>						
Deposits from banks and other financial institutions	(3,494,231)	(1,121,587)	(6,395,665)	(7,139,086)	(181,492)	(18,332,061)
Placements from banks and other financial institutions	(1,539,356)	–	–	–	–	(1,539,356)
Financial assets sold under repurchase agreements	(19,481,512)	(4,159,505)	(19,634,290)	–	–	(43,275,307)
Deposits from customers	(164,782,901)	(26,947,489)	(50,288,600)	(36,879,739)	(205,965)	(279,104,694)
Debt securities in issue	–	(219,400)	(262,000)	(6,684,800)	(6,096,000)	(13,262,200)
Other financial liabilities	(1,241,627)	–	–	–	–	(1,241,627)
<b>Total liabilities (contractual maturity)</b>	<b>(190,539,627)</b>	<b>(32,447,981)</b>	<b>(76,580,555)</b>	<b>(50,703,625)</b>	<b>(6,483,457)</b>	<b>(356,755,245)</b>
<b>Assets</b>						
Cash and balances with the central bank	76,149,465	–	–	–	–	76,149,465
Due from banks and other financial institutions	6,820,996	2,925,404	1,211,135	–	–	10,957,535
Placements with and loans to banks and other financial institutions	42,546	15,940	1,184,812	–	–	1,243,298
Financial assets held for trading	64,525	337,457	580,722	841,780	112,900	1,937,384
Financial assets held under resale agreements	1,338,478	2,646,081	33,195,540	575,103	–	37,755,202
Loans and advances to customers	11,411,392	22,248,371	91,835,853	54,644,605	45,838,324	225,978,545
Investment securities						
– available-for-sale	2,791,279	5,404,566	7,713,408	13,479,635	4,147,100	33,535,988
– held-to-maturity	688,090	1,156,654	5,436,053	13,179,060	9,974,998	30,434,855
– loans and receivables	–	429,900	226,988	88,847	–	745,735
Other financial assets	644,016	–	–	–	–	644,016
<b>Financial assets held for managing liquidity risk (contractual maturity)</b>	<b>99,950,787</b>	<b>35,164,373</b>	<b>141,384,511</b>	<b>82,809,030</b>	<b>60,073,322</b>	<b>419,382,023</b>
<b>Net liquidity</b>	<b>(90,588,840)</b>	<b>(2,716,392)</b>	<b>64,803,956</b>	<b>32,105,405</b>	<b>53,589,865</b>	<b>62,626,778</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.3 Liquidity risk (continued)

##### 47.3.2 Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

###### The Group and the Bank

As at 31 December 2012

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
<b>Liabilities</b>						
Deposits from banks and other financial institutions	(416,987)	(3,084,875)	(384,527)	(2,231,439)	(77,281)	(6,195,109)
Placements from banks and other financial institutions	(748,542)	—	(159,125)	—	—	(907,667)
Financial assets sold under repurchase agreements	(17,161,309)	(15,092,228)	(16,012,593)	—	—	(48,266,130)
Deposits from customers	(134,855,643)	(38,297,119)	(48,686,164)	(21,961,684)	(800,000)	(244,600,610)
Debt securities in issue	—	—	(262,000)	(1,048,000)	(5,048,000)	(6,358,000)
Other financial liabilities	(1,765,408)	—	—	—	—	(1,765,408)
<b>Total liabilities (contractual maturity)</b>	<b>(154,947,889)</b>	<b>(56,474,222)</b>	<b>(65,504,409)</b>	<b>(25,241,123)</b>	<b>(5,925,281)</b>	<b>(308,092,924)</b>
<b>Assets</b>						
Cash and balances with the central bank	57,649,283	—	—	—	—	57,649,283
Due from banks and other financial institutions	1,993,405	1,699,115	157,112	—	—	3,849,632
Placements with and loans to banks and other financial institutions	1,242,516	1,465,870	119,155	—	—	2,827,541
Financial assets held for trading	36,670	165,028	472,324	2,441,604	1,207,041	4,322,667
Financial assets held under resale agreements	2,828,144	14,209,689	21,620,831	—	—	38,658,664
Loans and advances to customers	10,414,841	19,580,790	75,675,495	47,320,787	34,885,191	187,877,104
Investment securities						
— available-for-sale	1,422,632	2,478,253	4,381,657	14,224,778	7,242,199	29,749,519
— held-to-maturity	52,943	465,474	6,415,833	14,435,356	9,277,541	30,647,147
— loans and receivables	—	93,623	1,694,725	119,941	—	1,908,289
Other financial assets	659,506	—	—	—	—	659,506
<b>Financial assets held for managing liquidity risk (contractual maturity)</b>	<b>76,299,940</b>	<b>40,157,842</b>	<b>110,537,132</b>	<b>78,542,466</b>	<b>52,611,972</b>	<b>358,149,352</b>
<b>Net liquidity</b>	<b>(78,647,949)</b>	<b>(16,316,380)</b>	<b>45,032,723</b>	<b>53,301,343</b>	<b>46,686,691</b>	<b>50,056,428</b>



## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.3 Liquidity risk (continued)

##### 47.3.3 Derivative financial instruments cash flow

###### Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange forward contracts. The table below analyzes the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet of 2013 to the contractual maturity date (no derivatives existed at the end of 2012). The amounts disclosed in the table are the contractual undiscounted cash flows.

###### The Group and the Bank

As at 31 December 2013

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
Foreign exchange derivatives						
- Outflow	(138,486)	(430,447)	(1,067,264)	—	—	(1,636,197)
- Inflow	138,537	430,638	1,067,647	—	—	1,636,822
	51	191	383	—	—	625

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.3 Liquidity risk (continued)

##### 47.3.4 Maturity analysis

The table below analyzes the Group's net assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

#### The Group

As at 31 December 2013

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	956,373	75,222,082	–	–	–	–	–	–	76,178,455
Due from banks and other financial institutions	1,543,391	5,376,034	2,897,530	1,182,700	–	–	–	–	10,999,655
Placements with and loans to banks and other financial institutions	–	42,253	–	1,150,000	–	–	–	–	1,192,253
Financial assets held for trading	–	58,856	303,653	545,191	788,667	108,924	–	–	1,805,291
Derivative financial assets	–	767	1,507	3,424	–	–	–	–	5,698
Financial assets held under resale agreements	–	1,338,078	2,619,878	32,314,472	500,000	–	–	–	36,772,428
Loans and advances to customers	–	10,819,533	19,078,932	83,326,651	33,941,261	43,485,679	628,342	–	191,280,398
Investment securities									
– available-for-sale	–	2,674,373	5,016,490	6,668,846	11,718,167	3,877,344	–	9,500	29,964,720
– held-to-maturity	–	572,201	949,408	4,756,409	11,546,417	9,947,772	–	–	27,772,207
– loans and receivables	–	–	438,220	214,706	70,642	–	–	–	723,568
Other assets (including deferred income tax assets)	565,435	255,673	681,053	685,565	–	–	14,462	3,212,229	5,414,417
<b>Total assets</b>	<b>3,065,199</b>	<b>96,359,850</b>	<b>31,986,671</b>	<b>130,847,964</b>	<b>58,565,154</b>	<b>57,419,719</b>	<b>642,804</b>	<b>3,221,729</b>	<b>382,109,090</b>
Deposits from banks and other financial institutions	(2,573,011)	(900,000)	(1,106,200)	(6,206,506)	(6,500,000)	(147,689)	–	–	17,433,406
Placements from banks and other financial institutions	–	(1,537,045)	–	–	–	–	–	–	(1,537,045)
Derivative financial liabilities	–	(716)	(1,319)	(3,017)	–	–	–	–	(5,052)
Financial assets sold under repurchase agreements	–	(19,477,436)	(4,123,931)	(19,126,550)	–	–	–	–	(42,727,917)
Deposits from customers	(147,615,529)	(17,288,621)	(26,855,870)	(49,432,677)	(31,442,261)	(163,284)	–	–	(272,798,242)
Debt securities in issue	–	–	–	–	(4,994,195)	(3,992,220)	–	–	(8,986,415)
Other liabilities (including deferred income tax liabilities)	(777,532)	(1,075,071)	(777,374)	(2,731,679)	(1,545,953)	(4,613)	–	(36,859)	(6,949,081)
<b>Total liabilities</b>	<b>(150,966,072)</b>	<b>(40,278,889)</b>	<b>(32,864,694)</b>	<b>(77,500,429)</b>	<b>(44,482,409)</b>	<b>(4,307,806)</b>	<b>–</b>	<b>(36,859)</b>	<b>(350,437,158)</b>
<b>Net liquidity gap</b>	<b>(147,900,873)</b>	<b>56,080,961</b>	<b>(878,023)</b>	<b>53,347,535</b>	<b>14,082,745</b>	<b>53,111,913</b>	<b>642,804</b>	<b>3,184,870</b>	<b>31,671,932</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.3 Liquidity risk (continued)

