

# Serving Society **Delivering Excellence**





## Bank of China Global Network

Bank of China is the most internationalised bank in China. After establishing its branch in London in 1929, which was the first overseas branch of Chinese financial institutions, the Bank gradually expanded its overseas network to major global financial centres including Tokyo, Singapore and New York. At present, the Bank provides comprehensive and quality financial services to customers through its global network across the Chinese mainland, Hong Kong, Macau, Taiwan and 37 overseas countries.



# Introduction

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialised international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite many hardships and setbacks. After 1949, with a long history as the state-designated specialised foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided vital support to the nation's foreign trade development and economic infrastructure through its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services. During China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalising on foreign funds and advanced technologies to boost economic development, and became the country's key foreign financing channel by building up its competitive advantages in foreign exchange business. In 1994, the Bank was transformed into a wholly state-owned commercial bank. In August 2004, Bank of China Limited was incorporated. The Bank was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A-Share and H-Share initial public offering and achieve a dual listing in both markets. In 2013, Bank of China was enrolled again as a Global Systemically Important Bank, becoming the sole financial institution from emerging economies to be enrolled for three consecutive years.

As China's most internationalised and diversified bank, the Bank provides a comprehensive range of financial services to customers across the Chinese mainland, Hong Kong, Macau, Taiwan and 37 countries. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOC International Holdings Limited, a wholly owned subsidiary, is the Bank's investment banking arm. Bank of China Group Insurance Company Limited and Bank of China Insurance Company Limited, both wholly owned subsidiaries, run the Bank's insurance business. Bank of China Group Investment Limited, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. Bank of China Investment Management Co., Ltd., a controlled subsidiary, operates the Bank's fund management business. BOC Aviation Pte. Ltd., a wholly owned subsidiary, is in charge of the Bank's aircraft leasing business.

Bank of China has upheld the spirit of "pursuing excellence" throughout its hundred-year history. With adoration of the nation in its soul, integrity as its backbone, reform and innovation as its path forward and "people first" as its guiding principle, the Bank has built up an excellent brand image that is widely recognised within the industry and by its customers. Faced with new historic opportunities, the Bank will meet its social responsibilities, strive for excellence, and make further contributions to achieving the China Dream and the great rejuvenation of the Chinese nation.

# Development Strategy

## Core Values

Pursuing excellence

Integrity Performance Responsibility Innovation Harmony

## Strategic Goal

Serving Society, Delivering Excellence

## Overall Requirements of the Development Strategy

To build Bank of China into an excellent bank driven by the pursuit of noble values, a bank that shoulders significant responsibility for the nation's revival, a bank that possesses competitive edges in the globalisation process, a bank that leads lifestyle changes in technological innovations, a bank that earns customer loyalty in market competition and a bank that meets the expectations of shareholders, employees and society in the course of its sustained development.

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# Definitions

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

The Bank/the Group	Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited
Articles of Association	The performing Articles of Association of the Bank
Basis Point	0.01 of a percentage point
BOC Aviation	BOC Aviation Pte. Ltd.
BOC Insurance	Bank of China Insurance Company Limited
BOCG Insurance	Bank of China Group Insurance Company Limited
BOCG Investment	Bank of China Group Investment Limited
BOCG Life	BOC Group Life Assurance Co., Ltd.
BOCHK	Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK (Holdings)
BOCHK (Holdings)	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong and the ordinary shares of which are listed on the Hong Kong Stock Exchange
BOCI	BOC International Holdings Limited
BOCIM	Bank of China Investment Management Co., Ltd.
BOCI China	BOC International (China) Limited
CBRC	China Banking Regulatory Commission
Central and Southern China	The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan
Company Law	The Company Law of PRC
Convertible Bonds	Corporate bonds that are vested for conversion to the A-Share stock of the Bank
CSRC	China Securities Regulatory Commission
Eastern China	The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi and Shandong
G-SIFI	Global Systemically Important Financial Institution
HKEx	Hong Kong Exchanges and Clearing Limited
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Huijin	Central Huijin Investment Ltd.
Independent Director	Independent director under the listing rules of SSE and the Articles of Association, and independent non-executive director under the Hong Kong Listing Rules
MOF	Ministry of Finance, PRC
NCSSF	National Council for Social Security Fund
Northeastern China	The area including, for the purpose of this report, the branches of Heilongjiang, Jilin and Liaoning
Northern China	The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and Head Office
PBOC	The People's Bank of China, PRC
PRC	The People's Republic of China
RMB	Renminbi, the lawful currency of PRC
SAFE	State Administration of Foreign Exchange, PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SSE	The Shanghai Stock Exchange
Western China	The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang

## Important Notice

The Board of Directors, the Board of Supervisors, directors, supervisors and senior management members of the Bank warrant that the information in this report is authentic, accurate and complete, contains no false record, misleading statement or material omission, and jointly and severally accept full responsibility for the information in this report.

The 2013 Annual Report and Annual Results Announcement of the Bank have been reviewed and approved at the meeting of the Board of Directors of the Bank held on 26 March 2014. The number of directors who should attend the meeting is thirteen, with twelve directors attended the meeting in person. Chairman of the Board of Directors Mr. TIAN Guoli did not attend the meeting because of other important business arrangements. Mr. TIAN Guoli appointed Executive Director Mr. LI Zaohang as his authorised proxy to attend and vote on his behalf at the meeting. All directors of the Bank exercised their voting rights at the meeting. Eight supervisors attended the meeting as non-voting attendees.

The 2013 financial statements prepared by the Bank in accordance with Chinese Accounting Standards (“CAS”) and International Financial Reporting Standards (“IFRS”) have been audited by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with Chinese and international auditing standards, respectively. Both auditors issued an unqualified opinion.

Chairman of the Board of Directors TIAN Guoli, President CHEN Siqing, Executive Vice President responsible for the Bank’s finance and accounting WANG Yongli and General Manager of the finance and accounting department XIAO Wei warrant the authenticity, accuracy and completeness of the financial statements in this report.

The Board of Directors has recommended a final dividend for 2013 of RMB0.196 per share (before tax), subject to the approval of the shareholders at the forthcoming Annual General Meeting scheduled on 12 June 2014. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

During the reporting period, there was no misappropriation of the Bank’s funds by its controlling shareholder or other related parties for non-operating purposes and no material guarantee business that violated the applicable regulations and the procedures.

This report may contain forward-looking statements that involve risks and future plans. These forward-looking statements are based on the Bank’s own information and information from other sources the Bank believes to be reliable. They relate to future events or the Bank’s future financial, business or other performance and are subject to a number of factors and uncertainties that may cause our actual results to differ materially. Investors should not place undue reliance on these forward-looking statements and any future plans mentioned do not constitute a commitment by the Bank to its investors. Investors should be aware of the investment risks.

The Bank is faced with risks arising from changes in the macroeconomic environment and from political and economic conditions in different countries and regions as well as risks arising from its day-to-day operations, including the risk arising from changes in the credit status of borrowers, adverse changes in the market price and operational risk, and shall at the same time meet regulatory and compliance requirements. The Bank actively adopted various measures to effectively manage all types of risks. Please refer to the section “Management Discussion and Analysis — Risk Management” for details.

# Honours and Awards

*Chamber of Hong Kong Listed Companies*  
Corporate Governance Excellence Award

*China Central Television*  
Top Ten Corporate Governance

*The Banker*  
Ranked 9th in Top 1,000 World Banks

*Euromoney*  
Best Domestic Cash Manager in China  
Best Private Bank in China

*Global Finance*  
The World's Best Foreign Exchange Providers in China  
Best Corporate/Commercial Credit Card in China  
Best Trade Finance Bank in China

*Trade Finance*  
Best Trade Bank in China

*The Asset*  
Best Trade Finance Bank in China  
Best Debt House in China

*The Asian Banker*  
Best RMB Clearing Bank in Asia Pacific  
Best Internet Banking Product in China

*Asiamoney*  
Best Private Bank in China

*FORTUNE*  
Ranked 70th in Fortune Global 500 (2013)

*WPP Group*  
The BrandZ Top 100 Most Valuable Chinese Brands

*Interbrand*  
Top 50 Best Chinese Brands (2013)

*The Chinese Banker*  
Best Financial Enterprise Image Award

*China Business News*  
Best Corporate Service Bank  
Best Estimation of Financial Institution

*21st Century Business Herald*  
2013 Best Offshore Operation Bank in Asia

*Money Weekly*  
Most Respectable Bank in China  
Best Retail Bank in China

*Sina.com.cn*  
Best Electronic Bank in China

*Investor Journal*  
Top 50 Best Listed Companies

*IR Magazine*  
Greater China Top 100

*ChinaHR.com*  
Top 10 Best Employers in China

*Nanfang Media Group*  
Top 100 Listed State-owned Enterprises by Corporate Social Responsibility

*China Banking Association*  
Excellent Charity Project Award

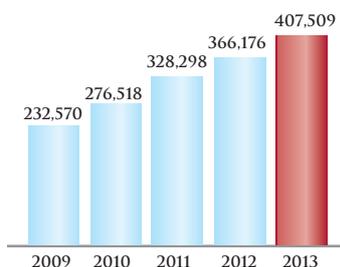
*China Women's Development Foundation*  
Top 10 Women-caring Enterprises

*League of American Communications Professionals*  
Gold Award for 2012 Annual Report

# Financial Highlights

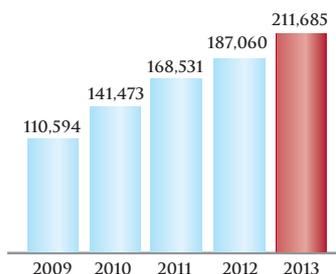
## Operating income

RMB Million



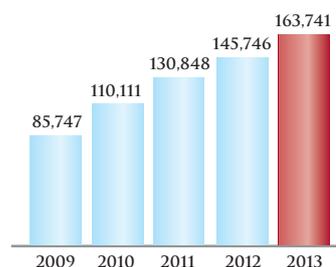
## Operating profit

RMB Million



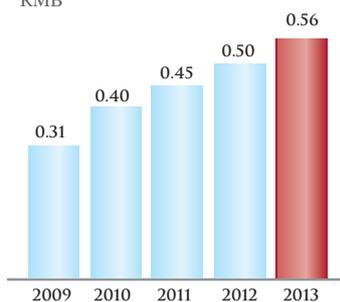
## Profit for the year

RMB Million



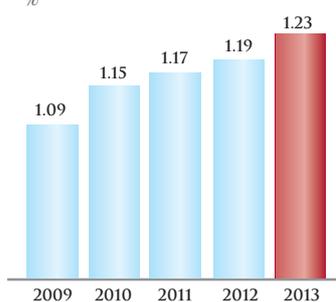
## EPS (basic)

RMB



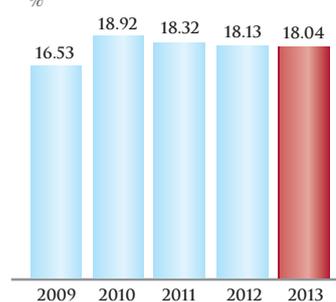
## ROA

%



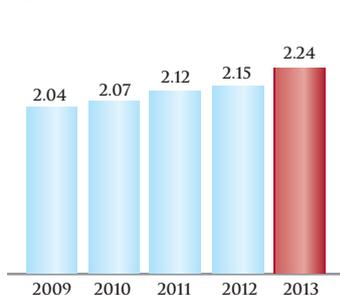
## ROE

%



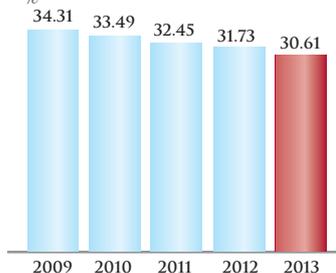
## Net interest margin

%



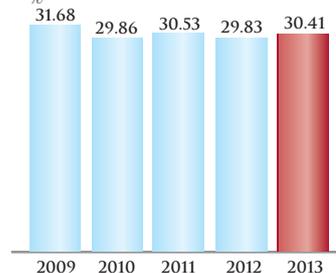
## Cost to income ratio (calculated under domestic regulations)

%



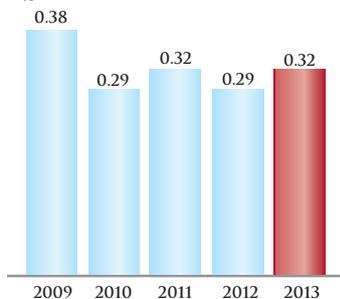
## Non-interest income to operating income

%



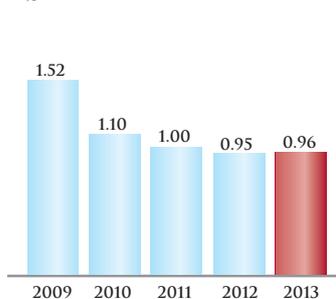
## Credit cost

%



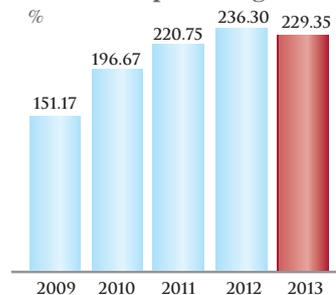
## Non-performing loans to total loans

%



## Allowance for loan impairment losses to non-performing loans

%



# Financial Highlights

Note: The financial information in this report has been prepared in accordance with IFRS. The data are presented in RMB and reflect amounts related to the Group, unless otherwise noted.

Unit: RMB million

	Note	2013	2012	2011	2010	2009
<b>Results of operations</b>						
Net interest income		<b>283,585</b>	256,964	228,064	193,962	158,881
Non-interest income	1	<b>123,924</b>	109,212	100,234	82,556	73,689
Operating income	2	<b>407,509</b>	366,176	328,298	276,518	232,570
Operating expenses		<b>(172,314)</b>	(159,729)	(140,412)	(122,052)	(106,989)
Impairment losses on assets		<b>(23,510)</b>	(19,387)	(19,355)	(12,993)	(14,987)
Operating profit		<b>211,685</b>	187,060	168,531	141,473	110,594
Profit before income tax		<b>212,777</b>	187,673	169,047	142,502	111,415
Profit for the year		<b>163,741</b>	145,746	130,848	110,111	85,747
Profit attributable to equity holders of the Bank		<b>156,911</b>	139,656	124,622	104,793	81,148
Total dividend		<b>N.A.</b>	48,851	43,268	40,756	35,537
<b>Financial position</b>						
Total assets		<b>13,874,299</b>	12,680,615	11,829,789	10,459,703	8,751,794
Loans, gross		<b>7,607,791</b>	6,864,696	6,342,814	5,660,621	4,910,358
Allowance for loan impairment losses		<b>(168,049)</b>	(154,656)	(139,676)	(122,856)	(112,950)
Investment securities	3	<b>2,256,470</b>	2,210,524	2,000,759	2,055,324	1,816,679
Total liabilities		<b>12,912,822</b>	11,819,073	11,072,652	9,782,441	8,205,392
Due to customers		<b>10,097,786</b>	9,173,995	8,817,961	7,733,537	6,716,823
Capital and reserves attributable to equity holders of the Bank		<b>923,916</b>	824,677	723,914	644,858	515,617
Share capital		<b>279,365</b>	279,147	279,147	279,147	253,839
<b>Per share</b>						
Basic earnings per share for profit attributable to equity holders of the Bank (RMB)		<b>0.56</b>	0.50	0.45	0.40	0.31
Dividend per share (before tax, RMB)	4	<b>0.196</b>	0.175	0.155	0.146	0.14
Net assets per share (RMB)	5	<b>3.31</b>	2.95	2.59	2.31	2.03
<b>Key financial ratios</b>						
Return on average total assets (%)	6	<b>1.23</b>	1.19	1.17	1.15	1.09
Return on average equity (%)	7	<b>18.04</b>	18.13	18.32	18.92	16.53
Net interest margin (%)	8	<b>2.24</b>	2.15	2.12	2.07	2.04
Non-interest income to operating income (%)	9	<b>30.41</b>	29.83	30.53	29.86	31.68
Cost to income ratio (calculated under domestic regulations, %)	10	<b>30.61</b>	31.73	32.45	33.49	34.31
Loan to deposit ratio (%)	11	<b>72.52</b>	71.99	68.77	71.72	72.04
<b>Capital ratios</b>						
Common equity tier 1 capital	12	<b>925,037</b>	N.A.	N.A.	N.A.	N.A.
Additional tier 1 capital		<b>698</b>	N.A.	N.A.	N.A.	N.A.
Tier 2 capital		<b>262,768</b>	N.A.	N.A.	N.A.	N.A.
Common equity tier 1 capital adequacy ratio (%)		<b>9.69</b>	N.A.	N.A.	N.A.	N.A.
Tier 1 capital adequacy ratio (%)		<b>9.70</b>	N.A.	N.A.	N.A.	N.A.
Capital adequacy ratio (%)		<b>12.46</b>	N.A.	N.A.	N.A.	N.A.
<b>Asset quality</b>						
Identified impaired loans to total loans (%)	13	<b>0.96</b>	0.95	1.00	1.13	1.55
Non-performing loans to total loans (%)	14	<b>0.96</b>	0.95	1.00	1.10	1.52
Allowance for loan impairment losses to non-performing loans (%)	15	<b>229.35</b>	236.30	220.75	196.67	151.17
Credit cost (%)	16	<b>0.32</b>	0.29	0.32	0.29	0.38
Allowance for loan impairment losses to total loans (%)	17	<b>2.62</b>	2.62	2.56	2.45	2.58
<b>Exchange rate</b>						
USD/RMB year-end middle rate		<b>6.0969</b>	6.2855	6.3009	6.6227	6.8282
EUR/RMB year-end middle rate		<b>8.4189</b>	8.3176	8.1625	8.8065	9.7971
HKD/RMB year-end middle rate		<b>0.7862</b>	0.8108	0.8107	0.8509	0.8805

# Financial Highlights

## Notes

- 1 Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on investment securities + other operating income
- 2 Operating income = net interest income + non-interest income
- 3 Investment securities include securities available for sale, securities held to maturity, loans and receivables and financial assets at fair value through profit or loss.
- 4 Dividend per share = total dividend ÷ number of ordinary shares in issue at the year-end
- 5 Net assets per share = capital and reserves attributable to equity holders of the Bank at the year-end ÷ number of ordinary shares in issue at the year-end
- 6 Return on average total assets = profit for the year ÷ average total assets. Average total assets = (total assets at the beginning of the year + total assets at the year-end) ÷ 2
- 7 Return on average equity = profit attributable to equity holders of the Bank ÷ weighted average capital and reserves attributable to equity holders of the Bank. It is calculated according to *No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies — Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010)* (CSRC Announcement [2010] No. 2) issued by CSRC.
- 8 Net interest margin = net interest income ÷ average balance of interest-earning assets. Average balance is average daily balance derived from the Bank's management accounts (unaudited).
- 9 Non-interest income to operating income = non-interest income ÷ operating income
- 10 Cost to income ratio is calculated according to the *Measures of the Performance Evaluation of Financial Enterprises* (Cai Jin [2011] No.50) formulated by MOF.
- 11 Loan to deposit ratio = outstanding loans ÷ balance of deposits. It is calculated according to relevant provisions of PBOC. Balance of deposits includes due to customers and due to financial institutions such as insurance companies and financial holding companies.
- 12 Capital ratios are calculated according to the *Capital Rules for Commercial Banks (Provisional)* (Y.J.H.L [2012] No. 1) and the compared data are not available.
- 13 Identified impaired loans to total loans = identified impaired loans at the year-end ÷ total loans at the year-end
- 14 Non-performing loans to total loans = non-performing loans at the year-end ÷ total loans at the year-end
- 15 Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at the year-end ÷ non-performing loans at the year-end
- 16 Credit cost = impairment losses on loans ÷ average balance of loans. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at the year-end) ÷ 2
- 17 Allowance for loan impairment losses to total loans = allowance for loan impairment losses at the year-end ÷ total loans at the year-end. It is calculated according to domestic data.

# Corporate Information

## Registered Name in Chinese

中國銀行股份有限公司 (“中國銀行”)

## Registered Name in English

BANK OF CHINA LIMITED (“Bank of China”)

## Legal Representative and Chairman

TIAN Guoli

## Vice Chairman\* and President

CHEN Siqing

## Secretary to the Board of Directors

FAN Yaosheng

Office Address:

No.1 Fuxingmen Nei Dajie, Beijing, China

Telephone: (86) 10-6659 2638

Facsimile: (86) 10-6659 4568

E-mail: ir@bankofchina.com

## Company Secretary

YEUNG Cheung Ying

## Listing Affairs Representative

LUO Nan

Office Address:

No.1 Fuxingmen Nei Dajie, Beijing, China

Telephone: (86) 10-6659 2638

Facsimile: (86) 10-6659 4568

E-mail: ir@bankofchina.com

## Registered Address of Head Office

No.1 Fuxingmen Nei Dajie, Beijing, China

## Office Address

No.1 Fuxingmen Nei Dajie, Beijing, China, 100818

Telephone: (86) 10-6659 6688

Facsimile: (86) 10-6601 6871

Website: <http://www.boc.cn>

E-mail: ir@bankofchina.com

Customer Service and Complaint Hotline:

(86) Area Code-95566

## Place of Business in Hong Kong

Bank of China Tower, 1 Garden Road,

Central, Hong Kong

## Selected Newspapers for Information

### Disclosure (A Share)

*China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily*

## Website Designated by CSRC to Publish the Annual Report

<http://www.sse.com.cn>

## Website Designated by HKEx to Publish the Annual Report

<http://www.hkexnews.hk>

## Place where Annual Report can be Obtained

No.1 Fuxingmen Nei Dajie, Beijing, China

## Domestic Legal Advisor

King & Wood Mallesons

## Hong Kong Legal Advisor

Allen & Overy

## Auditors

### Domestic auditor

Ernst & Young Hua Ming LLP

Address:

Level 16, Ernst & Young Tower,  
Oriental Plaza,

No.1 East Chang An Avenue,  
Dongcheng District, Beijing, China

Certified Public Accountants who signed the auditor's report:

ZHANG Xiaodong and YANG Bo

### International auditor

Ernst & Young

Address:

22/F, CITIC Tower

1 Tim Mei Avenue

Central, Hong Kong

## Date of First Registration

31 October 1983

## Authority of First Registration

State Administration of Industry and Commerce, PRC

## Index of First Registration

<http://www.saic.gov.cn>

## Corporate Business Licence Serial Number

100000000001349

## Financial Institution Licence Serial Number

B0003H111000001

## Tax Registration Certificate Number

Jingshuizhengzi 110102100001342

## Organisation Code

10000134-2

## Registered Capital

RMB279,147,223,195

## Changes to Registration during the Reporting Period

20 June 2013 (change of Legal Representative)

## Securities Information

### A Share

Shanghai Stock Exchange

Stock Name: 中國銀行

Stock Code: 601988

### H Share

The Stock Exchange of Hong Kong Limited

Stock Name: Bank of China

Stock Code: 3988

### A-Share Convertible Bonds

Shanghai Stock Exchange

Securities Name: 中行轉債

Securities Code: 113001

\* The 2014 First Extraordinary General Meeting of the Bank held on 25 March 2014 considered and approved the proposal on the election of Mr. CHEN Siqing as Executive Director of the Bank. The Board Meeting of the Bank has considered and approved the proposal on the election of Mr. CHEN Siqing as Vice Chairman of the Board of Directors. Mr. CHEN Siqing will begin to serve as Vice Chairman of the Board of Directors and Executive Director of the Bank from the date of approval by CBRC.

## Message from the Chairman



“Last year saw profound changes to the operating environment of the banking industry. Haunted by the long shadow of the international financial crisis, the global economy struggled to recover. China’s economy made progress while maintaining stability. RMB internationalisation accelerated, market-oriented reform advanced and internet finance thrived. Faced with complex conditions, the Bank continued to shoulder its social responsibilities and consciously tailored its own self-development to fit the framework of China’s national strategy. It strived to seize opportunities, fight for market share, streamline structures and control its risk exposure. As a result, the Bank achieved excellent results in all aspects and took a solid step towards its strategic goal of ‘Delivering Excellence’.”

## Message from the Chairman

I am greatly honoured to present our annual results for 2013, my first year as Chairman of the Bank, to the shareholders of the Bank and to the public. During the year, the Bank achieved a profit for the year of RMB163.7 billion, a year-on-year increase of 12.35%, and a profit attributable to equity holders of the Bank of RMB156.9 billion, an increase of 12.36%. Earnings per share increased by RMB0.06 to RMB0.56. Return on average total assets increased to 1.23%, up 0.04 percentage point compared with the prior year. The Bank maintained stable asset quality and kept its non-performing loan ratio at a reasonably low level. The Board of Directors has proposed a dividend of RMB0.196 per share for 2013, pending approval by the Annual General Meeting to be held in June 2014.

Last year saw profound changes to the operating environment of the banking industry. Haunted by the long shadow of the international financial crisis, the global economy struggled to recover. China's economy made progress while maintaining stability. RMB internationalisation accelerated, market-oriented reform advanced and internet finance thrived. Faced with complex conditions, the Bank continued to shoulder its social responsibilities and consciously tailored its own self-development to fit the framework of China's national strategy. It strived to seize opportunities, fight for market share, streamline structures and control its risk exposure. As a result, the

Bank achieved excellent results in all aspects and took a solid step towards its strategic goal of "Delivering Excellence".

The business structure of the Bank has been further optimised over the past year. The Group's net interest margin continued to increase and the proportional contribution of non-interest income to operating income continued to lead the market. The Bank's differentiated competitive advantages were further reinforced. The Group's overseas operations made a significantly weightier contribution and the share of non-banking operating income within the Group's overall operating income increased dramatically. The Bank also led its domestic and overseas peers in business related to RMB internationalisation and further improved its global RMB clearing network. It successfully supported various major M&A projects including Shuanghui International Holdings Limited's acquisition of Smithfield Foods Inc. and CNOOC's acquisition of NEXEN Energy ULC, thus enhancing its influence in domestic and overseas markets. By achieving remarkable results in liquidity management, the Bank was able to play a pivotal role in maintaining financial market security and stability, as befits a large bank. The Bank's outstanding performance was acknowledged by all relevant parties. The credit rating of the Bank was raised by a major rating agency, generating favourable reaction from the capital markets.

## Message from the Chairman

In 2013, the Board of Directors of the Bank earnestly implemented state policies and regulatory requirements. Backed by in-depth research and a commitment to diligence, the Board of Directors made scientific decisions regarding major topics such as strategic planning, business development and risk management, thus guiding the Bank towards rapid, healthy and sustainable growth. The Board of Directors conscientiously followed *the Guidelines on Corporate Governance of Commercial Banks* issued by CBRC and implemented the *Board Diversity Policy*, further improving its decision-making efficiency and level of expertise. The provisions on profit distribution in the Articles of Association were revised in order to place greater emphasis upon the protection of minority investors' interests.

In March 2013, Mr. XIAO Gang resigned from his posts as Chairman, Executive Director as well as Chairman and member of the Strategic Development Committee of the Board of Directors of the Bank due to the needs of work. In January 2014, Mr. LI Lihui resigned from his posts as Vice Chairman, Executive Director, member of the Strategic Development Committee of the Board of Directors, and President of the Bank due to age reason. Both Mr. XIAO and Mr. LI had worked at the Bank for ten years. Over the past decade, these outstanding bankers have devoted their hearts and minds to unifying and leading the entire staff, bringing about new prospects for the Bank's reform and development and making exceptional contributions to the Bank's next century of glory. On behalf of the Board of Directors and all staff members at home and abroad, I would like to pay the highest

tribute and extend our most heartfelt gratitude to Mr. XIAO and Mr. LI.

In the past year, in accordance with the applicable laws and regulations and the Articles of Association, the Bank efficiently completed the replacement of some directors and senior management members. Mr. CHEN Siqing was officially appointed as President of the Bank in February 2014. Ms. JIANG Yansong, Mr. Anthony Francis NEOH, Mr. HUANG Shizhong and Ms. HUANG Danhan ceased to serve as directors of the Bank, and Mr. WANG Yong, Mr. LU Zhengfei and Mr. LEUNG Cheuk Yan were newly appointed as directors of the Bank. On behalf of the Board of Directors, I would like to extend our highest praise and sincere gratitude to our former directors for their tremendous contributions, while at the same time expressing a warm welcome to our new directors.

The global economic structure and financial landscape are undergoing deep changes. The reform and opening up of China's economic and financial systems has entered a new stage. As a result, the banking industry faces vital opportunities and testing challenges. When we look back on the twists and turns experienced by the modern banking industry over the past 300 years, we see that a bank wishing to achieve sustainable development in a dramatically changing environment must align itself to national development strategy, develop a keen understanding of global development trends, put customer service at the centre of its culture, constantly strengthen the spirit of reform and innovation and firmly establish the guiding principle of long-term prudence in its operations. To accomplish all

## Message from the Chairman

of this, the Bank will endeavour to achieve its strategic goal of “Serving Society, Delivering Excellence”. It will devote itself to building a bank that shoulders significant responsibility for the nation’s revival, a bank that possesses competitive edges in the globalisation process, a bank that leads lifestyle changes in technological innovations, a bank that earns customer loyalty in market competition and a bank that meets the expectations of shareholders, employees and society in the course of its sustained development. In pursuit of such excellence, let us build our Bank to last forever.

The year 2014 is a year of reform and expectation. Intertwining its own forward path with the overarching narratives of economic transformation and social progress, the Bank will deepen reform so as to promote development, strengthen innovation so as to increase market share, accelerate business transformation to realise efficiencies and manage risks to reduce costs. Striving at all times to shoulder its social responsibilities in a bid to deliver excellence, it will reward the trust and support of its shareholders and the public with more outstanding performance!



**TIAN Guoli**  
*Chairman*  
26 March 2014

## Message from the President



“In 2013, the Bank upheld its strategic goal of ‘Serving Society, Delivering Excellence’. It continued to focus on operational efficiency, strived to increase market share, accelerated structural streamlining and effectively managed risks, thus achieving its annual targets and recording excellent business results. The Bank’s total assets and liabilities steadily increased and the profitability was continuously enhanced. Asset quality remained stable and the capital adequacy ratios were in line with regulatory requirements. The Bank has appeared in the Fortune 500 list for 25 consecutive years and in 2013 was enrolled as a Global Systemically Important Bank for the third consecutive year, further enhancing the value of our brand name and reputation.”

## Message from the President

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Earlier this year, I stood down as President of the Bank almost a decade after joining Bank of China in July 2004.

During those ten years, the combined efforts of all employees have yielded a series of great successes, including joint stock reform and the implementation of the IT Blueprint. We have witnessed many happy occasions, providing banking services to the Beijing Olympic Games and celebrating our centenary. We have also weathered several hardships, including reconstruction efforts after the Wenchuan earthquake and responding to the challenges of the international financial crisis. In this time, the Bank has successfully seized the significant opportunities brought about by the steady and rapid development of our nation’s economy and society, played an active role in China’s historic process of financial reform and development, and achieved sound, rapid and sustained growth.

In the past decade, the Bank has fully committed itself to “promoting social welfare and contributing to a prosperous nation”. It fundamentally recognised that finance should serve the real economy and thus fully supported national economic construction and social progress. Making full use of its international and diversified competitive advantages, the Bank actively supported Chinese enterprises and individuals as they sought to “go global” and robustly advanced RMB internationalisation. Moreover, the Bank provided on-going financial support to the development of ecological civilisation, environmental protection, science, education, culture and health care, actively participated

in various public benefit activities including poverty alleviation, disaster relief and charity support, and strived to cultivate a fertile environment for employee growth. In this way, it constantly pushed forward the harmonious development of society, the Bank and its employees.

Only one person occupies the post of President, but the successful performance of the President’s responsibilities relies on the concerted efforts of all managers and employees. Your trust and support, your conscientious and responsible attitude, your willingness to coordinate and cooperate and your diligence and dedication are both a treasured gift for me and a valuable asset for the Bank. I would like to avail myself of this opportunity to express my heartfelt gratitude to the Bank’s employees at home and abroad for your hardworking and selfless contribution, to the Board of Directors and the Board of Supervisors for your guidance and help, and to the Bank’s investors and friends for your trust and support!

President Mr. CHEN Siqing is a capable and virtuous man in the prime of his career. Having long worked for the Bank, he is deeply familiar with our operations and boasts rich experience in both business and management. I have total confidence that he will meet everyone’s expectations and record fresh and bold achievements.

China is fully on the path of deepening reform, creating new development opportunities for the Bank. With a strong, united leadership and 300,000 committed employees at home and abroad, I have no doubt that the Bank will fulfil its strategic goal of “Serving Society, Delivering Excellence”.

Though I am no longer the President, I remain a member of the family. I will continue to work hard alongside you all and contribute to our collective endeavours.

May the Bank move towards an ever-brighter future!



LI Lihui

26 March 2014

\* Mr. LI Lihui ceased to serve as President of the Bank as of 28 January 2014. Please refer to the announcement on the retirement of Vice Chairman of the Board of Directors, Executive Director and President of the Bank published on 28 January 2014 for details.

## Message from the President



“The year 2014 is expected to bring greater hope for the full recovery of the world economy. China will embark on a new journey of deep and comprehensive reform. The time is ripe with opportunity for the Bank, but the road ahead is long and tough. Thus, we must continue to strive. Adhering to the strategic goal of ‘Serving Society, Delivering Excellence’, the Bank will focus on business development at the very core of its operations, constantly tighten risk management as the foundation, fully unleash the driving force of reform and innovation and pay particular attention to cultivating employee talent and building a strong team ethic, thereby bringing about the healthy development of all its undertakings and ushering in a new era of glory and splendour for the Bank.”

## Message from the President

In 2013, the Bank conscientiously implemented the state's macroeconomic policies and regulatory requirements, worked hard to honour its social responsibilities and reinforced its efforts to deliver excellence, thus achieving remarkable results. At the end of 2013, according to International Financial Reporting Standards, the Bank's total assets stood at RMB13.87 trillion, total liabilities amounted to RMB12.91 trillion, and equity attributable to shareholders of the Bank was RMB923.9 billion. This represented an increase of 9.41%, 9.25% and 12.03% respectively from the prior year-end. During the year, the Bank achieved a profit for the year of RMB163.7 billion, a year-on-year increase of 12.35%, and a profit attributable to equity holders of the Bank of RMB156.9 billion, a year-on-year increase of 12.36%. The return on average total assets stood at 1.23%, a year-on-year increase of 0.04 percentage point, and the return on average equity was 18.04%. The non-performing loan ratio was 0.96%, a slight increase of 0.01 percentage point from the prior year-end. The common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio stood at 9.69%, 9.70% and 12.46% respectively, in line with regulatory requirements.

During 2013, the Bank's operating efficiency rose against the prevailing market trend, with the growth rate of profit for the year registering a year-on-year increase of 0.96 percentage point. There were

four main driving factors. First, net interest margin increased by 9 basis points year-on-year to 2.24%, and the Bank realised a net interest income of RMB283.585 billion, a year-on-year increase of 10.36%. Second, non-interest income soared by 13.47%, thus accounting for 30.41% of the Group's total operating income, up 0.58 percentage point year-on-year and representing a proportional contribution unmatched by domestic peers. Third, the cost of risk was effectively controlled. Credit cost was 0.32%, and remained at a fairly low level. Fourth, input and output efficiency further improved. The Bank's cost to income ratio was 30.61%, a year-on-year decrease of 1.12 percentage points.

In 2013, the Bank stepped up its efforts to improve its business structure. Its liability structure improved, with the balance of liabilities due to customers reaching RMB10.10 trillion as at year-end, an increase of RMB923.791 billion or 10.07% from the beginning of the year. The interest rate for RMB liabilities of domestic institutions dropped 21 basis points year-on-year. The Bank also improved its credit structure. The proportion of loans granted to strategic emerging industries such as information consumption, energy conservation, environmental protection and advanced manufacturing, among others, rose by 1.65 percentage points. The growth rate of loans granted to small-sized enterprises outpaced the overall corporate loan growth rate by 4.38 percentage points.

## Message from the President

The Bank worked steadfastly to sharpen and reinforce its traditional competitive advantages. Overseas business development was accelerated. At the end of 2013, the Bank's overseas operations held total assets of USD630.8 billion and total liabilities of USD596.8 billion, an increase of 26.46% and 27.63% respectively from the beginning of the year. The Bank's overseas institutions realised a profit before tax of USD6.663 billion, a year-on-year increase of 20.55%. The Bank continued to lead the market in business related to RMB internationalisation. It completed cross-border RMB settlement volumes of RMB3.98 trillion, an increase of 60.2% compared to the prior year. The Bank further enhanced its global RMB clearing network and its branches in Malaysia, Luxembourg, Cambodia, the Philippines and other countries and regions became local RMB clearing banks. The Bank's non-banking business also grew faster. Operating income from the Bank's non-banking business registered a year-on-year increase of 24.77%, with their proportional contribution to the Group's total operating income increasing by 1.43 percentage points.

The Bank earnestly strengthened its risk management during the reporting period. It maintained an appropriate balance between security, liquidity and profitability, enhanced its liquidity management mechanisms and methods, improved its emergency response abilities and ensured liquidity security. The Bank set clear priorities in a bid to comprehensively tighten risk control, paying particular attention to

key fields including overcapacity industries, local government financial vehicles and real estate. It conscientiously performed risk investigation, risk early warning and post-lending management so as to ensure stable asset quality. It improved risk management rules and procedures and enhanced risk management efficiency. In addition, the Bank tightened internal controls and kept a close eye on potential fraud cases. It also advanced the implementation of the New Basel Capital Accord and G-SIFI-related requirements in a coordinated manner.

The Bank steadily developed its infrastructure in 2013, strengthening existing channels and constructing new ones. Large and medium-sized all-function outlets came to account for more of the Bank's outlet mix, with their share of all outlets increasing by 0.7 percentage point. Meanwhile, the proportion of outlets with low productivity and efficiency dropped by 6.24 percentage points. The substitution ratio of e-banking channels for traditional outlets reached 77.53%. Information technology development was further enhanced. The BOC open platform was successfully put into operation, and innovative mobile financial products such as Micro Bank and Easy-Pay were launched. The Bank has achieved milestone results in the staggered integration and transformation of its overseas IT system. It further accelerated the construction of key operating platforms such the global universal payment and customer service platforms, thereby improving the Bank's operational and service capabilities.

## Message from the President

The year 2014 is expected to bring greater hope for the full recovery of the world economy. China will embark on a new journey of deep and comprehensive reform. The time is ripe with opportunity for the Bank, but the road ahead is long and tough. Thus, we must continue to strive. Adhering to the strategic goal of "Serving Society, Delivering Excellence", the Bank will focus on business development at the very core of its operations, constantly tighten risk management as the foundation, fully unleash the driving force of reform and innovation and pay particular attention to cultivating employee talent and building a strong team ethic, thereby bringing about the healthy development of all its undertakings and ushering in a new era of glory and splendour for the Bank.

Early this year, President LI Lihui, who had worked at the Bank for nearly ten years, resigned owing to age and handed on the baton to me. He is a veteran banker and a most capable leader, with an astute understanding of policy and a high level of industry expertise. His outstanding contribution to the rapid and sustained growth of the Bank has set an example for all of us to follow. As I now face the work ahead, I feel the weight of responsibility keenly on my shoulders. As a member of the Bank's management team, I will work with commitment and diligence, conscientiously implement the decisions and arrangements of the Board of Directors, subject myself to the oversight of the Board of Supervisors, rely upon our staff and devote myself wholeheartedly to the Bank's mission of "Delivering Excellence", striving at all times to make myself worthy of the trust and expectations of our investors and all parts of society.



**CHEN Siqing**

*President*

26 March 2014

## Message from the Chairman of the Board of Supervisors



“During 2013, with the focus on the implementation of the Bank’s strategies and priorities, the Board of Supervisors earnestly performed its supervision duties including supervising the Bank’s duty performance, finances, risk management and internal controls in strict conformity with the provisions of laws, regulations and the Bank’s Articles of Association, striving to achieve more targeted and effective supervision so as to actively promote the sustainable growth of the Bank.”

## Message from the Chairman of the Board of Supervisors

During 2013, with the focus on the implementation of the Bank's strategies and priorities, the Board of Supervisors earnestly performed its supervision duties including supervising the Bank's duty performance, finances, risk management and internal controls in strict conformity with the provisions of laws, regulations and the Bank's Articles of Association, striving to achieve more targeted and effective supervision so as to actively promote the sustainable growth of the Bank.

In 2013, the Board of Supervisors strengthened its capacities by formulating and improving the implementation measures for finances and internal controls as well as duty performance evaluation measures in line with regulatory requirements. It earnestly supervised on day-to-day duty performance and objectively assessed the duty performance of directors and senior management members. It also bolstered financial supervision by carrying out communications with special topics and inspections concerning the compilation, review and disclosure of financial reports and by providing independent supervisory opinions. The Board of Supervisors continuously tracked risk management and internal control, strengthened the supervision of the Bank's risk management and the development of an effective long-term internal control mechanism. In addition, it initiated in-depth research into critical issues based on the Group's strategies and made constructive recommendations to enhance the operations and management of the Bank.

Thanks to the sound corporate governance mechanism of the Bank, the Board of Supervisors maintained efficient and effective communication as well as active interactions with the Board of Directors and the senior management, thus strengthening the Bank's internal checks and balances and supporting the coordinated development of decision-making, execution and supervision. In this way, the Board of Supervisors constantly enhanced the Bank's corporate governance and laid a solid foundation for achieving the Bank's strategic goal of "Delivering Excellence".

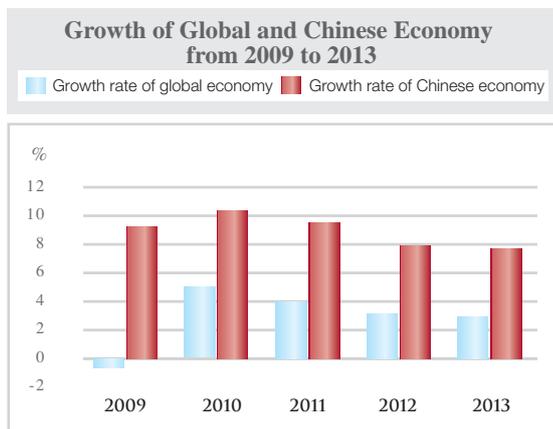


**LI Jun**

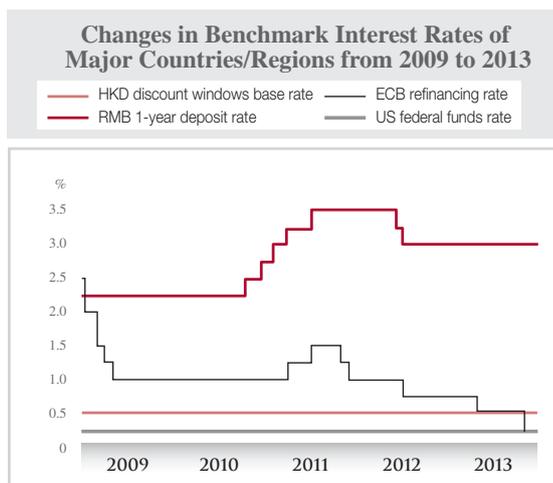
*Chairman of the Board of Supervisors*

26 March 2014

# Management Discussion and Analysis — Financial Review



Source: International Monetary Fund (IMF), National Bureau of Statistics of China



Source: Thomson Reuters EcoWin

## Economic and Financial Environment

In 2013, the global economy shambled towards recovery. The annual global growth rate decelerated by 0.1 percentage point compared with the prior year. Mature economies again became the main driving force of global economic growth with stronger momentum on the US economy, the European economy out of recession pulled by various factors, and slower growth of Japan's economy after a robust revival. Some emerging economies have come under particular pressures by weak external demands, impact from US monetary policy upon global financial markets and certain domestic issues, causing financial market turbulence and elevated risks. Equity markets in mature economies rose substantially. The US and Germany Treasury yields lifted. Commodity prices had fallen. The exchange rate of the US dollar fluctuated sharply, of Euro appreciated slightly and of Japanese Yen depreciated continuously.

In 2013, the Chinese Government continued to adhere to the principle of pursuing steady development and stable economic growth. The government grasped the broad economic situation, maintained the anchoring force of economic control, insisted on the bottom line thinking and devoted itself to deepening reform, speeding up structural adjustment and improving people's livelihood based by stabilising macro policy, implementing flexible micro policy and underpinning the foundation of social policy. As a result, the national economy operated stably overall. In 2013, gross domestic product (GDP) grew by 7.7%, the consumer price index (CPI) increased by 2.6%, total retail sales of consumer goods (TRSCG) grew by 13.1%, total fixed asset investments (TFAI) rose by 19.6% and the volume of foreign trade grew by 7.6%.

The Chinese Government sustained a prudent monetary policy, adjusting and fine-tuning it in a timely, appropriate and forward-looking manner, thus stabilising monetary credit and financial market operation. In 2013, broad money supply (M2) grew by 13.6%, a decrease of 0.2 percentage point compared with the prior year. RMB-denominated loans by financial institutions increased by RMB8.89 trillion, an increase of RMB0.69 trillion compared with the prior year. The total scale of social financing was RMB17.29

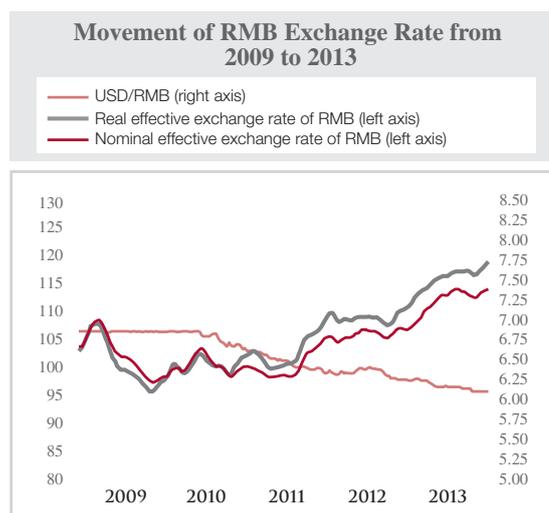
## Management Discussion and Analysis — Financial Review

trillion, an increase of RMB1.53 trillion compared with the prior year. The SSE composite index fell by 6.8%, and liquid market value of stocks on Shanghai and Shenzhen stock markets rose by 9.9%. The scale of bond issuance continuously expanded. A total amount of RMB8.86 trillion of bonds (excluding central bank bills) were issued, an increase of RMB0.89 trillion compared with the prior year. The exchange rate of RMB against US dollar was stable overall, with a cumulative appreciation of 3.09%.

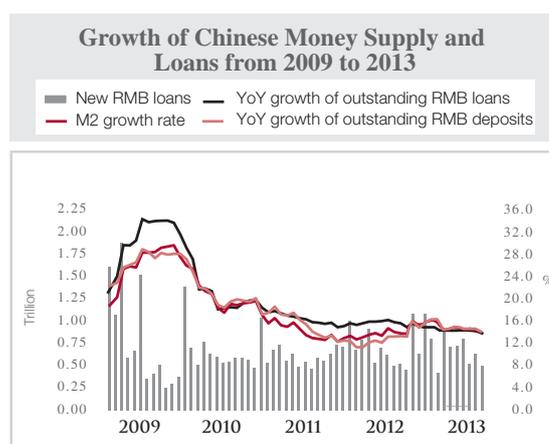
China's financial regulatory authorities adhered to the basic principle of "strengthening risk control and prevention in key areas, serving the real economy and pushing the reform forward", and guided the banking sector to achieve sustainable and sound development. Risk control and prevention in overcapacity industries, local government financing vehicles ("LGFVs") and the real estate sector were strengthened, and wealth management business risks were strictly controlled. More credit support was given to key construction projects, small and medium-sized enterprises ("SMEs") as well as agriculture, farmers and rural areas thus enhancing the banking sector's ability to serve the real economy. Reform was pushed forward steadily by fully liberalising loan interest rate control, reinforcing the corporate governance of commercial banks, improving liquidity management tools and approaches and further implementing New Basel Capital Accord.

The Chinese banking sector recorded further expansion on scale of assets, overall stable asset quality and steadily increased earnings. As at the end of 2013, total assets of China's banking institutions grew by 13.3% to RMB151.4 trillion. The non-performing loans ("NPLs") balance of commercial banks stood at RMB592.1 billion, up RMB99.3 billion compared with the beginning of the year. The NPL ratio was 1.0%, up 0.05 percentage point compared with the beginning of the year. Commercial banks realised a profit after tax of RMB1.42 trillion, up 14.5% compared with the prior year. Return on average equity and return on average assets were 19.2% and 1.27% respectively, a decrease of 0.7 and 0.01 percentage point compared with the prior year.

Outlook for 2014, the global economy recovery is expected to accelerate. Mature economies are expected to experience a faster pick-up and first



Source: Thomson Reuters EcoWin



Source: Thomson Reuters EcoWin

## Management Discussion and Analysis — Financial Review

co-movement after the crisis. Emerging markets are prospected to grow faster than the prior year but diverge largely. Major uncertainties will stem from debt risks and quantitative easing policy adjustments of mature economies. A group of emerging markets face continued pressure of capital outflows. Under the principle of achieving stable progress, promoting the reform and innovation, and pursuing steady development, the Chinese Government will continue to implement the proactive fiscal policy and prudent monetary policy, further adjust the structure of fiscal expenditure, practice cost control policy, improve fund use efficiency, ameliorate the structural tax reduction policy, and expand the scope of pilot program on replacing business tax with value-added tax. Moreover, it will maintain a reasonable scaling up of monetary credits and social financing, improve financing and credit structures, and raise the weighting of direct

financing. It will also push forward reform of interest rate liberalisation and RMB exchange rate formation regimes and improve financial operation efficiency and its capability in service of the real economy.

### Income Statement Analysis

In 2013, the Group achieved a profit after tax of RMB163.741 billion, and a profit attributable to equity holders of the Bank of RMB156.911 billion, an increase of 12.35% and 12.36% respectively compared with the prior year. Return on average total assets (ROA) was 1.23%, an increase of 0.04 percentage point compared with the prior year, and return on average equity (ROE) was 18.04%, a decrease of 0.09 percentage point compared with the prior year.

The principal components of the Group's consolidated income statement are set out below:

Unit: RMB million, except percentages

Items	2013	2012	Change	Percentage change
Net interest income	<b>283,585</b>	256,964	26,621	10.36%
Non-interest income	<b>123,924</b>	109,212	14,712	13.47%
Including: net fee and commission income	<b>82,092</b>	69,923	12,169	17.40%
Operating income	<b>407,509</b>	366,176	41,333	11.29%
Operating expenses	<b>(172,314)</b>	(159,729)	(12,585)	7.88%
Impairment losses on assets	<b>(23,510)</b>	(19,387)	(4,123)	21.27%
Operating profit	<b>211,685</b>	187,060	24,625	13.16%
Profit before income tax	<b>212,777</b>	187,673	25,104	13.38%
Income tax expense	<b>(49,036)</b>	(41,927)	(7,109)	16.96%
Profit for the year	<b>163,741</b>	145,746	17,995	12.35%
Profit attributable to equity holders of the Bank	<b>156,911</b>	139,656	17,255	12.36%

### Net Interest Income and Net Interest Margin

In 2013, the Group earned a net interest income of RMB283.585 billion, an increase of RMB26.621 billion or 10.36% compared with the prior year. The domestic RMB business contributed a net interest income of RMB235.549 billion, an increase of

RMB23.433 billion or 11.05% compared with the prior year. The domestic foreign currency denominated business contributed a net interest income of USD1.575 billion, a decrease of USD0.331 billion or 17.37% compared with the prior year.

## Management Discussion and Analysis — Financial Review

The average balances<sup>1</sup> and average interest rates of the Group's major interest-earning assets and interest-bearing liabilities, as well as the year-on-year changes are summarised in the following table:

Unit: RMB million, except percentages

Items	2013		2012		Change	
	Average balance	Average interest rate	Average balance	Average interest rate	Average balance	Average interest rate
<b>Group</b>						
<b>Interest-earning assets</b>						
Loans	7,372,111	5.15%	6,707,626	5.54%	664,485	(39)Bps
Investment debt securities	2,184,216	3.11%	2,108,955	3.08%	75,261	3Bps
Balances with central banks	1,911,799	1.42%	2,104,028	1.28%	(192,229)	14Bps
Due from and placements with banks and other financial institutions	1,169,560	3.80%	1,046,204	4.13%	123,356	(33)Bps
<b>Total</b>	<b>12,637,686</b>	<b>4.11%</b>	<b>11,966,813</b>	<b>4.23%</b>	<b>670,873</b>	<b>(12)Bps</b>
<b>Interest-bearing liabilities</b>						
Due to customers	9,627,269	1.87%	9,095,330	2.05%	531,939	(18)Bps
Due to and placements from banks and other financial institutions and due to central banks	2,026,499	2.29%	2,034,919	2.73%	(8,420)	(44)Bps
Bonds issued	217,858	3.92%	184,943	3.98%	32,915	(6)Bps
<b>Total</b>	<b>11,871,626</b>	<b>1.98%</b>	<b>11,315,192</b>	<b>2.21%</b>	<b>556,434</b>	<b>(23)Bps</b>
<b>Net interest margin</b>		<b>2.24%</b>		<b>2.15%</b>		<b>9Bps</b>
<b>Domestic RMB businesses</b>						
<b>Interest-earning assets</b>						
Loans	5,357,204	6.17%	4,928,955	6.50%	428,249	(33)Bps
Investment debt securities	1,544,170	3.51%	1,514,358	3.43%	29,812	8Bps
Balances with central banks	1,658,015	1.58%	1,624,723	1.57%	33,292	1Bps
Due from and placements with banks and other financial institutions	881,991	4.28%	790,366	4.64%	91,625	(36)Bps
<b>Total</b>	<b>9,441,380</b>	<b>4.75%</b>	<b>8,858,402</b>	<b>4.90%</b>	<b>582,978</b>	<b>(15)Bps</b>
<b>Interest-bearing liabilities</b>						
Due to customers	7,383,988	2.16%	7,097,825	2.34%	286,163	(18)Bps
Due to and placements from banks and other financial institutions and due to central banks	1,164,909	3.94%	1,101,976	4.51%	62,933	(57)Bps
Bonds issued	170,914	4.43%	150,537	4.31%	20,377	12Bps
<b>Total</b>	<b>8,719,811</b>	<b>2.45%</b>	<b>8,350,338</b>	<b>2.66%</b>	<b>369,473</b>	<b>(21)Bps</b>
<b>Net interest margin</b>		<b>2.49%</b>		<b>2.39%</b>		<b>10Bps</b>
<b>Domestic foreign currency businesses</b>						Unit: USD million, except percentages
<b>Interest-earning assets</b>						
Loans	87,474	2.11%	82,030	3.42%	5,444	(131)Bps
Investment debt securities	27,730	1.42%	22,348	1.72%	5,382	(30)Bps
Due from and placements with banks and other financial institutions and balances with central banks	48,913	1.03%	67,319	0.76%	(18,406)	27Bps
<b>Total</b>	<b>164,117</b>	<b>1.67%</b>	<b>171,697</b>	<b>2.16%</b>	<b>(7,580)</b>	<b>(49)Bps</b>
<b>Interest-bearing liabilities</b>						
Due to customers	79,562	0.80%	75,040	1.15%	4,522	(35)Bps
Due to and placements from banks and other financial institutions and due to central banks	71,355	0.74%	72,102	1.28%	(747)	(54)Bps
Bonds issued	100	8.00%	105	8.57%	(5)	(57)Bps
<b>Total</b>	<b>151,017</b>	<b>0.78%</b>	<b>147,247</b>	<b>1.22%</b>	<b>3,770</b>	<b>(44)Bps</b>
<b>Net interest margin</b>		<b>0.96%</b>		<b>1.11%</b>		<b>(15)Bps</b>

Notes:

- Investment debt securities include available for sale debt securities, held to maturity debt securities, debt securities classified as loans and receivables, trading debt securities and debt securities designated at fair value through profit or loss.
- Balances with central banks include the mandatory reserves, the surplus reserves and other deposits.
- Due to and placements from banks and other financial institutions and due to central banks include due to and placements from banks and other financial institutions, due to central banks and other funds.

<sup>1</sup> Average balances of interest-earning assets and interest-bearing liabilities are average daily balances derived from the Group's management accounts (unaudited).

## Management Discussion and Analysis — Financial Review

The impact of volume and interest rate changes on interest income and expense of the Group, domestic RMB businesses and domestic foreign currency businesses is summarised in the following table:

Unit: RMB million

Items	2013	2012	Change	Analysis of net interest income variances	
				Volume	Interest rate
<b>Group</b>					
<b>Interest income</b>					
Loans	379,570	371,394	8,176	36,812	(28,636)
Investment debt securities	67,918	64,973	2,945	2,318	627
Balances with central banks	27,094	26,996	98	(2,461)	2,559
Due from and placements with banks and other financial institutions	44,413	43,165	1,248	5,095	(3,847)
<b>Total</b>	<b>518,995</b>	<b>506,528</b>	<b>12,467</b>	<b>41,764</b>	<b>(29,297)</b>
<b>Interest expense</b>					
Due to customers	180,479	186,667	(6,188)	10,905	(17,093)
Due to and placements from banks and other financial institutions and due to central banks	46,396	55,538	(9,142)	(230)	(8,912)
Bonds issued	8,535	7,359	1,176	1,310	(134)
<b>Total</b>	<b>235,410</b>	<b>249,564</b>	<b>(14,154)</b>	<b>11,985</b>	<b>(26,139)</b>
<b>Net interest income</b>	<b>283,585</b>	<b>256,964</b>	<b>26,621</b>	<b>29,779</b>	<b>(3,158)</b>
<b>Domestic RMB businesses</b>					
<b>Interest income</b>					
Loans	330,732	320,237	10,495	27,836	(17,341)
Investment debt securities	54,271	51,988	2,283	1,023	1,260
Balances with central banks	26,145	25,540	605	523	82
Due from and placements with banks and other financial institutions	37,735	36,664	1,071	4,251	(3,180)
<b>Total</b>	<b>448,883</b>	<b>434,429</b>	<b>14,454</b>	<b>33,633</b>	<b>(19,179)</b>
<b>Interest expense</b>					
Due to customers	159,804	166,177	(6,373)	6,696	(13,069)
Due to and placements from banks and other financial institutions and due to central banks	45,951	49,652	(3,701)	2,838	(6,539)
Bonds issued	7,579	6,484	1,095	878	217
<b>Total</b>	<b>213,334</b>	<b>222,313</b>	<b>(8,979)</b>	<b>10,412</b>	<b>(19,391)</b>
<b>Net interest income</b>	<b>235,549</b>	<b>212,116</b>	<b>23,433</b>	<b>23,221</b>	<b>212</b>
<b>Domestic foreign currency businesses</b>					Unit: USD million
<b>Interest income</b>					
Loans	1,846	2,808	(962)	186	(1,148)
Investment debt securities	395	384	11	93	(82)
Due from and placements with banks and other financial institutions and balances with central banks	506	512	(6)	(140)	134
<b>Total</b>	<b>2,747</b>	<b>3,704</b>	<b>(957)</b>	<b>139</b>	<b>(1,096)</b>
<b>Interest expense</b>					
Due to customers	637	866	(229)	52	(281)
Due to and placements from banks and other financial institutions and due to central banks	527	923	(396)	(10)	(386)
Bonds issued	8	9	(1)	–	(1)
<b>Total</b>	<b>1,172</b>	<b>1,798</b>	<b>(626)</b>	<b>42</b>	<b>(668)</b>
<b>Net interest income</b>	<b>1,575</b>	<b>1,906</b>	<b>(331)</b>	<b>97</b>	<b>(428)</b>

Note: The impact of changes in volume on interest income and expense is calculated based on the changes in the average balances of interest-earning assets and interest-bearing liabilities during the reporting period. The impact of changes in interest rate on interest income and expense is calculated based on the changes in the average interest rates of interest-earning assets and interest-bearing liabilities during the reporting period. The impact relating to the combined changes in both volume and interest rate has been classified as changes in interest rate.

## Management Discussion and Analysis — Financial Review

In 2013, the Group's net interest margin was 2.24%, an increase of 9 basis points compared with the prior year. Net interest margin of the domestic RMB businesses was 2.49%, an increase of 10 basis points compared with the prior year, while that of the domestic foreign currency businesses was 0.96%, a decrease of 15 basis points compared with the prior year. Net interest margin of the overseas businesses was 1.28%, an increase of 15 basis points compared with the prior year.

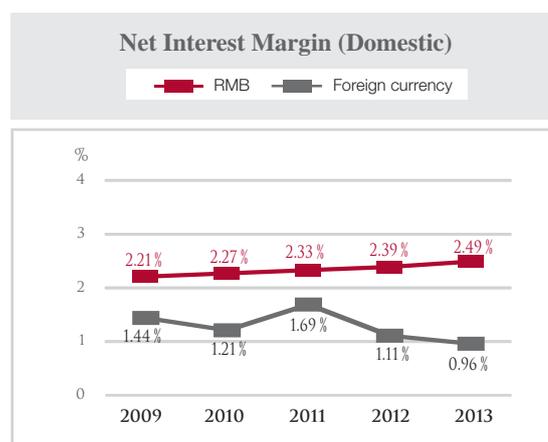
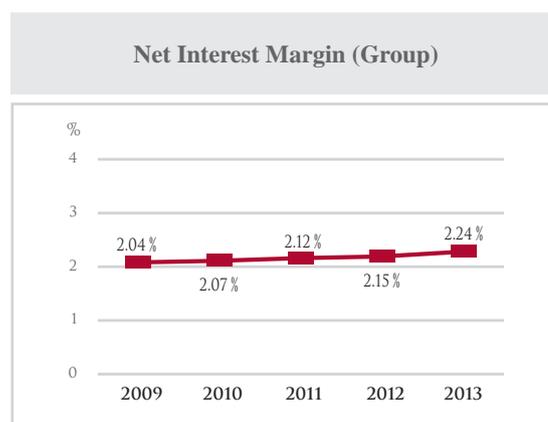
In 2013, China implemented a prudent monetary policy and further promoted RMB interest rate liberalisation reform. A low overall interest rate environment prevailed across international financial markets. Faced with changes in the economic and financial environment at home and abroad, the Bank implemented a dynamic endogenous mechanism, took proactive initiatives to optimise its business structure and strived to improve net interest income and net interest margin.

First, the Bank enhanced its active liabilities management and improved the stability of customer deposits, thus effectively controlled its liability costs. As at the end of 2013, the balance of the Group's deposits increased by 10.07%, an increase of 0.58 percentage point as a proportion of the Group's total liabilities. The average daily balance of the Group's deposits (excluding the structured deposits) grew 11.78% from the prior year, and this growth rate was higher than that of the balance of the Group's deposits. The average interest rate on interest-bearing liabilities decreased by 23 basis points compared with the prior year.

Second, the Bank adhered to the principle of capital saving and accelerated the restructuring of its customer structures. In 2013, RMB-denominated medium-sized enterprises loans and RMB-denominated SMEs loans issued by "BOC Credit Factory" increased by 18.19% and 32.00% respectively, both growing at a higher rate than total corporate loans. Personal loans made up 51.09% of total new domestic

RMB-denominated loans, which increased the domestic personal loans' proportion to domestic total loans by 1.69 percentage points to 30.80%.

Third, the Bank continuously optimised the structure of its overseas businesses and improved their net interest margin. In view of the low interest rates prevalent in international financial markets, the Bank proactively optimised the structure of its overseas assets, moderately increased the volume of its loan book and reduced its holdings of low-interest assets so as to improve margins. In 2013, net interest margin of the Bank's overseas businesses increased by 15 basis points compared with the prior year.



## Management Discussion and Analysis — Financial Review

The average balances and average interest rates of domestic loans and due to customers, classified by business type, are summarised in the following table:

Items	2013		2012		Change	
	Average balance	Average interest rate	Average balance	Average interest rate	Average balance	Average interest rate
Unit: RMB million, except percentages						
<b>Domestic RMB businesses</b>						
<b>Loans</b>						
Corporate loans	3,440,054	6.46%	3,271,931	6.77%	168,123	(31)Bps
Personal loans	1,779,163	5.66%	1,516,848	5.89%	262,315	(23)Bps
Trade bills	137,987	5.74%	140,176	6.65%	(2,189)	(91)Bps
<b>Total</b>	<b>5,357,204</b>	<b>6.17%</b>	<b>4,928,955</b>	<b>6.50%</b>	<b>428,249</b>	<b>(33)Bps</b>
Including:						
Medium and long term loans	3,583,341	6.30%	3,347,769	6.39%	235,572	(9)Bps
Short term loans within 1 year and others	1,773,863	5.92%	1,581,186	6.72%	192,677	(80)Bps
<b>Due to customers</b>						
Corporate demand deposits	2,038,522	0.70%	1,918,084	0.83%	120,438	(13)Bps
Corporate time deposits	1,867,923	3.37%	1,624,196	3.31%	243,727	6Bps
Personal demand deposits	1,209,561	0.50%	1,036,587	0.52%	172,974	(2)Bps
Personal time deposits	2,157,204	3.34%	1,954,651	3.42%	202,553	(8)Bps
Other	110,778	4.18%	564,307	4.28%	(453,529)	(10)Bps
<b>Total</b>	<b>7,383,988</b>	<b>2.16%</b>	<b>7,097,825</b>	<b>2.34%</b>	<b>286,163</b>	<b>(18)Bps</b>
<b>Domestic foreign currency businesses</b>						
Unit: USD million, except percentages						
<b>Loans</b>	<b>87,474</b>	<b>2.11%</b>	<b>82,030</b>	<b>3.42%</b>	<b>5,444</b>	<b>(131)Bps</b>
<b>Due to customers</b>						
Corporate demand deposits	25,173	0.08%	24,439	0.24%	734	(16)Bps
Corporate time deposits	21,082	2.10%	17,119	3.00%	3,963	(90)Bps
Personal demand deposits	13,981	0.04%	11,705	0.06%	2,276	(2)Bps
Personal time deposits	15,488	0.59%	14,741	0.79%	747	(20)Bps
Other	3,838	2.01%	7,036	2.43%	(3,198)	(42)Bps
<b>Total</b>	<b>79,562</b>	<b>0.80%</b>	<b>75,040</b>	<b>1.15%</b>	<b>4,522</b>	<b>(35)Bps</b>

Note: "Due to customers-other" includes structured deposits.

### Non-interest Income

In 2013, the Group reported non-interest income of RMB123.924 billion, an increase of RMB14.712 billion or 13.47% compared with the prior year. Non-interest income represented 30.41% of operating income, an increase of 0.58 percentage point compared with the prior year.

### Net Fee and Commission Income

The Group earned a net fee and commission income of RMB82.092 billion, an increase of RMB12.169 billion or 17.40% compared with the prior year. The Bank deepened business transformation, made greater efforts in product innovation and promotion, enhanced the development of its differentiated

## Management Discussion and Analysis — Financial Review

businesses, and improved its ability to deliver differentiated services so as to optimise the structure of its fee-based businesses.

The Bank continuously pushed forward the innovation of bank card products and customer upgrade program, promoted the Bank's credit card brand effect, and realised rapid growth in issuance and transaction volumes, with bank card fees increasing by 15.78% compared with the prior year. Agency commissions increased by 23.82% compared with the prior year as the Bank enhanced the wealth management product planning, developed wealth

management business steadily and provided high quality value-added services to customers. The consultancy and advisory fees income increased by 68.26%, due to steady development of financial advisory business, expansion of advisory business, and introduction of special advisory products, such as structured investing and financing advisory service and merger and acquisition financial advisory. The Bank also improved custody service capability, expanded its asset management business, and accelerated the development and promotion of new custody business. The custodian fees increased by 21.21%.

Unit: RMB million, except percentages

Items	2013	2012	Change	Percentage change
<b>Group</b>				
Agency commissions	17,546	14,171	3,375	23.82%
Bank card fees	17,312	14,952	2,360	15.78%
Settlement and clearing fees	15,196	14,051	1,145	8.15%
Credit commitment fees	13,294	11,099	2,195	19.78%
Consultancy and advisory fees	9,574	5,690	3,884	68.26%
Spread income from foreign exchange business	7,147	6,808	339	4.98%
Custodian and other fiduciary service fees	2,874	2,371	503	21.21%
Other	5,642	6,056	(414)	(6.84%)
<b>Fee and commission income</b>	<b>88,585</b>	<b>75,198</b>	<b>13,387</b>	<b>17.80%</b>
<b>Fee and commission expense</b>	<b>(6,493)</b>	<b>(5,275)</b>	<b>(1,218)</b>	<b>23.09%</b>
<b>Net fee and commission income</b>	<b>82,092</b>	<b>69,923</b>	<b>12,169</b>	<b>17.40%</b>
<b>Domestic</b>				
Agency commissions	12,497	10,013	2,484	24.81%
Bank card fees	14,216	12,014	2,202	18.33%
Settlement and clearing fees	13,256	12,165	1,091	8.97%
Credit commitment fees	9,011	7,899	1,112	14.08%
Consultancy and advisory fees	9,462	5,604	3,858	68.84%
Spread income from foreign exchange business	6,361	6,011	350	5.82%
Custodian and other fiduciary service fees	2,577	2,080	497	23.89%
Other	4,170	4,501	(331)	(7.35%)
<b>Fee and commission income</b>	<b>71,550</b>	<b>60,287</b>	<b>11,263</b>	<b>18.68%</b>
<b>Fee and commission expense</b>	<b>(2,330)</b>	<b>(1,715)</b>	<b>(615)</b>	<b>35.86%</b>
<b>Net fee and commission income</b>	<b>69,220</b>	<b>58,572</b>	<b>10,648</b>	<b>18.18%</b>

### Other Non-interest Income

The Group realised other non-interest income of RMB41.832 billion, an increase of RMB2.543 billion or 6.47% compared with the prior year. The Bank continued its bancassurance strategy, promoted

product optimisation and broadened its distribution channels, with insurance premiums increasing by RMB3.319 billion or 36.37% compared with the prior year. Please refer to Notes V.3, 4 of the Consolidated Financial Statements for detailed information.

## Management Discussion and Analysis — Financial Review

### Operating Expenses

The Bank continued to improve its cost effectiveness by insisting on carefully managing the operation costs, practising thrift and further optimising its expense allocation mechanism. Meanwhile, the Bank invested further resources into E-finance Bank construction, RMB internationalisation business, overseas markets expansion and other core fields. In 2013, the Group recorded operating expenses of RMB172.314 billion,

an increase of RMB12.585 billion or 7.88% compared with the prior year, and the growth rate was 5.88 percentage points lower than that of prior year. The Group's cost to income ratio (calculated under domestic regulations) was 30.61%, decreasing by 1.12 percentage points compared with the prior year. Please refer to Notes V.5, 6 to the Consolidation Financial Statements for detailed information of operating expenses.

Unit: RMB million, except percentages

Items	2013	2012	Change	Percentage change
Staff costs	<b>72,762</b>	66,701	6,061	9.09%
General operating and administrative expenses	<b>38,387</b>	37,153	1,234	3.32%
Depreciation and amortisation	<b>13,598</b>	12,289	1,309	10.65%
Business tax and surcharges	<b>23,965</b>	22,925	1,040	4.54%
Insurance benefits and claims	<b>10,061</b>	8,721	1,340	15.37%
Other	<b>13,541</b>	11,940	1,601	13.41%
<b>Total</b>	<b>172,314</b>	159,729	12,585	7.88%

### Impairment Losses on Assets

The Bank continued to strengthen its overall risk mitigation capability by further improving its comprehensive risk management system, enhancing risk prevention and control and continuing to implement a prudent risk provisioning policy. The Bank closely followed changes in the economic and financial situation and regulatory requirements, adjusted and optimised its credit structure accordingly, strengthened credit asset quality management and thus ensured stable credit asset quality.

In 2013, the Group's impairment losses on loans and advances amounted to RMB22.938 billion. The credit cost was 0.32%, an increase of 0.03 percentage point compared with the prior year. Specifically, collectively assessed impairment losses stood at RMB16.871 billion, an increase of RMB2.033 billion compared with the prior year, while individually assessed impairment losses stood at RMB6.067 billion, an increase of RMB1.819 billion compared with the prior year. Please refer to the section "Risk Management —

Credit Risk Management" and Note V.8 and Note VI.3 to the Consolidated Financial Statements for more information on loan quality and allowance for loan impairment losses.

The Bank effectively managed its exposure to sovereign debt risks by continuously reducing its holdings of foreign currency denominated structured debt. In 2013, the Group's impairment losses on other assets was RMB0.572 billion. Please refer to Note V.8 to the Consolidated Financial Statements for more details.

### Income Tax Expense

In 2013, the Group incurred income tax of RMB49.036 billion, an increase of RMB7.109 billion or 16.96% compared with the prior year. The Group's effective tax rate was 23.05%. The increase was primarily attributable to the growth in operating profit. The reconciliation of the statutory income tax rate to the effective income tax rate is set forth in Note V.9 to the Consolidated Financial Statements.

# Management Discussion and Analysis — Financial Review

## Financial Position Analysis

As at the end of 2013, the Group's total assets amounted to RMB13,874.299 billion, an increase of RMB1,193.684 billion or 9.41% from the prior year-end. The Group's total liabilities amounted to RMB12,912.822 billion, an increase of RMB1,093.749 billion or 9.25% from the prior year-end.

The principal components of the Group's consolidated statement of financial position are set out below:

Unit: RMB million, except percentages

Items	As at 31 December 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
<b>Assets</b>				
Loans and advances to customers, net	<b>7,439,742</b>	<b>53.62%</b>	6,710,040	52.92%
Investment securities	<b>2,256,470</b>	<b>16.26%</b>	2,210,524	17.43%
Balances with central banks	<b>2,132,001</b>	<b>15.37%</b>	1,934,297	15.25%
Due from and placements with banks and other financial institutions	<b>1,280,294</b>	<b>9.23%</b>	1,150,398	9.07%
Other assets	<b>765,792</b>	<b>5.52%</b>	675,356	5.33%
<b>Total</b>	<b>13,874,299</b>	<b>100.00%</b>	12,680,615	100.00%
<b>Liabilities</b>				
Due to customers	<b>10,097,786</b>	<b>78.20%</b>	9,173,995	77.62%
Due to and placements from banks and other financial institutions and due to central banks	<b>2,091,828</b>	<b>16.20%</b>	1,996,218	16.89%
Other borrowed funds	<b>254,274</b>	<b>1.97%</b>	233,178	1.97%
Other liabilities	<b>468,934</b>	<b>3.63%</b>	415,682	3.52%
<b>Total</b>	<b>12,912,822</b>	<b>100.00%</b>	11,819,073	100.00%

Notes:

- Investment securities include securities available for sale, securities held to maturity, loans and receivables, and financial assets at fair value through profit or loss.
- Other borrowed funds include bonds issued and other borrowings.

### Loans and Advances to Customers

The Bank continuously optimised its credit structure so as to meet the needs of the real economy. It accelerated the transformation of its financial services offering for large enterprises and strengthened its credit support to medium, small and micro-sized enterprises as well as individual customers. Stable growth of its loan portfolio was maintained.

As at the end of 2013, the Group's loans and advances to customers amounted to RMB7,607.791 billion, an increase of RMB743.095 billion or 10.82% compared with the prior year-end. This included

RMB-denominated loans of RMB5,741.454 billion, an increase of RMB494.510 billion or 9.42% from the prior year-end, and foreign currency denominated loans of USD306.112 billion, an increase of USD48.733 billion or 18.93% from the prior year-end.

The Bank continuously improved its risk management system. It adopted a proactive and forward-looking approach to risk management, closely monitored macroeconomic environment and strengthened risk identification and control in key fields. As a result, the balance and proportion of the non-performing assets of the Bank remained at relatively low levels.

## Management Discussion and Analysis — Financial Review

As at the end of 2013, the balance of the Group's allowance for loan impairment losses amounted to RMB168.049 billion, an increase of RMB13.393 billion compared with the prior year-end. The ratio of allowance for loan impairment losses to non-performing loans was 229.35%, down 6.95 percentage points from the prior year-end. The balance of the Group's restructured loans amounted to RMB8.106 billion, a decrease of RMB2.412 billion compared with the prior year-end.

### *Investment Securities*

The Bank paid close attention to market dynamics and adjusted the structure of its investment securities portfolio accordingly. The Bank moderately increased the size of its investment in domestic RMB-denominated bonds and used innovative tools to diversify its portfolio management strategy. It continued to optimise its foreign currency denominated investment structure and effectively managed sovereign debt risks. The Bank also strengthened the comprehensive management of its overseas entities and subsidiaries' investment securities portfolios. The overall level of return from the Group's investment securities portfolio improved in a stable manner.

