



HARBIN BANK CO., LTD.

(A joint stock company incorporated in the People's Republic of China with limited liability) Stock Code: 6138

2013 Annual Report

The Company holds the Finance Permit No. B0306H223010001 approved by the China Banking Regulatory Commission and obtains the Corporate Business License No. 230100100006877 approved by Harbin Administration for Industry and Commerce. The Company is not an authorized institution within the meaning of the Hong Kong Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorized to carry on banking/deposit-taking business in Hong Kong.

Contents

Harbin Bank Co., Ltd.

Annual Report 2013

Definitions	2
Company Profile	3
Summary of Accounting Data and Financial Indicators	8
Chairman's Statement	12
Management Discussion and Analysis	15
Changes in Share Capital and Information on Shareholders	70
Report of the Board of Directors	75
Report of the Board of Supervisors	82
Important Events	86
Internal Control	89
Corporate Governance Report	91
Directors, Supervisors, Senior Management, Employees and Organizations	113
Financial Statements	128
Documents for Inspection	264

Definitions

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

“Company”, “our Bank”, “Bank”, or “We”	Harbin Bank Co., Ltd. (哈爾濱銀行股份有限公司), a joint stock company incorporated in the PRC on 25 July 1997 with limited liability in accordance with PRC laws and, unless context indicates otherwise, all of its subsidiaries and branches
“Board” or “Board of Directors”	the board of directors of the Company
“Director(s)”	the director(s) of the Company
“Board of Supervisors”	the board of supervisors of the Company
“Supervisor(s)”	the supervisor(s) of the Company
“Chief Financial Officer”	the chief financial officer of the Company
“CBRC”	the China Banking Regulatory Commission
“CSRC”	the China Securities Regulatory Commission
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Hong Kong Listing Rules
“IT”	Information Technology
“small enterprises”	enterprises classified as small enterprises according to the SMEs Classification Standards, subject to different standards based on the nature of the industries. For example, industrial enterprises having more than 20 but fewer than 1,000 employees and generating more than RMB3 million operating income are classified as small enterprises, while enterprises having more than five but fewer than 200 employees and generating more than RMB10 million operating income in the wholesale industry are also classified as small enterprises
“micro enterprises”	enterprises classified as micro enterprises according to the SMEs Classification Standards, subject to different standards based on the nature of the industries. For example, industrial enterprises having fewer than 20 employees or generating less than RMB3 million operating income are classified as micro enterprises, while enterprises having fewer than five employees or generating less than RMB10 million operating income in the wholesale industry are also classified as micro enterprises
“%”	per cent.
“H shares”	ordinary shares of a nominal value of RMB1.00 each in the capital of the Company, which are listed on the Hong Kong Stock Exchange
“Domestic Shares”	ordinary shares of a nominal value of RMB1.00 each issued by the Company in the PRC, which are subscribed for or credited as paid in Renminbi
“Harbin Economic Development”	Harbin Economic Development and Investment Company
“Articles of Association”	the articles of association of Harbin Bank Co., Ltd.

Company Profile

Basic Information

Legal Chinese Name:

哈爾濱銀行股份有限公司

(Abbreviation: 哈爾濱銀行)

English Name

HARBIN BANK Co., Ltd.

(Abbreviation: HARBIN BANK)

Legal Representative:

GUO Zhiwen

Authorized Representatives for
the Hong Kong Stock Exchange:

LIU Zhuo; SUN Feixia

Board Secretary:

LIU Zhuo

Joint Company Secretaries:

SUN Feixia; NGAI Wai Fung

Telephone:

86-451-86779999

Facsimile:

86-451-86779888

Email:

ir@hrbb.com.cn

Registered Address:

No. 160 Shangzhi Street, Daoli District,
Harbin, PRC

Office and Mailing Address:

No. 160 Shangzhi Street, Daoli District,
Harbin, PRC

Principal Place of Business in Hong Kong:

18/F, Tesbury Centre, 28 Queen's Road East,
Wanchai, Hong Kong

Website for Publishing this Report:

www.hrbb.com.cn

Place where this Report is Available:

No. 160 Shangzhi Street, Daoli District,
Harbin, PRC

Place of Listing, Stock Name and Stock Code:

The Stock Exchange of Hong Kong Limited,
HARBIN BANK, 06138

Registration Number of

Corporate Business License:

230100100006877

Registration Number of Tax Certificate:

DaoLiGuoShuiZi No. 230102127592111

HeiDiShuiZi No. 230102127046970

Finance Permit Institution Number:

B0306H223010001

Organization Code:

12759211-1

Date of Initial Registration:

25 July 1997

Initial Registration Authorities:

Administration For Industry and

Commerce of Harbin, Heilongjiang Province, PRC

Legal Adviser as to Laws of China:

Beijing Jun He Law Offices

Legal Adviser as to Laws of Hong Kong, China:

Linklaters

Auditors:

Ernst & Young, Certified Public Accountants

Hong Kong H Share Registrar and Transfer Office:

Computershare Hong Kong Investor Services Limited

Company Profile (Continued)

Company Profile

Harbin Bank was granted its finance permit to carry on financial business by the PBOC in February 1997, and obtained its corporate business license on 25 July 1997. Headquartered in Harbin, Harbin Bank is an emerging city commercial bank in the northeast region of China in recent years. Our Bank has established 16 branches (including one branch approved for setting up) in Tianjin, Chongqing, Dalian, Shenyang, Chengdu and Harbin, etc. and 24 village and township banks in 14 provinces and municipalities, including Beijing, Guangdong, Jiangsu, Jilin and Heilongjiang. As a strategic investor, our Bank has invested in the restructured Guangdong Huaxing Bank. As of 31 December 2013, the Group had 301 branch outlets with business outlets across six administrative regions in the PRC.

As of 31 December 2013, our Bank had total assets of RMB322,175.4 million, total loans of RMB105,941.3 million and total deposits of RMB224,178.1 million.

Our Bank ranked 4th among the city commercial banks in the PRC according to the “2013 Research Report on Asian Bank Competitiveness Rankings” released by the 21st Century Business Herald, and ranked 33rd in “Top 50 Banks in China” published by Standard & Poor’s in 2012. According to the “Top 1000 World Banks 2013” published by The Banker, a UK-based magazine, our Bank ranked 313th in terms of total tier 1 capital, 27th among the domestic banks, and first among the city commercial banks in Northeast China.

On 31 March 2014, the Company was listed on the Hong Kong Stock Exchange. A total of 2,748,700,000 shares were issued at an issue price of HK\$2.90 per share, and the net proceeds amounted to approximately HK\$7.722 billion (equivalent to approximately RMB6.184 billion in aggregate).

Major Awards for 2013

List of Major Awards for 2013

No.	Awarded to	Name of Award	Issued by	Date Awarded
1	Harbin Bank	2012 China's Small and Microfinance Best Corporate Social Responsibility Award (2012中國小微金融最佳社會責任獎)	China Microfinance Institution Association	January 2013
2	Harbin Bank	Outstanding Debt Valuation Member of 2012 (2012年度優秀中債估值成員)	China Central Depository & Clearing Co. Ltd	March 2013
3	Harbin Bank	Outstanding Member in National Interbank Bond Market of 2012 (2012年度全國銀行間債券市場優秀成員)	China Central Depository & Clearing Co. Ltd	March 2013
4	Harbin Bank	Award for Member with the Greatest Improvement in Interbank Foreign Exchange Market of 2012 (2012年度銀行間外匯市場最大進步會員獎)	China Foreign Exchange Trade System	March 2013
5	Harbin Bank	Award for Member with the Best Transaction Practice in Interbank Foreign Exchange Market of 2012 (2012年度銀行間外匯市場最佳交易規範會員獎)	China Foreign Exchange Trade System	March 2013
6	Harbin Bank	2012 Leading Banking Institution Providing Services to Small and Micro Enterprises in China (2012年度全國銀行業金融機構小微企業金融服務先進單位)	China Banking Regulatory Commission	April 2013
7	Harbin Bank	The Best Settlement Bank for Sino-Russian Trade of 2012 (2012年度最佳中俄貿易結算銀行)	SINOTF.COM (中國貿易金融網) Trade Finance Magazine (《貿易金融》雜誌)	April 2013
8	Harbin Bank	Outstanding Settlement Member of 2012 (2012年度優秀結算成員)	Shanghai Clearing House	May 2013
9	Harbin Bank — “Just-for-you” Micro Loan	Best Microfinance Product in China of 2013 (2013年度中國最佳小額信貸產品)	<i>The Asian Banker</i>	May 2013
10	Harbin Bank	China Financial Innovation Award of 2013: Innovation Award for Ten Best Financial Products (Retailing Business) — “Just-for-you” Marketing Case of Financial Product on Microfinance to Agritainment (2013年中國金融創新獎：十佳金融產品創新獎 (零售業務) — 「乾道嘉」農家樂 小額信貸金融產品營銷案例)	<i>The Banker</i> Wealth Management Research Center, Institute of Finance and Banking, Chinese Academy of Social Sciences	June 2013

Company Profile (Continued)

No.	Awarded to	Name of Award	Issued by	Date Awarded
11	Harbin Bank	Class A Unit (Foreign Exchange Management) (外匯管理A級單位)	Heilongjiang Branch of the SAFE	June 2013
12	Harbin Bank	Ranking 313th in “Top 1000 World Banks 2013”	The Banker Magazine	July 2013
13	Harbin Bank “Shangquantong” Financing Program for Small and Micro Enterprises	Top 20 Financial Products for Small and Micro Enterprises of 2013 (2013年服務小微企業二十佳金融產品)	China Banking Association	December 2013
14	Harbin Bank	China’s Best City Commercial Banks of 2013 (2013中國最佳城市商業銀行)	Money Week (《理財周報》)	December 2013
15	Harbin Bank “Just-for-you”	China’s Best Small and Micro Financial Service Brand of 2013 (2013中國最佳小微金融服務品牌)	Money Week	December 2013

Major Subsidiaries

The major subsidiaries of the Company as of 31 December 2013 were as follows:

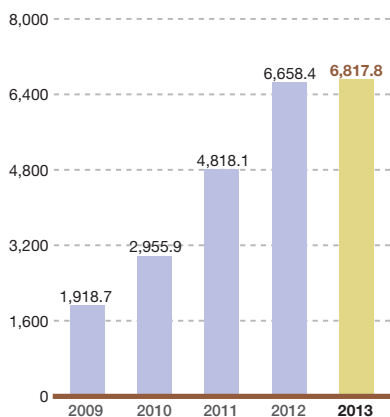
Company Name	Place of incorporation/ registration and operations Location in the PRC	Nominal value of issued share/paid-up capital in RMB millions	Percentage ownership/ voting rights directly owned by the Bank %	Amount invested by the Bank in RMB millions	Company nature
Bayan Rongxing Village and Township Bank Co., Ltd.	Bayan, Heilongjiang	50	90.00	45	Village and Township Bank
Huining Huishi Village and Township Bank Co., Ltd.	Huining, Gansu	30	100.00	30	Village and Township Bank
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	Huairou, Beijing	100	90.00	90	Village and Township Bank
Yushu Rongxing Village and Township Bank Co., Ltd.	Yushu, Jilin	30	100.00	30	Village and Township Bank
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	Baoan, Shenzhen	200	70.00	140	Village and Township Bank
Yanshou Rongxing Village and Township Bank Co., Ltd.	Yanshou, Heilongjiang	30	100.00	30	Village and Township Bank
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	Dadukou, Chongqing	60	90.00	54	Village and Township Bank
Suining Anju Rongxing Village and Township Bank Co., Ltd.	Suining, Sichuan	80	75.00	60	Village and Township Bank