##### 47.3.4 Maturity analysis (continued)

###### The Bank

As at 31 December 2013

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	955,670	75,193,795	—	—	—	—	—	—	76,149,465
Due from banks and other financial institutions	1,562,540	5,251,885	2,897,530	1,182,700	—	—	—	—	10,894,655
Placements with and loans to banks and other financial institutions	—	42,253	—	1,150,000	—	—	—	—	1,192,253
Financial assets held for trading	—	58,856	303,653	545,191	788,667	108,924	—	—	1,805,291
Derivative financial assets	—	767	1,507	3,424	—	—	—	—	5,698
Financial assets held under resale agreements	—	1,338,078	2,619,878	32,314,472	500,000	—	—	—	36,772,428
Loans and advances to customers	—	10,819,533	19,078,932	83,262,638	33,877,119	43,485,471	628,342	—	191,152,035
Investment securities									
— available-for-sale	—	2,674,373	5,016,490	6,668,846	11,718,167	3,877,344	—	9,500	29,964,720
— held-to-maturity	—	572,201	949,408	4,756,409	11,546,417	9,947,772	—	—	27,772,207
— loans and receivables	—	—	438,220	214,706	70,642	—	—	—	723,568
Other assets (including deferred income tax assets)	565,435	255,497	680,699	685,555	—	—	14,462	3,241,364	5,443,012
<b>Total assets</b>	<b>3,083,645</b>	<b>96,207,238</b>	<b>31,986,317</b>	<b>130,783,941</b>	<b>58,501,012</b>	<b>57,419,511</b>	<b>642,804</b>	<b>3,250,864</b>	<b>381,875,332</b>
Deposits from banks and other financial institutions	(2,592,160)	(900,000)	(1,106,200)	(6,206,506)	(6,500,000)	(147,689)	—	—	(17,452,555)
Placements from banks and other financial institutions	—	(1,537,045)	—	—	—	—	—	—	(1,537,045)
Financial derivative liabilities	—	(716)	(1,319)	(3,017)	—	—	—	—	(5,052)
Financial assets sold under repurchase agreements	—	(19,477,436)	(4,123,931)	(19,126,550)	—	—	—	—	(42,727,917)
Deposits from customers	(147,467,435)	(17,288,621)	(26,824,839)	(49,407,898)	(31,440,849)	(163,284)	—	—	(272,592,926)
Debt securities in issue	—	—	—	—	(4,994,195)	(3,992,220)	—	—	(8,986,415)
Other liabilities (including deferred income tax liabilities)	(777,178)	(1,075,071)	(777,064)	(2,731,679)	(1,545,953)	(4,613)	—	(36,859)	(6,948,030)
<b>Total liabilities</b>	<b>(150,836,773)</b>	<b>(40,278,889)</b>	<b>(32,833,353)</b>	<b>(77,475,263)</b>	<b>(44,480,997)</b>	<b>(4,307,806)</b>	<b>—</b>	<b>(36,859)</b>	<b>(350,249,940)</b>
<b>Net liquidity gap</b>	<b>(147,753,128)</b>	<b>55,928,349</b>	<b>(847,036)</b>	<b>53,308,678</b>	<b>14,020,015</b>	<b>53,111,705</b>	<b>642,804</b>	<b>3,214,005</b>	<b>31,625,392</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.3 Liquidity risk (continued)