As at the end of 2013, the Group held investment securities of RMB2,256.470 billion, an increase of

RMB45.946 billion or 2.08% from the prior year-end. RMB-denominated investment securities amounted to RMB1,684.479 billion, an increase of RMB98.143 billion or 6.19% from the prior year-end. Foreign currency denominated investment securities amounted to USD93.817 billion, a decrease of USD5.489 billion or 5.53% from the prior year-end.

The Bank continued to reduce its exposure to high-risk European debt securities. As at the end of 2013, the total carrying value of debt securities issued by European governments and institutions held by the Group was RMB43.115 billion, of which RMB40.903 billion or 94.87% was related to the United Kingdom, Germany, Netherlands, France and Switzerland. The Group did not hold any debt securities issued by governments and institutions of Greece, Portugal, Ireland, Italy or Spain.

The carrying value of US subprime mortgage-related debt securities, US Alt-A mortgage-backed securities and US Non-Agency mortgage-backed securities held by the Group amounted to USD0.787 billion, and the related impairment allowance was USD0.441 billion. The Group's carrying value of debt securities issued by US agencies Freddie Mac and Fannie Mae together with debt securities guaranteed by these two agencies amounted to USD0.033 billion.

The classification of the Group's investment securities portfolio is shown below:

Unit: RMB million, except percentages

Items	As at 31 December 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	<b>75,200</b>	<b>3.33%</b>	71,590	3.24%
Securities available for sale	<b>701,196</b>	<b>31.07%</b>	686,400	31.05%
Securities held to maturity	<b>1,210,531</b>	<b>53.65%</b>	1,183,080	53.52%
Securities classified as loans and receivables	<b>269,543</b>	<b>11.95%</b>	269,454	12.19%
<b>Total</b>	<b>2,256,470</b>	<b>100.00%</b>	2,210,524	100.00%

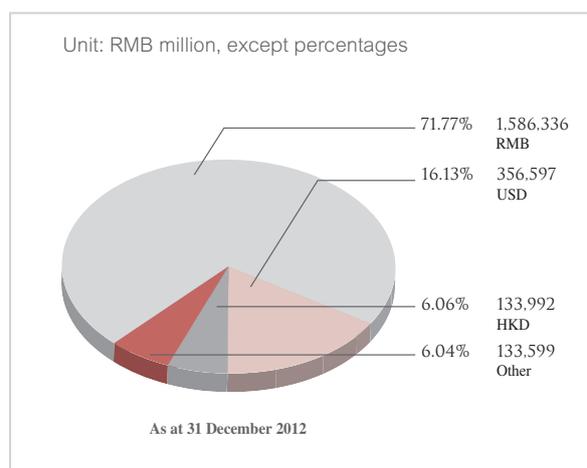
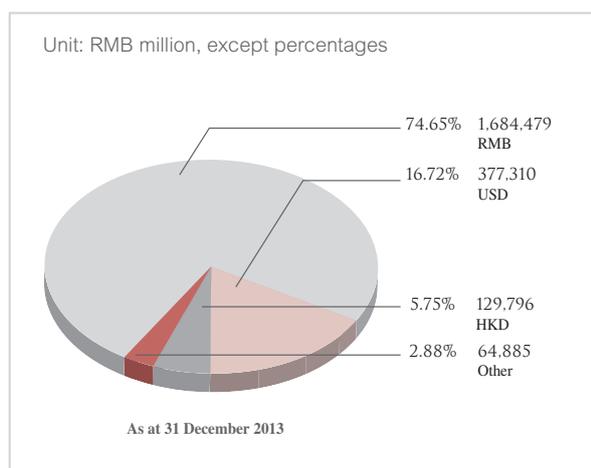
# Management Discussion and Analysis — Financial Review

## Investment Securities by Issuer Type

Unit: RMB million, except percentages

Items	As at 31 December 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
<b>Debt securities</b>				
<b>Issuers in Chinese mainland</b>				
Government	775,366	34.36%	786,167	35.55%
Public sector and quasi-governments	29,056	1.29%	20,810	0.94%
Policy banks	338,214	14.99%	350,077	15.84%
Financial institutions	140,582	6.23%	101,144	4.58%
Corporate	325,567	14.43%	244,223	11.05%
China Orient Asset Management Corporation	160,000	7.09%	160,000	7.24%
Sub-total	1,768,785	78.39%	1,662,421	75.20%
<b>Issuers in Hong Kong, Macau, Taiwan and other countries</b>				
Governments	169,155	7.50%	253,232	11.45%
Public sector and quasi-governments	55,442	2.46%	56,721	2.57%
Financial institutions	167,080	7.40%	162,388	7.35%
Corporate	48,222	2.14%	37,264	1.69%
Sub-total	439,899	19.50%	509,605	23.06%
<b>Equity securities</b>	43,465	1.92%	33,932	1.53%
<b>Other</b>	4,321	0.19%	4,566	0.21%
<b>Total</b>	<b>2,256,470</b>	<b>100.00%</b>	<b>2,210,524</b>	<b>100.00%</b>

## Investment Securities by Currency



## Management Discussion and Analysis — Financial Review

### Top Ten Financial Bonds by Value Held by the Group

Unit: RMB million, except percentages

Bond Name	Par Value	Annual Rate	Maturity Date	Impairment
Bond issued by policy banks in 2011	7,840	3.58%	2014-11-17	–
Bond issued by policy banks in 2005	6,800	3.42%	2015-08-02	–
Bond issued by policy banks in 2010	6,070	Term deposit for 1 year+0.52%	2017-01-26	–
Bond issued by policy banks in 2006	5,000	Term deposit for 1 year+0.60%	2016-12-12	–
Bond issued by policy banks in 2011	4,910	3.55%	2016-12-06	–
Bond issued by policy banks in 2010	4,770	Term deposit for 1 year+0.59%	2020-02-25	–
Bond issued by policy banks in 2009	4,660	Term deposit for 1 year+0.54%	2016-09-01	–
Bond issued by policy banks in 2011	4,400	3.83%	2018-11-24	–
Bond issued by policy banks in 2005	3,600	4.67%	2020-03-29	–
Bond issued by policy banks in 2012	3,510	3.87%	2017-05-16	–

Note: Financial bonds refer to debt securities issued by financial institutions in the bond market, including the bonds issued by policy banks, other banks and non-bank financial institutions, but not including restructured bonds and PBOC bills.

### Due to customers

The Bank continuously optimised its liability structure. It actively sought customers along the upstream and downstream of the supply chain and industrial chain, and strived to expand core businesses such as salary payment agency and payment agency, through which the customer base was expanded and customer deposits grew steadily.

As at the end of 2013, the Group's due to customers amounted to RMB10,097.786 billion, an increase of RMB923.791 billion or 10.07% from the prior year-end. This included RMB-denominated deposits of RMB8,091.102 billion, an increase of RMB823.098 billion or 11.32% from the prior year-end, and foreign currency denominated deposits of USD329.132 billion, an increase of USD25.896 billion or 8.54% compared with the prior year-end.

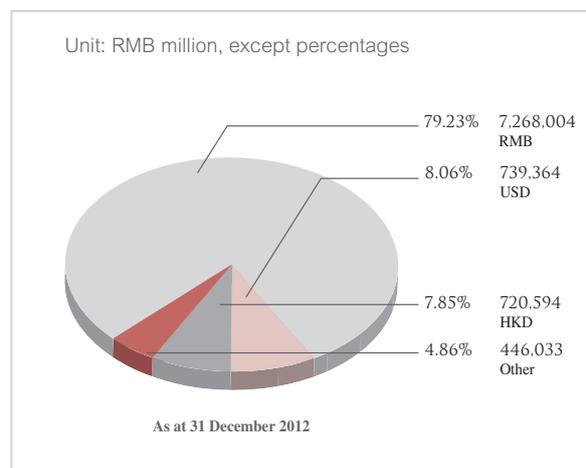
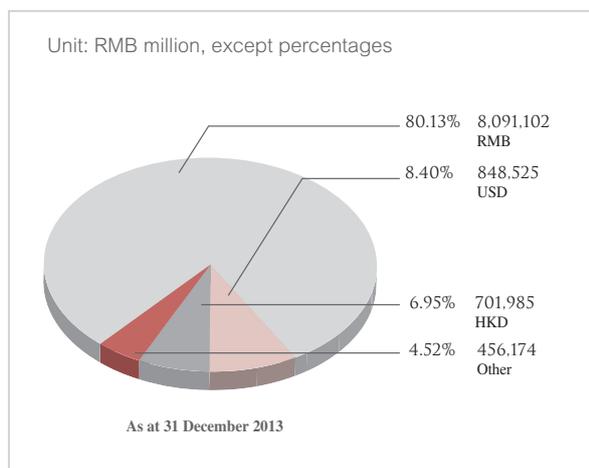
The principal components of due to customers of the Group and its domestic institutions are set out below:

Unit: RMB million, except percentages

Items	As at 31 December 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
<b>Group</b>				
Corporate deposits				
Demand deposits	2,635,353	26.10%	2,506,854	27.32%
Time deposits	2,655,911	26.30%	2,216,104	24.16%
Structured deposits	129,614	1.28%	90,567	0.99%
Sub-total	5,420,878	53.68%	4,813,525	52.47%
Personal deposits				
Demand deposits	1,835,753	18.18%	1,634,545	17.82%
Time deposits	2,517,922	24.93%	2,373,145	25.87%
Structured deposits	26,884	0.27%	73,450	0.80%
Sub-total	4,380,559	43.38%	4,081,140	44.49%
Certificates of deposit	238,264	2.36%	226,867	2.47%
Other deposits	58,085	0.58%	52,463	0.57%
<b>Total</b>	<b>10,097,786</b>	<b>100.00%</b>	<b>9,173,995</b>	<b>100.00%</b>
<b>Domestic</b>				
Corporate deposits				
Demand deposits	2,298,447	27.97%	2,197,757	29.25%
Time deposits	2,045,509	24.90%	1,759,557	23.41%
Structured deposits	119,554	1.46%	86,636	1.15%
Sub-total	4,463,510	54.33%	4,043,950	53.81%
Personal deposits				
Demand deposits	1,427,875	17.38%	1,235,417	16.44%
Time deposits	2,245,404	27.34%	2,115,039	28.14%
Structured deposits	23,874	0.29%	71,297	0.95%
Sub-total	3,697,153	45.01%	3,421,753	45.53%
Other deposits	54,181	0.66%	49,462	0.66%
<b>Total</b>	<b>8,214,844</b>	<b>100.00%</b>	<b>7,515,165</b>	<b>100.00%</b>

# Management Discussion and Analysis — Financial Review

## Customer Deposits by Currency



## Equity

As at the end of 2013, the Group's total equity was RMB961.477 billion, an increase of RMB99.935 billion or 11.60% from the prior year-end. This change was primarily attributable to: (1) a profit after tax of RMB163.741 billion, with profit attributable to equity holders of the Bank of RMB156.911 billion in 2013; (2) a cash dividend of RMB48.851 billion paid in respect of the 2012 profit distribution plan approved at the Annual General Meeting. Please refer to the "Consolidated Statement of Changes in Equity" to the Consolidated Financial Statements for detailed information on equity movements.

## Off-balance Sheet Items

Off-balance sheet items include derivative financial instruments, contingent liabilities and commitments, etc.

The Group entered into various derivative financial instruments related to foreign currency exchange rate, interest rate, equity, credit, precious metals and other commodities for trading, hedging, asset and liability management and on behalf of customers. Please refer to Note V.15 to the Consolidated Financial Statements for the contractual/notional amounts and fair values of derivative instruments.

Contingent liabilities and commitments include legal proceedings and arbitrations, assets pledged, collateral accepted, capital commitments, operating leases, Treasury bonds redemption commitments, credit commitments and underwriting obligations, etc. Please refer to Note V.40 to the Consolidated Financial Statements for more detailed information on contingent liabilities and commitments.

## Cash Flow Analysis

As at the end of 2013, the balance of the Group's cash and cash equivalents was RMB1,150.566 billion, an increase of RMB78.283 billion compared with the prior year-end.

Net cash flow from operating activities was an inflow of RMB222.840 billion, a decrease of RMB41.084 billion compared with the prior year. Cash inflows increased by RMB320.045 billion compared with the prior year, which was mainly attributable to a net increase of due to customers. Cash outflows increased by RMB361.129 billion compared with the prior year, which was mainly attributable to a net increase in loans and advances to customers and balances with central banks.

## Management Discussion and Analysis — Financial Review

Net cash flow from investing activities was an outflow of RMB72.149 billion, a decrease of RMB110.397 billion compared with the prior year. This was mainly attributable to a decrease of net cash outflow related to investment securities.

Net cash flow from financing activities was an outflow of RMB49.621 billion, an increase of RMB24.529 billion compared with the prior year. This was mainly attributable to an increase in repayments of debts issued compared with the prior year.

### Segment Reporting by Geography

The Group conducts its business activities in the Chinese mainland, Hong Kong, Macau, Taiwan and other countries. A geographical analysis of profit contribution and the related assets and liabilities are set forth in the following table:

Unit: RMB million

Items	Chinese mainland		Hong Kong, Macau and Taiwan		Other countries		Elimination		Group	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Net interest income	<b>245,298</b>	224,622	<b>27,407</b>	23,024	<b>10,880</b>	9,318	–	–	<b>283,585</b>	256,964
Non-interest income	<b>91,318</b>	79,124	<b>30,531</b>	27,909	<b>2,859</b>	2,884	<b>(784)</b>	(705)	<b>123,924</b>	109,212
Including: net fee and commission income	<b>69,220</b>	58,572	<b>10,563</b>	9,259	<b>3,035</b>	2,743	<b>(726)</b>	(651)	<b>82,092</b>	69,923
Operating expenses	<b>(144,523)</b>	(133,560)	<b>(24,693)</b>	(23,390)	<b>(3,886)</b>	(3,484)	<b>788</b>	705	<b>(172,314)</b>	(159,729)
Impairment losses on assets	<b>(20,562)</b>	(17,396)	<b>(1,895)</b>	(1,460)	<b>(1,053)</b>	(531)	–	–	<b>(23,510)</b>	(19,387)
Profit before income tax	<b>171,531</b>	152,790	<b>32,442</b>	26,696	<b>8,800</b>	8,187	<b>4</b>	–	<b>212,777</b>	187,673
<b>As at the year-end</b>										
Assets	<b>11,082,460</b>	10,196,577	<b>2,404,270</b>	2,048,370	<b>1,441,923</b>	1,087,203	<b>(1,054,354)</b>	(651,535)	<b>13,874,299</b>	12,680,615
Liabilities	<b>10,328,324</b>	9,531,288	<b>2,230,851</b>	1,882,619	<b>1,407,841</b>	1,056,540	<b>(1,054,194)</b>	(651,374)	<b>12,912,822</b>	11,819,073

As at the end of 2013, total assets<sup>2</sup> of the Chinese mainland amounted to RMB11,082.460 billion, an increase of RMB885.883 billion or 8.69% from the prior year-end, representing 74.24% of the Group's total assets. In 2013, this segment recorded a profit before income tax of RMB171.531 billion, an increase of RMB18.741 billion or 12.27% compared with the prior year, representing 80.62% of the Group's profit before income tax for the year.

Total assets of the Hong Kong, Macau and Taiwan segment amounted to RMB2,404.270 billion, an increase of RMB355.900 billion or 17.37% compared with the prior year-end, representing 16.10% of the Group's total assets. This segment achieved a profit before income tax of RMB32.442 billion in 2013, an

increase of 21.52% compared with the prior year, representing 15.25% of the Group's profit before income tax for the year.

Total assets of the other countries segment amounted to RMB1,441.923 billion, an increase of RMB354.720 billion or 32.63% compared with the prior year-end, representing 9.66% of the Group's total assets. This segment achieved a profit before income tax of RMB8.800 billion in 2013, an increase of 7.49% compared with the prior year, representing 4.13% of the Group's profit before income tax for the year.

Please refer to the section "Business Review" for more detailed information on the Group's business segments.

<sup>2</sup> The figures for segment assets, segment profit before income tax and their respective percentages are prior to intragroup elimination.

## Management Discussion and Analysis — Financial Review

### Critical Accounting Estimates and Judgements

The Bank makes accounting estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. These estimates and judgements are continuously evaluated and are based on historical experience, expectations

of future events that are believed to be reasonable under the circumstances and other factors. The management believes that the accounting estimates and judgements have properly reflected the Bank's operating environment. Please refer to Notes II and III to the Consolidated Financial Statements for more detailed information related to the Bank's accounting policies and accounting estimates.

### Fair Value Measurement

#### Movement of Financial Instruments Measured at Fair Value

Unit: RMB million

Items	Opening balance	Closing balance	Change in the year	Impact on profit for the year
Financial assets at fair value through profit or loss				
Debt securities	64,773	62,852	(1,921)	
Fund investments and other	780	1,278	498	(1,049)
Loans	4,566	4,321	(245)	
Equity securities	1,471	6,749	5,278	
Investment securities available for sale				
Debt securities	654,719	665,758	11,039	
Fund investments and other	7,640	8,821	1,181	(265)
Equity securities	24,041	26,617	2,576	
Derivative financial assets	40,188	40,823	635	2,395
Derivative financial liabilities	(32,457)	(36,212)	(3,755)	
Due to customers at fair value	(164,017)	(156,498)	7,519	(21)
Short position in debt securities	(14,061)	(7,681)	6,380	16

The Bank has put in place sound internal control systems related to fair value measurement. In accordance with the *Guidelines on Market Risk Management in Commercial Banks*, CAS and IFRS, with reference to the New Basel Capital Accord, and drawing on the best practices of leading international banks regarding valuations, the Bank formulated the *Bank of China Limited Policy for Valuation of Financial Instruments* to standardise the fair value measurement of financial instruments and enable timely and accurate financial information disclosure. Please refer to Note VI.6 to the Consolidated Financial Statements for more detailed information related to the fair value measurement.

### Other Financial Information

There are no differences in the equity and profit after tax of the Group prepared in accordance with IFRS to those prepared in accordance with CAS. Please refer to the section "Supplementary Information" for detailed information.

# Management Discussion and Analysis — Business Review

The following table sets forth operating income for each line of business of the Group:

Unit: RMB million, except percentages

Items	2013		2012	
	Amount	% of total	Amount	% of total
Commercial banking business				
Including: Corporate banking business	196,615	48.25%	186,721	50.99%
Personal banking business	118,845	29.16%	107,350	29.32%
Treasury operations	67,615	16.59%	50,570	13.81%
Investment banking and insurance	16,992	4.17%	13,793	3.77%
Others and elimination	7,442	1.83%	7,742	2.11%
<b>Total</b>	<b>407,509</b>	<b>100.00%</b>	<b>366,176</b>	<b>100.00%</b>

A detailed review of the Group's principal deposits and loans as at the end of 2013 is summarised in the following table:

Unit: RMB million

Items	As at	As at	As at
	31 December 2013	31 December 2012	31 December 2011
<b>Corporate deposits</b>			
Domestic: RMB	4,179,257	3,755,626	3,842,173
Foreign currency	284,253	288,324	194,682
Hong Kong, Macau, Taiwan, and overseas operations:	957,368	769,575	657,460
<b>Total</b>	<b>5,420,878</b>	<b>4,813,525</b>	<b>4,694,315</b>
<b>Personal deposits</b>			
Domestic: RMB	3,508,797	3,234,301	3,165,161
Foreign currency	188,356	187,452	184,810
Hong Kong, Macau, Taiwan, and overseas operations:	683,406	659,387	585,111
<b>Total</b>	<b>4,380,559</b>	<b>4,081,140</b>	<b>3,935,082</b>
<b>Corporate loans</b>			
Domestic: RMB	3,688,976	3,452,004	3,244,573
Foreign currency	503,179	488,518	573,882
Hong Kong, Macau, Taiwan, and overseas operations:	1,247,184	1,039,877	906,850
<b>Total</b>	<b>5,439,339</b>	<b>4,980,399</b>	<b>4,725,305</b>
<b>Personal loans</b>			
Domestic: RMB	1,864,654	1,617,123	1,390,343
Foreign currency	1,371	1,037	896
Hong Kong, Macau, Taiwan, and overseas operations:	302,427	266,137	226,270
<b>Total</b>	<b>2,168,452</b>	<b>1,884,297</b>	<b>1,617,509</b>

# Management Discussion and Analysis — Business Review

## Commercial Banking Business

### Domestic Commercial Banking Business

In 2013, the Bank's domestic commercial banking business recorded an operating income of RMB332.842 billion, an increase of RMB31.619 billion or 10.50% compared with the prior year. The details are set forth below:

Unit: RMB million, except percentages

Items	2013		2012	
	Amount	% of total	Amount	% of total
Corporate banking business	177,787	53.41%	167,788	55.70%
Personal banking business	107,111	32.18%	96,981	32.20%
Treasury operations	47,079	14.15%	36,172	12.01%
Others	865	0.26%	282	0.09%
<b>Total</b>	<b>332,842</b>	<b>100.00%</b>	<b>301,223</b>	<b>100.00%</b>

### Corporate Banking Business

The Bank maintained a keen focus on restructuring its corporate banking business. It continued to promote the product innovation, optimise its customer structure, expand its customer base, and enhance its diversified and integrated cross-border business, thus achieving balanced and steady development of corporate banking business. In 2013, the domestic corporate banking business recorded an operating income of RMB177.787 billion, an increase of RMB9.999 billion or 5.96% compared with the prior year.

### Corporate Deposits Business

The Bank accelerated the development of corporate liability business, continued to improve the liability structure and pushed forward growth in core deposits. It actively sought for customers along the upstream and downstream of the supply chain and industrial chain to expand customer base and increase customer deposits. In addition, it strived to expand its administrative institution customer base by improving the product and service systems, resulting in a rapid growth of deposits from such institutions. In response

to RMB interest rate liberalisation and serving the free trade zone, the Bank strengthened product innovation, upgraded various product functions such as corporate notice deposits and agreement deposits, and enhanced the supportive role of its cash management and settlement business to the deposit business. It also expanded deposit sources by taking advantages of enterprises' direct financing. Besides, the Bank improved the service channel functions, elevated the service levels of corporate banking and enhanced the deposit contribution of outlets.

As at the end of 2013, RMB-denominated corporate deposits in the Bank's domestic operations totalled RMB4,179.257 billion, an increase of RMB423.631 billion, or 11.28%, compared with the prior year-end. Foreign currency denominated corporate deposits amounted to USD46.623 billion, an increase of USD752 million or 1.64% compared with the prior year-end.

### Corporate Loans Business

Focusing on the demands of the real economy, the Bank provided stronger credit support to key fields, including information consumption, energy

## Management Discussion and Analysis — Business Review

saving and environment protection, advanced manufacturing, emerging industries with strategic significance, transformation and upgrading of traditional industries, major on-going and extended construction projects and people's wellbeing-related projects. In compliance with the national policies on regional economic development, the Bank continued to provide financial support and services for the coordinated development of the regional economy. It stepped up the transformation in providing financial service to large enterprises, gave stronger credit support to medium, small and micro-sized enterprises and met their demands via multiple channels, including direct financing, supply chain and online finance products. Grasping the opportunity of RMB internationalisation, the Bank promoted cross-border business development to support Chinese enterprises' "Going Global" and seek cross-border business opportunities in large M&A projects and outbound production capacity transfer. It restricted the scale of loans to LGFVs on its own initiative, with the loan balance of which reduced by RMB44.770 billion from the prior year-end. It strictly controlled loans to industries with high energy consumption and high pollutant emission, and implemented differentiated credit policies for overcapacity industries, resulting in a decrease of RMB11.794 billion of loans to overcapacity industries from the prior year-end. The Bank boosted the development of its globally integrated corporate finance service system, actively promoted its global customer manager mechanism, improved the globally centralised credit system, and established and expanded the global service platform for corporate clients, to enhance its comprehensive financial service capacity on a global basis. The Bank has accumulatively sponsored 49 export credit projects with contracts amounting to USD6.483 billion, 98 overseas merger and acquisition loan projects with contracts amounting to USD36.241 billion and 597 overseas ongoing operation loans with contracts amounting to USD44.772 billion. The Bank won the "Best Corporate Service Bank" award granted by *China Business News*.

As at the end of 2013, the Bank's domestic RMB-denominated corporate loans totalled RMB3,688.976 billion, representing an increase of RMB236.972 billion or 6.86% compared with the prior year-end. Foreign currency denominated corporate loans amounted to USD82.530 billion, an increase of USD4.809 billion or 6.19% compared with the prior year-end, maintaining the leading position in the market.

### Trade Finance and Settlement Business

The Bank accelerated the product innovation in trade finance and settlement product and further strengthened its advantages in traditional businesses. It successfully launched Usance L/C Negotiable at Sight Basis, cross-border bonded area inventory financing as well as prepayment structured financing, in order to meet the diversified needs of customers. The Bank continued to improve electronic system of the supply chain finance and enhance its on-line trade finance service capabilities. The Bank launched products such as Integrated Account Service for Corporate Customers, and keenly developed the Agency Service for Treasury. The Bank set up the Commodity Finance Unit (Shanghai), promoted the business development of Overseas Factoring Centre, Bank of China Commodity Finance Unit and Bank of China Forfaiting Unit.

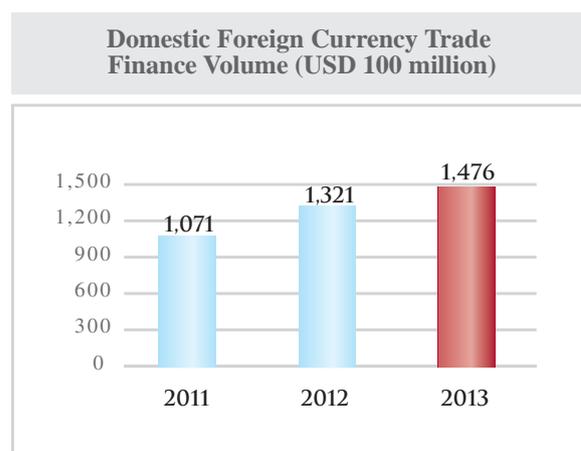
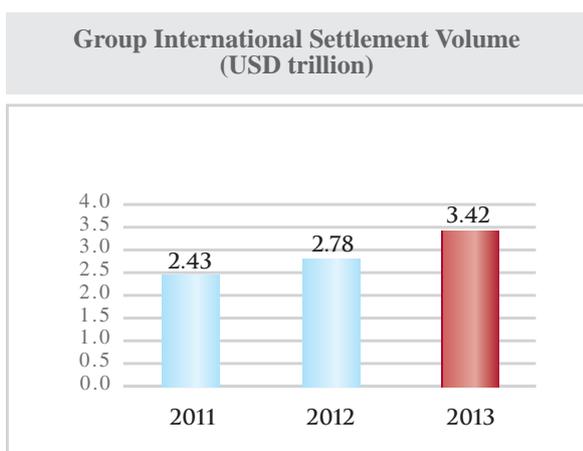
The Bank's international settlement and trade finance business grew steadily and maintained a leading position in the market. In 2013, the transaction volume of the international settlement business conducted by the Group reached USD3.42 trillion, an increase of 23.02% over the prior year. For domestic institutions, the transaction volume of the Bank's international settlement business remained the highest among its peers. As at the end of 2013, the balance of foreign currency denominated trade finance conducted by the Bank's domestic institutions was USD46.842 billion, and the balance of RMB-denominated trade finance totalled RMB347.346 billion, maintaining a leading position among its peers.

## Management Discussion and Analysis — Business Review

The Bank continued to lead the factoring and guarantee market, and achieved historic breakthroughs in forfaiting business and supply chain finance. In 2013, the international factoring business conducted by the Bank's domestic institutions totalled USD45.322 billion. Among this, the volume of "Two-factor Export Factoring" was USD10.608 billion, topping the global markets in volumes for 70 consecutive months. The balance of RMB-denominated and foreign currency denominated guarantees conducted by the Bank's domestic institutions reached RMB883.537 billion in total. The balance of overseas guarantees maintained a leading position among the domestic peers. Transaction volumes in the Bank's primary market forfaiting

business reached RMB188.275 billion, and transaction volumes for supply chain finance reached RMB1.02 trillion.

In 2013, the Bank was recognised as the "Best Trade Finance Bank in China" and "Best Trade Finance Bank" by various local and international medias and institutions, such as *Global Finance*, *Trade & Forfaiting Review*, *Global Trade Review* and China Banking Association. The Bank was also honoured with several other awards, including "Export and Import Factor of The Year" from Factors Chain International (FCI) and "Superior Competitive Cross-Border RMB Business Bank" from *China Business Journal*.



### Cash Management Business

The Bank continued to diversify its cash management platform functions and extended its business coverage to 33 countries and regions in Asia-Pacific, Europe, Africa and America, providing customers with efficient and convenient globally integrated cash management services. Seizing the opportunities of the pilot business of centralised management of foreign currency funds for the headquarters of multinational corporations, the Bank successfully won 18 over the 32 pilot companies designated by SAFE, ranking first among its peers. It also introduced SWIFT direct connection

service to expand the global fund operation channels of multinational groups. In addition, the Bank made innovations in the mode of combining the supply chain finance and cash management products to support fund management across the comprehensive supply chain. The Bank also promoted the integration of e-commerce with cash management products by seizing the opportunity arising from internet finance. The Bank was awarded with "Best Domestic Cash Manager in China" by *Euromoney*, "Best Cash Management Bank" by *Trade Finance*, "Best Treasury Management Bank" by *Treasury China* and "Best Cash Management Brand" by *CFO World*.

# Management Discussion and Analysis — Business Review

## Financial Institutions Business

The Bank continued to strengthen the cooperation with its global financial institution clients in an all-round way and to build comprehensive financial service platform, leading the market in terms of financial institutions customer coverage. Having established correspondent relationships with more than 1600 financial institutions in 179 countries and regions, the Bank provided financial services for multinational institutions and enterprises in fields such as international settlement, bond financing, foreign exchange trading, custody and global cash management, thus supporting both inward investors and “Going Global” companies. Correspondent banks from some 90 countries and regions across five continents opened more than 1,000 cross-border RMB clearing accounts with the Bank, consolidating the Bank’s leading position. The Bank’s Qualified Foreign Institutional Investors (“QFII”) services ranked among the top in terms of client base and scale of custody business. The Bank intensified the cooperation with overseas non-bank financial institutions and signed the Memorandum of Understanding regarding strategic cooperation with the London Metal Exchange, HKEx and Deutsche Börse AG for the collaborative development of RMB-denominated settlement products. The Bank also initiated the “External RMB Payment Agent Service” by financial institutions, breaking new grounds in cross-border RMB business in the Zhuhai Hengqin area.

At the year-end, the Bank ranked first in terms of the volume of foreign currency deposits from financial institutions. The Bank also led its peers in terms of the business volume of its B-share clearing service. The incoming international settlement business volume



directed to the Bank by its overseas correspondent banks also ranked first in the market. The market share of its third party custodian business continued to rise.

## SME Finance

The Bank continued to strengthen support to SMEs, and design differentiated, multi-layered customer service models according to operational characteristics of medium, small and micro-sized enterprises. To facilitate the expansion of the customer base of medium-sized enterprises, the Bank established a customer-centred and market-leading financial service framework, based on the optimisation of the credit approval mechanism. Besides, the Bank further upgraded the service model of “BOC Credit Factory” for small-sized enterprises, which had covered all the 34 domestic branches and was extended to overseas institutions. Adapting to the development trend of online finance, the Bank introduced “BOC Wang Luo Tong Bao”, and created the “one point access, whole-process response” online service model for small-sized enterprises, thus driving the cyberisation, electronisation, automation and mobile upgrading of the “BOC Credit Factory”. The Bank also innovatively introduced micro-finance business

## Management Discussion and Analysis — Business Review

mode, and established a comprehensive service system for micro enterprises, through standardised service procedures, advanced credit management technology, parameter-based pricing model, and embedded integrated sales management. Taking full advantage of the diversified financial services platform, the Bank provided customers with a package of financial services, including but not limited to commercial banking, investment banking, bonds and insurance. “BOC Credit Factory” business mode won the 2013 “Commendation Award for Brand Building Initiative in China” awarded by *The Asian Banker*.

As at the end of 2013, the Bank’s outstanding loans to domestic small-sized enterprises<sup>3</sup> amounted to RMB918.604 billion, representing an increase of RMB96.084 billion or 11.68% compared with the prior year-end, an increment of RMB18.309 billion from the growth of the prior year; the growth rate was higher than the average growth rate of all loans. The credit customers under the “BOC Credit Factory” business mode exceeded 55,000, an increase of 26% from the prior year-end, and the credit balance exceeded RMB310.0 billion, an increase of 32% compared with the prior year.

### Investment Banking Business

The Bank actively promoted the market-based financing product SIFA (structured investing and financing advisory service). The SIFA, which bridges investors and financing components and leverages the market funds, enables the Bank to provide financing services to its customers more efficiently. In 2013, the amount of SIFA reached RMB227.8 billion, with a year-on-year increase of 208.67%. The Bank stepped up its efforts in product innovation, launched an

advisory service designed for the “Going Global” clients and issued an asset management product with Fund Companies. To further enrich the market-based financing product lines in investment banking, the Bank cooperated with SSE and Shenzhen Stock Exchange, created new business model for wealth management investment. Over the whole year, the market-based financing products have provided a total of RMB460.0 billion funds for the customers, an increase of 56.25% compared with the prior year. Meanwhile, the investment banking products have successively supported the transformation of the corporate client structure by focusing on large-sized enterprises’ demand for credit.

In 2013, the Bank realised revenues of RMB9.483 billion from the core investment banking business and RMB28.279 billion from the investment banking business<sup>4</sup>, an increase of 103.15% and 50.42% respectively compared with the prior year. The Bank was awarded “Best Bank in Investment Banking”, “Best Bank in Cross-Border Financing”, “Best Bank in M&A Advisory” and “Best Asset Management Project Innovation” by *Securities Times*.

### Pension Business

In an effort to support the development of the national social security system construction, the Bank continuously strived to enrich its pension-related product offerings and improve its service system functionality to increase client satisfaction. The Bank provides comprehensive pension services in the fields of enterprise annuity, occupational annuity, social security-related services, employee welfare plans and pension asset management agency.

<sup>3</sup> Small business loans statistical standards are executed in accordance with the *Issuance Announcement Related to Requirements of SMEs Categorization Standards* (The MIIT associated enterprise [2011] No. 300) issued by four departments including the Ministry of Industry and Information Technology, covering small-sized enterprise loans, micro-sized enterprise loans and individual operational loans.

<sup>4</sup> It mainly consists of financial advisory, stock brokerage, bond underwriting, syndicated loan arrangement and asset management.

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As at the end of 2013, the total number of individual pension accounts reached 2.4315 million and custody funds amounted to RMB72.947 billion, serving more than 7,600 clients. Newly-opened individual pension

accounts in 2013 reached 638 thousand, with new capital in custody amounting to RMB19.348 billion, an increase of 35.57% and 36.10% respectively compared with the prior year.

### Supporting “Going Global” Enterprises

In recent years, Chinese enterprises have made greater “Going Global” strides. Their overseas integration and acquisition targets have extended from infrastructure and mineral resources to production & manufacturing, hi-tech and wellbeing and consumption. The Bank has provided strong financial support to Chinese “Going Global” enterprises by taking advantage of its group-wide integrated and diversified operations.

In September 2013, Shuanghui International Holdings Limited (“Shuanghui”) successfully took over Smithfield Foods, Inc. at the price of USD7.1 billion, which is the largest Chinese M&A case in the US, breaking the record of overseas M&A deal by Chinese private enterprises. The Bank played a significant role in this acquisition. New York Branch of the Bank provided opinions on American legal and business environments, BOCHK offered advice on international syndicated financing, BOCI provided financial consultancy services and Henan Branch of the Bank provided basic maintenance of customer relationship. As the sole Chinese bank with an “A” credit rating in New York, the New York Branch issued a financing commitment letter of USD4.0 billion, which served as an important assurance for transactions between the two parties. Meanwhile, the Bank jointly designed the financing plan for syndicated loans with Shuanghui based on transaction demand and market conditions. On 26 June 2013, the Bank held an introduction meeting of bank consortium preparation attended by nearly 30 banks and obtained 2.1 times of excess subscription from bank consortium. On 30 August 2013, eight banks led by the Bank signed a USD4.0 billion syndicated loan agreement with Shuanghui. During the syndication preparation and arrangement, overcoming various challenges such as tight time limit, large transaction amount involved, complicated financing structure and coordination with multiple regulators in different regions, the Bank completed the whole process from project survey to the signing of financing agreement in a short time, and acted as the correspondent bank for syndicated loans and for mortgage, etc. The financial services provided by the Bank in this M&A have become a new exemplary case showing that the Bank performs its social responsibility and supports Chinese enterprises’ “Going Global” efforts by leveraging on its advantages in internationalised, diversified and specialised operations and drawing upon its capacities for deal-making and business penetration.

In addition to the M&A project of Shuanghui, the Bank also successfully sponsored China Molybdenum Co., Ltd.’s acquisition of North Mining Limited’s interest in the Northparkes Joint Venture and certain associated assets, breaking the record of single M&A project amount in Australian mining sector in 2013. It also supported China National Offshore Oil Corporation (“CNOOC”) to take over NEXEN Energy ULC, recording the largest overseas M&A project in terms of amount among the Chinese companies. Besides, it assisted China International Marine Containers (Group) Co., Ltd to issue commercial paper in the US, recording the highest amount in commercial paper issued by Chinese enterprises. Furthermore, the Bank successfully issued overseas USD-denominated bonds for China Huaneng Group. The Bank spares no efforts to support Chinese enterprises in their international competition.

The Bank will, by seizing new opportunities brought by opening-up of the Chinese economy and finance and implementing national strategies initiatively, further improve its global service capacity and better support for “Going Global” enterprises.

Note: Shuanghui International Holdings Limited changed its name to WH Group Limited on 21 January 2014.

## Personal Banking Business

The Bank continued to accelerate personal banking product innovation and integration, improve customer service, and enhance the customer experience. As a result, the Bank's personal banking business performance grew rapidly and market competitiveness improved steadily. In 2013, the Bank's domestic personal banking business realised an operating income of RMB107.111 billion, an increase of RMB10.130 billion or 10.45% compared with the prior year.



## Personal Deposits Business

The Bank strongly promoted the development of strategic basic business such as salary payment agency, payment agency, improved the level of differentiated services for customers, strengthened personal accounts product innovation, optimised the function of personal accounts, and provided customers with high quality and convenient financial services. The Bank launched new products like personal term maturity deposits redeposit by agreement, personal transfer account by appointment, personal joint account, "Personal Zhinengtong" deposit, supplied integrated finance service for customers. As at the end of 2013, the Bank's domestic RMB-denominated personal deposits totalled RMB3,508.797 billion, an increase of RMB274.496 billion or 8.49% compared with the prior year-end. The domestic foreign currency denominated personal deposits totalled USD30.894 billion, an increase of USD1.071 billion or 3.59% compared with the prior year-end, and the Bank's market share remained top among its peers.

## Personal Loans Business

The Bank continued to optimise the business structure of personal loans and consolidated the fundamental position of its residential mortgage loans business. It also promoted the development of other areas such as personal loans for commercial premises, personal business loans and personal consumer loans. The Bank continued to enhance its personal loan systems and channel development, and actively developed electronic channel for personal loans. It provided the agency service of credit standing certification for overseas personal loans, fully leveraging the Group's integrated global business resources. As at the end of 2013, the total amount of domestic RMB-denominated personal loans stood at RMB1,864.654 billion, an increase of RMB247.531 billion or 15.31% compared with the prior year-end. The Bank maintained the leading position in personal auto loans and sponsored student loans.

## Wealth Management and Private Banking Business

The Bank continued to improve its service platform and enlarge the scope of its investment products and value-added services, in order to meet customers' needs for wealth management. The Bank accelerated its overseas wealth management business by strengthening collaboration among its domestic and international operations. Focusing on Southeast Asia, it promoted offshore investment services to middle and high-end customers. The Bank strengthened personal customer relationship manager team building, enhanced integrated financial services and improved customer satisfaction. As at the end of 2013, the Bank realised an annual growth of over 12% compared with the prior year-end in its middle and high-end client base. The Bank also won "Best Wealth Management Brand in China" by *Money Weekly*.

The Bank has kept a consistently high growth rate in its private banking business, backed by the Group's internationalisation and integrated global business resources. By launching the brand business "Family Office", the Bank provided ultra-high-net-worth families services such as international assets

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management, family trust and wealth succession, consultation of family enterprise management, legal and tax advices, and so on. The Bank launched “Parallel Wealth Management”, cross-border assets allocation services, providing financial and value added services including but not limited to overseas investment, real estate investment and children’s overseas education. It continually organised the “BOC privileged services” events, which focused on charity endowments and elite education, to share its social responsibilities with clients. The number of the Group’s private banking clients exceeded 60,000, and the scale of financial assets under management grew to over RMB570.0 billion at the year-end. The Bank won a number of awards, including “Best Private Bank in China” granted by *Euromoney*, *Asiamoney* and others.

### Bank Card Business

The Bank strived to build the featured personal cross-border financial brand of bank card business, and took the lead in introducing the BOC Great Wall All Currency Credit Cards, which was the exclusive cross-border payment product. The Bank also promoted featured cross-border payment products such as the BOC Great Wall Traveller’s Cards for Hong Kong, Macau and Taiwan and Infinite Credit Cards, and launched the overseas acquiring products supporting all the international card organisations’ e-commerce trading activities. The Bank diversified the overseas credit card product structure, and issued characteristic cards products like Visa Infinite Cards and Visa Wealth Cards by Macau Branch, China Travel Mate Credit Cards by Singapore Branch, and BOC-

Footy Mart Co-Branded Credit Cards by Canada Branch. The Bank explored the new development models for its mobile financial business. The Bank took initiative in carrying out NFC mobile payment products and Flash Mini Cards, vigorously promoted online payment and customised virtual payment, and established the WeChat service platform, so as to provide customers with the new mobile interaction experiences. The Bank continued to optimise the key business processes, diversified online application channels including online banking, mobile phone, WeChat and call centres, in order to enhance the financial service efficiency.

The Bank strived to accelerate debit card innovation, comprehensively rolling out the IC debit card issuance and migration. The Bank issued such products and functions as UnionPay International debit card, Virtual debit card, DIY Photo Card and Family Love Express, extended the range of payment methods such as BOC Quick Pay, Agreement Pay and Unionpay Shortcut Pay, and widened the channels of Mobile Payment. The Bank continuously promoted the establishment of the well-being financial service system, participated in more than 190 social insurance card projects in nearly 30 provinces of China. By issuing the All-hospital Great Wall Health Card, the Bank provided services such as registration and payment. The Bank actively promoted the construction of overseas debit card system, and encouraged the overseas institution to issue Unionpay standard dual-currency (RMB and local currency) debit cards, Visa and MasterCard single currency debit cards. Up to now, 15 overseas institutions have issued debit card products.

As at the end of 2013, the issuance amount and transaction volumes of the bank cards of the Bank are set out below:

Unit: millions card/RMB billion, except percentages

	As at 31 December 2013	As at 31 December 2012	Change
Cumulative number of debit cards	<b>302.5888</b>	243.5021	24.27%
Cumulative number of credit cards	<b>41.8994</b>	36.2203	15.68%
Cumulative number of social security cards with financial functions	<b>42.1675</b>	20.7030	103.68%
	2013	2012	Change
Transaction amount of debit cards	<b>1,862.530</b>	1,319.567	41.15%
Transaction amount of credit cards	<b>1,020.215</b>	710.934	43.50%
RMB card merchant acquiring transaction amount	<b>3,189.640</b>	2,433.119	31.09%
Foreign currency card merchant acquiring transaction amount	<b>25.535</b>	26.337	(3.04%)

### Financial Markets Business

Closely tracking financial market dynamics and adapting to trends in interest rate and exchange rate liberalisation and RMB internationalisation, the Bank continued to streamline its business structure and actively participate in financial market innovation. By fully leveraging its professional advantages, the Bank comprehensively improved its capabilities in asset management, market financing, trading, custody service, investment performance and risk control. By successfully implementing its Financial Markets Business Integration System, the Bank further enhanced its business development capability and risk control level. The financial markets business of the Bank continued to develop in a sustainable, sound and steady manner.

### Investments Business

The Bank realised higher portfolio returns by strengthening its market analysis and judgement, rationally structuring the duration mix of its investments and moderately increasing exposure to RMB-denominated debenture bonds. The Bank actively participated in market innovation in China government bond futures, when-issued trading of China government bonds and domestic large-denomination negotiable certificates of deposit (NCDs), and made full use of innovative instruments to diversify portfolio management approaches. In addition, it constantly optimised foreign currency investment structure and moderately increased investments in debenture bonds in response to international bond market trends. The Bank also intensified unified management of the Group's bond investments by further promoting centralised operation and decision-making in relation to bond investments of its overseas institutions.

### Trading Business

The Bank continuously optimised its trading product functions and introduced foreign currency/RMB exchange products such as "Par Forward FX", "Dual-Currency Forwards" and "Hui Li Bao". As an active player in RMB internationalisation, the Bank diversified the offerings of its offshore RMB trading desk to cover spot/forward exchange, swap, NDF and options on major currencies including the US dollar, Euro, Japanese yen, Hong Kong dollar, Pound sterling, Canadian dollar, Swiss franc and Australian dollar against RMB. It successfully completed the first RMB/AUD direct deal in the inter-bank market. Moreover, the Bank enriched its quotations service for emerging market currencies by introducing spot rate

for Malaysian ringgit, cash deposit rate for Indonesian rupiah and cash deposit rate for Kazakhstani tenge. Continuing to lead proprietary gold trading on the Shanghai Gold Exchange, the Bank engaged in the first inter-bank gold inquiry forward and swap transactions, successfully piloted an RMB gold forward business and introduced personal agency trading of gold. By the end of 2013, the Bank gained a market share of 22.25% in the business of spot/forward exchange of foreign currencies against RMB, ranking first in the market. Its RMB-denominated bond trading volume stood at RMB15.53 trillion with a market share of 3.97%, and gold transaction volume took 10.14% market share in Shanghai Gold Exchange, both ranking second in the market.

### Client Business

The Bank leveraged Group's diversified business advantages and strengthened R&D in its asset management products. It introduced a series of "BOC Zhihui" products to satisfy various client wealth management needs. To broaden financing channels for SMEs and serve the growth of real economy, the Bank underwrote SME Collective Notes II (SMECNII) for SMEs. It also built an overseas bond underwriting platform and has acted as the lead underwriter or global coordinator assisting domestic large and medium-sized enterprises in offshore bonds offerings. By leveraging the strengths in agency commodity hedging service, the Bank helped enterprises to mitigate commodity price fluctuation risk, successfully introduced OTC hedging services for agricultural products, and conducted soybean and palm oil OTC hedging transactions.

### Custody Business

The Bank enhanced cooperative relationships with key clients such as fund management companies, social security funds and insurance companies, and continued to accelerate the R&D and promotion of emerging custody products such as custody of fund subsidiaries specialised products, custody of insurance asset management products and custody of asset securitization. Seizing the opportunity of RMB internationalisation development, the Bank vigorously expanded RQFII custody services and achieved growth in its overseas custody business. It actively pushed forward standardised operation procedure of custody service, continued to improve custody system capabilities and enhanced value-added services including performance appraisal. It continuously enhanced electronic channels such as online custody banking and electronic instructions, and became

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the first and sole custodian bank to be connected directly to the system of China Government Securities Depository Trust & Clearing Co. Ltd. The Group's total assets under custody amounted to around RMB5 trillion at the year-end, maintaining its leading position in the industry. It was awarded "Best Asset Custodian Bank in 2013" by the *21st Century Business Herald*.

### Village Bank

BOC Fullerton Community Banks are committed to providing modern financial services to farmers, small and micro-sized enterprises, individual merchants and wage-earning class, and promoting the construction of China's New Countryside. In this way, they actively implement the nation's policy on agriculture, farmers and rural areas, with the aim of "focusing on county area development, supporting farmers and small-sized enterprises, and growing together with communities". 50 BOC Fullerton Community Banks and 16 sub-branches have now been established, increasing by 32 and 12 respectively compared to the prior year-end. BOC Fullerton Community Banks became the largest domestic village bank in size and business scope.

At the end of 2013, the outstanding deposits of these banks reached RMB5.954 billion, an increase of 161% compared with the prior year-end. The balance of loans amounted to RMB4.853 billion, an increase of 145% compared with the prior year-end. The NPL ratio was 0.59%, and all financial indicators maintained sound. The customer number of these banks was 184 thousand, triple that of the prior year-end, and customer satisfaction level reached 97%. These banks achieved 6 countrywide awards

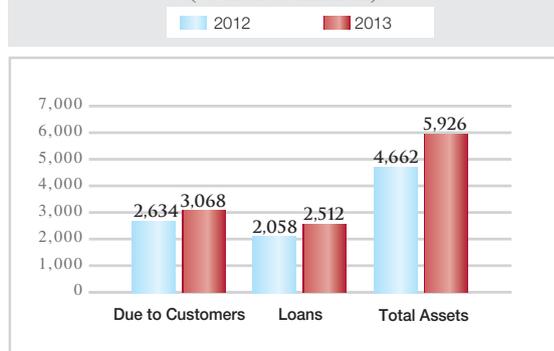
including "The 2013 Annual Outstanding Rural Bank" by the *Economic Observer*.

### Overseas Commercial Banking Business

Seizing the market opportunities arising from RMB internationalisation and Chinese enterprises' "Going Global", the Bank stepped up the integrated development of its domestic and overseas operations. As a result, the Bank's global service ability has been strengthened, and the market competitiveness continually improved.

The Bank achieved balanced growth and solid operating results in its overseas business. At the end of 2013, total assets and total liabilities of the Bank's commercial banking operations in Hong Kong, Macau, Taiwan and other countries reached USD592.565 billion and USD569.453 billion respectively, an increase of 27.11% and 28.06% compared with the prior year-end. Due to customers and loans amounted to USD306.810 billion and USD251.232 billion respectively, an increase of 16.50% and 22.09% compared with the prior year-end. The Bank achieved a profit before tax of USD5.708 billion, an increase of 16.99% compared with the prior year, accounting for 16.60% of the Group's total profit. It maintained its leading position among domestic peers in terms of business scale, profitability and market share of international business. Specifically, total assets and total liabilities of the Bank's overseas commercial banking operations (excluding BOCHK) grew by 41.57% and 42.23% respectively compared with the prior year-end, profit before tax increased by 22.76% compared with the prior year.

**Due to Customers, Loans and Total Assets of Hong Kong, Macau, Taiwan and Other Countries (USD 100 million)**



**Proportion of Due to Customers, Loans and Total Assets of Hong Kong, Macau, Taiwan and Other Countries (%)**



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The Bank steadily expanded its overseas network to offer a wider range of services and coverage around the globe. At the end of 2013, the Bank had 620 overseas institutions, an increase of 7 compared to the prior year-end, covering Hong Kong, Macau, Taiwan and 37 countries. Lisbon Branch, the first operating institution established by a Chinese bank in Portugal, was opened for business. Ulaanbaatar Representative Office, the first standing institution established by a Chinese bank in Mongolia, was opened for business. In addition, the Bank set up 9 new tier-2 institutions in Macau, Malaysia, Indonesia, Germany, Italy, Russia and Canada.

The Bank remarkably promoted the integrated development of its domestic and overseas businesses and further enhanced its competitiveness in

differentiated services. Fully leveraging the Group's advantages, the Bank's overseas institutions enhanced their business negotiation ability and successfully organised multiple large cross-border projects through the strengthening of domestic and overseas business coordination, thus providing high-quality financial services to Chinese "Going Global" customers and local customers. Moreover, the Bank actively pushed forward cross-border personal banking business by introducing products specially tailored for customer groups such as outbound tourists, students studying overseas, investment migrants, expatriates working overseas and foreigners living in China. It also expanded its overseas wealth management business and introduced the one-stop offshore wealth management service "Nan Yang Ju Fu".

### RMB Internationalisation Business

The RMB internationalisation process speeded up since 2013. The RMB settlement of commodity trade accounted for over 11% of the total imports and exports of goods through customs in 2013. By the end of 2013, more than 98% countries and regions had made cross-border settlement in RMB with Chinese mainland, some of which took place in rapidly developing RMB offshore markets including Hong Kong, Taiwan, London and Singapore. The RMB-denominated financial products are becoming more and more diversified. As the most internationalised commercial bank in Chinese mainland, the Bank has led the RMB offshore market development, and is becoming the primary channel of RMB cross-border circulation, main driver of RMB internationalisation, and the main leader in RMB internationalisation products and services innovation.

The Bank maintained its market leading position in cross-border RMB settlement volume and the RMB global clearing network had taken shape. In 2013, the Bank's cross-border RMB settlement volume was over RMB3.98 trillion, of which RMB1.77 trillion was attributed to the Bank's domestic institutions and RMB2.22 trillion was attributed to Hong Kong and other overseas institutions, achieving an overall year-on-year growth rate of 60.2% and the Bank maintained the market leading position. Since China launched its RMB cross-border settlement scheme, the Bank had completed cross-border RMB settlement volume of RMB8.6 trillion. Apart from Hong Kong, Macau and Taiwan, the Bank is also the RMB clearing bank of Malaysia, Luxembourg, Cambodia, Philippines and other countries and regions, and serves as RMB market maker in Russia. In addition, the Bank has become the main RMB clearing channel in countries and regions such as the UK, Germany, France, Japan, South Korea, Indonesia and South Africa.

The Bank undertook the social responsibility and promoted the RMB internationalisation process. In 2013, It released the *Bank of China Cross-border RMB Business White Paper (2013)* and BOC Cross-border RMB Index ("CRI") worldwide, becoming the first Chinese financial institution to compile and release RMB internationalisation related white paper and indexes. The White Paper and CRI are both important tools to analyse the internationalisation process of RMB and drew the wide attention of financial supervisors, financial institutions and the public. The White Paper and CRI help global enterprises and individuals to choose suitable RMB services and tap the huge business opportunities in the internationalisation of RMB.

The Bank has been continuously innovating RMB financial products and improving its cross-border RMB services. In 2013, it carried out a full range of product innovation, simplified the cross-border RMB settlement procedure to facilitate enterprises' cross-border trade and investment. The Bank conducted the two-way cross-border RMB cash pooling service, which was the first bank business after the financial reform policies in China (Shanghai) Pilot Free Trade Zone officially issued. It was the first bank to conduct RMB cross-border trading settlement under Spot Commodity Exchange. The Bank has built a full range of onshore and offshore RMB financial products including RMB trade settlement, clearing, deposit, loans, treasury trade, trade finance, bond, cash management, etc. The Bank has successfully consolidated its position of the main banking channel of RMB global distribution and use.

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### BOCHK

BOCHK continued to adopt a sustainable growth strategy in 2013. It capitalised on its leading edge in the Hong Kong financial service market and captured market opportunities from the offshore RMB business. It strengthened collaboration within the Group and provided a comprehensive range of financial products and services to enhance customer experience. Key financial and risk indicators stayed at solid levels. BOCHK has been named by *The Banker* “the Bank of the Year in Hong Kong 2013”.

BOCHK maintained continuous growth in core banking business and further enhanced its product innovation capability. BOCHK strengthened its sales efforts and both deposits and loans grew at a steady pace. At the same time, BOCHK has reinforced its management on funding costs and loan pricing, resulting in an improved loan and deposit spread. It fully capitalised on its competitive edge from acting as the “Asia-Pacific Syndicated Loan Centre” of the Group and remained the top mandated arranger in the Hong Kong-Macau syndicated loan market. It maintained its leading position in Hong Kong on new residential mortgage loans, the UnionPay International Co., Ltd. (“UnionPay International”) merchant acquiring and card issuing businesses. The launch of new services, including “Securities Club” and “Family Securities Accounts”, enhanced the service capabilities of the securities brokerage business. It also launched BOCHK e-Wallet — Mobile Payment Service, bringing an innovative and convenient mobile payment experience to customers by using their smartphones. Both the number of customers and business volume of private banking, asset management, cash management and custody services continued to expand.

BOCHK maintained leading position in offshore RMB business and continuously improved its overall competitiveness. BOCHK maintained and consolidated its market position in RMB deposits and RMB insurance business in Hong Kong. It completed the first CNH/USD cross-currency swap transaction using the CNH Hong Kong Interbank Offered Rate (CNH HIBOR) as the pricing benchmark. It acted as the

arranger for the issuance of the first certificate of deposit with the CNH HIBOR as the benchmark rate, offering the market a wider choice of floating rate debt instruments. BOCHK has been designated as the market maker of the USD/CNH futures for the Chicago Mercantile Exchange Group and Hong Kong Futures Exchange. It joined partnership with FTSE Group to develop the new “FTSE-BOCHK Offshore RMB Bond Index Series” to provide investors with an industry standard benchmark. BOCHK and UnionPay International pioneered the RMB settlement service of UnionPay Card for merchants in Hong Kong. BOCHK also further improved its RMB clearing services by extending service hours for RMB clearing function and introducing RMB time deposit service.

BOCHK actively collaborated with the Group, enhancing overall synergies of the Group. BOCHK captured opportunities from policy changes and actively participated in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone and China (Shanghai) Pilot Free Trade Zone. It reinforced cooperation with the Group’s overseas branches in RMB clearing service, customer sales and product offerings. BOCHK actively developed cross-border direct loan business. It also launched the offshore import finance service. BOCHK’s domestic liquidity management capability was linked to the Bank’s Global Cash Management System to further strengthen its competitive edge as the cross-border fund centre for corporates in Hong Kong.

BOCHK focused on enhancing customer experience and providing differentiated services. The Corporate Services Centre further improved service efficiencies to customers. It optimised the operating interface of its corporate internet banking platform. The brand awareness of Wealth Management among personal customers was strengthened. It introduced the brand new “Enrich Banking” service and re-packaged the “i-Free Banking” services, providing more comprehensive and convenient banking products and services to customers through various channels.

BOCHK received for the sixth consecutive year the “Best SME’s Partner Award” from the Hong Kong General Chamber of Small and Medium Business and

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was named the “Best Offshore RMB Manager” by *Asia Asset Management* for the second consecutive year. It was presented with the “Achievement Award for Best Cash Management Bank in Hong Kong” from *The Asian Banker*.

*(Please refer to the Annual Report of BOCHK for a full review of BOCHK’s business performance)*

### Diversified Business Platform

The Bank unleashes the advantages of its diversified business platform, and the subsidiaries embrace the Group’s overall strategy to focus on their specialised business areas, establish business linkage, promote cross-selling and product innovation to enhance the synergies across the Group and provide comprehensive and quality financial services to the customers.

### Investment Banking Business

#### BOCI

The Bank operates its investment banking business through BOCI. As at the end of 2013, BOCI had total assets of HKD83.348 billion and net assets of HKD10.673 billion, and realised an annual profit after tax of HKD1.962 billion. BOCI is top-ranked among all Hong Kong-based Chinese investment banks in multiple business sectors, and outperformed the market in terms of its profitability.

BOCI continued to maintain a leading position in the equity underwriting markets. It completed 17 IPOs, which ranking first in the Hong Kong IPO market in terms of both number of deal and market share. The bond underwriting business had another record year in 2013. BOCI completed 50 bond offerings, raising a total of USD33.8 billion, an increase of 36% from 2012. BOCI ranked first in the Hong Kong Chinese corporate offshore investment grade bond underwriting market in 2013.

BOCI maintained a leading position in stock brokerage market share as one of the biggest retail brokerage dealers, and the scale of its private banking business

experienced a steady growth. BOCI private banking business also successfully expanded its offshore customer base in East Asia, Europe, Middle East and India, etc., and provided a diversified and full range of private banking business services for private clients. BOCI-Prudential Asset Management Ltd., its asset management company, had increased its total assets under management by 14.22% compared to the prior year-end.

BOCI’s private equity business grew rapidly, China Culture Industrial Investment Fund, which was initiated by BOCI, achieved great performance. Bohai Industrial Investment Fund and BOCI Infrastructure Fund also continuously performed well. BOCI’s global commodities business accelerated its global expansion and built a refined products trading team in Singapore to provide an OTC ordering and trading service to clients. The physical trading business began to realise a globalised operational scale, with both client base and trading volumes continuously growing.

BOCI had won a series of awards in 2013, including “Best Bond in Asian Emerging Market of the Year” from *IFR*, “Deal of the year 2013 (Asia Pacific Region)” from *The Banker*, “Best High-yield Bond of 2013” from *FinanceAsia*, “Best Innovation Award” from *Asia Asset Management*, “Best-in-Class — Manager of the Year — MPF” from *Benchmark*, “Hong Kong Investment Management Company of the Year” from *AsiaMoney*, and “Best IPO” and “Best Investment Grade Bond” from *The Asset*.

#### BOCI China

The Bank operates its domestic securities-related businesses through BOCI China. At the end of 2013, BOCI China had total assets of RMB18.098 billion, net assets of RMB7.465 billion and realised an annual profit after tax of RMB354 million.

BOCI China accelerated the transformation of its investment banking, developed asset management, brokerage and other services. It continued to strengthen equity debt financing and other traditional investment banking business and actively expanded

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asset securitisation, mergers & acquisitions and private debt issuance for small and medium-sized enterprises. It also obtained a Class A Certified Financial Advisor broker rating from China Securities Regulatory Commission in the first batch. BOCI China became the first in the industry to open off-site accounts, and received approval to establish 21 light business departments. Its brokerage revenue increased by 42% compared to the prior year. The asset management business grew rapidly, with assets under management amounting to RMB125.3 billion, an increase of 312% compared to the prior year-end. The institutional business also developed rapidly with 10 new QFII clients.

To support its strategic transition from principal investment to fund management, BOCI China has enhanced the efficiency of its corporate governance by optimising business structure processes, effectively promoting capital operation, and successfully integrating the primary and secondary market sales sector and IT sector. BOCI China significantly improved its capital strength by successfully completing a capital raising of RMB2.3 billion, bringing in seven new investors with superior qualifications. BOCI China has also accelerated business innovation and optimised its revenue structure. Income from innovative businesses such as structured financing and margin trading accounted for 30% of total revenue, an increase of 22 percentage points compared to the prior year; while interest income accounted for 18%, an increase of 17 percentage points compared to the prior year.

BOCI China was awarded “Annual Securities Investor Education and Excellent Service Units” by the *Securities Association of China*, “Investment Bank with the Best Ability For Large Projects” by *New Fortune*, “Best Securities Firm For Underwriting Sponsor Business” by *21st Century Business Herald*, “Best Investment Bank For Merge & Acquisition Business”, “Best Merge & Acquisition Project Team”, “Best Bond Underwriting Team”, “2013 Annual China Top Ten Innovative Case of Internet Banking (consolidated award)” by *Securities Times*, and “China Seventh Best

Investment Bank with Best Recommendation Team” by *Shanghai Securities News*.

### BOCIM

The Bank operates its fund management business through BOCIM. By the end of 2013, BOCIM’s total assets reached RMB1.037 billion, its net assets reached RMB872 million, and its profit after tax reached RMB280 million.

BOCIM promoted the brand image and reputation based on excellent investment performance and comprehensive strength. By the end of 2013, assets under management for publicly offered funds reached RMB121.7 billion, up 22% from the prior year, with BOCIM’s market ranking continuing to rise. BOCIM was awarded “Top 10 Golden Bull Investment Managers” and “Golden Bull Bond Fund Investment Managers” by *China Securities Journal* (the latter for the second consecutive year), “Five-year Sustainable Return Star Fund” by *Securities Times* and “Golden Fund • TOP Fund Managers” by *Shanghai Securities News*.

### Insurance Business

#### BOCG Insurance

The Bank operates its insurance business within Hong Kong through BOCG Insurance, which owns three branches and one business centre in Hong Kong. At the end of 2013, BOCG Insurance reported total assets of HKD7.203 billion and net assets of HKD3.852 billion. It consistently remains at the forefront of Hong Kong general insurance market, and has achieved gross written premiums of HKD1.784 billion and profits after tax of HKD84 million.

BOCG Insurance not only actively developed its high-quality business, but also continued to improve its underwriting efficiency and vigorously develop innovative business lines. A substantial increase in the business scale of Hull, Aircraft, and Pecuniary Loss

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insurance was noted. BOCG Insurance also successfully underwrote insurance for satellites currently in orbit by way of reinsurance for the first time. During the year, the scale of high-quality insurance business has grown rapidly and BOCG Insurance has achieved HKD0.961 billion gross premium income.

BOCG Insurance's bancassurance cooperation has been constantly enhanced and its position in the market has been consolidated via exploring the Group's network and customer resources, creating innovative sales channels and cooperating with banks and large brokerages. BOCG Insurance also cooperated with Chinese insurance corporations by promoting property and casualty insurance, incentive plans and product-mix sales. The scale of bancassurance business has grown significantly with related gross premium income amounting to HKD0.784 billion for the year.

BOCG Insurance has vigorously explored innovative sales channels and actively fostered product innovation. Cooperative relationships with various insurance companies in the Chinese mainland, Hong Kong and Macau have been established and steady business development has been achieved. BOCG Insurance has also been active in expanding its overseas business, broadening its reinsurance network and developing new customer bases. In 2013, BOCG Insurance began to promote its e-platform sales channel by releasing mobile apps, launching a new version of the official website, and developing "e" Travel Comprehensive Insurance, the first product sold via its mobile platform. BOCG Insurance further enhanced features of its existing products including "Universal Travel Insurance" and "BOC Medical" based on the market demands investigation. It also developed new products, such as products for residents of Chinese mainland visiting Hong Kong, high-end medical insurance products for immigrant investors, trade credit insurance products, credit card insurance products, and mortgage insurance products, etc.

### BOCG Life

The Bank operates its life insurance business in Hong Kong through BOCG Life. In 2013, BOCG Life's gross premium income was HKD17,981 million and profit after tax was HKD1,072 million. It maintained its leading position in the Hong Kong RMB life insurance market.

BOCG Life continued to optimise its product offerings and enhance its marketing and distribution channels, driving growth in gross premium income. Products such as "Income-Growth Annuity Insurance Plan", "RMB Universal Life Insurance Plan" and "Target 5 Years Insurance Plan Series", were offered to cater for diverse needs of customers. The newly launched HKD and USD "UltiChoice Universal Life Insurance Plan" provides customers with both financial planning and whole life protection. BOCG Life has developed its multi-distribution channels and included additional sales partners to reach a wider range of customers. New products "Wealth Conquer Universal Life Insurance Plan" and "Forever Glorious Universal Life Insurance Plan" were launched and tailored for distribution through brokerage houses.

BOCG Life was awarded "Best Life Insurance Company, Hong Kong" by *World Finance*, and "Outstanding Brand Award 2013 — Life Insurance Category" by *Economic Digest*. For the second consecutive year, it was granted the award of "RMB Business Outstanding Awards – Outstanding Insurance Business" organised by *Metro Finance*, *Metro Finance Digital* and *Hong Kong Wen Wei Po*.

### BOC Insurance

The Bank operates its property insurance business in Chinese mainland through BOC Insurance. As at the end of 2013, BOC Insurance recorded total assets of RMB8.989 billion and net assets of RMB2.785 billion. It realised premium income of RMB5.099 billion and profit after tax of RMB382 million.

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BOC Insurance pushed forward its back-office function centralised project in 2013 while also improving operational efficiency and service levels through the successful launch of “mobile claim survey system” and “motor insurance mobile sales terminal”. BOC Insurance continued to deepen the development of its bancassurance business and realised new innovations in the direct-sales model of “self-service motor insurance”. Cooperating with the Group, BOC Insurance jointly released the “ideal home & dual-benefit” service, added an insurance section to the Bank’s online banking platform and successfully introduced 19 online insurance products. BOC Insurance leads the market in terms of product offering range and client base. BOC Insurance expanded its product innovation and introduced a series of new products including “enterprise loan insurance E”, “personal loan insurance H” and “BOC ivy”, a series of health insurance cards. It also vigorously developed featured products in domestic trade credit insurance, self-employed petty loan guarantee insurance, etc., which support the development of smaller businesses.

### *Investment Business*

#### **BOCG Investment**

The Bank operates its direct investment and investment management business through BOCG Investment. Its business scope includes private equity investment, fund investment and management, real estate investment and management, and non-performing asset investment. As at the end of 2013, BOCG Investment recorded total assets of HKD63.673 billion, net assets of HKD50.236 billion, and a profit after tax of HKD2.070 billion.

In 2013, BOCG Investment dynamically carried out business model innovation and transformation, and continued to adjust and optimise its asset structure in response to an ever-changing business environment, further enhancing at all times its awareness of capital constraints, efficiencies, risks and return. Focusing

on the financial, energy, consumer and healthcare sectors, BOCG Investment strengthened its private equity project database and maintained a stable business flow. BOCG Investment also intensified post-investment management, enhancing its ability to provide value-added services and value creation. In addition, BOCG Investment made every effort to diversify its funding sources and successfully issued a USD600 million senior note.

#### **BOC Aviation**

The Bank operates its aircraft leasing business through BOC Aviation. At the end of 2013, BOC Aviation had total assets of USD10.2 billion with net assets of USD1.93 billion, and recorded a profit after tax of USD277 million. Since being acquired 100% by the Bank for an enterprise value of USD3.25 billion in December 2006, BOC Aviation has more than doubled its total assets, and achieved more than USD1 billion in cumulative profits after tax.

BOC Aviation took delivery of 48 aircraft in 2013. At the year-end, BOC Aviation had a portfolio of 226 aircraft, of which 206 were owned and 20 were managed, operated by 56 airlines in 32 countries worldwide. The owned fleet has an average age of less than 4 years, one of the youngest fleets in the industry. The Company has consistently demonstrated its capability as a leading innovator in the Asian capital markets, and became the first global aircraft lessor to access the RMB capital markets by raising RMB1.5 billion in bonds.

### **Channel Development**

#### *Outlet Development*

The Bank continuously strengthened network construction, optimised outlet distribution and explored new service mode of the outlets in order to improve customer experience and enhance outlet efficiency. It also expanded business categories and the scope of corporate finance and small

## Management Discussion and Analysis — Business Review

micro-enterprise finance service coverage at the outlet level. The Bank enhanced its outlets' integrated service and marketing capabilities by simplifying business processes and optimising staff structure. It also standardised the management of outlet services, established the service quality management system, promoted intelligent outlet services and improved customer experience. As at the end of 2013, the Bank's service network in Chinese mainland had 10,682 outlets, including nearly 2,000 middle to large-sized fully functional outlets.

The Bank continued to rapidly roll out self-service facilities, continuously innovated and enriched self-service functions and optimised transaction operational process. It added a financial IC card interbank recharge function through ATMs and optimised ATM transaction processes and interfaces for deposits, withdrawals, transfers and other transactions. New functions of self-service facilities such as the non-contact acceptance of financial IC card, password remittances, mobile remittances and remittance packages were added to ATMs. As at the end of 2013, the Bank had 40,600 ATMs, 23,300

self-service terminals, and 12,800 self-service banks in operation in Chinese mainland, an increase of 3.8%, 11.5% and 8.47% respectively compared with the prior year, further enhancing the Bank's capabilities in self-service channels.

### *E-Banking*

The Bank further developed and enhanced its e-banking channels, including online banking, telephone banking, mobile banking, self-service banking, home banking and wechat banking. It also optimised product functions and service processes to improve customer service experience. As a result, the number of e-banking customers increased steadily and the ability of e-banking channels to boost the Bank's overall business development continued to strengthen. As at the end of 2013, the Bank's e-banking transaction volume reached RMB110.40 trillion, an increase of 20.83% compared to the prior year. The substitution ratio of e-banking channels for traditional outlets reached 77.53%. The growth in the Bank's e-banking customers is shown in the table below:

Unit: million, except percentages

Items	As at 31 December 2013	As at 31 December 2012	Percentage Change
Number of Corporate Online Banking Customers	<b>2.2009</b>	1.8017	22.16%
Number of Personal Online Banking Customers	<b>101.0740</b>	91.4236	10.56%
Number of Mobile Banking Customers	<b>52.1262</b>	41.8250	24.63%
Number of Telephone Banking Customers	<b>88.8353</b>	76.3675	16.33%

The Bank comprehensively reconstructed its IT architecture of online banking system, driving a significant improvement in customer experience and product functions. It introduced a variety of new services to corporate customers, including SME loans, express agency collection, express foreign exchange settlement, bill pool, supply chain orders financing, etc. It also brought many new services to personal customers, such as social insurance, public accumulation fund, commercial insurance, saving bonds, options, precious metal accumulation, virtual

debit card, etc. The cross-channel interoperability between online banking and physical outlets was consistently strengthened, helping corporate customers to open bank accounts and online banking services through the internet, and making it possible for personal customers to enjoy a series of services without going to the bank counter, such as time deposit/demand deposit account opening, credit cards activation, loss reporting, replacement, and automatic currency exchange repayment, etc.

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The Bank comprehensively extended its mobile financial services to cover many new kinds of terminals, and the service functions and usability were also significantly improved. New personal online banking client applications were launched to cover iPad and Android Pads, optimising users' experience through novel interactions and customised services. It also enriched the functions and simplified the operations of the mobile banking service, introducing a two-dimensional code transfer, and easier ways of sign-in and subscription.

The Bank continued to optimise its e-commerce offerings in order to satisfy the customers' diverse online payment needs. Personal customers can use the Bank's new mobile payment through both WAP browsers and client applications. B2C payment and express payment via internet were also improved. Corporate customers were provided with an optimised payment service, including B2B direct payment, B2B guaranteed payment, B2B agreement payment, customs duty online payment and BOC e-Commerce payment.

The Bank further expanded the coverage of its overseas e-Banking services and continuously enriched the functions of the systems. The Bank's standard overseas corporate online banking service was extended to Taiwan, and its corporate online banking service tailored for cross-border groups covered the Middle East (Dubai). Its overseas personal online banking service was also improved. New services supporting credit card and debit card were provided to overseas personal customers, navigation and operation processes were optimised, and more languages and browsers were supported.

The Bank developed the business model to extend service channels innovatively. Mobile Cash withdrawal, a new business model launched and promoted by the Bank, extended the Bank's financial services to the areas beyond the reach of its physical outlets, effectively supporting its rural finance business development. By the end of 2013, the number of mobile cash withdrawal agents reached 475.



The Bank strived to improve every detail of its customer service and management in all small details to guarantee continuous, safe and efficient operation. By means of phone, SMS, e-mail, fax, microblog, online customer service, and video customer service, etc., it is able to provide voice-to-voice, text-to-text and face-to-face service through different channels and media for clients both at home and abroad. Customers are able to enjoy seamless docking services between Chinese mainland and overseas. Customer satisfaction level reached 98%.

In 2013, The Bank received many awards and honours, including "Best Internet Banking Product in China 2013" from *The Asian Banker* and "Excellent Competence e-Banking in 2013" from *China Business Journal*.

### Information Technology Development

The Bank continuously upgraded product functions and system architecture and improved the interface friendliness, operational convenience and functional diversification of the existing systems. The Bank made full use of mobile internet, cloud computing and other new information technologies and concepts to improve the intelligence level of customer service,

## Management Discussion and Analysis — Business Review

operational management and risk control capability. In addition, it promoted the development of IT risk management systems and enhanced the safe operation capacity of information systems to support global business continuity.

Building on the successful implementation of its domestic IT Blueprint project, the Bank steadily advanced the integration and transformation of its overseas information systems. In 2013, the overseas

systems were put into operation in the Asia-Pacific region, realising version unification, centralised arrangement and integrated operational management across the information systems of 12 branches in the region. The Bank successfully promoted the use of the core banking system, Global Unified Payment Platform, Global Trade Finance System, Call Centre and other systems in the Asia-Pacific region, further enhancing its globally integrated IT service capacity.

### E-finance Bank Construction

To fully grasp the great opportunities brought by the new network era and e-commerce, the Bank has identified the building and development of the e-commerce centred E-finance bank as a core strategic task. By integrating traditional financial business with modern information technologies represented by mobile internet and big data, the Bank established “two wheels incentive scheme” and promoted the development of E-finance bank with service-oriented mobile e-commerce at its core.

The strategic goal of the Bank’s E-finance development is to adapt its business to the development trend of the internet economy, reconstruct the business models and commercial processes, and build the first-choice E-finance bank that leads the lifestyle of customers. Giving full play to the advantages arising from its globalised and diversified operations, the Bank provides customers with fair, efficient, convenient, safe and innovative financial and commercial services via its open technology and business platform, across four dimensions, namely “easy finance, extensive finance, non-finance and self-finance”. E-finance module of the Bank strives to build the brand of “Make it Easy”, on the basis of which the Bank focuses on enhancing its capacity in supply chain customisation, inter-bank cooperation, community interaction and cross-border online payment, etc. The Bank creates innovative products and services by integrating online and offline resources to establish an internet finance ecosystem that facilitates self-growth and customer growth. It also integrates the supply chain and service chain resources to provide online financial services for supply chains and small and micro-sized customers in the real economy. Moreover, it diversifies its mobile payment products, accelerates the development of internet commerce and commits to the development of cross-border e-commerce, to promote the integrated development of domestic and overseas operations.