Company Name	Place of incorporation/ registration and operations Location in the PRC	Nominal value of issued share/paid-up capital in RMB millions	Percentage ownership/ voting rights directly owned by the Bank %	Amount invested by the Bank in RMB millions	Company nature
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	50	98.00	49	Village and Township Bank
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	30	100.00	30	Village and Township Bank
Yanshi Rongxing Village and Township Bank Co., Ltd.	Yanshi, Henan	30	100.00	30	Village and Township Bank
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	30	100.00	30	Village and Township Bank
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	100	80.00	80	Village and Township Bank
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30	100.00	30	Village and Township Bank
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	50	80.00	40	Village and Township Bank
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50	70.00	35	Village and Township Bank
Xinan Rongxing Village and Township Bank Co., Ltd.	Xinan, Henan	30	100.00	30	Village and Township Bank
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	30	100.00	30	Village and Township Bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	30	100.00	30	Village and Township Bank
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50	100.00	50	Village and Township Bank
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30	96.67	29	Village and Township Bank
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100	80.00	80	Village and Township Bank
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebe	30	100.00	30	Village and Township Bank
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	Youyang, Chongqing	60	100.00	60	Village and Township Bank

Summary of Accounting Data and Financial Indicators

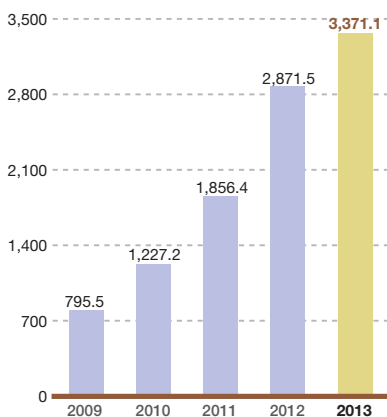
Net interest income

millions of RMB



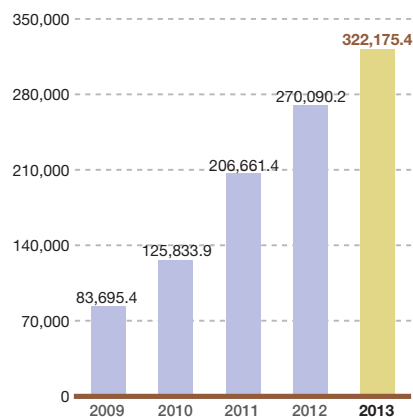
Net profit

millions of RMB



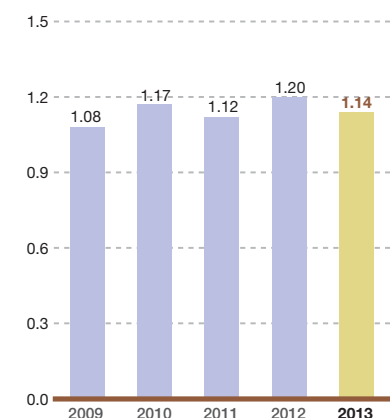
Total assets

millions of RMB



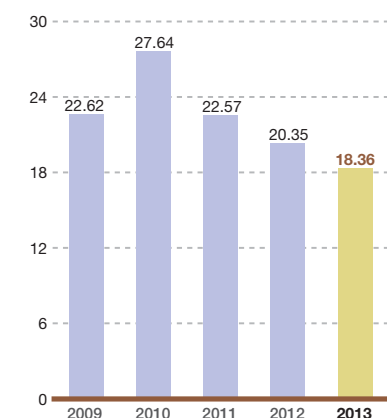
Return on average total assets

%



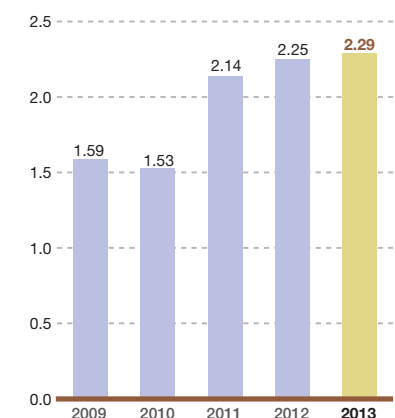
Return on average equity

%



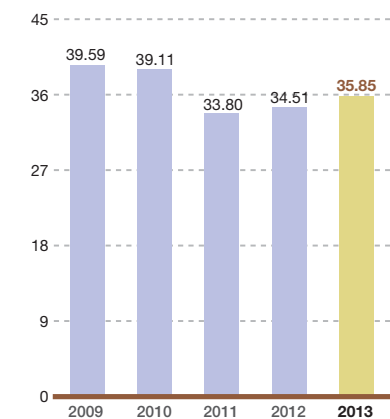
Impairment losses on loans

%



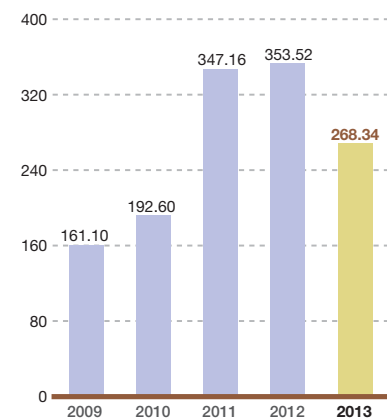
Cost-to-income ratio

%



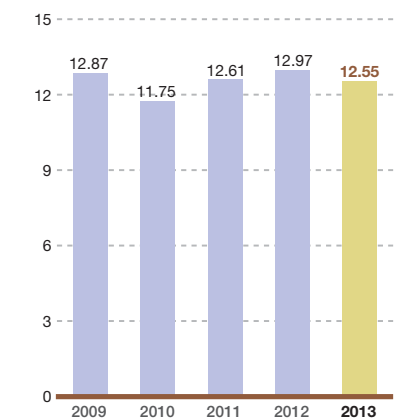
Impairment coverage ratio

%



Capital adequacy ratio

%



Summary of Accounting Data and Financial Indicators (Continued)

Financial Highlights

The financial information for 2010, 2011, 2012 and 2013 contained herein is prepared under the International Financial Reporting Standards on a consolidated basis. Unless otherwise stated, such information is the data of our Group denominated in RMB, and only the data of 2009 are not audited pursuant to the International Financial Reporting Standards (“IFRS”).

	As of 31 December					
	2013	2012	2013 vs. 2012	2011	2010	2009 ⁽¹⁰⁾
	<i>(in millions of RMB, except percentages)</i>					
Results of operations			Rate of change			
Net interest income	6,817.8	6,658.4	2.39%	4,818.1	2,955.9	1,918.7
Net fee and commission income	1,247.1	678.7	83.75%	411.8	116.2	36.3
Operating income	8,543.9	7,711.3	10.80%	5,414.0	3,245.4	2,038.0
Operating expenses	(3,591.0)	(3,025.5)	18.69%	(2,082.8)	(1,401.5)	(925.3)
Impairment losses	(506.1)	(836.2)	-39.48%	(823.8)	(227.0)	(90.2)
Profit before tax	4,450.0	3,859.0	15.31%	2,507.4	1,616.9	1,022.5
Net profit	3,371.1	2,871.5	17.40%	1,856.4	1,227.2	795.5
Net profit attributable to shareholders of our Bank	3,350.3	2,864.3	16.97%	1,854.2	1,227.6	795.5
For each share (RMB yuan)			Rate of change			
Net assets per share attributable to shareholders of our Bank	2.39	2.22	7.65%	1.84	2.40	1.83
Earnings per share	0.41	0.37	10.81%	0.34	0.26	0.17
Profitability indicators			Changes			
Return on average total assets ⁽¹⁾	1.14%	1.20%	-0.06%	1.12%	1.17%	1.08%
Return on average equity ⁽²⁾	18.36%	20.35%	-1.99%	22.57%	27.64%	22.62%
Net interest spread ⁽³⁾	2.56%	3.06%	-0.50%	3.27%	3.38%	2.72%
Net interest margin ⁽⁴⁾	2.64%	3.09%	-0.45%	3.29%	3.34%	2.78%
Net fee and commission income to operating income ratio	14.60%	8.80%	5.80%	7.61%	3.58%	1.78%
Cost-to-income ratio ⁽⁵⁾	35.85%	34.51%	1.34%	33.80%	39.11%	39.59%

Summary of Accounting Data and Financial Indicators (Continued)

	As of 31 December					
	2013	2012	2013 vs. 2012	2011	2010	2009 ⁽¹⁰⁾
	<i>(in millions of RMB, except percentages)</i>					
Capital adequacy indicators ⁽⁶⁾			Changes			
Core capital adequacy ratio	11.67%	11.94%	-0.27%	11.37%	9.04%	10.23%
Capital adequacy ratio	12.55%	12.97%	-0.42%	12.61%	11.75%	12.87%
Assets quality indicators			Changes			
Non-performance loan ratio ⁽⁷⁾	0.85%	0.64%	0.21%	0.62%	0.79%	0.99%
Impairment coverage ratio ⁽⁸⁾	268.34%	353.52%	-85.18%	347.16%	192.60%	161.10%
Impairment losses on loans ⁽⁹⁾	2.29%	2.25%	0.04%	2.14%	1.53%	1.59%
Other indicators			Changes			
Loan-deposit ratio	47.26%	46.75%	0.51%	46.92%	47.86%	57.13%
Scale indicators			Rate of Change			
Total assets	322,175.4	270,090.2	19.28%	206,661.4	125,833.9	83,695.4
Of which: loans and advances						
to customers	103,515.0	85,298.1	21.36%	67,018.2	53,200.5	42,844.6
Total liabilities	302,248.2	253,153.2	19.39%	195,131.0	120,695.2	79,854.2
Of which: deposits from						
customers	224,178.1	186,642.4	20.11%	145,962.4	112,891.6	74,996.9
Share capital	8,246.9	7,560.2	9.08%	6,187.8	2,100.3	2,100.3
Equity attributable to						
shareholders of our Bank	19,727.5	16,764.7	17.67%	11,385.6	5,034.2	3,841.2
Non-controlling interests	199.7	172.3	15.90%	144.8	95.6	0.0
Total equity	19,927.2	16,937.0	17.66%	11,530.4	5,138.7	3,841.2

Notes:

- (1) The percentage of net profit for a period to the average balance of the total assets at the beginning and the end of the period.
- (2) The percentage of net profit attributable to the equity shareholders of our Bank for a period to the average balance of total equity attributable to equity holders of the parent company at the beginning and the end of the period.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (4) Calculated by dividing net interest income by average interest-earning assets, calculated based on the daily average of the interest-earning assets.
- (5) Calculated with the operating cost after the business tax and surcharges and divided by the operating income.
- (6) Calculated pursuant to the Capital Adequacy Measures and other relevant regulations in the PRC and in accordance with PRC GAAP. Core capital adequacy ratio = (core capital – core capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk); capital adequacy ratio = (capital – capital deductions)/(risk-weighted assets + 12.5 x capital charge for market risk). Since 2013, we have calculated and disclosed the capital adequacy ratio in accordance with the New Capital Adequacy Measures. Core tier 1 capital adequacy rate = (core tier-1 capital – corresponding capital deductions)/risk-weighted assets; tier 1 capital adequacy rate = (tier 1 capital – corresponding capital deductions)/risk-weighted assets; capital adequacy ratio = (total capital – corresponding capital deductions)/risk-weighted assets. According to the New Capital Adequacy Measures, our core tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio were 10.68%, 10.68% and 11.95%, respectively, as of 31 December 2013.
- (7) Calculated with the total non-performing loans divided by the total loans to customers.
- (8) Calculated with the allowance for impairment loss divided by the total non-performing loans.
- (9) Calculated with the allowance for impairment loss on loan divided by the total loans to customers.
- (10) The data of 2009 are extracted from the consolidated management accounts of the Company, which are not audited pursuant to the IFRS.