##### 47.3.4 Maturity analysis (continued)

##### The Group and the Bank

As at 31 December 2012

	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	16,737,893	40,911,390	—	—	—	—	—	—	57,649,283
Due from banks and other financial institutions	1,282,308	710,047	1,690,641	150,669	—	—	—	—	3,833,665
Placements with and loans to banks and other financial institutions	—	1,240,902	1,456,011	116,464	—	—	—	—	2,813,377
Financial assets held for trading	—	30,774	122,044	351,667	1,995,048	1,099,301	—	—	3,598,834
Financial assets held under resale agreements	—	2,824,895	14,097,089	21,276,139	—	—	—	—	38,198,123
Loans and advances to customers	—	9,942,063	16,855,130	68,453,319	30,847,485	33,479,833	363,645	—	159,941,475
Investment securities									
— available-for-sale	—	1,365,977	2,269,569	3,683,196	11,799,252	6,446,228	—	16,383	25,580,605
— held-to-maturity	—	—	311,499	5,678,617	11,963,471	8,109,139	—	—	26,062,726
— loans and receivables	—	—	89,930	1,636,377	87,882	—	—	—	1,814,189
Other assets (including deferred income tax assets)	637,446	451,452	303,669	601,270	26,000	—	—	2,712,243	4,732,080
<b>Total assets</b>	<b>18,657,647</b>	<b>57,477,500</b>	<b>37,195,582</b>	<b>101,947,718</b>	<b>56,719,138</b>	<b>49,134,501</b>	<b>363,645</b>	<b>2,728,626</b>	<b>324,224,357</b>
Deposits from banks and other financial institutions	(329,675)	(87,253)	(3,056,194)	(363,545)	(2,055,976)	(72,607)	—	—	(5,965,250)
Placements from banks and other financial institutions	—	(748,200)	—	(150,000)	—	—	—	—	(898,200)
Financial assets sold under repurchase agreements	—	(17,137,597)	(14,977,688)	(15,768,181)	—	—	—	—	(47,883,466)
Deposits from customers	(122,336,331)	(12,499,809)	(38,082,367)	(47,776,374)	(18,104,242)	(744,000)	—	—	(239,543,123)
Debt securities in issue	—	—	—	—	—	(3,991,828)	—	—	(3,991,828)
Other liabilities (including deferred income tax liabilities)	(1,734,310)	(837,300)	(324,559)	(1,273,472)	(1,259,803)	(27)	—	(32,095)	(5,461,566)
<b>Total liabilities</b>	<b>(124,400,316)</b>	<b>(31,310,159)</b>	<b>(56,440,808)</b>	<b>(65,331,572)</b>	<b>(21,420,021)</b>	<b>(4,808,462)</b>	<b>—</b>	<b>(32,095)</b>	<b>(303,743,433)</b>
<b>Net liquidity gap</b>	<b>(105,742,669)</b>	<b>26,167,341</b>	<b>(19,245,225)</b>	<b>36,616,146</b>	<b>35,299,117</b>	<b>44,326,039</b>	<b>363,645</b>	<b>2,696,531</b>	<b>20,480,924</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.3 Liquidity risk (continued)

##### 47.3.5 Off-balance sheet items

The Group provides guarantees and letters of credit to customers based on their credit ratings and amount of cash collaterals. Usually, customers will not withdraw the amount committed by the Group in the guarantees or letters of credit in full, therefore, funds required for guarantees and letters of credit are not so much as required for other commitments of the Group. Meanwhile, the Group may be discharged of its obligations due to overdue or termination of the commitments. As a result, the contractual amount for credit commitment cannot represent the actual funds required.