In 2013, the Bank officially launched its open platform under the “Make it Easy” brand which provided the first standardised application program interface and application store service commonly used by internet industry among its domestic peers. The Bank is exploring the O2O (integrated online and offline services) financial service mode and is piloting “BOC E-community” project, which combined financial services such as convenient payment, daily-life fee payment and small and micro loans to provide integrated online and offline services in a comprehensive manner to intelligent communities. In addition, it introduced a series of “Micro Bank” products, providing various functions including online information push, interaction and communication, as well as other financial services. The Bank also developed the mobile application “Easy Pay” which will cover many of customers’ daily payment needs, greatly improving payment efficiency. On top of these, it provided comprehensive financial services solutions to SMEs on third-party e-commerce platforms via “BOC Online Tongbao”. The Bank put its first “Future Bank” flagship into trial operation, holding successful “Customer Experience Day” activities and achieving sound results in terms of improving self-service channel efficiency, enhancing customer experience and increasing customer satisfaction.

# Management Discussion and Analysis — Risk Management

In 2013, the Bank carried out more comprehensive, proactive and professional risk management by actively improving risk management system, enhancing comprehensive risk control, and constantly reinforcing the foundations of risk management function.

## Credit Risk Management

Closely following changes in the macroeconomic and financial situation and changes to regulatory requirements, the Bank further improved its credit risk management policies, pushed forward the adjustment of its credit structure, reinforced the management of credit asset quality and took a proactive and forward-looking stance on risk management.

The Bank continuously optimised its credit structure. With the aim of advancing strategic implementation, optimising credit structure and balancing risks, capital and return, the Bank stepped up the application of the New Basel Capital Accord and improved the management plan for its credit portfolios. In line with the government's macro-control measures and industrial policies, the Bank put in place guidelines for industrial lending and implemented three-year plans for its industrial policies so as to fully support the building of an industrial policy system.

The Bank strengthened its credit asset quality management. Adhering to the general principle of "stabilising quality through pragmatic and forward-looking management", the Bank kept a close eye on changes in the economic situation and stuck to the bottom line of zero systematic and regional risk

through management measures including post-lending management, risk classification, material risk event handling and regular risk investigation. In addition, by enhancing the supervision of asset quality control in key regions, controlling over loans to overcapacity industries, real estate, LGFVs and other high risk industries, strengthening management of key products including personal credit, trade finance and letter of guarantee, and implementing the risk management accountability system for major customers, the Bank maintained stable asset quality.

In terms of corporate banking, the Bank further strengthened risk identification and control in key fields, prevented and defused risk from overcapacity industries, and strictly controlled the gross scale and preference of loans through limit management. It intensified the management of loans to LGFVs, strictly controlled the gross scale, and regulated the management of newly increased loans, exited loans and existing loans to LGFVs. In addition, the Bank implemented the government's macro-control policies and regulatory measures in the real estate sector to strengthen the risk management of real estate loans.

In terms of personal banking, the Bank improved risk management policies for personal credit and strictly implemented differentiated policies for personal housing loans. It improved management policies for personal housing allowance loans, personal business loans and personal credit guarantee partners. The Bank monitored and analysed personal credit asset quality regularly, utilised an early warning and suspension mechanism for personal loans and strengthened risk control on key products and areas.

## Management Discussion and Analysis — Risk Management

The Bank strengthened the credit risk management of overseas institutions and closely monitored the quality of its overseas credit assets. It stepped up country risk management by improving related policies and regulations, enhancing country risk rating management, carrying out strict limit control over such risk, refining related monitoring and management systems and further strengthening country risk management for potential high-risk countries and regions.

The Bank also stepped up the collection of NPLs with an emphasis on efficiency, enhanced the cash collection level of NPLs and carried out further research on disposal policies. It earnestly implemented policies relating to bad asset write-offs, effectively wrote off such assets and confirmed responsibility for loss in compliance with laws and regulations.

The Bank comprehensively enhanced its risk management expertise. It has built competence and qualification models for staff engaged in credit approval, rating and classification and credit execution, enhanced the qualifications and professional capabilities of risk management practitioners and expedited the training of specialist employees through providing training courses for both trainer and trainee.

The Bank measured and managed the quality of its credit assets based on the *Guideline for Loan Credit Risk Classification* issued by CBRC, which requires Chinese commercial banks to classify loans into the following five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified as substandard, doubtful and loss are recognised as NPLs. In order to enhance the accuracy

level of its credit asset risk management, the Bank used a 13-tier risk classification criterion for corporate loans to domestic companies and dynamically adjusted its credit assets in response to major changes in risk status. The Bank strengthened the management of loan terms and managed overdue loans by the name list system. It carried out regular investigations and one-by-one monitoring, reported overdue loans and adjusted risk classification results in a timely manner, so as to reflect asset quality objectively and set aside provisions accurately. The *Guideline for Loan Credit Risk Classification* was also applicable to overseas operations of the Bank. However, the Bank classified credit assets in line with local applicable rules and requirements if they were stricter.

As at the end of 2013, the Group's NPLs totalled RMB73.271 billion, representing an increase of RMB7.823 billion compared with the prior year-end. The NPL ratio increased to 0.96%, up 0.01 percentage point compared with the prior year-end. The Group's allowance for impairment losses on loans and advances was RMB168.049 billion, representing an increase of RMB13.393 billion from the prior year-end. The coverage ratio of allowance for loan impairment losses to NPLs was 229.35%, down 6.95 percentage points from the prior year-end. NPLs of domestic institutions totalled RMB70.365 billion, representing an increase of RMB7.609 billion compared with the prior year-end. The NPL ratio increased to 1.16%, up 0.03 percentage point compared with the prior year-end. The Group's outstanding special-mention loans stood at RMB189.293 billion, a decrease of RMB18.242 billion compared with the prior year-end, accounting for 2.49% of total outstanding loans, down 0.53 percentage point from the prior year-end.

# Management Discussion and Analysis — Risk Management

## Five-category Loan Classification

Unit: RMB million, except percentages

Group	As at 31 December 2013		As at 31 December 2012	
	Amount	% of total	Amount	% of total
<b>Group</b>				
Pass	7,345,227	96.55%	6,591,713	96.03%
Special-mention	189,293	2.49%	207,535	3.02%
Substandard	33,245	0.43%	28,643	0.42%
Doubtful	26,465	0.35%	24,276	0.35%
Loss	13,561	0.18%	12,529	0.18%
<b>Total</b>	<b>7,607,791</b>	<b>100.00%</b>	<b>6,864,696</b>	<b>100.00%</b>
NPLs	73,271	0.96%	65,448	0.95%
<b>Domestic</b>				
Pass	5,809,080	95.89%	5,300,574	95.36%
Special-mention	178,735	2.95%	195,352	3.51%
Substandard	31,479	0.52%	27,210	0.49%
Doubtful	25,496	0.42%	23,254	0.42%
Loss	13,390	0.22%	12,292	0.22%
<b>Total</b>	<b>6,058,180</b>	<b>100.00%</b>	<b>5,558,682</b>	<b>100.00%</b>
NPLs	70,365	1.16%	62,756	1.13%

## Migration Ratio

Unit: %

	2013	2012	2011
Pass	1.68	2.61	2.56
Special-mention	10.52	15.31	12.94
Substandard	31.09	44.55	55.42
Doubtful	8.86	8.48	5.68

In accordance with International Accounting Standard No. 39 (IAS 39), loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. As at the end of 2013, the Group's identified impaired loans totalled RMB73.119 billion, representing an increase of RMB7.664 billion compared with the prior year-end. The impaired loans to total loans ratio increased to 0.96%, up 0.01 percentage point compared with the prior year-end. The impaired

loans of domestic institutions totalled RMB70.433 billion, representing an increase of RMB7.589 billion compared with the prior year-end. The impaired loans to total loans ratio increased to 1.16%, up 0.03 percentage point compared with the prior year-end. The Bank's operations in Hong Kong, Macau, Taiwan and other countries reported identified impaired loans of RMB2.686 billion and impaired loans to total loans ratio of 0.17%, up RMB0.075 billion and down 0.03 percentage point compared with the prior year-end, respectively.

## Movement of Identified Impaired Loans

Unit: RMB million

	2013	2012	2011
<b>Group</b>			
Balance at the beginning of the year	65,455	63,306	63,876
Increase during the year	31,658	28,246	20,804
Reduction during the year	(23,994)	(26,097)	(21,374)
Balance at the end of the year	73,119	65,455	63,306
<b>Domestic</b>			
Balance at the beginning of the year	62,844	61,159	62,211
Increase during the year	30,325	26,387	19,726
Reduction during the year	(22,736)	(24,702)	(20,778)
Balance at the end of the year	70,433	62,844	61,159

## Management Discussion and Analysis — Risk Management

### Loans and Identified Impaired Loans by Currency

Unit: RMB million

Group	2013		As at 31 December 2012		2011	
	Loans	Impaired loans	Loans	Impaired loans	Loans	Impaired loans
RMB	5,741,454	61,452	5,246,944	52,301	4,775,494	50,541
Foreign currency	1,866,337	11,667	1,617,752	13,154	1,567,320	12,765
<b>Total</b>	<b>7,607,791</b>	<b>73,119</b>	<b>6,864,696</b>	<b>65,455</b>	<b>6,342,814</b>	<b>63,306</b>
<b>Domestic</b>						
RMB	5,553,630	61,184	5,069,127	52,226	4,634,915	50,056
Foreign currency	504,550	9,249	489,555	10,618	574,779	11,103
<b>Total</b>	<b>6,058,180</b>	<b>70,433</b>	<b>5,558,682</b>	<b>62,844</b>	<b>5,209,694</b>	<b>61,159</b>

The Bank makes adequate and timely allowances for impairment losses in accordance with prudent and authentic principles. Allowances for impairment losses on loans consist of individually assessed and collectively assessed allowances. Please refer to Notes II.4 and VI.3 to the Consolidated Financial Statements for further discussion of the accounting policy in relation to allowances for impairment losses.

In 2013, the Group's impairment losses on loans and advances stood at RMB22.938 billion, an increase of RMB3.852 billion compared with the prior year, and the credit cost was 0.32%, an increase of 0.03 percentage point compared with the prior year. Particularly, domestic institutions registered impairment losses on loans and advances of RMB20.633 billion, an increase of RMB2.821 billion compared with the prior year, and the credit cost was 0.36%, an increase of 0.03 percentage point compared with the prior year.

The Bank continued to focus on controlling borrower concentration risk and was in full compliance with regulatory requirements on borrower concentration.

Unit:%

Main regulatory ratios	Regulatory standard	As at 31 December 2013	As at 31 December 2012	As at 31 December 2011
Loan concentration ratio of the largest single borrower	≤10	2.1	2.6	3.1
Loan concentration ratio of the ten largest borrowers	≤50	14.2	16.9	18.9

Notes:

- 1 Loan concentration ratio of the largest single borrower = total outstanding loans to the largest single borrower/net regulatory capital
- 2 Loan concentration ratio of the ten largest borrowers = total outstanding loans to the top ten borrowers/net regulatory capital

For more information regarding loan classification, the classification of identified impaired loans and allowance for loan impairment losses, please refer to Notes V.16 and VI.3 to the Consolidated Financial Statements.

The following table shows the top ten individual borrowers as at 31 December 2013:

Unit: RMB million, except percentages

Customer	Industry	Outstanding loans	% of total loans
Customer A	Water, environment and public utility management	24,516	0.32%
Customer B	Commerce and services	18,006	0.24%
Customer C	Manufacturing	17,263	0.23%
Customer D	Commerce and services	16,741	0.22%
Customer E	Water, environment and public utility management	16,675	0.22%
Customer F	Mining	16,449	0.22%
Customer G	Transportation, storage and postal services	16,274	0.21%
Customer H	Mining	15,412	0.20%
Customer I	Transportation, storage and postal services	12,581	0.17%
Customer J	Transportation, storage and postal services	12,558	0.17%

# Management Discussion and Analysis — Risk Management

## Market Risk Management

The Bank continued to strengthen market risk monitoring and early warning at the Group level and improved the market risk management in trading book and banking book. Through the implementation of the New Basel Capital Accord, the Bank continuously optimised its limit structure and risk monitoring process, hence further enhancing the Group's market risk management.

In line with the principle of uniform management, the Bank intensified risk monitoring and analysis of the Group's overall trading business, continuously refined the risk preference quantification and transmission mechanism of its trading business, and improved the market risk management of trading business of its domestic and overseas branches and subsidiaries. The Bank strengthened the management of derivatives and revised related regulations. In addition, the Bank enhanced its forward-looking market analysis and proactive risk management by closely following regulatory and market change. For more details regarding market risks, please refer to Note VI.4 to the Consolidated Financial Statements.

The Bank continued to upgrade the Group's IT system of internal model approach for market risk. It successfully expanded the system into a data platform

for the financial market business, further enhanced the data analysis and processing capabilities of the financial market business, and made preparations for various risk measurement approaches following the approval of the advanced capital measurement approach. To ensure the accuracy of system valuation model and reduce the model risk, the Bank completed comprehensive pre-launch validation of the valuation models of the Financial Market Business Integration System for front, middle and back offices.

The Bank assessed the interest rate risk in the banking book mainly through analysis of interest rate re-pricing gaps, made timely adjustments to the structure of assets and liabilities based on changes in the market situation, and controlled the fluctuation of net interest income within an acceptable level. Meanwhile, it also carried out quantitative assessment on the risks of the investment business in the banking book through value at risk (VaR), stress testing and sensitivity indicators, and took into consideration the influence of risks on bond prices. The Bank reinforced the centralised management of the Group's bond portfolio and further improved bond investment authorisation of its overseas institutions to enhance their investment management capabilities. It promoted the risk management of domestic debentures so as to ensure stable asset quality.

Assuming that the yield curves of all currencies were to shift up or down 25 basis points in parallel, the Group's banking book sensitivity analysis of net interest income on all currencies is as follows<sup>5</sup>:

Unit: RMB million

	As at 31 December 2013				As at 31 December 2012			
	RMB	USD	HKD	Other	RMB	USD	HKD	Other
Up 25 bps	<b>(878)</b>	<b>(194)</b>	<b>30</b>	<b>36</b>	(1,193)	(78)	(226)	(62)
Down 25 bps	<b>878</b>	<b>194</b>	<b>(30)</b>	<b>(36)</b>	1,193	78	226	62

In terms of the management of exchange rate risk, the Bank sought to achieve currency matching between fund source and application and managed exchange rate risk through timely settlement, hence effectively controlling foreign exchange exposure.

<sup>5</sup> This analysis is based on the approach prescribed by CBRC, which includes all off-balance sheet positions. It is presented for illustrative purposes only, and is based on the Group's gap position as at the end of 2013 without taking into account any change in customer behavior, basis risks or any prepayment options on debt securities. The table has only shown the potential impact on the Group's net interest rates moving up or down 25 basis points. The analysis is based on the Group's audited financial information.

## Management Discussion and Analysis — Risk Management

### Liquidity Risk Management

The Bank's liquidity risk management aims to effectively identify, measure, monitor and control liquidity risk at the Group level, including the Head Office, domestic and overseas branches and subsidiaries, so as to ensure that liquidity demand is met at a reasonable cost timely.

The governance structure for liquidity management consists of the Board of Directors, the Board of Supervisors, the senior management and its subordinate Asset and Liability Management Committee, functional departments of the Head Office, and the Bank's domestic and overseas branches and subsidiaries. The Board of Directors assumes final liability for liquidity risk management while other entities perform their own liquidity management and supervision functions.

The Bank persisted in the operation principle of balanced safety, liquidity and profitability, formulated rigorous policies and procedures for liquidity risk management in order to maintain an appropriate

overall balance of assets and liabilities. The Bank further improved its liquidity risk management policy and liquidity risk emergency plan, re-examined the liquidity risk limit, and upgraded the early warning system for liquidity risk. It also strengthened liquidity portfolio management, enhanced the overall liquidity control of the Group and increased its forward-looking capacity regarding liquidity risk management. The Bank continued to improve its liquidity stress-testing scheme and conducted stress testing quarterly. The results showed that the Bank had adequate payment ability to cope with distressed scenarios. Through improving the accuracy of its liquidity management and ability to cope with market changes, the Bank has appropriately addressed the challenging situation that has arisen in the funding market since the middle of the year.

As at the end of 2013, the Bank's liquidity indicators, as shown in the table below, met regulatory requirements (Liquidity ratio is the indicator of the Group's liquidity, excess reserve ratio and inter-bank ratios are the indicators of liquidity of the Bank's domestic operations):

Unit: %

Major regulatory ratios		Regulatory standard	As at 31 December 2013	As at 31 December 2012	As at 31 December 2011
Liquidity ratio	RMB	≥25	<b>48.0</b>	49.8	47.0
	Foreign currency	≥25	<b>62.2</b>	65.2	56.2
Excess reserve ratio	RMB	–	<b>1.7</b>	3.2	2.9
	Foreign currency	–	<b>23.8</b>	27.7	24.3
Inter-bank ratio	Inter-bank borrowings ratio	≤8	<b>0.2</b>	1.6	0.82
	Inter-bank loans ratio	≤8	<b>2.3</b>	2.6	2.25

Notes:

- Liquidity ratio = current assets/current liabilities. Liquidity ratio is calculated in accordance with the relevant provisions of PBOC and CBRC.
- RMB excess reserve ratio = (reserve in excess of the mandatory requirements + cash)/(balance of deposits + remittance payables)
- Foreign currency excess reserve ratio = (reserve in excess of the mandatory requirements + cash + due from banks and due from overseas branches and subsidiaries)/balance of deposits
- Inter-bank borrowings ratio = total RMB inter-bank borrowings from other banks and financial institutions/total RMB deposits
- Inter-bank loans ratio = total RMB inter-bank loans to other banks and financial institutions/total RMB deposits

## Management Discussion and Analysis — Risk Management

Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated and monitored and used for sensitivity analysis and stress testing. As at the end of 2013, the Bank's liquidity gap situation was as follows (For details of the liquidity position, please refer to Note VI.5 to the Consolidated Financial Statements):

Unit: RMB million

	As at 31 December 2013	As at 31 December 2012
Overdue/Undated	<b>1,889,820</b>	1,720,199
On demand	<b>(4,563,640)</b>	(4,302,972)
Up to 1 month	<b>(552,967)</b>	(701,447)
1–3 months (inclusive)	<b>(140,238)</b>	(224,823)
3–12 months (inclusive)	<b>56,154</b>	377,114
1–5 years (inclusive)	<b>1,334,624</b>	1,309,075
Over 5 years	<b>2,937,724</b>	2,684,396
<b>Total</b>	<b>961,477</b>	861,542

Note: Liquidity gap = assets that mature in a certain period – liabilities that mature in the same period

### Reputational Risk Management

The Bank implemented the *Guidelines for Reputational Risk Management of Commercial Banks* formulated by CBRC, followed the Group's policy on reputational risk management, and incorporated reputational risk into comprehensive risk management. It emphasised the inspection of reputational risk, regularly organised institutions of the Group to identify potential reputational risks and conducted identification, judgement, assessment and control of reputational risks. The Bank strengthened its monitoring of public opinions, and built an uniform used monitoring platform, so as to discover, report and deal with the public opinions involving the Bank or the banking sector timely. It also improved its response procedures for reputational risk events and actively and properly dealt with significant reputational risk events in order to protect its brand reputation. In addition, it actively utilised new social media platforms such as microblogs and WeChat to enhance brand publicity and interaction with customers. The Bank also organised emergency drills on reputational risk events and provided training sessions on reputational risk management to improve employees' awareness of reputational risk and cultivate the Group's reputational risk management culture.

### Internal Control and Operational Risk Management

#### *Internal Control*

The Board of Directors, the senior management and their special committees earnestly performed their duties regarding internal control and supervision, emphasising early risk warning and prevention, and improving the Bank's forward-looking capability for internal control.

Branches, business departments and staff at various levels are the Group's first line of defence of internal control, responsible for internal control when undertaking business development. The Bank focused on enhancing the risk prevention and control capability of outlets, continuously pushed forward outlet transformation, and strengthened operational risk control. Based on a comprehensive consideration of internal control requirements, the Bank upgraded its business system, improved business flow, and specified operating procedures.

## Management Discussion and Analysis — Risk Management

The Risk Management Unit and the business management departments are the second line of defence of internal control. They are responsible for the overall planning of internal control policies, and for directing, examining, monitoring and assessing the work of the first line of defence. The group operational risk monitoring and analysis platform was launched among domestic branches, so as to realise standardised and intelligent monitoring of major risks and the timely adoption of risk prevention and mitigation measures. To promote business flow and systems, the Bank improved risk management and control and adjusted policies and regulations in a timely manner.

The Bank's internal audit function effectively performed its duties as the third line of defence of internal control. Adhering to its risk-oriented principles, it improved the Bank's approach to supervision and inspection, intensified efforts in off-site work, and increased the speed of risk response. It closely followed those business fields which were deeply affected by economic and financial environment, related to the Bank's strategy implementation and closely watched by regulators. It helped to mitigate the Group's overall risk and regional risks, inspected and assessed the appropriateness and effectiveness of the Group's comprehensive risk management and internal control, thus continuously enhancing of the Group's risk control capability.

In addition, the Bank continued to implement the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, sticking to the primary goal of ensuring the effectiveness of its internal controls over the financial reporting process and the accuracy of financial information, and constantly improved non-financial internal controls. More effort was devoted to making technology central to enhancing risk identification and pre-judgement ability and to developing more automated, sophisticated and professional internal controls.

The Bank established and implemented a systematic financial accounting policy system in conformity with the relevant accounting laws and regulations. Accordingly, the Bank's accounting basis was solidified and the level of standardisation and elaboration of financial accounting management was continuously improved. In 2013, aiming to promote Group-wide unified accounting management, the Bank pushed forward IT system transformation among its overseas institutions and launched IT system integration across the Asia-Pacific region. The Bank further bolstered the management of accounting information quality and carried out departmental accounting at the individual branch, department and banking office level to further enhance its internal accounting system. The Bank has continuously strengthened its financial and accounting management, so as to ensure the validity of the internal control over financial reporting. The financial statements of the Bank comply with the applicable accounting standards as well as related accounting regulations, and present fairly, in all material respects, the financial position of the Bank, its operational performance and cash flows.

### ***Operational Risk Management***

The Bank continuously improved the Group's system for managing operational risk. It promoted the application of operational risk management tools, using three major tools to constantly identify, assess and monitor operational risk: Risk and Control Assessment (RACA), Key Risk Indicators (KRI) and Loss Data Collection (LDC). The Bank reviewed the implementation of the three major tools so as to further improve their methodologies and means of implementation. In addition, the Bank conducted operational risk management assessment and capital measurement to further refine its operational management. It continuously improved its operational risk management information system to promote the operational convenience of system functions. Various internal control and operational risk management reports were integrated so as to improve

## Management Discussion and Analysis — Risk Management

the reporting system. The Bank also launched an advanced measurement project to further enhance risk quantification and forward-looking management.

The Bank placed great emphasis on enhancing risk prevention and control related to fraud and proactively identified, assessed, controlled and mitigated risks. In 2013, the Bank succeeded in preventing 153 external cases valued at RMB359 million.

### **Compliance Management**

The Bank continuously strengthened its compliance risk management system, improved management procedures and formulated core management policies. The Bank appointed compliance leaders of institutions and rationally allocated compliance management resources. Business departments at various levels worked with the legal and compliance departments to actively monitor comprehensive compliance information such as the latest regulatory requirements, inspections and assessments, carry out overall assessments, detailed research and hierarchical management regarding compliance risk, and report and circulate the Group's overall compliance risk profile and material risk events. The prevention and control mechanism for regulatory penalties operated in an orderly manner. Assessment of institutions' compliance risk management and control capabilities was promoted throughout the Group to enhance the overall level of compliance risk management.

The money laundering risk grading of customers was fully implemented pursuant to regulatory requirements. The Bank gradually developed and

refined the embedded anti-money laundering management mechanism across its business lines. It enhanced its anti-money laundering expertise and promoted a centralised identification model for suspicious transactions in all domestic institutions. The Bank also strengthened monitoring of suspicious transactions and worked on the establishment and assessment of a suspicious transactions model. It closely tracked and studied international trends and changes in sanction compliance requirements of related countries and regions, made timely assessments of risks and adjusted its business policies. It continuously improved the functions of its anti-money laundering system by constantly upgrading the domestic system and promoting its application among overseas institutions.

The Bank intensified the management of its connected transactions and internal transactions. It updated databases of the Group's connected parties and enhanced the management quality and efficiency of connected party information. It constantly improved functions of the monitoring system and mechanism for connected transactions. The Bank improved the management system for internal transactions, refined the information collection mechanism for internal transactions, and constantly made analysis reports on the Group's internal transactions, ensuring that those transactions were compliant with laws and regulations.

### **New Basel Capital Accord Implementation**

The Bank fully implemented the *Capital Rules for Commercial Banks (Provisional)*, refined its risk

## Management Discussion and Analysis — Risk Management

management and enhanced risk quantification and professionalism. With the implementation of the New Basel Capital Accord, the overall risk governance and management system constantly improved. In addition, the Bank refined policies and business flow, enhanced the capacity for independent development of the measurement model, managed the development, improvement, monitoring and maintenance of the risk measurement model in a coordinated manner, and built a model validation system covering various risks. It continuously consolidated databases, improved data quality and strengthened the cultivation of professional talents. The Bank has largely completed the first-phase work for the New Basel Capital Accord implementation and has achieved coordinated advancement of Pillars I, II and III. It has also rectified problems identified by CBRC's acceptance inspection and cooperated with CBRC's regulatory inspections and cross-border verifications. The Bank has applied to CBRC to implement advanced capital management approaches within the Group (including BOCHK).

The Bank also made great efforts to apply the New Basel Capital Accord in order to enhance strategic response ability and push forward business transformation. The application system, which focuses on the quantification and communication of risk appetite based on risk-adjusted return on capital (RAROC), was established and improved. In addition, the Bank further expanded the application of the New Basel Capital Accord in fields like performance assessment, strategic planning, budget preparation, loan pricing and credit approval; accelerated the promotion of risk measurement tools including trade finance and letter of guarantee; and closely combined new methods and new tools of risk measurement with business flow.

As the only domestic bank enrolled as a G-SIFI for three consecutive years, the Bank earnestly implemented regulatory requirements related to G-SIFIs, cooperated in regulatory assessments and estimations, upgraded its recovery and resolution plan and continuously improved its cross-border and trans-sector data integration ability. Meanwhile, in response to the G-SIFIs programme, the Bank pushed forward its development strategies, comprehensively enhanced its risk management and internal control, expanded brand reach, and performed the duties that fall upon it as a major international bank, that is, safeguarding global financial stability and development.

### Capital Management

Guided by the latest capital regulations of the *Capital Rules for Commercial Banks (Provisional)*, the Bank adhered to the principle of enhancing Bank-wide capital constraints and continuously optimised its on-balance sheet and off-balance sheet asset structure. Specific measures were taken to reduce capital charges efficiently, including increasing capital allocation to capital-lite businesses, devoting great efforts to developing fee-based business, rationally controlling increases in off-balance sheet risk assets, strictly limiting the size of high-risk-weighted assets, and requiring more guarantee and pledge risk mitigation during the credit process, etc. The Bank closely observed trends in capital regulation, strengthened research into innovative capital instruments and explored external channels for increasing capital that meet the requirements of new capital regulations. In 2013, the Board of Directors and the shareholders' meeting agreed a plan of issuing RMB60 billion of qualified write-down Tier 2 capital instruments. The Bank will use this opportunity to complete the issuance in order to improve its capital adequacy level.

## Management Discussion and Analysis — Risk Management

### Capital Adequacy Ratios

For the information disclosed in accordance with the *Capital Rules for Commercial Banks (Provisional)* by CBRC, please refer to the announcements on the websites of SSE, HKEx and the Bank on 26 March 2014. As at the end of 2013, capital adequacy ratios separately calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and *Regulation Governing Capital Adequacy of Commercial Banks* are listed below (please refer to Notes VI.7 to the Consolidated Financial Statements for detailed information):

Unit: RMB million, except percentages

Calculated in accordance with the <i>Capital Rules for Commercial Banks (Provisional)</i>	As at 31 December 2013	
	Group	Bank
Net common equity tier 1 capital	912,948	802,861
Net tier 1 capital	913,646	802,861
Net capital	1,173,347	1,040,740
Common equity tier 1 capital adequacy ratio	9.69%	9.55%
Tier 1 capital adequacy ratio	9.70%	9.55%
Capital adequacy ratio	12.46%	12.38%

Calculated in accordance with the <i>Regulation Governing Capital Adequacy of Commercial Banks</i>	As at 31 December 2013	
	Group	Bank
Core capital adequacy ratio	10.73%	10.92%
Capital adequacy ratio	13.47%	13.43%

### Leverage Ratio

The Group calculated the leverage ratio in accordance with the *Leverage Ratio Rules for Commercial Banks, Capital Rules for Commercial Banks (Provisional)* and *Regulation Governing Capital Adequacy of Commercial Banks*. The details are as follows:

Unit: RMB million, except percentages

	As at 31 December 2013	As at 31 December 2012
Tier 1 capital/core capital	<b>925,735</b>	794,873
Tier 1 capital deductions/core capital deductions	<b>12,089</b>	30,612
Net tier 1 capital/core capital	<b>913,646</b>	764,261
Adjusted on-balance sheet assets	<b>13,777,980</b>	12,695,457
Adjusted off-balance sheet items	<b>2,721,875</b>	2,180,233
Adjusted on-balance and off-balance sheet assets	<b>16,487,766</b>	14,845,078
Leverage Ratio	<b>5.54%</b>	5.15%

Note: Tier 1 capital and tier 1 capital deductions as at the end of 2013 were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)*. Core capital and core capital deductions as at the end of 2012 were calculated in accordance with the *Regulation Governing Capital Adequacy of Commercial Banks*.

# Management Discussion and Analysis

## — Organisational Management, Human Resources Development and Management

### Organisational Management

As at the end of 2013, the Bank had a total of 11,483 domestic and overseas branches, subsidiaries and outlets, including 10,863 branches, subsidiaries and outlets in Chinese mainland and 620 branches,

subsidiaries and representative offices in Hong Kong, Macau, Taiwan and other countries. Its domestic commercial banking business has 37 tier-one and direct branches, 309 tier-two branches and 10,335 outlets.

### Geographic Distribution of Organisations and Employees

Unit: RMB million/unit/person, except percentages

	Assets		Organisations		Employees	
	Total assets	% of total	Number	% of total	Number	% of total
Northern China	4,076,185	25.82%	1,769	15.41%	56,068	18.34%
Northeastern China	652,545	4.14%	948	8.26%	26,472	8.66%
Eastern China	3,509,046	22.24%	3,628	31.59%	93,595	30.62%
Central and Southern China	2,487,307	15.76%	2,807	24.44%	69,386	22.70%
Western China	1,209,163	7.66%	1,711	14.90%	37,483	12.26%
Hong Kong, Macau and Taiwan	2,404,270	15.24%	507	4.42%	18,709	6.12%
Other countries	1,441,923	9.14%	113	0.98%	3,962	1.30%
Elimination	(1,906,140)					
<b>Total</b>	<b>13,874,299</b>	<b>100.00%</b>	<b>11,483</b>	<b>100.00%</b>	<b>305,675</b>	<b>100.00%</b>

Note: The proportion of geographic assets was based on the data before elimination.

### Human Resources Development and Management

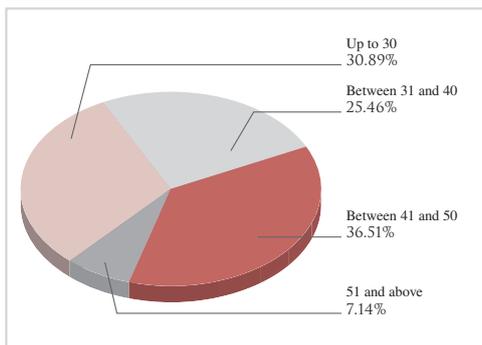
As at the end of 2013, the Bank had 305,675 employees. There were 283,004 employees in Chinese mainland, which included 277,958 (containing 54,058 external contractual staff) in the domestic commercial banks; and 22,671 employees in Hong Kong, Macau, Taiwan and other countries. As at the end of 2013, the Bank bore costs for a total of 6,365 retirees.

In 2013, in line with the Group's development strategy and annual priorities, and following the guidelines of serving the grass-roots and front-line operations, the Bank strengthened structural adjustment, improved resources allocation, stepped up the training and development of competent persons and the building of talented teams, and continuously improved its strategic, professional and service-oriented human resources management system.

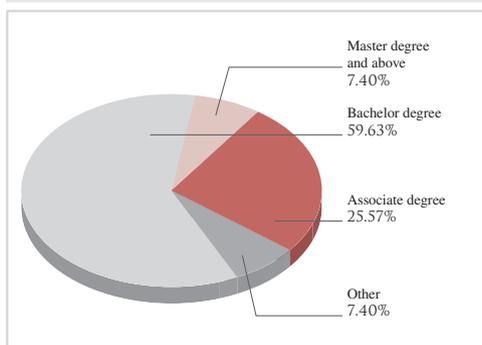
# Management Discussion and Analysis

## — Organisational Management, Human Resources Development and Management

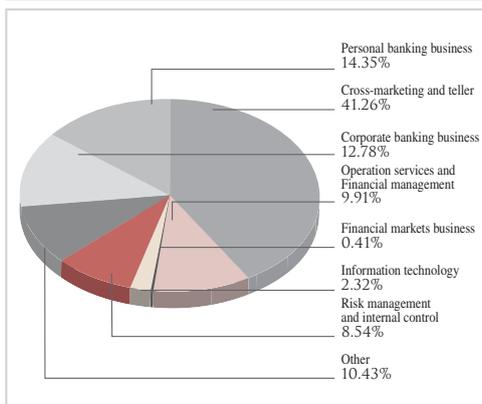
**Composition of Contracted Staff in Domestic Commercial Banking Business by Age Group**



**Composition of Contracted Staff in Domestic Commercial Banking Business by Education Level**



**Composition of Staff in Domestic Commercial Banking Business by Job Function**



The Bank strengthened control over the total number of the Group staff, maintaining it at a relatively stable level. It improved personnel allocation by prioritising the personnel demands of strategic work such as IT system development, overseas business development and diversified business development. It also continued to increase staff number at grassroots outlets and frontline operations, optimise personnel structure and enhance service capacity. The Bank upgraded its personnel expense allocation mechanism and gave play to the strategic guidance role of personnel expenses. It continued to adopt a “position-related and performance-based” employee remuneration mechanism, improving the incentive and restraint mechanism for employees and promoting the application of a simple, clear, direct and efficient incentive model, so as to enhance internal impetus.

The Bank intensified personnel training and development, worked out a plan for adjusting its external contractual staff management policies and initiated the conversion of external contractual staff to official staff in accordance with the *Labour Contract Law*. The Bank strengthened the development of its personnel training system, developed and implemented the *Training Plan of Bank of China for 2013–2015*, determined the working guidance and goals of its personnel training and intensified personnel training efforts. In 2013, the Bank held 68,775 training courses with 2,209,789 class participants. In its overseas institutions, the Bank strengthened team building and actively pushed forward the implementation of reform planning of human resources management. It sent more employees to work abroad and enhanced the selection process of such employees. The Bank consolidated its training efforts for international and diversified personnel and increased personnel-related communication among domestic and overseas institutions, commercial banks and diversified business modules.

# Management Discussion and Analysis — Outlook

The year 2014 is the first year of China's implementing the spirit of the Third Plenary Session of the 18th Central Committee of the Communist Party and deepening the reforms in an all-around way. The state will promote all the work in accordance with the steady advancement, reform and innovation. The national economy is expected to show stronger momentum with steady growth. At the same time, with the market-oriented reforms deepening, the social financing structure becoming more diversified, the economic structure adjustment and growth model shift accelerating, and the convergence of internet technology and financial services speeding up, traditional financial services are expected to face greater challenges. Therefore, banks must be capable of quickly capturing and meeting the customer demands so as to respond to the market competition proactively.

Facing the challenges and the opportunities, the Bank will further implement the strategic development plan and more consciously integrate into the overall landscape of economic transition and social advance. The Bank will deepen the reform for further development, intensify the innovation for market share expansion, accelerate the transformation for profits, and manage the risks for cost control. Upholding the enterprising spirit and striving for success, the Bank is aimed at fulfilling its social responsibilities and building itself into an excellent bank.

**Focus on services** — secure footholds at the grass-roots level and enhance the channels. The Bank will accelerate the reconstruction of service processes aimed at improving customer experience, optimise the processes, and integrate the products and services. It will step up channel building positioned at service efficiency improvement, deepen the branch transformation and strengthen the unified management of channels. The Bank will speed up the implementation of online banking strategy aimed at leading the market and improve the functions of online products and service system driven by integrated approaches. It will continue to upgrade the operational and service capacities with focus on improving the levels of intelligence, standardisation and automation of operations and services.

**Focus on efficiency** — optimise the structure to improve output. The Bank will make great efforts to improve the return on capital and take a development road featuring capital saving. It will accelerate the optimisation of debt structure to actively respond to the challenges of interest rate liberalisation, and speed up the optimisation of credit structure to intensify the business for large-sized enterprises, strengthen the business for SMEs, refine the micro-finance business, and advance personal credit business. In 2014, the Bank's domestic RMB loans are expected to grow by 11%. The Bank will accelerate the optimisation of revenue structure, broaden the channels of non-interest income, strengthen the development and innovation of featured services, and promote the financial services that benefit the general public.

**Focus on the market** — expand the advantages to win the competition. The Bank will unleash the professional advantages to further enhance the competitiveness in financial markets. It will upgrade the competitiveness and sustainable development capacity of overseas businesses, strengthen the capacity of serving the "Going Global" enterprises, and enhance the level of individual cross-border financial services. The Bank will further improve the competitiveness of the business related to RMB internationalisation and strengthen the innovation, marketing, branding and promotion of RMB cross-border products. It will enhance the Group synergies continuously to improve the Group's comprehensive operation and integrated service capabilities.

**Focus on quality** — implement delicate management and control the risks. The Bank will further strengthen proactive risk management, safeguard the bottom line of risk, establish a positive risk management concept and optimise management systems and processes. It will enhance credit risk management to stabilise the asset quality and strengthen the management of market risk to improve decision-making capability in market risk management. The Bank will also strengthen asset and liability management and liquidity management to achieve a balance of asset and liability and ensure the security of liquidity. By optimising related tools and measures, it will enhance internal control and compliance management to improve internal control efficiency.

# Corporate Social Responsibilities



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The Bank earnestly upheld the philosophy of “Serving Society, Delivering Excellence” and dedicated itself to serving, repaying and contributing to society. In collaboration with stakeholders, it actively participated in the building of a harmonious society, supported the development of the real economy and made important contributions to earthquake relief, poverty alleviation and the development of science, education, culture and public health.

## Responsibility to the country

With in-depth implementation of the nation’s requirements on supporting the development of the real economy and improving financial services, the Bank defined serving the real economy as its top business development priority, constantly enhanced its financial services offering, and actively probed and explored new approaches and models for boosting healthy and steady development of the real economy.

## Responsibility to shareholders

The Bank attached great importance to safeguarding shareholders’ rights and interests. It made continuous efforts to improve its corporate governance mechanism, enhance investor relations and information disclosure management and improve the risk and compliance management system, with the purpose of delivering long-term value to shareholders.

## Responsibility to customers

The Bank made full use of its global service network, diversified business platforms, and product and service innovations to provide customers with efficient, high-quality and integrated financial services on a global basis. It seized opportunities in cross-border RMB business, deepened product innovation and launched pilot cross-border RMB loans. Giving full play to its professional influence within the industry, the Bank launched the “BOC Cross-border RMB Index” globally to promote RMB internationalisation.

## Corporate Social Responsibilities



1. The Bank supported 50 Chinese and American students to take part in cross-border cultural exchange program
2. Macau Branch donated 1% of the amount of the Kiang Wu Charity Credit Card spending to the Kiang Wu Charitable Association
3. Beijing Branch organised staff to participate in the 2013 Beijing International Marathon Festival
4. The employee football team of the Bank
5. BOCHK launched the first Voice Navigation ATM in Hong Kong for the visually impaired
6. Xiamen Branch gave a lecture on financial knowledge to the pupils

4 5  
6

The Bank constantly improved its rules, regulations and business procedures concerning the protection of customer information, complaint settlement, reasonable fees and the protection of customers' right to know and right to choose, and enhanced its internal supervision mechanism. The Bank intensified public supervision over the services of the Bank's outlets and staff and strengthened the protection of customers' rights and interests. The Bank streamlined business service fees standards, reduced certain fees and made fee standards public in compliance with regulatory requirements. The Bank also launched extensive publicity activities to promote financial knowledge, and built up customers' awareness of financial prudence and their ability to use financial products, thus supporting a mutual effort towards the construction of a sound financial ecology.

### Responsibility to employees

Adhering to the "people first" principle, the Bank continuously improved human resources allocation, reinforced the training of competent staff and enhanced its market-oriented, people-first and globally

integrated human resources management and service system, so as to protect employees' legal rights and interests and create a sound development space for them.

The Bank constantly intensified the training of various competent persons with priority given to promoting business development and training key talents. The Bank carried out individually-tailored training programmes for business and management staff across various levels. It provided pre-job training for professional technicians based mainly on internal development and supplemented by the introduced intermediate and advanced professional qualification certificate system. It also enhanced training of outlet staff to prioritise the frontlines of its business.

The Bank earnestly adhered to democratic management in the form of employee delegates' meeting, which guaranteed on a systemic level that employees are masters of the Bank. The Bank also continuously improved the effectiveness of its management system by standardising procedures and enriching content.

# Corporate Social Responsibilities

## Responsibility to society

The Bank made contributions to earthquake relief, poverty alleviation, the development of culture and arts as well as environmental protection.

On 20 April 2013, in immediate response to the MS7.0 earthquake in Ya'an of Sichuan, the Bank promptly launched an emergency plan and donated RMB5 million through the Sichuan Provincial People's Government. In the meantime, the Bank spared no efforts to guarantee continued financial services through the special counter and green channel dedicated to disaster relief funds. Moreover, the Bank provided assistance to disaster stricken regions in Inner Mongolia (blizzard), Yunnan (earthquake), Gansu (earthquake) and Northeast China (flood) through credit support and monetary and material donations.

The Bank has long been devoted to poverty alleviation in response to local conditions. It has supported a poverty alleviation program in the Yongshou, Changwu, Chunhua and Xunyi counties of Xianyang, Shaanxi Province for 11 consecutive years. In 2013, it provided RMB5.89 million to 12 poverty alleviation projects, which greatly improved local production, living conditions and socioeconomic development. It sponsored the charity programme named Healthy Mother Express by donating 48 medical vans to poverty-stricken regions in Shandong, Anhui and Hubei, which improved the quality of local women's life and promoted the progress of Chinese women development initiatives.

The Bank continued to extend government-sponsored student loans, providing total funding of RMB19 billion for 1.5 million poor students. For two consecutive years, it supported the Rainbow Bridge programme sponsored jointly by China Next Generation Education Foundation and Americans Promoting Study Abroad, supporting 50 outstanding and poor Chinese and American students to take part in short-term cross-border cultural exchanges. For the fourth consecutive year, it financed *Caijing* magazine's scholarship programme to help the development of young journalists. The Bank sponsored the new Tan Kah Kee Young Scientist Award, on top of the existing Tan Kah Kee Science Award, in order to honour excellent young scientists who had achieved original scientific and technological achievements in China. The Bank promoted international cultural exchange in strategic cooperation with the National Center for the Performing Arts for the fifth consecutive year.

## Responsibility to the environment

The Bank remained consciously committed to low carbon and environmentally friendly development and was actively involved in "green charity", thus promoting the sustainable development of the environment.

The Bank exclusively sponsored the Traditional Chinese Village Protection and Development Project, jointly launched by the Ministry of Housing and Urban-Rural Development, the Ministry of Culture and the Ministry of Finance, PRC. By establishing a complete inventory and information archive of traditional Chinese villages and formulating protection and development policies and measures, this project supported rescue and protection campaigns to improve economic production and living conditions in such villages as well as forming an effective long-term protection and development mechanism.

The Bank supported the 2013 UNEP FI Global Roundtable as a "Green Sponsor", offsetting carbon emissions from the summit by means of "carbon neutralisation", thus making it a genuinely zero-emission green conference.

The Bank advocated the "green office" concept in its day-to-day operations, aiming to minimise its impact on the environment by saving paper, power and water, promoting electronic office and using video and teleconferences.

The Bank's fulfilment of its social responsibilities was widely recognised by society. In the China Banking Association's third industry-wide appraisal of Chinese banks' social responsibility reports, the Bank received the "Best People's Livelihood Financial Award in Social Responsibilities" and "Excellent Charity Project Award". The Bank was also honoured, among others, as one of the "Top 100 Listed State-owned Enterprises by Corporate Social Responsibility" by Nanfang Media Group for the fifth consecutive year, and the "Top 10 Women-caring Enterprises" by the China Women's Development Foundation and the China Philanthropy Research Institute.

The full text of the Bank's 2013 Corporate Social Responsibility Report has been published on the websites of SSE, HKEx and the Bank.

# Changes in Share Capital and Shareholdings of Shareholders

## Disclosure of Shareholding under A-Share Regulation

### Changes in Share Capital during the Reporting Period

Unit: Share

	As at 1 January 2013		Increase/decrease during the reporting period					As at 31 December 2013	
	Number of shares	Percentage	Issuance of new shares	Shares			Sub-total	Number of shares	Percentage
				Bonus shares	transferred from surplus reserve	Others			
I. Shares subject to selling restrictions	-	-	-	-	-	-	-	-	-
II. Shares not subject to selling restrictions	279,147,343,265	100.00%	-	-	-	217,209,172	217,209,172	279,364,552,437	100.00%
1. RMB-denominated ordinary shares	195,525,066,870	70.04%	-	-	-	217,209,172	217,209,172	195,742,276,042	70.07%
2. Domestically listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	83,622,276,395	29.96%	-	-	-	-	-	83,622,276,395	29.93%
4. Others	-	-	-	-	-	-	-	-	-
III. Total	279,147,343,265	100.00%	-	-	-	217,209,172	217,209,172	279,364,552,437	100.00%

Notes:

- As at 31 December 2013, the Bank had issued a total of 279,364,552,437 shares, including 195,742,276,042 A Shares and 83,622,276,395 H Shares.
- As at 31 December 2013, none of the Bank's A Shares and H Shares was subject to selling restrictions.
- During the reporting period, 217,209,172 shares were converted from the A-Share Convertible Bonds of the Bank.
- "Shares subject to selling restrictions" refers to shares held by shareholders who are subject to restrictions on selling in accordance with laws, regulations and rules or undertakings.

### Issuance and Listing of Securities in Last Three Years

Please refer to Note V.29 to the Consolidated Financial Statements for details of the issuance of subordinated bonds, RMB-denominated bonds in Hong Kong and other bonds issued by the Bank.

No shares of the Bank have been specifically issued to its employees.

## Changes in Share Capital and Shareholdings of Shareholders

### *Number of Shareholders and Shareholdings*

Number of shareholders as at 31 December 2013: 984,157 (including 762,513 A-Share Holders and 221,644 H-Share Holders)

Number of shareholders as at the end of the fifth trading day before the disclosure of this Report: 982,922 (including 761,959 A-Share Holders and 220,963 H-Share Holders)

Top ten shareholders as at 31 December 2013:

Unit: Share

No.	Name of shareholder	Changes during the reporting period	Number of shares held as at the end of the reporting period	Percentage of total share capital	Number of shares subject to selling restrictions	Number of shares pledged or frozen	Type of shareholder	Type of shares
1	Central Huijin Investment Ltd.	126,840,522	189,179,033,607	67.72%	–	None	State	A
2	HKSCC Nominees Limited	(40,981,660)	81,603,577,635	29.21%	–	Unknown	Foreign legal person	H
3	The Bank of Tokyo-Mitsubishi UFJ Ltd.	–	520,357,200	0.19%	–	Unknown	Foreign legal person	H
4	Huaxin Trust Co., Ltd.	206,260,188	237,527,536	0.09%	–	None	Domestic non state-owned legal person	A
5	Bosera Value Growth Fund	116,999,333	116,999,333	0.04%	–	None	Domestic non state-owned legal person	A
6	Shenhua Group Corporation Limited	–	99,999,900	0.04%	–	None	State-owned legal person	A
6	Aluminum Corporation of China	–	99,999,900	0.04%	–	None	State-owned legal person	A
8	China Southern Power Grid Co., Ltd.	–	90,909,000	0.03%	–	None	State-owned legal person	A
9	China Securities Finance Corporation Limited	83,451,001	83,451,001	0.03%	–	None	State-owned legal person	A
10	CSOP FTSE China A50 ETF	24,366,017	76,101,689	0.03%	–	None	Foreign legal person	A

During the reporting period, Central Huijin Investment Ltd. increased its shareholding of the Bank by 126,840,522 shares.

The number of shares held by H-Share Holders was recorded in the register of members as kept by the H-Share Registrar of the Bank.

HKSCC Nominees Limited acted as the nominee for all institutional and individual investors that maintain

an account with it as at 31 December 2013. The aggregate number of H Shares held by HKSCC Nominees Limited included the shares held by NCSSF.

The Bank is not aware of any connected relations or concerted action among the aforementioned shareholders.

# Changes in Share Capital and Shareholdings of Shareholders

## Convertible Bonds

### Issuance of Convertible Bonds

With the approval of CBRC (Yinjianfu [2010] No.148) and CSRC (Zhengjianxuke [2010] No.723), the Bank issued RMB40 billion A-Share Convertible Bonds on 2 June 2010. With the approval of SSE (Shangzhengfazi [2010] No.17), such Convertible Bonds have been listed on SSE since 18 June 2010.

### Convertible Bondholders and Guarantors

Number of convertible bondholders as at 31 December 2013: 17,306

Guarantor of the Bank's Convertible Bonds: None

Top ten convertible bondholders as at 31 December 2013:

No.	Name of convertible bondholder	Amount of Convertible Bonds held as at the end of the reporting period (RMB)	Percentage of total unconverted Convertible Bonds
1	An-Bang Insurance Group Co., Ltd. — traditional insurance products	2,198,342,000	5.58%
2	China Oil & Foodstuffs Corporation	1,100,000,000	2.79%
3	UBS AG	1,048,704,000	2.66%
4	Government of Singapore Investment Corporation Pte Ltd	977,198,000	2.48%
5	Industrial Convertible Bond Hybrid Securities Investment Fund	906,417,000	2.30%
6	China Pacific Life Insurance Co., Ltd. — dividend — personal dividend	854,629,000	2.17%
7	China Pacific Life Insurance Co., Ltd. — traditional — ordinary insurance products	786,803,000	2.00%
8	BNP Paribas	754,029,000	1.91%
9	Guotai Junan Securities Co., Ltd.	746,386,000	1.90%
10	The First Capital Security Co., Ltd.	743,960,000	1.89%

### Changes in Convertible Bonds during the Reporting Period

Unit: RMB

Name of Convertible Bonds	Before the change	Increase/decrease				After the change
		Conversion	Redemption	Back-sell	Others	
Bank of China A-Share Convertible Bond	39,999,328,000	612,561,000	—	—	—	39,386,767,000

## Changes in Share Capital and Shareholdings of Shareholders

### *Accumulated Conversion of Convertible Bonds during the Reporting Period*

Amount of conversion during the reporting period (RMB)	612,561,000
Number of converted shares during the reporting period (share)	217,209,172
Accumulated converted shares (share)	217,389,706
Proportion of accumulated converted shares to total shares before conversion	0.080057%
Amount of unconverted Convertible Bonds (RMB)	39,386,767,000
Proportion of unconverted Convertible Bonds to total issued Convertible Bonds	98.4669%

### *Previous Adjustments of Conversion Price*

Effective date of adjusted conversion price	Adjusted Conversion Price	Disclosure Date	Reasons of adjustments	Media of disclosure
4 June 2010	RMB3.88 per share	31 May 2010	2009 profit distribution	<i>China Securities</i>
16 November 2010	RMB3.78 per share	11 November 2010	A Share Rights Issue	<i>Journal, Shanghai</i>
16 December 2010	RMB3.74 per share	13 December 2010	H Share Rights Issue	<i>Securities News,</i>
10 June 2011	RMB3.59 per share	3 June 2011	2010 profit distribution	<i>Security Times,</i>
13 June 2012	RMB3.44 per share	6 June 2012	2011 profit distribution	<i>Securities Daily</i> and the
29 March 2013	RMB2.99 per share	27 March 2013	Downward adjustment approved by the shareholders' meeting	websites of SSE, HKEx and the Bank
18 June 2013	RMB2.82 per share	6 June 2013	2012 profit distribution	
Conversion price at the end of the reporting period RMB2.82 per share				

Note: Securities Daily became the Bank's selected newspaper for information disclosure as of 1 January 2012.

### *The Bank's Outstanding Debts, Creditworthiness and Availability of Cash for Repayment of Debts in Future Years*

Dagong Global Credit Rating Co., Ltd. has evaluated the Bank's Convertible Bonds and provided an updated credit rating report (Da Gong Bao SD [2013] No.204) which reaffirmed an AAA credit rating on the Bank's Convertible Bonds. Dagong Global Credit Rating Co., Ltd believes that the Bank is able to provide significantly strong support to the repayment of its Convertible Bonds issued in 2010.

The Bank's adequate capital, stable mix of assets and liabilities and healthy profitability provide a solid foundation for the repayment of its various debts.

### *Significant Changes to the Profitability, Asset Condition and Creditworthiness of the Convertible Bonds Guarantor*

There is no guarantee in relation to the Bank's issuance of the Convertible Bonds.

## Changes in Share Capital and Shareholdings of Shareholders

### Disclosure of Shareholding under H-Share Regulation

#### Substantial Shareholder Interests

The register maintained by the Bank pursuant to section 336 of the SFO recorded that, as at 31 December 2013, the following entities were substantial shareholders (as defined in the SFO) having the following interests in the Bank:

Name of shareholder	Capacity	Number of shares held/Number of underlying shares (unit: share)	Type of shares	Percentage of total issued A Shares	Percentage of total issued H Shares	Percentage of total issued share capital
Central Huijin Investment Ltd. <sup>1</sup>	Beneficial owner	188,553,352,005	A	96.33%	–	67.49%
National Council for Social Security Fund	Beneficial owner	7,518,157,041	H	–	8.99%	2.69%
BlackRock, Inc. <sup>2</sup>	Interest of controlled corporations	6,001,868,351	H	–	7.18%	2.15%
		108,000(S) <sup>4</sup>	H	–	0.0001%	0.00004%
JPMorgan Chase & Co. <sup>3</sup>	Beneficial owner	738,529,824	H	–	0.88%	0.26%
		345,564,711(S) <sup>4</sup>	H	–	0.41%	0.12%
	Investment Manager	578,006,415	H	–	0.69%	0.21%
	Custodian corporation/ approved lending agent	3,729,539,663(P) <sup>4</sup>	H	–	4.46%	1.34%
	Total	5,046,075,902	H	–	6.03%	1.81%
		345,564,711(S) <sup>4</sup>	H	–	0.41%	0.12%
		3,729,539,663(P) <sup>4</sup>	H	–	4.46%	1.34%

Notes:

- The above interest of Huijin reflects its latest disclosure of interest made pursuant to the SFO, which does not reflect the increase in its holding of the Bank's A Shares from 2011 to the end of the reporting period.
- BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2 Inc., which in turn holds the entire issued share capital of BlackRock Financial Management, Inc. Accordingly, BlackRock, Inc. and BlackRock Holdco 2 Inc. are deemed to have the same interests in the Bank as BlackRock Financial Management, Inc. under the SFO. BlackRock, Inc. holds a long position of 6,001,868,351 H Shares and a short position of 108,000 H Shares of the Bank through BlackRock Financial Management, Inc. and other corporations controlled by it. Among the aggregate long positions of 6,001,868,351 H Shares held by BlackRock, Inc., 53,041,000 H Shares are held through derivatives.
- JPMorgan Chase & Co. holds the entire issued share capital of JPMorgan Chase Bank, N.A. Accordingly, JPMorgan Chase & Co. is deemed to have the same interests in the Bank as JPMorgan Chase Bank, N.A. under the SFO. JPMorgan Chase & Co. holds a long position of 5,046,075,902 H Shares and a short position of 345,564,711 H Shares of the Bank through JPMorgan Chase Bank, N.A. and other corporations controlled by it. Among the aggregate interests in the long position of 5,046,075,902 H Shares, 3,729,539,663 H Shares are held in the lending pool and 284,934,951 H Shares are held through derivatives. Among the aggregate interests in the short position of 345,564,711 H Shares, 345,274,711 H Shares are held through derivatives.
- "S" denotes short position, "P" denotes lending pool.

All the interests stated above represented long positions except where otherwise stated. Save as disclosed above, as at 31 December 2013, no other interests or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

## Changes in Share Capital and Shareholdings of Shareholders

### Controlling Shareholder of the Bank

#### *Central Huijin Investment Ltd.*

Huijin is a state-owned investment company established under the Company Law. Established on 16 December 2003, Huijin has a registered capital of RMB828.209 billion and a paid-in capital of RMB828.209 billion. Its legal representative is Mr. DING Xuedong. Its organisation code is 71093296-1. Wholly owned by China Investment Corporation, Huijin makes equity investments in key state-owned financial institutions, as authorised by the State Council. To the extent of its capital contribution, Huijin exercises the rights and fulfils the obligations as an

investor on behalf of the State, in accordance with applicable laws aimed at preserving and enhancing the value of state-owned financial assets. Huijin neither engages in other business activities nor intervenes in the daily operation of the key state-owned financial institutions under its control.

As at 31 December 2012<sup>6</sup>, the total assets, liabilities and equity of Huijin amounted to RMB2,363,604,890.6 thousand, RMB149,769,242.8 thousand and RMB2,213,835,647.8 thousand respectively. Huijin achieved a net profit of RMB398,395,813.4 thousand for 2012. The net cash flow from Huijin's operating activities, investment activities and financing activities was RMB39,391,118.4 thousand in 2012.

As at 31 December 2013, the basic information of companies directly held by Huijin is as follows:

No.	Company name	Proportion of the total capital held by Huijin
1	China Development Bank Corporation	47.63%
2	Industrial and Commercial Bank of China Limited ★☆	35.33%
3	Agricultural Bank of China Limited ★☆	40.28%
4	Bank of China Limited ★☆	67.72%
5	China Construction Bank Corporation ★☆	57.26%
6	China Everbright Bank Company Limited ★☆	41.66%
7	China Export & Credit Insurance Corporation	73.63%
8	China Reinsurance (Group) Corporation	84.91%
9	New China Life Insurance Company Limited ★☆	31.34%
10	China Jiayin Investment Limited	100.00%
11	China Galaxy Financial Holding Co., Ltd.	78.57%
12	Shenyin & Wanguo Securities Co., Ltd.	55.38%
13	China International Capital Corporation Limited	43.35%
14	China Securities Co., Ltd.	40.00%
15	China Investment Securities Co., Ltd.	100.00%
16	China Everbright Industry Group Limited	100.00%
17	Jiantou & Zhongxin Assets Management Limited	70.00%
18	Guotai Junan Investment Management Co., Ltd.	14.54%

Notes:

- ★ denotes A Share listed company and ☆ denotes H Share listed company.
- The shareholding percentage of Huijin over China Everbright Bank Company Limited was changed to 41.24% after the exercise of over-allotment option and the transfer of state-owned shares made by Huijin in the course of H Share offering of China Everbright Bank Company Limited.

Please refer to the *Announcement on Matters related to the Incorporation of China Investment Corporation* published on 9 October 2007 by the Bank and the information on the website of China Investment Corporation ([www.china-inv.cn](http://www.china-inv.cn)) for the details of China Investment Corporation.

As at 31 December 2013, no other legal-person shareholders held 10% or more of the shares issued by the Bank (excluding HKSCC Nominees Limited).

<sup>6</sup> The consolidated financial statements of Huijin cannot be audited until the audited financial statements of all companies controlled or held by Huijin are available.

# Directors, Supervisors and Senior Management Members

## Basic Information

### *Incumbent Directors, Supervisors and Senior Management Members*

Name	Year of birth	Gender	Position	Term of office
TIAN Guoli	1960	Male	Chairman	From May 2013 to the date of the Annual General Meeting in 2016
CHEN Siqing	1960	Male	Vice Chairman <sup>1</sup> and President	From February 2014
LI Zaohang	1955	Male	Executive Director and Executive Vice President	From August 2004 to the date of the Annual General Meeting in 2016
WANG Yongli	1964	Male	Executive Director and Executive Vice President	From February 2012 to the date of the Annual General Meeting in 2015
SUN Zhijun	1955	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2016
LIU Lina	1955	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2016
ZHANG Xiangdong	1957	Male	Non-executive Director	From July 2011 to the date of the Annual General Meeting in 2014
ZHANG Qi	1972	Male	Non-executive Director	From July 2011 to the date of the Annual General Meeting in 2014
WANG Yong	1962	Male	Non-executive Director	From July 2013 to the date of the Annual General Meeting in 2016
CHOW Man Yiu, Paul	1946	Male	Independent Director	From October 2010 to the date of the Annual General Meeting in 2016
Jackson TAI	1950	Male	Independent Director	From March 2011 to the date of the Annual General Meeting in 2014
Nout WELLINK	1943	Male	Independent Director	From October 2012 to the date of the Annual General Meeting in 2015
LU Zhengfei	1963	Male	Independent Director	From July 2013 to the date of the Annual General Meeting in 2016
LEUNG Cheuk Yan	1951	Male	Independent Director	From September 2013 to the date of the Annual General Meeting in 2016
LI Jun	1956	Male	Chairman of the Board of Supervisors	From March 2010 to the date of the Annual General Meeting in 2016
WANG Xueqiang	1957	Male	Shareholder Supervisor	From August 2004 to the date of the Annual General Meeting in 2016
LIU Wanming	1958	Male	Shareholder Supervisor	From August 2004 to the date of the Annual General Meeting in 2016
DENG Zhiying	1959	Male	Employee Supervisor	From August 2010 to the date of 2016 Employee Delegates' Meeting
LIU Xiaozhong	1956	Male	Employee Supervisor	From August 2012 to the date of 2015 Employee Delegates' Meeting
XIANG Xi	1971	Female	Employee Supervisor	From August 2012 to the date of 2015 Employee Delegates' Meeting
MEI Xingbao	1949	Male	External Supervisor	From May 2011 to the date of the Annual General Meeting in 2014
BAO Guoming	1951	Female	External Supervisor	From May 2011 to the date of the Annual General Meeting in 2014
ZHANG Lin	1956	Female	Secretary of Party Discipline Committee	From August 2004
ZHU Shumin	1960	Male	Executive Vice President	From August 2010
YUE Yi	1956	Male	Executive Vice President	From August 2010
CHIM Wai Kin	1960	Male	Chief Credit Officer	From March 2007
LIU Yanfen	1953	Female	Chief Audit Officer	From December 2011
FAN Yaosheng	1968	Male	Secretary to the Board of Directors	From September 2012

#### Notes:

- 1 The 2014 First Extraordinary General Meeting of the Bank held on 25 March 2014 considered and approved the proposal on the election of Mr. CHEN Siqing as Executive Director of the Bank. The Board Meeting of the Bank has considered and approved the proposal on the election of Mr. CHEN Siqing as Vice Chairman of the Board of Directors. Mr. CHEN Siqing will begin to serve as Vice Chairman of the Board of Directors and Executive Director of the Bank from the date of approval by CBRC.
- 2 During the reporting period, no director, supervisor or senior management member held any share or convertible bond of the Bank.

## Directors, Supervisors and Senior Management Members

### Former Directors, Supervisors and Senior Management Members

Name	Year of birth	Gender	Position held before leaving the post	Term of office
XIAO Gang	1958	Male	Chairman	From August 2004 to March 2013
LI Lihui	1952	Male	Vice Chairman and President	From August 2004 to January 2014
JIANG Yansong	1963	Female	Non-executive Director	From October 2010 to November 2013
Anthony Francis NEOH	1946	Male	Independent Director	From August 2004 to September 2013
HUANG Shizhong	1962	Male	Independent Director	From August 2007 to September 2013
HUANG Danhan	1949	Female	Independent Director	From November 2007 to September 2013

Note: No former director held any share or convertible bond of the Bank during their terms of office.

### Remuneration of Directors, Supervisors and Senior Management Members Paid in 2013

#### Incumbent Directors, Supervisors and Senior Management Members

Unit: RMB ten thousand

Name	Fees	Remuneration paid	Contribution by the employer to compulsory insurances, housing allowances, etc.	Total remuneration before tax for 2013	Remuneration received from controlling shareholder
TIAN Guoli	–	55.70	22.01	77.71	–
CHEN Siqing	–	69.96	29.73	99.69	–
LI Zaohang	–	71.50	31.34	102.84	–
WANG Yongli	–	70.81	29.19	100.00	–
SUN Zhijun	–	–	–	–	75.00
LIU Lina	–	–	–	–	75.00
ZHANG Xiangdong	–	–	–	–	78.00
ZHANG Qi	–	–	–	–	75.00
WANG Yong	–	–	–	–	45.50
CHOW Man Yiu, Paul	45.00	–	–	45.00	–
Jackson TAI	37.31	–	–	37.31	–
Nout WELLINK	39.57	–	–	39.57	–
LU Zhengfei	19.21	–	–	19.21	–
LEUNG Cheuk Yan	12.17	–	–	12.17	–
LI Jun	–	72.45	32.02	104.47	–
WANG Xueqiang	–	61.93	28.49	90.42	–
LIU Wanming	–	59.58	27.51	87.09	–
DENG Zhiying	5.00	–	–	5.00	–
LIU Xiaozhong	5.00	–	–	5.00	–
XIANG Xi	5.00	–	–	5.00	–
MEI Xingbao	17.95	–	–	17.95	–
BAO Guoming	25.93	–	–	25.93	–
ZHANG Lin	–	69.68	30.58	100.26	–
ZHU Shumin	–	69.83	29.86	99.69	–
YUE Yi	–	69.83	30.19	100.02	–
CHIM Wai Kin	–	522.88	51.16	574.04	–
LIU Yanfen	–	70.67	35.26	105.93	–
FAN Yaosheng	–	72.56	28.53	101.09	–

## Directors, Supervisors and Senior Management Members

### Former Directors, Supervisors and Senior Management Members

Unit: RMB ten thousand

Name	Fees	Remuneration paid	Contribution by the employer to compulsory insurances, housing allowances, etc.	Total remuneration before tax for 2013	Remuneration received from controlling shareholder
XIAO Gang	–	20.32	7.95	28.27	–
LI Lihui	–	74.52	32.66	107.18	–
JIANG Yansong	–	–	–	–	68.80
Anthony Francis NEOH	38.26	–	–	38.26	–
HUANG Shizhong	–	–	–	–	–
HUANG Danhan	27.83	–	–	27.83	–

2013 total remuneration for the Chairman of the Board of Directors, Chairman of the Board of Supervisors, executive directors and senior management members has not been finalised in accordance with the government regulations. The Bank will make announcement for further disclosure.

The Bank remunerates directors, supervisors and senior management members who are employed by the Bank with salaries, bonuses, employer's contribution to compulsory insurances, housing allowances, and so on. Independent directors receive directors' fees and allowances. Other directors are not remunerated by the Bank. The Chairman of the Board of Directors, executive directors and senior management members do not receive any fees from the Bank's subsidiaries.

Notes:

1. Non-executive directors receive remuneration in accordance with the Resolution of the 2007 Annual General Meeting. External supervisors receive remuneration in accordance with the Resolution of the 2009 Annual General Meeting. Remuneration for shareholder supervisors is in accordance with the relevant remuneration scheme of the Bank and approved by the shareholders' meeting.
2. Independent Director Mr. HUANG Shizhong signed an agreement in 2013 to waive his 2013 director's fees. Non-executive Directors Ms. SUN Zhijun, Ms. LIU Lina, Ms. JIANG Yansong, Mr. ZHANG Xiangdong, Mr. ZHANG Qi and Mr. WANG Yong were not remunerated by the Bank in 2013.
3. The above persons' remuneration is calculated on the basis of their actual time working as the directors, supervisors or senior management members of the Bank in 2013. Employee Supervisors' remuneration above is paid for their service as supervisors of the Bank in 2013.
4. "Remuneration received from controlling shareholder" refers to the non-executive director's remuneration received from Huijin for whose fulfillments of the responsibilities as non-executive director of the Bank during the reporting period.
5. The historical contribution of corporate pension for previous years made by the Bank for the benefit of relevant persons which totalled RMB1.2086 million was not included in the above table.

The Bank has incurred RMB21.57 million in remuneration to its directors, supervisors and senior management members' services in 2013.

### Positions held in Shareholding Companies by Directors, Supervisors and Senior Management Members

From 1 January 2013 to 31 December 2013, Non-executive Director Mr. ZHANG Xiangdong served as Director of the Bank of China Equity Investment Management Division of Banking Institutions Department I, Huijin. Save as disclosed above, in 2013, none of the Bank's directors, supervisors or senior management members held any position in the shareholding companies of the Bank.

# Directors



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## 1 TIAN Guoli

### Chairman

Chairman of the Board of Directors since May 2013. Mr. TIAN joined the Bank in April 2013. From December 2010 to April 2013, Mr. TIAN served as Vice Chairman of the Board of Directors and General Manager of China CITIC Group. During this period, he also served as Chairman of the Board of Directors and Non-executive Director of China CITIC Bank. From April 1999 to December 2010, Mr. TIAN successively served as Vice President and President of China Cinda Asset Management Company, and Chairman of the Board of Directors of China Cinda Asset Management Corporation Limited. From July 1983 to April 1999, Mr. TIAN held various positions in China Construction Bank ("CCB"), including sub-branch general manager, deputy branch general manager, department general manager of the CCB Head Office, and Executive Assistant President of CCB. Mr. TIAN has been serving as Chairman of the Board of Directors and a Non-executive Director of BOCHK (Holdings) since June 2013. Mr. TIAN received a Bachelor's Degree in Economics from Hubei Institute of Finance and Economics in 1983.

## 2 CHEN Siqing

### Vice Chairman\* and President

President of the Bank since February 2014. Mr. CHEN joined the Bank in 1990 and served as Executive Vice President of the Bank from June 2008 to February 2014. Mr. CHEN held various positions in the Bank from June 2000 to May 2008, including Assistant General Manager, Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of the Head Office and General Manager of the Guangdong Branch. Mr. CHEN previously worked in the Hunan Branch of the Bank before he was dispatched to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Since December 2011, Mr. CHEN has been serving as a Non-executive Director of BOCHK (Holdings) and Chairman of the Board of Directors of BOC Aviation. Currently, Mr. CHEN also serves as Chairman of the Board of Directors of China Culture

Industrial Investment Fund Co., Ltd., Vice Chairman of China Chamber of International Commerce and Director of Trade Finance Committee of China Banking Association. Mr. CHEN graduated from Hubei Institute of Finance and Economics in 1982. He obtained an MBA from Murdoch University, Australia in 1999. He is a Certified Public Accountant.

## 3 LI Zaohang

### Executive Director and Executive Vice President

Executive Director of the Bank since August 2004. He joined the Bank in November 2000 and has been serving as Executive Vice President since then. From November 1980 to November 2000, Mr. LI served in various positions at China Construction Bank, including branch general manager, general manager of various departments of the head office, and Executive Vice President. Mr. LI has been serving as a Non-executive Director of BOCHK (Holdings) since June 2002 and as President of the Shanghai RMB Trading Unit of the Bank since March 2012. Mr. LI graduated from Nanjing University of Information Science and Technology in 1978.

## 4 WANG Yongli

### Executive Director and Executive Vice President

Executive Director of the Bank since February 2012. Mr. WANG joined the Bank in 1989 and has been serving as Executive Vice President since August 2006. From November 2003 to August 2006, Mr. WANG served as Executive Assistant President of the Bank. From April 1999 to January 2004, Mr. WANG held various positions in the Bank, including General Manager of the Asset-Liability Management Department of the Head Office, Acting Deputy General Manager and General Manager of the Fujian Branch, and General Manager of the Hebei Branch. Mr. WANG graduated from Renmin University of China with a Master's degree in 1987 and obtained a Doctor's degree from Xiamen University in 2005.

\* The 2014 First Extraordinary General Meeting of the Bank held on 25 March 2014 considered and approved the proposal on the election of Mr. CHEN Siqing as Executive Director of the Bank. The Board Meeting of the Bank has considered and approved the proposal on the election of Mr. CHEN Siqing as Vice Chairman of the Board of Directors. Mr. CHEN Siqing will begin to serve as Vice Chairman of the Board of Directors and Executive Director of the Bank from the date of approval by CBRC.

## Directors

### 5 SUN Zhijun

#### Non-executive Director

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Non-executive Director of the Bank since October 2010. Ms. SUN worked in several positions in the Ministry of Finance from 1982 to 2010, including official of the Cultural and Health Division and Deputy Director of the Social Security Division of the Cultural, Educational, Administrative and Financial Department, Director of the Health and Medical Services Division of the Social Security Department, and Deputy Director General and Director General of the Social Security Department. Ms. SUN served as a member of the Tenth Executive Committee of the All-China Women's Federation. Ms. SUN graduated from the Department of Finance and Economics at the Shanxi University of Finance and Economics with a Bachelor's degree in February 1982.

### 6 LIU Lina

#### Non-executive Director

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Non-executive Director of the Bank since October 2010. Ms. LIU worked in several positions in the Ministry of Finance from 1982 to 2010, including official of the Foreign Trade and Finance Division and the Foreign Trade Division, Deputy Director of the Comprehensive Affairs Division, Director of the Foreign Trade Division of the Commerce and Trade Department, Director of the Foreign Economy Division, Director of the Fifth Enterprise Division of the Enterprise Department, and Deputy Inspector of the Enterprise Department. Ms. LIU graduated with a Bachelor's degree in Economics from the China Northeast University of Finance and Economics in January 1982. In July 2007, Ms. LIU obtained a postgraduate degree in World Economics from the Party School of the Central Committee of C.P.C.

### 7 ZHANG Xiangdong

#### Non-executive Director

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Non-executive Director of the Bank since July 2011. Mr. ZHANG served as a non-executive director of China Construction Bank Corporation from November 2004 to June 2010, and served as Chairman of the Risk Management Committee under its Board of Directors from April 2005 to June 2010. From August 2001 to November 2004, Mr. ZHANG worked as Vice President of PBOC's Haikou Central Sub-branch and concurrently served in the SAFE as Deputy Director General of Hainan Province Branch and Deputy Director General and Inspector of the General Affairs

Department. Mr. ZHANG served as a member of the Stock Offering Approval Committee of CSRC from September 1999 to September 2001. Mr. ZHANG holds the professional title of senior economist and is qualified to practice law in China. He served as a member of China International Economic and Trade Arbitration Commission from January 2004 to December 2008. Mr. ZHANG graduated from Renmin University of China with a Bachelor's degree in law in 1986. He completed his post-graduate studies in international economic law at Renmin University of China in 1988, and was awarded a Master's degree in Law in 1990.

### 8 ZHANG Qi

#### Non-executive Director

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Non-executive Director of the Bank since July 2011. Mr. ZHANG worked in Central Expenditure Division One, Comprehensive Division of the Budget Department, and Ministers' Office of the General Office of Ministry of Finance, as well as the Operation Department of China Investment Corporation, serving as Deputy Director, Director and Senior Manager from 2001 to 2011. Mr. ZHANG studied in the Investment Department and Finance Department of China Northeast University of Finance and Economics from 1991 to 2001, and obtained the Bachelor's degree, Master's degree and Doctorate in Economics respectively in 1995, 1998 and 2001.

### 9 WANG Yong

#### Non-executive Director

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Non-executive Director of the Bank since July 2013. Mr. WANG served as a director of China Construction Bank Corporation from June 2007 to June 2013 and a director of China Export & Credit Insurance Corporation since December 2012. Mr. WANG was an inspector of the Balance of International Payments Department of the SAFE from August 2004 to March 2007, and served consecutively as Deputy Director General of the Foreign Investment Administration Department, Deputy Director General of the Capital Account Management Department and Director General of the Balance of International Payments Department of the SAFE from January 1997 to August 2004. Mr. WANG has qualification of senior economist. He graduated from Jilin University with a Bachelor's degree in world economics in 1984 and a Master's degree in world economics in 1987.