Summary of Accounting Data and Financial Indicators (Continued)

Risk level	Primary indicators	Secondary indicators	Requirement (%)	Ratios of the Bank (%)			
				As of 31 December			
				2013	2012	2011	2010
Liquidity risk	Liquidity ratio ⁽¹⁾	RMB	≥25	41.94%	40.22%	42.62%	47.48%
		Foreign Currency		148.65%	145.93%	307.11%	177.20%
	Credit exposure to a single group customer ⁽²⁾		≤15	7.45%	4.86%	6.31%	11.75%
		Loan exposure to a single customer ⁽³⁾	≤10	4.50%	3.11%	4.67%	8.20%

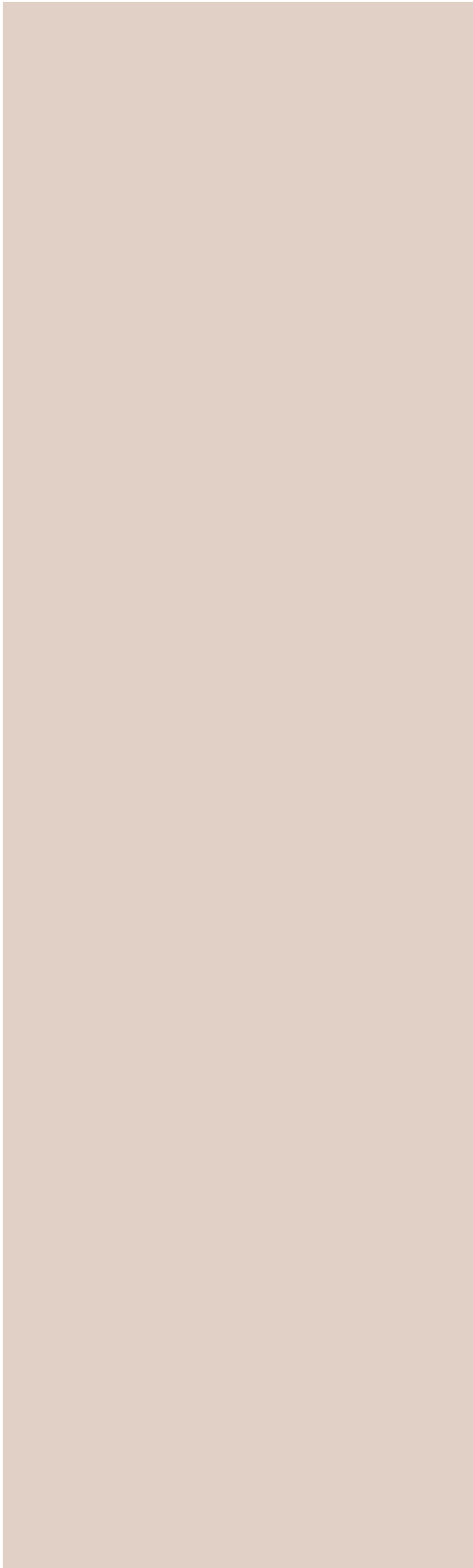
Calculated as follows:

- (1) Liquidity ratio = Current assets/Current liabilities x 100%. Current assets include cash, gold, surplus deposit reserve, net placement and deposits with banks and other financial institutions with maturities of one month or less, interest receivable and other receivables due within one month, qualified loans with maturities of one month or less, investment in debt securities with maturities of one month or less, debt securities that can be liquidated in the international secondary market at any time and other liquid assets with maturities of one month or less (excluding the non-performing portion of such assets). Current liabilities include demand deposits (excluding policy deposits), time deposits with remaining maturities of one month or less (excluding policy deposits), net placements and deposits from banks and other financial institutions due within one month, issued debt securities with maturities of one month or less, interest payable and all kinds of payables due within one month, borrowings from the PBOC due within one month and other liabilities due within one month.
- (2) Credit exposure to a single group borrower = Total credit granted to the largest group borrower/Net capital x 100%. Largest group borrower refers to the single group borrower granted the highest credit limit at the end of the period.
- (3) Loan exposure to a single borrower = Total loans to the largest borrower/Net capital x 100%. Largest borrower refers to the borrower with the highest amount of loans outstanding at the end of the period.

Chairman's Statement



Guo Zhiwen Chairman



In 2013, in face of the slowdown in the growth of the domestic macro-economy, the quickening of the reform of the financial market and against the back-drop of an increasingly competitive industry, the Company proactively responded to the challenges and unreservedly pushed forward the listing of the H shares of the Company. Guided by and through deepening the implementation of the “microcredit development strategy” and centering on the work theme of “the year of risk management”, the Company made a great leap forward with new achievements in performance and new changes.

During the past year, the corporate governance of the Company achieved new development. The structure of the Board was further optimized, and the composition of senior management team was further rationalized. Moreover, the monitoring and supervisory functions of the Board of Supervisors were enhanced, all of which helped bring the Company to a new level of corporate governance.

During the last year, the development of our associated companies had achieved good results. The business coverage of Guangdong Huaxing Bank has extended to cover a number of developed areas, such as Guangzhou, Shenzhen, Foshan and Dongguan, whereas our 24 village and township banks have deepened their roots in their respective local markets, implemented the development strategy of microcredit business, thereby achieving rapid

development of all aspects of their businesses with new contributions.

In the previous year, our operational results had achieved new breakthroughs. The total loans and total deposits of the Company exceeded RMB100 billion and RMB200 billion respectively. In addition, the total assets of the Company topped RMB300 billion while the net profit amounted to more than RMB3 billion. The Company was ranked 313th in the “Top 1000 World Banks 2013” announced by *The Banker*, a UK-based magazine, representing a great advancement of 85 places as compared with 2012.

Our microcredit business entered into a new phase of development last year. Through long-term commitment, the Company's microcredit strategy is now fully integrated with and forms part of the Company, with full recognition of the development strategy by staff of all levels. The number of customers of the microcredit business, scale of loans and income level were further increased, and the Company also successfully completed a number of projects of microcredit know-how and technology exportation. The Company was awarded by the CBRC as a “Leading Banking Institution Providing Services to Small and Micro Enterprises” for five consecutive times, demonstrating the Company's position as one of the leading providers of microcredit in the PRC, and the Company's move towards the next higher level of performance.



Last year, the risk management of the Company demonstrated certain special new features. Through enhancing the internal control risk management system and implementing the new capital accord, the Company's risk management is shifting from a single-business and single-line model to a portfolio risk management model, which is characterized by process-oriented, systematic and centralized risks management features, and a continuous enhancement in the compliance awareness of all staff.

In general, over the past year, the Company not only met the challenges of the changing situation, but also seized the development opportunities and established its leading competitive edge by adjusting the operating strategy in time and accurately grasping the development direction for the future, thereby establishing the bases and confidence for a

higher level of performance results. On behalf of the Board, I would like to take this opportunity to express my heartfelt gratitude and sincere appreciation to our shareholders and all sectors of the society for their persistent support for the development of the Company!

On 31 March 2014, the Company was successfully listed on the Main Board of the Hong Kong Stock Exchange, which fully reflected the recognition and trust in the Company by the international capital market, and gave strong encouragement to us. Looking ahead to 2014, leveraging on the successful listing and centering on the theme of "the year of brand establishment", the Company will go on pushing forward the development strategy of becoming a "first-class domestic and internationally renowned microfinance bank", strictly follow the Hong Kong Listing Rules, enhance its profitability, fulfill its social responsibility, and provide better quality services to customers! We will also bring higher investment return to our shareholders and reward the society with more outstanding market performance for their trust and care!

Guo Zhiwen
Chairman

Management Discussion and Analysis



I. Past economic and financial environment

In 2013, the global economy turned from cyclical fluctuations towards a elementary synchronized recovery. The U.S. economy continued with a mild growth trend driven by such factors as recovery in the real estate market, the shale gas revolution and the return of the manufacturing industries. The subsiding European debt crisis and the flow back of capital together with financial market confidence factors such as stabilization of external demands plus regulatory reforms have pushed the European economy out of recession. The Japan's economy has already shown a more rapid rebound and recovery under the Abe's new economic policies. However, the growth of the real economies in emerging markets has shown a relatively slower growth or deceleration and many such countries have been affected by the outflow of capital and financial market turmoils due to worries over the termination of the U.S. Federal QE policy and the previous excessive credit growth of such economies.

Against the back-drop of an unstable, complex and changing international political and economic scene and sluggish economic recovery, China's economy was in the low of its economic cycle, but showing a stabilizing and at the same time growing trend. By focusing on the deepening of reform and structural adjustments through micro-control policies which emphasize on stabilized but steady growth, as well as structural reform and improvement on quality and efficiency, China has entered into a stable but steady economic growth cycle. The annual gross domestic product (GDP) amounted to RMB56.9 trillion, up 7.7% YoY, and the consumer price index (CPI) rose 2.6% YoY. The People's

Management Discussion and Analysis (Continued)

Bank of China in 2013 continued with its prudent monetary policy, and made timely and appropriate adjustments to its policies through innovative principles and methods; through flexibly adjusting the direction and size of liquidity operations in accordance with changes in liquidity and by integrating the use of timely adjusted liquidity management tools, it effectively addressed multiple factors caused short-term liquidity fluctuations.

Heilongjiang Province is in the northeast region of China, adjacent to Russia. Benefiting from the policy support and superior geographical location, Heilongjiang Province has become the most important commodity grain base in China. Heilongjiang Province is also rich in timber and mineral resources. After decades of reforms and developments, Heilongjiang Province has gradually established an industrial system based primarily on heavy industry, supported by large enterprises, with petrochemical, food, machinery, coal and forestry as the fundamentals.

Heilongjiang Province has continued to improve its infrastructure facilities in recent years, and achieved a rapid development in economy. Benefiting from the development strategy since 2003 of revitalizing the old industrial bases, stabilizing agricultural contributions and boosting an export-oriented economy, the infrastructure construction and economy of Heilongjiang Province have steadily improved and developed in recent years.

In 2013, economic and social development in Harbin City entered into a new scenario with comprehensive economic strength reaching a new historic platform. Annual gross local production exceeded RMB500 billion, up about 9% over the previous year, and total retail sales of social consumer goods grew about 14% with fixed assets investment totaling RMB520 billion, up 32%. A total of 1,041 projects with individual contract value of more than RMB20 million for an aggregate total investment of RMB130 billion commenced work in the year. Grain production reached a total output of 16.5 billion kilograms by overcoming a variety of natural disasters and realized “the tenth-consecutive-year growth” in harvest.

II. Analysis on income statement

	For the years ended 31 December			
	2013	2012	Change in amount	Rate of change
	<i>(In millions of RMB, except percentages)</i>			
Interest income	14,141.7	12,993.2	1,148.5	8.8%
Interest expense	(7,323.9)	(6,334.8)	(989.1)	15.6%
Net interest income	6,817.8	6,658.4	159.4	2.4%
Fee and commission income	1,376.5	811.4	565.1	69.7%
Fee and commission expense	(129.4)	(132.7)	3.3	-2.5%
Net fee and commission income	1,247.1	678.7	568.4	83.8%
Net trading income	283.9	356.6	(72.7)	-20.4%
Net loss on financial investments	(46.5)	(87.4)	40.9	-46.8%
Other operating income, net	241.6	105.0	136.6	130.1%
Operating income	8,543.9	7,711.3	832.6	10.8%
Operating expenses	(3,591.0)	(3,025.5)	(565.5)	18.7%
Impairment losses:				
Loans and advances				
to customers	(517.7)	(837.2)	319.5	-38.2%
Others	11.6	1.0	10.7	1,070.0%
Operating profit	4,446.8	3,849.6	597.2	15.5%
Share of profits of an associate	3.2	9.4	(6.2)	-66.0%
Profit before tax	4,450.0	3,859.0	591.0	15.3%
Income tax expense	(1,078.9)	(987.5)	(91.4)	9.3%
Profit for the year	3,371.1	2,871.5	499.6	17.4%

For the year ended 31 December 2013, net profit of our Bank increased by 17.4% to RMB3,371.1 million from RMB2,871.5 million for the year ended 31 December 2012, and net profit attributable to the equity shareholders of our Bank increased by 17.0% to RMB3,350.3 million from RMB2,864.3 million for the year ended 31 December 2012, primarily due to increases in our net interest income and net fee and commission income.