#### **The Group and the Bank**

As at 31 December 2013

	Within 1 year	1–5 years	Over 5 years	Total
Bank acceptance	52,567,298	—	—	52,567,298
Letters of credit	1,432,947	12,769	—	1,445,716
Letters of guarantee	1,259,069	1,228,800	2,349	2,490,218
Loan commitments	157,664	310,736	—	468,400
Unused credit card lines	1,337,528	1,337,528	—	2,675,056
Total	56,754,506	2,889,833	2,349	59,646,688

#### **The Group and the Bank**

As at 31 December 2012

	Within 1 year	1–5 years	Over 5 years	Total
Bank acceptance	46,602,041	—	—	46,602,041
Letters of credit	1,992,079	31,269	—	2,023,348
Letters of guarantee	869,992	804,752	200	1,674,944
Loan commitments	244,465	222,075	—	466,540
Unused credit card lines	854,489	854,488	—	1,708,977
Total	50,563,066	1,912,584	200	52,475,850

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.4 Fair value of financial assets and liabilities

##### (a) **Fair value hierarchy**

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and issued structured debt in interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are China Bond and Bloomberg.
- Level 3 — Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments.

##### (b) **Financial instruments not measured at fair value**

Financial assets and liabilities which are not measured at fair value mainly include: balances with the central bank, due from and placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loan and advances to customers, investment securities-held-to-maturity, investment securities-loans and receivables, deposits and placements from banks and other financial institutions, financial liabilities sold for repurchase, deposits from customers and debt securities in issue.

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the Group's balance sheet, including investment securities-held-to-maturity, investment securities-loans and receivables and debt securities in issue.



## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.4 Fair value of financial assets and liabilities (continued)

##### (b) Financial instruments not measured at fair value (continued)

	As at 31 December 2013				
	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Investment securities					
— Held-to-maturity	27,772,207	—	26,541,484	—	26,541,484
Investment securities					
— Loans and receivables	723,568	—	119,312	593,501	712,813
<b>Financial Liabilities</b>					
Debt securities in issue	(8,986,415)	—	(8,625,448)	—	(8,625,448)

	As at 31 December 2012	
	Carrying value	Fair value
<b>Financial assets</b>		
Investment securities — Held-to-maturity	26,062,726	26,013,829
Investment securities — Loans and receivables	1,814,189	1,795,394
<b>Financial Liabilities</b>		
Debt securities in issue	(3,991,828)	(3,929,248)

##### (i) Loans and receivables and held-to-maturity investments

Investment securities-loans and receivables and investment securities-held-to-maturity whose fair value is based on quoted market prices are included in level 1. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received based on observable yield curves or quoted market prices for products with similar credit, maturity and yield characteristics are used where applicable, the fair value measurement will be included in level 2 or level 3.

##### (ii) Debt securities in issue

If the fair value is based on quoted market prices, the fair value measurement will be included in level 1. When the fair value of debt securities in issue is determined by valuation techniques and all significant inputs required to fair value are observable, it is included in level 2.

The other financial instruments not measured at fair value in the financial statements are calculated as the present value of the estimated future cash flows based on observable yield curves. The difference between carrying value and fair value are not significant.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.4 Fair value of financial assets and liabilities (continued)

##### (c) Financial instruments measured at fair value

##### The Group and the Bank

As at 31 December 2013

	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
— Debt securities	—	1,805,291	—	1,805,291
Derivative financial assets	—	5,698	—	5,698
Available-for-sale				
— Debt securities	—	23,352,438	—	23,352,438
— Equity securities	—	—	9,500	9,500
— Asset management schemes by securities firms or trust companies	—	—	1,061,232	1,061,232
— Others	—	5,541,550	—	5,541,550
<b>Total assets</b>	—	30,704,977	1,070,732	31,775,709
Derivative financial liabilities	—	(5,052)	—	—
<b>Total liabilities</b>	—	(5,052)	—	—