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**10 CHOW Man Yiu, Paul**  
**Independent Director**

Independent Director of the Bank since October 2010. Mr. CHOW was an executive director and Chief Executive of Hong Kong Exchanges and Clearing Limited from April 2003 to January 2010. Hong Kong Exchanges and Clearing Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. CHOW currently serves as the Chairman of Hong Kong Cyberport Management Company Limited and an independent non-executive director of China Mobile Limited. Mr. CHOW also serves as a member of Asian Advisory Committee of AustralianSuper Pty. Ltd. Mr. CHOW served as the Chief Executive, Asia Pacific Region (ex-Japan) of HSBC Asset Management (Hong Kong) Limited from 1997 to 2003. From 1992 to 1997 and 2003 to January 2010, Mr. CHOW was a member of the Standing Committee on Company Law Reform of the Government of the Hong Kong Special Administrative Region (“HKSAR Government”). Mr. CHOW also served as Director of the World Federation of Exchanges from 2003 to January 2010 and became Chairman of its Working Committee in 2007 and 2008 and

then its Vice-chairman in 2009. From 2001 to 2007, he was a member of the Advisory Committee of the Hong Kong Securities and Futures Commission. Mr. CHOW graduated from the University of Hong Kong with a Bachelor’s degree in Science (Engineering) in 1970. He obtained a Diploma in Management Studies and an MBA in 1979 and 1982, respectively, from the University of Hong Kong. He also obtained a Diploma in Finance (Distinction) from the Chinese University of Hong Kong in 1987, and was conferred the Doctor of Social Science, honoris causa by the Open University of Hong Kong in 2010. He was awarded the title of Justice of the Peace, the Silver Bauhinia Star and the Gold Bauhinia Star by the HKSAR Government in 2003, 2005 and 2010, respectively. Mr. CHOW is a Distinguished Fellow of the Hong Kong Computer Society, an Honorary University Fellow of the University of Hong Kong, an Honorary Fellow of the Hong Kong University of Science and Technology, a Fellow of the Hong Kong Institute of Chartered Secretaries, a Fellow of the Institute of Chartered Secretaries and Administrators, an Honorary Fellow of Hong Kong Securities Institute and a Certified General Accountant (Honorary) of the Canadian Certified General Accountants Association of Hong Kong.

## Directors

### 11 Jackson TAI

#### Independent Director

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Independent Director of the Bank since March 2011. Mr. TAI has over 35 years of experience in the banking industry. He held various key positions in DBS Group Holdings Limited (“DBS Group”) and DBS Bank Limited (“DBS Bank”) including Vice Chairman and Chief Executive Officer of DBS Group and DBS Bank from 2002 to 2007, President and Chief Operating Officer of DBS Group and DBS Bank from 2001 to 2002, and Chief Financial Officer of DBS Bank from 1999 to 2001. He was also Director of DBS Bank (China) Limited from 2007 to 2008. Prior to that, he was with J.P. Morgan & Co. Incorporated from 1974 to 1999. He was Managing Director in the Investment Banking Division and held senior management positions in New York, Tokyo and San Francisco. He currently serves as a director of a number of companies listed in New York and Singapore, including Director of Eli Lilly and Company since 2013, Director of Singapore Airlines since 2011, Director of Royal Philips NV since 2011, and Director of MasterCard Incorporated since 2008. Mr. TAI is a director of privately-held VaporStream, and is also a director of privately held Russell Reynolds Associates since 2013. Previously, Mr. TAI was a director of NYSE Euronext from 2010 to 2013, ING Group NV from 2008 to 2010, and CapitaLand from 2001 to 2010. Mr. TAI is also currently a member of the Asia-Pacific Advisory Board of Harvard Business School, trustee of Rensselaer Polytechnic Institute, director of the Metropolitan Opera in New York, and a director and member of the Committee of 100. Mr. TAI graduated from Rensselaer Polytechnic Institute with a Bachelor of Science degree in 1972, and from Harvard University with a Masters of Business Administration degree in 1974.

### 12 Nout WELLINK

#### Independent Director

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Independent Director of the Bank since October 2012. Mr. WELLINK has served as a member of the Executive Board of the Dutch Central Bank (“DNB”) for almost 30 years, the last 14 years as its President. He retired from DNB on 1 July 2011. DNB is since 1999 an integral part of the European System of Central Banks, but at the same time the national prudential supervisor of banks, pension funds and insurance companies. Since the establishment of the European Monetary Union, Mr. WELLINK served as a member of the Governing Council of the European Central Bank. Starting from 1997, Mr. WELLINK served as a member of the Board of Directors of the Bank for International Settlements, which he chaired from 2002 to 2006. From 2006 to 2011, he also chaired the Basel Committee on Banking Supervision. From 1997 to 2011, Mr. WELLINK was a member of the Group of Ten Central Bank Governors and Governor of the International Monetary Fund. Prior to his appointment in 1982 as an executive director of DNB, Mr. WELLINK held several posts in the Dutch Ministry of Finance, including as the Treasurer General from 1977 to 1982. After studying Dutch law at Leyden University from 1961 to 1968 with a Master’s degree obtained, Mr. WELLINK obtained a doctor’s degree in economics at the Rotterdam Erasmus University in 1975. In 2008 he received an honorary doctorate from Tilburg University. From 1988 to 1998, Mr. WELLINK was an Extraordinary Professor at the Free University in Amsterdam. Mr. WELLINK is currently Chairman of the Supervisory Board of the Leyden University, and Chairman of the Public Interest Committee of PricewaterhouseCoopers Accountants N.V. Mr. WELLINK had many secondary functions in the past, including member of the supervisory board of a bank and other enterprises on behalf of the Dutch authorities, Chairman of the Board of Supervisors of the Netherlands Open Air Museum, member and treasurer of the Royal Picture Gallery Mauritshuis and the Westeinde Hospital in The Hague. He was awarded a Knighthood in the Order of the Netherlands Lion in 1980 and is since 2011 Commander of the Order of Orange-Nassau.

## 13 LU Zhengfei

### Independent Director

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Independent Director of the Bank since July 2013. Mr. LU Zhengfei currently serves as the Associate Dean and professor of the Accounting Department of Guanghua School of Management, Peking University. He had served as the head of the Accounting Department of the School of Business, Nanjing University between 1994 and 1999, and the head of the Accounting Department of Guanghua School of Management, Peking University between 2001 and 2007. Mr. LU also currently serves as a consulting expert of the China Accounting Standards Committee of the Ministry of Finance, an executive director and an academic committee member of the Accounting Society of China, an executive director of the China Audit Society, an editorial board member of Accounting Research and Audit Research, and a member of the Disciplinary Committee of the Chinese Institute of Certified Public Accountants. In 2001, he was elected as a member of "The Hundred People Project of Beijing New Century Social Science Theoretical Talent". In 2005, he was elected to the "New Century Excellent Talent Support Plan" of the Ministry of Education, PRC. He currently serves as an independent non-executive director or an independent supervisor of a number of companies listed in Hong Kong Stock Exchange, including: Independent Non-executive Director of Sinotrans Ltd. since September 2004, Independent Non-executive Director of Sino Biopharmaceutical Ltd. since November 2005, Independent Non-executive Director of China National Materials Co., Ltd. since December 2009, and Independent Supervisor of PICC Property and Casualty Co., Ltd. ("PICC P&C") since January 2011. He was an independent non-executive director of PICC P&C from February 2004 to December 2010. Mr. LU graduated from Renmin University of China in 1988 with a Master's degree in Economics (Accounting), and received his Doctor's degree in Economics (Management) from Nanjing University in 1996.

## 14 LEUNG Cheuk Yan

### Independent Director

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Independent Director of the Bank since September 2013. He is a former partner of Baker & McKenzie, which he joined in July 1987 and from which he retired in June 2011. During 2009 and 2010, he had served as a part-time member of the Central Policy Unit of The Hong Kong Special Administrative Region Government. Mr. LEUNG has been an independent non-executive director of MMG Limited, which is listed on The Stock Exchange of Hong Kong Limited, since July 2012. Mr. LEUNG graduated from The Chinese University of Hong Kong with a Bachelor of Social Science degree (First Class Honours) in 1976, obtained a Master of Philosophy degree from The University of Oxford in 1981 and completed his legal study at The College of Law in England in 1982. He was admitted to practice as a solicitor in Hong Kong in 1985, in England and Wales in 1988, in the Australian Capital Territory in 1989 and in Victoria, Australia in 1991. He is a Senior Associate Member of St. Antony's College, Oxford.

# Supervisors



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## 1 LI Jun

### Chairman of the Board of Supervisors

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Chairman of the Board of Supervisors of the Bank since March 2010 and Vice Party Secretary of the Bank since December 2009. Mr. LI served in several positions in Bank of Communications, including Vice Chairman of the Board of Directors and President from September 2006 to December 2009, Executive Vice President from November 2000 to August 2006, Executive Director from June 2000 to December 2009, Controller General from April 1998 to April 2001, and Vice President and President of the Wuhan Branch of Bank of Communications from October 1990 to April 1998. Mr. LI has qualification of senior economist. He received a Master's degree in Economics from Huazhong University of Science and Technology in 1995.

## 2 WANG Xueqiang

### Shareholder Supervisor

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Shareholder Supervisor of the Bank since August 2004 and Head of the Office of Board of Supervisors since April 2005. Mr. WANG served as Deputy Director General Supervisor and Director General Supervisor of the Bank from July 2003 to August 2004 before the Bank's corporate restructuring. Mr. WANG served as Deputy Director General Supervisor at Agricultural Development Bank of China from October 2001 to July 2003, and worked with the Central Financial Working Commission from October 2000 to October 2001. From November 1996 to September 2000, Mr. WANG worked with Hong Kong Gang Ao International (Holdings) Co., Ltd. and Hong Kong Fujian Group Limited in succession. Prior to that, Mr. WANG worked with the Ministry of Finance from August 1985 to October 1996. Mr. WANG is a senior accountant and Certified Public Accountant qualified by the Chinese Institute of Certified Public Accountants. Mr. WANG graduated from China Central University of Finance and Economics in 1985 and obtained his Doctorate in Economics from Public Finance Institute of the Ministry of Finance in 2008.

## 3 LIU Wanming

### Shareholder Supervisor

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Shareholder Supervisor of the Bank since August 2004. From November 2001 to August 2004, Mr. LIU was designated by the State Council to serve as Director Supervisor and a Deputy Director General Supervisor at Bank of Communications and the Bank. From August 1984 to November 2001, Mr. LIU worked with the National Audit Office, Agricultural Development Bank of China and the Central Financial Working Commission. Mr. LIU received a Bachelor's degree in Economics from Jiangxi University of Finance and Economics in 1984.

## 4 DENG Zhiying

### Employee Supervisor

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Employee Supervisor of the Bank since August 2010. Mr. DENG currently serves as General Manager of the Supervisory Department in the Bank's Head Office. Mr. DENG has served as Deputy General Manager of the Supervisory Department in the Bank's Head Office from July 2008 to July 2010. From June 2007 to July 2008, Mr. DENG served as a member of the Party Committee and the secretary of the Party Discipline Committee in the Tianjin Branch of the Bank. From February 2008 to July 2008, Mr. DENG also served as the Director of the Labour Union of the branch. From June 1993 to June 2007, Mr. DENG worked in the Supervisory Office, the Inspection and Audit Department, the Supervisory Department of the Bank's Head Office. From August 1984 to June 1993, Mr. DENG worked in the Party Discipline Committee. Mr. DENG received a Bachelor's degree in History from Nankai University in 1984.

## Supervisors

### 5 LIU Xiaozhong Employee Supervisor

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Employee Supervisor of the Bank since August 2012. Mr. LIU is currently Executive Deputy Director of the Labour Union Working Committee of the Bank. He previously held various positions in the Bank, including General Manager (in charge of SME business) of the Corporate Banking Unit of the Head Office from July 2008 to May 2011, Deputy General Manager of the Credit Management Department of the Head Office, Deputy General Manager of the Risk Management Department of the Head Office, Deputy General Manager and General Manager of the Shaanxi Branch from October 1998 to July 2008. From July 1983 to October 1998, he was cadre and Deputy Director of the Aerospace Industry Ministry, Deputy Director and Director of Aerospace Materials Supply and Marketing Corporation, Deputy Manager of the Fixed Assets Investment Department and Deputy Director General of the Capital Construction Bureau of Aerospace Industry Corporation. Mr. LIU graduated from the Glass Fiber Reinforced Plastics Department of Harbin Construction Engineering College in 1983.

### 6 XIANG Xi Employee Supervisor

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Employee Supervisor of the Bank since August 2012. Ms. XIANG is currently Deputy General Manager and Chief Financial Officer of Suzhou Branch of the Bank. She previously held the following various positions in the Bank, including a member of the CPC Committee, Deputy General Manager and Chief Financial Officer of Suzhou Branch from July 2005 to March 2010, Assistant to General Manager of the Suzhou Branch from March 2003 to July 2005, Deputy General Manager and General Manager of High-tech Industrial Development Zone Sub-branch of the Suzhou Branch from October 2000 to July 2005, cadre, deputy group chief, section chief, Deputy Director and Deputy General Manager of the International Trade Settlement Division of the Suzhou Branch from July 1993 to October 2000. Ms. XIANG graduated from the Department of English of East China University of Science and Technology in 1993, and obtained an MBA Degree jointly conferred by Fudan University and University of Washington in December 2004.

### 7 MEI Xingbao External Supervisor

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External Supervisor of the Bank since May 2011. Mr. MEI is now a member of the 12th CPPCC National Committee and serves as independent non-executive director of Sino Biopharmaceutical Ltd. From October 2003 to May 2010, Mr. MEI served as Vice President and President of China Orient Asset Management Corporation. He previously served as Vice Mayor of People's Municipal Government of Zhangjiajie in Hunan Province, Deputy Director General of Economic and Trade Commission of Hunan Province, Head of the Science and Education Group of the Research Office of the General Office of the CPC Central Committee, Director General of the General Office of the Central Financial Working Commission, and Director General of the Propaganda Department of CBRC. Majoring in agricultural economic management, Mr. MEI graduated from Renmin University of China in 1982 with a Bachelor's degree in Economics. He obtained his Doctorate in Management from Renmin University of China in 1999.

### 8 BAO Guoming External Supervisor

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External Supervisor of the Bank since May 2011. Ms. BAO is now Vice President and Secretary-General of China Institute of Internal Audit. In 1999, Ms. BAO was transferred to the National Audit Office and worked in several positions, including Deputy Director General, Director General of Cadres Training Centre and Director General of the Administrative Audit Department. She was a professor of the Accounting Department of Nankai University. She is currently a part-time professor of the Research Institute for Fiscal Science under the Ministry of Finance, Shanghai Jiao Tong University, Beijing National Accounting Institute and other universities and research institutions, an executive director of the China Audit Academy, and a member of the Senior Auditor Certification Examination and Review Committee of the National Audit Office. Ms. BAO is a Certified Public Accountant of Chinese Institute of Certified Public Accountants and a Certified International Internal Auditor and receives the Government Special Allowance of the State Council. Ms. BAO graduated from Tianjin University of Finance and Economics in 1985 and received a Master's degree in Economics.

# Senior Management Members



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## Senior Management Members

### 1 CHEN Siqing

Vice Chairman\* and President

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Please refer to the section "Directors".

### 2 LI Zaohang

Executive Director and  
Executive Vice President

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Please refer to the section "Directors".

### 3 ZHANG Lin

Secretary of Party Discipline Committee

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Secretary of the Party Discipline Committee of the Bank since August 2004. Prior to joining the Bank, Ms. ZHANG held various positions in the Export and Import Bank of China, including Executive Assistant President from June 2002 to August 2004, Deputy Director General and Director General of the Personnel Education Department from August 1998 to July 2002. Majoring in Economics and Political Sciences, Ms. ZHANG graduated from the Party School of the Inner Mongolia Autonomous Region's Communist Party Committee in 1983.

### 4 WANG Yongli

Executive Director and  
Executive Vice President

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Please refer to the section "Directors".

### 5 ZHU Shumin

Executive Vice President

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Executive Vice President of the Bank since August 2010. Mr. ZHU joined the Bank in 1988 and served as Global Head of Personal Banking Business of the Bank from May 2009 to July 2010. From July 2003 to May 2009, Mr. ZHU served as General Manager of the Jiangsu Branch of the Bank. From November 2000 to July 2003, Mr. ZHU served as Deputy General Manager of the Jiangsu Branch and General Manager of the Suzhou Branch of the Bank. Mr. ZHU previously held various positions in the Suzhou Branch, the Taizhou Branch and the Yangzhou Branch of Jiangsu. Since March 2010, Mr. ZHU has been serving as Chairman of the Board of Directors in Bank of China Consumer Finance Company Limited. He received an MBA from Fudan University in 2008.

### 6 YUE Yi

Executive Vice President

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Executive Vice President of the Bank since August 2010. Mr. YUE joined the Bank in 1980 and served as Global Head of Financial Markets Business of the Bank from March 2009 to July 2010. From March 2008 to March 2009, Mr. YUE served as Global Head of Personal Banking Business of the Bank. From February 2005 to August 2008, Mr. YUE served as General Manager of the Personal Banking Department of the Bank. Mr. YUE previously held various positions in the Retail Banking Department of the Head Office, the Seoul Branch and the Beijing Branch of the Bank. Mr. YUE has been serving as Chairman of Bank of China (UK) Limited since September 2010, Chairman of the Board of Directors of BOCI since November 2011, Chairman of Bohai Industry Investment Management Ltd. since March 2012, and Chairman of Bank of China (Luxembourg) S.A. since January 2014. He received his Master's degree in Finance from Wuhan University in 1999.

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\* The 2014 First Extraordinary General Meeting of the Bank held on 25 March 2014 considered and approved the proposal on the election of Mr. CHEN Siqing as Executive Director of the Bank. The Board Meeting of the Bank has considered and approved the proposal on the election of Mr. CHEN Siqing as Vice Chairman of the Board of Directors. Mr. CHEN Siqing will begin to serve as Vice Chairman of the Board of Directors and Executive Director of the Bank from the date of approval by CBRC.



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### 7 CHIM Wai Kin Chief Credit Officer

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Chief Credit Officer of the Bank since March 2007. Prior to joining the Bank, Mr. CHIM held various positions at Standard Chartered Bank, Bankers Trust Company and Deutsche Bank. While working with Deutsche Bank, Mr. CHIM served as Managing Director and Chief Credit Officer (non-Japan Asia). Mr. CHIM graduated from the Chinese University of Hong Kong with a Bachelor of Science in 1983, and obtained an MBA from Indiana State University, United States in 1985.

### 8 LIU Yanfen Chief Audit Officer

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Chief Audit Officer since December 2011. Ms. LIU joined the Bank in 1982 and served as General Manager of the Singapore Branch of the Bank from June 2007 to December 2011. From June 1998 to February 2007, Ms. LIU served as General Manager of the Financial Management Department of the Head Office. Ms. LIU previously held various positions, including General Manager of China Oriental Trust and Investment Corporation, and Deputy General Manager of the Financial Management Department of the Head Office. Ms. LIU graduated from Liaoning College of Finance and Economics with a Bachelor's degree in 1982, and obtained a Master's degree in Finance from Wuhan University in 1999. She is a Certified Public Accountant.

### 9 FAN Yaosheng Secretary to the Board of Directors

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Secretary to the Board of Directors of the Bank since September 2012. Mr. FAN joined the Bank in 1994 and has held various positions, including Deputy General Manager of the Corporate Banking Department and Corporate Banking Unit of the Bank, Deputy General Manager of the IT Blueprint Implementation Office and the Business Process Reengineering Steering Office of the Head Office and General Manager of the Board Secretariat. Mr. Fan has been serving as Vice Chairman of the Listed Companies Association of Beijing since July 2013. Mr. FAN graduated from the Law School of Peking University with a Bachelor's degree in 1990, obtained a Master's degree in law from University of Gottingen, Germany in 1993 and a Master's degree in law from Nanjing University in 1994. Mr. FAN is qualified to practice law in China.

## Directors, Supervisors and Senior Management Members

### Changes in Directors, Supervisors and Senior Management Members

Changes in the Bank's directors were as follows:

Mr. XIAO Gang ceased to serve as Chairman of the Board of Directors, Executive Director, Chairman and a member of the Strategic Development Committee of the Bank as of 17 March 2013.

Mr. TIAN Guoli began to serve as Chairman of the Board of Directors, Executive Director, Chairman and a member of the Strategic Development Committee of the Bank as of 31 May 2013.

Mr. WANG Yong began to serve as Non-executive Director and a member of the Strategic Development Committee and the Audit Committee of the Bank as of 15 July 2013.

Mr. LU Zhengfei began to serve as Independent Director, a member of the Audit Committee, the Personnel and Remuneration Committee and the Connected Transactions Control Committee of the Bank as of 31 July 2013. Mr. LU Zhengfei began to serve as Chairman of the Audit Committee of the Bank as of 11 September 2013.

Mr. Anthony Francis NEOH ceased to serve as Independent Director, a member of the Audit Committee, the Personnel and Remuneration Committee and the Connected Transactions Control Committee, Chairman and a member of the Risk Policy Committee of the Bank as of 11 September 2013.

Mr. HUANG Shizhong ceased to serve as Independent Director, a member of the Risk Policy Committee, the Personnel and Remuneration Committee and the Connected Transactions Control Committee, Chairman and a member of the Audit Committee of the Bank as of 11 September 2013.

Ms. HUANG Danhan ceased to serve as Independent Director, a member of the Audit Committee, the Personnel and Remuneration Committee, Chairman and a member of the Connected Transactions Control Committee of the Bank as of 11 September 2013.

Mr. LEUNG Cheuk Yan began to serve as Independent Director, a member of the Audit Committee, the Personnel and Remuneration Committee, Chairman and a member of the Connected Transactions Control Committee of the Bank as of 11 September 2013.

Ms. JIANG Yansong ceased to serve as Non-executive Director, a member of the Strategic Development Committee, Vice Chairman and a member of the Risk Policy Committee of the Bank as of 20 November 2013.

Mr. LI Lihui ceased to serve as Vice Chairman of the Board of Directors, Executive Director, a member of the Strategic Development Committee of the Bank as of 28 January 2014.

The 2014 First Extraordinary General Meeting of the Bank held on 25 March 2014 considered and approved the proposal on the election of Mr. CHEN Siqing as Executive Director of the Bank. The Board Meeting of the Bank held on 28 January 2014 considered and approved the proposal on the election of Mr. CHEN Siqing as Vice Chairman of the Board of Directors and proposal on the appointment of Mr. CHEN Siqing as a member of the Strategic Development Committee of the Bank. Mr. CHEN Siqing will begin to serve as Vice Chairman of the Board of Directors, Executive Director and a member of the Strategic Development Committee of the Bank from the date of approval by CBRC.

Changes in the Bank's Supervisors were as follows:

There was no change in the Bank's supervisors during the reporting period.

Changes in the Bank's senior management members were as follows:

Mr. LI Lihui ceased to serve as President of the Bank as of 28 January 2014.

Mr. CHEN Siqing began to serve as President of the Bank as of 13 February 2014.

# Corporate Governance

## Overview of the Corporate Governance

The Bank strictly follows the regulatory rules on capital markets and industries, closely follows changes and trends in overseas and domestic regulations, and has continuously enhanced its corporate governance capabilities.

The Bank attaches great importance to building up its corporate governance system. It continues to revise and improve its corporate governance normative documents based on regulatory requirements and the Bank's actual development, and acts in strict accordance with those documents. The Bank's comprehensive system supports the effective operation of its corporate governance.

The Bank proactively promotes innovative practices in corporate governance and ensures that minority shareholders are properly informed and able to participate and make decisions. The annual shareholders' meetings are held in Beijing and Hong Kong by way of video conference, allowing shareholders from both Chinese mainland and Hong Kong to attend in person. In addition, online voting for A-Share Holders is available to guarantee the rights of minority shareholders. The Bank constantly improves the operation mechanism of the Board of Directors, information disclosure mechanism and stakeholder engagement mechanism, so as to make the work of the Board more constructive, to support the scientific decision-making of the Board, to promote the transparency of the Bank, and to meet its responsibilities to stakeholders including shareholders, customers, employees and society.

The Bank continues to enhance its corporate governance in a forward-looking and exploratory manner. In terms of group governance, the Board of Directors pays close attention to the internal controls and risk management of the Group, constantly improves the Group's overall risk management capabilities and enhances the Group's level of compliance. In addition, the Bank continuously tracks domestic and international latest corporate governance theories and practices. Taking the New Basel Capital Accord as an opportunity to improve corporate governance, the Bank carries out corporate

governance with reference to the advanced practices of G-SIFIs and constantly pursues higher standards.

In 2013, the Bank revised the Articles of Association, formulated the *Bank of China Limited Board Diversity Policy*, and promoted the implementation of CBRC's *Guidance on Corporate Governance of Commercial Banks*. It also organised corporate governance training sessions within the Group, and thus achieved more institutionalised and standardised corporate governance.

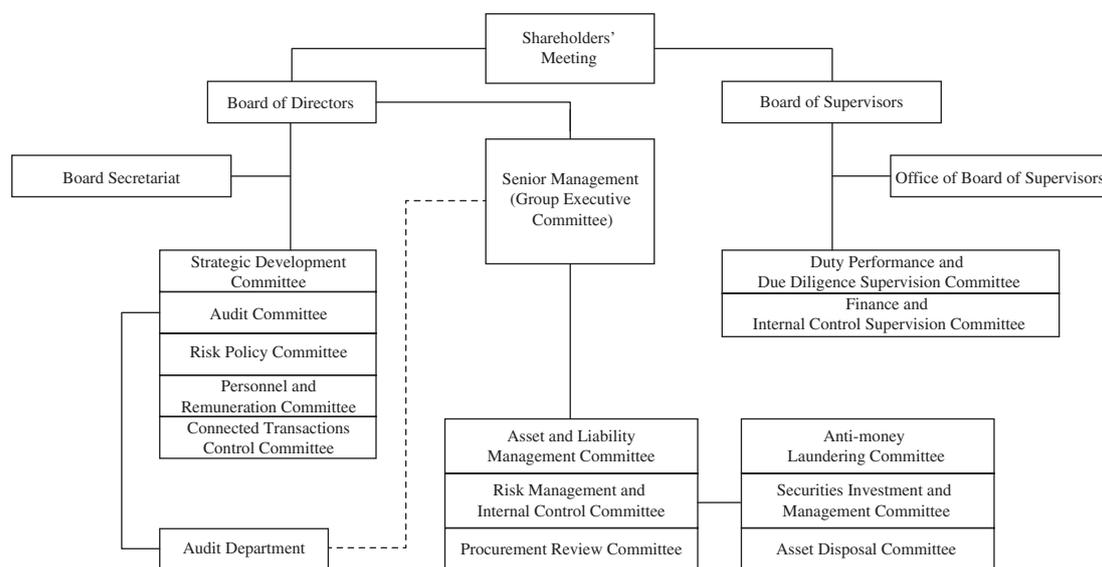
During the year, the Bank completed corporate governance procedures including change of the Chairman, appointment of independent directors and adjustments to chairmen and members of special committees of the Board. The election of new independent directors was led and organised by the independent director serving as the Chairman of the Personnel and Remuneration Committee. Candidates were recommended by incumbent independent directors and were proposed to the Board of Directors after a selection meeting attended by all independent directors. Currently the independent directors serve as the Chairmen of the Audit Committee, the Risk Policy Committee, the Personnel and Remuneration Committee and the Connected Transactions Control Committee of the Board of Directors, respectively. The Bank further explored innovative approaches of communication between directors and the senior management, giving directors advance notice and report on specific major issues related to board proposals. The Bank improved and standardised its proposal mechanism, actively organised trainings and surveys for directors, and thus enhanced its decision-making efficiency.

In 2013, the Bank's progress in corporate governance continued to be recognised by the capital markets and the wider public. The Bank received, among other awards, the Hong Kong "Corporate Governance Excellence Awards", "Top Ten Corporate Governance" from China Central Television, "Golden Prize of Round Table for Excellent Board of Directors" from *Directors&Boards*, "Excellent Board of Directors Award" and "Golden Board Secretary Award" by Dongshiju.com, and "Best Board Secretary Award" by Stockstar.

# Corporate Governance

## Corporate Governance Framework

The Bank's corporate governance framework is shown below:



## Corporate Governance Compliance

During the reporting period, the Bank's corporate governance was fully in line with the Company Law and the relevant provisions of CSRC.

During the reporting period, the Bank strictly observed the *Corporate Governance Code* (the "Code") as set out in Appendix 14 to the Hong Kong Listing Rules. The Bank has complied with all provisions of the Code and has substantially complied with most of the recommended best practices set out in the Code. The Bank adopted *Bank of China Limited Board Diversity Policy* to put forward its stance regarding the diversity of its Board of Directors and to specify the approaches to realise Board diversity it took on an on-going basis pursuant to the new amendments to the Code which took effect in September 2013.

## Amendments to the Articles of Association

The 2013 First Extraordinary General Meeting considered and approved the proposal to amend the Articles of Association regarding the cash dividend. The amendment further specified the Bank's profit distribution principles, policy and adjustment procedures, consideration of the profit distribution plan and other affairs. The amendment stated that, except under special circumstances, the Bank shall adopt cash as the form of dividend distribution where there is profit in that year and the accumulated undistributed profit is positive, and that the cash distribution of the dividend shall not be less than 10% of the profit after tax attributable to the shareholders of the Bank. The amendment also stated that the Bank shall adopt cash dividend as the priority form of the profit distribution and the Bank shall offer online voting to shareholders when considering amendments to profit distribution policy. This amendment to the Articles of Association has been approved by CBRC.

### **Shareholders and Shareholders' Rights**

The Bank highly values the protection of its shareholders' interests and has established and maintained an effective and multi-channel platform to communicate with shareholders. This includes holding shareholders' meetings and setting up an investor hotline to ensure that all shareholders are treated equally, properly informed and able to participate in and exercise their voting and other rights regarding the major issues of the Bank. The Bank is independent and completely autonomous in all of its business operations. It operates independently and separately from its controlling shareholder, Huijin, in respect of its business, personnel, assets, institutional and financial matters.

#### ***Shareholders' Right to Convene an Extraordinary Shareholders' Meeting and a Meeting of Shareholders of Different Categories***

According to the Articles of Association, shareholders individually or in aggregate holding a total of 10% or more of the shares of the Bank have the right to make a written request to the Board of Directors to convene an extraordinary shareholders' meeting. Two or more shareholders holding a total of 10% or more of the shares carrying voting rights of the Bank may sign one or more written requests of identical form and substance requesting the Board of Directors to convene a meeting of shareholders of different categories and stating the subject of the meeting. If the Board of Directors fails to issue a notice of such a meeting within 30 days after having received a written request for convening an extraordinary shareholders' meeting or a meeting of shareholders of different categories submitted by the proposing shareholders, the proposing shareholders may themselves convene the meeting within four months after the Board of Directors received the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which shareholders' meetings are convened by the Board of Directors. Where the proposing shareholders convene and hold a meeting

because the Board of Directors failed to convene such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Bank and shall be deducted from the sums owed by the Bank to the negligent directors.

#### ***Shareholders' Right to Propose Resolutions at Shareholders' Meetings***

According to the Articles of Association, any shareholders who hold, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose a resolution in a shareholders' meeting. Any shareholders who hold, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose and submit in writing to the Board of Directors interim proposals 10 days prior to the convening of a shareholders' meeting. When the Board of Directors decides not to include such proposals in the meeting's agenda, it shall explain and clarify the reasons in the shareholders' meeting. When the proposing shareholders dissent with the Board of Directors' decision to exclude such proposals, they may request to call for an extraordinary shareholders' meeting by themselves based on the relevant procedures stipulated in the Articles of Association.

#### ***Shareholders' Right to Present Enquiries***

According to the Articles of Association, any shareholder who holds severally or jointly with others 5% or more of voting shares of the Bank shall have right to present enquiries to a shareholders' meeting. The Board of Directors, the Board of Supervisors, or other relevant senior management personnel shall attend the shareholders' meeting, accept enquiries, and answer or explain accordingly.

Please refer to the Articles of Association for details of the rights entitled to shareholders. If shareholders need to contact the Board of Directors regarding the aforementioned items or for other enquiries to the Board of Directors, please refer to the section "Reference for Shareholders — Investor Enquiry" for contact details.

# Corporate Governance

## Shareholders' Meeting

### *Functions and Powers of Shareholders' Meeting*

The shareholders' meeting is the body of authority of the Bank. The shareholders' meeting is responsible for making decisions on important issues of the Bank, including considering and approving the Bank's profit distribution plan, annual financial budget and financial statements, changes in the Bank's registered capital, adopting resolutions on matters such as issue of bonds and other securities, merger and division, amending the Articles of Association of the Bank, electing and replacing directors, shareholder's representative supervisors and external supervisors and deciding on matters concerning remunerations of the aforementioned persons.

### *Convening of Shareholders' Meeting*

On 26 March 2013, the Bank held its 2013 First Extraordinary General Meeting in Beijing. This meeting considered and approved three proposals including the proposal to elect non-executive director of the Bank, the proposal on downward adjustment to the conversion price of the A-Share Convertible Bonds of the Bank and the proposal to amend the Articles of Association of the Bank. The proposal on downward adjustment to the conversion price of the A-Share convertible bonds of the Bank and the proposal to amend the Articles of Association of the Bank were special resolutions.

On 29 May 2013, the Bank held its 2012 Annual General Meeting in Beijing and Hong Kong by way of video conference. This meeting considered and approved 20 proposals including the 2012 work report of the Board of Directors, the 2012 work report of the Board of Supervisors, the 2012 annual financial statements, the 2012 profit distribution plan, the 2013 annual budget, the appointment of Ernst & Young Hua Ming as the Bank's external auditor for 2013, the election of directors, the re-election of directors, the re-election of supervisors, and the issuance of qualified write-down Tier-2 capital instruments, among others.

The proposal on the issuance of qualified write-down Tier-2 capital instruments was a special resolution.

On 25 March 2014, the Bank held its 2014 First Extraordinary General Meeting in Beijing. This meeting considered and approved the proposal on the election of Mr. CHEN Siqing as Executive Director of the Bank.

All of the aforementioned meetings were convened and held in strict compliance with the relevant laws and regulations as well as the listing rules of the Chinese mainland and Hong Kong. The Bank's directors, supervisors and senior management members attended the meetings and communicated with shareholders on issues of their concern.

The Bank published announcements on the resolutions and legal opinions of the aforementioned shareholders' meetings on 26 March 2013, 29 May 2013 and 25 March 2014 respectively, pursuant to regulatory requirements. Please refer to the websites of SSE, HKEx and the Bank.

### *Implementation of the Resolutions Passed at the Shareholders' Meeting by the Board of Directors*

The Board of Directors earnestly and fully implemented the resolutions passed at the shareholders' meetings during the reporting period.

The 2013 First Extraordinary General Meeting considered and approved a proposal to amend the Articles of Association. This amendment to the Articles of Association has been approved by CBRC, and the amended Articles of Association have been published on the websites of SSE, HKEx and the Bank. All activities of the Bank are in line with the amended Articles of Association.

As approved by the 2012 Annual General Meeting, the Board of Directors diligently carried out the 2012 profit distribution plan, distributed dividends to shareholders in a timely manner and effectively served the shareholders' interests. The profit distribution was completed in July 2013.

Proposals to elect directors were approved by the 2012 Annual General Meeting. The relevant approval and filing procedures have been completed with regulatory authorities.

As approved by the 2012 Second Extraordinary General Meeting and the 2012 Annual General Meeting, the Bank has completed the appointment of Ernst & Young Hua Ming as the external auditor for 2013.

## Board of Directors

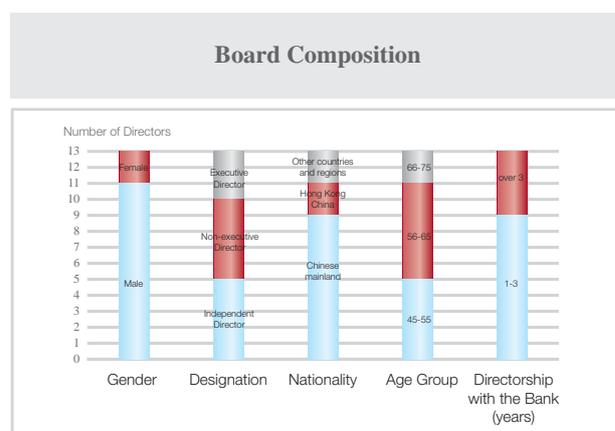
### *Functions and Powers of the Board of Directors*

The Board of Directors, which is responsible to the shareholders' meeting, is the Bank's decision-making body. The Board of Directors exercises the following functions and powers as specified by the Bank's Articles of Association: convening shareholders' meetings and implementing the resolutions of shareholders' meetings; deciding on the Bank's strategic policies, business plans and material investment plans (except for those material investment plans that are subject to shareholders' meeting approval as specified in the Articles of Association); formulating the annual financial budgets, final accounts and plans for profit distribution and loss making-up of the Bank; appointing or dismissing members of special committees and the senior management of the Bank; reviewing and deciding on the establishment of the Bank's basic administrative system, internal management framework and important sub-entities; developing and reviewing corporate governance policies of the Bank; taking charge of performance evaluation and matters of material reward and punishment for senior management members, and hearing the reports of the senior management and examining their work, among others. The Board of Directors continuously reviews and updates the Articles of Association and the Bank's corporate governance policies and systems in accordance with the applicable laws and regulations, relevant regulatory requirements and listing rules, and ensures compliance with such policies and systems.

### *Composition of the Board of Directors*

The Board of Directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee, and Connected Transactions Control Committee to assist the Board in performing different aspects of its functions. The positions of Chairman and President of the Bank are assumed by two persons.

The Board of Directors of the Bank is rationally structured and diversified. Currently, the Board of Directors comprises thirteen members. Besides the Chairman, there are two executive directors, five non-executive directors and five independent directors. The number of independent directors exceeds one-third of the total number of directors. The Bank's directors are elected at the shareholders' meeting, with a term of office of three years starting from the date when the Bank receives approval of the appointment from CBRC. A director may serve consecutive terms by re-election and re-appointment unless otherwise specified by laws, regulations and supervisory requirements. For detailed background and an explanation of recent changes to the Board members, please refer to the section "Directors, Supervisors and Senior Management Members".



# Corporate Governance

## ***Convening of the Board Meetings***

In 2013, the Bank convened eight on-site meetings of the Board of Directors on 30 January, 26 March, 25 April, 29 May, 29 July, 29 August, 30 October and 19 December, respectively. At these meetings, the Board of Directors reviewed and approved 44 proposals related to the Bank's regular reports, the nomination of candidates for directors, the election of the Chairman, the 2012 corporate social responsibility report, the 2012 internal control self-assessment report, the *Board Diversity Policy*, the development strategy plan of the Bank for 2013-2016, the Group Recovery and Resolution Plans, and so on. It also heard nine reports related to the Bank's consolidated management and other matters.

In 2013, the Bank convened eleven meetings of the Board of Directors via written resolutions. At these meetings, the Board of Directors approved the proposals related to changes in the composition of special committees under the Board of Directors and the *Announcement in Relation to the Increase in Shareholding of the Bank by Its Controlling Shareholder*, among others.

## ***Guidance of the Board of Directors and the Audit Committee regarding Internal Control***

The Board attaches great importance to and continues to promote the construction of the Group's effective long-acting internal control system, and regularly reviews the senior management reports concerning operational management, risk management, fraud case governance and internal control enhancement and assessment. The Board has effectively taken the responsibility for establishing, improving and performing effective internal controls and made great efforts to provide guidance for the Bank's internal control and compliance work. The Group's risk management and mitigation capability and level of operational compliance have been enhanced continuously.

The Audit Committee of the Board of Directors closely monitored the changing economic and financial

environment both domestically and overseas, as well as the overall conditions of the Group's internal control, including the establishment and operation of its internal control systems for financial and non-financial reporting. In addition, the committee listened to and reviewed, on a regular and ad hoc basis, the internal audit reports, the assessment opinions on internal control, the progress of internal control improvements based on the remedial measures recommended by the external auditor, and the overall situation of the prevention and control of fraud cases and non-compliance activities. The committee guided and urged the senior management to continuously improve the internal control system, and conducted special research on anti-money laundering and liquidity risk management. Moreover, the Audit Committee provided guidance to the internal audit function as it set the internal control priorities and performed the inspection work based on the philosophy of comprehensive risk management and risk assessment results. The committee also promoted and followed up the implementation of advanced capital management approach and provided independent suggestions and opinions on internal control improvement, so as to improve the Group's operating effectiveness and efficiency and to enhance its corporate governance.

During the reporting period, the Bank followed relevant requirements set forth in the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, and performed internal control self-assessment in accordance with the *Standards of Internal Control Assessment of Bank of China Limited* and the *Standards of Recognising Internal Control Deficiencies of Bank of China Limited*, with no material deficiencies identified in the internal control systems of the Bank, including both financial and non-financial reporting. Ernst & Young Hua Ming LLP, as the Bank's internal control auditor, audited the effectiveness of the Bank's internal controls over financial reporting and issued a standard unqualified opinion. The *2013 Internal Control Assessment Report of Bank of China Limited* and *Auditor's Report on Internal Control* issued by Ernst & Young Hua Ming LLP have been published on the websites of SSE, HKEx and the Bank.

## Duty Performance of Directors

### Directors' Attendance of the Shareholders' Meeting, Meetings of the Board of Directors and Special Committees

During the reporting period, the attendance rate of each director of the shareholders' meeting, the Board of Directors meetings and special committees meetings is given below:

Number of meetings attended in person/Number of meetings convened during term of office

Directors	Shareholders' Meeting	Board of Directors	Special Committees				
			Strategic Development Committee	Audit Committee	Risk Policy Committee	Personnel and Remuneration Committee	Connected Transactions Control Committee
<b>Incumbent Directors</b>							
TIAN Guoli	0/0	13/13	3/3	–	–	–	–
LI Zaohang	2/2	19/19	–	–	–	–	3/3
WANG Yongli	2/2	19/19	–	–	5/5	–	–
SUN Zhijun	2/2	19/19	5/5	5/5	–	–	–
LIU Lina	2/2	19/19	5/5	–	5/5	–	–
ZHANG Xiangdong	2/2	19/19	5/5	2/2	–	2/2	–
ZHANG Qi	2/2	19/19	5/5	–	–	7/7	–
WANG Yong	0/0	10/10	2/3	3/3	–	–	–
CHOW Man Yiu, Paul	2/2	19/19	–	5/5	5/5	7/7	3/3
Jackson TAI	2/2	19/19	5/5	5/5	3/3	–	2/3
Nout WELLINK	2/2	19/19	5/5	5/5	5/5	–	–
LU Zhengfei	0/0	9/9	–	3/3	–	1/1	1/1
LEUNG Cheuk Yan	0/0	6/6	–	2/2	–	0/0	1/1
<b>Former Directors</b>							
XIAO Gang	0/0	1/1	0/0	–	–	–	–
LI Lihui	2/2	18/19	5/5	–	–	–	–
JIANG Yansong	2/2	14/14	4/4	–	4/4	–	–
Anthony Francis NEOH	2/2	13/13	–	3/3	3/3	6/7	2/2
HUANG Shizhong	0/2	13/13	–	3/3	2/3	4/7	2/2
HUANG Danhan	2/2	13/13	–	3/3	–	7/7	2/2

Note: Please refer to the section "Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members" for changes in directors.

### Training and Expertise Enhancement of Directors

In 2013, the Board of Directors paid much attention to enhance directors' expertise, with a special focus on arranging relevant trainings. All directors of the Bank fully observed Rule A6.5 of the Code as well as regulatory requirements of Chinese mainland and participated in many special training sessions focusing on topics such as interest rate liberalisation and commercial bank development, corporate governance of large banks, norms for annual report audit and

finances, laws and regulations on inside information and the Hong Kong Listing Rules. The Bank gave a detailed explanation of its business operations to all newly appointed non-executive directors and independent directors in 2013. The Bank's directors have also taken it upon themselves to enhance their professional skills in various ways, including writing and publishing professional articles and books, attending forums and seminars, participating special training sessions and giving public lectures, and conducting on-site research exercises at leading

## Corporate Governance

international banks and at the Bank's domestic and overseas branches.

### Directors' Liability Insurance

The Bank renewed the directors' liability insurance in 2013 to provide protection against claims arising from the lawful discharge of duties by the directors, thus encouraging the directors to fully perform their duties.

### Independence and Duty Performance of Independent Directors

There are currently five independent directors on the Board of Directors. This exceeds one-third of the total number of directors and is in compliance with the quorum requirement specified in the Articles of Association and relevant regulatory requirements. For the professional backgrounds and other details of the independent directors, please refer to the section "Directors, Supervisors and Senior Management Members". The independent directors serve as the Chairmen of the Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transactions Control Committee, respectively. As stipulated in relevant domestic regulatory requirements and Rule 3.13 of the Hong Kong Listing Rules, the Bank has received the annual confirmation in writing from each independent director with regard to his/her independence. Based on these confirmations and relevant information in possession of the Board of Directors, the Bank confirms their independent status.

In 2013, the Bank's independent directors attended meetings of the Board of Directors, reviewed proposals, participated in discussions and offered their professional opinions independently, objectively and diligently, in accordance with the Articles of Association, the *Procedural Rules for Board of Directors of Bank of China Limited and the Work Rules of Independent Directors of Bank of China Limited*.

Please refer to the section "Directors' Attendance of the Shareholders' Meeting, Meetings of the Board of Directors and Special Committees" for the attendance of independent directors at meetings.

In 2013, independent directors put forward recommendations on the Bank's strategic planning, capital management, liquidity risk management, data management, consolidated management, and so on. The recommendations were adopted and diligently implemented by the Bank.

In 2013, the independent directors did not raise any objection to the resolutions of the Board of Directors or its special committees.

### Specific Explanation and Independent Opinions of Independent Directors on the Guarantee Business of the Bank

Pursuant to the provisions and requirements set forth in the circular (ZhengJianFa [2003] No.56) issued by CSRC, and according to the principles of justice, fairness and objectivity, the Independent Directors of the Bank, Mr. CHOW Man Yiu, Paul, Mr. Jackson TAI, Mr. Nout WELLINK, Mr. LU Zhengfei and Mr. LEUNG Cheuk Yan have provided the following information regarding the Bank's guarantee business:

The guarantee business is one of the Bank's ordinary business activities. It has been approved by PBOC and CBRC and does not fall within the scope of guarantees as defined in the *Circular on Regulating Guarantee Businesses of Listed Companies*. The Bank has formulated specific management measures, operational processes and approval procedures in light of the risks of the guarantee business and carried out this business accordingly. The Bank's guarantee business principally comprises letters of guarantee. As at 31 December 2013, the outstanding amount of letters of guarantee issued by the Bank was RMB846.497 billion.

### **Responsibility Statement of Directors on Financial Reports**

The following statement, which sets out the responsibilities of the directors regarding financial statements, should be read in conjunction with, but understood separately from, the auditor's statement of their responsibilities as set out in the Independent Auditor's Report contained in this annual report.

The directors acknowledge that they are responsible for preparing financial statements of the Bank that truly represent the operating results of the Bank for each financial year. To the best knowledge of the directors, there was no material event or condition during the reporting period that might have a material adverse effect on the continuing operation of the Bank.

### ***Special Committees of the Board of Directors***

#### **Strategic Development Committee**

The Strategic Development Committee comprises eight members, including Chairman Mr. TIAN Guoli, Non-executive Directors Ms. SUN Zhijun, Ms. LIU Lina, Mr. ZHANG Xiangdong, Mr. ZHANG Qi, Mr. WANG Yong and Independent Directors Mr. Jackson TAI and Mr. Nout WELLINK. Chairman Mr. TIAN Guoli serves as the Chairman of the committee.

The committee is mainly responsible for reviewing the strategic development plans presented by the senior management, assessing the factors that may affect the strategies of the Bank and their implementation, and advising the Board with regard to strategy adjustments; reviewing the annual budget, strategic capital allocation (policies on capital structure, capital adequacy ratio and risk-reward trade-off), objectives of asset-liability management, IT development and other special strategic development plans of the Bank, and advising the Board accordingly; coordinating strategies on the overall development of various financial businesses and the development of domestic and overseas institutions, and deciding on the setup,

cancellation and increase or decrease of capital of domestic and overseas institutions within its scope of authorisation; designing and formulating key investment and financing plans and merger and acquisition plans of the Bank; and reviewing the substantial internal reorganisation and adjustment plans of the Bank, and advising the Board accordingly.

The Strategic Development Committee held five meetings in 2013. At these meetings, it mainly approved the proposal on profit distribution for 2012, the proposal on issuing qualified write-down capital instruments and the development strategy planning for 2013-2016 (including the capital management planning for 2013-2016). In response to changes in international and domestic economic and financial situations, the Strategic Development Committee stepped up its analysis of the operating environment, paid constant attention to opportunities and challenges brought about by interest and exchange rate liberalisation, deposit insurance scheme and other major policies on the Bank, and put forward many important comments and recommendations for formulating and implementing the Bank's strategic development plans and improving its capital management, thus providing strong support to the scientific decision-making of the Board of Directors.

#### **Audit Committee**

The Audit Committee comprises seven members, including Non-executive Directors Ms. SUN Zhijun, Mr. WANG Yong and Independent Directors Mr. CHOW Man Yiu, Paul, Mr. Jackson TAI, Mr. Nout WELLINK, Mr. LU Zhengfei and Mr. LEUNG Cheuk Yan. Independent Director Mr. LU Zhengfei serves as the Chairman of the committee.

The committee is mainly responsible for reviewing financial reports and other significant accounting policies and regulations formulated by the senior management; reviewing the external auditors' audit opinion, annual audit plan and recommendations for management; approving the internal annual audit priorities, the internal annual audit plan and

## Corporate Governance

budget; appraising the duty performance and work quality of the external auditors and internal audit and monitoring their independence; recommending the engagement, reappointment, replacement and audit fee of the external auditors; recommending the appointment and dismissal and appraising the performance of the Chief Audit Officer; overseeing the Bank's internal control function, reviewing significant deficiencies in internal control design and execution by the senior management and investigating fraud cases; reviewing the employee reporting system and urging the Bank to conduct fair investigations and take appropriate measures regarding matters reported by the employees.

The Audit Committee held five meetings in 2013. It mainly reviewed proposals such as the Bank's quarterly, interim and annual financial reports, the annual self-assessment report on internal control, the matter of requesting the Annual General Meeting to approve the appointment of external auditor for 2013 and the appointment and audit fee of the external auditor for 2014. In addition, the Audit Committee reviewed and approved the internal audit work plan and budget for 2013 and the internal audit priorities for 2014. It heard a report on major inspection findings by the internal audit function in 2012, a report on internal audit related to anti-money laundering and IT audit, a report on cases in 2013, a report on the audit progress of internal control by the external auditor, an assessment report on anti-money laundering and a report on the 2014 audit plan of the external auditor and on independence compliance. The Audit Committee undertook an important role in paying close attention to the improvement of business performance, enhancement of internal control and intensification of risk control of the Bank.

According to the *Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, prior to the start of audit field work by the auditors, the Audit Committee confirmed with the auditors the details of the 2013 audit plan, including areas of focus for auditing the 2013 Annual Report, risk assessment and identification

methods, the application of accounting standards, tests of internal control and fraud related procedures, and the allocation of human resources. In particular, the committee reminded the auditors to report any differences of judgment between the auditors and the senior management during the audit, as well as the process and results of reconciling such differences.

The Audit Committee heard and reviewed reports from the senior management concerning the Bank's business performance and major financial data. The committee also requested that the senior management submit the annual financial statements to the auditors in a timely manner, to ensure sufficient time for the annual audit. During the audit, the committee maintained independent discussions with the auditors and arranged independent meetings between the auditors and the independent directors. At its first meeting of 2014, the Audit Committee reviewed and approved the Bank's 2013 financial statements and submitted them to the Board of Directors for approval.

In accordance with the *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited*, the external auditors made a summary report on their work and submitted a report on their independence compliance to the committee. The Bank's senior management appraised external auditors' work. Based on this appraisal, the Audit Committee conducted its own assessment on the auditors' performance, effectiveness and independence in 2013. It discussed re-appointment matters, and decided to reappoint Ernst & Young Hua Ming LLP as the Bank's domestic auditor and internal control auditor for 2014, and to reappoint Ernst & Young as the Bank's international auditor for 2014. Such proposals have been submitted to the Board of Directors for approval.

### Risk Policy Committee

The Risk Policy Committee of the Bank comprises five members, including Executive Director Mr. WANG Yongli, Non-executive Director Ms. LIU Lina and Independent Directors Mr. CHOW Man Yiu, Paul, Mr.

Jackson TAI and Mr. Nout WELLINK. Independent Director Mr. Nout WELLINK serves as the Chairman of the committee.

The committee is mainly responsible for reviewing the Bank's risk management strategies, major risk management policies, procedures and systems, and providing suggestions to the Board of Directors; reviewing the Bank's major risk activities, and exercising its veto power in a reasonable manner over any transaction that will or may lead to debts to the Bank and/or expose the Bank to market risk in excess of the single transaction risk limit or the accumulated transaction risk limit approved by the Risk Policy Committee or the Board of Directors; monitoring the implementation of the Bank's risk management strategies, policies and procedures, and providing suggestions to the Board of Directors; reviewing the Bank's risk management situation, regularly assessing the duty performance of risk management and internal control by the senior management, departments and institutions of the Bank, including regularly hearing reports and requesting improvements.

The Risk Policy Committee held five meetings in 2013, in which it mainly reviewed and approved the Group's recovery and resolution plan, the statement and qualification plan of the Group's risk appetite, data management framework policy, management measures and limits for country risk, market risk limit and credit proposals exceeding the approval authority of the senior management. The committee also regularly reviewed the Group risk reports and progress reports regarding the Bank's implementation of the New Basel Capital Accord.

In addition, the committee paid constant attention to critical risk issues, such as the Bank's loans to certain industries, in response to changes in overseas and domestic economic and financial conditions and adjustments of the government's macro policies. The committee members brought forward important opinions and recommendations regarding the improvement of the Bank's risk governance

mechanism and the effective prevention and control of risks, including credit risk, market risk, operational risk, legal and compliance risk, liquidity risk, and so on.

### **Personnel and Remuneration Committee**

The Personnel and Remuneration Committee comprises five members, including Non-executive Director Mr. ZHANG Xiangdong, Mr. ZHANG Qi, and Independent Directors Mr. CHOW Man Yiu, Paul, Mr. LU Zhengfei and Mr. LEUNG Cheuk Yan. Independent Director Mr. CHOW Man Yiu, Paul serves as the Chairman of the committee.

The committee is mainly responsible for assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementations; reviewing the structure, size and composition of the Board of Directors on an annual basis, and making suggestions to the Board regarding the scale and composition of the Board of Directors; studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Board committees and the senior management, and making recommendations to the Board of Directors; identifying individuals suitably qualified to become directors and making recommendations to the Board of Directors on the selection of individuals nominated for directorships; performing preliminary review of the candidates for senior management members and the chairmen of the Board committees, selecting and nominating candidates for different Board committees, and reporting to the Board of Directors for approval; reviewing and monitoring the remuneration and incentive policies of the Bank; considering and examining the remuneration plan for directors, supervisors and senior management members, and making recommendations to the Board of Directors; and setting the performance appraisal standards for the senior management of the Bank, evaluating the performance of the directors and members of the senior management, and making recommendations to the Board of Directors.

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The Personnel and Remuneration Committee held five on-site meetings and two meetings by written resolution in 2013. At these meetings, the committee mainly approved proposals on the performance evaluation and remuneration distribution plan for the Chairman, executive directors and senior management members for 2012, the 2013 performance targets for the Group, performance targets for the Chairman, the President and other senior management members, proposal on election of Mr. TIAN Guoli as the Chairman of the Bank, proposals on nomination of candidates for executive directors, non-executive directors and independent directors, proposal on re-appointment of the Company Secretary of the Bank, and a proposal on *Bank of China Limited Board Diversity Policy*. The committee also reviewed the remuneration distribution plan for the Chairman of the Board of Supervisors and shareholder supervisors in 2012. The committee put forward important opinions and recommendations on further improving the Bank's performance evaluation management in compliance with regulatory requirements.

The procedures and methods for the nomination of directors and the specific requirements for nominating independent directors are specified in the Articles of Association. For details, please refer to articles 59, 103 and 135 of the Articles of Association, which can be found on the websites of SSE, HKEx and the Bank. During the reporting period, the Bank appointed or re-appointed directors in strict compliance with the Articles of Association.

### Connected Transactions Control Committee

The Connected Transactions Control Committee comprises five members, including Executive Director Mr. LI Zaohang, and Independent Directors Mr. CHOW Man Yiu, Paul, Mr. JACKSON TAI, Mr. LU Zhengfei and Mr. LEUNG Cheuk Yan. Independent Director Mr. LEUNG Cheuk Yan serves as the Chairman of the committee.

The committee is mainly responsible for administering connected transactions of the Bank in accordance with relevant laws, regulations and normative documents, and formulating administrative regulations with regard to connected transactions; confirming the Bank's connected parties according to laws, regulations and normative documents, and reporting the relevant confirmation to the Board of Directors and the Board of Supervisors; defining connected transactions of the Bank in accordance with laws, regulations and normative documents; examining connected transactions of the Bank pursuant to relevant laws, regulations and normative documents, as well as the business principles of justice and fairness; and examining information disclosure matters related to significant connected transactions of the Bank.

The Connected Transactions Control Committee held three meetings in 2013, in which it mainly reviewed and approved the report on the confirmation of connected parties list of the Bank and the schedule of the committee meetings in 2014. The committee also reviewed the special report of funds occupied by controlling shareholders and other related parties in 2012, the statement of the Bank's Connected Transactions in 2012, and the report on the *Implementation Rules for the Management of Connected Party Transactions of Bank of China Limited (2013 Version)*. During the reporting period, the committee paid constant attention to issues such as the IT system for Connected Transactions and transactions with key connected parties. The committee members offered important opinions and recommendations regarding IT system constructions and data report of the connected transactions, among others.

### Board of Supervisors

#### *Functions and Powers of the Board of Supervisors*

The Board of Supervisors is the Bank's supervisory organ and is responsible to the shareholders'

meeting. As stipulated in the Company Law and the Articles of Association of the Bank, the Board of Supervisors is accountable for overseeing the Bank's financial activities, internal control and the legality and compliance of the Board of Directors, the senior management and its members in performing their duties.

### ***Composition of the Board of Supervisors***

The Board of Supervisors currently comprises eight members. There are three shareholder supervisors (including the Chairman of the Board of Supervisors), three employee supervisors and two external supervisors. According to the Articles of Association, a supervisor has a term of office of three years and may serve consecutive terms by re-election and re-appointment. Shareholder supervisors and external supervisors are elected or replaced by the shareholders' meeting.

The Board of Supervisors has set up the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee to assist in performing its authorised duties. The special committees mentioned above are responsible to the Board of Supervisors, members of which are supervisors, and each committee shall have at least three members.

### ***Duty Performance of the Board of Supervisors***

In 2013, the Board of Supervisors and its special committees earnestly performed their supervisory responsibilities and reviewed relevant proposals through detailed discussion. The Board of Supervisors held six meetings and made related resolutions. The Duty Performance and Due Diligence Supervision Committee held one meeting, while the Finance and Internal Control Supervision Committee held four meetings. For the performance of, and supervisory opinions from the Board of Supervisors during the reporting period, please refer to the section "Report of the Board of Supervisors".

## **Senior Management**

### ***Functions and Powers of the Senior Management***

The senior management is the executive organ of the Bank. It is headed by the President, with executive vice presidents and other senior management members assisting the President's work. The main responsibilities of the President include: presiding over the Bank's daily administrative, business and financial management; organising the implementation of business plan and investment schemes; drafting basic management regulations and specific rules; nominating candidates for other senior management members; and reviewing employees' remuneration, benefit, reward and punishment measures.

### ***Duty Performance of the Senior Management***

In 2013, the senior management of the Bank managed the Bank's operations in accordance with the powers bestowed upon them by the Articles of Association and the authorisations of the Board of Directors, and carried out the Bank's development strategy based on the annual performance objectives approved by the Board of Directors. Following the strategic objective of "Serving Society, Delivering Excellence", the senior management remained focusing on efficiency, emphasised streamlining structure and managing risks, pushed forward the sound and rapid development of various businesses, and thus continuously enhanced the Bank's performance.

During the reporting period, the senior management of the Bank held seventeen regular meetings, in which it discussed and decided upon a series of significant matters, including the Group's business development, asset and liability management, risk management, IT construction, product innovation, human resources and performance management. It also convened one hundred and twenty-six special meetings to arrange for matters relating to corporate banking, personal banking, financial markets, risk management and internal control, overseas development and integrated operations.

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The senior management of the Bank presides over the Asset and Liability Management Committee, the Risk Management and Internal Control Committee (which governs the Anti-Money Laundering Committee, the Securities Investment and Management Committee and the Asset Disposal Committee) and the Procurement Review Committee. During the reporting period, all of the committees diligently fulfilled their duties and responsibilities as per the powers specified in their committee charters and the rights delegated by the Group Executive Committee, and strived to push forward the sound development of various operations of the Bank.

### Securities Transactions by Directors and Supervisors

Pursuant to domestic and overseas securities regulatory requirements, the Bank formulated and implemented the *Management Measures on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited (the "Management Rules")* to govern securities transactions by directors, supervisors and senior management members of the Bank. The terms of the *Management Rules* are more stringent than the mandatory standards set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* contained in Appendix 10 to the Hong Kong Listing Rules (the "*Model Code*"). All directors and supervisors confirmed that they have complied with the standards set out in both the *Management Rules* and the *Model Code* throughout the reporting period.

### Appointment of External Auditors

In 2011 and 2012, the Bank engaged PricewaterhouseCoopers Zhong Tian CPAs Limited Company as its domestic auditor and internal control auditor, and PricewaterhouseCoopers as its international auditor. According to the relevant requirements of MOF on the tenure of service of an external auditor engaged by a financial institution and upon the approval of the 2012 Annual General Meeting, the Bank engaged Ernst & Young Hua Ming LLP to audit its financial statements and internal control pursuant to CAS for 2013. Ernst & Young Hua Ming LLP entrusted Ernst & Young to audit financial statements of the Bank pursuant to IFRS.

Fees paid to Ernst & Young and its member firms for the audit of the financial statements of the Group, including those of the Bank's overseas subsidiaries and branches, were RMB185 million for the year ended 31 December 2013, of which the fees for internal control audit paid to Ernst & Young Hua Ming LLP totalled RMB15 million.

Ernst & Young and its member firms were not engaged in significant non-auditing services with the Bank in 2013. The Bank incurred RMB9.74 million for non-auditing services performed by Ernst & Young and its member firms for the year ended 31 December 2013.

Ernst & Young Hua Ming LLP and Ernst & Young have provided audit services to the Bank for one year. Mr. ZHANG Xiaodong and Mr. YANG Bo are the certificated public accountants who signed the auditor's report on the Group's financial statements prepared in accordance with CAS for the year ended 31 December 2013.

At the forthcoming 2013 Annual General Meeting, the Board of Directors will tender a resolution for review and approval regarding the proposal on engaging Ernst & Young Hua Ming LLP as the Bank's domestic auditor and internal control auditor for 2014, providing services of auditing its financial statements and internal audit pursuant to CAS; and engaging Ernst & Young as the Bank's international auditor for 2014, providing services of financial statements audit pursuant to IFRS.

### Investor Relations and Information Disclosure

In 2013, following the 2012 annual results and 2013 interim results announcements, the Bank successfully organised non-deal roadshows in which the senior management explained the Bank's strategies and operating performance to investors from different countries and regions including the Chinese mainland, Hong Kong, Europe and North America. The senior management listened earnestly to market concerns and feedback and were warmly welcomed by investors. In 2013, faced with strategic opportunities arising from interest rate liberalisation, RMB internationalisation and mobile internet, the

Bank proactively enhanced its investor relations activities by participating in influential investor conferences, expanding investors coverage base and earnestly communicating with investors and analysts to consistently highlight the Bank's differentiated competitive advantages. It received positive recognition from the capital market as a result. During the reporting period, the Bank's senior management and representatives of major departments held and attended 150 meetings with domestic and overseas institutional investors and analysts, and effectively improved the investment community's understanding of the Bank's investment value. The Bank's investment ratings were upgraded by major investment banks and its shareholder structure was further optimised. The Bank also upgraded its investor relations webpage to ensure that investors received comprehensive information and a user-friendly experience. The Bank exploited other communication channels including its telephone hotline and email. The Bank also replied investors' questions on the e-interaction online platform run by SSE. Its statistics on timeliness and comprehensiveness lead its peers.

The Bank continued to enhance management of its external credit rating affairs and improve the effectiveness, timeliness, professionalism in related communications. The Bank strengthened communication on multiple levels regarding its risk management, liquidity management, operating performance and development strategy. During the reporting period, Standard & Poor's Ratings Services raised the Bank's Stand-alone Credit Profile and the Bank's other credit ratings were reaffirmed by Moody's Investors Service, Fitch Ratings and other rating agencies.

In 2013, the Bank prepared and disclosed its regular and provisional reports in strict adherence to the principles of truthfulness, accuracy, completeness, timeliness and fairness. It continuously enhanced the pertinence, effectiveness and transparency of information disclosure in order to guarantee investors' access to relevant information.

The Bank thoroughly reviewed and revised the *Management Measures on Responsibility Investigation*

*on Material Information Disclosure Errors of Regular Reports of Bank of China Limited*, to further strengthen the work procedures and quality control related to its regular reports. During the reporting period, no material disclosure error in the Bank's regular reports was found. The Bank strictly carried out the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited* and other relevant regulatory rules, to ensure that inside information was kept confidential, a well-managed system was in place for registering those with access to inside information for filing purpose and their management, and that inside trading was strictly prohibited. The Bank further reinforced the accountability systems and information correspondence mechanisms within the Group and organised discussions and training sessions for information correspondents. The Bank paid close attention to relevant regulatory rules and requirements, revised the information disclosure work procedures and developed case studies to improve the initiation, planning and long-term perspective of its management work, and thus enhanced its information disclosure management ability and compliance level.

In 2013, the Bank once again received wide recognition for its investor relations and information disclosure performance. The Bank was awarded "the Greater China Top 100" by *IR Magazine*. The Bank also ranked among the "Top 100 Hong Kong listed companies 2013" awarded jointly by Tencent, Finet Group Limited and *Hong Kong Economic Journal*. The Bank was recognised as one of the "Companies with the Most Sustainable Investment Value" awarded by *Chinese Securities Journal*, "Gold Medal Board Secretary for IR" awarded by *Chinese Securities Journal*, and was again recognised as a "Top 50 listed company" by *Investor Journal Weekly* and a "Top 100 Listed Company by Capital Capacity" by China Center for Market Value Management. The 2012 annual report of the Bank was awarded again a "Gold Award" in the League of American Communications Professionals annual report competition, being among the "Top 50 Annual Report in Asia Pacific" and "Top 50 Annual Reports in China". It was also awarded a "Silver Award" for written text by Annual Report Competition.

# Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited Consolidated Financial Statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2013.

## Principal Activities

The Bank provides a range of banking and related financial services, including commercial banking, investment banking, insurance, direct investment and investment management, fund management and aircraft leasing business.

## Major Customers

During the reporting period, the five largest customers of the Group accounted for less than 30% of the interest income and other operating income of the Group.

## Results and Profit Distribution

The results of the Group for 2013 are set out in the Consolidated Financial Statements. The Board

of Directors has recommended a final dividend for 2013 of RMB0.196 per share (before tax), subject to the approval of the forthcoming Annual General Meeting scheduled on Thursday, 12 June 2014. If approved, the 2013 final dividend of the Bank will be denominated and declared in RMB and paid in RMB or Hong Kong dollars. For such conversion, RMB will be converted into Hong Kong dollars based on the average exchange rate as announced by PBOC prevailing one week before 12 June 2014 (inclusive), being the date of the Bank's Annual General Meeting. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

At the 2012 Annual General Meeting held on 29 May 2013, a final dividend for 2012 of RMB0.175 per share (before tax) was approved for payment. The distribution plan was accomplished in July 2013 and the actual distributed amount was RMB48.851 billion (before tax). No interim dividend was paid for the period ended on 30 June 2013 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital in 2013.

## Dividend Payout and Capitalisation of the Capital Reserve to Share Capital for the Past Three Years

Year of dividend distribution	Dividend per share (before tax) (Unit: RMB)	Total dividend (before tax) (Unit: RMB million)	Profit attributable to equity holders of the Bank (Unit: RMB million)	Payout ratio	Capitalisation of the capital reserve to share capital
2012	0.175	48,851	139,656	35%	Nil
2011	0.155	43,268	124,622	35%	Nil
2010	0.146	40,756	104,793	39%	Nil

## Formulation and Implementation of Cash Dividend Policy

In 2009, the Bank amended the Articles of Association to state that the Bank should maintain the continuity and stability of its profit distribution policy.

In 2011, the Board of Directors amended the dividend distribution policy. The Board of Directors agreed that

the dividend would be distributed at 35%–45% of the Group's yearly net profits from 2010 to 2013. This resolution was duly disclosed.

In 2013, the Bank amended the Articles of Association related to the cash dividend. This amendment clarified the Bank's profit distribution principles, policy and adjustment procedures, the consideration process of the profit distribution plan and other matters. The

# Report of the Board of Directors

amendment stated that the Bank shall adopt cash dividend as the priority form of profit distribution. Except under special circumstances, the Bank shall adopt cash as the form of dividend distribution where there is profit in that year and the accumulated undistributed profit is positive, and that the cash distribution of the dividend shall not be less than 10% of the profit after tax attributable to the shareholders of the Bank. The amendment also stated that the Bank shall offer online voting to shareholders when considering amendments to profit distribution policy and profit distribution plan.

The procedure to formulate the aforementioned dividend distribution policy was compliant, transparent and complete. The criterion and ratio of the dividend are explicit and clear. The independent directors fully expressed their opinions and the legitimate rights and interests of minority shareholders were fully respected and protected. The procedure was in line with the provisions of the Articles of Association and other rules and regulations.

The dividend distribution plan of the Bank has been approved by the shareholders' meeting. In 2013, the Bank distributed dividends for 2012 in strict compliance with the Articles of Association, its dividend distribution policy and the shareholders' meeting resolution on profit distribution.

## Closure of Register of H-Share Holders

The H-Share register of members of the Bank will be closed from Monday, 23 June to Thursday, 26 June 2014 (both days inclusive) for the purpose of determining the list of shareholders entitled to the final dividend. For such entitlements, H-Share Holders who have not registered the related transfer documents are required to lodge them, together with the relevant share certificates, with the H-Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 20 June 2014. The ex-dividend date of the Bank's shares will be on Thursday, 19 June 2014.

## Donations

Charitable and other donations made by the Group during the reporting period amounted to approximately RMB60.8472 million.

## Share Capital

As at the latest practicable date prior to the issue of this annual report, the Bank had sufficient public float based on publicly available information, in compliance with the minimum requirement of the Hong Kong Listing Rules and the waiver granted by the Hong Kong Stock Exchange at the time of the Bank's listing.

## Reserves

Please refer to the "Consolidated Statement of Changes in Equity" for details of changes in the reserves of the Bank.

## Distributable Reserves

Please refer to Note V.37 to the Consolidated Financial Statements for details of distributable reserves of the Bank.

## Fixed Assets

Please refer to Note V.20 to the Consolidated Financial Statements for details of the fixed assets of the Bank.

## Financial Summary

Please refer to the section "Financial Highlights" for the summary of the annual results, assets and liabilities of the Bank for the last five years.

## Connected Transactions

Under the Hong Kong Listing Rules, transactions between the Bank and its connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions to the Bank. Such transactions are monitored and administered by the Bank in

## Report of the Board of Directors

accordance with the Hong Kong Listing Rules. In 2013, the Bank has regularly engaged in a number of connected transactions with its connected persons in the ordinary and usual course of its business. Such transactions are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements according to the Hong Kong Listing Rules 14A.31 or 14A.33.

### Directors' Interests in Competing Businesses

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

### Remuneration of Directors, Supervisors and Senior Management Members

Please refer to the section "Directors, Supervisors and Senior Management Members" for details of the remuneration of directors, supervisors and senior management members.

### Directors' and Supervisors' Service Contracts

None of the directors or supervisors of the Bank has a service contract with the Bank or its subsidiaries that is not determinable within one year without payment of compensation other than normal statutory compensation.

### Directors' and Supervisors' Interests in Contracts of Significance

No contract of significance, in relation to the Bank's business to which the Bank, its holding companies, or its subsidiaries or fellow subsidiaries was a party and in which a director or a supervisor had either a direct or indirect material interest subsisted during the reporting period.

### Directors' and Supervisors' Rights to Acquire Shares

During the reporting period, none of the Bank, its holding companies, or any of its subsidiaries or fellow subsidiaries was party to any arrangements that would enable the Bank's directors and supervisors, or their respective spouses or children below the age of 18, to benefit by acquiring shares in, or debentures of, the Bank or any other body corporate.

### Directors' and Supervisors' Interests in Shares, Underlying Shares and Debentures

During the reporting period, Independent Director Mr. LEUNG Cheuk Yan held an interest in 5,000 ordinary shares of BOCHK (Holdings), an associated corporation of the Bank. The aforementioned interest was sold on 16 December 2013.

Save as disclosed above, to the best knowledge of the Bank, as at 31 December 2013, none of the directors or supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Hong Kong Listing Rules.

### Financial, Business and Family Relations among Directors

Directors of the Bank are not related to one another with respect to finance, business and family, or other material relations.

## Substantial Shareholder Interests

Please refer to the section “Changes in Share Capital and Shareholdings of Shareholders” for the details of the Bank’s substantial shareholder interests.

## Management Contracts

No contract concerning the management or administration of the whole or any substantial part of the business of the Bank was entered into or existed during the year.

## Share Appreciation Rights Plan and Share Option Scheme

Please refer to Note V.33 to the Consolidated Financial Statements for details of the share appreciation rights plan and share option scheme of the Group.

## Purchase, Sale or Redemption of the Bank’s Shares

As at 31 December 2013, approximately 10.13 million shares of the Bank were held as treasury shares. Please refer to Note V.36 to the Consolidated Financial Statements for details of the purchase, sale or redemption of the Bank’s shares by the Bank and its subsidiaries.

## Pre-emptive Rights

There are no compulsory provisions for pre-emptive rights requiring the Bank to offer new shares to existing shareholders in proportion to their existing shareholdings under the Articles of Association. The Articles of Association provide that the Bank may increase its capital by public offering, private placing, issuing rights of new shares to existing shareholders or allotting new shares to existing shareholders, transferring its capital reserve, issuing convertible bonds, or through other means as permitted by laws, administrative regulations and relevant regulatory authorities.

## Use of Raised Funds

All proceeds raised from initial public offerings, the issuances of subordinated bonds and Convertible Bonds, Rights Issue of A Shares and H Shares have been used to replenish the Bank’s capital and increase the level of capital adequacy. No further capital were raised during the reporting period of the Bank.

For details, please refer to the related announcements or publications on the websites of SSE, HKEx and the Bank and the Notes to the Consolidated Financial Statements.

## Tax and Tax Relief

Shareholders are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. Shareholders should seek professional advice from their tax and legal advisors. The following cited laws, regulations and stipulations are all relevant provisions issued before 31 December 2013.

### *A-Share Holders*

In accordance with the *Notice on Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies* (Caishui [2012] No. 85) (the “Notice”) issued jointly by MOF, State Administration of Taxation, PRC and CSRC, for shares of listed companies obtained by individuals from public offerings or the market, where the holding period is less than one month (inclusive), the dividends shall be counted as taxable income in the full amount; where the holding period is more than one month and less than one year (inclusive), 50% of the dividends shall be counted as taxable income on a provisional basis; and where the holding period exceeds one year, 25% of the dividends shall be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. The individual income tax levied on stock dividends obtained by equity investment funds from

## Report of the Board of Directors

listed companies is also calculated in accordance with the aforementioned rules.

Article 26.2 of the *Enterprise Income Tax Law of the People's Republic of China* provides that dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises shall be tax-free.

In accordance with Article 83 of the *Implementation Rules of Enterprise Income Tax Law of the People's Republic of China*, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises referred to in Article 26.2 of the *Enterprise Income Tax Law of the People's Republic of China* mean those investment proceeds obtained from direct investment of resident enterprises into other resident enterprises, excluding those investment proceeds obtained from publicly offered and tradable stocks of resident enterprises held for less than 12 months on a continuing basis.

As per the *Enterprise Income Tax Law of the People's Republic of China* and the *Implementation Rules of Enterprise Income Tax Law of the People's Republic of China*, dividend income obtained by non-resident enterprises shall be levied at a preferential enterprise income tax rate of 10%.