- (i) Net interest income, net interest spread and net interest margin
- Our net interest income for the year ended 31 December 2013 was RMB6,817.8 million, representing an increase of 2.4% compared to RMB6,658.4 million for the year ended 31 December in 2012. The following tables set forth, for the years ended 31 December 2013 and 2012, the average balance of our interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-bearing liabilities.

Management Discussion and Analysis (Continued)

	For the years ended 31 December					
	2013			2012		
	Average balance ⁽⁶⁾	Interest income	Average yield	Average balance ⁽⁶⁾	Interest income	Average yield
	<i>(In millions of RMB, except percentages)</i>					
Interest-earning Assets						
Loans and advances to customers	99,990.5	7,621.5	7.62%	81,767.1	6,537.5	8.00%
Investments in debt securities ⁽¹⁾	40,288.8	2,373.3	5.89%	41,719.7	2,674.2	6.41%
Cash and balances with central bank	41,262.6	602.1	1.46%	33,070.0	490.2	1.48%
Due from banks and other financial institutions ⁽²⁾	76,989.1	3,545.0	4.60%	58,894.2	3,291.3	5.59%
Total interest-earning assets	258,531.0	14,141.7	5.47%	215,451.0	12,993.2	6.03%
	For the years ended 31 December					
	2013			2012		
	Average balance ⁽⁶⁾	Interest expense	Average cost	Average balance ⁽⁶⁾	Interest expense	Average cost
	<i>(In millions of RMB, except percentages)</i>					
Interest-bearing Liabilities						
Due to customers	185,801.6	4,160.7	2.24%	148,032.3	2,967.7	2.00%
Due to banks and other financial institutions ⁽³⁾	61,956.7	2,965.6	4.79%	62,497.1	3,223.0	5.16%
Debt securities issued	3,500.0	174.2	4.98%	2,571.0	131.2	5.10%
Due to central bank	664.3	23.4	3.52%	428.1	12.9	3.01%
Total interest-bearing liabilities	251,922.6	7,323.9	2.91%	213,528.5	6,334.8	2.97%
Net interest income		6,817.8			6,658.4	
Net interest spread⁽⁴⁾			2.56%			3.06%
Net interest margin⁽⁵⁾			2.64%			3.09%

Notes:

- (1) Include available-for-sale financial assets, held-to-maturity investments and investments in receivables.
- (2) Include due from banks and other financial institutions and financial assets held under reverse repurchase agreements.
- (3) Include due to banks and other financial institutions and financial assets sold under reverse repurchase agreements.
- (4) Calculated as the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities, calculated based on the daily average of the interest-earning assets and interest-bearing liabilities.
- (5) Calculated by dividing net interest income by the average interest earning assets, calculated based on the daily average of the interest-earning assets.
- (6) Calculated as the average of our daily balances.

Management Discussion and Analysis (Continued)

The following table sets forth, for the periods indicated, the changes in our interest income and interest expense attributable to changes in volumes and interest rates. Changes in volumes are measured by changes in the average balances of our interest-earning assets and interest-bearing liabilities and changes in rates are measured by changes in the average rates of our interest-earning assets and interest-bearing liabilities. Effects of changes caused by both volumes and rates have been allocated to changes in interest rate.

	For the year ended 31 December		
	2013 vs. 2012		
	Increase/(decrease) due to		Net increase/ (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
	<i>(in millions of RMB)</i>		
Interest-earning Assets			
Loans and advances to customers	1,457.0	(373.2)	1,083.8
Investments in debt securities	(91.7)	(209.1)	(300.8)
Cash and balances with central bank	121.4	(9.6)	111.8
Due from banks and other financial institutions	1,011.2	(757.6)	253.7
Change in interest income	2,598.0	(1,449.5)	1,148.5
Interest-bearing Liabilities			
Due to customers	757.2	435.9	1,193.0
Due to banks and other financial institutions ⁽³⁾	(27.9)	(229.5)	(257.4)
Debt securities issued	47.4	(4.4)	43.0
Due to central bank	7.1	3.3	10.4
Change in interest expense	1,139.0	(150.0)	989.1

Notes:

- (1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for such previous year.
- (2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for such year.
- (3) Represents interest income/expense for the year minus interest income/expense for the previous year.

(ii) Interest income

For the year ended 31 December 2013, our interest income increased by 8.8% to RMB14,141.7 million from RMB12,993.2 million for the year ended 31 December 2012. The increase was primarily attributable to a 20.0% increase in the average balance of interest-earning assets from RMB215,451.0 million for the year ended 31 December 2012 to RMB258,531.0 million for the year ended 31 December 2013, mainly as a result of increases in our loans and advances to customers and due from banks and other financial institutions. The average yield of our interest-earning assets decreased from 6.03% for the year ended 31 December 2012 to 5.47% for the year ended 31 December 2013, which was primarily the result of liberalisation of interest rates and increasing industry competitions in the PRC banking industry in 2013.

1. Interest income from loans and advances to customers

For the year ended 31 December 2013, interest income from loans and advances to customers increased by 16.6% from RMB6,537.5 million for the year ended 31 December 2012 to RMB7,621.2 million for the year ended 31 December 2013, primarily as a result of a 22.3% increase in average balance of loans and advances to customers, which in turn was attributable to an expansion of our branch network and our efforts to develop our microcredit business. The average yield of our loans decreased from 8.00% for the year ended 31 December 2012 to 7.62% for the year ended 31 December 2013. The decrease in average yield of total loans to customers was mainly due to the liberalisation of interest rates and increasingly competitive industry, causing decreases in the average yields of both corporate loans and personal loans.

The following table sets forth, for the years indicated, the average balance, interest income and average yield for each component of our loans and advances to customers.

	For the year ended 31 December					
	2013			2012		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
	<i>(In millions of RMB, except percentages)</i>					
Corporate loans	56,235.9	4,145.7	7.37%	41,246.7	3,086.8	7.48%
Personal loans	38,056.8	3,083.6	8.10%	31,650.5	2,830.9	8.94%
Discounted bills	5,697.8	391.9	6.88%	8,869.9	619.8	6.99%
Total loans and advances to customers	99,990.5	7,621.2	7.62%	81,767.1	6,537.5	8.00%

2. Interest Income from Investments in Debt Securities

Interest income from investments in debt securities decreased by 11.3% from RMB2,674.2 million for the year ended 31 December 2012 to RMB2,373.3 million for the year ended 31 December 2013, principally due to a 3.4% decrease in the average balance of our investments in debt securities from RMB41,719.7 million in 2012 to RMB40,288.8 million in 2013, and a decrease in the average yield of our investments in debt securities from 6.41% in 2012 to 5.89% in 2013. The decrease in the average balance of our investments in debt securities was primarily due to a decrease in the average balance of investments in receivables, and the decrease in the average yield of our investments in debt securities was due to a decrease in the average balance of investments in receivables with higher yields than other debt securities investments.

3. Interest Income from Cash and Balances with Central Bank

Interest income from cash and balances with central bank increased by 22.8% from RMB490.2 million for the year ended 31 December 2012 to RMB602.1 million for the year ended 31 December 2013, primarily due to an increase in the average balance of our cash and balances with central bank. The average balance of our cash and balances with central bank for the year ended 31 December 2013 was RMB41,262.6 million, representing an increase of 24.8% compared to that for the year ended 31 December 2012, primarily attributable to the expansion of the scale of our deposits from customers.

4. Interest Income from Due from Banks and Other Financial Institutions

Interest income from due from banks and other financial institutions increased by 7.7% from RMB3,291.3 million for the year ended 31 December 2012 to RMB3,545.0 million for the year ended 31 December 2013, primarily due to an increase in the average balance of the relevant assets. The average balance for the year ended 31 December 2013 was RMB76,989.1 million, representing an increase of 30.7% compared to that for the year ended 31 December 2012. This increase was primarily attributable to an increase in our lending and advances to banks and other financial institutions as deposits from our customers increased in 2013. The average yield of these assets decreased from 5.59% in the year ended 31 December 2012 to 4.60% in the year ended 31 December 2013, mainly due to our decision to prioritise liquidity and to reduce the proportion of due from banks and other financial institutions during a tight market when such assets generally have relatively higher yields.

(iii) Interest expense

Our interest expense increased by 15.6% from RMB6,334.8 million for the year ended 31 December 2012 to RMB7,323.9 million for the year ended 31 December 2013, primarily due to an increase of 18.0% in the average balance of the interest-bearing liabilities from RMB213,528.5 million in 2012 to RMB251,922.6 million in 2013 due to a significant increase in our due to customers, which was in turn attributable to our efforts to attract customer deposits.

1. Interest Expense on Due to Customers

Our interest expense on due to customers increased by 40.2% from RMB2,967.7 million for the year ended 31 December 2012 to RMB4,160.7 million for the year ended 31 December 2013. The increase was primarily due to (i) an increase of 25.5% in the average balance of total deposits from customers from RMB148,032.3 million in 2012 to RMB185,801.6 million in 2013, and (ii) an increase in the average cost of our deposits from

Management Discussion and Analysis (Continued)

customers from 2.00% in 2012 to 2.24% in 2013. The increase in the average balance of total deposits from customers primarily attributable to the expansion of the scale of our deposits from customers, while the increase in average cost of our deposits was primarily due to the interest rate liberalisation which resulted in an increased market competition.

	For the year ended 31 December					
	2013			2012		
	Average balance	Interest expense	Average cost	Average balance	Interest expense	Average cost
<i>(In millions of RMB, except percentages)</i>						
Corporate deposits						
Demand	60,442.9	367.4	0.61%	56,914.4	440.1	0.77%
Time	72,656.4	2,558.3	3.52%	50,191.3	1,634.1	3.26%
Subtotal	133,099.3	2,925.7	2.20%	107,105.7	2,074.2	1.94%
Personal deposits						
Demand	23,170.1	113.1	0.49%	23,490.4	78.7	0.34%
Time	29,532.2	1,121.9	3.80%	17,436.2	814.8	4.67%
Subtotal	52,702.3	1,235.0	2.34%	40,926.6	893.5	2.18%
Total due to customers	185,801.6	4,160.7	2.24%	148,032.3	2,967.7	2.00%



2. Interest Expense on Due to Banks and Other Financial Institutions

Our interest expense on due to banks and other financial institutions decreased by 8.0% from RMB3,223.0 million for the year 31 December 2012 to RMB2,965.6 million for the year ended 31 December 2013. The decrease was mainly due to a decrease in the average balance of the relevant liabilities from RMB62,497.1 million for the year ended 31 December 2012 by 0.9% to RMB61,956.7 million for the year ended 31 December 2013, and a decrease in the average cost of the underlying liabilities from 5.16% for the year ended 31 December 2012 to 4.79% for the year ended 31 December 2013. The average balance of the underlying liabilities decreased mainly because we reduced funds from banks at the time of tight market liquidity. The decrease in the average cost of the underlying liabilities was mainly because we reduced funds from banks and other financial institutions so as to ensure our liquidity at the time of tight market liquidity.

3. Interest Expense on Debt Securities Issued

Our interest expense on debt securities issued increased from RMB131.2 million for the year ended 31 December 2012 to RMB174.2 million for the year ended 31 December 2013 mainly due to an issuance of RMB2,500 million aggregate principal amount of financial bonds by us to provide stable mid-and long-term funding to support our business.

(iv) Net Interest Spread and Net Interest Margin

Our net interest spread decreased from 3.06% for the year ended 31 December 2012 to 2.56% for the year ended 31 December 2013 and our net interest margin decreased from 3.09% for the year ended 31 December 2012 to 2.64% for the year ended 31 December 2013. These decreases were mainly due to a larger decline in the average yield of interest-earning assets relative to the decline in the average cost on interest-bearing liabilities in 2013, which was in turn attributable to increases in the interest rates of our due to customers as the PBOC increased the upper limit of floating range of Renminbi-denominated deposit interest rate to 110% of the benchmark interest rate in the second half of 2012.