##### The Group and the Bank

As at 31 December 2012

	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
— Debt securities	—	3,598,834	—	3,598,834
Available-for-sale				
— Debt securities	—	20,475,612	—	20,475,612
— Equity securities	6,474	—	9,909	16,383
— Others	—	5,088,610	—	5,088,610
<b>Total assets</b>	6,474	29,163,056	9,909	29,179,439

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.4 Fair value of financial assets and liabilities (continued)

##### (c) **Financial instruments measured at fair value** (continued)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

For unlisted equities (private equity) held by the Group, the fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments. Instruments which have been valued using unobservable inputs have been classified by the Group as level 3. Management determines the fair value of the Group's level 3 financial instruments using a variety of techniques, including examining correlations of these fair values with macro-economic factors, engaging external values, and using valuation models that incorporate unobservable inputs such as loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

Table of Changes in level 3 instruments:

##### **The Group and the Bank**

	Available-for-sale
Balance at 1 January 2013	9,909
— Additions	1,061,232
— Disposals	(409)
Balance at 31 December 2013	1,070,732
Total gains for the year included in profit or loss for assets/liabilities held at 31 December 2013	320

##### **The Group and the Bank**

	Available-for-sale
Balance at 1 January 2012	10,158
— Disposals	(249)
Balance at 31 December 2012	9,909
Total gains for the year included in profit or loss for assets/liabilities held at 31 December 2012	305

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.5 Capital management

The Group takes sufficient measures of capital management to prevent inherent risks associated with Group's business for the purpose of meeting external regulators' requirements and shareholders' expectation on returns. Capital management also aims to stimulate expansion of capital scale and to improve risk management.

The Group prudently set the objective of capital ratio, taking into account regulatory requirements and the risk situation the Group faces. The Group takes a variety of actions, like limit management to ensure the realization of the objectives and proactively adjust its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

In 2012, the Group calculated and disclosed capital ratio in accordance with "Measures for the Management of Capital Adequacy Ratios of Commercial Banks" amended by the CBRC on 28 December 2006 and other relevant regulation. From 1 January 2013 onward, the Group started to implement "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC on 7 June 2012.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.5 Capital management (continued)

The tables below summarize the capital adequacy ratio of The Group and the Bank for the period ended 2013:

#### The Group

	As at 31 December 2013
<b>Core Tier 1 capital</b>	31,682,102
Including: Paid-up capital	11,049,819
Capital reserve	5,841,494
Surplus reserve, general and statutory reserve	6,074,367
Retained Earnings	8,659,441
Non-controlling interests	56,981
Regulatory deductions for core Tier 1 capital	(66,426)
<b>Total core Tier 1 capital, net of deductions</b>	31,615,676
<b>Other Tier 1 capital</b>	7,598
<b>Total Tier 1 capital, net of deductions</b>	31,623,274
<b>Tier 2 capital</b>	6,488,062
Including: Tier 2 capital instruments and premium	3,592,645
Surplus loan loss provisions	2,880,222
Non-controlling interests	15,195
Regulatory deductions for Tier 2 capital	—
<b>Total capital, net of deductions</b>	38,111,336
Credit risk-weighted assets	233,298,017
Market risk-weighted assets	425,560
Operational risk-weighted assets	17,098,264
<b>Total risk-weighted assets</b>	250,821,841
<b>Capital adequacy ratio</b>	15.19%
<b>Tier 1 capital adequacy ratio</b>	12.61%
<b>Core Tier 1 capital adequacy ratio</b>	12.60%

According to regulatory requirement, the capital adequacy ratio calculation by the Group above is based on the consolidated results of both Jinzhai Huiyin Rural Bank Co., Ltd. and Wuwei Huiyin Rural Bank Co., Ltd.