### **H-Share Holders**

In accordance with the relevant PRC tax regulations, the dividend received by overseas resident individual shareholders from stocks issued by domestic non-foreign investment enterprises in Hong Kong is subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders

of stocks issued by domestic non-foreign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or to the tax arrangements between the Chinese mainland and Hong Kong and Macau. Accordingly, the Bank withholds 10% of the dividend to be distributed to the individual H-Share Holders as individual income tax unless otherwise specified by the relevant tax regulations and tax agreements.

As stipulated by the *Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H-Share Holders Who are Overseas Non-resident Enterprise by Chinese Resident Enterprises* (Guoshuihan [2008] No.897) published by State Administration of Taxation, PRC, when Chinese resident enterprises distribute annual dividends for 2008 onwards to H-Share Holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%.

Under current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by the Bank.

### **Auditors**

Please refer to the section "Corporate Governance — Appointment of External Auditors" for details of the Bank's external auditors.

On behalf of the Board of Directors

**TIAN Guoli**

*Chairman*

26 March 2014

# Report of the Board of Supervisors

## Meetings of the Board of Supervisors

In 2013, the Bank convened six on-site meetings of the Board of Supervisors on 30 January, 26 March, 25 April, 29 August, 25 September and 30 October, respectively, and one meeting of the Board of Supervisors via written resolution. At these meetings, the Board of Supervisors reviewed and approved 20 proposals on the Bank's periodic reports, 2012 profit distribution plan, 2012 internal control self-assessment report, 2012 work report of the Board of Supervisors, 2013 work plan of the Board of Supervisors, evaluation opinions on the duty performance of directors and senior management members for 2012, nomination of candidates for supervisors of the Bank, among others.

In 2013, the attendance rate of each supervisor of the meetings of the Board of Supervisors is given below:

Supervisors	Number of meetings attended in person/Number of meetings convened during term of office
LI Jun	7/7
WANG Xueqiang	7/7
LIU Wanming	7/7
DENG Zhiying	7/7
LIU Xiaozhong	7/7
XIANG Xi	7/7
MEI Xingbao	5/7
BAO Guoming	7/7

In 2013, the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held one meeting, at which it reviewed and approved the proposal on evaluation opinions on the duty performance of directors and senior management members for 2012, as well as other proposals. The Finance and Internal Control Supervision Committee of the Board of Supervisors held four meetings, at which it reviewed and approved the Bank's periodic reports, 2012 profit distribution plan, 2012 internal control self-assessment report and other proposals.

## Performance of Supervision and Inspection by the Board of Supervisors

In 2013, focusing on the central tasks of the Bank, the Board of Supervisors fully implemented regulatory requirements, emphasised the Bank's working priorities and pursued practical results. It earnestly carried out the supervision of duty performance, finances, internal controls and risk management, pushed forward the planning and implementation of major decisions and continuously enhanced the efficiency of its supervision of the Bank's corporate governance, strategy implementation, operational management, risk management and internal control, so as to safeguard the interests of shareholders and the Bank.

### Carry out supervision and evaluation on the duty performance of directors and senior management members.

The Board of Supervisors attended meetings of the Board of Directors, special committees and the senior management as non-voting attendees and supervised the compliance level of major decision-making processes in line with regulatory guidelines and requirements. By collecting, sorting and analysing important information including meetings, keynote speeches, instructions and the meeting minutes of directors and senior management members on a monthly basis, the Board of Supervisors maintained an in-depth understanding of how major matters are being implemented across the Bank, including the Bank's development strategy, business plan, capital and risk management and internal audit. It also strengthened the supervision of the duty performance process of directors and senior management members. In addition, the Board of Supervisors formulated an annual evaluation plan for duty performance and diligently organised annual duty performance interviews with directors and senior management members. It also exchanged views on the progress and effectiveness of major tasks as well as on relevant opinions and recommendations, objectively and fairly evaluated the duty performance of the Board of

## Report of the Board of Supervisors

Directors, the senior management and their members, and developed annual evaluation opinions on duty performance, so as to urge directors and senior management members to perform their duties with diligence.

### **Increase the pertinence and accuracy of financial, internal controls and risk management supervision.**

The Board of Supervisors collected information on the finances, risks and internal controls of the Bank and other banks by attending meetings of the Board of Directors, special committees and the Executive Committee and other means and analysed the information on a monthly basis. It carried out more targeted supervision of the Bank's finances, risks, and internal controls by strengthening comprehensive and forward-looking judgment and focusing on key issues.

First, it enhanced supervision of material financial matters. The Board of Supervisors held four special meetings with relevant departments of the Head Office with regard to the compilation, review and disclosure of the periodic financial reports. It also heard reports on financial report compilation, material financial matters, mechanisms building for risk assets variations and risk management, and reports on major internal audit findings, paying special attention to the implementation of 2013 annual business plan and financial budget, the applicability and accuracy of accounting policies, legality and compliance of major financial decisions and effectiveness of risk management and internal controls. The relevant department actively responded to opinions and suggestions in a timely manner by the Board of Supervisors and made continuous improvements.

Second, it reinforced supervision on external audit quality. As there were changes in the external auditors of the Bank, the Board of Supervisors enhanced communications with auditors and urged

them to become familiar with the Bank's operation and financial position as soon as possible. It heard audit plans and reports on audit opinions on three occasions, and required external auditors to further improve audit quality and make more valuable audit suggestions.

Third, it deepened supervision of internal controls and risk management. To effectively carry out supervision of internal controls, the Board of Supervisors regularly summarised and analysed supervision opinions, major problems found in internal and external audits and corrective actions taken, followed up the compliance of CARPALS indicators regulated by CBRC, and constantly tracked the progress and effectiveness of key risk management and internal control tasks. The Board of Supervisors also paid close attention to the dynamics of industrial and regional credit risks such as those in overcapacity industries, real estate, and local government financing vehicles, as well as interbank business, liquidity risks and IT progress. In addition, it reminded and urged the senior management to step up response and prevention measures, with the underlying aim of "no systemic or regional risk occurred".

### **Carry out special surveys on core issues and actively provide constructive recommendations.**

The Board of Supervisors continued to conduct special surveys as an important means of its duty performance. Its survey team visited 22 domestic and overseas branches and subsidiaries to carry out research on important operational management issues at the basic level based on actual conditions. Supervisors actively provided pertinent opinions and suggestions in the meetings of the Board of Directors and the senior management based on the survey results, making helpful references to better decisions and implementations. In response to the opportunities and challenges brought about by RMB internationalisation,

## Report of the Board of Supervisors

interest rate liberalisation and the spread of mobile internet, the Board of Supervisors brought its strengths into play to support the strategic goal of "Serving Society, Delivering Excellence". It focused on the key issues of improving outlet efficiency, developing internal dynamics and improving management of the Bank's off-balance sheet wealth management business. It learnt comprehensively about actual frontline conditions by carrying out special surveys on departments of the Head Office, branches and subsidiaries, extensively collected the wisdom and demands of all stakeholders, thus enhancing the scope and intensity of its supervision activities. The Board of Supervisors ensured a timely exchange of views with relevant departments and branches regarding prominent problems identified in surveys, submitted survey reports and supervision proposals to the senior management, and helped to refine policies and measures and develop approaches to improvement so as to build an excellent bank.

**Implement regulatory guidance to strengthen self-building.** The CBRC issued the *Guidance on the Work of the Board of Supervisors of Commercial Banks* and the *Guidance on Corporate Governance of Commercial Banks*, specifying the direction and route of corporate governance for commercial banks and providing guidelines for the work of the Board of Supervisors. The Board of Supervisors paid close attention to the guidelines and steadily implemented them through various measures, which includes: formulating measures for implementing supervision on finances and internal controls, and revising measures for the duty performance evaluation of directors and senior management members as well as working rules of special committees; adjusting the terms of services

of supervisors, including electing three shareholder supervisors and one employee supervisor; carrying out annual evaluation of supervisors after formulating measures for evaluating their duty performance, and improving incentive and restraint mechanisms; holding trainings sessions with special surveys as case studies, concerning supervisors' duty performance, and arranging for supervisors to attend CBRC's training sessions for directors and supervisors of large banks, so as to enhance the quality and capability of duty performance; organising and participating in the 2013 seminar for boards of supervisors of controlling and participating banks hosted by Huijin reaching broad consensus and achieving positive results by exchanging views with substantial shareholders, regulators and peers' boards of supervisors on how to fully play the rule of board of supervisors under new circumstances and how to actively prevent systematic risks. The Office of Board of Supervisors also gave full play to its role of consultancy and service guarantee, and further improved its working efficiency and executive capability.

The work of the Board of Supervisors was well recognised and supported by the Board of Directors and the senior management in 2013. The Board of Supervisors fully realised its role as an effective check and balance within the Bank's structure, which further enhanced the Bank's corporate governance capacity.

During the reporting period, the Board of Supervisors held no objections to such matters under its supervision as the Bank's operational and legal compliance, financial position, use of capital raised, purchase and sale of assets, connected transactions and internal controls.

# Significant Events

## **Material Litigation, Arbitration and Issues of Media Interest**

The Bank was involved in certain litigation and arbitration cases in its regular course of business. In addition, because of the scope and scale of the Bank's international operations, the Bank is from time to time subject to a variety of claims made by plaintiffs under the laws of various jurisdictions in which the Bank operates, including those sensitive allegations such as anti-money laundering. After consulting legal professionals, the senior management holds that none of the litigation and arbitration cases will have a significant impact on the financial position or operating results of the Bank at the current stage.

During the reporting period, there was no material issue attracting negative media interest.

## **Purchase, Sale, and Merger and Acquisition of Assets**

During the reporting period, the Bank undertook no material purchase, sale, merger or acquisition of assets.

## **Implementation of Stock Incentive Plan during the Reporting Period**

The Bank approved a long-term incentive policy, including the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan, at the Board Meeting and the extraordinary shareholders' meeting held in November 2005. To date, the Management Stock Appreciation Rights Plan and the Employee Stock Ownership Plan have not been implemented.

## **Significant Connected Transactions**

The Bank had no significant connected transactions during the reporting period. For details of the related party transactions as defined by the relevant accounting standards by the end of the reporting period, please refer to Note V.42 of the Consolidated Financial Statements.

## **Major Contracts and the Enforcement thereof**

### ***Material Custody, Sub-contracts and Leases***

During the reporting period, the Bank did not take any significant custody of, sub-contract or lease any material business assets from other companies, or allow its material business assets to be subject to such arrangements that are required to be disclosed.

## ***Material Guarantee Business***

As approved by PBOC and CBRC, the Bank's guarantee business is an off-balance sheet item in the ordinary course of its business. The Bank operates the guarantee business in a prudent manner and has formulated specific management measures, operational processes and approval procedures in accordance with the risks of the guarantee business and carries out this business accordingly. During the reporting period, save as disclosed above, the Bank did not enter into any material guarantee business that is required to be disclosed.

## **Misappropriation of Funds for Non-operating Purposes by Controlling Shareholder and Other Related Parties**

During the reporting period, there was no misappropriation of the Bank's funds by its controlling shareholder or other related parties for non-operating purposes.

## **Undertakings**

Huijin made a "non-competing commitment" when the Bank launched its IPO to the effect that, so long as Huijin continues to hold any of the Bank's shares or is deemed to be a controlling shareholder or a connected person of a controlling shareholder in accordance with the laws or listing rules of PRC, or of the place where the Bank's shares are listed, it will not engage or participate in any competing commercial banking activities, including but not limited to extending loans, taking deposits and providing settlement, or providing fund custodian, bank card and currency exchange services. However, Huijin may, through its investments in other commercial banks, undertake or participate in certain competing businesses. To that regard, Huijin has undertaken that it will: (i) treat its investment in commercial banks on an equal footing and not take advantage of its status as a holder of the Bank's shares or take advantage of the information obtained by virtue of such status to make decisions or judgments against the Bank and in favour of other commercial banks; and (ii) exercise its shareholder's rights in the Bank's best interests. During the reporting period, there was no breach of material undertakings by Huijin.

## **Disciplinary Actions Imposed on the Bank and its Directors, Supervisors and Senior Management Members**

During the reporting period, neither the Bank nor any of its directors, supervisors or senior management

members were subject to investigation, administrative punishment or censure by CSRC or were publicly reprimanded by any stock exchange. No other regulatory administration has imposed any penalty on the Bank that had a material impact on the Bank's operation.

### Shares in Other Listed Companies and Financial Enterprises Held by the Group

#### Investment Securities

The investment securities held by the Bank and its subsidiaries during the regular course of business are as follows:

No.	Type of securities	Securities code	Company/ securities name	Initial investment cost (unit: RMB)	Securities held at period beginning (unit: share)	Securities held at period end (unit: share)	Carrying value at period end (unit: RMB)	Proportion of the total investment securities at period end	Gains/(losses) during the reporting period (unit: RMB)
1	Stock	601318	Ping An of China	748,271,106	-	19,010,570	798,763,431	9.48%	(49,558)
2	Stock	600741	HASCO	612,161,340	-	56,158,916	573,413,704	6.80%	3,058,380
3	Stock	600900	CYPC	618,865,677	-	88,056,023	560,397,923	6.65%	3,091,646
4	Stock	3315 HK	Goldpac Group Limited	184,456,740	-	90,229,397	532,747,023	6.32%	348,290,283
5	Stock	000651	GREE	247,410,437	-	8,675,887	285,281,908	3.39%	(487,310)
6	Stock	MA	MasterCard Inc.	-	55,679	55,679	279,042,930	3.31%	112,287,743
7	Stock	939 HK	CCB	275,520,648	15,220,809	57,868,863	266,154,526	3.16%	13,439,108
8	Stock	600519	Kweichow Moutai Co., Ltd.	330,567,426	-	1,958,689	253,240,484	3.01%	(799,882)
9	Stock	000002	VANKE-A	221,876,635	-	23,552,539	190,453,576	2.26%	(728,661)
10	Stock	600585	ACC	173,156,438	-	10,410,373	177,773,406	2.11%	543,353
Other investment securities held at period end				4,285,347,141	-	-	4,509,138,028	53.51%	(1,008,922,169)
Gains/(losses) of investment securities sold during the reporting period				-	-	-	-	-	111,388,218
<b>Total</b>				<b>7,697,633,588</b>	<b>-</b>	<b>-</b>	<b>8,426,406,939</b>	<b>100.00%</b>	<b>(418,888,849)</b>

Notes:

- The table lists the top ten investment securities held by the Group in descending order according to their carrying value at period end.
- Investment securities listed in this table include stocks, warrants, convertible bonds and open-ended and close-ended funds, which are classified under financial assets at fair value through profit or loss.
- "Other investment securities held at period end" refers to investment securities other than the top ten investment securities listed above held by the Group by the end of the reporting period.

#### Stocks of Other Listed Companies Held by the Group

Stock code	Securities name	Initial investment cost (unit: RMB)	Stocks held at period beginning (unit: share)	Proportion of total capital of the invested company at period beginning	Stocks held at period end (unit: share)	Proportion of total capital of the invested company at period end	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase/ (decrease) of equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
549 HK	QIFENG FIBER	54,349,575	94,841,726	10.95%	94,841,726	10.95%	26,843,243	-	(4,026,487)	Available for sale equity investment	Joint-stock reform
2008 HK	PHOENIX TV	306,422,657	412,000,000	8.30%	412,000,000	8.30%	910,199,464	16,519,634	103,652,608	Available for sale equity investment	Joint-stock reform
<b>Total</b>		<b>360,772,232</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>937,042,707</b>	<b>16,519,634</b>	<b>99,626,121</b>		

Notes:

- The table lists stocks of listed companies in which the Group had a shareholding of 5% or above, which are classified as long-term equity investments or available for sale equity investments.
- "Gains during the reporting period" refers to dividend income.

## Significant Events

### *Equity Investments in Unlisted Financial Companies Held by the Group*

Company name	Initial investment cost (unit: RMB)	Equity held at period beginning (unit: share)	Proportion of total capital of the invested company at period beginning	Equity held at period end (unit: share)	Proportion of total capital of the invested company at period end	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
China Bond Insurance Co., Ltd.	987,555,254	-	14%	-	14%	1,162,595,081	107,971,826	5,902,360	Available for sale equity investment	Investment
JCC Financial Company Limited	94,275,507	-	13%	-	13%	259,760,346	40,323,353	-	Investment in associates and joint ventures	Investment
The Debt Management Company Limited	13,051	1,660	11%	1,660	11%	13,051	-	-	Available for sale equity investment	Investment
Hunan Valin Iron & Steel Group Finance Co., Ltd.	56,589,420	-	10%	-	10%	89,497,999	5,729,730	-	Investment in associates and joint ventures	Investment
<b>Total</b>	<b>1,138,433,232</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,511,866,477</b>	<b>154,024,909</b>	<b>5,902,360</b>		

Notes:

- 1 Financial companies include securities firms, commercial banks, insurance companies, futures companies, trust companies, among others.
- 2 The table lists equity investments in unlisted financial companies in which the Group held a proportion of 5% or more of the total shares.
- 3 Carrying value is value after the reduction of impairment allowance.
- 4 "Gains during the reporting period" refers to dividend income, investment income of associates and joint ventures.

### *Trading of Stocks of Other Listed Companies during the Reporting Period*

	Shares held at period beginning (unit: share)	Shares purchased during the reporting period (unit: share)	Shares sold during the reporting period (unit: share)	Shares held at period end (unit: share)	Amount of funds used (unit: RMB)	Gains during the reporting period (unit: RMB)
Trading of stocks of other listed companies	1,427,842,176	785,719,994	(463,535,106)	1,750,027,064	7,876,657,739	313,932,967

# Independent Auditors' Report



22/F, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

## To the shareholders of Bank of China Limited

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 128 to 312, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement 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.

## Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

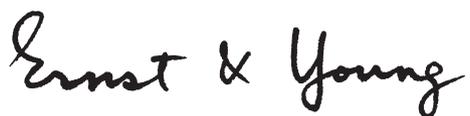
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

# Independent Auditors' Report (Continued)

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial positions 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.

The image shows the handwritten signature of Ernst & Young in a cursive, black ink style.

**Ernst & Young**  
Certified Public Accountants

Hong Kong,  
26 March 2014

# Consolidated Financial Statements

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# Consolidated Income Statement

For the year ended 31 December 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2013	2012 (Restated)*
Interest income	V.1	518,995	506,528
Interest expense	V.1	(235,410)	(249,564)
<b>Net interest income</b>		<b>283,585</b>	256,964
Fee and commission income	V.2	88,585	75,198
Fee and commission expense	V.2	(6,493)	(5,275)
<b>Net fee and commission income</b>		<b>82,092</b>	69,923
Net trading gains	V.3	7,183	8,451
Net gains on investment securities		594	2,288
Other operating income	V.4	34,055	28,550
<b>Operating income</b>		<b>407,509</b>	366,176
Operating expenses	V.5	(172,314)	(159,729)
Impairment losses on assets	V.8	(23,510)	(19,387)
<b>Operating profit</b>		<b>211,685</b>	187,060
Share of results of associates and joint ventures	V.19	1,092	613
<b>Profit before income tax</b>		<b>212,777</b>	187,673
Income tax expense	V.9	(49,036)	(41,927)
<b>Profit for the year</b>		<b>163,741</b>	145,746
<b>Attributable to:</b>			
Equity holders of the Bank		156,911	139,656
Non-controlling interests		6,830	6,090
		<b>163,741</b>	145,746
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)	V.10		
— Basic		0.56	0.50
— Diluted		0.54	0.48

\* For details of the restatement, please refer to Note II.23.

For details of the dividends paid or proposed please refer to Note V.37.3.

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

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Year ended 31 December	
	2013	2012 (Restated)*
<b>Profit for the year</b>	<b>163,741</b>	145,746
<b>Other comprehensive income:</b>		
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Fair value (losses)/gains on available for sale financial assets:		
Amount recorded in equity	<b>(10,037)</b>	7,123
Less: related income tax impact	<b>2,724</b>	(1,361)
Amount transferred to the income statement	<b>293</b>	(1,520)
Less: related income tax impact	<b>(21)</b>	435
	<b>(7,041)</b>	4,677
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	<b>(40)</b>	(57)
Less: related income tax impact	<b>5</b>	2
	<b>(35)</b>	(55)
Exchange differences from the translation of foreign operations	<b>(5,483)</b>	670
Less: net amount transferred to the income statement from other comprehensive income	<b>323</b>	311
	<b>(5,160)</b>	981
Other	<b>300</b>	101
Subtotal	<b>(11,936)</b>	5,704
<b>Items that will not be reclassified to profit or loss:</b>		
Actuarial gains/(losses) on defined benefit plans	<b>160</b>	(293)
Less: related income tax impact	<b>(39)</b>	69
Subtotal	<b>121</b>	(224)
<b>Other comprehensive income for the year, net of tax</b>	<b>(11,815)</b>	5,480
<b>Total comprehensive income for the year</b>	<b>151,926</b>	151,226
<b>Total comprehensive income attributable to:</b>		
Equity holders of the Bank	<b>147,503</b>	144,021
Non-controlling interests	<b>4,423</b>	7,205

\* For details of the restatement, please refer to Note II.23.

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

# Consolidated Statement of Financial Position

As at 31 December 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2013	2012
<b>ASSETS</b>			
Cash and due from banks and other financial institutions	V.11	<b>702,584</b>	775,574
Balances with central banks	V.12	<b>2,132,001</b>	1,934,297
Placements with and loans to banks and other financial institutions	V.13	<b>660,049</b>	447,299
Government certificates of indebtedness for bank notes issued	V.26	<b>82,069</b>	70,554
Precious metals		<b>193,208</b>	150,534
Financial assets at fair value through profit or loss	V.14	<b>75,200</b>	71,590
Derivative financial assets	V.15	<b>40,823</b>	40,188
Loans and advances to customers, net	V.16	<b>7,439,742</b>	6,710,040
Investment securities	V.17	<b>2,181,270</b>	2,138,934
— available for sale		<b>701,196</b>	686,400
— held to maturity		<b>1,210,531</b>	1,183,080
— loans and receivables		<b>269,543</b>	269,454
Investment in associates and joint ventures	V.19	<b>13,368</b>	12,382
Property and equipment	V.20	<b>158,968</b>	150,324
Investment properties	V.21	<b>20,271</b>	17,142
Deferred income tax assets	V.34	<b>22,928</b>	21,292
Other assets	V.22	<b>151,818</b>	140,465
<b>Total assets</b>		<b>13,874,299</b>	12,680,615

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

# Consolidated Statement of Financial Position (Continued)

As at 31 December 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2013	2012
<b>LIABILITIES</b>			
Due to banks and other financial institutions	V.24	1,551,624	1,553,192
Due to central banks	V.25	200,939	130,022
Bank notes in circulation	V.26	82,212	70,733
Placements from banks and other financial institutions	V.27	339,265	313,004
Derivative financial liabilities	V.15	36,212	32,457
Due to customers	V.28	10,097,786	9,173,995
— at amortised cost		9,941,288	9,009,978
— at fair value		156,498	164,017
Bonds issued	V.29	224,704	199,133
Other borrowings	V.30	29,570	34,045
Current tax liabilities	V.31	40,031	34,994
Retirement benefit obligations	V.32	4,815	5,642
Deferred income tax liabilities	V.34	3,385	3,838
Other liabilities	V.35	302,279	268,018
<b>Total liabilities</b>		<b>12,912,822</b>	<b>11,819,073</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Bank</b>			
Share capital	V.36.1	279,365	279,147
Capital reserve	V.36.1	116,121	115,451
Treasury shares	V.36.2	(28)	(15)
Statutory reserves	V.37.1	80,225	65,362
General and regulatory reserves	V.37.2	144,450	131,909
Undistributed profits		323,673	242,899
Reserve for fair value changes of available for sale securities	V.38	1,652	7,276
Currency translation differences		(21,542)	(17,352)
		923,916	824,677
<b>Non-controlling interests</b>	V.39	<b>37,561</b>	<b>36,865</b>
<b>Total equity</b>		<b>961,477</b>	<b>861,542</b>
<b>Total equity and liabilities</b>		<b>13,874,299</b>	<b>12,680,615</b>

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

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



**TIAN Guoli**  
Director



**LI Zaohang**  
Director

# Statement of Financial Position

As at 31 December 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2013	2012
<b>ASSETS</b>			
Cash and due from banks and other financial institutions	V.11	<b>646,671</b>	745,593
Balances with central banks	V.12	<b>2,015,175</b>	1,859,362
Placements with and loans to banks and other financial institutions	V.13	<b>657,516</b>	435,483
Government certificates of indebtedness for bank notes issued	V.26	<b>4,086</b>	3,314
Precious metals		<b>189,162</b>	145,174
Financial assets at fair value through profit or loss	V.14	<b>33,314</b>	29,654
Derivative financial assets	V.15	<b>22,971</b>	15,939
Loans and advances to customers, net	V.16	<b>6,628,759</b>	5,990,570
Investment securities	V.17	<b>1,807,105</b>	1,731,688
— available for sale		<b>356,620</b>	307,010
— held to maturity		<b>1,188,878</b>	1,163,416
— loans and receivables		<b>261,607</b>	261,262
Investment in subsidiaries	V.18	<b>89,226</b>	87,274
Investment in associates and joint ventures	V.19	<b>57</b>	55
Property and equipment	V.20	<b>83,961</b>	81,223
Investment properties	V.21	<b>1,923</b>	1,474
Deferred income tax assets	V.34	<b>23,687</b>	22,084
Other assets	V.22	<b>96,010</b>	93,233
<b>Total assets</b>		<b>12,299,623</b>	11,242,120

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

# Statement of Financial Position (Continued)

As at 31 December 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2013	2012
<b>LIABILITIES</b>			
Due to banks and other financial institutions	V.24	1,500,816	1,516,858
Due to central banks	V.25	164,561	118,262
Bank notes in circulation	V.26	4,229	3,494
Placements from banks and other financial institutions	V.27	362,034	313,116
Derivative financial liabilities	V.15	23,530	16,382
Due to customers	V.28	8,947,521	8,111,074
— at amortised cost		8,804,012	7,953,141
— at fair value		143,509	157,933
Bonds issued	V.29	191,483	178,438
Current tax liabilities	V.31	36,773	32,900
Retirement benefit obligations	V.32	4,815	5,642
Deferred income tax liabilities	V.34	142	186
Other liabilities	V.35	197,759	172,364
<b>Total liabilities</b>		<b>11,433,663</b>	<b>10,468,716</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Bank</b>			
Share capital	V.36.1	279,365	279,147
Capital reserve	V.36.1	114,325	113,671
Statutory reserves	V.37.1	78,219	63,562
General and regulatory reserves	V.37.2	138,425	126,663
Undistributed profits		262,344	191,079
Reserve for fair value changes of available for sale securities	V.38	(3,519)	1,099
Currency translation differences		(3,199)	(1,817)
<b>Total equity</b>		<b>865,960</b>	<b>773,404</b>
<b>Total equity and liabilities</b>		<b>12,299,623</b>	<b>11,242,120</b>

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

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



**TIAN Guoli**  
Director



**LI Zaohang**  
Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Attributable to equity holders of the Bank								Total	
		Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares		Non-controlling interests
As at 1 January 2013		279,147	115,451	65,362	131,909	242,899	7,276	(17,352)	(15)	36,865	861,542
Profit for the year		-	-	-	-	156,911	-	-	-	6,830	163,741
Other comprehensive income		-	285	-	-	121	(5,624)	(4,190)	-	(2,407)	(11,815)
Total comprehensive income for the year		-	285	-	-	157,032	(5,624)	(4,190)	-	4,423	151,926
Conversion of convertible bonds	V.36.1	218	449	-	-	-	-	-	-	-	667
Appropriation to statutory reserves	V.37.1	-	-	14,863	-	(14,863)	-	-	-	-	-
Appropriation to general and regulatory reserves	V.37.2	-	-	-	12,545	(12,545)	-	-	-	-	-
Dividends	V.37.3	-	-	-	-	(48,851)	-	-	-	(3,908)	(52,759)
Net change in treasury shares	V.36.2	-	-	-	-	-	-	-	(13)	-	(13)
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	181	181
Equity component of convertible bonds		-	(64)	-	-	-	-	-	-	-	(64)
Other		-	-	-	(4)	1	-	-	-	-	(3)
As at 31 December 2013		279,365	116,121	80,225	144,450	323,673	1,652	(21,542)	(28)	37,561	961,477

	Note	Attributable to equity holders of the Bank								Total	
		Share capital	Capital reserve	Statutory reserves	General and regulatory reserves	Undistributed profits	Reserve for fair value changes of available for sale securities	Currency translation differences	Treasury shares		Non-controlling interests
As at 1 January 2012		279,147	115,403	52,165	81,243	210,599	3,642	(18,260)	(25)	33,223	757,137
Profit for the year as restated*		-	-	-	-	139,656	-	-	-	6,090	145,746
Other comprehensive income as restated*		-	47	-	-	(224)	3,634	908	-	1,115	5,480
Total comprehensive income for the year		-	47	-	-	139,432	3,634	908	-	7,205	151,226
Appropriation to statutory reserves	V.37.1	-	-	13,187	-	(13,187)	-	-	-	-	-
Appropriation to general and regulatory reserves	V.37.2	-	-	-	50,667	(50,667)	-	-	-	-	-
Dividends	V.37.3	-	-	-	-	(43,268)	-	-	-	(3,571)	(46,839)
Exercise of subsidiary share options		-	-	-	-	-	-	-	-	2	2
Net change in treasury shares	V.36.2	-	-	-	-	-	-	-	10	-	10
Capital injection by non-controlling shareholders		-	-	-	-	-	-	-	-	6	6
Other		-	1	10	(1)	(10)	-	-	-	-	-
As at 31 December 2012		279,147	115,451	65,362	131,909	242,899	7,276	(17,352)	(15)	36,865	861,542

\* For details of the restatement, please refer to Note II.23.

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

# Consolidated Statement of Cash Flows

For the year ended 31 December 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2013	2012 (Restated)*
<b>Cash flows from operating activities</b>			
Profit before income tax		<b>212,777</b>	187,673
Adjustments:			
Impairment losses on assets		<b>23,510</b>	19,387
Depreciation of property and equipment		<b>13,008</b>	11,757
Amortisation of intangible assets and other assets		<b>2,682</b>	2,318
Net gains on disposal of property and equipment, intangible assets and other long-term assets		<b>(477)</b>	(395)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		<b>(419)</b>	(441)
Share of results of associates and joint ventures		<b>(1,092)</b>	(613)
Interest income arising from investment securities		<b>(65,894)</b>	(62,941)
Dividends arising from investment securities		<b>(472)</b>	(287)
Net gains on de-recognition of investment securities		<b>(594)</b>	(2,288)
Interest expense arising from bonds issued		<b>8,535</b>	7,359
Accrued interest on impaired loans		<b>(500)</b>	(363)
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		<b>(141,041)</b>	(7,845)
Net (increase)/decrease in due from and placements with and loans to banks and other financial institutions		<b>(93,810)</b>	45,789
Net increase in precious metals		<b>(42,671)</b>	(54,634)
Net (increase)/decrease in financial assets at fair value through profit or loss		<b>(4,896)</b>	3,216
Net increase in loans and advances to customers		<b>(751,836)</b>	(525,682)
Net decrease/(increase) in other assets		<b>48,656</b>	(28,559)
Net (decrease)/increase in due to banks and other financial institutions		<b>(1,568)</b>	182,249
Net increase in due to central banks		<b>70,917</b>	48,566
Net increase in placements from banks and other financial institutions		<b>26,261</b>	47,166
Net increase in due to customers		<b>936,045</b>	356,034
Net (decrease)/increase in other borrowings		<b>(4,475)</b>	7,321
Net increase in other liabilities		<b>34,552</b>	67,077
Cash inflow from operating activities		<b>267,198</b>	301,864
Income tax paid		<b>(44,358)</b>	(37,940)
Net cash inflow from operating activities		<b>222,840</b>	263,924

\* For details of the restatement please refer to Note II.23.

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

# Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2013 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2013	2012 (Restated)*
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		5,969	2,019
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		788	2,737
Dividends received		590	416
Interest income received from investment securities		63,330	59,754
Proceeds from disposal/maturity of investment securities		1,170,358	1,211,882
Increase in investment in subsidiaries, associates and joint ventures		(569)	(1,028)
Purchase of property and equipment, intangible assets and other long-term assets		(34,771)	(29,490)
Purchase of investment securities		(1,277,844)	(1,428,836)
Net cash outflow from investing activities		(72,149)	(182,546)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of bonds		76,127	43,522
Repayments of debts issued		(65,385)	(15,342)
Cash payments for interest on bonds issued		(7,772)	(6,451)
Dividend payments to equity holders of the Bank		(48,851)	(43,268)
Dividend payments to non-controlling interests		(3,908)	(3,571)
Other net cash flows from financing activities		168	18
Net cash outflow from financing activities		(49,621)	(25,092)
Effect of exchange rate changes on cash and cash equivalents		(22,787)	(1,371)
<b>Net increase in cash and cash equivalents</b>		<b>78,283</b>	<b>54,915</b>
Cash and cash equivalents at beginning of year		1,072,283	1,017,368
Cash and cash equivalents at end of year	V.41	1,150,566	1,072,283

\* For details of the restatement, please refer to Note II.23.

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

# Notes to the Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

## I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Bank of China Limited (the “Bank”), formerly known as Bank of China, a State-owned joint stock commercial bank, was founded on 5 February 1912. From its formation until 1949, the Bank performed various functions of a central bank, foreign exchange bank and commercial bank specialising in trade finance. Following the founding of the People’s Republic of China (the “PRC”) in 1949, the Bank was designated as a specialised foreign exchange bank. Since 1994, the Bank has evolved into a State-owned commercial bank. In this regard, in accordance with the Master Implementation Plan for the Joint Stock Reform approved by the State Council of the PRC, the Bank was converted into a joint stock commercial bank on 26 August 2004 and its name was changed from Bank of China to Bank of China Limited. In 2006, the Bank listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the “CBRC”) No. B0003H111000001 and is registered as a business enterprise with the State Administration of Industry and Commerce of the PRC No. 100000000001349, the registered address is No. 1, Fuxingmen Nei Dajie, Beijing, China.

The Bank and its subsidiaries (together the “Group”) provide a full range of corporate banking, personal banking, treasury operations, investment banking, insurance and other services to its customers in the Chinese mainland, Hong Kong, Macau, Taiwan and other major international financial centres.

The Bank’s principal regulator is the CBRC. The operations in Hong Kong, Macau, Taiwan and other countries and regions of the Group are subject to the supervision of local regulators.

The parent company is Central Huijin Investment Limited (“Huijin”), a wholly owned subsidiary of China Investment Corporation (“CIC”), which owned 67.72% of the ordinary shares of the Bank as at 31 December 2013 (31 December 2012: 67.72%).

These consolidated financial statements have been approved by the Board of Directors on 26 March 2014.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### 1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). In addition, the consolidated financial statements comply with the 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 financial assets available for sale, financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) and investment properties.

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

#### 1.1 Standards, amendments and interpretations effective in 2013

On 1 January 2013, the Group adopted the following new standards, amendments and interpretations.

IAS 1 Amendments	Presentation of Financial Statements — Other Comprehensive Income
IAS 19 Amendments	Employee Benefits
IFRS 7 Amendments	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 27 (Revised)	Separate Financial Statements
IAS 28 (Revised)	Investment in Associates and Joint Ventures
IFRS 13	Fair Value Measurement
IFRS 10, IFRS 11 and IFRS 12 Amendments	Transition Guidance
Annual Improvements 2009–2011 cycle (issued in May 2012)	

The Group adopted the IAS 1 Amendments — Presentation of Financial Statements: Other Comprehensive Income in 2013. It requires separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future. The adoption of IAS 1 Amendments does not have any impact on the Group’s operating results and financial position.

The Group adopted the IAS 19 Amendments — Employee Benefits in 2013. The Group restated the actuarial gains and losses recognised in prior year. For the impact of the retrospective application, refer to Note II.23.

The adoption of other standards, amendments and interpretations does not have a significant impact on the operating results, financial position or comprehensive income of the Group.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 1 Basis of preparation (Continued)

#### 1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2013

		<b>Effective for annual periods beginning on or after</b>
IAS 32 Amendments	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities	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
IFRS 9, IFRS 9 Amendments, IAS 39 Amendments and IFRS 7 Amendment	Financial Instruments and Financial Instruments: Disclosures	Non-mandatory
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Investment Entities	1 January 2014
Annual Improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle (issued in December 2013)		1 July 2014

IAS 32 Amendments provides additional application guidance to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. IFRS 7 Amendment — Financial Instruments: Disclosure is also amended to require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, and master netting agreements, etc. on the entity's financial position.

IAS 36 Amendments restrict the requirement to disclose the recoverable amount of an asset or cash-generating unit ("CGU") to periods in which an impairment loss has been recognised or reversed. In addition, the amendments require two additional disclosures when an impairment is recognised or reversed and recoverable amount is based on fair value less costs of disposal: (i) the level of the IFRS 13 "fair value hierarchy" within which the fair value measurement of the asset or cash-generating unit has been determined; (ii) for fair value measurements at Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique, key assumptions used in the measurement of fair value, including the discount rates used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 1 Basis of preparation (Continued)

#### 1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2013 (Continued)

IAS 39 Amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendment covers novations: (i) that arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) where the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties; (iii) that did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing.

IFRS 9 and IFRS 9 Amendments replace 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. In November 2013, the International Accounting Standards Board issued a revised version of IFRS 9, which introduce a revised hedge accounting model, allow early adoption of the requirement to present fair value changes due to own credit on liabilities designated as at fair value through profit or loss to be presented in other comprehensive income, and remove the 1 January 2015 mandatory effective date of IFRS 9. Together with the further amendments to IFRS 9, IAS 39 and IFRS 7 are also amended to require additional disclosures.

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.

The Group is in the process of assessing the impact of these new standards and amendments on the consolidated and separate financial statements of the Group and the Bank respectively.

In addition, Annual Improvements to IFRSs 2010–2012 cycle and 2011–2013 cycle were issued in December 2013. The annual improvements process was established to make non-urgent but necessary amendments to IFRSs. The amendments are effective from annual period beginning on or after 1 July 2014. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2013.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 2 Consolidation

#### 2.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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 recognised 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.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 2 Consolidation (Continued)

#### 2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but no control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investment in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

#### 2.3 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

### 3 Foreign currency translation

#### 3.1 Functional and presentation currency

The functional currency of the operations in the Chinese mainland is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's operations in Hong Kong, Macau, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 3 Foreign currency translation (Continued)

#### 3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the income statement.

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (ii) income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposit taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement. The effect of exchange rate changes on cash and cash equivalent is presented individually in the statement of cash flows.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments

#### 4.1 Classification

The Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held to maturity investments, loans and receivables and available for sale investments.

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

The Group determines the classification of its financial assets and financial liabilities at initial recognition.

##### (1) *Financial assets and financial liabilities at fair value through profit or loss*

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

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing 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 categorised as held for trading unless they are financial guarantee contracts or designated and effective as hedging instruments.

A financial asset or financial liability is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or
- The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.1 Classification (Continued)

(2) *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 and that do not meet the definition of loans and receivables nor are designated at fair value through profit or loss or as available for sale.

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.

(3) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available for sale; or
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

(4) *Available for sale investments*

Available for sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

(5) *Other financial liabilities*

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss.

#### 4.2 Initial recognition

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

For all financial assets and financial liabilities not carried at fair value through profit or loss, financial assets are initially recognised at fair value together with transaction costs and financial liabilities are initially recognised at fair value net of transaction costs. Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.3 Subsequent measurement

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss are subsequently carried at fair value. Financial assets classified as loans and receivables and held to maturity and other financial liabilities are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets and financial liabilities at fair value through profit or loss category are included in the income statement in the period in which they arise. Dividends on equity instruments of this category are also recognised in the income statement when the Group's right to receive payments is established.

Gains and losses arising from changes in the fair value of available for sale assets are recognised in other comprehensive income and ultimately in the equity item of "Reserve for fair value changes of available for sale securities", until the financial asset is de-recognised or impaired. At this time the cumulative gain or loss previously recognised in the "Reserve for fair value changes of available for sale securities" is reclassified from equity to the income statement. Interest on available for sale debt instruments calculated using the effective interest method as well as dividends on equity instruments of this category when the Group's right to receive such payments is established are recognised in the income statement.

#### 4.4 Determination of fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

#### 4.5 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or 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 recognised in equity through other comprehensive income is recognised in the income statement.

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

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.6 Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss 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 re-organisation;
- (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, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets in the group;
- (vii) any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- (viii) a significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of equity instrument below its initial cost by 50% or more; or fair value below cost for one year or longer. An impairment is also indicated by a decline in fair value of 20% or more below initial cost for six consecutive months or longer or where fair value is below initial cost by 30% or more over a short period of time (i.e., one month); or
- (ix) other objective evidence indicating impairment of the financial asset.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.6 Impairment of financial assets (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

##### (1) Assets carried at amortised cost

Impairment loss for financial assets carried at amortised cost 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 original effective interest rate is computed at initial recognition. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed. Subsequent recoveries of amounts previously written off are recognised in the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.6 Impairment of financial assets (Continued)

(1) *Assets carried at amortised cost (Continued)*

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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

(2) *Assets classified as available for sale*

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss recognised in "Reserve for fair value changes of available for sale securities" is reclassified from equity to the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the previously recognised impairment loss is reversed through the income statement.

With respect to equity instruments, impairment losses recognised in the income statement are not subsequently reversed through the income statement. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss is not reversed.

#### 4.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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. Credit risk valuation adjustments are applied to the Group's over-the-counter ("OTC") derivatives to reflect the credit risk of the counterparties and the Group respectively. They are dependent on expected future values of exposures for each counterparty and default probabilities, etc. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit or loss on the date of transaction.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.7 Derivative financial instruments and hedge accounting (Continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in “Net trading gains” in the income statement.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

##### (1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect income statement.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

##### (2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect income statement.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in equity in the “Capital reserve”. The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged item affects the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.7 Derivative financial instruments and hedge accounting (Continued)

##### (2) Cash flow hedge (Continued)

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the income statement when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the income statement.

##### (3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

#### 4.8 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 4 Financial instruments (Continued)

#### 4.9 Convertible bonds

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into common shares, is initially recognised in "Capital reserve" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to Share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under "Capital reserve".

#### 4.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metals market making and trading activities are initially measured at acquisition cost and subsequently measured at lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purpose, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not de-recognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metal swaps are for trading purpose, they are accounted for as derivatives transactions.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements (“Repos”) continue to be recognised, and are recorded as “Investment securities”. The counterparty liability is included in “Placements from banks and other financial institutions” and “Due to central banks”. Securities and bills purchased under agreements to re-sell (“Reverse repos”) are not recognised. The receivables are recorded as “Placements with and loans to banks and other financial institutions” or “Balances with central banks”, as appropriate.

The difference between purchase and sale price is recognised as “Interest expense” or “Interest income” in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

### 7 Property and equipment

The Group’s fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of properties and buildings and recorded in “Property and equipment”.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

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. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 7 Property and equipment (Continued)

#### 7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branch and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15–50 years	3%	1.9%–6.5%
Equipment	3–15 years	3%	6.4%–32.4%
Motor vehicles	4–6 years	3%	16.1%–24.3%

#### 7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate varying from 0% to 15%.

#### 7.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

## 8 Leases

#### 8.1 Lease classification

Leases of assets where substantially all the risks and rewards of ownership have been transferred are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

#### 8.2 Finance leases

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 8 Leases (Continued)

#### 8.2 Finance leases (Continued)

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

#### 8.3 Operating leases

When the Group is the lessee under an operating lease, rental expenses are charged to "Operating expenses" in the income statement on a straight-line basis over the period of the lease.

When the Group is the lessor under operating leases, the assets subject to the operating lease are accounted for as the Group's assets. Rental income is recognised as "Other operating income" in the income statement on a straight-line basis over the lease term net of any incentives given to lessees.

### 9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and is not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value and other related information determined periodically by independent appraisers.

### 10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans' principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

### 12 Employee benefits

#### 12.1 *Defined contribution plans and Defined benefit plans*

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

All eligible employees in operations in Hong Kong, Macau, Taiwan and other countries and regions participate in local defined contribution schemes or defined benefit plans.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

The obligations related to the defined benefit plans are calculated by independent actuaries using the projected unit credit method at each financial reporting date. The actuarial gains or losses are recognised in "Other comprehensive income" immediately when they occur, the gains or losses arising from amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

#### 12.2 *Retirement benefit obligations*

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 12 Employee benefits (Continued)

#### 12.2 Retirement benefit obligations (Continued)

The liability related to the above supplemental benefit obligations and early retirement obligations existing at each financial reporting date, is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under “Retirement benefit obligations” in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses are recognised in “Other comprehensive income” immediately when they occur, the gains or losses arising from amendments to retirement benefit obligations are charged or credited to the income statement immediately as “Operating expenses” when they occur.

#### 12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as “Operating expenses” in the income statement as incurred.

#### 12.4 Cash-settled share-based compensation

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as “Operating expenses” in the income statement for the period and de-recognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as “Operating expenses” in the income statement, with a corresponding adjustment to liability.

#### 12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank’s equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

### 13 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount initially recognised as a provision should be the best estimate of the expenditure required to settle the present obligation.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 14 Insurance contracts

#### 14.1 Insurance contracts classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group perform a significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

#### 14.2 Insurance contracts recognition and measurement

##### (1) Non-life insurance contracts

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities".

Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

##### (2) Life insurance contracts

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

## **II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)**

### **14 Insurance contracts (Continued)**

#### **14.3 Liability adequacy test**

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

### **15 Treasury shares**

Where the Bank or other members of the Group purchase the Bank's ordinary shares, "Treasury shares" are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

### **16 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 recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

### **17 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. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 18 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

### 19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest method. Interest income and expense for derivatives is recognised in "Net trading gains" in the income statement.

The effective interest method is a method of calculating the amortised 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 discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 20 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued over that period. For other services, fee and commission income are recognised when the transactions are completed.

### 21 Income taxes

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases, tax is also recognised in other comprehensive income or directly in equity, respectively.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 21 Income taxes (Continued)

#### 21.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

#### 21.2 Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of property and equipment, provisions for pension, retirement benefits and salary payable.

“Deferred income tax assets” are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

### 22 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group’s management and internal reporting.

## II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### 23 Comparatives

Items in the Group's consolidated income statement, consolidated statement of comprehensive income, basic and diluted earnings per share for the year ended 31 December 2012 affected by the adoption of IAS 19 Amendment, are as follows:

#### Group

	Year ended 31 December 2012		
	Before restatement	Impact of restatement	Restated
<b>Profit before income tax</b>	187,380	293	187,673
Income tax expense	(41,858)	(69)	(41,927)
<b>Profit for the year</b>	145,522	224	145,746
<b>Attributable to:</b>			
Equity holder of the Bank	139,432	224	139,656
Non-controlling interests	6,090	–	6,090
	145,522	224	145,746
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)			
— Basic	0.50	–	0.50
— Diluted	0.48	–	0.48
<b>Other comprehensive income, net of tax</b>	5,704	(224)	5,480

The effects of adoption of IAS 19 Amendment to both basic and diluted earnings per share for the year ended 31 December 2012 were not material.

### **III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

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

The Group reviews its loans and advances 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 judgements and assumptions when calculating loan impairment allowances related to loans and advances. These allowances, which reflect the difference between the carrying amount of a loan, or a portfolio of similar loans, and the present value of estimated future cash flows, are assessed individually, for significant loans, and collectively, for smaller portfolios of similar loans.

The estimate of future cash flows is most significantly related to impaired loans for which the impairment loss is assessed individually. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers. China continues to experience economic growth and these facts are not as well established as those in more developed markets. The effect of these factors requires significant judgement to be applied in the estimation of future cash flows. This is especially true in emerging sectors.

### III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

#### 1 Impairment allowances on loans and advances (Continued)

Significant judgement is also applied to the calculation of collectively assessed impairment allowances. The Group makes judgements 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 and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

#### 2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

### **III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

#### **3 Impairment of available for sale investment securities and held to maturity investment securities**

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment security is impaired and when impairment on a debt security is reversed. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, technological innovations, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

#### **4 Held to maturity securities**

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity date as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

#### **5 Provisions**

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

#### **6 Employee retirement benefit obligations**

As described in Note II.12.2 and Note V.32, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. These liabilities are calculated using actuarial assumptions such as discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised other comprehensive income in the year in which such differences arise. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect other comprehensive income and employee retirement benefit obligations.

### III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

#### 7 Taxes

The Group is subject to income and business taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and business tax in the period during which such a determination is made.

#### 8 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

### IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

Taxes	Tax basis	Statutory rates
<b>Chinese mainland</b>		
Corporate income tax	Taxable income	25%
Business tax	Business income	5%
City construction and maintenance tax	Turnover tax paid	1%–7%
Education surcharges	Turnover tax paid	3%
Local education surcharges	Turnover tax paid	2%
<b>Hong Kong</b>		
Hong Kong profits tax	Assessable profits	16.5%

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 Net interest income

	Year ended 31 December	
	2013	2012
Interest income		
Loans and advances to customers	<b>379,570</b>	371,394
Investment securities and financial assets at fair value through profit or loss <sup>(1)</sup>	<b>67,918</b>	64,973
Due from central banks	<b>27,094</b>	26,996
Due from and placements with and loans to banks and other financial institutions	<b>44,413</b>	43,165
Subtotal	<b>518,995</b>	506,528
Interest expense		
Due to customers	<b>(180,479)</b>	(186,667)
Due to and placements from banks and other financial institutions	<b>(45,520)</b>	(54,858)
Bonds issued and other	<b>(9,411)</b>	(8,039)
Subtotal	<b>(235,410)</b>	(249,564)
Net interest income <sup>(2)</sup>	<b>283,585</b>	256,964
Interest income accrued on impaired financial assets (included within interest income)	<b>629</b>	557

(1) Interest income on "Investment securities" and "Financial assets at fair value through profit or loss" is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(2) Included within "Interest income" and "Interest expense" are RMB516,860 million (2012: RMB504,318 million) and RMB230,666 million (2012: RMB224,727 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2 Net fee and commission income**

	Year ended 31 December	
	2013	2012
Agency commissions	17,546	14,171
Bank card fees	17,312	14,952
Settlement and clearing fees	15,196	14,051
Credit commitment fees	13,294	11,099
Consultancy and advisory fees	9,574	5,690
Spread income from foreign exchange business	7,147	6,808
Custodian and other fiduciary service fees	2,874	2,371
Other	5,642	6,056
Fee and commission income <sup>(1)</sup>	88,585	75,198
Fee and commission expense	(6,493)	(5,275)
Net fee and commission income	82,092	69,923

- (1) When issuing wealth management products, the Group established various structured entities to provide customers specialized investment opportunities within narrow and well-defined objectives. Structured entities that are not controlled by the Group are not in the scope of consolidation. As at 31 December 2013, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB838,015 million (31 December 2012: RMB525,402 million).

Fee and commission income includes commission, custodian fee and management fee income from wealth management business that amounted to RMB7,269 million (2012: RMB5,343 million).

**3 Net trading gains**

	Year ended 31 December	
	2013	2012
Net gains from foreign exchange and foreign exchange products	5,984	6,174
Net (losses)/gains from interest rate products	(257)	1,273
Net gains from equity products	790	361
Net gains from commodity products	666	643
Total <sup>(1)</sup>	7,183	8,451

- (1) Included in "Net trading gains" above for the year ended 31 December 2013 are losses of RMB1,099 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2012: gains of RMB1,119 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4 Other operating income

	Year ended 31 December	
	2013	2012
Insurance premiums <sup>(1)</sup>	<b>12,445</b>	9,126
Revenue from sale of precious metals products	<b>10,307</b>	9,376
Aircraft leasing income	<b>4,977</b>	4,176
Gains on disposal of property and equipment, intangible assets and other assets	<b>535</b>	464
Dividend income	<b>543</b>	335
Changes in fair value of investment properties	<b>662</b>	1,006
Gains on disposal of subsidiaries, associates and joint ventures	<b>419</b>	441
Other	<b>4,167</b>	3,626
Total	<b>34,055</b>	28,550

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2013	2012
Life insurance contracts		
Gross earned premiums	<b>14,714</b>	10,021
Less: gross written premiums ceded to reinsurers	<b>(6,916)</b>	(4,403)
Net insurance premium income	<b>7,798</b>	5,618
Non-life insurance contracts		
Gross earned premiums	<b>5,418</b>	4,237
Less: gross written premiums ceded to reinsurers	<b>(771)</b>	(729)
Net insurance premium income	<b>4,647</b>	3,508
Total	<b>12,445</b>	9,126

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5 Operating expenses**

	Year ended 31 December	
	2013	2012
Staff costs (Note V.6)	<b>72,762</b>	66,701
General operating and administrative expenses <sup>(1)</sup>	<b>38,387</b>	37,153
Business tax and surcharges	<b>23,965</b>	22,925
Depreciation and amortisation	<b>13,598</b>	12,289
Insurance benefits and claims		
— Life insurance contracts	<b>7,380</b>	6,928
— Non-life insurance contracts	<b>2,681</b>	1,793
Cost of sales of precious metals products	<b>9,728</b>	8,615
Other	<b>3,813</b>	3,325
<b>Total</b>	<b>172,314</b>	159,729

- (1) Included in the general operating and administrative expenses are principal auditors' remuneration of RMB185 million for the year ended 31 December 2013 (2012: RMB222 million), of which RMB36 million was for Hong Kong, Macau, Taiwan and other countries and regions of the Group (2012: RMB50 million).

Included in the general operating and administrative expenses are operating lease expenses of RMB6,108 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB10,954 million (2012: RMB5,303 million and RMB10,286 million, respectively).

**6 Staff costs**

	Year ended 31 December	
	2013	2012
Salary, bonus and subsidy	<b>51,327</b>	47,629
Staff welfare	<b>2,293</b>	2,009
Retirement benefits (Note V.32)	<b>181</b>	185
Social insurance, including:		
— Medical	<b>2,604</b>	2,311
— Pension	<b>5,608</b>	4,876
— Annuity	<b>1,569</b>	1,380
— Unemployment	<b>419</b>	390
— Injury at work	<b>145</b>	125
— Maternity insurance	<b>181</b>	154
Housing funds	<b>4,462</b>	3,891
Labour union fee and staff education fee	<b>1,882</b>	1,838
Reimbursement for cancellation of labour contract	<b>14</b>	25
Other	<b>2,077</b>	1,888
<b>Total</b>	<b>72,762</b>	66,701

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 7 Directors', supervisors' and senior management's emoluments

Details of the directors' and supervisors' emoluments are as follows:

For the year ended 31 December 2013

	Remuneration		Contributions	Benefits	Total
	Fees	paid	to pension	in kind	
	RMB'000	RMB'000	schemes	RMB'000	RMB'000
<b>Executive directors</b>					
TIAN Guoli <sup>(4)</sup> <sup>(6)</sup>	– <sup>(2)</sup>	557	47	173	777
LI Lihui <sup>(4)</sup>	– <sup>(2)</sup>	745	93	234	1,072
LI Zaohang <sup>(4)</sup>	– <sup>(2)</sup>	715	86	227	1,028
WANG Yongli <sup>(4)</sup>	– <sup>(2)</sup>	708	67	225	1,000
XIAO Gang <sup>(4)</sup> <sup>(5)</sup>	– <sup>(2)</sup>	203	18	62	283
<b>Non-executive directors</b>					
SUN Zhijun <sup>(1)</sup>	–	–	–	–	–
LIU Lina <sup>(1)</sup>	–	–	–	–	–
ZHANG Xiangdong <sup>(1)</sup>	–	–	–	–	–
ZHANG Qi <sup>(1)</sup>	–	–	–	–	–
WANG Yong <sup>(1)</sup> <sup>(6)</sup>	–	–	–	–	–
JIANG Yansong <sup>(1)</sup> <sup>(5)</sup>	–	–	–	–	–
<b>Independent non-executive directors</b>					
CHOW Man Yiu, Paul	450	–	–	–	450
Jackson TAI	373	–	–	–	373
Nout WELLINK	396	–	–	–	396
LU Zhengfei <sup>(6)</sup>	192	–	–	–	192
LEUNG Cheuk Yan <sup>(6)</sup>	122	–	–	–	122
Anthony Francis NEOH <sup>(5)</sup>	383	–	–	–	383
HUANG Shizhong <sup>(1)</sup> <sup>(5)</sup>	–	–	–	–	–
HUANG Danhan <sup>(5)</sup>	278	–	–	–	278
<b>Supervisors</b>					
LI Jun <sup>(4)</sup>	–	724	91	229	1,044
WANG Xueqiang <sup>(4)</sup>	–	619	74	211	904
LIU Wanming <sup>(4)</sup>	–	596	72	203	871
DENG Zhiying	50 <sup>(3)</sup>	–	–	–	50
LIU Xiaozhong	50 <sup>(3)</sup>	–	–	–	50
XIANG Xi	50 <sup>(3)</sup>	–	–	–	50
MEI Xingbao	180	–	–	–	180
BAO Guoming	259	–	–	–	259
	2,783	4,867	548	1,564	9,762

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7 Directors', supervisors' and senior management's emoluments (Continued)**

For the year ended 31 December 2012

	Fees		Contributions to pension schemes		Benefits in kind	Discretionary bonuses <sup>(4)</sup>		Total
		Basic salaries				Paid	Deferred	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>								
XIAO Gang <sup>(4)</sup>	– <sup>(2)</sup>	495	65	244	566	569	1,939	
LI Lihui <sup>(4)</sup>	– <sup>(2)</sup>	446	73	225	510	512	1,766	
LI Zaohang <sup>(4)</sup>	– <sup>(2)</sup>	428	68	219	490	492	1,697	
WANG Yongli <sup>(4)</sup>	– <sup>(2)</sup>	428	52	215	490	492	1,677	
<b>Non-executive directors</b>								
SUN Zhijun <sup>(1)</sup>	–	–	–	–	–	–	–	
LIU Lina <sup>(1)</sup>	–	–	–	–	–	–	–	
JIANG Yansong <sup>(1)</sup>	–	–	–	–	–	–	–	
ZHANG Xiangdong <sup>(1)</sup>	–	–	–	–	–	–	–	
ZHANG Qi <sup>(1)</sup>	–	–	–	–	–	–	–	
CAI Haoyi <sup>(1)</sup>	–	–	–	–	–	–	–	
<b>Independent non-executive directors</b>								
Anthony Francis NEOH	550	–	–	–	–	–	550	
HUANG Shizhong <sup>(1)</sup>	–	–	–	–	–	–	–	
HUANG Danhan	379	–	–	–	–	–	379	
CHOW Man Yiu, Paul	426	–	–	–	–	–	426	
Jackson TAI	350	–	–	–	–	–	350	
Nout WELLINK	65	–	–	–	–	–	65	
Alberto TOGNI	400	–	–	–	–	–	400	
<b>Supervisors</b>								
LI Jun <sup>(4)</sup>	–	433	46	221	496	498	1,694	
WANG Xueqiang <sup>(4)</sup>	–	386	59	190	436	438	1,509	
LIU Wanming <sup>(4)</sup>	–	361	57	186	400	402	1,406	
DENG Zhiying	50 <sup>(3)</sup>	–	–	–	–	–	50	
LIU Xiaozhong	19 <sup>(3)</sup>	–	–	–	–	–	19	
XIANG Xi	19 <sup>(3)</sup>	–	–	–	–	–	19	
LI Chunyu	33 <sup>(3)</sup>	–	–	–	–	–	33	
JIANG Kuiwei	8 <sup>(3)</sup>	–	–	–	–	–	8	
MEI Xingbao	180	–	–	–	–	–	180	
BAO Guoming	260	–	–	–	–	–	260	
	2,739	2,977	420	1,500	3,388	3,403	14,427	

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 7 Directors', supervisors' and senior management's emoluments (Continued)

- (1) For the years ended 31 December 2013 and 2012, these non-executive directors of the Bank signed agreements to waive the emoluments for their services to the Bank. For the year ended 31 December 2013 and 2012, the independent non-executive director of the Bank HUANG Shizhong signed an agreement to waive the emoluments for his service to the Bank.
- (2) For the years ended 31 December 2013 and 2012, these executive directors of the Bank did not receive any fees.
- (3) Employee Supervisors' above compensation is paid for serving as the Supervisors of the Bank.
- (4) The total compensation packages for executive directors and supervisors for the year ended 31 December 2013 including discretionary bonus have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's and the Bank's 2013 financial statements. The final compensation for the year ended 31 December 2013 will be disclosed in a separate announcement when determined.

The compensation amounts for these directors and supervisors for the year ended 31 December 2012 were restated based on the finalised amounts determined during 2012 as disclosed in the Bank's announcement dated 30 May 2013.

A portion of the discretionary bonus payments for executive directors and the chairman of the board of supervisors are deferred for a minimum of 3 years contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

- (5) XIAO Gang ceased to be chairman effective from 17 March 2013. JIANG Yansong ceased to be non-executive director effective from 20 November 2013. Anthony Francis NEOH, HUANG Shizhong, HUANG Danhan ceased to be independent non-executive directors effective from 11 September 2013.
- (6) TIAN Guoli was elected to be chairman effective from 31 May 2013. WANG Yong was elected to be non-executive director effective from 15 July 2013. LU Zhengfei was elected to be independent non-executive director effective from 31 July 2013. LEUNG Cheuk Yan was elected to be independent non-executive director effective from 11 September 2013.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7 Directors', supervisors' and senior management's emoluments (Continued)*****Five highest paid individuals***

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2013 and 2012 respectively are as follows:

	Year ended 31 December	
	2013	2012
Basic salaries and allowances	16	15
Discretionary bonuses	59	46
Contributions to pension schemes and other	4	3
	<b>79</b>	<b>64</b>

Emoluments of the individuals were within the following bands:

Amounts in RMB	Year ended 31 December	
	2013	2012
9,500,001–10,500,000	–	1
10,500,001–11,000,000	–	2
11,000,001–12,000,000	1	1
12,500,001–13,000,000	2	–
14,000,001–20,000,000	1	–
20,000,001–22,000,000	–	1
28,000,001–28,500,000	1	–

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2013 and 2012, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8 Impairment losses on assets**

	Year ended 31 December	
	2013	2012
Loans and advances		
— Individually assessed	<b>6,067</b>	4,248
— Collectively assessed	<b>16,871</b>	14,838
Subtotal	<b>22,938</b>	19,086
Investment securities <sup>(1)</sup>		
Available for sale		
— Debt securities	<b>(239)</b>	(374)
— Other available for sale financial assets	<b>504</b>	531
	<b>265</b>	157
Held to maturity	<b>(47)</b>	(39)
Loans and receivables	—	(2)
Subtotal	<b>218</b>	116
Other	<b>354</b>	185
Total <sup>(2)</sup>	<b>23,510</b>	19,387

(1) Impairment charges/(reversal) on investment securities:

	Year ended 31 December	
	2013	2012
US subprime mortgage related debt securities	<b>(181)</b>	(296)
US Alt-A mortgage-backed securities	<b>(34)</b>	(25)
US Non-Agency mortgage-backed securities	<b>(64)</b>	(113)
Other securities	<b>497</b>	550
Net charges	<b>218</b>	116

(2) Details of new allowances and reversal of impairment losses on loans and advances and investment securities are disclosed in Notes V.16 and V.23, respectively.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9 Income tax expense**

	Year ended 31 December	
	2013	2012
Current income tax		
— Chinese mainland income tax	<b>42,884</b>	39,262
— Hong Kong profits tax	<b>3,601</b>	3,223
— Macau, Taiwan and other countries and regions taxation	<b>2,689</b>	2,323
Adjustments in respect of current income tax of prior years	<b>(504)</b>	(856)
Subtotal	<b>48,670</b>	43,952
Deferred income tax (Note V.34)	<b>366</b>	(2,025)
Total	<b>49,036</b>	41,927

The principal tax rates applicable to the Group are set out in Note IV.

Provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations (Note III.7).

Taxation on profits of Hong Kong, Macau, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	Year ended 31 December	
	2013	2012
Profit before income tax	<b>212,777</b>	187,673
Tax calculated at the applicable statutory tax rate	<b>53,194</b>	46,918
Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions	<b>(2,934)</b>	(2,324)
Supplementary PRC tax on overseas income	<b>2,612</b>	1,618
Income not subject to tax <sup>(1)</sup>	<b>(6,294)</b>	(5,635)
Items not deductible for tax purposes <sup>(2)</sup>	<b>2,507</b>	2,406
Other	<b>(49)</b>	(1,056)
Income tax expense	<b>49,036</b>	41,927

(1) Income not subject to tax mainly comprises interest income from PRC Treasury bonds.

(2) Non-deductible items primarily include losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10 Earnings per share (basic and diluted)****Basic earnings per share**

Basic earnings per share was computed by dividing the profit attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2013	2012
Profit attributable to equity holders of the Bank	<b>156,911</b>	139,656
Weighted average number of ordinary shares in issue (in million shares)	<b>279,156</b>	279,127
Basic earnings per share (in RMB per share)	<b>0.56</b>	0.50

Weighted average number of ordinary shares in issue (in million shares)

	Year ended 31 December	
	2013	2012
Issued ordinary shares as at 1 January	<b>279,147</b>	279,147
Weighted average number of shares from conversion of convertible bonds	<b>19</b>	–
Weighted average number of treasury shares	<b>(10)</b>	(20)
Weighted average number of ordinary shares in issue	<b>279,156</b>	279,127

**Diluted earnings per share**

Diluted earnings per share was computed by dividing the adjusted profit attributable to the equity holders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank has convertible bonds as dilutive potential ordinary shares.

	Year ended 31 December	
	2013	2012
Profit attributable to equity holders of the Bank	<b>156,911</b>	139,656
Add: interest expense on convertible bonds, net of tax, outstanding as at 31 December	<b>1,129</b>	1,041
Profit used to determine diluted earnings per share	<b>158,040</b>	140,697
Adjusted weighted average number of ordinary shares in issue (in million shares)	<b>279,156</b>	279,127
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	<b>13,575</b>	11,410
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	<b>292,731</b>	290,537
Diluted earnings per share (in RMB per share)	<b>0.54</b>	0.48

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11 Cash and due from banks and other financial institutions**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Cash	<b>82,339</b>	72,475	<b>73,819</b>	66,081
Due from banks in Chinese mainland	<b>597,620</b>	617,598	<b>531,417</b>	579,105
Due from other financial institutions in Chinese mainland	<b>746</b>	2,525	<b>725</b>	2,510
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	<b>21,674</b>	82,796	<b>40,688</b>	97,792
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	<b>205</b>	180	<b>22</b>	105
Total <sup>(1)</sup>	<b>702,584</b>	775,574	<b>646,671</b>	745,593

(1) Included in the Bank's due from banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.8).

**12 Balances with central banks**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Mandatory reserves <sup>(1)</sup>	<b>1,613,606</b>	1,476,088	<b>1,601,600</b>	1,466,433
Surplus reserves <sup>(2)</sup>	<b>98,318</b>	204,943	<b>91,794</b>	200,636
Balance under reverse repo agreements <sup>(3)</sup>	<b>100,000</b>	–	<b>100,000</b>	–
Other deposits <sup>(4)</sup>	<b>320,077</b>	253,266	<b>221,781</b>	192,293
Total	<b>2,132,001</b>	1,934,297	<b>2,015,175</b>	1,859,362

(1) The Group places mandatory reserve funds with the People's Bank of China (the "PBOC") and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 31 December 2013, mandatory reserve funds placed with the PBOC were calculated at 20.0% (31 December 2012: 20.0%) and 5.0% (31 December 2012: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by the PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdictions is determined by local regulations.

(2) This mainly represented the surplus reserve funds placed with the PBOC by branches in Chinese mainland of the Group.

(3) The Group accepts treasury bonds as collateral in connection with its reverse repo agreements with the PBOC. The Group is not permitted to sell or re-pledge such collateral.

(4) This mainly represented balances, other than mandatory reserves and surplus reserves, placed with central banks by operations in Hong Kong, Macau, Taiwan and other countries and regions.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 13 Placements with and loans to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Placements with and loans to:				
Banks in Chinese mainland	<b>432,905</b>	233,865	<b>410,141</b>	200,118
Other financial institutions in Chinese mainland	<b>168,113</b>	122,332	<b>165,183</b>	119,181
Banks in Hong Kong, Macau, Taiwan and other countries and regions <sup>(1)</sup>	<b>59,154</b>	91,305	<b>54,037</b>	87,462
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions <sup>(1)</sup>	<b>72</b>	–	<b>28,350</b>	28,925
Subtotal <sup>(2)(3)(4)</sup>	<b>660,244</b>	447,502	<b>657,711</b>	435,686
Allowance for impairment losses	<b>(195)</b>	(203)	<b>(195)</b>	(203)
Total	<b>660,049</b>	447,299	<b>657,516</b>	435,483
Impaired placements	<b>195</b>	203	<b>195</b>	203
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	<b>0.03%</b>	0.05%	<b>0.03%</b>	0.05%

- (1) Included in the Bank's placements with and loans to "Banks in Hong Kong, Macau, Taiwan and other countries and regions" and "Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions" are loans to the Bank's subsidiaries (Note V.42.8).
- (2) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Debt securities				
— Governments	<b>126,526</b>	38,924	<b>126,444</b>	37,834
— Policy banks	<b>108,047</b>	54,698	<b>107,638</b>	54,698
— Financial institutions	<b>1,279</b>	4,426	–	4,426
Subtotal	<b>235,852</b>	98,048	<b>234,082</b>	96,958
Bills	<b>22,196</b>	–	<b>22,196</b>	–
Total	<b>258,048</b>	98,048	<b>256,278</b>	96,958

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 13 Placements with and loans to banks and other financial institutions (Continued)

- (3) As at 31 December 2013, included in the balance of “Placements with and loans to banks and other financial institutions” were assets acquired in beneficial trust rights reverse repurchase transactions and financial asset beneficial rights transaction in the amount of RMB147,161 million (31 December 2012: RMB62,200 million).
- (4) For the purpose of asset-liability management, unconsolidated structured entities established by the Group may raise short-term financing needs to the Group and other banks. The Group was not contractually obliged to provide funding. After internal risk assessment, the Group may enter into repurchase and placement transactions with these structured entities in accordance with market principles. In the year of 2013, the largest balance of such funding was RMB37,500 million (2012: RMB9,674 million). As of 31 December 2013, funding to unconsolidated structured entities provided by the Group was included in “Placements with and loans to banks and other financial institutions” and amounted to RMB29,000 million (31 December 2012: Nil). The maximum exposure to loss of those placements approximated the carrying amount. As of the issue date of this report, those placements have matured and the amounts have been fully repaid.

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

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
<b>Trading financial assets</b>				
Debt securities				
Issuers in Chinese mainland				
— Government	1,679	1,362	358	566
— Public sector and quasi-governments	—	10	—	10
— Policy banks	5,474	6,060	3,325	4,445
— Financial institutions	3,283	148	3,088	—
— Corporate	1,994	2,761	1,180	2,162
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	12,454	17,282	—	—
— Public sector and quasi-governments	135	148	—	—
— Financial institutions	440	274	—	—
— Corporate	4,538	4,403	—	—
	<b>29,997</b>	32,448	<b>7,951</b>	7,183
Other				
Fund investments and other	758	265	—	—
Equity securities	5,315	488	—	—
Subtotal	<b>36,070</b>	33,201	<b>7,951</b>	7,183

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14 Financial assets at fair value through profit or loss (Continued)**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
<b>Financial assets designated at fair value through profit or loss</b>				
Debt securities				
Issuers in Chinese mainland				
— Government	218	71	169	71
— Policy banks	1,777	1,893	1,777	1,893
— Financial institutions	359	196	359	196
— Corporate	5,857	4,758	3,686	2,845
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	267	332	—	—
— Public sector and quasi-governments	—	384	—	384
— Financial institutions	20,530	21,025	13,573	11,431
— Corporate	3,847	3,666	1,642	1,085
	32,855	32,325	21,206	17,905
Other				
Fund investments	520	515	—	—
Loans <sup>(1)</sup>	4,321	4,566	4,157	4,566
Equity securities	1,434	983	—	—
Subtotal	39,130	38,389	25,363	22,471
Total <sup>(2) (3)</sup>	75,200	71,590	33,314	29,654
Analysed as:				
Listed in Hong Kong	18,185	12,024	8,530	5,045
Listed outside Hong Kong <sup>(4)</sup>	32,311	29,732	17,945	19,166
Unlisted	24,704	29,834	6,839	5,443
Total	75,200	71,590	33,314	29,654

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

- (1) There was no significant change during the years ended 31 December 2013 and 2012 and cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.
- (2) As at 31 December 2013, the Group and the Bank held bonds issued by the Ministry of Finance of PRC (“MOF”) and bills issued by the PBOC included in “Financial assets at fair value through profit or loss” with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Carrying value	<b>1,897</b>	1,432	<b>527</b>	636
Interest rate range	<b>1.40%–4.25%</b>	1.40%–3.58%	<b>3.77%–4.25%</b>	2.70%–3.58%

- (3) As at 31 December 2013, included in the Group’s “Financial assets at fair value through profit or loss” were certificates of deposit held of RMB420 million (31 December 2012: RMB1,230 million).
- (4) Debt securities traded on the China Domestic Interbank Bond Market are included in “Listed outside Hong Kong”.

### 15 Derivative financial instruments and hedge accounting

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

The contractual/notional amounts and fair values of derivative instruments held by the Group and the Bank are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with the fair values of instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group’s or the Bank’s exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates, credit spreads, or equity/commodity prices relative to their terms. The aggregate fair values of Derivative financial assets and liabilities can fluctuate significantly from time to time.

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15 Derivative financial instruments and hedge accounting (Continued)

#### 15.1 Derivative financial instruments

##### Group

	As at 31 December 2013			As at 31 December 2012		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps <sup>(1)</sup>	2,237,388	27,980	(23,926)	2,025,786	29,962	(20,715)
Currency options	163,613	683	(811)	56,881	201	(235)
Subtotal	2,401,001	28,663	(24,737)	2,082,667	30,163	(20,950)
Interest rate derivatives						
Interest rate swaps	571,624	6,837	(6,032)	645,376	7,785	(9,001)
Interest rate options	30	–	–	1,917	–	(3)
Interest rate futures	2,335	3	(1)	249	2	–
Subtotal	573,989	6,840	(6,033)	647,542	7,787	(9,004)
Equity derivatives	8,674	124	(152)	4,721	22	(106)
Commodity derivatives	134,023	5,196	(5,290)	148,365	2,216	(2,397)
Total	3,117,687	40,823	(36,212)	2,883,295	40,188	(32,457)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15 Derivative financial instruments and hedge accounting (Continued)****15.1 Derivative financial instruments (Continued)****Bank**

	As at 31 December 2013			As at 31 December 2012		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps <sup>(1)</sup>	1,799,317	15,206	(14,688)	1,500,454	11,565	(9,888)
Currency options	128,479	589	(697)	43,718	179	(209)
Subtotal	1,927,796	15,795	(15,385)	1,544,172	11,744	(10,097)
Interest rate derivatives						
Interest rate swaps	321,875	2,868	(3,401)	359,463	3,144	(4,772)
Interest rate options	–	–	–	1,886	–	(3)
Subtotal	321,875	2,868	(3,401)	361,349	3,144	(4,775)
Equity derivatives	80	1	–	104	–	–
Commodity derivatives	85,438	4,307	(4,744)	96,344	1,051	(1,510)
<b>Total</b>	<b>2,335,189</b>	<b>22,971</b>	<b>(23,530)</b>	<b>2,001,969</b>	<b>15,939</b>	<b>(16,382)</b>

- (1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of the asset and liability management and funding requirements.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15 Derivative financial instruments and hedge accounting (Continued)****15.2 Hedge accounting**

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows (the Bank: Nil):

**Group**

	As at 31 December 2013			As at 31 December 2012		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as hedging instruments in fair value hedges						
Cross-currency interest rate swaps	2,261	–	(35)	–	–	–
Interest rate swaps	68,245	2,641	(886)	38,003	2,707	(1,373)
Subtotal <sup>(1)</sup>	70,506	2,641	(921)	38,003	2,707	(1,373)
Derivatives designated as hedging instruments in cash flow hedges						
Cross-currency interest rate swaps	2,972	58	(51)	2,574	34	(44)
Interest rate swaps	148	–	(1)	523	–	(11)
Subtotal <sup>(2)</sup>	3,120	58	(52)	3,097	34	(55)
Total	73,626	2,699	(973)	41,100	2,741	(1,428)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15 Derivative financial instruments and hedge accounting (Continued)

#### 15.2 Hedge accounting (Continued)

(1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued and debt securities available for sale arising from changes in foreign exchange rates and interest rates.

Gains or losses on fair value hedges are as follows:

	Year ended 31 December	
	2013	2012
Net gains/(losses) on		
— hedging instruments	616	390
— hedged items	(173)	(359)
Ineffectiveness recognised in Net trading gains	443	31

(2) Cash flow hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rates and interest rate risks of debt securities held and variable rate borrowings.