Management Discussion and Analysis (Continued)

(v) Non-interest income

1. **Net fee and commission income**

Our net fee and commission income increased by 83.8% from RMB678.7 million for the year ended 31 December 2012 to RMB1,247.1 million for the year ended 31 December 2013. The increase was largely due to a significant increase in our advisory and consulting fees, agency and custodian fees and bank card fees as a result of the development of the related business.

	For the year ended 31 December			
	2013	2012	Change in amount	Rate of change
	<i>(In millions of RMB, except percentages)</i>			
Fee and commission income	1,376.6	811.4	565.2	69.7%
Advisory and consultancy fee	488.2	273.8	214.4	78.3%
Settlement fee	83.4	95.3	(11.9)	-12.5%
Agency and custodian fee	617.3	374.9	242.4	64.7%
Of which: non-principal protected wealth management agency fee	284.7	96.9	187.8	193.8%
Bank card fee	149.3	47.9	101.4	211.7%
Others	38.4	19.6	18.8	95.9%
Fee and commission expense	(129.4)	(132.7)	3.3	-2.5%
Net fee and commission income	1,247.1	678.7	568.5	83.8%

In 2013, our advisory and consultancy fee income reached RMB488.2 million, up 78.3% YoY or RMB214.4 million, mainly attributable to the expansion of our advisory and consultancy businesses, resulting in an increase in our customers and sustained growth in business volume.

The Bank realized income of RMB83.4 million from settlement fee in 2013, slightly down over the same period of the previous year.

The Bank's agency and custodian fee income in 2013 was RMB617.3 million, up 64.7% YoY or RMB242.4 million, mainly as a result of the development of our trust fund custody business and wealth management business.

The Bank in 2013 earned RMB149.3 million from bank card fee, up 211.7% YoY or RMB101.4 million, mainly attributable to the development and marketing of our bank card business and a rise in the issuance and transaction volume of our bank cards.

Other charges and commission generated income of RMB38.4 million, up 95.9% YoY or RMB18.8 million. It was associated with exchange service.

2. Net trading income

Our net trading income decreased by 20.4% from RMB356.6 million for the year ended 31 December 2012 to RMB283.9 million for the year ended 31 December 2013. The decrease was mainly due to the change in the conditions of the bond market.

3. Net loss on financial investments

We had net losses of RMB46.5 million for the year ended 31 December 2013 compared to net losses of RMB87.4 million for the year ended 31 December 2012. This decrease was largely due to a decrease in the loss on disposal of available-for-sale financial assets from RMB87.9 million for the year ended 31 December 2012 to RMB47.1 million for the year ended 31 December 2013 as a result of fluctuations in bond markets and a decrease in trading volumes of bonds.

4. Other operating income, Net

Our other operating income increased by 130.1% from RMB105.0 million for the year ended 31 December 2012 to RMB241.6 million for the year ended 31 December 2013. The increase was primarily due to the net gain generated from our disposal of repossessed assets.

(vi) Operating expenses

Our operating expenses increased by 18.7% from RMB3,025.5 million for the year ended 31 December 2012 to RMB3,591.0 million for the year ended 31 December 2013. The increase was primarily due to growth in our staff cost and business tax and surcharges.

	For the year ended 31 December			
	2013	2012	Change in amount	Rate of change
	<i>(In millions of RMB, except percentages)</i>			
Staff costs	1,559.0	1,342.1	216.9	16.2%
Business tax and surcharges	528.2	364.1	164.1	45.1%
Depreciation and amortization	273.9	208.3	65.6	31.5%
Others	1,229.9	1,111.0	118.9	10.7%
Total operating expenses	3,591.0	3,025.5	565.5	18.7%

Staff costs are the largest component of our operating expenses, representing 44.4% and 43.4% of our total operating expenses for the year ended 31 December 2012 and 2013, respectively.

Management Discussion and Analysis (Continued)

The following table shows the major components of staff costs for the period indicated.

	For the year ended 31 December			
	2013	2012	Change in amount	Rate of change
	<i>(In millions of RMB, except percentages)</i>			
Staff costs				
Salaries, bonuses and allowances	1,248.8	1,085.1	163.7	15.1%
Social insurance	126.6	96.6	30.0	31.1%
Housing fund	69.1	53.9	15.2	28.2%
Staff benefits	95.8	79.5	16.3	20.5%
Labour union expenditure and education costs	12.3	20.8	(8.5)	-40.9%
Early retirement benefits	6.4	6.1	0.3	4.9%
Total	1,559.0	1,342.1	216.9	16.2%

In 2013, the staff costs of the Bank were RMB1,559.0 million, up 16.2% YoY or RMB216.9 million. The major reason was the Bank established more branches, increasing the number of staff, wages and benefits.

The Bank had to pay business tax and surcharges of RMB528.2 million in 2013, up 45.1% YoY or RMB164.1 million. It was mainly due to the increase in interest income as well as income from fee and commission.

The depreciation and amortization in 2013 was RMB273.9 million, up 31.5% YoY or RMB65.6 million primarily as a result of an expansion of the distribution network and an increase in the operating offices related cost.

The Bank's other operating expenses in 2013 were RMB1,229.9 million, up 10.7% YoY or RMB118.9 million, mainly due to our business expansion.

(vii) Impairment losses

Our impairment losses for the year ended 31 December 2013 were RMB506.1 million, representing a decrease of 39.5% from RMB836.2 million for the year ended 31 December 2012. The decrease was mainly due to a decrease in the impairment allowances for loans, which was largely attributable to a decrease in our non-performing loans that were subject to write-off. Based on the actual amount of loans to customers and requirements of regulatory authorities on dynamic adjustment of provisions for losses on loans and advances to customers, we wrote off non-performing loans of RMB342.7 million in 2012 resulting in a relatively lower level of non-performing loans that required provisions in 2013.

	For the year ended 31 December			
	2013	2012	Change in amount	Rate of change (%)
	<i>(In millions of RMB, except percentages)</i>			
Loans and advances to customers	(517.7)	(837.2)	(319.5)	-38.2%
Others	(11.6)	(1.0)	(10.6)	1,060.0%
Total impairment losses	(506.1)	(836.2)	(330.1)	-39.5%

(viii) Income Tax Expenses

Our income tax for the year ended 31 December 2013 amounted to RMB1,078.9 million, representing a 9.3% increase from RMB987.5 million for the year ended 31 December 2012, which was generally consistent with the increase in our operating profit.

	For the year ended 31 December			
	2013	2012	Change in amount	Rate of change (%)
	<i>(In millions of RMB, except percentages)</i>			
Profit before tax	4,450.0	3,859.0	591.0	15.3%
Tax at the PRC statutory income tax rate	1,112.5	964.8	147.7	15.3%
Non-deductible expenses	20.1	64.2	(43.9)	-68.7%
Non-taxable income	(52.9)	(39.2)	(13.7)	34.9%
Underprovision/ (overprovision) in respect of prior years	0	0.1	0.1	-100%
Profits attributable to an associate	(0.8)	(2.4)	1.6	-66.7%
Total income tax expense	1,078.9	987.5	91.4	9.3%

Management Discussion and Analysis (Continued)

III. Analysis of key items of financial position

(i) Assets

As of 31 December 2013, our total assets amounted to RMB322,175.4 million, representing an increase of 19.3% compared to RMB270,090.2 million as of 31 December 2012. The increase was mainly due to the increase in our loans and advances to customers, due from banks and other financial institutions and investment securities and other financial assets.

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

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
	<i>(In millions of RMB, except percentages)</i>			
Loans and advances to customers, gross	105,941.3	32.9%	87,264.4	32.3%
Allowance for impairment losses	(2,426.3)	-0.8%	(1,966.3)	-0.7%
Loans and advances to customers, net	103,515.0	32.1%	85,298.1	31.6%
Investment securities and other financial assets, net	71,035.9	22.1%	51,180.1	18.9%
Cash and balances with central bank	51,552.1	16.0%	51,858.5	19.2%
Due from banks and other financial institutions	33,871.2	10.5%	19,946.8	7.4%
Reverse repurchase agreements	51,111.0	15.9%	51,745.6	19.2%
Other assets	11,090.3	3.4%	10,061.1	3.7%
Total assets	322,175.4	100.0%	270,090.2	100.0%

1. **Loans and advances to customers**

As of 31 December 2013, our total loans and advances to customers amounted to RMB105,941.3 million, representing an increase of 21.4% compared to RMB87,264.4 million as of 31 December 2012.

Management Discussion and Analysis (Continued)

The following table sets forth, as of the dates indicated, a breakdown of our loans by business lines.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
	<i>(In millions of RMB, except percentages)</i>			
Corporate loans	63,538.2	60.0%	51,108.1	58.6%
Personal loans	40,498.6	38.2%	34,810.1	39.9%
Discounted bills	1,904.5	1.8%	1,346.2	1.5%
Total loans and advances to customers	105,941.3	100.0%	87,264.4	100.0%

(1) Corporate loans

Our corporate loans amounted to RMB63,538.2 million as of 31 December 2013, representing an increase of 24.3% compared to RMB51,108.1 million as of 31 December 2012, mainly due to an increase in our corporate loans (in particular, loans to Small Enterprises) to respond to the PRC government's policies on promoting the development of SMEs.

The following table sets forth a breakdown of our corporate loans by customer type as of the dates indicated.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
	<i>(In millions of RMB, except percentages)</i>			
Loans to Small Enterprises ¹	32,661.2	51.4%	23,638.0	46.3%
Other corporate loans excluding loans to Small Enterprises	30,877.0	48.6%	24,470.1	53.7%
Total corporate loans	63,538.2	100.0%	51,108.1	100.0%

¹ Loans to Small Enterprises includes corporate loans to small enterprises and micro enterprises as defined in the SMEs Classification Standards. According to the SMEs Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having more than 20 but fewer than 1,000 employees and generating more than RMB3 million in operating income in a year are classified as small enterprises, while enterprises having more than five but fewer than 200 employees and generating more than RMB10 million in operating income in a year in the wholesale industry are also classified as small enterprises. For example, industrial enterprises having fewer than 20 employees or generating less than RMB3 million in operating income in a year are classified as micro enterprises, while enterprises having fewer than five employees or generating less than RMB10 million in operating income in a year in the wholesale industry are also classified as micro enterprises.

Management Discussion and Analysis (Continued)

Our loans to Small Enterprises amounted to RMB32,661.2 million as of 31 December 2013, representing an increase of 38.2% compared to RMB23,638.0 million as of 31 December 2012. The increase in our loans to Small Enterprises was primarily due to our focus on developing our microcredit business to respond to the national policy on promoting the development of SMEs. As of 31 December 2012 and 2013, our loans to Small Enterprises accounted for 46.3% and 51.4%, respectively, of our total corporate loans.

(2) Personal loans

Our personal loans amounted to RMB40,498.6 million as of 31 December 2013, representing an increase of 16.3% compared to RMB34,810.1 million as of 31 December 2012. This increase was mainly attributable to our continued development of personal loans as a response to the PRC government's policies to support financial institutions in developing financial services for SMEs and financial services for rural areas. Our personal loans (including loans to Small Enterprise Owners and farmers) are an important component of our microcredit business, which increased under our strategy of focusing on the development of our microcredit business.

The following table sets forth a breakdown of our personal loans by product type as of the dates indicated.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
	<i>(In millions of RMB, except percentages)</i>			
Loans to Small Enterprise Owners	15,380.5	38.0%	13,731.2	39.4%
Personal consumption loans	15,870.2	39.2%	11,203.3	32.2%
Loans to farmers	9,247.9	22.8%	9,875.6	28.4%
Total of personal loans	40,498.6	100.0%	34,810.1	100.0%

Loans to Small Enterprise Owners and personal consumption loans both increased as at 31 December 2013 compared to 31 December 2012, primarily due to our efforts to increase personal loans. Our loans to farmers amounted to RMB9,247.9 million as of 31 December 2013, representing a decrease of 6.4% compared to RMB9,875.6 million as of 31 December 2012.