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.5 Capital management (continued)

The tables below summarize the capital adequacy ratio of The Group and the Bank for the period ended 2013: (continued)

##### **The Bank**

	As at 31 December 2013
<b>Core Tier 1 capital</b>	31,625,392
Including: Paid-up capital	11,049,819
Capital reserve	5,841,494
Surplus reserve, general and statutory reserve	6,074,367
Retained Earnings	8,659,712
Regulatory deductions for core Tier 1 capital	(169,387)
<b>Total core Tier 1 capital, net of deductions</b>	31,456,005
<b>Tier 2 capital</b>	6,458,848
Including: Tier 2 capital instruments and premium	3,592,646
Surplus loan loss provisions	2,866,202
Regulatory deductions for Tier 2 capital	—
<b>Total capital, net of deductions</b>	37,914,853
Credit risk-weighted assets	232,162,379
Market risk-weighted assets	425,560
Operational risk-weighted assets	16,976,077
<b>Total risk-weighted assets</b>	249,564,016
<b>Capital adequacy ratio</b>	15.19%
<b>Tier 1 capital adequacy ratio</b>	12.60%
<b>Core Tier 1 capital adequacy ratio</b>	12.60%



## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.5 Capital management (continued)

The table below summarizes the capital adequacy ratios of The Group and the Bank for the year ended 31 December 2012:

#### **The Group and the Bank**

	As at 31 December 2012
<b>Core capital:</b>	
Paid up ordinary share capital	8,174,819
Capital reserve	1,681,017
Surplus reserve and general reserve	3,560,679
Retained earnings	6,240,783
	19,657,298
<b>Supplementary capital:</b>	
Collective impairment allowances for impaired assets	2,223,599
Subordinated debts	4,000,000
Other supplementary capital	6,144
Total supplementary capital	6,229,743
Total qualifying supplementary capital	6,229,743
Total capital base before deduction	25,887,041
Deductions:	
Equity investments in financial institutions which are not consolidated	(140,000)
Equity investments in enterprises	—
	(140,000)
<b>Total capital base, net of deductions</b>	<b>25,747,041</b>
<b>Core capital base, net of deductions</b>	<b>19,587,298</b>
<b>Risk-weighted assets:</b>	
On-balance sheet	167,696,487
Off-balance sheet	22,413,330
<b>Total risk-weighted assets</b>	<b>190,109,817</b>
<b>Capital adequacy ratio</b>	<b>13.54%</b>
<b>Core capital adequacy ratio</b>	<b>10.30%</b>

## Notes to the Consolidated Financial Statements (Continued)

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

### 47 Financial risk management (continued)

#### 47.6 Fiduciary activities

The Group provides custodian and trustee services to third parties. These assets arising thereon are excluded from the financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the financial statements either.

#### **The Group and the Bank**

	As at 31 December	
	2012	2013
Entrusted loans	25,207,053	14,062,704
Off-balance sheet wealth management	2,520,770	2,500,000

### 48 Subsequent event

No audited financial statements have been prepared by the Group in respect of any period subsequent to 2013 and up to the date of this report. Save as disclosed in this report, no dividend distribution has been declared or made by the Group in respect of any period subsequent to 2013.

# Appendix I – Unaudited Supplementary Financial Information

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

According to Hong Kong Listing Rule and disclosure regulations of banking industry, the Group discloses the following supplementary financial information:

## 1 Liquidity ratios

### The Group

	As at 31 December	
	2013	2012
RMB current assets to RMB current liabilities	27.75%	35.09%
Foreign currency current assets to foreign currency current liabilities	60.38%	46.92%

### The Bank

	As at 31 December	
	2013	2012
RMB current assets to RMB current liabilities	35.72%	35.09%
Foreign currency current assets to foreign currency current liabilities	61.96%	46.92%