For the year ended 31 December 2013, a net loss from cash flow hedges of RMB20 million was recognised in "Capital reserve" through other comprehensive income (2012: net loss of RMB31 million), and there was no ineffectiveness for the year ended 31 December 2013 and 2012.

There were no transactions for which cash flow hedge accounting had to be ceased in the year ended 31 December 2013 or 2012 as a result of the highly probable cash flows no longer being expected to occur.

(3) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of respective holding companies and functional currencies of their branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using deposits taken in the same currencies as the functional currencies of related branches and subsidiaries which are accounted for as hedges of certain net investment in foreign operations.

For the year ended 31 December 2013, a net gain from the hedging instrument of RMB498 million was recognised in "Currency translation differences" through other comprehensive income on net investment hedges (2012: net loss of RMB15 million), and there was no ineffectiveness in the years ended 31 December 2013 and 2012.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16 Loans and advances to customers, net****16.1 Analysis of loans and advances to customers**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Corporate loans and advances				
Loans and advances	<b>5,310,894</b>	4,813,749	<b>4,740,537</b>	4,317,362
Discounted bills	<b>128,445</b>	166,650	<b>124,674</b>	163,742
Subtotal	<b>5,439,339</b>	4,980,399	<b>4,865,211</b>	4,481,104
Personal loans				
Mortgages	<b>1,506,331</b>	1,348,359	<b>1,323,801</b>	1,167,766
Credit cards	<b>222,141</b>	160,865	<b>212,165</b>	151,510
Other	<b>439,980</b>	375,073	<b>391,483</b>	341,228
Subtotal	<b>2,168,452</b>	1,884,297	<b>1,927,449</b>	1,660,504
Total loans and advances	<b>7,607,791</b>	6,864,696	<b>6,792,660</b>	6,141,608
Allowance for impairment losses				
Individually assessed	<b>(39,202)</b>	(38,537)	<b>(38,479)</b>	(37,813)
Collectively assessed	<b>(128,847)</b>	(116,119)	<b>(125,422)</b>	(113,225)
Total allowance for impairment losses	<b>(168,049)</b>	(154,656)	<b>(163,901)</b>	(151,038)
Loans and advances to customers, net	<b>7,439,742</b>	6,710,040	<b>6,628,759</b>	5,990,570

**16.2** Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI. 3.5.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16 Loans and advances to customers, net (Continued)****16.3 Analysis of loans and advances to customers by collective and individual allowance assessments****Group**

	Loans and advances for which allowance is collectively assessed <sup>(1)</sup>	Identified impaired loans and advances <sup>(2)</sup>			Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed				
<b>As at 31 December 2013</b>							
Total loans and advances	7,534,672	21,142	51,977	73,119	7,607,791	0.96%	
Allowance for impairment losses	(116,459)	(12,388)	(39,202)	(51,590)	(168,049)		
Loans and advances to customers, net	7,418,213	8,754	12,775	21,529	7,439,742		
<b>As at 31 December 2012</b>							
Total loans and advances	6,799,241	15,106	50,349	65,455	6,864,696	0.95%	
Allowance for impairment losses	(106,918)	(9,201)	(38,537)	(47,738)	(154,656)		
Loans and advances to customers, net	6,692,323	5,905	11,812	17,717	6,710,040		

**Bank**

	Loans and advances for which allowance is collectively assessed <sup>(1)</sup>	Identified impaired loans and advances <sup>(2)</sup>			Subtotal	Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed				
<b>As at 31 December 2013</b>							
Total loans and advances	6,721,536	20,927	50,197	71,124	6,792,660	1.05%	
Allowance for impairment losses	(113,172)	(12,250)	(38,479)	(50,729)	(163,901)		
Loans and advances to customers, net	6,608,364	8,677	11,718	20,395	6,628,759		
<b>As at 31 December 2012</b>							
Total loans and advances	6,077,776	15,013	48,819	63,832	6,141,608	1.04%	
Allowance for impairment losses	(104,058)	(9,167)	(37,813)	(46,980)	(151,038)		
Loans and advances to customers, net	5,973,718	5,846	11,006	16,852	5,990,570		

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16 Loans and advances to customers, net (Continued)

#### 16.3 Analysis of loans and advances to customers by collective and individual allowance assessments (Continued)

- (1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:
- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or
  - collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, including insignificant corporate loans and advances and personal loans which are impaired).

#### 16.4 Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments

	Year ended 31 December					
	2013			2012		
	Individually assessed allowance	Collectively assessed allowance	Total	Individually assessed allowance	Collectively assessed allowance	Total
<b>Group</b>						
As at 1 January	38,537	116,119	154,656	36,265	103,411	139,676
Impairment losses for the year	15,098	48,652	63,750	15,203	37,287	52,490
Reversal	(9,031)	(31,781)	(40,812)	(10,955)	(22,449)	(33,404)
Written off and transfer out	(5,492)	(3,604)	(9,096)	(2,409)	(1,800)	(4,209)
Transfer in						
— Recovery of loans and advances written off	676	52	728	600	66	666
— Unwind of discount on allowance	(214)	(286)	(500)	(104)	(259)	(363)
— Exchange differences	(372)	(305)	(677)	(63)	(137)	(200)
As at 31 December	39,202	128,847	168,049	38,537	116,119	154,656
<b>Bank</b>						
As at 1 January	37,813	113,225	151,038	35,749	100,903	136,652
Impairment losses for the year	14,704	47,682	62,386	14,690	36,619	51,309
Reversal	(8,746)	(31,639)	(40,385)	(10,484)	(22,314)	(32,798)
Written off and transfer out	(5,203)	(3,369)	(8,572)	(2,388)	(1,626)	(4,014)
Transfer in						
— Recovery of loans and advances written off	474	25	499	409	40	449
— Unwind of discount on allowance	(210)	(286)	(496)	(96)	(259)	(355)
— Exchange differences	(353)	(216)	(569)	(67)	(138)	(205)
As at 31 December	38,479	125,422	163,901	37,813	113,225	151,038

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16 Loans and advances to customers, net (Continued)

#### 16.5 Reconciliation of allowance account for impairment losses on loans and advances to customers by customer type

	Year ended 31 December					
	2013			2012		
	Corporate	Personal	Total	Corporate	Personal	Total
<b>Group</b>						
As at 1 January	128,295	26,361	154,656	115,855	23,821	139,676
Impairment losses for the year	57,198	6,552	63,750	48,709	3,781	52,490
Reversal	(40,758)	(54)	(40,812)	(33,341)	(63)	(33,404)
Written off and transfer out	(7,515)	(1,581)	(9,096)	(3,192)	(1,017)	(4,209)
Transfer in						
— Recovery of loans and advances written off	669	59	728	604	62	666
— Unwind of discount on allowance	(274)	(226)	(500)	(147)	(216)	(363)
— Exchange differences	(637)	(40)	(677)	(193)	(7)	(200)
As at 31 December	136,978	31,071	168,049	128,295	26,361	154,656
<b>Bank</b>						
As at 1 January	125,142	25,896	151,038	113,232	23,420	136,652
Impairment losses for the year	56,238	6,148	62,386	47,782	3,527	51,309
Reversal	(40,381)	(4)	(40,385)	(32,785)	(13)	(32,798)
Written off and transfer out	(7,227)	(1,345)	(8,572)	(3,171)	(843)	(4,014)
Transfer in						
— Recovery of loans and advances written off	475	24	499	425	24	449
— Unwind of discount on allowance	(270)	(226)	(496)	(139)	(216)	(355)
— Exchange differences	(554)	(15)	(569)	(202)	(3)	(205)
As at 31 December	133,423	30,478	163,901	125,142	25,896	151,038

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****17 Investment securities**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
<b>Investment securities available for sale</b>				
Debt securities available for sale				
Issuers in Chinese mainland				
— Government	60,043	80,361	51,518	70,154
— Public sector and quasi-governments	5,987	2,950	5,799	1,855
— Policy banks	81,117	77,224	41,682	49,943
— Financial institutions	72,259	45,852	30,841	15,247
— Corporate	142,680	81,716	114,805	61,708
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	89,165	171,057	55,522	58,423
— Public sector and quasi-governments	41,417	40,156	5,246	7,992
— Financial institutions	138,430	129,297	42,549	34,740
— Corporate	34,660	26,106	6,169	5,045
	665,758	654,719	354,131	305,107
Equity securities	26,617	24,041	2,489	1,903
Fund investments and other	8,821	7,640	—	—
Total investment securities available for sale <sup>(1)</sup>	701,196	686,400	356,620	307,010
<b>Debt securities held to maturity</b>				
Issuers in Chinese mainland				
— Government	663,930	645,607	663,478	644,906
— Public sector and quasi-governments	20,569	15,350	20,569	15,350
— Policy banks	244,846	259,900	243,677	259,104
— Financial institutions	42,312	38,969	39,706	36,516
— Corporate	154,530	141,317	150,375	140,596
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	67,269	64,561	64,344	61,907
— Public sector and quasi-governments	4,262	4,439	4,156	3,413
— Financial institutions	7,791	10,613	1,814	1,110
— Corporate	5,268	2,630	1,002	813
	1,210,777	1,183,386	1,189,121	1,163,715
Allowance for impairment losses	(246)	(306)	(243)	(299)
Total debt securities held to maturity <sup>(2)</sup>	1,210,531	1,183,080	1,188,878	1,163,416

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 17 Investment securities (Continued)

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
<b>Debt securities classified as loans and receivables</b>				
Issuers in Chinese mainland				
— China Orient Bond <sup>(3)</sup>	<b>160,000</b>	160,000	<b>160,000</b>	160,000
— Special Purpose Treasury Bond <sup>(4)</sup>	<b>42,500</b>	42,500	<b>42,500</b>	42,500
— Financial institutions	<b>27,371</b>	20,979	<b>21,780</b>	17,480
— Certificate and Saving-type Treasury Bonds and other <sup>(5)</sup>	<b>30,058</b>	32,492	<b>29,414</b>	31,564
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Public sector and quasi-governments	<b>9,668</b>	11,638	<b>7,967</b>	9,077
— Financial institutions	<b>2</b>	1,319	<b>2</b>	115
— Corporate	<b>9</b>	591	<b>9</b>	591
	<b>269,608</b>	269,519	<b>261,672</b>	261,327
Allowance for impairment losses	<b>(65)</b>	(65)	<b>(65)</b>	(65)
Total debt securities classified as loans and receivables	<b>269,543</b>	269,454	<b>261,607</b>	261,262
<b>Total investment securities<sup>(6)(7)</sup></b>	<b>2,181,270</b>	2,138,934	<b>1,807,105</b>	1,731,688

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****17 Investment securities (Continued)**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Analysed as follows:				
<b>Investment securities available for sale</b>				
Debt securities				
— Listed in Hong Kong	<b>30,336</b>	21,871	<b>8,480</b>	5,301
— Listed outside Hong Kong	<b>312,912</b>	303,350	<b>215,013</b>	211,872
— Unlisted	<b>322,510</b>	329,498	<b>130,638</b>	87,934
Equity, fund and other				
— Listed in Hong Kong	<b>5,091</b>	4,242	—	—
— Listed outside Hong Kong	<b>306</b>	279	<b>1</b>	—
— Unlisted	<b>30,041</b>	27,160	<b>2,488</b>	1,903
<b>Debt securities held to maturity</b>				
— Listed in Hong Kong	<b>2,656</b>	2,520	<b>1,471</b>	1,346
— Listed outside Hong Kong	<b>978,604</b>	1,076,690	<b>966,897</b>	1,068,938
— Unlisted	<b>229,271</b>	103,870	<b>220,510</b>	93,132
<b>Debt securities classified as loans and receivables</b>				
— Unlisted	<b>269,543</b>	269,454	<b>261,607</b>	261,262
Total	<b>2,181,270</b>	2,138,934	<b>1,807,105</b>	1,731,688
Listed in Hong Kong	<b>38,083</b>	28,633	<b>9,951</b>	6,647
Listed outside Hong Kong	<b>1,291,822</b>	1,380,319	<b>1,181,911</b>	1,280,810
Unlisted	<b>851,365</b>	729,982	<b>615,243</b>	444,231
Total	<b>2,181,270</b>	2,138,934	<b>1,807,105</b>	1,731,688

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 17 Investment securities (Continued)

#### Group

	As at 31 December			
	2013		2012	
	Carrying value	Market value	Carrying value	Market value
Debt securities held to maturity				
— Listed in Hong Kong	2,656	2,699	2,520	2,634
— Listed outside Hong Kong	978,604	936,328	1,076,690	1,072,920

#### Bank

	As at 31 December			
	2013		2012	
	Carrying value	Market value	Carrying value	Market value
Debt securities held to maturity				
— Listed in Hong Kong	1,471	1,501	1,346	1,411
— Listed outside Hong Kong	966,897	924,573	1,068,938	1,064,836

- (1) The Group's accumulated impairment charge on debt, equity securities and other available for sale held as at 31 December 2013 amounted to RMB2,533 million and RMB4,480 million, respectively (31 December 2012: RMB3,591 million and RMB4,260 million, respectively).
- (2) In 2013, the Group reclassified certain debt securities with a total carrying value of RMB5,344 million from "Investment securities available for sale" to "Investment securities held to maturity" in response to a change in intention of management.
- (3) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the other terms unchanged. The MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 "Notice of the MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank".
- (4) On 18 August 1998, a Special Purpose Treasury Bond was issued by the MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.
- (5) The Group underwrites certain Treasury bonds issued by the MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Group and the Bank as at 31 December 2013 amounted to RMB6,995 million (31 December 2012: RMB16,266 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 17 Investment securities (Continued)

- (6) As at 31 December 2013, the Group and the Bank held bonds issued by the MOF and bills issued by the PBOC included in investment securities with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Carrying value	<b>638,345</b>	670,705	<b>629,368</b>	659,795
Interest rate range	<b>0.66%–5.41%</b>	1.00%–4.89%	<b>0.66%–5.41%</b>	1.00%–4.75%

- (7) Included in the Group's investment securities were certificates of deposit held amounting to RMB81,032 million as at 31 December 2013 (31 December 2012: RMB65,520 million).

### 18 Investment in subsidiaries

The carrying amount by principal subsidiary was as follows, and further details are disclosed in Note V.42.8. These directly held principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiary to transfer funds to the Group and the Bank is not restricted.

	As at 31 December	
	2013	2012
BOC Hong Kong (Group) Limited	<b>36,915</b>	36,915
BOC Group Investment Limited	<b>29,633</b>	29,633
BOC Group Insurance Company Limited	<b>4,509</b>	4,509
BOC International Holdings Limited	<b>3,753</b>	3,753
BOC (UK) Limited	<b>3,223</b>	3,223
BOC Insurance Company Limited	<b>1,998</b>	1,998
Tai Fung Bank Limited	<b>82</b>	82
Other	<b>9,113</b>	7,161
Total	<b>89,226</b>	87,274

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****19 Investment in associates and joint ventures**

	Year ended 31 December			
	Group		Bank	
	2013	2012	2013	2012
As at 1 January	<b>12,382</b>	13,293	<b>55</b>	48
Additions	<b>331</b>	1,028	–	4
Disposals	<b>(369)</b>	(2,296)	–	–
Share of results, net of tax	<b>1,092</b>	613	<b>4</b>	7
Dividends received	<b>(117)</b>	(129)	–	–
Exchange differences and others	<b>49</b>	(127)	<b>(2)</b>	(4)
As at 31 December	<b>13,368</b>	12,382	<b>57</b>	55

Investment in associates and joint ventures of the Group and the Bank comprise of ordinary shares of unlisted companies, and the ability of associates and joint ventures to transfer funds to the Group and the Bank is not restricted. The carrying amount by principal investees was as follows:

	As at 31 December	
	2013	2012
Huaneng International Power Development Corporation	<b>5,784</b>	5,062
BOC International (China) Limited	<b>2,850</b>	2,438
CGN Phase I Private Equity Fund Company Limited	<b>991</b>	885
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	<b>629</b>	631
Hong Kong Bora Holdings Limited	<b>538</b>	946
Farun Glass Industry Company Limited	<b>436</b>	496
Hubei Zhongqi Investment and Guarantee Company Limited	<b>315</b>	316
JCC Financial Company Limited	<b>260</b>	226
Guangdong Haomei Aluminum Company Limited	<b>229</b>	218
Silver Union Investments Limited	<b>182</b>	188
Other	<b>1,154</b>	976
Total	<b>13,368</b>	12,382

Further details are disclosed in Note V.42.4.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20 Property and equipment****Group**

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
<b>Cost</b>					
As at 1 January 2013	82,142	54,120	23,744	53,586	213,592
Additions	508	6,043	9,890	12,976	29,417
Transfer from/(to) investment properties, net (Note V.21)	220	–	(2)	–	218
Construction in progress transfer in/(out)	5,246	495	(10,412)	4,671	–
Disposals	(645)	(1,677)	(178)	(6,661)	(9,161)
Exchange differences	(872)	(196)	(2)	(1,608)	(2,678)
As at 31 December 2013	86,599	58,785	23,040	62,964	231,388
<b>Accumulated depreciation</b>					
As at 1 January 2013	(22,268)	(33,883)	–	(5,931)	(62,082)
Depreciation charge	(2,589)	(8,327)	–	(2,092)	(13,008)
Disposals	586	1,589	–	1,184	3,359
Exchange differences	204	135	–	179	518
As at 31 December 2013	(24,067)	(40,486)	–	(6,660)	(71,213)
<b>Allowance for impairment losses</b>					
As at 1 January 2013	(765)	–	(252)	(169)	(1,186)
Impairment losses	–	–	–	(187)	(187)
Disposals	8	–	7	146	161
Exchange differences	–	–	–	5	5
As at 31 December 2013	(757)	–	(245)	(205)	(1,207)
<b>Net book value</b>					
As at 1 January 2013	59,109	20,237	23,492	47,486	150,324
As at 31 December 2013	61,775	18,299	22,795	56,099	158,968

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 20 Property and equipment (Continued)

#### Group

	Year ended 31 December				Total
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	
<b>Cost</b>					
As at 1 January 2012	78,989	47,415	19,840	46,584	192,828
Additions	781	8,290	11,194	6,481	26,746
Transfer to investment properties, net (Note V.21)	(979)	–	–	–	(979)
Construction in progress transfer in/(out)	4,346	485	(6,932)	2,101	–
Disposals	(973)	(2,080)	(328)	(1,395)	(4,776)
Exchange differences	(22)	10	(30)	(185)	(227)
As at 31 December 2012	82,142	54,120	23,744	53,586	213,592
<b>Accumulated depreciation</b>					
As at 1 January 2012	(20,819)	(28,317)	–	(4,411)	(53,547)
Depreciation charge	(2,405)	(7,566)	–	(1,786)	(11,757)
Disposals	954	2,000	–	247	3,201
Exchange differences	2	–	–	19	21
As at 31 December 2012	(22,268)	(33,883)	–	(5,931)	(62,082)
<b>Allowance for impairment losses</b>					
As at 1 January 2012	(775)	–	(252)	(20)	(1,047)
Impairment losses	(3)	–	(4)	(150)	(157)
Disposals	13	–	4	1	18
Exchange differences	–	–	–	–	–
As at 31 December 2012	(765)	–	(252)	(169)	(1,186)
<b>Net book value</b>					
As at 1 January 2012	57,395	19,098	19,588	42,153	138,234
As at 31 December 2012	59,109	20,237	23,492	47,486	150,324

As at 31 December 2013, the net book amount of aircraft owned by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, acquired under finance lease arrangements was RMB430 million (31 December 2012: RMB459 million).

As at 31 December 2013, the net book amount of aircraft leased out by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, under operating leases was RMB55,628 million (31 December 2012: RMB46,884 million).

As at 31 December 2013, the net book amount of aircraft owned by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, that has been pledged for loan facilities was RMB46,634 million (31 December 2012: RMB38,573 million) (Note V.30).

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20 Property and equipment (Continued)****Bank**

	Year ended 31 December			Total
	Buildings	Equipment and motor vehicles	Construction in progress	
<b>Cost</b>				
As at 1 January 2013	65,266	48,602	17,170	131,038
Additions	299	5,559	7,284	13,142
Transfer to investment properties, net (Note V.21)	(1)	–	–	(1)
Construction in progress transfer in/(out)	5,196	200	(5,396)	–
Disposals	(635)	(1,456)	(2)	(2,093)
Exchange differences	(399)	(43)	–	(442)
As at 31 December 2013	69,726	52,862	19,056	141,644
<b>Accumulated depreciation</b>				
As at 1 January 2013	(18,820)	(29,978)	–	(48,798)
Depreciation charge	(2,208)	(7,731)	–	(9,939)
Disposals	563	1,388	–	1,951
Exchange differences	76	29	–	105
As at 31 December 2013	(20,389)	(36,292)	–	(56,681)
<b>Allowance for impairment losses</b>				
As at 1 January 2013	(765)	–	(252)	(1,017)
Impairment losses	–	–	–	–
Disposals	8	–	7	15
Exchange differences	–	–	–	–
As at 31 December 2013	(757)	–	(245)	(1,002)
<b>Net book value</b>				
As at 1 January 2013	45,681	18,624	16,918	81,223
As at 31 December 2013	48,580	16,570	18,811	83,961

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****20 Property and equipment (Continued)****Bank**

	Year ended 31 December			Total
	Buildings	Equipment and motor vehicles	Construction in progress	
<b>Cost</b>				
As at 1 January 2012	61,484	42,386	14,135	118,005
Additions	428	7,913	7,812	16,153
Transfer from investment properties, net (Note V.21)	10	–	–	10
Construction in progress transfer in/(out)	4,273	178	(4,451)	–
Disposals	(885)	(1,883)	(326)	(3,094)
Exchange differences	(44)	8	–	(36)
As at 31 December 2012	65,266	48,602	17,170	131,038
<b>Accumulated depreciation</b>				
As at 1 January 2012	(17,612)	(24,837)	–	(42,449)
Depreciation charge	(2,071)	(6,964)	–	(9,035)
Disposals	860	1,823	–	2,683
Exchange differences	3	–	–	3
As at 31 December 2012	(18,820)	(29,978)	–	(48,798)
<b>Allowance for impairment losses</b>				
As at 1 January 2012	(775)	–	(252)	(1,027)
Impairment losses	(3)	–	(4)	(7)
Disposals	13	–	4	17
Exchange differences	–	–	–	–
As at 31 December 2012	(765)	–	(252)	(1,017)
<b>Net book value</b>				
As at 1 January 2012	43,097	17,549	13,883	74,529
As at 31 December 2012	45,681	18,624	16,918	81,223

According to relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2013, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 20 Property and equipment (Continued)

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Held in Hong Kong				
on long-term lease (over 50 years)	3,651	3,701	–	–
on medium-term lease (10–50 years)	6,873	7,063	–	–
on short-term lease (less than 10 years)	2	6	–	–
Subtotal	10,526	10,770	–	–
Held outside Hong Kong				
on long-term lease (over 50 years)	3,708	4,239	2,333	3,780
on medium-term lease (10–50 years)	45,897	43,612	44,847	41,421
on short-term lease (less than 10 years)	1,644	488	1,400	480
Subtotal	51,249	48,339	48,580	45,681
Total	61,775	59,109	48,580	45,681

### 21 Investment properties

	Year ended 31 December			
	Group		Bank	
	2013	2012	2013	2012
As at 1 January	17,142	14,616	1,474	1,280
Additions	2,775	560	1	–
Transfer from/(to) property and equipment, net (Note V.20)	(218)	979	1	(10)
Disposals	(7)	(113)	–	–
Fair value changes (Note V.4)	662	1,006	241	165
Exchange differences	(83)	94	206	39
As at 31 December	20,271	17,142	1,923	1,474

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate market.

Investment properties are mainly held by BOC Hong Kong (Holdings) Limited ("BOCHK (Holdings)") and BOC Group Investment Limited, subsidiaries of the Group. The carrying value of investment properties held by BOCHK (Holdings) and BOC Group Investment Limited as at 31 December 2013 amounted to RMB8,648 million and RMB9,679 million, respectively (31 December 2012: RMB8,782 million and RMB6,865 million). The valuation of these investment properties as at 31 December 2013 were principally performed by either Savills Valuation and Professional Services Limited or Knight Frank Petty Limited based on open market price and other related information.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****21 Investment properties (Continued)**

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Held in Hong Kong				
on long-term lease (over 50 years)	<b>2,809</b>	2,515	–	–
on medium-term lease (10–50 years)	<b>6,475</b>	6,907	–	–
on short-term lease (less than 10 years)	–	20	–	–
Subtotal	<b>9,284</b>	9,442	–	–
Held outside Hong Kong				
on long-term lease (over 50 years)	<b>2,124</b>	1,938	<b>340</b>	276
on medium-term lease (10–50 years)	<b>7,865</b>	5,569	<b>1,282</b>	1,005
on short-term lease (less than 10 years)	<b>998</b>	193	<b>301</b>	193
Subtotal	<b>10,987</b>	7,700	<b>1,923</b>	1,474
Total	<b>20,271</b>	17,142	<b>1,923</b>	1,474

**22 Other assets**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Interest receivable <sup>(1)</sup>	<b>62,820</b>	54,188	<b>57,194</b>	49,288
Accounts receivable and prepayments <sup>(2)</sup>	<b>63,780</b>	63,022	<b>20,495</b>	26,791
Intangible assets <sup>(3)</sup>	<b>3,979</b>	3,119	<b>3,746</b>	2,898
Land use rights <sup>(4)</sup>	<b>8,840</b>	9,239	<b>8,101</b>	8,471
Repossessed assets <sup>(5)</sup>	<b>1,171</b>	1,124	<b>847</b>	834
Goodwill <sup>(6)</sup>	<b>1,982</b>	1,796	–	–
Other	<b>9,246</b>	7,977	<b>5,627</b>	4,951
Total	<b>151,818</b>	140,465	<b>96,010</b>	93,233

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 22 Other assets (Continued)

(1) Interest receivable

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Debt securities	<b>28,305</b>	25,705	<b>25,003</b>	22,823
Loans and advances to customers	<b>24,047</b>	21,850	<b>22,660</b>	20,524
Due from and placements with and loans to banks, other financial institutions and central banks	<b>10,468</b>	6,633	<b>9,531</b>	5,941
<b>Total</b>	<b>62,820</b>	54,188	<b>57,194</b>	49,288

The movements of interest receivable are as follows:

	Year ended 31 December			
	Group		Bank	
	2013	2012	2013	2012
As at 1 January	<b>54,188</b>	54,817	<b>49,288</b>	50,174
Accrued during the year	<b>518,446</b>	505,577	<b>484,237</b>	475,030
Received during the year	<b>(509,814)</b>	(506,206)	<b>(476,331)</b>	(475,916)
<b>As at 31 December</b>	<b>62,820</b>	54,188	<b>57,194</b>	49,288

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22 Other assets (Continued)**

(2) Accounts receivable and prepayments

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Accounts receivable and prepayments	<b>65,890</b>	65,098	<b>22,546</b>	28,784
Impairment allowance	<b>(2,110)</b>	(2,076)	<b>(2,051)</b>	(1,993)
Net value	<b>63,780</b>	63,022	<b>20,495</b>	26,791

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the aging of accounts receivable and prepayments is as follows:

**Group**

	As at 31 December			
	2013		2012	
	Balance	Impairment allowance	Balance	Impairment allowance
Within 1 year	<b>59,340</b>	<b>(124)</b>	59,231	(159)
From 1 year to 3 years	<b>1,988</b>	<b>(401)</b>	1,469	(546)
Over 3 years	<b>4,562</b>	<b>(1,585)</b>	4,398	(1,371)
Total	<b>65,890</b>	<b>(2,110)</b>	65,098	(2,076)

**Bank**

	As at 31 December			
	2013		2012	
	Balance	Impairment allowance	Balance	Impairment allowance
Within 1 year	<b>18,377</b>	<b>(103)</b>	25,074	(141)
From 1 year to 3 years	<b>965</b>	<b>(400)</b>	836	(540)
Over 3 years	<b>3,204</b>	<b>(1,548)</b>	2,874	(1,312)
Total	<b>22,546</b>	<b>(2,051)</b>	28,784	(1,993)

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22 Other assets (Continued)**

## (3) Intangible assets

	Year ended 31 December			
	Group		Bank	
	2013	2012	2013	2012
<b>Cost</b>				
As at 1 January	6,148	4,944	5,575	4,457
Additions	1,781	1,234	1,669	1,126
Disposals	(35)	(31)	(11)	(9)
Exchange differences	(22)	1	(7)	1
As at 31 December	7,872	6,148	7,226	5,575
<b>Accumulated amortisation</b>				
As at 1 January	(3,029)	(2,342)	(2,677)	(2,051)
Amortisation charge	(895)	(702)	(824)	(634)
Disposals	15	16	15	9
Exchange differences	16	(1)	6	(1)
As at 31 December	(3,893)	(3,029)	(3,480)	(2,677)
<b>Allowance for impairment losses</b>				
As at 1 January	–	–	–	–
Impairment losses	–	–	–	–
Disposals	–	–	–	–
Exchange differences	–	–	–	–
As at 31 December	–	–	–	–
<b>Net book value</b>				
As at 1 January	3,119	2,602	2,898	2,406
As at 31 December	3,979	3,119	3,746	2,898

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22 Other assets (Continued)**

## (4) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Held outside Hong Kong				
on long-term lease (over 50 years)	<b>258</b>	177	<b>233</b>	177
on medium-term lease (10–50 years)	<b>7,927</b>	8,866	<b>7,213</b>	8,098
on short-term lease (less than 10 years)	<b>655</b>	196	<b>655</b>	196
	<b>8,840</b>	9,239	<b>8,101</b>	8,471

## (5) Repossessed assets

The Group and the Bank obtained repossessed assets by taking possession of collateral held as security. Such repossessed assets are as follows:

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Commercial properties	<b>1,281</b>	1,265	<b>859</b>	843
Residential properties	<b>177</b>	136	<b>83</b>	80
Other	<b>842</b>	788	<b>669</b>	611
	<b>2,300</b>	2,189	<b>1,611</b>	1,534
Allowance for impairment	<b>(1,129)</b>	(1,065)	<b>(764)</b>	(700)
Repossessed assets, net	<b>1,171</b>	1,124	<b>847</b>	834

The total book value of repossessed assets disposed of during the year ended 31 December 2013 amounted to RMB263 million (2012: RMB180 million). The Group plans to dispose of the repossessed assets held at 31 December 2013 by auction, bidding or transfer.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22 Other assets (Continued)**

(6) Goodwill

**Group**

	Year ended 31 December	
	2013	2012
As at 1 January	1,796	1,727
Addition through acquisition of subsidiaries	238	75
Decrease resulting from disposal of subsidiaries	–	–
Exchange differences	(52)	(6)
As at 31 December	1,982	1,796

The goodwill mainly arose from the acquisition of BOC Aviation Pte. Ltd. in 2006 amounting to USD241 million (equivalent to RMB1,467 million).

**23 Impairment allowance****Group**

	As at	Additions	Decrease		Exchange differences	As at
	1 January 2013		Reversal	Write-off and transfer out		31 December 2013
Impairment allowance						
— Placements with and loans to banks and other financial institutions	203	18	(26)	–	–	195
— Loans and advances to customers <sup>(1)</sup>	154,656	63,750	(40,812)	(8,868)	(677)	168,049
— Investment securities						
— available for sale (Note V.17)	7,851	543	(278)	(832)	(271)	7,013
— held to maturity	306	1	(48)	–	(13)	246
— loans and receivables	65	–	–	–	–	65
— Property and equipment	1,186	187	–	(161)	(5)	1,207
— Repossessed assets	1,065	101	(20)	(11)	(6)	1,129
— Land use rights	22	–	–	–	–	22
— Accounts receivable and prepayments	2,076	921	(827)	(32)	(28)	2,110
— Other	357	7	(7)	(20)	(9)	328
Total	167,787	65,528	(42,018)	(9,924)	(1,009)	180,364

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 23 Impairment allowance (Continued)

#### Group

	As at 1 January 2012	Additions	Decrease		Exchange differences	As at 31 December 2012
			Reversal	Write-off and transfer out		
Impairment allowance						
— Placements with and loans to banks and other financial institutions	238	–	(31)	(4)	–	203
— Loans and advances to customers <sup>(1)</sup>	139,676	52,490	(33,404)	(3,906)	(200)	154,656
— Investment securities						
— available for sale (Note V.17)	12,923	608	(451)	(5,239)	10	7,851
— held to maturity	354	37	(76)	(11)	2	306
— loans and receivables	75	–	(2)	(9)	1	65
— Property and equipment	1,047	157	–	(18)	–	1,186
— Repossessed assets	1,055	155	(63)	(82)	–	1,065
— Land use rights	22	–	–	–	–	22
— Accounts receivable and prepayments	1,964	453	(494)	151	2	2,076
— Other	367	8	–	(19)	1	357
<b>Total</b>	<b>157,721</b>	<b>53,908</b>	<b>(34,521)</b>	<b>(9,137)</b>	<b>(184)</b>	<b>167,787</b>

#### Bank

	As at 1 January 2013	Additions	Decrease		Exchange differences	As at 31 December 2013
			Reversal	Write-off and transfer out		
Impairment allowance						
— Placements with and loans to banks and other financial institutions	203	18	(26)	–	–	195
— Loans and advances to customers <sup>(1)</sup>	151,038	62,386	(40,385)	(8,569)	(569)	163,901
— Investment securities						
— available for sale	3,565	39	(278)	(699)	(90)	2,537
— held to maturity	299	1	(44)	–	(13)	243
— loans and receivables	65	–	–	–	–	65
— Property and equipment	1,017	–	–	(15)	–	1,002
— Repossessed assets	700	101	(20)	(11)	(6)	764
— Land use rights	22	–	–	–	–	22
— Accounts receivable and prepayments	1,993	879	(825)	29	(25)	2,051
— Other	7	3	(7)	–	–	3
<b>Total</b>	<b>158,909</b>	<b>63,427</b>	<b>(41,585)</b>	<b>(9,265)</b>	<b>(703)</b>	<b>170,783</b>

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 23 Impairment allowance (Continued)

#### Bank

	As at 1 January 2012	Additions	Decrease		Exchange differences	As at 31 December 2012
			Reversal	Write-off and transfer out		
Impairment allowance						
— Placements with and loans to banks and other financial institutions	238	—	(31)	(4)	—	203
— Loans and advances to customers <sup>(1)</sup>	136,652	51,309	(32,798)	(3,920)	(205)	151,038
— Investment securities						
— available for sale	9,100	76	(441)	(5,135)	(35)	3,565
— held to maturity	334	12	(49)	—	2	299
— loans and receivables	75	—	(2)	(9)	1	65
— Property and equipment	1,027	7	—	(17)	—	1,017
— Repossessed assets	748	94	(62)	(79)	(1)	700
— Land use rights	22	—	—	—	—	22
— Accounts receivable and prepayments	1,887	433	(492)	161	4	1,993
— Other	—	7	—	—	—	7
<b>Total</b>	<b>150,083</b>	<b>51,938</b>	<b>(33,875)</b>	<b>(9,003)</b>	<b>(234)</b>	<b>158,909</b>

- (1) Included within "Write-off and transfer out" on loans and advances to customers are amounts relating to loans and advances written-off, transferred out, recovery of loans and advances written-off and unwind of discount on allowance.

### 24 Due to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Due to:				
Banks in Chinese mainland	<b>485,457</b>	828,892	<b>447,967</b>	794,338
Other financial institutions in Chinese mainland	<b>763,074</b>	626,816	<b>763,567</b>	626,620
Banks in Hong Kong, Macau, Taiwan and other countries and regions	<b>243,331</b>	96,602	<b>218,661</b>	87,626
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	<b>59,762</b>	882	<b>70,621</b>	8,274
<b>Total <sup>(1)</sup></b>	<b>1,551,624</b>	1,553,192	<b>1,500,816</b>	1,516,858

- (1) Included in the Bank's due to banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.8).

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****25 Due to central banks**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Foreign exchange deposits	<b>117,928</b>	117,449	<b>117,928</b>	117,449
Other	<b>83,011</b>	12,573	<b>46,633</b>	813
<b>Total</b>	<b>200,939</b>	130,022	<b>164,561</b>	118,262

**26 Government certificates of indebtedness for bank notes issued and bank notes in circulation**

Bank of China (Hong Kong) Limited (“BOCHK”) and Bank of China Macau Branch are note issuing banks for Hong Kong Dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments, respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by BOCHK and Bank of China Macau Branch.

**27 Placements from banks and other financial institutions**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Placements from:				
Banks in Chinese mainland	<b>93,444</b>	152,442	<b>83,766</b>	141,721
Other financial institutions in Chinese mainland	<b>11,254</b>	72,994	<b>10,754</b>	72,994
Banks in Hong Kong, Macau, Taiwan and other countries and regions	<b>208,988</b>	81,965	<b>237,450</b>	89,677
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	<b>25,579</b>	5,603	<b>30,064</b>	8,724
<b>Total <sup>(1) (2)</sup></b>	<b>339,265</b>	313,004	<b>362,034</b>	313,116

(1) Included in the Bank’s “Placements from banks and other financial institutions” are balances with the Bank’s subsidiaries (Note V.42.8).

(2) Included in “Placements from banks and other financial institutions” are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Repurchase debt securities <sup>(i)</sup>	<b>71,360</b>	69,461	<b>68,989</b>	69,389

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.40.2.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****28 Due to customers**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
<b>At amortised cost</b>				
Demand deposits				
Corporate deposits	<b>2,635,353</b>	2,506,854	<b>2,378,905</b>	2,270,747
Personal deposits	<b>1,835,753</b>	1,634,545	<b>1,474,907</b>	1,276,431
Subtotal	<b>4,471,106</b>	4,141,399	<b>3,853,812</b>	3,547,178
Time deposits				
Corporate deposits	<b>2,655,911</b>	2,216,104	<b>2,333,774</b>	1,942,254
Personal deposits	<b>2,517,922</b>	2,373,145	<b>2,309,127</b>	2,165,991
Subtotal	<b>5,173,833</b>	4,589,249	<b>4,642,901</b>	4,108,245
Certificates of deposit	<b>238,264</b>	226,867	<b>251,215</b>	246,434
Other deposits <sup>(1)</sup>	<b>58,085</b>	52,463	<b>56,084</b>	51,284
Total due to customers at amortised cost	<b>9,941,288</b>	9,009,978	<b>8,804,012</b>	7,953,141
<b>At fair value</b>				
Structured deposits				
Corporate deposits	<b>129,614</b>	90,567	<b>119,554</b>	86,636
Personal deposits	<b>26,884</b>	73,450	<b>23,955</b>	71,297
Total due to customers at fair value <sup>(2)</sup>	<b>156,498</b>	164,017	<b>143,509</b>	157,933
Total due to customers <sup>(3)</sup>	<b>10,097,786</b>	9,173,995	<b>8,947,521</b>	8,111,074

- (1) Included in other deposits are special purpose fundings, which represent long-term fundings provided in multiple currencies from foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. These special purpose fundings are normally used to finance projects with a special commercial purpose in the PRC as determined by the foreign governments or entities and the Bank is obliged to repay these fundings when they fall due.

As at 31 December 2013, the remaining maturity of special purpose fundings ranges from 31 days to 34 years. The interest bearing special purpose fundings bear floating and fixed interest rates ranging from 0.15% to 7.92% (31 December 2012: 0.15% to 7.59%). These terms are consistent with those related development loans granted to customers.

- (2) Due to customers measured at fair value are structured deposits designated at fair value through profit or loss at inception.

There were no significant changes in the Group's or the Bank's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's or the Bank's credit risk for these financial liabilities designated at fair value through profit or loss during the years ended 31 December 2013 and 2012.

- (3) Due to customers include margin deposits for security received by the Group and the Bank as at 31 December 2013 of RMB438,174 million and RMB422,385 million, respectively (31 December 2012: RMB373,305 million and RMB355,224 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 29 Bonds issued

	Issue date	Maturity date	Annual interest rate	As at 31 December			
				Group		Bank	
				2013	2012	2013	2012
<b>Subordinated bonds issued</b>							
2005 RMB Debt Securities <sup>(1)</sup>							
Second Tranche (fixed rate)	18 February 2005	4 March 2020	5.18%	9,000	9,000	9,000	9,000
2009 RMB Debt Securities <sup>(2)</sup>							
First Tranche (fixed rate)	6 July 2009	8 July 2019	3.28%	14,000	14,000	14,000	14,000
	6 July 2009	8 July 2024	4.00%	24,000	24,000	24,000	24,000
First Tranche (floating rate)	6 July 2009	8 July 2019	Floating interest rate	2,000	2,000	2,000	2,000
2010 RMB Debt Securities <sup>(3)</sup>	9 March 2010	11 March 2025	4.68%	24,930	24,930	24,930	24,930
2010 US Dollar Subordinated notes issued by BOCHK	11 February 2010	11 February 2020	5.55%	15,276	17,503	–	–
2011 RMB Debt Securities <sup>(4)</sup>	17 May 2011	19 May 2026	5.30%	32,000	32,000	32,000	32,000
2012 RMB Debt Securities <sup>(5)</sup>	27 November 2012	29 November 2022	4.70%	5,000	5,000	5,000	5,000
	27 November 2012	29 November 2027	4.99%	18,000	18,000	18,000	18,000
Subtotal <sup>(6)</sup>				144,206	146,433	128,930	128,930
<b>Convertible bonds issued</b>							
2010 RMB Convertible Bond <sup>(7)</sup>	2 June 2010	2 June 2016	Step-up interest rate	38,597	38,199	38,597	38,199

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 29 Bonds issued (Continued)

	Issue date	Maturity date	Annual interest rate	As at 31 December			
				Group		Bank	
				2013	2012	2013	2012
<b>Other bonds issued</b>							
1994 US Dollar Debt Securities	10 March 1994	15 March 2014	8.25%	135	139	135	139
2010 RMB Debt Securities issued in Hong Kong Tranche B	30 September 2010	30 September 2013	2.90%	-	2,521	-	2,800
2011 US Dollar Debt Securities issued by BOCHK	8 November 2011	8 November 2016	3.75%	4,444	4,773	-	-
2012 RMB Debt Securities issued in Hong Kong <sup>(8)</sup>	23 July 2012	23 July 2015	3.10%	753	742	1,000	1,000
Other <sup>(9)</sup>				31,619	6,326	17,871	7,370
Subtotal				36,951	14,501	19,006	11,309
<b>Interbank negotiable certificates of deposit</b>							
2013 RMB NCD 001 <sup>(10)</sup>	12 December 2013	13 March 2014	-	4,950	-	4,950	-
Total bonds issued <sup>(11)</sup>				224,704	199,133	191,483	178,438

(1) The fixed rate portion of the second tranche of the subordinated bonds issued on 18 February 2005 has a maturity of 15 years, with a fixed coupon rate of 5.18%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2015. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

(2) The subordinated bonds issued on 6 July 2009 comprise two fixed rate portions and one floating rate portion.

The first portion of fixed rate bonds has a maturity of 10 years, with a fixed coupon rate of 3.28%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

The second portion of fixed rate bonds has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2019. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

The floating rate bonds has a maturity of 10 years, with a floating rate based on the specified 1-year deposit interest rate published by the PBOC, paid annually. The Bank has the option to redeem all of the bonds at face value on 8 July 2014. If the Bank does not exercise this option, the floating rate for the remaining 5-year period shall be the original floating rate plus 3.00%.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****29 Bonds issued (Continued)**

- (3) The subordinated bonds issued on 9 March 2010 have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank has the option to redeem all of the bonds at face value on 11 March 2020. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.
- (4) The subordinated bonds issued on 17 May 2011, have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to redeem all the subordinated bonds on the tenth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.
- (5) Two subordinated bonds issued on 27 November 2012 in the domestic interbank bond markets. The first subordinated bond has a maturity of 10 years, with a fixed coupon rate of 4.70%, payable annually. The Bank is entitled to redeem these bonds on the fifth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.70%. The second subordinated bond has a maturity of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank is entitled to redeem all these bonds on the tenth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.
- (6) Subordinated bonds are subordinated to all other claims on the assets of the Group, except those of the equity holders.
- (7) Pursuant to the approval by relevant PRC authorities, on 2 June 2010, the Bank issued A-share convertible bonds with a total principal amount of RMB40 billion. The convertible bonds have a maturity term of six years from 2 June 2010 to 2 June 2016 and bear a fixed interest rate of 0.50% for the first year, with an annual increase of 0.30% through the remaining term. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 106% of par value, including interest for the sixth year.

During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria is met. This right may be exercised only once in any year. Subject to the Board approval, the Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.

The conversion price of the convertible bonds will be adjusted, subject to terms and formulae provided for in the bond contracts, to adjust for the dilutive effects of distributions of cash dividends and specified increases in share capital. During the term of the convertible bonds, if the closing price of the A Shares in 15 trading days out of any 30 consecutive trading days is lower than 80% of the prevailing conversion price of the convertible bonds, the Board may also propose downward adjustments to the conversion price for the Shareholders' approval. During the period from the date of issuance to 31 December 2013, the conversion price was adjusted from RMB4.02 per share to RMB2.82 per share, as a result of paid cash dividends distribution, rights issue of A Share and H Share and downward adjustment approved by the shareholders.

Interest paid by the Bank related to the convertible bonds was RMB440 million for the year ended 31 December 2013 (2012: RMB320 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 29 Bonds issued (Continued)

The details of convertible bonds are as follows:

#### Group and Bank

	Year ended 31 December	
	2013	2012
Liability component as at 1 January	38,199	37,201
Accretion	996	998
Amounts converted to shares <sup>(i)</sup>	(598)	–
Liability component as at 31 December	38,597	38,199

- (i) Convertible bonds with a principal amount of RMB612,561,000 (2012: RMB34,000) were converted into 217,209,172 share (2012: 9,686 share) ordinary A shares during the year ended 31 December 2013 as verified by PricewaterhouseCoopers Zhong Tian LLP (Verification Report PwC ZT YZ (2014) No.100, see Notes V.36.1).
- (8) With the approval of the National Development and Reform Commission and the PBOC, the Bank issued RMB Bonds listed on the Stock Exchange of Hong Kong Limited on 23 July 2012, with an aggregate principal amount of RMB1 billion and an original maturity of 3 years at a rate of 3.10% per annum.
- (9) Others mainly comprised of commercial papers issued by the Bank's overseas institutions, which due dates ranging from 2014 to 2023.
- (10) The RMB interbank negotiable certificates of deposit issued on 12 December 2013 in the domestic interbank market, have a maturity term of three months. The RMB interbank negotiable certificates of deposit are issued at discount with a circulation amount of RMB5 billion and face value of RMB100.
- (11) During the years ended 31 December 2013 and 2012, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

### 30 Other borrowings

These other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Bank. These other borrowings are secured by aircraft of the Group (Note V.20).

As at 31 December 2013, these other borrowings have a maturity ranging from 15 days to 12 years and bear floating and fixed interest rates ranging from 0.51% to 2.78% (31 December 2012: 0.55% to 3.25%).

During the years ended 31 December 2013 and 2012, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****31 Current tax liabilities**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Corporate Income Tax	<b>33,625</b>	28,435	<b>30,575</b>	26,531
Business Tax	<b>5,924</b>	5,913	<b>5,789</b>	5,788
City Construction and Maintenance Tax	<b>396</b>	395	<b>392</b>	392
Education Surcharges	<b>288</b>	282	<b>285</b>	280
Value-added Tax and other	<b>(202)</b>	(31)	<b>(268)</b>	(91)
<b>Total</b>	<b>40,031</b>	34,994	<b>36,773</b>	32,900

**32 Retirement benefit obligations**

As at 31 December 2013, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early retired were RMB2,429 million (31 December 2012: RMB2,530 million) and RMB2,386 million (31 December 2012: RMB3,112 million) respectively, using the projected unit credit method.

The movements of the net liabilities recognised in the statements of financial position are as follows:

**Group and Bank**

	Year ended 31 December	
	2013	2012
As at 1 January	<b>5,642</b>	6,086
Interest cost	<b>181</b>	185
Net actuarial (gain)/loss recognised in the year	<b>(164)</b>	294
Benefits paid	<b>(844)</b>	(923)
<b>As at 31 December</b>	<b>4,815</b>	5,642

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 32 Retirement benefit obligations (Continued)

Primary assumptions used:

#### Group and Bank

	As at 31 December	
	2013	2012
Discount rate		
— Normal retiree	<b>4.56%</b>	3.79%
— Early retiree	<b>4.50%</b>	3.18%
Pension benefit inflation rate		
— Normal retiree	<b>5.0%~4.0%</b>	6.0%~4.0%
— Early retiree	<b>8.0%~4.0%</b>	10.0%~4.0%
Medical benefit inflation rate	<b>8.0%</b>	8.0%
Retiring age		
— Male	<b>60</b>	60
— Female	<b>50/55</b>	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

As at 31 December 2013 and 2012, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

### 33 Share appreciation rights plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****34 Deferred income taxes**

**34.1** 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 are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts and related temporary differences.

**Group**

	As at 31 December			
	2013		2012	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	<b>86,518</b>	<b>22,928</b>	80,481	21,292
Deferred income tax liabilities	<b>(17,487)</b>	<b>(3,385)</b>	(21,075)	(3,838)
	<b>69,031</b>	<b>19,543</b>	59,406	17,454

**Bank**

	As at 31 December			
	2013		2012	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	<b>93,963</b>	<b>23,687</b>	87,084	22,084
Deferred income tax liabilities	<b>(628)</b>	<b>(142)</b>	(916)	(186)
	<b>93,335</b>	<b>23,545</b>	86,168	21,898

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****34 Deferred income taxes (Continued)**

**34.2** Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

Group	As at 31 December			
	2013		2012	
	Temporary difference	Deferred tax assets/(liabilities)	Temporary difference	Deferred tax assets/(liabilities)
<b>Deferred income tax assets</b>				
Asset impairment allowances	91,594	22,961	89,120	22,339
Pension, retirement benefits and salary payable	21,162	5,290	20,670	5,167
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	18,293	4,573	12,756	3,185
Fair value changes of available for sale investment securities credited to equity	9,168	2,110	301	72
Other temporary differences	4,049	918	3,521	864
Subtotal	144,266	35,852	126,368	31,627
<b>Deferred income tax liabilities</b>				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(20,998)	(5,250)	(14,431)	(3,614)
Fair value changes of available for sale investment securities charged to equity	(3,197)	(821)	(7,140)	(1,491)
Depreciation of property and equipment	(9,944)	(1,690)	(8,975)	(1,690)
Revaluation of property and investment properties	(10,848)	(2,192)	(9,010)	(1,742)
Other temporary differences	(30,248)	(6,356)	(27,406)	(5,636)
Subtotal	(75,235)	(16,309)	(66,962)	(14,173)
Net	69,031	19,543	59,406	17,454

As at 31 December 2013, deferred tax liabilities relating to temporary differences of RMB46,109 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2012: RMB38,902 million). See Note II.21.2.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****34 Deferred income taxes (Continued)**

**34.2** Deferred income tax assets/(liabilities) and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (Continued):

**Bank**

	As at 31 December			
	2013		2012	
	Temporary difference	Deferred tax assets/(liabilities)	Temporary difference	Deferred tax assets/(liabilities)
<b>Deferred income tax assets</b>				
Asset impairment allowances	88,384	22,335	86,342	21,820
Pension, retirement benefits and salary payable	21,162	5,290	20,670	5,167
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	18,293	4,573	12,696	3,174
Fair value changes of available for sale investment securities credited to equity	6,680	1,664	104	21
Other temporary differences	1,265	319	1,146	288
Subtotal	135,784	34,181	120,958	30,470
<b>Deferred income tax liabilities</b>				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	(20,990)	(5,248)	(14,421)	(3,611)
Fair value changes of available for sale investment securities charged to equity	(1,899)	(493)	(1,517)	(391)
Other temporary differences	(19,560)	(4,895)	(18,852)	(4,570)
Subtotal	(42,449)	(10,636)	(34,790)	(8,572)
Net	93,335	23,545	86,168	21,898

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****34 Deferred income taxes (Continued)**

**34.3** The movements of the deferred income tax account are as follows:

	Year ended 31 December			
	Group		Bank	
	2013	2012	2013	2012
As at 1 January	<b>17,454</b>	16,298	<b>21,898</b>	19,524
Credited/(charged) to the income statement (Note V.9)	<b>(366)</b>	2,025	<b>170</b>	2,476
Credited/(charged) to equity	<b>2,669</b>	(855)	<b>1,502</b>	(108)
Other	<b>(214)</b>	(14)	<b>(25)</b>	6
As at 31 December	<b>19,543</b>	17,454	<b>23,545</b>	21,898

**34.4** The deferred income tax charge in the income statement comprises the following temporary differences:

	Year ended 31 December			
	Group		Bank	
	2013	2012	2013	2012
Asset impairment allowances	<b>622</b>	1,321	<b>515</b>	1,295
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	<b>(248)</b>	810	<b>(238)</b>	802
Pension, retirement benefits and salary payable	<b>162</b>	257	<b>162</b>	257
Other temporary differences	<b>(902)</b>	(363)	<b>(269)</b>	122
Total	<b>(366)</b>	2,025	<b>170</b>	2,476

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 35 Other liabilities

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Items in the process of clearance and settlement	<b>27,653</b>	29,918	<b>16,257</b>	22,464
Interest payable <sup>(1)</sup>	<b>132,052</b>	107,486	<b>129,872</b>	105,450
Insurance liabilities				
— Life insurance contracts	<b>52,390</b>	43,732	—	—
— Non-life insurance contracts	<b>7,202</b>	5,877	—	—
Salary and welfare payables <sup>(2)</sup>	<b>24,929</b>	23,191	<b>22,895</b>	21,212
Provision <sup>(3)</sup>	<b>2,139</b>	2,091	<b>1,859</b>	1,777
Short position in debt securities	<b>7,681</b>	14,061	—	—
Deferred Income	<b>8,342</b>	4,398	<b>8,139</b>	4,307
Other <sup>(4)</sup>	<b>39,891</b>	37,264	<b>18,737</b>	17,154
<b>Total</b>	<b>302,279</b>	268,018	<b>197,759</b>	172,364

(1) Interest payable

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Due to customers	<b>118,035</b>	94,379	<b>115,654</b>	92,173
Due to and placements from banks and other financial institutions	<b>9,553</b>	9,217	<b>10,159</b>	9,754
Bonds issued and other	<b>4,464</b>	3,890	<b>4,059</b>	3,523
<b>Total</b>	<b>132,052</b>	107,486	<b>129,872</b>	105,450

The movements of interest payable are as follows:

	Year ended 31 December			
	Group		Bank	
	2013	2012	2013	2012
As at 1 January	<b>107,486</b>	75,352	<b>105,450</b>	73,809
Accrued during the year	<b>235,410</b>	249,564	<b>226,235</b>	241,156
Paid during the year	<b>(210,844)</b>	(217,430)	<b>(201,813)</b>	(209,515)
<b>As at 31 December</b>	<b>132,052</b>	107,486	<b>129,872</b>	105,450

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****35 Other liabilities (Continued)**

(2) Salary and welfare payables

**Group**

	As at 1 January 2013	Accrual	Payment	As at 31 December 2013
Salary, bonus and subsidy	20,203	51,327	(49,864)	21,666
Staff welfare	–	2,293	(2,293)	–
Social insurance, including:				
Medical	557	2,604	(2,547)	614
Pension	83	5,608	(5,577)	114
Annuity	282	1,569	(1,850)	1
Unemployment	4	419	(419)	4
Injury at work	1	145	(145)	1
Maternity insurance	2	181	(181)	2
Housing funds	25	4,462	(4,454)	33
Labour union fee and staff education fee	1,889	1,882	(1,456)	2,315
Reimbursement for cancellation of labour contract	24	14	(26)	12
Other	121	2,077	(2,031)	167
<b>Total <sup>(i)</sup></b>	<b>23,191</b>	<b>72,581</b>	<b>(70,843)</b>	<b>24,929</b>

	As at 1 January 2012	Accrual	Payment	As at 31 December 2012
Salary, bonus and subsidy	17,822	47,629	(45,248)	20,203
Staff welfare	–	2,009	(2,009)	–
Social insurance, including:				
Medical	463	2,311	(2,217)	557
Pension	59	4,876	(4,852)	83
Annuity	–	1,380	(1,098)	282
Unemployment	7	390	(393)	4
Injury at work	1	125	(125)	1
Maternity insurance	1	154	(153)	2
Housing funds	20	3,891	(3,886)	25
Labour union fee and staff education fee	1,447	1,838	(1,396)	1,889
Reimbursement for cancellation of labour contract	19	25	(20)	24
Other	99	1,888	(1,866)	121
<b>Total <sup>(i)</sup></b>	<b>19,938</b>	<b>66,516</b>	<b>(63,263)</b>	<b>23,191</b>

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****35 Other liabilities (Continued)**

(2) Salary and welfare payables (Continued)

**Bank**

	As at 1 January 2013	Accrual	Payment	As at 31 December 2013
Salary, bonus and subsidy	18,254	43,495	(42,073)	19,676
Staff welfare	–	2,090	(2,090)	–
Social insurance, including:				
Medical	556	2,595	(2,539)	612
Pension	80	5,587	(5,556)	111
Annuity	282	1,569	(1,850)	1
Unemployment	4	417	(417)	4
Injury at work	1	145	(145)	1
Maternity insurance	2	180	(180)	2
Housing funds	23	4,448	(4,439)	32
Labour union fee and staff education fee	1,883	1,855	(1,435)	2,303
Reimbursement for cancellation of labour contract	24	10	(22)	12
Other	103	918	(880)	141
<b>Total <sup>(i)</sup></b>	<b>21,212</b>	<b>63,309</b>	<b>(61,626)</b>	<b>22,895</b>

	As at 1 January 2012	Accrual	Payment	As at 31 December 2012
Salary, bonus and subsidy	16,385	40,016	(38,147)	18,254
Staff welfare	–	1,829	(1,829)	–
Social insurance, including:				
Medical	461	2,306	(2,211)	556
Pension	56	4,864	(4,840)	80
Annuity	–	1,380	(1,098)	282
Unemployment	7	389	(392)	4
Injury at work	1	125	(125)	1
Maternity insurance	1	153	(152)	2
Housing funds	18	3,884	(3,879)	23
Labour union fee and staff education fee	1,444	1,823	(1,384)	1,883
Reimbursement for cancellation of labour contract	19	16	(11)	24
Other	89	809	(795)	103
<b>Total <sup>(i)</sup></b>	<b>18,481</b>	<b>57,594</b>	<b>(54,863)</b>	<b>21,212</b>

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2013 and 2012.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****35 Other liabilities (Continued)**

## (3) Provision

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Allowance for litigation losses (Note V.40.1)	<b>738</b>	746	<b>731</b>	709
Other	<b>1,401</b>	1,345	<b>1,128</b>	1,068
<b>Total</b>	<b>2,139</b>	2,091	<b>1,859</b>	1,777

Provision movements:

	Year ended 31 December			
	Group		Bank	
	2013	2012	2013	2012
As at 1 January	<b>2,091</b>	2,396	<b>1,777</b>	2,087
Provision/(reversal) for the year, net	<b>151</b>	(284)	<b>155</b>	(245)
Utilised during the year	<b>(103)</b>	(21)	<b>(73)</b>	(65)
<b>As at 31 December</b>	<b>2,139</b>	2,091	<b>1,859</b>	1,777

## (4) Other

Other includes finance lease payments which are principally related to aircraft held by BOC Aviation Pte. Ltd. under finance lease.

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Within 1 year (inclusive)	<b>52</b>	49	–	–
1 year to 2 years (inclusive)	<b>52</b>	49	–	–
2 years to 3 years (inclusive)	<b>53</b>	50	–	–
Over 3 years	<b>246</b>	301	–	–
<b>Total minimum rental payments</b>	<b>403</b>	449	–	–
Unrecognised finance charge	<b>(40)</b>	(34)	–	–
<b>Finance lease payments, net</b>	<b>363</b>	415	–	–

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****36 Share capital, capital reserve and treasury shares****36.1 Share capital and capital reserve**

For the year ended 31 December 2013, the movement of the Bank's share capital was as follows:

Unit: Share

	Domestic listed A shares, par value RMB1.00 per share	Overseas listed H shares, par value RMB1.00 per share	Total
As at 1 January 2013	<b>195,525,066,870</b>	<b>83,622,276,395</b>	<b>279,147,343,265</b>
Increase as a result of conversion of convertible bonds (Note V.29)	<b>217,209,172</b>	–	<b>217,209,172</b>
As at 31 December 2013	<b>195,742,276,042</b>	<b>83,622,276,395</b>	<b>279,364,552,437</b>

All A shares and H shares rank pari passu with the same rights and benefits.

As at 31 December 2013, capital reserve included capital surplus on issuance of ordinary shares of RMB110,974 million (31 December 2012: RMB110,525 million).

**36.2 Treasury shares**

A wholly owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2013 was approximately 10.13 million (31 December 2012: approximately 5.17 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 37 Statutory reserves, general and regulatory reserves and undistributed profits

#### 37.1 Statutory reserves

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit 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. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 26 March 2014, the Bank appropriated 10% of the net profit for the year ended 31 December 2013 to the statutory surplus reserves, amounting to RMB14,641 million (2012: RMB13,062 million).

In addition, some operations in Hong Kong, Macau, Taiwan and other countries and regions are required to transfer certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

#### 37.2 General and regulatory reserves

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions" ("Requirement"), issued by the MOF, in addition to the impairment allowance, the Bank establishes a general reserve within the equity holders' equity through the appropriation of profit to address unidentified potential impairment losses. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement, and the minimum threshold can be accumulated over a period of no more than five years.

In accordance with a resolution dated 26 March 2014 and on the basis of the Bank's profit for the year ended 31 December 2013, the Board of Directors of the Bank approved the appropriation of RMB11,756 million (2012: RMB50,148 million) to the general reserve for the year ended 31 December 2013.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited ("BOCHK Group"), a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2013 and 2012, the reserve amount set aside by BOCHK Group was RMB5,653 million and RMB4,985 million, respectively.

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****37 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)****37.3 Dividends**

A dividend of RMB48,851 million in respect of the profit for the year ended 31 December 2012 was approved by the equity holders of the Bank at the Annual General Meeting held on 29 May 2013 and was distributed during the year.

A dividend of RMB0.196 per share in respect of profit for the year ended 31 December 2013 (2012: RMB0.175 per share), amounting to a total dividend of RMB54,755 million based on the number of shares issued as at 31 December 2013 will be proposed for approval at the Annual General Meeting to be held on 12 June 2014. The actual amount of dividend payable will factor in ordinary shares issued in respect of conversion of convertible bonds after 31 December 2013 to the ex-dividend date. These financial statements do not reflect this dividend payable in liabilities.

**37.4 Profit attributable to the equity holders of the Bank**

The profit attributable to equity holders of the Bank for the year ended 31 December 2013 was recognised in the financial statements of the Bank to the extent of RMB146,414 million (2012: RMB130,841 million).

**38 Reserve for fair value changes of available for sale securities**

	Year ended 31 December			
	Group		Bank	
	2013	2012	2013	2012
As at 1 January	<b>7,276</b>	3,642	<b>1,099</b>	604
Net changes in fair value	<b>(8,348)</b>	5,833	<b>(6,188)</b>	1,868
Share of associates' reserve for fair value changes of available for sale securities	<b>(16)</b>	(33)	–	–
Net impairment charge/(reversal) transferred to the income statement	<b>265</b>	158	<b>(239)</b>	(365)
Net fair value changes transferred to the income statement on de-recognition	<b>(580)</b>	(2,182)	<b>(379)</b>	(1,478)
Deferred income taxes	<b>2,408</b>	(739)	<b>1,541</b>	(177)
Other	<b>647</b>	597	<b>647</b>	647
As at 31 December	<b>1,652</b>	7,276	<b>(3,519)</b>	1,099

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 39 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2013	2012
BOC Hong Kong (Group) Limited	<b>34,563</b>	34,273
Tai Fung Bank Limited	<b>1,982</b>	1,795
Other	<b>1,016</b>	797
Total	<b>37,561</b>	36,865

### 40 Contingent liabilities and commitments

#### 40.1 Legal proceedings and arbitrations

As at 31 December 2013, the Group was involved in certain legal proceedings and arbitrations arising from its normal business operations. In addition, in terms of the range and scale of its international operations, the Group may face a wide variety of legal proceedings within different jurisdictions, including sensitive issues related to anti-money laundering. As at 31 December 2013, provisions of RMB738 million (31 December 2012: RMB746 million) were made based on court judgements or the advice of counsel (Note V.35). After consulting legal professionals, senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

#### 40.2 Assets pledged

Assets pledged by the Group as collateral for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Debt securities	<b>101,181</b>	156,784	<b>88,871</b>	141,508
Bills	<b>2,071</b>	885	<b>2,052</b>	813
Total	<b>103,252</b>	157,669	<b>90,923</b>	142,321

#### 40.3 Collateral accepted

The Group and the Bank accept securities collateral that are permitted to sell or re-pledge in connection with reverse repurchase agreements with banks and other financial institutions. As at 31 December 2013, the fair value of collateral received from banks and other financial institutions accepted by the Group and the Bank amounted to RMB9,065 million and RMB8,993 million respectively (31 December 2012: RMB9,831 million and RMB9,821 million for the Group and the Bank respectively). As at 31 December 2013, the Group had sold or re-pledged such collateral accepted amounted to RMB17 million, none for the Bank (31 December 2012: RMB10 million for the Group and none for the Bank). These transactions are conducted under standard terms in the normal course of business.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 40 Contingent liabilities and commitments (Continued)

#### 40.4 Capital commitments

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Property and equipment				
Contracted but not provided for	<b>66,445</b>	70,044	<b>3,809</b>	5,061
Authorised but not contracted for	<b>6,149</b>	8,124	<b>6,081</b>	7,973
Intangible assets				
Contracted but not provided for	<b>683</b>	650	<b>580</b>	595
Authorised but not contracted for	<b>16</b>	1	<b>6</b>	–
<b>Total</b>	<b>73,293</b>	78,819	<b>10,476</b>	13,629

#### 40.5 Operating leases

(1) *Operating lease commitments — As lessee*

Under irrevocable operating lease contracts, the future minimum lease payments that should be paid by the Group and the Bank are summarised as follows:

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Within 1 year	<b>5,399</b>	8,003	<b>4,565</b>	7,214
Between 1 and 2 years	<b>4,526</b>	4,115	<b>3,903</b>	3,577
Between 2 and 3 years	<b>3,517</b>	3,363	<b>3,141</b>	3,001
Over 3 years	<b>9,498</b>	8,698	<b>8,718</b>	7,860
<b>Total</b>	<b>22,940</b>	24,179	<b>20,327</b>	21,652

(2) *Operating lease commitments — As lessor*

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Pte. Ltd. Under irrevocable operating lease contracts, as at 31 December 2013, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB6,171 million not later than one year (31 December 2012: RMB5,228 million), RMB22,653 million later than one year and not later than five years (31 December 2012: RMB23,390 million) and RMB20,107 million later than five years (31 December 2012: RMB24,886 million).

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 40 Contingent liabilities and commitments (Continued)

#### 40.6 Treasury bonds redemption commitments

The Bank 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 Bank is committed to redeem these Treasury bonds. The MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. 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, the outstanding principal value of the Treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB32,561 million (31 December 2012: RMB35,050 million). The original maturities of these Treasury bonds vary from 3 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

#### 40.7 Credit commitments

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Loan commitments <sup>(1)</sup>				
— with an original maturity of under 1 year	<b>63,800</b>	79,689	<b>57,013</b>	60,325
— with an original maturity of 1 year or over	<b>589,427</b>	645,725	<b>520,526</b>	588,111
Letters of guarantee issued <sup>(2)</sup>	<b>846,497</b>	791,156	<b>856,311</b>	802,214
Bank bill acceptance	<b>465,496</b>	396,460	<b>458,266</b>	391,008
Accepted bill of exchange under letters of credit	<b>309,959</b>	203,106	<b>299,414</b>	195,465
Letters of credit issued	<b>198,079</b>	176,337	<b>166,579</b>	148,573
Other	<b>26,552</b>	25,032	<b>31,628</b>	27,629
<b>Total <sup>(3)</sup></b>	<b>2,499,810</b>	2,317,505	<b>2,389,737</b>	2,213,325

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments and undrawn credit card limits are not included in loan commitments. As at 31 December 2013, the unconditionally revocable loan commitments and undrawn credit card limits of the Group and the Bank amounted to RMB627,302 million and RMB337,378 million (31 December 2012: RMB517,019 million and RMB256,932 million) respectively.

(2) Letters of guarantee issued include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 40 Contingent liabilities and commitments (Continued)

#### 40.7 Credit commitments (Continued)

- (3) Risk-weighted assets for credit risk of credit commitments

The risk-weighted assets for credit risk of the Group and the Bank as at 31 December 2013 were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* promulgated by the CBRC. The amounts are determined by the creditworthiness of the counterparties, the maturity characteristics of each type of contract and other factors. *Regulation Governing Capital Adequacy of Commercial Banks* and relevant requirements promulgated by the CBRC were followed when calculating the risk-weighted assets for credit risk of the Group and the Bank as at 31 December 2012.

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Credit commitments	<b>981,223</b>	754,824	<b>942,635</b>	735,117

#### 40.8 Underwriting obligations

As at 31 December 2013, the firm commitment in underwriting securities of the Group amounted to RMB169 million (31 December 2012: RMB17 million).

### 41 Note to the consolidated statement of cash flows

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

#### Group

	As at 31 December	
	2013	2012
Cash and due from banks and other financial institutions	<b>280,572</b>	353,687
Balances with central banks	<b>503,426</b>	446,763
Placements with and loans to banks and other financial institutions	<b>335,440</b>	216,383
Short term bills and notes	<b>31,128</b>	55,450
Total	<b>1,150,566</b>	1,072,283

### 42 Related party transactions

**42.1** CIC was established on 29 September 2007 with registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC government through CIC and its wholly owned subsidiary, Huijin.

The Group enters into banking transactions with CIC in the normal course of its business at commercial terms.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42 Related party transactions (Continued)

#### 42.2 Transactions with Huijin and companies under Huijin

(1) *General information of Huijin*

Central Huijin Investment Ltd.

Legal representative	DING Xuedong
Registered capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	67.72%
Voting rights in the Bank	67.72%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State Council; other related businesses approved by the State Council.
National organisation code	71093296-1

(2) *Transactions with Huijin*

The Group enters into banking transactions with Huijin in the normal course of its business at commercial terms.

#### Due to Huijin

	Year ended 31 December	
	2013	2012
As at 1 January	28,036	15,933
Received during the year	49,653	55,023
Repaid during the year	(42,688)	(42,920)
As at 31 December	35,001	28,036

#### Bonds issued by Huijin

As at 31 December 2013, the Bank held "government backed bonds held to maturity" issued by Huijin in the carrying value of RMB5,790 million (31 December 2012: RMB5,749 million). These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. Purchasing of these bonds was in the ordinary course of business of the Group, complying with requirements of related regulations and corporate governance.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42 Related party transactions (Continued)

#### 42.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, joint ventures and associates in certain other bank and non-bank entities in the PRC. The Group enters into banking transactions with these companies in the normal course of business at commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

The Group's outstanding balances and related interest rate ranges with these companies were as follows:

	As at 31 December	
	2013	2012
Due from banks and other financial institutions	<b>44,427</b>	108,139
Placements with and loans to banks and other financial institutions	<b>116,614</b>	99,286
Financial assets at fair value through profit or loss and investment securities	<b>228,561</b>	216,367
Derivative financial assets	<b>792</b>	996
Loans and advances to customers	<b>7,403</b>	1,649
Due to banks and other financial institutions	<b>(176,388)</b>	(244,237)
Placements from banks and other financial institutions	<b>(64,824)</b>	(50,595)
Derivative financial liabilities	<b>(808)</b>	(722)
Credit commitments	<b>554</b>	549

	As at 31 December	
	2013	2012
Interest rate ranges at the end of the year		
Due from banks and other financial institutions	<b>0.00%–9.00%</b>	0.00%–6.16%
Placements with and loans to banks and other financial institutions	<b>0.11%–7.50%</b>	0.02%–7.40%
Financial assets at fair value through profit or loss and investment securities	<b>0.60%–7.15%</b>	0.79%–6.38%
Loans and advances to customers	<b>1.60%–7.77%</b>	4.90%–6.70%
Due to banks and other financial institutions	<b>0.00%–7.28%</b>	0.00%–5.90%
Placements from banks and other financial institutions	<b>0.03%–9.50%</b>	0.12%–6.40%

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42 Related party transactions (Continued)

#### 42.3 Transactions with government authorities, agencies, affiliates and other State controlled entities

The State Council of the PRC government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business at commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State-controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

#### 42.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The main outstanding balances with associates and joint ventures are stated below:

	As at 31 December	
	2013	2012
Loans and advances to customers	624	711
Due to customers, banks and other financial institutions	(3,386)	(3,384)
Credit commitments	1,405	1,414

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42 Related party transactions (Continued)

#### 42.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	National organisation code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
Huaneng International Power Development Corporation	PRC	60000324-8	20.00	20.00	USD450	Power plant operations
BOC International (China) Limited	PRC	73665036-4	37.14	37.14	RMB1,979	Securities brokerage; securities investment consulting; financial advisory services related to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary business; securities asset management; securities investment fund sales agency; margin financing and securities lending; distribution of financial products
CGN Phase I Private Equity Fund Company Limited	PRC	71782747-8	20.00	20.00	RMB100	Investment
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	56456896-1	40.00	40.00	RMB1,600	Investment
Hong Kong Bora Holdings Limited	Hong Kong	NA	19.50	Note (1)	HKD0.01	Investment holding
Farun Glass Industry Company Limited	PRC	74942101-8	11.30	Note (1)	RMB458	Production, sale, agents and trade of special glass, float glass and deep processing glass products
Hubei Zhongqi Investment and Guarantee Company Limited	PRC	77076550-1	33.76	33.76	RMB936	Loan guarantees, financial guarantees
JCC Financial Company Limited	PRC	79478975-1	12.65	Note (1)	RMB300	Provide financial services for all subsidiaries of JCC Corporation
Guangdong Haomei Aluminum Company Limited	PRC	76573427-6	12.35	Note (1)	USD13	Aluminum material production, manufacture and sales
Silver Union Investments Limited	Cayman	NA	70.00	70.00	USD30	Investment holding

(1) In accordance with the respective articles of association, the Group has significant influence over these companies.

#### 42.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2013 and 2012.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42 Related party transactions (Continued)

#### 42.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the years ended 31 December 2013 and 2012, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2013 and 2012 comprises:

	Year ended 31 December	
	2013	2012
Compensation for short-term employment benefits <sup>(1)</sup>	17	26
Compensation for post-employment benefits	1	1
<b>Total</b>	<b>18</b>	27

- (1) The total compensation package for these key management personnel for the year ended 31 December 2013 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's 2013 financial statements. The final compensation will be disclosed in a separate announcement when determined.

#### 42.7 Transactions with Connected Natural Persons

Connected natural persons are defined in compliance with the Administration of Connected Transactions between *Commercial Banks and Their Insiders and Shareholders* formulated by CBRC and the *Administrative Measures for the Disclosure of Information of Listed Companies* formulated by China Securities Regulatory Commission, including directors, supervisors and senior management members of the Bank, etc.

As at 31 December 2013, the Bank's balance of loans to the above-mentioned two types of connected natural persons amounted to RMB109 million.

#### 42.8 Balances with subsidiaries

Included in the following captions of the Bank's statement of financial position are balances with subsidiaries:

	As at 31 December	
	2013	2012
Due from banks and other financial institutions	23,407	22,035
Placements with and loans to banks and other financial institutions	43,793	52,891
Due to banks and other financial institutions	(74,474)	(43,270)
Placements from banks and other financial institutions	(62,134)	(24,679)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42 Related party transactions (Continued)

#### 42.8 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
<b>Directly held</b>						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited <sup>(3)</sup>	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP250	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB3,035	100.00	100.00	Insurance services
<b>Indirectly held</b>						
BOC Hong Kong (Holdings) Limited <sup>(1)</sup>	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited <sup>(2)(3)</sup>	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
Nanyang Commercial Bank, Limited <sup>(3)</sup>	Hong Kong	2 February 1948	HKD700	66.06	100.00	Commercial banking
Chiyu Banking Corporation Limited <sup>(2)(3)</sup>	Hong Kong	24 April 1947	HKD300	46.57	70.49	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company Limited <sup>(3)</sup>	Hong Kong	1 December 1997	HKD200	76.43	100.00	Provision of trustee services
BOC Aviation Pte. Ltd.	Singapore	25 November 1993	USD608	100.00	100.00	Aircraft leasing

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 42 Related party transactions (Continued)

#### 42.8 Balances with subsidiaries (Continued)

- (1) BOCHK (Holdings) is listed on the Stock Exchange of Hong Kong Limited.
- (2) BOCHK, in which the Group holds a 66.06% equity interest, holds 70.49% of the equity interest of Chiyu Banking Corporation Limited.
- (3) BOCHK, Nanyang Commercial Bank Limited, Chiyu Banking Corporation Limited and BOC International Holdings Limited ("BOCI"), in which the Group holds 66.06%, 66.06%, 46.57% and 100% of their equity interests, respectively, hold 54%, 6%, 6% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For certain subsidiaries listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

### 43 Segment reporting

The Group manages the business from both geographic and business perspectives. From the geographic perspective, the Group operates in three principal regions: Chinese mainland, Hong Kong, Macau and Taiwan, and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation.