2. **Investment securities and other financial assets**

As of 31 December 2013, the balance of our investment securities and other financial assets amounted to RMB71,035.9 million, representing an increase of 38.8% compared to RMB51,180.1 million as of 31 December 2012. This increase was mainly due to our investments in receivables, which increased from RMB22,733.3 million as of 31 December 2012 to RMB43,528.7 million as of 31 December 2013. The significant increase in our investments in receivables in 2013 was largely due to our efforts to increase various types of investments, continued expansion of our capital operating channels, which we believe improved the efficiency of our use of funds.

The following table sets forth, as of 31 December 2012 and 2013, the components of our investment securities and other financial assets.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
	<i>(In millions of RMB, except percentages)</i>			
Investments in receivables	43,528.7	61.3%	22,733.3	44.4%
Held-to-maturity investments	17,080.8	24.0%	12,323.5	24.1%
Available-for-sale financial assets	7,914.1	11.2%	8,244.3	16.1%
Financial assets held for trading	2,512.3	3.5%	7,879.0	15.4%
Total investment securities and other financial assets	71,035.9	100.0%	51,180.1	100.0%

Management Discussion and Analysis (Continued)

The following table sets forth, as of the dates indicated, the distribution of our investment securities and other financial assets by bond investments and equity investments.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
	<i>(In millions of RMB, except percentages)</i>			
Debt investments:				
Bond investments	27,666.3	39.0%	29,011.5	56.7%
Debt instruments issued				
by financial institutions ⁽¹⁾	43,345.0	61.0%	22,144.0	43.3%
Subtotal	71,011.3	100.0%	51,155.5	100.0%
Equity investment	24.6	0.0%	24.6	0.0%
Total investment securities and other financial assets	71,035.9	100.0%	51,180.1	100.0%

Note:

(1) Included fund trust plans and structured wealth management products.

Our investment in debt instruments issued by financial institutions totaled RMB43,345.0 million as of 31 December 2013, representing an increase of 95.7% compared to RMB22,144.0 million as of 31 December 2012. As a percentage of total investment securities and other financial assets, such investments increased from 43.3% as of 31 December 2012 to 61.0% as of 31 December 2013. These increases were primarily due to an increase in our investments in the debt instruments issued by financial institutions which had relatively higher returns than other investment products.

Management Discussion and Analysis (Continued)

The following table sets forth the components of bond investments as of the date indicated.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
	<i>(In millions of RMB, except percentages)</i>			
Government bonds	3,069.0	11.1%	3,117.3	10.7%
Bonds issued by financial institutions	349.0	1.2%	—	—
Corporate bonds	7,771.4	28.1%	6,906.3	23.8%
Bonds issued by policy banks	16,476.9	59.6%	18,987.9	65.5%
Total bond investments	27,666.3	100.0%	29,011.5	100.0%

During the Reporting Period, the Bank combined with changes in market interest rate to allocate the maturity reasonably, and further optimized the structure of maturity. The following table sets forth the information on investment securities and other financial assets by remaining maturity as of the date indicated.

	As of 31 December			
	2013		2012	
	Amount	Percentage	Amount	Percentage
	<i>(In millions of RMB, except percentages)</i>			
Within 1 month	7,236.3	10.2%	663.4	1.3%
1 to 3 months	2,116.6	3.0%	4,113.9	8.0%
3 months to 1 year	16,833.9	23.7%	11,739.7	22.9%
1 to 5 years	29,457.8	41.5%	24,862.2	48.6%
Above 5 years	15,346.7	21.6%	9,776.3	19.1%
Unlimited duration	44.6	0.0%	24.6	0.1%
Total	71,035.9	100.0%	51,180.1	100.0%

Management Discussion and Analysis (Continued)

3. Other components of Our Assets

Other components of our assets primarily consist of (i) cash and balances with central bank, (ii) due from banks and other financial institutions and (iii) financial assets held under reverse repurchase agreements.

Our cash and balances with central bank totaled RMB51,552.1 million as of 31 December 2013, representing a slight decrease of 0.6% compared to RMB51,858.5 million as of 31 December 2012.

Due from banks and other financial institutions totaled RMB33,871.2 million as of 31 December 2013, representing an increase of 69.8% compared to RMB19,946.8 million as of 31 December 2012. This increase was largely because adjusted the proportion of non-credit assets based on capital and changes in liquidity in the market, so as to ensure the efficiency of capital utilisation with sufficient liquidity.

Our financial assets held under reverse repurchase agreements totaled RMB51,111.0 million as of 31 December 2013, representing a decrease of 1.2% compared to RMB51,745.6 million as of 31 December 2012.

(ii) Liabilities

As of 31 December 2013, our total liabilities were RMB302,248.2 million, representing an increase of 19.4% compared to RMB253,153.2 million as of 31 December 2012.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
	<i>(In millions of RMB, except percentages)</i>			
Due to customers	224,178.1	74.2%	186,642.4	73.8%
Due to banks and other financial institutions	50,610.9	16.7%	36,523.5	14.4%
Repurchase agreements	19,091.2	6.3%	22,832.7	9.0%
Debt securities issued	3,500.0	1.1%	3,500.0	1.4%
Due to central bank	787.2	0.3%	594.9	0.2%
Other liabilities ⁽¹⁾	4,080.8	1.4%	3,059.7	1.2%
Total liabilities	302,248.2	100.0%	253,153.2	100.0%

Note:

- (1) Other liabilities primarily consist of income tax payable and other tax payable, interest payable, items in the process of clearance and settlement as well as staff salary payable.

1. Due to customers

As of 31 December 2013, our due to customers totaled RMB224,178.1 million, representing an increase of 20.1% compared to RMB186,642.4 million as of 31 December 2012. The increase in our due to customers was primarily attributable to the expansion of outlets, improvement of service and strengthening of marketing capabilities.

The following table sets forth, as of 31 December 2012 and 2013, our due to customers by product type and maturity profile of deposits.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
<i>(In millions of RMB, except percentages)</i>				
Corporate deposits				
Demand deposits	79,909.6	35.6%	69,981.5	37.5%
Time deposits	76,894.5	34.3%	61,058.3	32.7%
Subtotal	156,804.1	69.9%	131,039.8	70.2%
Personal deposits				
Demand deposits	33,789.1	15.1%	27,107.2	14.5%
Time deposits	33,584.9	15.0%	28,495.4	15.3%
Subtotal	67,374.0	30.1%	55,602.6	29.8%
Total due to customers	224,178.1	100.0%	186,642.4	100.0%



2. Due from banks and other financial institutions

As of 31 December 2013, our due to banks and other financial institutions totaled RMB50,610.9 million, representing an increase of 38.6% compared to RMB36,523.5 million as of 31 December 2012. The increase in these liabilities was primarily due to our actively accepting deposits from other banks and broadening our sources of liabilities in order to increase return in response to the changes in market liquidity and the need to match assets and liabilities. We believe that these liabilities assist us in managing the differences between the maturities of loans and deposits.

3. Financial assets sold under repurchase agreements

Our repurchase agreements amounted to RMB19,091.2 million as of 31 December 2013, representing a decrease of 16.4% compared to RMB22,832.7 million as of 31 December 2012. The changes in our financial assets sold under repurchase agreements reflected adjustments to the proportion of financial assets sold under repurchase agreements to our liabilities based on market liquidity and our capital needs in view of the need to match assets and liabilities. The changes also reflected such liabilities' function in easing the difference between the maturity of loans and deposits, as well as our increased interaction with other banks.

(iii) Shareholders' Equity

As of 31 December 2013, our shareholders' equity amounted to RMB19,927.3 million, representing an increase of 17.7% compared to RMB16,937.0 million as of 31 December 2012. Equity attributable to equity holders of our Bank was RMB19,727.5 million as of 31 December 2013, representing an increase of 17.7% compared to RMB16,764.7 million as of 31 December 2012. The increase in shareholders' equity in 2013 was mainly due to an increase of our net profit.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
	<i>(In millions of RMB, except percentages)</i>			
Share capital	8,246.9	41.4%	7,560.2	44.6%
Reserves	7,449.9	37.4%	6,025.4	35.6%
Retained profit	4,030.7	20.2%	3,179.1	18.8%
Equity attributable to equity holders of the parent company	19,727.5	99.0%	16,764.7	99.0%
Non-controlling interests	199.8	1.0%	172.3	1.0%
Total equity	19,927.3	100.0%	16,937.0	100.0%

IV. Off-balance Sheet Commitments

The following table sets forth, as of 31 December 2012 and 2013, the contractual amounts of our off-balance sheet commitments.

	As of 31 December	
	2013 Amount	2012 Amount
	<i>(In millions of RMB)</i>	
Credit commitments:		
Bank bills acceptance	42,654.8	46,845.5
Issued letters of guarantee	1,821.1	235.9
Issued sight letters of credit	2,204.1	1,267.7
Credit limit of credit card	1,238.2	1,040.3
Subtotal	47,918.2	49,389.4
Capital expenditure commitments	1,437.4	1,383.7
Operating lease commitments ⁽¹⁾	670.1	513.2
Treasury bond redemption commitments ⁽²⁾	1,620.0	1,852.0
Relief obligation under risk cooperative fund ⁽³⁾	180.0	180.0
Total	51,825.7	53,318.3

Note:

- (1) Refers to the future minimum rentals payable under non-cancellable operating lease contracts.
- (2) We were commissioned by the MOF as issuance agency for its treasury bonds. Holders of treasury bonds might at any time request early redemption of the treasury bonds held by them, and we were liable for acceptance and repayment of such treasury bonds for the amounts of their principals and interests payable up to the redemption date. We expect that the amounts of the treasury bonds to be redeemed by us prior to maturity would be insignificant.
- (3) We became a member of the Asia Financial Cooperation Association on 31 December 2012. The risk cooperation fund established by the association was divided into equal portions with each portion amounting to RMB100 million at its establishment. We subscribed for two portions with 10% of the consideration made by cash contribution and 90% made by fulfilment of cooperation obligation, pursuant to which we have the obligation to provide assistance to members, to the extent of RMB180 million in the form of due to banks and other financial institutions or otherwise determined by the Asia Financial Cooperation Association.

In addition, as of 31 December 2013, there was no material litigation in which either our Bank or subsidiaries of our Bank is a defendant (As of 31 December 2012: NIL). To the reporting date, our Bank had no significant contingent liabilities.

Management Discussion and Analysis (Continued)

V. Analysis on Loan Quality

During the reporting period, our Bank continued to strengthen credit risk management, improved credit investigation and credit approvals and strengthened post-loan management measures to increase the efforts on collection and disposal of non-performing loans, so that the loan quality was generally kept at a manageable level. However, our Bank faced an upward pressure upon non-performing loans due to changes in the external business environment and the impact of natural disasters. As of 31 December 2013, the non-performing loans increased by RMB348.0 million over the previous year, and the non-performing loans ratio rose 0.21% over the previous year end. As of 31 December 2013, the balance of non-performing loans of total loan portfolio amounted to RMB904.2 million, up 62.6% compared with RMB556.2 million as of 31 December 2012, and mainly due to the floods in the summer of 2013 in Heilongjiang, coupled with volatile food prices during the period, the overdue loans to farmers rose, leading to an increase in non-performing loans.

(i) Distribution of loans by five-category loan classification

The following table sets forth, as of 31 December 2012 and 2013, our loans and advances to customers in each category of our five-category loan classification.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
	<i>(In millions of RMB, except percentages)</i>			
Pass	103,945.6	98.1%	86,128.3	98.7%
Special mention	1,091.5	1.0%	579.9	0.7%
Substandard	405.4	0.4%	377.6	0.4%
Doubtful	265.3	0.3%	94.9	0.1%
Loss	233.5	0.2%	83.7	0.1%
Total loans to customers	105,941.3	100.0%	87,264.4	100.0%
Non-performing loans and NPL ratio⁽¹⁾	904.2	0.85%	556.2	0.64%

Note:

(1) NPL ratio is calculated by dividing non-performing loans in each industry by total loans and advances to customers.