## 2 Currency concentrations

### The Group and the Bank

	USD	EUR	Other	Total
As at 31 December 2013				
Spot assets	1,978,807	141,224	287,795	2,407,826
Spot liabilities	(1,454,359)	(149,490)	(687,347)	(2,291,196)
Forward purchases	815,484	—	—	815,484
Forward sales	(815,517)	—	—	(815,517)
Net long/(short) position	524,415	(8,266)	(399,552)	116,597
As at 31 December 2012				
Spot assets	2,149,282	213,540	102,851	2,465,673
Spot liabilities	(1,629,160)	(211,201)	(163,866)	(2,004,227)
Net long/(short) position	520,122	2,339	(61,015)	461,446

## 3 Cross-border claims

The Bank is principally engaged in business operations in China mainland, and we regard all claims on third parties outside China mainland as cross-border claims.

Cross-border claims include “Due from banks and other financial institutions”.

Cross-border claims are disclosed by country or geographical area. A country or geographical area claim is reported where it constitutes 10% or more of the aggregate amount of total cross-border claims. Risk transfers where the claim is guaranteed by a party whose location is different from that of the counterparty or the claimant is an overseas branch of the bank whose Head Office is in another country.

## Appendix I – Unaudited Supplementary Financial Information (Continued)

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

### 3 Cross-border claims (Continued)

#### The Group and the Bank

	Banks and other financial institutions
As at 31 December 2013	
Asia Pacific excluding China mainland	284,436
– Hong Kong	264,487
Europe	94,719
North and South America	98,603
Subtotal	477,758
As at 31 December 2012	
Asia Pacific excluding China mainland	104,739
– Hong Kong	5,745
Europe	121,564
North and South America	131,648
Subtotal	357,951

### 4 Loans and advances to customers

#### 4.1 Overdue loans and advances to customers

Total amount of overdue loans and advances to customers:

#### The Group and the Bank

	As at 31 December	
	2013	2012
Total loans and advances to customers which have been overdue for		
– within 3 months	515,379	469,478
– between 3 to 6 months	168,228	198,867
– between 6 to 12 months	386,675	60,641
– over 12 months	442,178	191,128
Total	1,512,460	920,114
Percentage		
– within 3 months	34.07%	51.03%
– between 3 to 6 months	11.12%	21.61%
– between 6 to 12 months	25.57%	6.59%
– over 12 months	29.24%	20.77%
Total	100.00%	100.00%

## Appendix I – Unaudited Supplementary Financial Information (Continued)

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

### 4 Loans and advances to customers (Continued)

#### 4.1 Overdue loans and advances to customers (Continued)

Total amount of overdue loans and advances to customers and allowance assessment by geographic segment:

##### **The Group and the Bank**

	Anhui Province	Pan Yangtze River Delta	Total
As at 31 December 2013			
Overdue loans and advances to customers	1,475,050	37,410	1,512,460
— Individually assessed	(357,810)	(13,403)	(371,213)
— Collectively assessed	(177,892)	(37)	(177,929)
As at 31 December 2012			
Overdue loans and advances to customers	919,195	919	920,114
— Individually assessed	(139,995)	—	(139,995)
— Collectively assessed	(273,631)	(269)	(273,900)

Fair value of collaterals against overdue loans and advances to customers:

##### **The Group and the Bank**

	As at 31 December	
	2013	2012
Fair value of collaterals		
— Corporate loans	835,168	183,508
— Retail loans	703,105	592,170
Total	1,538,273	775,678

#### 4.2 Identified impaired loans and advances

##### **The Group and the Bank**

	Anhui Province	Pan Yangtze River Delta	Total
As at 31 December 2013			
Identified impaired loans and advances for which allowance is	1,017,963	33,215	1,051,178
— Individually assessed	(433,988)	(13,403)	(447,391)
— Collectively assessed	(45,328)	—	(45,328)
As at 31 December 2012			
Identified impaired loans and advances for which allowance is	949,095	—	949,095
— Individually assessed	(254,665)	—	(254,665)
— Collectively assessed	(166,688)	—	(166,688)







**徽商銀行股份有限公司**  
**Huishang Bank Corporation Limited**