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 43 Segment reporting (Continued)

#### Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations, insurance services, etc. are performed in the Chinese mainland.

Hong Kong, Macau and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOCHK Group.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

#### Business segments

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, derivative products and wealth management products.

Personal banking — Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2013

	Hong Kong, Macau and Taiwan				Other countries and regions	Elimination	Total
	Chinese mainland	BOCHK Group	Other	Subtotal			
Interest income	465,883	32,323	14,103	46,426	21,752	(15,066)	518,995
Interest expense	(220,585)	(9,611)	(9,408)	(19,019)	(10,872)	15,066	(235,410)
<b>Net interest income</b>	<b>245,298</b>	<b>22,712</b>	<b>4,695</b>	<b>27,407</b>	<b>10,880</b>	<b>-</b>	<b>283,585</b>
Fee and commission income	71,550	9,681	4,740	14,421	4,444	(1,830)	88,585
Fee and commission expense	(2,330)	(2,988)	(870)	(3,858)	(1,409)	1,104	(6,493)
<b>Net fee and commission income</b>	<b>69,220</b>	<b>6,693</b>	<b>3,870</b>	<b>10,563</b>	<b>3,035</b>	<b>(726)</b>	<b>82,092</b>
Net trading gains	5,218	1,668	864	2,532	(568)	1	7,183
Net gains on investment securities	286	93	78	171	137	-	594
Other operating income <sup>(1)</sup>	16,594	8,551	8,714	17,265	255	(59)	34,055
<b>Operating income</b>	<b>336,616</b>	<b>39,717</b>	<b>18,221</b>	<b>57,938</b>	<b>13,739</b>	<b>(784)</b>	<b>407,509</b>
Operating expenses <sup>(1)</sup>	(144,523)	(16,468)	(8,225)	(24,693)	(3,886)	788	(172,314)
Impairment losses on assets	(20,562)	(584)	(1,311)	(1,895)	(1,053)	-	(23,510)
<b>Operating profit</b>	<b>171,531</b>	<b>22,665</b>	<b>8,685</b>	<b>31,350</b>	<b>8,800</b>	<b>4</b>	<b>211,685</b>
Share of results of associates and joint ventures	-	2	1,090	1,092	-	-	1,092
<b>Profit before income tax</b>	<b>171,531</b>	<b>22,667</b>	<b>9,775</b>	<b>32,442</b>	<b>8,800</b>	<b>4</b>	<b>212,777</b>
Income tax expense							(49,036)
<b>Profit for the year</b>							<b>163,741</b>
Segment assets	11,082,460	1,577,423	813,479	2,390,902	1,441,923	(1,054,354)	13,860,931
Investment in associates and joint ventures	-	47	13,321	13,368	-	-	13,368
Total assets	11,082,460	1,577,470	826,800	2,404,270	1,441,923	(1,054,354)	13,874,299
Include: non-current assets <sup>(2)</sup>	96,998	21,071	77,133	98,204	5,256	(161)	200,297
Segment liabilities	10,328,324	1,476,087	754,764	2,230,851	1,407,841	(1,054,194)	12,912,822
Other segment items:							
Intersegment net interest (expense)/income	(7,828)	1,740	5,132	6,872	956	-	-
Intersegment net fee and commission income	111	130	677	807	(192)	(726)	-
Capital expenditure	15,495	863	18,112	18,975	274	-	34,744
Depreciation and amortisation	12,101	785	2,563	3,348	241	-	15,690
Credit commitments	2,393,319	123,240	97,274	220,514	225,477	(339,500)	2,499,810

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****43 Segment reporting (Continued)**

The Group as at and for the year ended 31 December 2012

	Hong Kong, Macau and Taiwan				Other countries and regions	Elimination	Total
	Chinese mainland	BOCHK Group	Other	Subtotal			
Interest income	458,412	29,648	9,869	39,517	18,952	(10,353)	506,528
Interest expense	(233,790)	(9,213)	(7,280)	(16,493)	(9,634)	10,353	(249,564)
<b>Net interest income</b>	<b>224,622</b>	<b>20,435</b>	<b>2,589</b>	<b>23,024</b>	<b>9,318</b>	<b>-</b>	<b>256,964</b>
Fee and commission income	60,287	8,705	3,921	12,626	3,965	(1,680)	75,198
Fee and commission expense	(1,715)	(2,606)	(761)	(3,367)	(1,222)	1,029	(5,275)
<b>Net fee and commission income</b>	<b>58,572</b>	<b>6,099</b>	<b>3,160</b>	<b>9,259</b>	<b>2,743</b>	<b>(651)</b>	<b>69,923</b>
Net trading gains	5,135	2,761	718	3,479	(163)	-	8,451
Net gains on investment securities	1,467	611	193	804	17	-	2,288
Other operating income <sup>(1)</sup>	13,950	6,726	7,641	14,367	287	(54)	28,550
<b>Operating income</b>	<b>303,746</b>	<b>36,632</b>	<b>14,301</b>	<b>50,933</b>	<b>12,202</b>	<b>(705)</b>	<b>366,176</b>
Operating expenses <sup>(1)</sup>	(133,560)	(15,817)	(7,573)	(23,390)	(3,484)	705	(159,729)
Impairment losses on assets	(17,396)	(699)	(761)	(1,460)	(531)	-	(19,387)
<b>Operating profit</b>	<b>152,790</b>	<b>20,116</b>	<b>5,967</b>	<b>26,083</b>	<b>8,187</b>	<b>-</b>	<b>187,060</b>
Share of results of associates and joint ventures	-	2	611	613	-	-	613
<b>Profit before income tax</b>	<b>152,790</b>	<b>20,118</b>	<b>6,578</b>	<b>26,696</b>	<b>8,187</b>	<b>-</b>	<b>187,673</b>
Income tax expense							(41,927)
<b>Profit for the year</b>							<b>145,746</b>
Segment assets	10,196,577	1,453,681	582,307	2,035,988	1,087,203	(651,535)	12,668,233
Investment in associates and joint ventures	-	49	12,333	12,382	-	-	12,382
Total assets	10,196,577	1,453,730	594,640	2,048,370	1,087,203	(651,535)	12,680,615
Include: non-current assets <sup>(2)</sup>	93,313	21,210	68,087	89,297	5,316	(161)	187,765
Segment liabilities	9,531,288	1,353,345	529,274	1,882,619	1,056,540	(651,374)	11,819,073
Other segment items:							
Intersegment net interest (expense)/income	(2,655)	1,571	1,673	3,244	(589)	-	-
Intersegment net fee and commission income	249	132	696	828	(426)	(651)	-
Capital expenditure	17,843	848	8,877	9,725	410	-	27,978
Depreciation and amortisation	10,880	759	2,213	2,972	223	-	14,075
Credit commitments	2,216,766	113,970	95,454	209,424	178,453	(287,138)	2,317,505

(1) "Other operating income" includes insurance premium income earned, and "Operating expenses" include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties and other long-term assets.

(Amount in millions of Renminbi, unless otherwise stated)

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2013

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	291,460	164,380	118,023	1,060	1,827	657	(58,412)	518,995
Interest expense	(142,087)	(83,036)	(66,579)	(402)	–	(1,718)	58,412	(235,410)
<b>Net interest income/(expense)</b>	<b>149,373</b>	<b>81,344</b>	<b>51,444</b>	<b>658</b>	<b>1,827</b>	<b>(1,061)</b>	<b>–</b>	<b>283,585</b>
Fee and commission income	49,174	28,211	9,243	2,878	–	536	(1,457)	88,585
Fee and commission expense	(2,622)	(1,770)	(941)	(659)	(1,615)	(29)	1,143	(6,493)
<b>Net fee and commission income</b>	<b>46,552</b>	<b>26,441</b>	<b>8,302</b>	<b>2,219</b>	<b>(1,615)</b>	<b>507</b>	<b>(314)</b>	<b>82,092</b>
Net trading gains	(90)	499	6,124	686	(253)	205	12	7,183
Net gains on investment securities	59	11	446	–	(15)	93	–	594
Other operating income	721	10,550	1,299	329	13,156	9,588	(1,588)	34,055
<b>Operating income</b>	<b>196,615</b>	<b>118,845</b>	<b>67,615</b>	<b>3,892</b>	<b>13,100</b>	<b>9,332</b>	<b>(1,890)</b>	<b>407,509</b>
Operating expenses	(70,587)	(69,220)	(15,955)	(1,753)	(11,594)	(5,095)	1,890	(172,314)
Impairment (losses)/reversal on assets	(16,444)	(6,630)	329	(118)	–	(647)	–	(23,510)
<b>Operating profit</b>	<b>109,584</b>	<b>42,995</b>	<b>51,989</b>	<b>2,021</b>	<b>1,506</b>	<b>3,590</b>	<b>–</b>	<b>211,685</b>
Share of results of associates and joint ventures	–	–	–	177	(4)	923	(4)	1,092
<b>Profit before income tax</b>	<b>109,584</b>	<b>42,995</b>	<b>51,989</b>	<b>2,198</b>	<b>1,502</b>	<b>4,513</b>	<b>(4)</b>	<b>212,777</b>
Income tax expense								(49,036)
<b>Profit for the year</b>								<b>163,741</b>
Segment assets	5,811,719	2,269,883	5,506,172	63,597	76,016	235,598	(102,054)	13,860,931
Investment in associates and joint ventures	–	–	–	2,968	–	10,458	(58)	13,368
Total assets	5,811,719	2,269,883	5,506,172	66,565	76,016	246,056	(102,112)	13,874,299
Segment liabilities	6,615,029	4,478,752	1,640,775	57,303	67,942	154,915	(101,894)	12,912,822
Other segment items:								
Intersegment net interest (expense)/income	(15,378)	56,987	(41,220)	121	100	(610)	–	–
Intersegment net fee and commission income	10	180	–	–	(1,098)	1,222	(314)	–
Capital expenditure	4,626	5,115	245	77	106	24,575	–	34,744
Depreciation and amortisation	5,265	6,561	1,150	86	49	2,579	–	15,690

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****43 Segment reporting (Continued)****The Group as at and for the year ended 31 December 2012**

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	304,357	152,450	104,327	1,033	1,709	833	(58,181)	506,528
Interest expense	(158,472)	(77,344)	(69,527)	(425)	–	(1,977)	58,181	(249,564)
<b>Net interest income/(expense)</b>	<b>145,885</b>	<b>75,106</b>	<b>34,800</b>	<b>608</b>	<b>1,709</b>	<b>(1,144)</b>	<b>–</b>	<b>256,964</b>
Fee and commission income	42,110	23,631	7,894	2,327	1	413	(1,178)	75,198
Fee and commission expense	(2,264)	(1,650)	(426)	(530)	(1,386)	(27)	1,008	(5,275)
<b>Net fee and commission income</b>	<b>39,846</b>	<b>21,981</b>	<b>7,468</b>	<b>1,797</b>	<b>(1,385)</b>	<b>386</b>	<b>(170)</b>	<b>69,923</b>
Net trading gains	355	458	5,580	447	853	751	7	8,451
Net gains on investment securities	20	4	1,986	–	109	169	–	2,288
Other operating income	615	9,801	736	43	9,612	9,064	(1,321)	28,550
<b>Operating income</b>	<b>186,721</b>	<b>107,350</b>	<b>50,570</b>	<b>2,895</b>	<b>10,898</b>	<b>9,226</b>	<b>(1,484)</b>	<b>366,176</b>
Operating expenses	(67,548)	(63,094)	(13,853)	(1,952)	(10,051)	(4,715)	1,484	(159,729)
Impairment (losses)/reversal on assets	(14,560)	(4,772)	438	–	(14)	(479)	–	(19,387)
<b>Operating profit</b>	<b>104,613</b>	<b>39,484</b>	<b>37,155</b>	<b>943</b>	<b>833</b>	<b>4,032</b>	<b>–</b>	<b>187,060</b>
Share of results of associates and joint ventures	–	–	–	214	(3)	409	(7)	613
<b>Profit before income tax</b>	<b>104,613</b>	<b>39,484</b>	<b>37,155</b>	<b>1,157</b>	<b>830</b>	<b>4,441</b>	<b>(7)</b>	<b>187,673</b>
Income tax expense								(41,927)
<b>Profit for the year</b>								<b>145,746</b>
Segment assets	5,589,896	2,009,137	4,831,145	53,797	65,409	232,835	(113,986)	12,668,233
Investment in associates and joint ventures	–	–	–	2,561	–	9,876	(55)	12,382
<b>Total assets</b>	<b>5,589,896</b>	<b>2,009,137</b>	<b>4,831,145</b>	<b>56,358</b>	<b>65,409</b>	<b>242,711</b>	<b>(114,041)</b>	<b>12,680,615</b>
Segment liabilities	6,214,916	4,117,118	1,341,361	48,545	57,680	153,279	(113,826)	11,819,073
Other segment items:								
Intersegment net interest (expense)/income	(29,020)	56,751	(26,929)	104	107	(1,013)	–	–
Intersegment net fee and commission income	–	104	–	–	(993)	1,059	(170)	–
Capital expenditure	5,377	5,939	284	41	64	16,273	–	27,978
Depreciation and amortisation	4,867	5,865	969	94	40	2,240	–	14,075

## V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 44 Transfers of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase agreements and securities lent to counterparties under securities lending agreements. The counterparties are allowed to sell or repledge those securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the abovementioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	As at 31 December 2013		As at 31 December 2012	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	21,186	21,018	13,809	13,834

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****45 Offsetting financial assets and financial liabilities**

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial assets	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position		
				Financial instruments*	Cash collateral received	Net amount
<b>As at 31 December 2013</b>						
Derivatives	13,834	–	13,834	(9,406)	(1,435)	2,993
Other assets	10,445	(6,708)	3,737	–	–	3,737
Total	24,279	(6,708)	17,571	(9,406)	(1,435)	6,730
<b>As at 31 December 2012</b>						
Derivatives	14,855	–	14,855	(8,549)	(2,553)	3,753
Other assets	12,148	(7,814)	4,334	–	–	4,334
Total	27,003	(7,814)	19,189	(8,549)	(2,553)	8,087

**V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****45 Offsetting financial assets and financial liabilities (Continued)**

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial liabilities	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position		
				Financial instruments*	Cash collateral pledged	Net amount
<b>As at 31 December 2013</b>						
Derivatives	16,163	–	16,163	(9,662)	–	6,501
Repurchase agreements	1,651	–	1,651	(1,651)	–	–
Other liabilities	6,906	(6,708)	198	–	–	198
<b>Total</b>	<b>24,720</b>	<b>(6,708)</b>	<b>18,012</b>	<b>(11,313)</b>	<b>–</b>	<b>6,699</b>
<b>As at 31 December 2012</b>						
Derivatives	14,281	–	14,281	(8,995)	–	5,286
Other liabilities	8,221	(7,814)	407	–	–	407
<b>Total</b>	<b>22,502</b>	<b>(7,814)</b>	<b>14,688</b>	<b>(8,995)</b>	<b>–</b>	<b>5,693</b>

\* Including non-cash collateral.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously (“the offset criteria”).

Derivatives and reverse repo/repurchase agreements included in amounts not set off in the statement of financial position relate to transactions where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement (including ISDA master agreement and Global Master Netting Agreement) is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash and non-cash collateral received/pledged in respect of the transactions described above.

## VI FINANCIAL RISK MANAGEMENT

### 1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has designed a series of risk management policies and has set up controls to analyse, identify, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk and other price risk.

### 2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Unit, the Financial Management Department and other relevant functional units are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

### 3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, letters of guarantee, bill acceptance and letters of credit.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.1 Credit risk measurement

##### (1) *Loans and advances and off-balance sheet commitments*

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures are performed by the Risk Management Unit, and reported to the senior management and the Board of Directors regularly.

In measuring the credit risk of loans and advances to corporate customers, the Group mainly reflects the “probability of default” by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group uses standard approval procedures to manage credit risk for personal loans, and uses credit score-card models, which are based on historical default data to measure credit risk for credit cards.

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and standby letters of credit carry similar credit risk to loans and the Group takes a similar approach on risk management. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, the Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the “Guideline for Loan Credit Risk Classification” (the “Guideline”) issued by the CBRC, which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macau, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.1 Credit risk measurement (Continued)

(1) *Loans and advances and off-balance sheet commitments (Continued)*

The five categories are defined 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 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.

The Group has developed an internal customer credit rating system, using measurements of the probability of default within one year based on regression analysis. These probability of default measurements are then mapped to internal credit ratings. The Group performs back testing to actual default rates and refines the model according to the results.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by Head Office and tier 1 branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.1 Credit risk measurement (Continued)

(1) *Loans and advances and off-balance sheet commitments (Continued)*

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

(2) *Due from, placements with and loans to banks and other financial institutions*

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of banks and financial institutions. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

(3) *Debt securities and derivatives*

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has policies to maintain strict control limits on net open derivative positions based on notional amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) *Credit risk limits and controls*

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit approval policies and procedures that are reviewed and updated by the Risk Management Unit at Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland are originated by the Corporate Banking Unit at Head Office and Corporate Banking Department at branch level and submitted to the Risk Management Unit for due diligence and approval. All credit applications for corporate customers must be approved by authorised credit application approvers at Head Office and tier 1 branches level in Chinese mainland, except for credit applications that are identified as low risk, such as loans sufficiently secured by PRC treasury bonds, bills or pledged funds or loans supported by the credit of financial institutions that are within pre-approved credit limits. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier 1 branches level in Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier 1 level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macau, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and securities and set limits are actively monitored.

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances (collateral) and guarantees, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Risk Management Unit and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Risk Management Unit. The principal collateral types for corporate loans and advances are:

Collateral	Maximum loan-to-value ratio
Deposit receipt	95%
PRC Treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Construction land use rights	70%
Real estate	70%
Automobiles	40%

Mortgages to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependant on the nature of the loan.

For loans guaranteed by a third party guarantor, the Group will assess the guarantor's credit rating, financial condition, credit history and ability to meet obligations.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.40.3.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.2 Credit risk limit control and mitigation policies (Continued)

##### (2) Credit risk mitigation policies (Continued)

##### (ii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offsetting of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

#### 3.3 Impairment and provisioning policies

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

##### (1) Loans and advances

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group including consideration of:

- significant financial difficulty incurred by the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- for economic or legal reasons related to the borrower's financial difficulty, whether the Group has granted to the borrower a concession that it would not otherwise consider;
- probability that the borrower will become bankrupt or will undergo other financial re-organisation;
- deterioration in the value of collateral;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.3 Impairment and provisioning policies (Continued)

##### (1) Loans and advances (Continued)

The Group's policy requires the review of individual financial assets that are above certain thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the financial reporting date on a case-by-case basis using discounted cash flow analysis. The assessment normally encompasses guarantees and collateral held and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been specifically identified, by using the available historical data, experience, professional judgement and statistical techniques.

##### (2) Debt securities

Debt securities are assessed for individual impairment using similar criteria as loans and advances. Management determines whether objective evidence of debt securities impairment exists under IAS 39 based on criteria set out by the Group including consideration of:

- a breach of contract or a trigger event, such as a default or delinquency in interest or principal payment;
- significant financial difficulty of issuers or underlying asset holders;
- probable that the issuer or underlying asset holders will become bankrupt or will undergo other financial re-organisation;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such debt securities.

Impairment allowances on individually assessed securities are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using available data, including default rates, loss given default and assessment of the quality of the underlying assets of securitisation products, industry and sector performance, loss coverage ratios and counterparty risk.

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.4 Maximum exposure to credit risk before collateral held or other credit enhancements**

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Credit risk exposures relating to on-balance sheet financial assets are as follows:				
Due from banks and other financial institutions	<b>620,245</b>	703,099	<b>572,852</b>	679,512
Balances with central banks	<b>2,132,001</b>	1,934,297	<b>2,015,175</b>	1,859,362
Placements with and loans to banks and other financial institutions	<b>660,049</b>	447,299	<b>657,516</b>	435,483
Government certificates of indebtedness for bank notes issued	<b>82,069</b>	70,554	<b>4,086</b>	3,314
Financial assets at fair value through profit or loss	<b>67,173</b>	69,339	<b>33,314</b>	29,654
Derivative financial assets	<b>40,823</b>	40,188	<b>22,971</b>	15,939
Loans and advances to customers, net	<b>7,439,742</b>	6,710,040	<b>6,628,759</b>	5,990,570
Investment securities				
— available for sale	<b>666,951</b>	656,150	<b>354,131</b>	305,107
— held to maturity	<b>1,210,531</b>	1,183,080	<b>1,188,878</b>	1,163,416
— loans and receivables	<b>269,543</b>	269,454	<b>261,607</b>	261,262
Other assets	<b>115,190</b>	104,236	<b>76,587</b>	72,812
Subtotal	<b>13,304,317</b>	12,187,736	<b>11,815,876</b>	10,816,431
Credit risk exposures relating to off-balance sheet items are as follows:				
Letters of guarantee issued	<b>846,497</b>	791,156	<b>856,311</b>	802,214
Loan commitments and other credit commitments	<b>1,653,313</b>	1,526,349	<b>1,533,426</b>	1,411,111
Subtotal	<b>2,499,810</b>	2,317,505	<b>2,389,737</b>	2,213,325
Total	<b>15,804,127</b>	14,505,241	<b>14,205,613</b>	13,029,756

The table above represents a worst case scenario of credit risk exposure of the Group and the Bank as at 31 December 2013 and 2012, without taking into account of any collateral held, master netting agreements 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 statements of financial position.

As at 31 December 2013, 47.07% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2012: 46.26%) and 13.98% represents investments in debt securities (31 December 2012: 14.97%).

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.5 Loans and advances

(1) Concentrations of risk for loans and advances to customers

The total loans and advances of the Group and the Bank are set out below:

(i) Analysis of loans and advances to customers by geographical area

#### Group

	As at 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
Chinese mainland	6,058,180	79.63%	5,558,682	80.98%
Hong Kong, Macau and Taiwan	945,414	12.43%	828,844	12.07%
Other countries and regions	604,197	7.94%	477,170	6.95%
Total loans and advances to customers	7,607,791	100.00%	6,864,696	100.00%

#### Bank

	As at 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
Chinese mainland	6,049,817	89.06%	5,554,797	90.45%
Hong Kong, Macau and Taiwan	172,290	2.54%	130,838	2.13%
Other countries and regions	570,553	8.40%	455,973	7.42%
Total loans and advances to customers	6,792,660	100.00%	6,141,608	100.00%

#### Chinese mainland

	As at 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
Northern China	945,815	15.61%	872,120	15.69%
Northeastern China	425,990	7.03%	399,844	7.19%
Eastern China	2,462,657	40.65%	2,277,622	40.98%
Central and Southern China	1,473,512	24.32%	1,350,778	24.30%
Western China	750,206	12.39%	658,318	11.84%
Total loans and advances to customers	6,058,180	100.00%	5,558,682	100.00%

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**

- (1) Concentrations of risk for loans and advances to customers (Continued)
- (ii) Analysis of loans and advances to customers by customer type

**Group**

	As at 31 December 2013				As at 31 December 2012			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	743,516	153,414	228,427	1,125,357	742,084	117,522	187,826	1,047,432
— Other	3,448,639	507,815	357,528	4,313,982	3,198,438	460,263	274,266	3,932,967
Personal loans	1,866,025	284,185	18,242	2,168,452	1,618,160	251,059	15,078	1,884,297
Total loans and advances to customers	6,058,180	945,414	604,197	7,607,791	5,558,682	828,844	477,170	6,864,696

**Bank**

	As at 31 December 2013				As at 31 December 2012			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	743,516	30,575	221,362	995,453	742,084	26,205	184,587	952,876
— Other	3,446,056	84,171	339,531	3,869,758	3,197,118	67,497	263,613	3,528,228
Personal loans	1,860,245	57,544	9,660	1,927,449	1,615,595	37,136	7,773	1,660,504
Total loans and advances to customers	6,049,817	172,290	570,553	6,792,660	5,554,797	130,838	455,973	6,141,608

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry

#### Group

	As at 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
<b>Corporate loans and advances</b>				
Manufacturing	1,557,044	20.47%	1,482,664	21.60%
Commerce and services	1,148,963	15.10%	1,007,853	14.68%
Transportation, storage and postal services	724,189	9.52%	674,260	9.82%
Real estate	625,191	8.22%	554,618	8.08%
Production and supply of electricity, heating, gas and water	392,643	5.16%	396,230	5.77%
Mining	329,728	4.33%	307,358	4.48%
Water, environment and public utility management	198,920	2.62%	215,711	3.14%
Financial services	168,734	2.22%	109,977	1.60%
Construction	143,278	1.88%	114,449	1.67%
Public utilities	72,682	0.96%	70,380	1.03%
Other	77,967	1.02%	46,899	0.68%
Subtotal	5,439,339	71.50%	4,980,399	72.55%
<b>Personal loans</b>				
Mortgages	1,506,331	19.80%	1,348,359	19.65%
Credit cards	222,141	2.92%	160,865	2.34%
Other	439,980	5.78%	375,073	5.46%
Subtotal	2,168,452	28.50%	1,884,297	27.45%
Total loans and advances to customers	7,607,791	100.00%	6,864,696	100.00%

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

**Bank**

	As at 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
<b>Corporate loans and advances</b>				
Manufacturing	1,473,953	21.70%	1,413,401	23.01%
Commerce and services	959,131	14.12%	854,223	13.91%
Transportation, storage and postal services	669,830	9.86%	618,463	10.07%
Real estate	468,572	6.90%	412,007	6.71%
Production and supply of electricity, heating, gas and water	368,279	5.42%	372,551	6.07%
Mining	313,567	4.62%	290,299	4.73%
Water, environment and public utility management	198,875	2.93%	215,658	3.51%
Financial services	150,925	2.22%	97,907	1.59%
Construction	131,001	1.93%	103,751	1.69%
Public utilities	72,226	1.06%	69,487	1.13%
Other	58,852	0.87%	33,357	0.54%
Subtotal	4,865,211	71.63%	4,481,104	72.96%
<b>Personal loans</b>				
Mortgages	1,323,801	19.49%	1,167,766	19.01%
Credit cards	212,165	3.12%	151,510	2.47%
Other	391,483	5.76%	341,228	5.56%
Subtotal	1,927,449	28.37%	1,660,504	27.04%
Total loans and advances to customers	6,792,660	100.00%	6,141,608	100.00%

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

**Chinese mainland**

	As at 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
<b>Corporate loans and advances</b>				
Manufacturing	1,347,808	22.25%	1,293,806	23.28%
Commerce and services	763,597	12.60%	693,405	12.47%
Transportation, storage and postal services	634,768	10.48%	590,014	10.61%
Real estate	405,075	6.69%	362,212	6.52%
Production and supply of electricity, heating, gas and water	365,889	6.04%	372,558	6.70%
Mining	192,932	3.18%	188,847	3.40%
Water, environment and public utility management	198,877	3.28%	215,658	3.88%
Financial services	67,212	1.11%	47,441	0.85%
Construction	125,825	2.08%	98,796	1.78%
Public utilities	71,112	1.17%	64,696	1.16%
Other	19,060	0.32%	13,089	0.24%
Subtotal	4,192,155	69.20%	3,940,522	70.89%
<b>Personal loans</b>				
Mortgages	1,282,276	21.17%	1,132,027	20.36%
Credit cards	211,456	3.49%	151,006	2.72%
Other	372,293	6.14%	335,127	6.03%
Subtotal	1,866,025	30.80%	1,618,160	29.11%
Total loans and advances to customers	6,058,180	100.00%	5,558,682	100.00%

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type

**Group**

	As at 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
Unsecured loans	2,370,291	31.16%	2,020,733	29.44%
Guaranteed loans	1,380,146	18.14%	1,177,880	17.16%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,891,696	38.01%	2,705,738	39.41%
— other pledged loans	965,658	12.69%	960,345	13.99%
<b>Total loans and advances to customers</b>	<b>7,607,791</b>	<b>100.00%</b>	6,864,696	100.00%

**Bank**

	As at 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
Unsecured loans	2,009,900	29.59%	1,714,765	27.92%
Guaranteed loans	1,336,764	19.68%	1,143,459	18.62%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,642,713	38.90%	2,460,095	40.05%
— other pledged loans	803,283	11.83%	823,289	13.41%
<b>Total loans and advances to customers</b>	<b>6,792,660</b>	<b>100.00%</b>	6,141,608	100.00%

**Chinese mainland**

	As at 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
Unsecured loans	1,681,717	27.76%	1,487,652	26.76%
Guaranteed loans	1,212,925	20.02%	1,045,941	18.82%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	2,505,607	41.36%	2,343,563	42.16%
— other pledged loans	657,931	10.86%	681,526	12.26%
<b>Total loans and advances to customers</b>	<b>6,058,180</b>	<b>100.00%</b>	5,558,682	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status

	As at 31 December					
	Group		Bank		Chinese mainland	
	2013	2012	2013	2012	2013	2012
<b>Corporate loans and advances</b>						
— Neither past due nor impaired	<b>5,375,770</b>	4,920,849	<b>4,804,187</b>	4,423,974	<b>4,132,109</b>	3,884,573
— Past due but not impaired	<b>4,442</b>	4,460	<b>3,748</b>	3,580	<b>3,476</b>	3,254
— Impaired	<b>59,127</b>	55,090	<b>57,276</b>	53,550	<b>56,570</b>	52,695
Subtotal	<b>5,439,339</b>	4,980,399	<b>4,865,211</b>	4,481,104	<b>4,192,155</b>	3,940,522
<b>Personal loans</b>						
— Neither past due nor impaired	<b>2,132,844</b>	1,852,483	<b>1,894,842</b>	1,631,631	<b>1,834,554</b>	1,590,375
— Past due but not impaired	<b>21,616</b>	21,449	<b>18,759</b>	18,591	<b>17,608</b>	17,636
— Impaired	<b>13,992</b>	10,365	<b>13,848</b>	10,282	<b>13,863</b>	10,149
Subtotal	<b>2,168,452</b>	1,884,297	<b>1,927,449</b>	1,660,504	<b>1,866,025</b>	1,618,160
Total	<b>7,607,791</b>	6,864,696	<b>6,792,660</b>	6,141,608	<b>6,058,180</b>	5,558,682

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the “Guiding Principles on Classification of Loan Risk Management” issued by the CBRC as set out in Note VI.3.1. The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

#### Group

	As at 31 December					
	2013			2012		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	5,209,555	166,215	5,375,770	4,737,465	183,384	4,920,849
Personal loans	2,132,217	627	2,132,844	1,851,489	994	1,852,483
<b>Total</b>	<b>7,341,772</b>	<b>166,842</b>	<b>7,508,614</b>	<b>6,588,954</b>	<b>184,378</b>	<b>6,773,332</b>

#### Bank

	As at 31 December					
	2013			2012		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	4,642,211	161,976	4,804,187	4,246,163	177,811	4,423,974
Personal loans	1,894,518	324	1,894,842	1,631,033	598	1,631,631
<b>Total</b>	<b>6,536,729</b>	<b>162,300</b>	<b>6,699,029</b>	<b>5,877,196</b>	<b>178,409</b>	<b>6,055,605</b>

#### Chinese mainland

	As at 31 December					
	2013			2012		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	3,974,255	157,854	4,132,109	3,711,418	173,155	3,884,573
Personal loans	1,834,372	182	1,834,554	1,589,947	428	1,590,375
<b>Total</b>	<b>5,808,627</b>	<b>158,036</b>	<b>5,966,663</b>	<b>5,301,365</b>	<b>173,583</b>	<b>5,474,948</b>

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired (Continued)

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under the CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.

(ii) Loans and advances past due but not impaired

The total amount of loans and advances to customers that were past due but not impaired is as follows:

**Group**

	As at 31 December 2013			Total
	Within 1 month	1-3 months	More than 3 months	
Corporate loans and advances	3,440	788	214	4,442
Personal loans	14,384	7,197	35	21,616
<b>Total</b>	<b>17,824</b>	<b>7,985</b>	<b>249</b>	<b>26,058</b>

	As at 31 December 2012			Total
	Within 1 month	1-3 months	More than 3 months	
Corporate loans and advances	3,413	878	169	4,460
Personal loans	14,332	7,071	46	21,449
<b>Total</b>	<b>17,745</b>	<b>7,949</b>	<b>215</b>	<b>25,909</b>

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**(2) *Analysis of loans and advances to customers by overdue and impaired status (Continued)*

(ii) Loans and advances past due but not impaired (Continued)

**Bank**

	As at 31 December 2013			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	2,916	649	183	3,748
Personal loans	11,789	6,970	–	18,759
<b>Total</b>	<b>14,705</b>	<b>7,619</b>	<b>183</b>	<b>22,507</b>

	As at 31 December 2012			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	2,576	850	154	3,580
Personal loans	11,745	6,846	–	18,591
<b>Total</b>	<b>14,321</b>	<b>7,696</b>	<b>154</b>	<b>22,171</b>

**Chinese mainland**

	As at 31 December 2013			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	2,679	650	147	3,476
Personal loans	10,740	6,868	–	17,608
<b>Total</b>	<b>13,419</b>	<b>7,518</b>	<b>147</b>	<b>21,084</b>

	As at 31 December 2012			
	Within 1 month	1-3 months	More than 3 months	Total
Corporate loans and advances	2,294	842	118	3,254
Personal loans	10,889	6,747	–	17,636
<b>Total</b>	<b>13,183</b>	<b>7,589</b>	<b>118</b>	<b>20,890</b>

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes properties, equipments and cash deposits.

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**(2) *Analysis of loans and advances to customers by overdue and impaired status (Continued)*

(iii) Identified impaired loans and advances

(a) Impaired loans and advances by geographical area

**Group**

	As at 31 December					
	2013			2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	70,433	96.33%	1.16%	62,844	96.01%	1.13%
Hong Kong, Macau and Taiwan	1,955	2.67%	0.21%	1,691	2.58%	0.20%
Other countries and regions	731	1.00%	0.12%	920	1.41%	0.19%
<b>Total</b>	<b>73,119</b>	<b>100.00%</b>	<b>0.96%</b>	<b>65,455</b>	<b>100.00%</b>	<b>0.95%</b>

**Bank**

	As at 31 December					
	2013			2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	70,352	98.92%	1.16%	62,834	98.43%	1.13%
Hong Kong, Macau and Taiwan	131	0.18%	0.08%	241	0.38%	0.18%
Other countries and regions	641	0.90%	0.11%	757	1.19%	0.17%
<b>Total</b>	<b>71,124</b>	<b>100.00%</b>	<b>1.05%</b>	<b>63,832</b>	<b>100.00%</b>	<b>1.04%</b>

**Chinese mainland**

	As at 31 December					
	2013			2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	9,831	13.96%	1.04%	10,535	16.76%	1.21%
Northeastern China	3,945	5.60%	0.93%	3,516	5.59%	0.88%
Eastern China	31,666	44.96%	1.29%	23,476	37.36%	1.03%
Central and Southern China	20,658	29.33%	1.40%	20,372	32.42%	1.51%
Western China	4,333	6.15%	0.58%	4,945	7.87%	0.75%
<b>Total</b>	<b>70,433</b>	<b>100.00%</b>	<b>1.16%</b>	<b>62,844</b>	<b>100.00%</b>	<b>1.13%</b>

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**(2) *Analysis of loans and advances to customers by overdue and impaired status (Continued)*

(iii) Identified impaired loans and advances (Continued)

(b) Impaired loans and advances by customer type

**Group**

	As at 31 December					
	2013			2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	59,127	80.86%	1.09%	55,090	84.16%	1.11%
Personal loans	13,992	19.14%	0.65%	10,365	15.84%	0.55%
<b>Total</b>	<b>73,119</b>	<b>100.00%</b>	<b>0.96%</b>	<b>65,455</b>	<b>100.00%</b>	<b>0.95%</b>

**Bank**

	As at 31 December					
	2013			2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	57,276	80.53%	1.18%	53,550	83.89%	1.20%
Personal loans	13,848	19.47%	0.72%	10,282	16.11%	0.62%
<b>Total</b>	<b>71,124</b>	<b>100.00%</b>	<b>1.05%</b>	<b>63,832</b>	<b>100.00%</b>	<b>1.04%</b>

**Chinese mainland**

	As at 31 December					
	2013			2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	56,570	80.32%	1.35%	52,695	83.85%	1.34%
Personal loans	13,863	19.68%	0.74%	10,149	16.15%	0.63%
<b>Total</b>	<b>70,433</b>	<b>100.00%</b>	<b>1.16%</b>	<b>62,844</b>	<b>100.00%</b>	<b>1.13%</b>

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**(2) *Analysis of loans and advances to customers by overdue and impaired status (Continued)*

(iii) Identified impaired loans and advances (Continued)

(c) Impaired loans and advances by geography and industry

	As at 31 December					
	2013			2012		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
<b>Chinese mainland</b>						
Corporate loans and advances						
Manufacturing	26,284	35.95%	1.95%	22,410	34.24%	1.73%
Commerce and services	12,028	16.45%	1.58%	9,359	14.30%	1.35%
Transportation, storage and postal services	10,322	14.12%	1.63%	12,658	19.34%	2.15%
Real estate	2,292	3.13%	0.57%	2,670	4.08%	0.74%
Production and supply of electricity, heating, gas and water	4,140	5.66%	1.13%	3,843	5.87%	1.03%
Mining	242	0.33%	0.13%	232	0.35%	0.12%
Water, environment and public utility management	89	0.12%	0.04%	29	0.04%	0.01%
Financial services	2	0.00%	0.00%	4	0.01%	0.01%
Construction	670	0.92%	0.53%	572	0.87%	0.58%
Public utilities	335	0.46%	0.47%	691	1.05%	1.07%
Other	166	0.23%	0.87%	227	0.35%	1.73%
Subtotal	56,570	77.37%	1.35%	52,695	80.50%	1.34%
Personal loans						
Mortgages	4,463	6.10%	0.35%	4,127	6.31%	0.36%
Credit cards	3,588	4.91%	1.70%	2,308	3.53%	1.53%
Other	5,812	7.95%	1.56%	3,714	5.67%	1.11%
Subtotal	13,863	18.96%	0.74%	10,149	15.51%	0.63%
Total for Chinese mainland	70,433	96.33%	1.16%	62,844	96.01%	1.13%
<b>Hong Kong, Macau, Taiwan and Other countries and regions</b>	2,686	3.67%	0.17%	2,611	3.99%	0.20%
Total	73,119	100.00%	0.96%	65,455	100.00%	0.95%

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(d) Impaired loans and advances and related allowance by geographical area

	As at 31 December 2013			Net
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	
Chinese mainland	70,433	(37,933)	(12,252)	20,248
Hong Kong, Macau and Taiwan	1,955	(793)	(50)	1,112
Other countries and regions	731	(476)	(86)	169
<b>Total</b>	<b>73,119</b>	<b>(39,202)</b>	<b>(12,388)</b>	<b>21,529</b>

	As at 31 December 2012			Net
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	
Chinese mainland	62,844	(37,187)	(9,121)	16,536
Hong Kong, Macau and Taiwan	1,691	(693)	(74)	924
Other countries and regions	920	(657)	(6)	257
<b>Total</b>	<b>65,455</b>	<b>(38,537)</b>	<b>(9,201)</b>	<b>17,717</b>

For description of allowances on identified impaired loans, refer to Note V 16.3.

(3) Loans and advances rescheduled

Rescheduling (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

All rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans within surveillance period are determined to be impaired as at 31 December 2013 and 2012.

As at 31 December 2013 and 2012, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**(4) *Overdue loans and advances to customers*

## (i) Analysis of overdue loans and advances to customers by collateral type and overdue days

**Group**

	As at 31 December 2013				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	9,441	3,725	2,563	2,448	18,177
Guaranteed loans	4,895	5,869	4,720	1,976	17,460
Collateralised and other secured loans					
— loans secured by property and other immovable assets	18,644	10,004	10,197	6,020	44,865
— other pledged loans	1,435	2,159	2,500	1,517	7,611
<b>Total</b>	<b>34,415</b>	<b>21,757</b>	<b>19,980</b>	<b>11,961</b>	<b>88,113</b>

	As at 31 December 2012				
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	Total
Unsecured loans	7,736	1,973	1,136	3,153	13,998
Guaranteed loans	2,631	4,340	2,606	4,761	14,338
Collateralised and other secured loans					
— loans secured by property and other immovable assets	18,343	6,371	8,256	7,199	40,169
— other pledged loans	1,109	195	3,434	1,652	6,390
<b>Total</b>	<b>29,819</b>	<b>12,879</b>	<b>15,432</b>	<b>16,765</b>	<b>74,895</b>

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.5 Loans and advances (Continued)**(4) *Overdue loans and advances to customers (Continued)*(i) Analysis of overdue loans and advances to customers by collateral type and overdue days  
(Continued)**Bank**

	As at 31 December 2013				Total
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	
Unsecured loans	8,774	3,611	2,484	2,433	17,302
Guaranteed loans	4,779	5,723	4,674	1,963	17,139
Collateralised and other secured loans					
— loans secured by property and other immovable assets	16,214	9,934	10,163	6,015	42,326
— other pledged loans	545	2,082	2,472	1,517	6,616
<b>Total</b>	<b>30,312</b>	<b>21,350</b>	<b>19,793</b>	<b>11,928</b>	<b>83,383</b>

	As at 31 December 2012				Total
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	
Unsecured loans	6,818	1,895	1,066	3,138	12,917
Guaranteed loans	2,586	4,317	2,571	4,706	14,180
Collateralised and other secured loans					
— loans secured by property and other immovable assets	15,894	6,331	8,222	7,190	37,637
— other pledged loans	649	100	3,414	1,653	5,816
<b>Total</b>	<b>25,947</b>	<b>12,643</b>	<b>15,273</b>	<b>16,687</b>	<b>70,550</b>

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.5 Loans and advances (Continued)

##### (4) Overdue loans and advances to customers (Continued)

- (i) Analysis of overdue loans and advances to customers by collateral type and overdue days  
(Continued)

#### Chinese mainland

	As at 31 December 2013				Total
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	
Unsecured loans	8,640	3,639	2,491	2,378	17,148
Guaranteed loans	4,705	5,723	4,639	1,955	17,022
Collateralised and other secured loans					
— loans secured by property and other immovable assets	14,984	9,891	9,715	6,006	40,596
— other pledged loans	534	2,082	2,436	1,517	6,569
<b>Total</b>	<b>28,863</b>	<b>21,335</b>	<b>19,281</b>	<b>11,856</b>	<b>81,335</b>

	As at 31 December 2012				Total
	Past due up to 90 days (inclusive)	Past due 91–360 days (inclusive)	Past due 361 days–3 years (inclusive)	Past due over 3 years	
Unsecured loans	6,754	1,894	1,018	3,132	12,798
Guaranteed loans	2,437	4,190	2,543	4,643	13,813
Collateralised and other secured loans					
— loans secured by property and other immovable assets	14,884	5,716	8,202	7,185	35,987
— other pledged loans	628	100	3,378	1,653	5,759
<b>Total</b>	<b>24,703</b>	<b>11,900</b>	<b>15,141</b>	<b>16,613</b>	<b>68,357</b>

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2013	2012
Chinese mainland	<b>81,335</b>	68,357
Hong Kong, Macau and Taiwan	<b>5,606</b>	5,407
Other countries and regions	<b>1,172</b>	1,131
Subtotal	<b>88,113</b>	74,895
Percentage	<b>1.16%</b>	1.09%
Less: total loans and advances to customers which have been overdue for less than 3 months	<b>(34,415)</b>	(29,819)
Total loans and advances to customers which have been overdue for more than 3 months	<b>53,698</b>	45,076
Individually assessed impairment allowance — for loans and advances to customers which have been overdue for more than 3 months	<b>(27,298)</b>	(26,559)

#### 3.6 Due from and placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in Chinese mainland, Hong Kong, Macau, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2013, the majority of the balances of due from and placements with and loans to banks and other financial institutions were with banks in Chinese mainland, including policy banks, large-sized and medium-sized commercial banks (Note V.11 and Note V.13). As at 31 December 2013, the majority of the credit ratings of the banks in Hong Kong, Macau, Taiwan and other countries and regions were above A.

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.7 Debt securities

The tables below represent an analysis of the carrying value of debt securities by credit or issuer rating and credit risk characteristic.

#### Group

	As at 31 December 2013					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	774,002	1,364	–	775,366
— Public sector and quasi-governments	29,056	–	–	–	–	29,056
— Policy banks	–	–	39,287	298,927	–	338,214
— Financial institutions	17,847	496	1,002	92,005	29,232	140,582
— Corporate	220,717	–	35,643	50,156	19,051	325,567
— China Orient	160,000	–	–	–	–	160,000
Subtotal	427,620	496	849,934	442,452	48,283	1,768,785
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	33,806	128,293	4,197	2,859	169,155
— Public sector and quasi-governments	684	25,032	29,440	181	105	55,442
— Financial institutions	7,175	24,244	58,202	60,102	17,357	167,080
— Corporate	10,292	1,443	3,114	22,441	10,932	48,222
Subtotal <sup>(1)</sup>	18,151	84,525	219,049	86,921	31,253	439,899
Total <sup>(2)</sup>	445,771	85,021	1,068,983	529,373	79,536	2,208,684

(1) Included mortgage backed securities as follows:

	As at 31 December 2013					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	–	120	214	910	1,686	2,930
US Alt-A mortgage-backed securities	–	–	2	26	655	683
US Non-Agency mortgage-backed securities	–	10	10	111	1,052	1,183
Total	–	130	226	1,047	3,393	4,796

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.7 Debt securities (Continued)****Group**

	As at 31 December 2012					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	—	—	784,499	1,668	—	786,167
— Public sector and quasi-governments	20,810	—	—	—	—	20,810
— Policy banks	—	—	27,749	322,328	—	350,077
— Financial institutions	2,434	360	88	75,966	22,296	101,144
— Corporate	183,358	19	4,224	40,036	16,586	244,223
— China Orient	160,000	—	—	—	—	160,000
Subtotal	366,602	379	816,560	439,998	38,882	1,662,421
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	—	55,367	141,303	54,857	1,705	253,232
— Public sector and quasi-governments	11,725	25,338	19,139	209	310	56,721
— Financial institutions	874	31,867	62,982	49,985	16,680	162,388
— Corporate	8,717	2,008	1,729	17,397	7,413	37,264
Subtotal <sup>(1)</sup>	21,316	114,580	225,153	122,448	26,108	509,605
Total <sup>(2)</sup>	387,918	114,959	1,041,713	562,446	64,990	2,172,026

(1) Included mortgage backed securities as follows:

	As at 31 December 2012					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	—	306	487	573	2,849	4,215
US Alt-A mortgage-backed securities	—	15	5	60	840	920
US Non-Agency mortgage-backed securities	—	15	92	106	1,585	1,798
Total	—	336	584	739	5,274	6,933

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.7 Debt securities (Continued)

##### Bank

	As at 31 December 2013					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	—	—	764,669	349	—	765,018
— Public sector and quasi-governments	28,868	—	—	—	—	28,868
— Policy banks	—	—	220	295,241	—	295,461
— Financial institutions	16,945	496	1,002	47,324	25,007	90,774
— Corporate	203,317	—	29,217	43,167	14,208	289,909
— China Orient	160,000	—	—	—	—	160,000
Subtotal	409,130	496	795,108	386,081	39,215	1,630,030
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	—	13,635	102,066	2,647	1,518	119,866
— Public sector and quasi-governments	671	65	16,307	181	105	17,329
— Financial institutions	6,565	4,645	18,606	21,491	6,519	57,826
— Corporate	876	100	680	4,893	2,173	8,722
Subtotal <sup>(1)</sup>	8,112	18,445	137,659	29,212	10,315	203,743
Total <sup>(2)</sup>	417,242	18,941	932,767	415,293	49,530	1,833,773

(1) Included mortgage backed securities as follows:

	As at 31 December 2013					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	—	79	189	905	1,686	2,859
US Alt-A mortgage-backed securities	—	—	—	26	629	655
US Non-Agency mortgage-backed securities	—	10	5	104	1,018	1,137
Total	—	89	194	1,035	3,333	4,651

**VI FINANCIAL RISK MANAGEMENT (Continued)****3 Credit risk (Continued)****3.7 Debt securities (Continued)****Bank**

	As at 31 December 2012					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	—	—	772,792	1,668	—	774,460
— Public sector and quasi-governments	19,715	—	—	—	—	19,715
— Policy banks	—	—	50	320,335	—	320,385
— Financial institutions	1,760	360	—	43,413	18,906	64,439
— Corporate	171,057	—	2,000	35,117	11,880	220,054
— China Orient	160,000	—	—	—	—	160,000
<b>Subtotal</b>	<b>352,532</b>	<b>360</b>	<b>774,842</b>	<b>400,533</b>	<b>30,786</b>	<b>1,559,053</b>
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	—	9,267	105,686	4,579	800	120,332
— Public sector and quasi-governments	9,151	214	10,937	209	310	20,821
— Financial institutions	328	7,933	17,448	14,635	6,912	47,256
— Corporate	638	256	411	2,942	3,164	7,411
<b>Subtotal<sup>(1)</sup></b>	<b>10,117</b>	<b>17,670</b>	<b>134,482</b>	<b>22,365</b>	<b>11,186</b>	<b>195,820</b>
<b>Total<sup>(2)</sup></b>	<b>362,649</b>	<b>18,030</b>	<b>909,324</b>	<b>422,898</b>	<b>41,972</b>	<b>1,754,873</b>

(1) Included mortgage backed securities as follows:

	As at 31 December 2012					
	Unrated	AAA	AA	A	Lower than A	Total
US subprime mortgage related debt securities	—	238	462	568	2,849	4,117
US Alt-A mortgage-backed securities	—	—	—	60	807	867
US Non-Agency mortgage-backed securities	—	15	77	56	1,562	1,710
<b>Total</b>	<b>—</b>	<b>253</b>	<b>539</b>	<b>684</b>	<b>5,218</b>	<b>6,694</b>

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 3 Credit risk (Continued)

#### 3.7 Debt securities (Continued)

- (2) The Group's available for sale and held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on available for sale and held to maturity debt securities at 31 December 2013 amounted to RMB2,533 million and RMB246 million, respectively (31 December 2012: RMB3,591 million and RMB306 million). The carrying values of the available for sale and held to maturity debt securities considered impaired as at 31 December 2013 were RMB4,007 million and RMB464 million, respectively (31 December 2012: RMB5,856 million and RMB638 million).

#### 3.8 Derivatives

The Group began to implement *the Capital Rules for Commercial Banks (Provisional)* and other relevant regulations since 1 January 2013. In contrast to *Regulation Governing Capital Adequacy of Commercial Banks*, the capital rule applicable for 2012, for OTC derivative transactions in both the banking book and the trading book, risk-weighted assets for counterparty credit risk ("CCR") will now comprise the sum of both risk-weighted assets for default risk and the newly-added risk-weighted assets for credit valuation adjustment ("CVA").

CCR risk-weighted assets for derivatives are as follows:

	As at 31 December			
	Group		Bank	
	2013	2012	2013	2012
Risk-weighted assets for default risk				
Currency derivatives	28,393	8,668	26,013	5,781
Interest rate derivatives	2,784	4,073	1,187	3,369
Equity derivatives	564	31	5	–
Commodity derivatives	1,844	9	670	5
	<b>33,585</b>	12,781	<b>27,875</b>	9,155
CVA risk-weighted assets	<b>26,761</b>	–	<b>16,684</b>	–
Total	<b>60,346</b>	12,781	<b>44,559</b>	9,155

#### 3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.22.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk

#### 4.1 Overview

The Group is exposed to market risks that may cause losses to the Group as a result of adverse changes in market prices. Market risk arises from open positions in the trading and banking books in interest rate, exchange rate, equities and commodities. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

The Risk Management Unit is responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business lines.

#### 4.2 Market risk measurement techniques and limits

##### (1) Trading book

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk (VaR) limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK (Holdings) and BOCI. The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk (Continued)

#### 4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Accuracy and reliability of the VaR model is verified by daily back-testing of the VaR result on trading book. The back-testing results are regularly reported to senior management.

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact to transaction market prices stemming from changes in market prices and volatility.

The table below shows the VaR of the trading book by type of risk during the years ended 31 December 2013 and 2012:

Unit: USD million

	Year ended 31 December					
	2013			2012		
	Average	High	Low	Average	High	Low
<b>The Bank's trading VaR</b>						
Interest rate risk	2.05	3.02	0.88	2.55	3.65	1.73
Foreign exchange risk	0.72	4.61	0.14	1.88	7.63	0.44
Volatility risk	0.02	0.12	0.00	0.03	0.10	0.00
Commodity risk	0.25	1.86	0.00	–	–	–
<b>Total of the Bank's trading VaR</b>	<b>2.27</b>	<b>4.80</b>	<b>0.98</b>	2.85	7.94	2.06

The Bank's VaR for the year ended 31 December 2013 and 2012 was calculated on the Group's trading positions, excluding those of BOCHK (Holdings) and BOCI and excluding foreign currency against RMB transactions.

The reporting of risk in relation to bullion is included in foreign exchange risk above.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk (Continued)

#### 4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Unit: USD million

	Year ended 31 December					
	2013			2012		
	Average	High	Low	Average	High	Low
<b>BOCHK (Holdings)'s trading VaR</b>						
Interest rate risk	2.57	5.11	1.14	2.28	3.80	1.14
Foreign exchange risk	2.24	4.88	1.32	2.15	3.31	1.19
Equity risk	0.14	0.42	0.00	0.05	0.29	0.00
Commodity risk	0.02	0.09	0.00	0.03	0.21	0.00
<b>Total BOCHK (Holdings)'s trading VaR<sup>(i)</sup></b>	<b>2.98</b>	<b>5.26</b>	<b>1.79</b>	3.27	4.52	1.89
<b>BOCI's trading VaR<sup>(ii)</sup></b>						
Equity derivatives unit	0.83	1.81	0.34	0.40	1.04	0.11
Fixed income unit	1.06	1.84	0.63	0.96	2.22	0.53
<b>Total BOCI's trading VaR</b>	<b>1.39</b>	<b>2.50</b>	<b>0.67</b>	1.09	2.32	0.45

<sup>(i)</sup> BOCHK (Holdings)'s trading VaR for the year ended 31 December 2013 and 2012 was calculated including its subsidiaries of Nanyang Commercial Bank Limited, BOC Credit Card (International) Limited and Chiyu Banking Corporation Limited.

<sup>(ii)</sup> BOCI monitors its trading VaR for equity derivatives unit and fixed income unit separately, which include equity risk, interest rate risk and foreign exchange risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's financial position.

The Group manages interest rate risk in the banking book primarily through an interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that must be repriced within certain periods. The Group employs the interest rate repricing gap analysis and takes impact of the off-balance sheet business into consideration when calculating the indications of interest rate risk sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk (Continued)

#### 4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book (Continued)

Sensitivity analysis on Net interest income

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on "Net interest income". This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take changes in customer behaviour, basis risk or any prepayment options on debt securities into consideration. The bank calculates the change in net interest income during the year mainly through the analysis of interest rate repricing gaps, and made timely adjustment to the structure of assets and liabilities based on changes in the market situation, and controlled the fluctuation of net interest income within an acceptable level. Limits of the net interest income change are set as a percentage of net interest income budget for the Group's commercial banking operations and are approved by the Board and monitored by the Financial Management Unit on a monthly basis.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in Net interest income	
	As at 31 December	
	2013	2012
+ 25 basis points parallel move in all yield curves	<b>(1,006)</b>	(1,559)
- 25 basis points parallel move in all yield curves	<b>1,006</b>	1,559

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would increase or decrease by RMB9,548 million (2012: RMB8,427 million) for every 25 basis points upwards or downwards parallel shift, respectively.

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.3 GAP analysis**

The tables below summarise the Group's and the Bank's exposure to interest rate risks. It includes the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

**Group**

	As at 31 December 2013						Total
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	
<b>Assets</b>							
Cash and due from banks and other financial institutions	176,568	149,957	290,432	608	–	85,019	702,584
Balances with central banks	2,058,786	–	–	–	–	73,215	2,132,001
Placements with and loans to banks and other financial institutions	342,791	111,498	202,936	2,824	–	–	660,049
Financial assets at fair value through profit or loss	5,630	7,499	12,010	29,773	12,139	8,149	75,200
Derivative financial assets	–	–	–	–	–	40,823	40,823
Loans and advances to customers, net	1,872,529	1,675,457	3,583,425	63,893	60,738	183,700	7,439,742
Investment securities							
— available for sale	65,023	103,863	143,685	238,679	114,508	35,438	701,196
— held to maturity	41,181	65,469	240,205	550,115	313,561	–	1,210,531
— loans and receivables	4,254	5,120	18,399	22,888	218,882	–	269,543
Other	5,580	5,259	5,242	–	–	626,549	642,630
<b>Total assets</b>	<b>4,572,342</b>	<b>2,124,122</b>	<b>4,496,334</b>	<b>908,780</b>	<b>719,828</b>	<b>1,052,893</b>	<b>13,874,299</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	837,211	149,230	299,784	216,749	4,095	44,555	1,551,624
Due to central banks	82,965	46,555	66,189	–	–	5,230	200,939
Placements from banks and other financial institutions	187,104	105,048	47,113	–	–	–	339,265
Derivative financial liabilities	–	–	–	–	–	36,212	36,212
Due to customers	5,715,009	1,105,255	2,155,915	1,004,641	4,383	112,583	10,097,786
Bonds issued	6,199	10,695	20,570	69,711	117,529	–	224,704
Other	15,063	19,523	5,639	300	212	421,555	462,292
<b>Total liabilities</b>	<b>6,843,551</b>	<b>1,436,306</b>	<b>2,595,210</b>	<b>1,291,401</b>	<b>126,219</b>	<b>620,135</b>	<b>12,912,822</b>
<b>Total interest repricing gap</b>	<b>(2,271,209)</b>	<b>687,816</b>	<b>1,901,124</b>	<b>(382,621)</b>	<b>593,609</b>	<b>432,758</b>	<b>961,477</b>

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk (Continued)

#### 4.3 GAP analysis (Continued)

##### Group

	As at 31 December 2012						Total
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	
<b>Assets</b>							
Cash and due from banks and other financial institutions	219,410	135,208	314,942	31,167	–	74,847	775,574
Balances with central banks	1,876,905	447	189	25	–	56,731	1,934,297
Placements with and loans to banks and other financial institutions	195,821	84,274	163,214	3,990	–	–	447,299
Financial assets at fair value through profit or loss	10,946	5,217	9,956	30,052	12,886	2,533	71,590
Derivative financial assets	–	–	–	–	–	40,188	40,188
Loans and advances to customers, net	1,679,050	1,593,215	3,214,918	53,154	32,853	136,850	6,710,040
Investment securities							
— available for sale	82,909	129,969	107,435	221,121	113,286	31,680	686,400
— held to maturity	35,171	71,813	265,339	505,125	305,632	–	1,183,080
— loans and receivables	1,604	6,015	25,998	20,855	214,982	–	269,454
Other	3,352	5,467	8,074	–	–	545,800	562,693
<b>Total assets</b>	<b>4,105,168</b>	<b>2,031,625</b>	<b>4,110,065</b>	<b>865,489</b>	<b>679,639</b>	<b>888,629</b>	<b>12,680,615</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	931,428	196,750	194,344	95,447	–	135,223	1,553,192
Due to central banks	88,137	7,746	32,038	–	–	2,101	130,022
Placements from banks and other financial institutions	198,660	71,078	43,266	–	–	–	313,004
Derivative financial liabilities	–	–	–	–	–	32,457	32,457
Due to customers	5,320,214	996,436	1,858,379	896,180	4,687	98,099	9,173,995
Bonds issued	726	3,879	6,048	72,047	116,433	–	199,133
Other	16,570	21,298	8,517	3,148	113	367,624	417,270
<b>Total liabilities</b>	<b>6,555,735</b>	<b>1,297,187</b>	<b>2,142,592</b>	<b>1,066,822</b>	<b>121,233</b>	<b>635,504</b>	<b>11,819,073</b>
<b>Total interest repricing gap</b>	<b>(2,450,567)</b>	<b>734,438</b>	<b>1,967,473</b>	<b>(201,333)</b>	<b>558,406</b>	<b>253,125</b>	<b>861,542</b>

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.3 GAP analysis (Continued)****Bank**

	As at 31 December 2013						Total
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	
<b>Assets</b>							
Cash and due from banks and other financial institutions	147,029	142,039	283,010	–	–	74,593	646,671
Balances with central banks	1,951,415	–	–	–	–	63,760	2,015,175
Placements with and loans to banks and other financial institutions	326,305	107,528	219,393	3,839	451	–	657,516
Financial assets at fair value through profit or loss	3,467	2,432	3,541	17,232	6,521	121	33,314
Derivative financial assets	–	–	–	–	–	22,971	22,971
Loans and advances to customers, net	1,261,658	1,571,244	3,514,178	43,781	59,707	178,191	6,628,759
Investment securities							
— available for sale	32,119	62,707	83,554	124,752	50,999	2,489	356,620
— held to maturity	38,111	63,254	235,884	543,365	308,264	–	1,188,878
— loans and receivables	1,532	2,538	15,767	22,888	218,882	–	261,607
Other	3,039	5,259	5,241	–	–	474,573	488,112
<b>Total assets</b>	<b>3,764,675</b>	<b>1,957,001</b>	<b>4,360,568</b>	<b>755,857</b>	<b>644,824</b>	<b>816,698</b>	<b>12,299,623</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	756,577	158,909	339,533	217,250	4,195	24,352	1,500,816
Due to central banks	52,023	46,534	66,004	–	–	–	164,561
Placements from banks and other financial institutions	203,229	112,473	46,332	–	–	–	362,034
Derivative financial liabilities	–	–	–	–	–	23,530	23,530
Due to customers	4,903,507	956,443	2,038,630	995,611	4,328	49,002	8,947,521
Bonds issued	6,169	10,695	20,082	55,607	98,930	–	191,483
Other	5,366	–	–	–	–	238,352	243,718
<b>Total liabilities</b>	<b>5,926,871</b>	<b>1,285,054</b>	<b>2,510,581</b>	<b>1,268,468</b>	<b>107,453</b>	<b>335,236</b>	<b>11,433,663</b>
<b>Total interest repricing gap</b>	<b>(2,162,196)</b>	<b>671,947</b>	<b>1,849,987</b>	<b>(512,611)</b>	<b>537,371</b>	<b>481,462</b>	<b>865,960</b>

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk (Continued)

#### 4.3 GAP analysis (Continued)

##### Bank

	As at 31 December 2012						Total
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	
<b>Assets</b>							
Cash and due from banks and other financial institutions	208,883	130,489	309,114	30,209	–	66,898	745,593
Balances with central banks	1,804,775	314	189	25	–	54,059	1,859,362
Placements with and loans to banks and other financial institutions	189,854	75,801	165,411	4,417	–	–	435,483
Financial assets at fair value through profit or loss	1,685	1,154	4,353	15,222	6,959	281	29,654
Derivative financial assets	–	–	–	–	–	15,939	15,939
Loans and advances to customers, net	1,128,820	1,492,224	3,162,905	42,977	32,080	131,564	5,990,570
Investment securities							
— available for sale	26,742	41,671	62,527	114,807	59,360	1,903	307,010
— held to maturity	31,317	65,436	264,240	498,332	304,091	–	1,163,416
— loans and receivables	415	3,462	21,548	20,855	214,982	–	261,262
Other	3,246	5,367	8,074	–	–	417,144	433,831
<b>Total assets</b>	<b>3,395,737</b>	<b>1,815,918</b>	<b>3,998,361</b>	<b>726,844</b>	<b>617,472</b>	<b>687,788</b>	<b>11,242,120</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	885,293	199,457	212,884	95,451	–	123,773	1,516,858
Due to central banks	78,481	7,746	32,035	–	–	–	118,262
Placements from banks and other financial institutions	184,353	76,443	52,320	–	–	–	313,116
Derivative financial liabilities	–	–	–	–	–	16,382	16,382
Due to customers	4,524,422	882,873	1,766,844	890,278	4,657	42,000	8,111,074
Bonds issued	722	3,879	7,569	67,338	98,930	–	178,438
Other	6,272	–	–	–	–	208,314	214,586
<b>Total liabilities</b>	<b>5,679,543</b>	<b>1,170,398</b>	<b>2,071,652</b>	<b>1,053,067</b>	<b>103,587</b>	<b>390,469</b>	<b>10,468,716</b>
<b>Total interest repricing gap</b>	<b>(2,283,806)</b>	<b>645,520</b>	<b>1,926,709</b>	<b>(326,223)</b>	<b>513,885</b>	<b>297,319</b>	<b>773,404</b>

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk (Continued)

#### 4.4 Foreign currency risk

In 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies.

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, BOCHK Group, conducts the majority of its business in HKD, RMB and USD.

The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives. However, the Group's ability to manage its foreign currency positions in relation to the RMB is limited as the RMB is not a freely convertible currency. The PRC government's current foreign currency regulations require the conversion of foreign currency to be approved by relevant PRC government authorities.

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI.4.2). Meanwhile, the Group performs currency risk sensitivity analysis to estimate the effect of potential exchange rate changes of foreign currencies against RMB on profit before tax and equity.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date, subject to the approval by the PRC government, to mitigate the effect of exchange differences, nor for any consequential changes in the foreign currency positions.

Currency	Change in currency rate	Effect on profit before tax		Effect on equity*	
		As at	As at	As at	As at
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
USD	-1%	(348)	(202)	(205)	(192)
HKD	-1%	505	362	(1,072)	(1,036)

While the table above indicates the effect on profit before tax and equity of 1% depreciation of USD and HKD, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

\* Effect on other comprehensive income (irrespective of income tax effect)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk (Continued)

#### 4.4 Foreign currency risk (Continued)

The tables below summarise the Group's and the Bank's exposure to foreign currency exchange rate risk as at 31 December 2013 and 2012. The Group's and the Bank's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group and the Bank along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

#### Group

	As at 31 December 2013							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
<b>Assets</b>								
Cash and due from banks and other financial institutions	606,351	64,084	12,379	4,067	1,989	4,648	9,066	702,584
Balances with central banks	1,860,127	223,218	5,468	22,607	6,638	41	13,902	2,132,001
Placements with and loans to banks and other financial institutions	555,391	78,573	1,591	4,411	29	2,694	17,360	660,049
Financial assets at fair value through profit or loss	18,578	34,325	21,024	1,016	48	–	209	75,200
Derivative financial assets	9,753	11,162	15,984	664	244	1,592	1,424	40,823
Loans and advances to customers, net	5,596,690	1,134,219	535,127	61,111	6,645	12,054	93,896	7,439,742
Investment securities								
— available for sale	290,979	262,079	99,681	14,447	786	416	32,808	701,196
— held to maturity	1,120,644	77,730	6,674	480	693	–	4,310	1,210,531
— loans and receivables	254,278	3,176	2,417	–	–	–	9,672	269,543
Other	236,450	75,217	125,851	1,454	1,139	3,029	199,490	642,630
<b>Total assets</b>	<b>10,549,241</b>	<b>1,963,783</b>	<b>826,196</b>	<b>110,257</b>	<b>18,211</b>	<b>24,474</b>	<b>382,137</b>	<b>13,874,299</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	963,948	352,134	16,120	20,798	6,433	8,858	183,333	1,551,624
Due to central banks	56,044	120,540	23,431	–	–	–	924	200,939
Placements from banks and other financial institutions	148,018	161,084	12,794	5,275	8,076	641	3,377	339,265
Derivative financial liabilities	6,692	10,719	12,472	677	1,813	1,384	2,455	36,212
Due to customers	8,091,102	848,525	701,985	144,712	36,762	46,567	228,133	10,097,786
Bonds issued	175,400	40,418	1,525	3,350	–	3,784	227	224,704
Other	256,526	62,633	134,433	1,870	567	2,493	3,770	462,292
<b>Total liabilities</b>	<b>9,697,730</b>	<b>1,596,053</b>	<b>902,760</b>	<b>176,682</b>	<b>53,651</b>	<b>63,727</b>	<b>422,219</b>	<b>12,912,822</b>
Net on-balance sheet position	851,511	367,730	(76,564)	(66,425)	(35,440)	(39,253)	(40,082)	961,477
Net off-balance sheet position	(23,364)	(309,362)	135,296	71,474	33,690	40,922	55,022	3,678
Credit commitments	1,555,631	668,837	121,105	82,858	8,004	14,869	48,506	2,499,810

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.4 Foreign currency risk (Continued)****Group**

	As at 31 December 2012							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
<b>Assets</b>								
Cash and due from banks and other financial institutions	518,287	220,997	8,157	10,989	1,777	2,632	12,735	775,574
Balances with central banks	1,685,566	150,441	2,428	65,972	9,550	47	20,293	1,934,297
Placements with and loans to banks and other financial institutions	307,661	69,515	8,903	6,517	4,057	24,761	25,885	447,299
Financial assets at fair value through profit or loss	12,114	31,122	27,065	1,069	87	–	133	71,590
Derivative financial assets	5,601	10,936	20,656	770	160	930	1,135	40,188
Loans and advances to customers, net	5,111,675	943,794	501,062	46,102	13,700	10,212	83,495	6,710,040
Investment securities								
— available for sale	226,486	246,743	102,142	11,319	63,775	302	35,633	686,400
— held to maturity	1,095,327	74,163	4,783	2,720	2,425	–	3,662	1,183,080
— loans and receivables	252,409	4,569	2	–	–	1,204	11,270	269,454
Other	216,771	71,309	114,944	1,256	1,435	2,303	154,675	562,693
<b>Total assets</b>	<b>9,431,897</b>	<b>1,823,589</b>	<b>790,142</b>	<b>146,714</b>	<b>96,966</b>	<b>42,391</b>	<b>348,916</b>	<b>12,680,615</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	992,268	371,410	20,011	28,985	8,285	3,797	128,436	1,553,192
Due to central banks	890	120,372	8,757	–	–	–	3	130,022
Placements from banks and other financial institutions	154,230	140,086	10,289	2,197	175	2,551	3,476	313,004
Derivative financial liabilities	4,052	11,545	13,530	936	395	927	1,072	32,457
Due to customers	7,268,004	739,364	720,594	169,878	29,110	53,304	193,741	9,173,995
Bonds issued	170,539	28,591	3	–	–	–	–	199,133
Other	218,914	58,452	129,835	1,414	486	1,044	7,125	417,270
<b>Total liabilities</b>	<b>8,808,897</b>	<b>1,469,820</b>	<b>903,019</b>	<b>203,410</b>	<b>38,451</b>	<b>61,623</b>	<b>333,853</b>	<b>11,819,073</b>
Net on-balance sheet position	623,000	353,769	(112,877)	(56,696)	58,515	(19,232)	15,063	861,542
Net off-balance sheet position	143,353	(320,960)	170,678	54,470	(55,018)	20,317	(3,228)	9,612
Credit commitments	1,438,619	612,942	124,165	71,743	8,751	12,733	48,552	2,317,505

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk (Continued)

#### 4.4 Foreign currency risk (Continued)

##### Bank

	As at 31 December 2013							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
<b>Assets</b>								
Cash and due from banks and other financial institutions	553,914	59,844	15,285	3,420	1,828	4,456	7,924	646,671
Balances with central banks	1,755,411	220,731	1,590	22,348	6,638	41	8,416	2,015,175
Placements with and loans to banks and other financial institutions	555,161	63,318	20,329	3,124	43	2,037	13,504	657,516
Financial assets at fair value through profit or loss	8,020	24,308	–	986	–	–	–	33,314
Derivative financial assets	9,545	9,876	27	661	241	1,590	1,031	22,971
Loans and advances to customers, net	5,506,959	910,863	70,035	57,044	6,281	8,148	69,429	6,628,759
Investment securities								
— available for sale	223,870	98,948	10,064	9,477	554	–	13,707	356,620
— held to maturity	1,116,389	68,982	786	480	693	–	1,548	1,188,878
— loans and receivables	253,638	–	2	–	–	–	7,967	261,607
Other	193,197	12,941	74,513	2,681	1,047	5,319	198,414	488,112
<b>Total assets</b>	<b>10,176,104</b>	<b>1,469,811</b>	<b>192,631</b>	<b>100,221</b>	<b>17,325</b>	<b>21,591</b>	<b>321,940</b>	<b>12,299,623</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	932,229	338,916	9,668	21,996	6,512	9,016	182,479	1,500,816
Due to central banks	45,779	108,593	9,335	–	–	–	854	164,561
Placements from banks and other financial institutions	174,696	162,430	7,701	5,285	8,105	641	3,176	362,034
Derivative financial liabilities	6,312	11,291	–	507	1,810	1,384	2,226	23,530
Due to customers	7,825,241	608,945	151,529	133,031	33,897	33,600	161,278	8,947,521
Bonds issued	175,474	8,634	–	3,350	–	3,784	241	191,483
Other	221,869	15,046	934	1,044	389	1,538	2,898	243,718
<b>Total liabilities</b>	<b>9,381,600</b>	<b>1,253,855</b>	<b>179,167</b>	<b>165,213</b>	<b>50,713</b>	<b>49,963</b>	<b>353,152</b>	<b>11,433,663</b>
Net on-balance sheet position	794,504	215,956	13,464	(64,992)	(33,388)	(28,372)	(31,212)	865,960
Net off-balance sheet position	(4,781)	(175,699)	4,128	69,088	31,764	30,070	45,105	(325)
Credit commitments	1,554,243	632,054	63,776	80,819	7,620	13,086	38,139	2,389,737

**VI FINANCIAL RISK MANAGEMENT (Continued)****4 Market risk (Continued)****4.4 Foreign currency risk (Continued)****Bank**

	As at 31 December 2012							Total
	RMB	USD	HKD	EURO	JPY	GBP	Other	
<b>Assets</b>								
Cash and due from banks and other financial institutions	484,686	217,421	18,040	9,970	1,566	2,424	11,486	745,593
Balances with central banks	1,618,403	149,368	1,733	65,807	9,550	47	14,454	1,859,362
Placements with and loans to banks and other financial institutions	296,700	55,587	21,617	11,258	4,057	23,402	22,862	435,483
Financial assets at fair value through profit or loss	7,149	21,441	–	1,064	–	–	–	29,654
Derivative financial assets	5,717	7,876	–	754	154	910	528	15,939
Loans and advances to customers, net	5,029,994	783,657	55,918	40,216	12,815	7,232	60,738	5,990,570
Investment securities								
— available for sale	176,561	91,888	18,333	4,465	709	–	15,054	307,010
— held to maturity	1,093,628	65,488	88	2,720	877	–	615	1,163,416
— loans and receivables	251,489	1,070	1	–	–	–	8,702	261,262
Other	183,928	13,554	74,682	2,378	1,228	4,813	153,248	433,831
<b>Total assets</b>	<b>9,148,255</b>	<b>1,407,350</b>	<b>190,412</b>	<b>138,632</b>	<b>30,956</b>	<b>38,828</b>	<b>287,687</b>	<b>11,242,120</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	966,248	369,530	10,515	30,023	8,378	3,921	128,243	1,516,858
Due to central banks	813	110,659	6,790	–	–	–	–	118,262
Placements from banks and other financial institutions	157,481	144,188	2,678	2,197	212	2,551	3,809	313,116
Derivative financial liabilities	4,045	9,709	1	630	392	925	680	16,382
Due to customers	7,069,912	520,927	158,091	159,306	26,262	41,124	135,452	8,111,074
Bonds issued	170,929	7,509	–	–	–	–	–	178,438
Other	198,703	6,620	1,617	1,489	224	337	5,596	214,586
<b>Total liabilities</b>	<b>8,568,131</b>	<b>1,169,142</b>	<b>179,692</b>	<b>193,645</b>	<b>35,468</b>	<b>48,858</b>	<b>273,780</b>	<b>10,468,716</b>
Net on-balance sheet position	580,124	238,208	10,720	(55,013)	(4,512)	(10,030)	13,907	773,404
Net off-balance sheet position	176,160	(219,629)	(5,981)	44,740	6,087	11,596	(10,422)	2,551
Credit commitments	1,435,727	580,714	69,393	69,335	8,321	10,403	39,432	2,213,325

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 4 Market risk (Continued)

#### 4.5 Price Risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 31 December 2013, a 5 percentage variance in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB270 million (31 December 2012: RMB226 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note VI.4.2).