According to the five-category loan classification system, our Bank classified its non-performing loans to the categories of substandard, doubtful and loss.

- (ii) The distribution of loans and non-performing loans by business line
 The following table sets forth, as of the dates indicated, our loans and non-performing loans by business lines.

	As of 31 December					
	2013			2012		
	Loan amount	NPL amount	NPL ratio	Loan amount	NPL amount	NPL ratio
	<i>(In millions of RMB, except percentages)</i>					
Corporate loans						
Loans to small enterprises	32,661.2	160.9	0.49%	23,638.0	46.0	0.19%
Other corporate loans excluding loans to small enterprises	30,877.0	30.0	0.10%	27,470.1	75.8	0.28%
Subtotal	63,538.2	190.9	0.30%	51,108.1	121.8	0.24%
Personal loans						
Loans to small enterprise owners	15,380.5	110.7	0.72%	13,731.2	119.1	0.87%
Personal consumption loans	15,870.2	88.1	0.56%	11,203.3	68.1	0.61%
Loans to farmers	9,247.9	514.5	5.56%	9,875.6	247.2	2.50%
Subtotal	40,498.6	713.3	1.76%	34,810.1	434.4	1.25%
Discounted bills	1,904.5	—	—	1,346.2	—	—
Total	105,941.3	904.2	0.85%	87,264.4	556.2	0.64%

In 2013, our Bank actively responded to the national policies, strengthening the adjustment of loans structure and continuing to develop microcredit business (corporate loans to small enterprises and personal loans). By the end of the reporting period, the NPL ratio of corporate loans rose by 0.06% to 0.30%, mainly due to an increase in non-performing corporate loans to small enterprises. The NPL ratio of personal loans climbed by 0.51% to 1.76%, primarily for an increase in non-performing loans to farmers.

Management Discussion and Analysis (Continued)

- (iii) The distribution of loans and non-performing loans classified by industry
The following table sets forth, as of the dates indicated, the distribution of our loans and non-performing loans by industry.

	As of 31 December							
	2013				2012			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
	<i>(In millions of RMB, except percentages)</i>							
Agriculture, forestry, poultry and fishery	4,163.2	3.9%	1.6	0.04%	2,277.9	2.6%	—	—
Mining	874.6	0.8%	—	—	880.1	1.0%	—	—
Manufacturing	13,603.7	12.8%	60.3	0.44%	10,793.9	12.4%	35.0	0.32%
Production and supply of electricity, gas and water	1,535.6	1.5%	—	—	1,460.9	1.7%	—	—
Construction	5,171.5	4.9%	10.4	0.20%	3,269.6	3.8%	9.4	0.29%
Transportation, storage and postal services	2,194.0	2.1%	—	—	966.3	1.1%	—	—
Information transmission, computer services and software	544.2	0.5%	0.9	0.17%	636.7	0.7%	—	—
Wholesale and services	21,778.9	20.6%	113.9	0.52%	18,512.6	21.2%	73.2	0.40%
Accommodations and catering	1,234.0	1.2%	—	—	880.5	1.0%	—	—
Finance	20.0	0.0%	—	—	671.7	0.8%	—	—
Real estate	2,236.3	2.1%	3.4	0.15%	2,443.9	2.8%	3.8	0.15%
Rental and commercial services	5,523.2	5.2%	0.4	0.01%	2,562.8	2.9%	0.4	0.02%
Scientific research, technical services and geological prospecting	179.9	0.2%	—	—	138.9	0.2%	—	—
Water conservation, environment, public utility management and investment	2,543.6	2.4%	—	—	3,059.6	3.5%	—	—
Residential and other services	992.2	0.9%	—	—	1,013.9	1.2%	—	—
Education	481.2	0.5%	—	—	518.3	0.6%	—	—
Health, social security and social welfare	264.4	0.3%	—	—	379.6	0.4%	—	—
Culture, sports and entertainment	180.3	0.2%	—	—	140.5	0.2%	—	—
Public management and social organization	17.4	0.0%	—	—	500.4	0.6%	—	—
Total corporate loans	63,538.2	60.0%	190.9	0.30%	51,108.1	58.6%	121.8	0.24%
Total personal loans	40,498.6	38.2%	713.3	1.76%	34,810.1	39.9%	434.4	1.25%
Discounted bills	1,904.5	1.8%	—	—	1,346.2	1.5%	—	—
Total	105,941.3	100.0%	904.2	0.85%	87,264.4	100.0%	556.2	0.64%

As of 31 December 2013, the non-performing corporate loans of our Bank concentrated in wholesale and service industry and manufacturing industry, with NPL ratio of 0.52% and 0.44%, respectively.

Management Discussion and Analysis (Continued)

- (iv) The distribution of loans and non-performing loans by geographical region

The following table sets forth, as of the dates indicated, the distribution of our loans and non-performing loans by geographical region.

	As of 31 December							
	2013				2012			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
	<i>(In millions of RMB, except percentages)</i>							
Heilongjiang region	53,879.6	50.9%	805.4	1.49%	43,112.1	49.4%	508.8	1.18%
Other Northeast region	18,343.1	17.3%	73.2	0.40%	23,787.5	27.2%	31.6	0.13%
Southwest region	23,555.6	22.2%	0.7	0.00%	11,834.1	13.6%	—	—
Northern China	7,517.2	7.1%	17.7	0.24%	6,273.8	7.2%	8.0	0.13%
Other regions	2,645.8	2.5%	7.2	0.27%	2,256.9	2.6%	7.8	0.35%
Total	105,941.3	100.0%	904.2	0.85%	87,264.4	100.0%	556.2	0.64%

As of 31 December 2013, a majority of our non-performing loans was concentrated in the Heilongjiang region, primarily because loans and advances to customers in the Heilongjiang region constituted the largest portion of our loans and advances to customers, and the loans to farmers which have high NPL ratio accounted for a larger portion in the Heilongjiang region.

- (v) The distribution of loans and non-performing loans by collateral

The following table sets forth the distribution of our loans and non-performing loans by collateral as of the dates indicated.

	As of 31 December							
	2013				2012			
	Amount	% of total	NPL amount	NPL ratio	Amount	% of total	NPL amount	NPL ratio
	<i>(In millions of RMB, except percentages)</i>							
Unsecured loans	4,902.8	4.6%	38.9	0.79%	4,547.3	5.2%	48.0	1.06%
Guaranteed loans	41,061.8	38.8%	586.8	1.43%	35,397.0	40.6%	258.4	0.73%
Collateralised loans	45,948.2	43.4%	278.5	0.61%	31,953.4	36.6%	190.3	0.60%
Pledged loans	14,028.5	13.2%	—	—	15,366.7	17.6%	59.5	0.39%
Total	105,941.3	100.0%	904.2	0.85%	87,264.4	100.0%	556.2	0.64%

Management Discussion and Analysis (Continued)

(vi) Concentration of borrowers

As of 31 December 2013, our Bank was in compliance with the lending limit of 10% of our net capital to any single borrower. The following table sets forth, as of 31 December 2013, our 10 largest single borrowers (excluding group borrowers) in terms of loan balance, none of which was a non-performing loan.

Industry		As of 31 December 2013		
		Loan balance	% of total loans	% of net capital
<i>(In millions of RMB, except percentages)</i>				
Borrower A	Agriculture, forestry, husbandry and fishery	1,000.0	0.94%	4.50%
Borrower B	Wholesale and services	996.0	0.94%	4.48%
Borrower C	Manufacturing	754.7	0.71%	3.39%
Borrower D	Manufacturing	600.0	0.57%	2.70%
Borrower E	Wholesale and services	505.8	0.48%	2.28%
Borrower F	Water conservation, environment, public utility management and investment	500.0	0.47%	2.25%
Borrower G	Transportation, storage and postal services	500.0	0.47%	2.25%
Borrower H	Water conservation, environment, public utility management and investment	500.0	0.47%	2.25%
Borrower I	Real estate	470.0	0.44%	2.11%
Borrower J	Real estate	447.6	0.42%	2.01%
Total		6,274.1	5.92%	28.22%

(vii) Overdue loans and advances to customers

The following table sets forth, as of the dates indicated, the distribution of our loans and advances to customers by maturity.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
<i>(In millions of RMB, except percentages)</i>				
Current loans	104,566.0	98.7%	86,629.7	99.3%
Loans past due ⁽¹⁾				
For 1 to 90 days	440.1	0.4%	126.8	0.1%
For 91 days to 1 year	588.3	0.6%	329.6	0.4%
For 1 year and above	346.9	0.3%	178.3	0.2%
Subtotal	1,375.3	1.3%	634.7	0.7%
Total loans to customers	105,941.3	100.0%	87,264.4	100.0%

Note:

- (1) Loans to customers with specific repayment date are classified as overdue when the principal or interest becomes overdue. For instalment loans, if any portion of the loans is overdue, the full amount of such loans is classified as overdue.

Management Discussion and Analysis (Continued)

As of 31 December 2013, the amount of overdue loans totaled RMB1,375.3 million, up RMB740.6 million over the previous year end; the overdue loans accounted for 1.3% of total loans, up 0.6% over the previous year end. The increase in the overdue loans was mainly due to an increase on the overdue loans to farmers.

(viii) Movements of allowance for impairment losses on loans

The allowance for impairment losses of loans increased by 23.4% to RMB2,426.3 million as of 31 December 2013. This increase was mainly due to the growth of our lending scale. Our impairment losses on loans ratio rose to 2.29% compared to 2.25% as of 31 December 2012 and our impairment coverage ratio declined to 268.34% as of 31 December 2013 from 353.52% as of 31 December 2012.

Movements of allowance for impairment losses during the year are as follows:

	Individually assessed	Collectively assessed	Total
			<i>(In millions of RMB)</i>
As of 31 December 2011 and 1 January 2012	167.3	1,298.3	1,465.6
Exchange difference	—	—	—
Impairment loss:	(58.2)	895.5	837.3
Impairment allowances charged	9.6	895.5	905.1
Reversal of impairment allowances	(67.8)	—	(67.8)
Accreted interest on impaired loans	(17.1)	—	(17.1)
Write-off	(0.2)	(342.5)	(342.7)
Recoveries of loans and advances previously written off	0.5	22.7	23.2
As of 31 December 2012 and 1 January 2013	92.3	1,874.0	1,966.3
Exchange difference	(0.5)	(0.0)	(0.5)
Impairment loss:	27.3	490.4	517.7
Impairment allowances charged	30.5	490.4	520.9
Reversal of impairment allowances	(3.2)	—	(3.2)
Accreted interest on impaired loans	(7.8)	(28.4)	(36.2)
Write-off	(38.1)	(24.8)	(62.9)
Recoveries of loans and advances previously written off	6.0	35.9	41.9
As of 31 December 2013	79.2	2,347.1	2,426.3

Management Discussion and Analysis (Continued)

VI. Segment Report

(i) Geographical Segment Report

Our Bank operates in Mainland China. The distribution of the geographical areas is as follows:

Mainland China (Head Office and branches):

Heilongjiang region: Including Head Office, Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqihar as well as village and township banks operating within Heilongjiang.

Other northeast region: Including Dalian, Shenyang, as well as village and township banks operating in Northeastern China excluding the ones in Heilongjiang.

Southwest region: Chengdu, Chongqing, as well as village and township banks operating mainly in Sichuan and Chongqing and located in Southwest China.

Northern China: Tianjin, as well as village and township banks operating mainly in Beijing and Tianjing and located in Northern China.

Other regions: Village and township banks operating in regions other than those listed above.

The table below sets forth, for the periods indicated, certain key financial indicators of each of our geographical regions of our head office and branches.