### 5 Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to timely obtain adequate funds at a reasonable cost, to maintain its asset growth, pay off debts upon maturity or meet other settlement obligations. The Group's objective in liquidity risk management is to enhance the liquidity of assets and stability of funding sources and maintain a reasonable liquidity level pursuant to the guiding principle of achieving a balance amongst "liquidity, safety and profitability".

#### 5.1 Liquidity risk management policy and process

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches and subsidiaries managing their own liquidity risk pursuant to the Head Office's policies within authorised scope.

The Group considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Group establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration of various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions and inter-bank borrowing.

Sources of liquidity risk are regularly reviewed by a separate team in the Financial Management Department to maintain a wide diversification by currency, geography, provider, product and term. A liquidity maturity analysis is performed by the Financial Management Department on a monthly basis. The forecast net liquidity position is estimated and managed on a daily basis. The Group also performs stress testing for liquidity risk on a quarterly basis.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include "Cash and due from banks and other financial institutions", "Balances with central banks", "Placements with and loans to banks and other financial institutions" and "Loans and advances to customers, net". In the normal course of business, a proportion of short-term customer loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase and reverse repurchase transactions, and by selling securities and accessing additional funding sources.

For purposes of the tables set forth, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for Loans and advances to customers that are repayable by installments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

In 2013, the Group amended the maturity groupings of liquidity risk and restated the comparative data of 2012 accordingly.

**VI FINANCIAL RISK MANAGEMENT (Continued)****5 Liquidity risk (Continued)****5.2 Maturity analysis**

The tables below analyse the Group's and the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date.

**Group**

	As at 31 December 2013							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
<b>Assets</b>								
Cash and due from banks and other financial institutions	1	162,408	99,073	137,465	302,129	1,508	–	702,584
Balances with central banks	1,613,606	403,586	114,809	–	–	–	–	2,132,001
Placements with and loans to banks and other financial institutions	–	–	342,791	110,625	203,809	2,824	–	660,049
Financial assets at fair value through profit or loss	7,622	–	5,270	7,093	10,416	32,332	12,467	75,200
Derivative financial assets	–	11,005	5,163	5,437	11,336	4,235	3,647	40,823
Loans and advances to customers, net	21,678	83,794	434,613	878,725	1,915,073	1,716,505	2,389,354	7,439,742
Investment securities								
— available for sale	34,245	–	39,352	69,970	152,305	277,096	128,228	701,196
— held to maturity	–	–	18,387	33,814	195,971	617,451	344,908	1,210,531
— loans and receivables	–	–	4,254	5,120	13,399	27,888	218,882	269,543
Other	212,668	289,907	34,222	21,982	22,927	44,685	16,239	642,630
<b>Total assets</b>	<b>1,889,820</b>	<b>950,700</b>	<b>1,097,934</b>	<b>1,270,231</b>	<b>2,827,365</b>	<b>2,724,524</b>	<b>3,113,725</b>	<b>13,874,299</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	–	727,316	131,752	146,786	324,654	217,021	4,095	1,551,624
Due to central banks	–	65,077	23,118	41,344	64,538	6,862	–	200,939
Placements from banks and other financial institutions	–	–	187,104	105,048	47,113	–	–	339,265
Derivative financial liabilities	–	7,529	4,348	5,812	11,124	6,165	1,234	36,212
Due to customers	–	4,581,538	1,233,777	1,071,379	2,174,469	1,024,471	12,152	10,097,786
Bonds issued	–	–	5,951	10,695	20,571	69,958	117,529	224,704
Other	–	132,880	64,851	29,405	128,742	65,423	40,991	462,292
<b>Total liabilities</b>	<b>–</b>	<b>5,514,340</b>	<b>1,650,901</b>	<b>1,410,469</b>	<b>2,771,211</b>	<b>1,389,900</b>	<b>176,001</b>	<b>12,912,822</b>
<b>Net liquidity gap</b>	<b>1,889,820</b>	<b>(4,563,640)</b>	<b>(552,967)</b>	<b>(140,238)</b>	<b>56,154</b>	<b>1,334,624</b>	<b>2,937,724</b>	<b>961,477</b>

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 5 Liquidity risk (Continued)

#### 5.2 Maturity analysis (Continued)

##### Group

	As at 31 December 2012							Total
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	
<b>Assets</b>								
Cash and due from banks and other financial institutions	–	165,632	128,625	135,208	314,942	31,167	–	775,574
Balances with central banks	1,476,088	303,785	153,763	447	189	25	–	1,934,297
Placements with and loans to banks and other financial institutions	–	–	195,821	84,274	163,214	3,990	–	447,299
Financial assets at fair value through profit or loss	2,251	–	9,877	4,783	8,710	31,902	14,067	71,590
Derivative financial assets	–	14,379	4,108	3,486	9,562	4,168	4,485	40,188
Loans and advances to customers, net	12,331	64,838	316,012	775,364	1,740,016	1,613,651	2,187,828	6,710,040
Investment securities								
— available for sale	30,250	–	56,911	97,049	124,270	254,146	123,774	686,400
— held to maturity	–	–	14,980	35,541	216,901	582,887	332,771	1,183,080
— loans and receivables	–	–	1,326	5,069	21,675	26,402	214,982	269,454
Other	199,279	233,121	31,745	26,702	34,290	33,681	3,875	562,693
<b>Total assets</b>	<b>1,720,199</b>	<b>781,755</b>	<b>913,168</b>	<b>1,167,923</b>	<b>2,633,769</b>	<b>2,582,019</b>	<b>2,881,782</b>	<b>12,680,615</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	–	647,019	197,796	274,064	192,724	241,589	–	1,553,192
Due to central banks	–	85,373	4,865	7,746	32,038	–	–	130,022
Placements from banks and other financial institutions	–	–	198,660	71,078	43,266	–	–	313,004
Derivative financial liabilities	–	10,560	2,505	2,609	7,503	6,652	2,628	32,457
Due to customers	–	4,213,199	1,159,015	986,503	1,885,171	918,590	11,517	9,173,995
Bonds issued	–	–	726	3,879	4,048	44,047	146,433	199,133
Other	–	128,576	51,048	46,867	91,905	62,066	36,808	417,270
<b>Total liabilities</b>	<b>–</b>	<b>5,084,727</b>	<b>1,614,615</b>	<b>1,392,746</b>	<b>2,256,655</b>	<b>1,272,944</b>	<b>197,386</b>	<b>11,819,073</b>
<b>Net liquidity gap</b>	<b>1,720,199</b>	<b>(4,302,972)</b>	<b>(701,447)</b>	<b>(224,823)</b>	<b>377,114</b>	<b>1,309,075</b>	<b>2,684,396</b>	<b>861,542</b>

**VI FINANCIAL RISK MANAGEMENT (Continued)****5 Liquidity risk (Continued)****5.2 Maturity analysis (Continued)****Bank**

	As at 31 December 2013							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
<b>Assets</b>								
Cash and due from banks and other financial institutions	–	131,120	90,502	129,672	295,377	–	–	646,671
Balances with central banks	1,601,600	298,766	114,809	–	–	–	–	2,015,175
Placements with and loans to banks and other financial institutions	48	–	326,095	104,851	219,811	3,839	2,872	657,516
Financial assets at fair value through profit or loss	–	–	3,089	2,256	3,022	18,351	6,596	33,314
Derivative financial assets	–	257	4,071	4,610	10,310	2,967	756	22,971
Loans and advances to customers, net	18,468	1,125	393,267	816,873	1,760,878	1,443,523	2,194,625	6,628,759
Investment securities								
— available for sale	2,489	–	20,272	44,016	86,301	140,568	62,974	356,620
— held to maturity	–	–	17,363	33,524	191,222	607,486	339,283	1,188,878
— loans and receivables	–	–	1,532	2,538	10,767	27,888	218,882	261,607
Other	191,339	196,881	16,323	19,930	19,399	36,703	7,537	488,112
<b>Total assets</b>	<b>1,813,944</b>	<b>628,149</b>	<b>987,323</b>	<b>1,158,270</b>	<b>2,597,087</b>	<b>2,281,325</b>	<b>2,833,525</b>	<b>12,299,623</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	–	614,434	143,824	156,465	364,404	217,494	4,195	1,500,816
Due to central banks	–	39,726	12,297	41,325	64,352	6,861	–	164,561
Placements from banks and other financial institutions	–	–	202,364	112,038	47,632	–	–	362,034
Derivative financial liabilities	–	236	3,777	5,211	9,716	3,895	695	23,530
Due to customers	–	3,953,875	989,661	919,977	2,053,303	1,018,609	12,096	8,947,521
Bonds issued	–	–	6,169	10,695	20,082	55,607	98,930	191,483
Other	–	35,350	43,816	23,875	110,170	28,253	2,254	243,718
<b>Total liabilities</b>	<b>–</b>	<b>4,643,621</b>	<b>1,401,908</b>	<b>1,269,586</b>	<b>2,669,659</b>	<b>1,330,719</b>	<b>118,170</b>	<b>11,433,663</b>
<b>Net liquidity gap</b>	<b>1,813,944</b>	<b>(4,015,472)</b>	<b>(414,585)</b>	<b>(111,316)</b>	<b>(72,572)</b>	<b>950,606</b>	<b>2,715,355</b>	<b>865,960</b>

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 5 Liquidity risk (Continued)

#### 5.2 Maturity analysis (Continued)

##### Bank

	As at 31 December 2012							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
<b>Assets</b>								
Cash and due from banks and other financial institutions	–	151,695	124,086	130,489	309,114	30,209	–	745,593
Balances with central banks	1,466,433	240,962	151,306	447	189	25	–	1,859,362
Placements with and loans to banks and other financial institutions	–	–	189,660	75,599	164,925	4,447	852	435,483
Financial assets at fair value through profit or loss	–	–	884	897	3,677	16,209	7,987	29,654
Derivative financial assets	–	36	2,418	2,112	7,277	2,970	1,126	15,939
Loans and advances to customers, net	10,732	4,412	290,330	715,295	1,606,419	1,364,959	1,998,423	5,990,570
Investment securities								
— available for sale	1,903	–	15,241	24,255	69,122	129,022	67,467	307,010
— held to maturity	–	–	13,799	33,265	212,688	572,682	330,982	1,163,416
— loans and receivables	–	–	137	2,517	17,225	26,401	214,982	261,262
Other	185,696	154,216	13,547	23,994	32,016	23,364	998	433,831
<b>Total assets</b>	<b>1,664,764</b>	<b>551,321</b>	<b>801,408</b>	<b>1,008,870</b>	<b>2,422,652</b>	<b>2,170,288</b>	<b>2,622,817</b>	<b>11,242,120</b>
<b>Liabilities</b>								
Due to banks and other financial institutions	–	580,139	207,094	276,771	211,353	241,501	–	1,516,858
Due to central banks	–	74,419	4,062	7,746	32,035	–	–	118,262
Placements from banks and other financial institutions	–	–	184,353	76,443	52,320	–	–	313,116
Derivative financial liabilities	–	2	2,140	2,045	6,617	3,975	1,603	16,382
Due to customers	–	3,609,597	914,231	866,617	1,797,661	912,169	10,799	8,111,074
Bonds issued	–	–	722	3,879	5,568	39,338	128,931	178,438
Other	–	45,212	27,021	36,662	83,218	19,771	2,702	214,586
<b>Total liabilities</b>	<b>–</b>	<b>4,309,369</b>	<b>1,339,623</b>	<b>1,270,163</b>	<b>2,188,772</b>	<b>1,216,754</b>	<b>144,035</b>	<b>10,468,716</b>
<b>Net liquidity gap</b>	<b>1,664,764</b>	<b>(3,758,048)</b>	<b>(538,215)</b>	<b>(261,293)</b>	<b>233,880</b>	<b>953,534</b>	<b>2,478,782</b>	<b>773,404</b>

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 5 Liquidity risk (Continued)

#### 5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group and the Bank of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by remaining contractual maturities at the financial reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, except for certain derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

#### Group

	As at 31 December 2013							Total
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	
<b>Non-derivative cash flow</b>								
Cash and due from banks and other financial institutions	1	163,055	100,402	140,436	314,825	1,612	–	720,331
Balances with central banks	1,613,606	404,448	114,827	–	–	–	–	2,132,881
Placements with and loans to banks and other financial institutions	–	–	345,315	111,761	209,682	3,057	–	669,815
Financial assets at fair value through profit or loss	7,622	–	5,595	7,421	11,658	36,249	14,556	83,101
Loans and advances to customers, net	22,126	84,445	456,771	962,530	2,118,518	2,352,610	3,255,828	9,252,828
Investment securities								
— available for sale	34,245	–	40,577	73,244	165,791	313,593	150,863	778,313
— held to maturity	–	–	19,091	35,530	222,157	716,680	410,328	1,403,786
— loans and receivables	–	–	4,256	6,602	19,239	54,955	237,478	322,530
Other financial assets	110	8,081	18,866	6,121	14,498	1,394	4,021	53,091
<b>Total financial assets</b>	<b>1,677,710</b>	<b>660,029</b>	<b>1,105,700</b>	<b>1,343,645</b>	<b>3,076,368</b>	<b>3,480,150</b>	<b>4,073,074</b>	<b>15,416,676</b>
Due to banks and other financial institutions	–	727,363	135,655	149,772	330,933	238,806	5,119	1,587,648
Due to central banks	–	65,077	23,609	41,449	65,172	7,128	–	202,435
Placements from banks and other financial institutions	–	–	188,234	105,458	47,928	–	–	341,620
Due to customers	–	4,582,972	1,266,879	1,097,095	2,282,818	1,167,245	13,712	10,410,721
Bonds issued	–	–	5,978	12,787	26,551	101,769	157,425	304,510
Other financial liabilities	–	36,973	25,916	4,320	3,916	18,123	16,641	105,889
<b>Total financial liabilities</b>	<b>–</b>	<b>5,412,385</b>	<b>1,646,271</b>	<b>1,410,881</b>	<b>2,757,318</b>	<b>1,533,071</b>	<b>192,897</b>	<b>12,952,823</b>
<b>Derivative cash flow</b>								
Derivative financial instruments settled on a net basis	–	3,460	(31)	175	(564)	140	1,689	4,869
Derivative financial instruments settled on a gross basis								
Total inflow	–	20,744	776,781	412,859	1,058,576	142,048	5,546	2,416,554
Total outflow	–	(20,573)	(775,164)	(412,679)	(1,054,743)	(141,900)	(5,546)	(2,410,605)

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 5 Liquidity risk (Continued)

#### 5.3 Undiscounted cash flows by contractual maturities (Continued)

##### Group

	As at 31 December 2012							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
<b>Non-derivative cash flow</b>								
Cash and due from banks and other financial institutions	–	165,944	129,088	139,282	324,102	34,774	–	793,190
Balances with central banks	1,476,088	304,563	153,764	447	189	25	–	1,935,076
Placements with and loans to banks and other financial institutions	–	–	196,665	85,685	168,727	4,983	–	456,060
Financial assets at fair value through profit or loss	2,251	–	9,972	4,933	10,273	35,119	15,522	78,070
Loans and advances to customers, net	13,944	66,593	351,564	839,248	1,945,651	2,250,095	3,077,335	8,544,430
Investment securities								
— available for sale	30,250	–	58,353	99,954	136,607	297,061	141,575	763,800
— held to maturity	–	–	17,357	43,773	271,194	680,489	389,690	1,402,503
— loans and receivables	–	–	1,403	6,043	27,209	49,714	237,961	322,330
Other financial assets	148	5,267	20,270	7,189	12,105	1,379	996	47,354
<b>Total financial assets</b>	<b>1,522,681</b>	<b>542,367</b>	<b>938,436</b>	<b>1,226,554</b>	<b>2,896,057</b>	<b>3,353,639</b>	<b>3,863,079</b>	<b>14,342,813</b>
Due to banks and other financial institutions	–	647,036	199,077	289,971	197,778	295,558	–	1,629,420
Due to central banks	–	85,373	4,866	7,751	32,202	–	–	130,192
Placements from banks and other financial institutions	–	–	199,141	71,296	43,713	–	–	314,150
Due to customers	–	4,222,800	1,184,278	1,014,324	1,958,478	1,024,587	13,030	9,417,497
Bonds issued	–	–	749	5,960	9,160	71,962	190,777	278,608
Other financial liabilities	–	19,725	25,161	6,690	10,449	19,751	18,795	100,571
<b>Total financial liabilities</b>	<b>–</b>	<b>4,974,934</b>	<b>1,613,272</b>	<b>1,395,992</b>	<b>2,251,780</b>	<b>1,411,858</b>	<b>222,602</b>	<b>11,870,438</b>
<b>Derivative cash flow</b>								
Derivative financial instruments settled on a net basis	–	3,788	(304)	(48)	(1,506)	(978)	993	1,945
Derivative financial instruments settled on a gross basis								
Total inflow	–	39,655	582,266	377,189	981,656	93,826	990	2,075,582
Total outflow	–	(39,660)	(586,393)	(375,201)	(977,531)	(93,628)	(989)	(2,073,402)

**VI FINANCIAL RISK MANAGEMENT (Continued)****5 Liquidity risk (Continued)****5.3 Undiscounted cash flows by contractual maturities (Continued)****Bank**

	As at 31 December 2013							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
<b>Non-derivative cash flow</b>								
Cash and due from banks and other financial institutions	–	131,120	91,740	132,474	307,812	–	–	663,146
Balances with central banks	1,601,600	299,597	114,825	–	–	–	–	2,016,022
Placements with and loans to banks and other financial institutions	48	–	328,554	105,952	225,964	4,053	3,309	667,880
Financial assets at fair value through profit or loss	–	–	3,344	2,482	3,637	20,355	7,479	37,297
Loans and advances to customers, net	18,827	1,725	413,962	898,483	1,958,025	2,059,494	3,034,149	8,384,665
Investment securities								
— available for sale	2,489	–	20,862	45,878	93,322	160,284	74,043	396,878
— held to maturity	–	–	17,986	35,165	216,945	705,096	404,538	1,379,730
— loans and receivables	–	–	1,532	4,010	16,580	54,955	237,478	314,555
Other financial assets	44	4,844	3,038	5,577	6,494	–	921	20,918
<b>Total financial assets</b>	<b>1,623,008</b>	<b>437,286</b>	<b>995,843</b>	<b>1,230,021</b>	<b>2,828,779</b>	<b>3,004,237</b>	<b>3,761,917</b>	<b>13,881,091</b>
Due to banks and other financial institutions	–	614,475	148,364	159,563	376,200	236,211	4,926	1,539,739
Due to central banks	–	39,726	12,770	41,425	64,984	7,127	–	166,032
Placements from banks and other financial institutions	–	–	203,727	112,521	48,467	–	–	364,715
Due to customers	–	3,955,224	1,021,653	944,539	2,159,169	1,160,228	13,642	9,254,455
Bonds issued	–	–	6,195	12,361	24,833	80,862	136,957	261,208
Other financial liabilities	–	25,725	2,492	1,256	426	163	193	30,255
<b>Total financial liabilities</b>	<b>–</b>	<b>4,635,150</b>	<b>1,395,201</b>	<b>1,271,665</b>	<b>2,674,079</b>	<b>1,484,591</b>	<b>155,718</b>	<b>11,616,404</b>
<b>Derivative cash flow</b>								
Derivative financial instruments settled on a net basis	–	1	(15)	4	(72)	(505)	60	(527)
Derivative financial instruments settled on a gross basis								
Total inflow	–	4,928	511,939	285,302	814,401	97,097	4,210	1,717,877
Total outflow	–	(4,755)	(511,107)	(285,749)	(812,577)	(97,112)	(4,210)	(1,715,510)

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 5 Liquidity risk (Continued)

#### 5.3 Undiscounted cash flows by contractual maturities (Continued)

##### Bank

	As at 31 December 2012							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
<b>Non-derivative cash flow</b>								
Cash and due from banks and other financial institutions	–	151,695	124,510	134,458	318,072	33,582	–	762,317
Balances with central banks	1,466,433	241,724	151,306	447	189	25	–	1,860,124
Placements with and loans to banks and other financial institutions	–	–	190,450	76,894	170,400	5,487	852	444,083
Financial assets at fair value through profit or loss	–	–	906	942	4,554	17,790	8,833	33,025
Loans and advances to customers, net	11,860	5,218	323,250	777,133	1,803,200	1,983,527	2,863,108	7,767,296
Investment securities								
— available for sale	1,903	–	16,147	27,826	76,224	143,143	76,549	341,792
— held to maturity	–	–	15,253	39,937	244,265	669,552	387,457	1,356,464
— loans and receivables	–	–	215	3,483	22,685	49,714	237,961	314,058
Other financial assets	61	2,126	3,409	5,943	11,434	–	991	23,964
<b>Total financial assets</b>	<b>1,480,257</b>	<b>400,763</b>	<b>825,446</b>	<b>1,067,063</b>	<b>2,651,023</b>	<b>2,902,820</b>	<b>3,575,751</b>	<b>12,903,123</b>
Due to banks and other financial institutions	–	580,139	208,390	292,692	217,004	295,451	–	1,593,676
Due to central banks	–	74,419	4,063	7,751	32,198	–	–	118,431
Placements from banks and other financial institutions	–	–	184,845	76,704	52,853	–	–	314,402
Due to customers	–	3,619,529	938,722	894,073	1,872,365	1,025,454	20,981	8,371,124
Bonds issued	–	–	753	5,524	12,104	91,327	142,886	252,594
Other financial liabilities	–	18,444	2,987	941	5,123	477	81	28,053
<b>Total financial liabilities</b>	<b>–</b>	<b>4,292,531</b>	<b>1,339,760</b>	<b>1,277,685</b>	<b>2,191,647</b>	<b>1,412,709</b>	<b>163,948</b>	<b>10,678,280</b>
<b>Derivative cash flow</b>								
Derivative financial instruments settled on a net basis	–	–	(209)	(355)	(1,347)	(810)	221	(2,500)
Derivative financial instruments settled on a gross basis								
Total inflow	–	–	386,117	228,272	743,229	65,274	16	1,422,908
Total outflow	–	–	(407,327)	(229,847)	(740,353)	(64,866)	(16)	(1,442,409)

**VI FINANCIAL RISK MANAGEMENT (Continued)****5 Liquidity risk (Continued)****5.4 Off-balance sheet items**

The Group's and the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group and the Bank are the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.40.5, are summarised in the table below.

**Group**

	As at 31 December 2013			Total
	Less than 1 year	Between 1 and 5 years	Over 5 years	
Loan commitments	407,528	188,353	57,346	653,227
Guarantees, acceptances and other financial facilities	1,359,420	285,598	201,565	1,846,583
Subtotal	1,766,948	473,951	258,911	2,499,810
Operating lease commitments	5,399	12,505	5,036	22,940
Capital commitments	22,381	34,332	16,580	73,293
Total	1,794,728	520,788	280,527	2,596,043

	As at 31 December 2012			Total
	Less than 1 year	Between 1 and 5 years	Over 5 years	
Loan commitments	481,832	143,539	100,043	725,414
Guarantees, acceptances and other financial facilities	1,198,530	237,786	155,775	1,592,091
Subtotal	1,680,362	381,325	255,818	2,317,505
Operating lease commitments	8,003	12,040	4,136	24,179
Capital commitments	31,530	32,627	14,662	78,819
Total	1,719,895	425,992	274,616	2,420,503

(Amount in millions of Renminbi, unless otherwise stated)

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 5 Liquidity risk (Continued)

#### 5.4 Off-balance sheet items (Continued)

##### Bank

	As at 31 December 2013			Total
	Less than 1 year	Between 1 and 5 years	Over 5 years	
Loan commitments	371,351	149,823	56,365	577,539
Guarantees, acceptances and other financial facilities	1,316,236	293,794	202,168	1,812,198
Subtotal	1,687,587	443,617	258,533	2,389,737
Operating lease commitments	4,565	11,126	4,636	20,327
Capital commitments	7,918	2,558	–	10,476
Total	1,700,070	457,301	263,169	2,420,540

	As at 31 December 2012			Total
	Less than 1 year	Between 1 and 5 years	Over 5 years	
Loan commitments	405,723	142,670	100,043	648,436
Guarantees, acceptances and other financial facilities	1,160,586	242,728	161,575	1,564,889
Subtotal	1,566,309	385,398	261,618	2,213,325
Operating lease commitments	7,214	10,739	3,699	21,652
Capital commitments	9,754	3,862	13	13,629
Total	1,583,277	399,999	265,330	2,248,606

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 6 Fair value of assets and liabilities

#### 6.1 Financial instruments not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent “Balances with central banks”, “Due from banks and other financial institutions”, “Placements with and loans to banks and other financial institutions”, “Loans and advances to customers, net”, “Investment securities” classified as held to maturity and loans and receivables, “Due to central banks”, “Due to banks and other financial institutions”, “Placements from banks and other financial institutions”, and “Due to customers” measured at amortised cost, and “Bonds issued”.

The tables below summarise the carrying amounts and fair values of “Investment securities” classified as held to maturity and loans and receivables, and “Bonds issued” not presented at fair value on the statement of financial position.

#### Group

	As at 31 December			
	Carrying value		Fair value	
	2013	2012	2013	2012
<b>Financial assets</b>				
Investment securities <sup>(1)</sup>				
— held to maturity	<b>1,210,531</b>	1,183,080	<b>1,163,807</b>	1,179,903
— loans and receivables	<b>269,543</b>	269,454	<b>268,559</b>	269,471
<b>Financial liabilities</b>				
Bonds issued <sup>(2)</sup>	<b>224,704</b>	199,133	<b>215,070</b>	195,885

#### Bank

	As at 31 December			
	Carrying value		Fair value	
	2013	2012	2013	2012
<b>Financial assets</b>				
Investment securities <sup>(1)</sup>				
— held to maturity	<b>1,188,878</b>	1,163,416	<b>1,142,075</b>	1,159,745
— loans and receivables	<b>261,607</b>	261,262	<b>260,625</b>	261,263
<b>Financial liabilities</b>				
Bonds issued <sup>(2)</sup>	<b>191,483</b>	178,438	<b>180,368</b>	174,661

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 6 Fair value of assets and liabilities (Continued)

#### 6.1 Financial instruments not measured at fair value (Continued)

- (1) Investment securities classified as held to maturity and loans and receivables

The Orient Bond and Special Purpose Treasury Bond held by the Bank are non-negotiable. As there are no observable market prices or yields reflecting arm's length transactions of a comparable size and tenor, the fair value is determined based on stated interest rate of the instruments.

Fair values of other debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

- (2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The fair value for the convertible bonds (including the conversion option value) is based on the quoted market price on the Shanghai Stock Exchange.

The tables below summarise the three levels' fair values of "Investment securities" classified as held to maturity and loans and receivables (excluding the China Orient Bond and Special Purpose Treasury Bond), and "Bonds issued" not presented at fair value on the statement of financial position.

	As at December 2013			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Investment securities				
— held to maturity	62,575	1,100,976	256	1,163,807
— loans and receivables	—	65,906	153	66,059
<b>Financial liabilities</b>				
Bonds issued	38,197	176,873	—	215,070

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the statement of financial position are insignificant. Fair value is measured using a discounted cash flow model.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 6 Fair value of assets and liabilities (Continued)

#### 6.2 Assets and liabilities measured at fair value

Assets and liabilities measured at fair value are classified into the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity securities listed on exchange or debt instrument issued by certain governments and certain exchange-traded derivative contracts.
- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.
- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The Group uses valuation techniques or counterparty quotations to determine the fair value of financial instruments when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from the open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity), over-the-counter structured derivatives transactions held by the Group, unlisted funds and part of investment properties, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, etc. 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, and therefore, these assets and liabilities have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, rental growth, etc. As at 31 December 2013, fair value changes resulting from changes in the unobservable inputs were not significant. Management determines whether to make necessary adjustments to the fair value for the Group's level 3 financial instruments by assessing the impact of changes in macro-economic factors, valuations by external valuation agencies and other inputs, including loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

**VI FINANCIAL RISK MANAGEMENT (Continued)****6 Fair value of assets and liabilities (Continued)****6.2 Assets and liabilities measured at fair value (Continued)**(1) *Financial instruments measured at fair value*

	As at 31 December 2013			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Financial assets at fair value through profit or loss				
— Debt securities	267	62,284	301	62,852
— Fund investments and other	1,278	—	—	1,278
— Loans	—	4,321	—	4,321
— Equity securities	6,470	279	—	6,749
Derivative financial assets	11,175	29,648	—	40,823
Investment securities available for sale				
— Debt securities	54,911	605,417	5,430	665,758
— Fund investments and other	1,891	—	6,930	8,821
— Equity securities	4,667	2,735	19,215	26,617
<b>Financial liabilities measured at fair value</b>				
Due to customers at fair value	—	(156,498)	—	(156,498)
Short position in debt securities	—	(7,681)	—	(7,681)
Derivative financial liabilities	(7,649)	(28,563)	—	(36,212)

	As at 31 December 2012			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value</b>				
Financial assets at fair value through profit or loss				
— Debt securities	332	64,173	268	64,773
— Fund investments	780	—	—	780
— Loans	—	4,566	—	4,566
— Equity securities	1,299	172	—	1,471
Derivative financial assets	14,501	25,687	—	40,188
Investment securities available for sale				
— Debt securities	128,481	523,286	2,952	654,719
— Fund investments and other	586	—	7,054	7,640
— Equity securities	4,326	1,869	17,846	24,041
<b>Financial liabilities measured at fair value</b>				
Due to customers at fair value	—	(163,395)	(622)	(164,017)
Short position in debt securities	—	(14,061)	—	(14,061)
Derivative financial liabilities	(10,898)	(21,559)	—	(32,457)

## VI FINANCIAL RISK MANAGEMENT (Continued)

## 6 Fair value of assets and liabilities (Continued)

## 6.2 Assets and liabilities measured at fair value (Continued)

## (1) Financial instruments measured at fair value (Continued)

## Reconciliation of Level 3 Items

	Financial assets at fair value through profit or loss		Investment securities available for sale		Due to customers at fair value
	Debt securities	Debt securities	Fund investments and other	Equity securities	Structured deposit
As at 1 January 2013	268	2,952	7,054	17,846	(622)
Total gains and losses					
— profit or loss	19	44	(121)	5	—
— other comprehensive income	—	49	168	681	—
Sales	—	(614)	(934)	(63)	—
Purchases	142	3,813	1,346	746	—
Settlements	—	—	—	—	622
Transfers out of Level 3, net	(128)	(456)	(583)	—	—
Reclassification to held to maturity securities	—	(358)	—	—	—
As at 31 December 2013	301	5,430	6,930	19,215	—
Total gains or losses for the year included in the income statement for assets/liabilities held as at 31 December 2013	17	15	(120)	309	—
As at 1 January 2012	108	4,666	5,617	16,617	(164)
Total gains and losses					
— profit or loss	27	73	42	(27)	—
— other comprehensive income	—	162	403	(183)	—
Sales	(4)	(626)	(463)	(294)	—
Purchases	—	1,499	1,455	1,733	—
Issues	—	—	—	—	(622)
Settlements	—	—	—	—	164
Transfers into/(out of) Level 3, net	137	(2,822)	—	—	—
As at 31 December 2012	268	2,952	7,054	17,846	(622)
Total gains or losses for the year included in the income statement for assets/liabilities held as at 31 December 2012	27	8	140	(132)	—

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 6 Fair value of assets and liabilities (Continued)

#### 6.2 Assets and liabilities measured at fair value (Continued)

##### (1) Financial instruments measured at fair value (Continued)

Total gains or losses for the years ended 31 December 2013 and 2012 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held at 31 December 2013 and 2012 are presented in “Net trading gains”, “Net gains on investment securities” or “Impairment losses on assets” depending on the nature or category of the related financial instruments.

##### (2) Non-financial instruments measured at fair value

	As at 31 December 2013			Total
	Level 1	Level 2	Level 3	
Investment properties	–	2,888	17,383	20,271

Reconciliation of Level 3 items for investment properties

	Investment properties
As at 1 January 2013	14,745
Total gains and losses	
— profit	340
— other comprehensive income	–
Sales	(7)
Purchases	2,775
Transfer to Property and equipment	(199)
Other changes	(271)
As at 31 December 2013	17,383
Total gains for the year included in the income statement for investment properties held as at 31 December 2013	340

The assets and liabilities measured at fair value have been no significant transfers between level 1 and level 2 during 2013.

Gains or losses on level 3 assets and liabilities included in the income statement for the year comprise:

	Year ended 31 December 2013		Total
	Realised	Unrealised	
Total gains for the year	41	246	287

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 7 Capital management

The Group follows the principles below with regard to capital management:

- maintain levels of asset quality consistent with the Group's business strategy and adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements;
- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain capital appropriate to the Group's risk exposure and risk management needs; and
- optimise asset structure and allocate economic capital in a reasonable manner to ensure the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

From 1 January 2013, the Group commenced to calculate the capital adequacy ratios in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by the CBRC. As a Systemically Important Bank, the Group is expected to meet the requirements of the CBRC by the end of 2018, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 8.50%, 9.50% and 11.50%, respectively.

The Group's regulatory capital is managed by its Financial Management Department and consists of the following:

- Common equity tier 1 capital, including common shares, capital reserve, surplus reserve, general reserve, undistributed profits, and eligible portion of minority interests;
- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests;
- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

Goodwill, other intangible assets (except land use right), investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation, significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation and other deductible items are deducted from common equity tier 1 and tier 2 capital to derive at the regulatory capital.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit risks associated with each asset and counterparty, taking into account any eligible collateral or guarantee. A similar calculation is adopted for off-balance sheet exposures, with adjustments made to reflect the contingent nature of the potential losses. The CCR risk-weighted assets for OTC derivatives are the summation of risk-weighted assets for default risk and CVA risk-weighted assets. Market risk-weighted assets are calculated using the standardised approach. Basic indicator approach is used to calculate the risk-weighted assets of operational risk.

The Group took various measures to manage risk-weighted assets including adjusting the composition of its on-balance and off-balance sheet assets.

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 7 Capital management (Continued)

The Group complied with the externally imposed capital requirements to which it is subject. The table below summarises the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio<sup>(1)</sup> as at 31 December 2013:

Group	31 December 2013
<b>Common equity tier 1 capital adequacy ratio</b>	<b>9.69%</b>
<b>Tier 1 capital adequacy ratio</b>	<b>9.70%</b>
<b>Capital adequacy ratio</b>	<b>12.46%</b>
<b>Composition of the Group's capital base</b>	
Common equity tier 1 capital	925,037
Common shares	279,365
Capital reserve	111,507
Surplus reserve	79,868
General reserve	144,434
Undistributed profits	303,053
Eligible portion of minority interests	25,225
Other <sup>(2)</sup>	(18,415)
Regulatory deductions	(12,089)
Goodwill	(96)
Other intangible assets (except land use rights)	(3,887)
Gains on sales related to securitisation transactions	(60)
Direct or indirect investments in own shares	(28)
Reserve relating to cash-flow hedge items not measured at fair value	(1)
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation	(8,017)
<b>Net common equity tier 1 capital</b>	<b>912,948</b>
Additional tier 1 capital	698
Eligible portion of minority interests	698
<b>Net tier 1 capital</b>	<b>913,646</b>
Tier 2 capital	262,768
Tier 2 capital instruments issued and related premium	148,102
Excess loan loss provisions	94,778
Eligible portion of minority interests	19,888
Regulatory deductions	(3,067)
Significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation	(3,067)
<b>Net capital</b>	<b>1,173,347</b>
<b>Risk-weighted assets</b>	<b>9,418,726</b>

## VI FINANCIAL RISK MANAGEMENT (Continued)

### 7 Capital management (Continued)

- (1) When calculating the capital adequacy ratios, Bank of China Group Investment Limited, Bank of China Insurance Company Limited, Bank of China Group Insurance Company Limited and Bank of China Group Life Assurance Company Limited were excluded from the scope of subsidiary consolidation in accordance with requirements of CBRC.
- (2) Other is the foreign currency translation reserve.

The Group's core capital adequacy ratio and capital adequacy ratio were 10.54% and 13.63%, respectively, as at 31 December 2012, which were calculated in accordance with *Regulation Governing Capital Adequacy of Commercial Banks*.

### 8 Insurance risk

Insurance contracts are mainly sold in Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

# Unaudited Supplementary Financial Information

(Amount in millions of Renminbi, unless otherwise stated)

According to Hong Kong Listing Rules and disclosure regulations of the banking industry, the Group discloses the following supplementary financial information:

## 1 LIQUIDITY RATIOS

	As at 31 December	
	2013	2012
RMB current assets to RMB current liabilities	<b>48.00%</b>	49.85%
Foreign currency current assets to foreign currency current liabilities	<b>62.16%</b>	65.16%

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and the CBRC. Financial data as at 31 December 2013 and 2012 is based on Chinese Accounting Standards 2006 ("CAS").

## 2 CURRENCY CONCENTRATIONS

The following information is computed in accordance with the provisions of the CBRC.

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
<b>As at 31 December 2013</b>				
Spot assets	<b>1,110,052</b>	<b>24,075</b>	<b>158,852</b>	<b>1,292,979</b>
Spot liabilities	<b>(760,343)</b>	<b>(211,491)</b>	<b>(376,382)</b>	<b>(1,348,216)</b>
Forward purchases	<b>985,290</b>	<b>206,032</b>	<b>449,683</b>	<b>1,641,005</b>
Forward sales	<b>(1,306,521)</b>	<b>(69,650)</b>	<b>(248,263)</b>	<b>(1,624,434)</b>
Net options position*	<b>6,296</b>	<b>524</b>	<b>(258)</b>	<b>6,562</b>
Net long/(short) position	<b>34,774</b>	<b>(50,510)</b>	<b>(16,368)</b>	<b>(32,104)</b>
Net structural position	<b>20,498</b>	<b>107,204</b>	<b>36,379</b>	<b>164,081</b>
<b>As at 31 December 2012</b>				
Spot assets	1,080,354	20,700	270,823	1,371,877
Spot liabilities	(746,660)	(230,636)	(303,685)	(1,280,981)
Forward purchases	876,526	232,423	443,453	1,552,402
Forward sales	(1,182,702)	(58,725)	(422,891)	(1,664,318)
Net options position*	(7,286)	79	(1,936)	(9,143)
Net long/(short) position	20,232	(36,159)	(14,236)	(30,163)
Net structural position	19,191	103,566	31,688	154,445

\* The net option position is calculated using the delta equivalent approach as set out in the requirements of the CBRC.

### 3 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Chinese mainland, and regards all claims on third parties outside Chinese mainland as cross-border claims.

Cross-border claims include “Balances with central banks”, “Placements with and loans to banks and other financial institutions”, “Government certificates of indebtedness for bank notes issued”, “Financial assets at fair value through profit or loss”, “Loans and advances to customers, net” and “Investment securities”.

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Public sector entities	Other*	Total
<b>As at 31 December 2013</b>				
Asia Pacific excluding Chinese mainland				
Hong Kong	25,849	5,130	720,915	751,894
Other Asia Pacific locations	84,934	19,287	217,214	321,435
Subtotal	110,783	24,417	938,129	1,073,329
North and South America	45,397	29,532	199,494	274,423
Europe	64,045	9,785	65,807	139,637
Middle East and Africa	3,948	655	9,901	14,504
Total	224,173	64,389	1,213,331	1,501,893
<b>As at 31 December 2012</b>				
Asia Pacific excluding Chinese mainland				
Hong Kong	14,044	5,849	661,357	681,250
Other Asia Pacific locations	97,126	22,884	245,279	365,289
Subtotal	111,170	28,733	906,636	1,046,539
North and South America	92,604	33,351	321,796	447,751
Europe	80,018	9,335	116,355	205,708
Middle East and Africa	4,682	134	15,738	20,554
Total	288,474	71,553	1,360,525	1,720,552

\* Claims on the government entities are included in “Other”.

## 4 OVERDUE ASSETS

For the purpose of the table below, the entire outstanding balance of “Loans and advances to customers” and “Placements with and loans to banks and other financial institutions” are considered overdue if either principal or interest payment is overdue.

### (1) Total amount of overdue loans and advances to customers

	As at 31 December	
	2013	2012
Total loans and advances to customers which have been overdue		
within 3 months	<b>34,415</b>	29,819
between 3 and 6 months	<b>9,277</b>	5,188
between 6 and 12 months	<b>12,480</b>	7,691
over 12 months	<b>31,941</b>	32,197
Total	<b>88,113</b>	74,895
Percentage		
within 3 months	<b>0.45%</b>	0.43%
between 3 and 6 months	<b>0.12%</b>	0.08%
between 6 and 12 months	<b>0.17%</b>	0.11%
over 12 months	<b>0.42%</b>	0.47%
Total	<b>1.16%</b>	1.09%

### (2) Total amount of overdue Placements with and loans to banks and other financial institutions

The total amount of overdue “Placements with and loans to banks and other financial institutions” as at 31 December 2013 and 2012 is not considered material.

# Supplementary Information — Differences Between CAS and IFRS Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

## DIFFERENCES BETWEEN CAS AND IFRS CONSOLIDATED FINANCIAL STATEMENTS

There are no differences in the Group's operating results for the years ended 31 December 2013 and 2012 or total equity as at 31 December 2013 and 2012 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

# Reference for Shareholders

## Financial Calendar for 2014

2013 annual results	To be announced on 26 March 2014
Annual report of 2013	To be printed and dispatched to H-Share Holders in late April 2014
Annual General Meeting of 2013	To be held on 12 June 2014
2014 interim results	To be announced no later than 31 August 2014

## Annual General Meeting

The Bank's 2013 Annual General Meeting is scheduled to be held at Bank of China Head Office, No.1 Fuxingmen Nei Dajie, Beijing, China and at the Grand Hyatt Hong Kong, 1 Harbor Road, Hong Kong at 9:30 a.m. on Thursday, 12 June 2014.

## Dividends

The Board of Directors recommended a final dividend of RMB0.196 per share (before tax), subject to the approval of shareholders at the 2013 Annual General Meeting.

## Securities Information

### Listing

The Bank's ordinary shares were listed on the Hong Kong Stock Exchange and SSE on 1 June and 5 July 2006 respectively. The RMB40 billion A-Share Convertible Bonds of the Bank were listed on SSE on 18 June 2010.

### Ordinary Shares

Issued shares: 279,364,552,437 shares (as at 31 December 2013)

Including:

A Share: 195,742,276,042 shares

H Share: 83,622,276,395 shares

### A-Share Convertible Bonds

Total amount of the issued Convertible Bonds: RMB40 billion

### Market Capitalisation

As at the last trading day in 2013 (31 December for both H Shares and A Shares), the Bank's market capitalisation was RMB747.559 billion (based on the closing price of H Shares and A Shares on 31 December 2013, and exchange rate HKD100 = RMB78.623 as published by SAFE on 31 December 2013).

### Securities Price

	Closing price on 31 December 2013	Highest trading price in the year	Lowest trading price in the year
A Share	RMB2.62	RMB3.26	RMB2.48
H Share	HKD3.57	HKD4.00	HKD2.96
A-Share Convertible Bond	RMB96.98	RMB105.80	RMB96.35

### Securities Code

#### H Share

Stock name: Bank of China

Hong Kong Stock Exchange 3988

Reuters 3988.HK

Bloomberg 3988 HK

#### A Share

Stock name: 中國銀行

Shanghai Stock Exchange 601988

Reuters 601988.SS

Bloomberg 601988 CH

### A-Share Convertible Bonds

Securities Name: 中行轉債	
Shanghai Stock Exchange	113001
Reuters	113001.SS
Bloomberg	113001 CH

### Shareholder Enquiry

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, please write to the Bank at the following address:

#### H-Share Holders

Computershare Hong Kong Investor Services Limited  
17M, Hopewell Centre,  
183 Queen's Road East,  
Wanchai, Hong Kong  
Telephone: (852) 2862 8555  
Facsimile: (852) 2865 0990

#### A-Share Holders

Shanghai Branch of China Securities Depository and  
Clearing Corporation Limited  
36F, China Insurance Building,  
166 East Lujiazui Road,  
Pudong New Area, Shanghai  
Telephone: (86) 21-3887 4800

### Credit Rating (Long Term, Foreign Currency)

Standard & Poor's Ratings Services:	A
Moody's Investors Service:	A1
Fitch Ratings:	A
Rating and Investment Information, Inc.:	A
Dagong Global Credit Rating Co., Ltd. (RMB):	AAA

### Index Constituents

Hang Seng Index	Dow Jones Index Series
Hang Seng China H-Financial Index	S&P Index Series
Hang Seng China Enterprises Index	Bloomberg Index Series
Hang Seng China A Industry Top Index	Shanghai Stock Exchange Index Series
Hang Seng Composite Index (HSCI) Series	FTSE/Xinhua China 25 Index
Hang Seng Corporate Sustainability Index Series	FTSE/Xinhua Hong Kong Index
MSCI China Index Series	FTSE Index Series
CITIC S&P Index Series	

### Investor Enquiry

Investor Relations Team, Board Secretariat, Bank of China Limited  
8/F, Bank of China Building, 1 Fuxingmen Nei Dajie, Beijing, China  
Telephone: (86) 10-6659 2638  
Facsimile: (86) 10-6659 4568  
E-mail: [ir@bankofchina.com](mailto:ir@bankofchina.com)

### Other Information

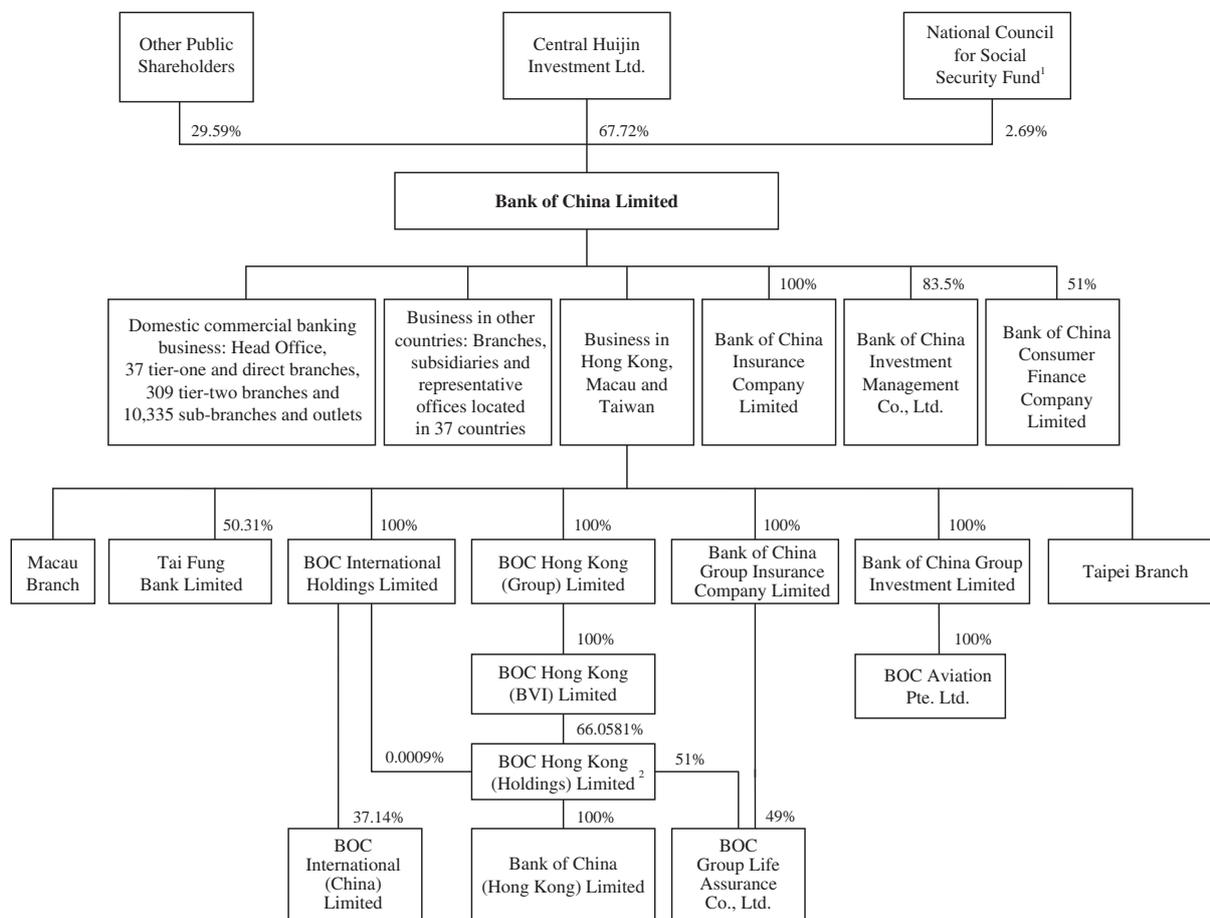
You may write to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the annual report prepared under IFRS or go to the Bank's major business locations for copies prepared under CAS.

The Chinese and/or English versions of the annual report for 2013 are also available on the following websites: [www.boc.cn](http://www.boc.cn), [www.sse.com.cn](http://www.sse.com.cn) and [www.hkexnews.hk](http://www.hkexnews.hk).

Should you have any queries about how to obtain copies of this annual report or access the document on the Bank's website, please dial the Bank's H-Share Registrar at (852) 2862 8688 or the Bank's hotlines at (86) 10-6659 2638.

# Organisational Chart

The organisational chart of the Group as at 31 December 2013 is as follows:



Notes:

- 1 The proportion of H Shares held by National Council for Social Security Fund is based on the interest recorded in the register maintained by the Bank pursuant to section 336 of the SFO. For details, please refer to the section "Changes in Share Capital and Shareholdings of Shareholders — Substantial Shareholder Interests".
- 2 Listed on the Hong Kong Stock Exchange.

# List of Major Branches and Subsidiaries

## MAJOR BRANCHES AND SUBSIDIARIES IN CHINESE MAINLAND

### HEAD OFFICE

1 FUXINGMEN NEI DAJIE,  
BEIJING,  
CHINA  
SWIFT: BKCHCNBJ  
TLX: 22254 BCHO CN  
TEL: (86) 010-66596688  
FAX: (86) 010-66016871  
POST CODE: 100818  
WEBSITE: www.boc.cn

### BEIJING BRANCH

A,C,E KAIHENG CENTER,  
2 CHAOYANGMEN NEI DAJIE,  
DONGCHENG DISTRICT,  
BEIJING,  
CHINA  
SWIFT: BKCHCNBJ110  
TEL: (86) 010-85122288  
FAX: (86) 010-85121739  
POST CODE: 100010

### TIANJIN BRANCH

8 YOUYI NORTH ROAD,  
HEXI DISTRICT,  
TIANJIN,  
CHINA  
SWIFT: BKCHCNBJ200  
TEL: (86) 022-27108001  
FAX: (86) 022-23312805  
POST CODE: 300204

### HEBEI BRANCH

28 ZIQIANG ROAD,  
SHUIJIAZHANG,  
HEBEI PROV.,  
CHINA  
SWIFT: BKCHCNBJ220  
TEL: (86) 0311-69696681  
FAX: (86) 0311-69696692  
POST CODE: 050001

### SHANXI BRANCH

186 PINGYANG ROAD,  
XIAODIAN DISTRICT,  
TAINYUAN,  
SHANXI PROV.,  
CHINA  
SWIFT: BKCHCNBJ680  
TEL: (86) 0351-8266016  
FAX: (86) 0351-8266021  
POST CODE: 030006

### INNER MONGOLIA BRANCH

12 XINHUA DAJIE,  
XIN CHENG DISTRICT,  
HUHHOT,  
INNER MONGOLIA  
AUTONOMOUS REGION,  
CHINA  
SWIFT: BKCHCNBJ880  
TEL: (86) 0471-4690052  
FAX: (86) 0471-4690001  
POST CODE: 010010

### LIAONING BRANCH

9 ZHONGSHAN SQUARE,  
ZHONGSHAN DISTRICT,  
DALIAN,  
LIAONING PROV.,  
CHINA  
SWIFT: BKCHCNBJ810  
TEL: (86) 0411-82586666  
FAX: (86) 0411-82637098  
POST CODE: 116001

### JILIN BRANCH

699 XI AN DA LU,  
CHANGCHUN,  
JILIN PROV.,  
CHINA  
SWIFT: BKCHCNBJ840  
TEL: (86) 0431-88408888  
FAX: (86) 0431-88408901  
POST CODE: 130061

### HEILONGJIANG BRANCH

19 HONGJUN STREET,  
NANGANG DISTRICT,  
HARBIN,  
HEILONGJIANG PROV.,  
CHINA  
SWIFT: BKCHCNBJ860  
TEL: (86) 0451-53636890  
FAX: (86) 0451-53624147  
POST CODE: 150001

### SHANGHAI BRANCH

200 MID. YINCHENG RD.,  
PUDONG NEW DISTRICT,  
SHANGHAI,  
CHINA  
SWIFT: BKCHCNBJ300  
TLX: 33062 BOC SH CN  
TEL: (86) 021-50375566  
FAX: (86) 021-50372911  
POST CODE: 200120

### JIANGSU BRANCH

148 ZHONG SHAN NAN LU,  
NANJING,  
JIANGSU PROV.,  
CHINA  
SWIFT: BKCHCNBJ940  
TLX: 34116 BOC JS CN  
TEL: (86) 025-84207888  
FAX: (86) 025-84206082  
POST CODE: 210005

### ZHEJIANG BRANCH

321 FENG QI ROAD,  
HANGZHOU,  
ZHEJIANG PROV.,  
CHINA  
SWIFT: BKCHCNBJ910  
TEL: (86) 0571-85011888  
FAX: (86) 0571-87074837  
POST CODE: 310003

### ANHUI BRANCH

313 MID. CHANGJIANG ROAD,  
HEFEI,  
ANHUI PROV.,  
CHINA  
SWIFT: BKCHCNBJ780  
TEL: (86) 0551-2926995  
FAX: (86) 0551-2926993  
POST CODE: 230061

### FUJIAN BRANCH

BOC BLDG., 136 WUSI ROAD,  
FUZHOU,  
FUJIAN PROV.,  
CHINA  
SWIFT: BKCHCNBJ720  
TLX: 92109 BOC FJ CN  
TEL: (86) 0591-87090999  
FAX: (86) 0591-87090111  
POST CODE: 350003

### JIANGXI BRANCH

1 ZHANQIAN WEST ROAD,  
NANCHANG,  
JIANGXI PROV.,  
CHINA  
SWIFT: BKCHCNBJ550  
TEL: (86) 0791-86471503  
FAX: (86) 0791-86471505  
POST CODE: 330002

### SHANDONG BRANCH

59 MID. XIANGGANG ZHONG LU,  
QINGDAO,  
SHANDONG PROV.,  
CHINA  
SWIFT: BKCHCNBJ500  
TEL: (86) 0532-81858000  
FAX: (86) 0532-85818243  
POST CODE: 266071

### HENAN BRANCH

3-1 BUSINESS OUTER RING ROAD,  
ZHENGDDONG NEW DISTRICT,  
ZHENGZHOU,  
HENAN PROV.,  
CHINA  
SWIFT: BKCHCNBJ530  
TEL: (86) 0371-87008888  
FAX: (86) 0371-87007888  
POST CODE: 450008

### HUBEI BRANCH

677 JIANSHE ROAD,  
WUHAN,  
HUBEI PROV.,  
CHINA  
SWIFT: BKCHCNBJ600  
TEL: (86) 027-85562866  
(86) 027-85562959  
FAX: (86) 027-85562955  
POST CODE: 430022

### HUNAN BRANCH

593 MID. FURONG ROAD  
(1 DUAN),  
CHANGSHA,  
HUNAN PROV.,  
CHINA  
SWIFT: BKCHCNBJ970  
TEL: (86) 0731-82580703  
FAX: (86) 0731-82580707  
POST CODE: 410005

### GUANGDONG BRANCH

197-199 DONGFENG XI LU,  
GUANGZHOU,  
GUANGDONG PROV.,  
CHINA  
SWIFT: BKCHCNBJ400  
TLX: 441042 GZBOC CN  
TEL: (86) 020-83338080  
FAX: (86) 020-83347666  
POST CODE: 510180

### GUANGXI BRANCH

39 GUCHENG ROAD,  
NANNING,  
GUANGXI ZHUANG  
AUTONOMOUS REGION,  
CHINA  
SWIFT: BKCHCNBJ480  
TLX: 48122 BOC GX CN  
TEL: (86) 0771-2879809  
FAX: (86) 0771-2813844  
POST CODE: 530022

### HAINAN BRANCH

29, 31 DATONG ROAD,  
LONGHUA DISTRICT,  
HAIKOU,  
HAINAN PROV.,  
CHINA  
SWIFT: BKCHCNBJ740  
TEL: (86) 0898-66562023  
FAX: (86) 0898-66562040  
POST CODE: 570102

### SICHUAN BRANCH

35 MID. RENMIN ROAD  
(2 DUAN),  
CHENGDU,  
SICHUAN PROV.,  
CHINA  
SWIFT: BKCHCNBJ570  
TEL: (86) 028-86741950  
FAX: (86) 028-86403346  
(86) 028-86744859  
POST CODE: 610031

# List of Major Branches and Subsidiaries

## GUIZHOU BRANCH

BOC BLDG., 347 RUIJIN SOUTH ROAD,  
GUIYANG,  
GUIZHOU PROV.,  
CHINA  
SWIFT: BKCHCNBJ240  
TEL: (86) 0851-5822419  
FAX: (86) 0851-5825770  
POST CODE: 550002

## YUNNAN BRANCH

515 BEIJING ROAD,  
KUNMING,  
YUNNAN PROV.,  
CHINA  
SWIFT: BKCHCNBJ640  
TEL: (86) 0871-63192915  
FAX: (86) 0871-63175553  
POST CODE: 650051

## TIBET BRANCH

7 LINKUO XI LU,  
LHASA,  
TIBET AUTONOMOUS  
REGION,  
CHINA  
SWIFT: BKCHCNBJ900  
TEL: (86) 0891-6835311  
FAX: (86) 0891-6835311  
POST CODE: 850000

## SHAANXI BRANCH

246 DONGXIN JIE,  
XINCHENG DISTRICT,  
XI'AN,  
SHAANXI PROV.,  
CHINA  
SWIFT: BKCHCNBJ620  
TEL: (86) 029-87509999  
FAX: (86) 029-87509922  
POST CODE: 710005

## GANSU BRANCH

525 TIANSHUI SOUTH ROAD,  
CHENGGUAN DISTRICT  
LANZHOU,  
GANSU PROV.,  
CHINA  
SWIFT: BKCHCNBJ660  
TEL: (86) 0931-8837809  
FAX: (86) 0931-8837809  
POST CODE: 730000

## QINGHAI BRANCH

218 DONGGUAN STREET,  
CHENG DONG DISTRICT,  
XINING,  
QINGHAI PROV.,  
CHINA  
SWIFT: BKCHCNBJ280  
TEL: (86) 0971-8178888  
FAX: (86) 0971-8174971  
POST CODE: 810000

## NINGXIA BRANCH

39 XINCHANG EAST ROAD,  
JINFENG DISTRICT,  
YINCHUAN,  
NINGXIA HUI  
AUTONOMOUS REGION,  
CHINA  
SWIFT: BKCHCNBJ260  
TEL: (86) 0951-5681501  
FAX: (86) 0951-5681509  
POST CODE: 750002

## XINJIANG BRANCH

1 DONGFENG ROAD,  
URUMQI,  
XINJIANG UYGUR  
AUTONOMOUS REGION,  
CHINA  
SWIFT: BKCHCNBJ760  
TEL: (86) 0991-2328888  
FAX: (86) 0991-2825095  
POST CODE: 830002

## CHONGQING BRANCH

218 ZHONG SHAN YI ROAD,  
YU ZHONG DISTRICT,  
CHONGQING,  
CHINA  
SWIFT: BKCHCNBJ59A  
TEL: (86) 023-63889234  
(86) 023-63889461  
FAX: (86) 023-63889217  
POST CODE: 400013

## SHENZHEN BRANCH

INTERNATIONAL FINANCE  
BUILDING,  
2022 JIANSHE ROAD,  
LUOHU DISTRICT, SHENZHEN,  
GUANGDONG PROV.,  
CHINA  
SWIFT: BKCHCNBJ45A  
TEL: (86) 0755-22338888  
FAX: (86) 0755-82259209  
POST CODE: 518001

## SUZHOU BRANCH

188 GANJIANG WEST ROAD,  
SUZHOU,  
JIANGSU PROV.,  
CHINA  
SWIFT: BKCHCNBJ95B  
TEL: (86) 0512-65113558  
FAX: (86) 0512-65114906  
POST CODE: 215002

## NINGBO BRANCH

139 YAOHANG JIE,  
NINGBO,  
ZHEJIANG PROV.,  
CHINA  
SWIFT: BKCHCNBJ92A  
TEL: (86) 0574-87196666  
FAX: (86) 0574-87198889  
POST CODE: 315000

## JINAN BRANCH

NO.22 LUO YUAN STREET,  
JINAN,  
CHINA  
SWIFT: BKCHCNBJ51B  
TEL: (86) 0531-86995099  
FAX: (86) 0531-86995099  
POST CODE: 250063

## XIAMEN BRANCH

BANK OF CHINA BUILDING  
NO.40 NORTH HUBIN ROAD,  
XIAMEN,  
CHINA  
SWIFT: BKCHCNBJ73A  
TEL: (86) 0592-5066417  
FAX: (86) 0592-5095130  
POST CODE: 361012

## SHENYANG BRANCH

253 SHIFU ROAD,  
SHENHE DISTRICT,  
SHENYANG,  
LIAONING PROV.,  
CHINA  
SWIFT: BKCHCNBJ82A  
TEL: (86) 024-22810827  
FAX: (86) 024-22857333  
POST CODE: 110013

## BANK OF CHINA INSURANCE COMPANY LIMITED

8-9F EXCEL CENTER  
NO.6 WUDINGHOU STREET,  
BEIJING,  
CHINA  
TEL: (86) 010-66538000  
FAX: (86) 010-66538001  
POST CODE: 100033  
WEBSITE: www.bocins.com

## BANK OF CHINA INVESTMENT MANAGEMENT CO., LTD

45/F, BOC BUILDING  
200 MID. YINCHENG ROAD,  
PUDONG NEW DISTRICT,  
SHANGHAI,  
CHINA  
TEL: (86) 021-38834999  
FAX: (86) 021-68873488  
POST CODE: 200120  
WEBSITE: www.bocim.com

## BANK OF CHINA CONSUMER FINANCE COMPANY LIMITED

1409#, BOC BUILDING  
200 MID. YINCHENG ROAD,  
PUDONG NEW DISTRICT,  
SHANGHAI,  
CHINA  
TEL: (86) 021-63291680  
FAX: (86) 021-63291789  
POST CODE: 200120  
WEBSITE: www.boccf.cn  
EMAIL: boccfadmin@boccf.cn

## BOC INTERNATIONAL (CHINA) LIMITED

39/F, BOC BUILDING  
200 MID. YINCHENG ROAD,  
PUDONG NEW DISTRICT,  
SHANGHAI,  
CHINA  
TEL: (86) 021-20328000  
FAX: (86) 021-58883554  
POST CODE: 200120  
WEBSITE: www.bocichina.com  
EMAIL: admindiv.china@bcogroup.com

## MAJOR BRANCHES AND SUBSIDIARIES IN HONG KONG, MACAU AND TAIWAN

### BOC HONG KONG (HOLDINGS) LIMITED

52/F, BANK OF CHINA TOWER,  
1 GARDEN ROAD,  
HONG KONG  
TEL: (852) 28462700  
FAX: (852) 28105830  
WEBSITE: www.bochk.com

### BOC INTERNATIONAL HOLDINGS LIMITED

26/F, BANK OF CHINA TOWER,  
1 GARDEN ROAD,  
HONG KONG  
TEL: (852) 39886000  
FAX: (852) 21479065  
WEBSITE: www.bocigroup.com  
EMAIL: Info@bcogroup.com

### HONG KONG BRANCH

8/F, BANK OF CHINA TOWER,  
1 GARDEN ROAD,  
HONG KONG  
TEL: (852) 28101203  
FAX: (852) 25377609

### BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

9/F, WING ON HOUSE,  
71 DES VOELUX ROAD CENTRAL,  
HONG KONG  
TEL: (852) 28670888  
FAX: (852) 25221705  
WEBSITE: www.bocgroup.com/bocg-ins  
EMAIL: info\_ins@bcogroup.com

### BANK OF CHINA GROUP INVESTMENT LIMITED

23/F, BANK OF CHINA TOWER,  
1 GARDEN ROAD,  
HONG KONG  
TEL: (852) 22007500  
FAX: (852) 28772629  
WEBSITE: www.bocgi.com  
EMAIL: bocginv\_bgi@bcogroup.com

# List of Major Branches and Subsidiaries

## BOC GROUP LIFE ASSURANCE CO., LTD.

13-21/F, BOC GROUP LIFE  
ASSURANCE TOWER,  
136 DES VOEUX ROAD  
CENTRAL,  
HONG KONG  
TEL: (852) 28629898  
FAX: (852) 28660938  
WEBSITE: www.bocgroup.com/bocg-life  
EMAIL: boc\_life@bocgroup.com

## MACAU BRANCH

BANK OF CHINA BUILDING,  
AVENIDA DOUTOR MARIO  
SOARES,  
MACAU  
SWIFT: BKCHMOMX  
TEL: (853) 28781828  
FAX: (853) 28781833  
WEBSITE: www.bocmacau.com

## TAI FUNG BANK LIMITED

418, ALAMEDA DR. CARLOS,  
d'ASSUMPÇÃO,  
MACAU  
TEL: (853) 28322323  
FAX: (853) 28570737  
WEBSITE: www.taifungbank.com  
EMAIL: tfbsecr@taifungbank.com

## TAIPEI BRANCH

1,2,4/F, NO.105, SONGREN RD.,  
XINYI DIST., TAIPEI CITY,  
TAIWAN  
TEL: (886) 2-27585600  
FAX: (886) 2-27581598  
EMAIL: service.tw@bankofchina.com

## MAJOR BRANCHES AND SUBSIDIARIES IN OTHER COUNTRIES

## ASIA-PACIFIC AREA

### SINGAPORE BRANCH

4 BATTERY ROAD,  
BANK OF CHINA BUILDING,  
SINGAPORE 049908  
SWIFT: BKCHSGSG  
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FAX: (65) 65343401  
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### TOKYO BRANCH

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MINATO-KU, TOKYO  
107-0052  
JAPAN  
SWIFT: BKCHJPJT  
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FAX: (813) 35058433  
EMAIL: service.jp@bankofchina.com

### SEOUL BRANCH

41, CHEONG GYE CHEON-RO,  
JONGNO-GU,  
(1/2F., YOUNG POONG BLDG.,  
33 SEOLIN-DONG)  
SEOUL,  
KOREA  
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FAX: (822) 3996265/3995938

## BANGKOK BRANCH

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TUNGMAHAMEK  
SATHORN DISTRICT,  
BANGKOK 10120,  
THAILAND  
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TEL: (662) 2861010  
FAX: (662) 2861020  
EMAIL: service.th@bankofchina.com

## BANK OF CHINA (MALAYSIA) BERHAD

GROUND, MEZZANINE, &  
1st FLOOR PLAZA OSK,  
25 JALAN AMPANG  
50450 KUALA LUMPUR,  
MALAYSIA  
SWIFT: BKCHMYKL  
TEL: (603) 21626633  
FAX: (603) 21615150  
EMAIL: service.my@bankofchina.com

## HO CHI MINH CITY BRANCH

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115 NGUYEN HUE BLVD.,  
DISTRICT 1  
HO CHI MINH CITY,  
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TEL: (848) 38219949  
FAX: (848) 38219948  
EMAIL: service.vn@bankofchina.com

## MANILA BRANCH

G/F. & 36/F.  
PHILAMLIFE TOWER  
8767 PASEO DE ROXAS,  
MAKATI CITY  
MANILA,  
PHILIPPINES  
SWIFT: BKCHPHMM  
TEL: (632) 8850111  
FAX: (632) 8850532  
EMAIL: service.ph@bankofchina.com

## JAKARTA BRANCH

TAMARA CENTER  
SUITE 101, 201 & 1101,  
JALAN JEND.  
SUDIRMAN KAV. 24  
JAKARTA 12920,  
INDONESIA  
SWIFT: BKCHIDJA  
TEL: (6221) 5205502  
FAX: (6221) 5201113  
EMAIL: service.id@bankofchina.com

## SYDNEY BRANCH

39-41 YORK STREET,  
SYDNEY NSW 2000,  
AUSTRALIA  
SWIFT: BKCHAU2S  
TEL: (612) 82355888  
FAX: (612) 92621794  
EMAIL: service.au@bankofchina.com

## BANK OF CHINA (AUSTRALIA) LIMITED

39-41 YORK STREET,  
SYDNEY NSW 2000,  
AUSTRALIA  
SWIFT: BKCHAU2A  
TEL: (612) 82355888  
FAX: (612) 92621794  
EMAIL: service.au@bankofchina.com

## JSC AB <BANK OF CHINA KAZAKHSTAN>

71B, MICRODISTRICT  
ZHETYSU-2,  
AUEZOV DISTRICT, 050063,  
ALMATY,  
REPUBLIC OF KAZAKHSTAN  
SWIFT: BKCHKZKA  
TEL: (7727) 2585510  
FAX: (7727) 2585514/2501896

## PHNOM PENH BRANCH

CANADIA TOWER, 1st & 2nd FLOOR,  
#315 ANG DOUNG St.  
(CORNER OF MONIVONG  
BLVD.)  
P.O.BOX 110, PHNOM PENH,  
CAMBODIA  
SWIFT: BKCHKHPP  
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FAX: (85523) 988 880  
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ULAAANBAATAR,  
MONGOLIA  
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FAX: (976) 70100898

## BAHRAIN REPRESENTATIVE OFFICE

OFFICE 1502, AL JASRAH TOWER,  
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BLOCK 317,  
P.O.BOX: 10059  
MANAMA  
KINGDOM OF BAHRAIN  
TEL: (973) 17531119  
FAX: (973) 17531009  
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## DUBAI REPRESENTATIVE OFFICE

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SHEIKH ZAYED ROAD,  
EMIRATE OF DUBAI,  
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FAX: (9714) 332 8878  
EMAIL: service.ae@bankofchina.com

## BANK OF CHINA MIDDLE EAST (DUBAI) LIMITED

LEVEL 11 TOWER 2, AL FATTAN CURRENCY HOUSE  
DUBAI INTERNATIONAL FINANCIAL CENTRE  
P.O. BOX 118842  
DUBAI, UAE  
SWIFT: BKCHAEAD  
TEL: (9714) 3819100  
FAX: (9714) 3880778  
EMAIL: service.ae@bankofchina.com

## ISTANBUL REPRESENTATIVE OFFICE

BUYUKDERE CAD. NO.185  
KANYON OFIS BLOGU K.15,  
34394 LEVENT, ISTANBUL,  
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FAX: (90) 212-2798866  
EMAIL: service.tr@bankofchina.com

## BOC AVIATION PTE. LTD

8 SHENTON WAY #18-01  
SINGAPORE 068811  
TEL: (65) 63235559  
FAX: (65) 63236962  
WEBSITE: www.bocaviation.com

# List of Major Branches and Subsidiaries

## EUROPE

### LONDON BRANCH

ONE LOTHBURY,  
LONDON EC2R 7DB,  
U.K.  
SWIFT: BKCHGB2L  
TLX: 886935 BKCHI G  
TEL: (4420) 72828888  
FAX: (4420) 76263892  
WEBSITE: <http://www.bankofchina.com/uk/>  
EMAIL: [service.uk@bankofchina.com](mailto:service.uk@bankofchina.com)

### BANK OF CHINA (UK) LIMITED

ONE LOTHBURY,  
LONDON EC2R 7DB,  
U.K.  
SWIFT: BKCHGB2U  
TEL: (4420) 72828888  
FAX: (4420) 79293674

### BOC AVIATION (IRELAND) LIMITED

RIVERSIDE ONE  
SIR JOHN ROGERSON'S QUAY  
DUBLIN 2  
REPUBLIC OF IRELAND  
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FAX: (353) 1 829 0010  
WEBSITE: [www.bocaviation.com](http://www.bocaviation.com)

### PARIS BRANCH

23-25 AVENUE DE LA GRANDE ARMEE  
75116 PARIS,  
FRANCE  
SWIFT: BKCHFRPP  
TLX: 281 090 BDCSP  
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FAX: (331) 49701372

### FRANKFURT BRANCH

BOCKENHEIMER LANDSTR. 24  
60323 FRANKFURT AM MAIN,  
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FAX: (4969) 170090500  
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### LUXEMBOURG BRANCH

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EMAIL: [service.lu@bankofchina.com](mailto:service.lu@bankofchina.com)

### BANK OF CHINA (LUXEMBOURG) S.A.

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HENRI L-1724 LUXEMBOURG  
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LUXEMBOURG  
TEL: (352) 228777  
FAX: (352) 228776

### BANK OF CHINA (LUXEMBOURG) S.A., BRUSSELS BRANCH

20 AVENUE DES ARTS,  
1000, BRUSSELS,  
BELGIUM  
SWIFT: BKCHBEBB  
TEL: (32) 4056688  
FAX: (32) 2302892  
EMAIL: [service.be@bankofchina.com](mailto:service.be@bankofchina.com)

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3012KH ROTTERDAM,  
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114 34 STOCKHOLM,  
SWEDEN  
SWIFT: BKCHSESS  
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FAX: (46) 107888801  
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FAX: (48) 224178777  
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### BANK OF CHINA (LUXEMBOURG) S.A. LISBON BRANCH

RUA DUQUE DE PALMELA  
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TEL: (351) 210495710  
FAX: (351) 210495738/39  
EMAIL: [service.pt@bankofchina.com](mailto:service.pt@bankofchina.com)

### MILAN BRANCH

VIA SANTA MARGHERITA,  
14/16 20121  
MILAN,  
ITALY  
SWIFT: BKCHITMM  
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FAX: (3902) 89013411

### BANK OF CHINA (HUNGARY) CLOSE LTD.

7 JOZSEF NADOR TER,  
1051 BUDAPEST,  
HUNGARY  
SWIFT: BKCHHUHB  
TEL: (361) 4299200  
FAX: (361) 4299202

### BANK OF CHINA (ELUOSI)

72, PROSPEKT MIRA,  
129110 MOSCOW,  
RUSSIA  
SWIFT: BKCHRUUM  
TLX: 413973 BOCR RU  
TEL: (7495) 7950451  
FAX: (7495) 7950454  
WEBSITE: [www.bankofchina.com/ru/](http://www.bankofchina.com/ru/)

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TLX: 661723BKCHI  
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FAX: (1212) 5931831

### BANK OF CHINA (CANADA)

SUITE 600,  
50 MINTHORN BOULEVARD  
MARKHAM, L3T7X8 ONTARIO,  
CANADA  
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FAX: (1905) 7718555  
EMAIL: [service.ca@bankofchina.com](mailto:service.ca@bankofchina.com)

### GRAND CAYMAN BRANCH

GRAND PAVILION COMMERCIAL CENTER  
802 WEST BAY ROAD,  
P.O. BOX 30995,  
GRAND CAYMAN KY1-1204  
CAYMAN ISLANDS  
SWIFT: BKCHKYKY  
TEL: (1345) 9452000  
FAX: (1345) 9452200

### PANAMA BRANCH

P.O. BOX 0823-01030,  
CALLE MANUEL  
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REPUBLIC OF PANAMA  
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TEL: (507) 2635522  
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### BANCO DA CHINA BRASIL S.A.

R. FREI CANECA, 1332,  
CEP01307-002, CONSOLACAO,  
SAO PAULO, SP,  
BRASIL  
SWIFT: BKCHBRSP  
TEL: (5511) 35083200  
FAX: (5511) 35083299

## AFRICA

### JOHANNESBURG BRANCH

14th-16th FLOORS,  
ALICE LANE TOWERS,  
15 ALICE LANE, SANDTON,  
JOHANNESBURG,  
SOUTH AFRICA  
SWIFT: BKCHZAJJ  
TEL: (2711) 5209600  
FAX: (2711) 7832336  
WEBSITE: [www.boc.co.za](http://www.boc.co.za)

### BANK OF CHINA (ZAMBIA) LIMITED

PLOT NO. 2339,  
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LUSAKA,  
ZAMBIA  
SWIFT: BKCHZMLU  
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FAX: (260211) 236782  
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### NAIROBI REPRESENTATIVE OFFICE

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KENYA  
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FAX: (254020) 3862812

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REPUBLIC OF ANGOLA  
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