	Mainland China					Total
	Heilongjiang region	Other northeast region	Southwest region	Northern China	Other regions	
	<i>(In millions of RMB)</i>					
Year ended						
31 December 2013						
Operating income	5,481.7	960.6	1,280.7	568.2	252.6	8,543.8
Operating expenses	2,326.9	416.8	538.0	195.3	114.0	3,591.0
Impairment losses	265.1	68.7	73.6	54.0	44.7	506.1
Operating profit	2,889.7	475.1	669.2	318.9	93.8	4,446.7
Segment assets	208,122.2	31,736.4	57,867.1	17,687.4	6,762.4	322,175.5
Segment liabilities	172,892.7	43,844.1	60,595.2	18,887.4	6,028.7	302,248.1

Management Discussion and Analysis (Continued)

	Mainland China					Total
	Heilongjiang region	Other northeast region	Southwest region	Northern China	Other regions	
<i>(In millions of RMB)</i>						
Year ended						
31 December 2012						
Operating income	5,020.0	872.2	1,122.7	559.6	136.8	7,711.3
Operating expenses	2,099.4	322.6	347.0	168.0	88.5	3,025.5
Impairment losses	496.2	99.7	158.4	54.4	27.5	836.2
Operating profit	2,424.4	449.9	617.3	337.2	20.7	3,849.5
Segment assets	171,368.0	33,639.0	43,401.2	17,085.7	4,596.2	270,090.1
Segment liabilities	155,685.0	33,552.6	43,038.6	16,939.3	3,937.7	253,153.2

The table below sets forth our operating income by geographical regions and their proportion to our total operating income for the periods indicated:

	For the year ended 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
<i>(In millions of RMB, except percentages)</i>				
Heilongjiang region	5,481.7	64.1%	5,020.0	65.1%
Other northeast region	960.6	11.2%	872.2	11.3%
Southwest region	1,280.7	15.0%	1,122.7	14.6%
Northern China	568.2	6.7%	559.6	7.3%
Other regions	252.6	3.0%	136.8	1.7%
Total operating income	8,543.8	100.0%	7,711.3	100.0%

(ii) Business Segment Report

The table below sets forth our operating income by business segments and their proportion to our total operating income for the years ended 31 December 2012 and 2013:

	For the years ended 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
<i>(In millions of RMB, except percentages)</i>				
Corporate banking business	2,906.6	34.0%	2,585.6	33.5%
Personal banking business	2,434.7	28.5%	2,228.7	28.9%
Treasury operations	3,077.3	36.0%	2,808.6	36.4%
Other businesses ⁽¹⁾	125.2	1.5%	88.4	1.2%
Total operating income	8,543.8	100.0%	7,711.3	100.0%

Note:

(1) Include net trading income, net gain or loss on financial investments and other operating income.

Management Discussion and Analysis (Continued)

VII. Analysis on Capital Adequacy Ratio

Our Group continued to optimize its business structure and strengthen capital management, and as of 31 December 2013, the capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 11.95%, 10.68% and 10.68%, respectively, in line with the requirements during the transition period provided in *the Regulations Governing Capital of Commercial Banks (Provisional)* issued by China Banking Regulatory Commission. According to the previous calculation approach, the Group's capital adequacy ratio and core capital adequacy ratio were 12.55% and 11.67%, respectively, as of 31 December 2013, down 0.42% and 0.27%, compared to 31 December 2012, mainly due to the increase in the scale of assets, resulting in a corresponding rise in risk-weighted assets.

Our Bank calculated the capital adequacy ratio and core capital adequacy ratio (in the previous way) according to *the Administrative Measures on Capital Adequacy Ratio of Commercial Banks* issued by CBRC and other relevant provisions as follows:

	As of 31 December	
	2013	2012
	<i>(In millions of RMB, except percentages)</i>	
Core capital	19,926.6	16,764.5
Deductions from core capital	(500.2)	(500.2)
Net core capital base	19,426.4	16,264.3
Supplementary capital:		
General provisions for loan impairment	1,059.4	897.5
Long-term subordinated bonds	900.0	1,000.0
Total capital base before deductions	21,886.0	18,662.0
Deduction	(1,000.4)	(1,000.4)
Net capital base	20,885.6	17,661.6
Risk-weighted assets and market risk capital adjustment	166,454.1	136,190.0
Core capital adequacy ratio (%)	11.67%	11.94%
Capital adequacy ratio (%)	12.55%	12.97%

Management Discussion and Analysis (Continued)

In accordance with *the Regulations Governing Capital of Commercial Banks (Provisional)* issued by China Banking Regulatory Commission, the capital adequacy ratio is (in the new approach) as follows:

	As of 31 December 2013
<i>(In millions of RMB, except percentages)</i>	
Core capital	19,926.6
Core Tier 1 Capital deductibles item	(58.7)
Full deductibles items	(58.7)
Net core tier 1 capital	19,867.9
Net other tier 1 capital	—
Net tier 1 capital	19,867.9
Net tier 2 capital	2,362.8
Net capital	22,230.7
Credit risk-weighted assets	169,098.0
Market risk-weighted assets	3,589.7
Operational risk-weighted assets	13,326.8
Total risk-weighted assets	186,014.5
Core tier 1 capital adequacy ratio	10.68%
Tier 1 capital adequacy ratio	10.68%
Capital adequacy ratio	11.95%

VIII. Business Operation

(i) Corporate banking business

In response to the changes of the economic and policy environment of China, our Bank continued to strengthen our marketing capabilities and improve customer services through business innovation, and promoted the development of our corporate banking business. For the year ended 31 December 2013, our operating income from corporate banking business amounted to RMB2,906.6 million, accounting for 34.0% of the total operating income over the same period, representing a year-on-year increase of 12.4%. In Northeast region, especially in Heilongjiang Province, a solid customer base was established. In the meantime, by leveraging the advantages of our cross-regional operating network, our Bank continued to develop corporate customers in other regions in China outside Heilongjiang Province and as a result, the number of corporate customers in these regions has demonstrated a growth trend. As of 31 December 2013, we had more than 61,000 corporate customers. Of these customers, 8,400 corporate customers maintained accounts with our branches in Tianjin, Chengdu and Chongqing, representing a year-on-year increase of 31.8%.

1. Corporate deposits

Our Bank provided current and term deposits service to customers based on the statutory interest rate and floating range, mostly denominated in RMB and a small part denominated in foreign currencies. In 2013, the corporate deposits maintained a stable growth. As of 31 December 2013, our total corporate deposits amounted to RMB156,804.1 million, representing a year-on-year increase of 19.7%. For the year ended 31 December 2013, the average balance of corporate deposits was RMB133,099.3 million, up 24.3% or RMB25,993.6 million over last year.

2. Corporate loans

As of 31 December 2013, the balance of our corporate loans (excluding discounted bills) amounted to RMB63,538.2 million, representing a year-on-year increase of 24.3%. As of the same date, RMB32,661.2 million of these loans were loans to Small Enterprises, accounting for 51.4% of our total corporate loans and representing a year-on-year increase of 38.2%. At the same time, there was a continuous improvement in the asset quality of corporate loans, with non-performing loans at RMB190.9 million and NPL ratio at 0.30%. The credit structure was constantly optimized. In terms of the industry structure, as of 31 December 2013, our Bank's customers with corporate loans mainly concentrated in the wholesale and services industry, manufacturing, rental and commercial services, construction as well as agriculture, forestry, husbandry and fishery, respectively accounting for 34.3%, 21.4%, 8.7%, 8.1 % and 6.6 % of our Bank's corporate loans.

3. Corporate banking products

The corporate banking product system was further perfected. According to the economic attributes and the conditions of major industries, our Bank continued to conduct research and develop products for the actual needs of customers. Up to now, our Bank had multiple major products, like debt-based products, asset products and fee- and commission-based business, and domestic factoring, banker's acceptance bill, domestic letters of credit and cash management, facilitating the business development.

4. Account Managers to corporate customers

The team of Account Managers to corporate customers was constantly optimized. Our Bank, currently, was equipped with a sound approach to administrate Account Managers to corporate customers, and the regular introduction of administration rules was established to clearly define the entry, quit and assessment for Account Managers. By means of training and guidance, our Bank made a sustainable progress in the number of the Account Managers and their overall quality, giving full play to their role of marketing, which significantly boosted the expansion of our corporate banking business.

5. *Demonstration work for corporate customers*

Firstly, both headquarter and branches joined in the demonstration work. The headquarter built up grain business unit and the branches established grain financial center, initially structuring a unique business model for the grain industry. The business was developed in an orderly manner, and the model achieved a good start through the introduction of the “loans upon grain” product.

Secondly, more financial support was provided to implement projects in the cultural industry. Our Bank, as the only representative of the financial demonstration organization, participated in the Cultural Enterprises Fair in Harbin, and was highly appreciated by the officials of the City and the organizers.

Thirdly, the channels were expanded to fully implement the cross-selling marketing. The cross-selling concept was introduced into the investigation report before credit loans, and the cross-selling schedule was inserted in the report. Our Bank held the case selection activities, and achieved replication and promotion by absorbing and transforming the cases, effectively improving the branches’ cross-selling capabilities.

6. *Channel establishment*

Firstly, our Bank positively propelled the business development of each branch, and well directed their corporate banking businesses, facilitating the branches’ unique operation in order to build the regional competitive advantage.

Secondly, Account Managers were taken as the main channel for our corporate banking business, and the management and assessment of them were continuously upgraded. The innovative training model was set up, and the training concept of unified planning, unified training and unified management of Harbin Bank Public Finance School was introduced. Therefore, the team building and personnel training climbed onto a new step.

Thirdly, the idea of Risk Managers was proposed for management, and the framework of the Risk Managers team for the corporate banking business line was established initially, in order to fully improve the professional level of risk management by enhancing all-round and whole-process business risk monitoring.

(ii) Personal banking

In 2013, our Bank strengthened marketing efforts to personal customers, continued the development of our personal banking business by diversifying the product offering of our personal banking business and enhancing the structure of our personal customers. For the year ended 31 December 2013, the number of our personal customers exceeded 5.6 million and the operating income from our personal banking business (including personal banking international business) amounted to RMB2,434.7 million, accounting for 28.5% of our total operating income over the same period and representing a year-on-year increase of 9.2%.

1. Personal deposits

Our Bank insisted on the brand value of our personal cashing business and incorporated service into sales, giving full play to the regional advantage, in order to achieve good results in the crucial period in the busy season, the high-end customers and the marketing and sales of key projects in the target markets. As of 31 December 2013, our total personal deposits amounted to RMB67,374.0 million, representing a year-on-year increase of 21.2%. For the year ended 31 December 2013, the average balance of personal deposits was RMB52,702.3 million, up 28.8% or RMB11,775.7 million over last year. Total personal deposits, annual increment and market share ran ahead of the peers in the region.

2. Personal loans

The personal loans were the important part of the microcredit business, including loans to Small Enterprise Owners, personal consumption loans and loans to farmers. As of 31 December 2013, the balance of our personal loans reached RMB40,498.6 million, accounting for 38.2% of our total loans to customers. As of 31 December 2013, loans to Small Enterprise Owners, personal consumption loans and loans to farmers amounted to RMB15,380.5 million, RMB15,870.2 million and RMB9,247.9 million, respectively, and accounted for 38.0%, 39.2% and 22.8%, respectively, of our total personal loans.

Our Bank set up a goal to become a first-class domestic microcredit bank known worldwide, sustained the dominant position of the personal loans business, constantly optimized the credit structure, developed new personal credit products and facilitated the adjustment of customer structure and product structure. Hence, personal loans achieved a steady growth, and the stock and increment ranked top in local financial markets.

On the basis of customer segmentation, our Bank refined the current product structure according to the market demand, and specially modified the procedures for personal loans, including the existing personal consumption loans. Therefore, our Bank was able to provide customers with differentiated products and services in the aspect of personal loans.

3. Bank cards

Newly issued bank cards continued to rise. By the end of the reporting period, our Bank issued 5.9324 million debit cards in total, and the number of the newly issued of the year amounted to 1.16 million.

Our Bank was always committed to strengthening the innovation for credit card business, conducting research and developing new products to meet the demands from the differentiated markets. It consecutively issued Card for Government Officials in Harbin and Zhaoyuan City. In addition, such co-branded cards as Beifang Jiari and Zhuozhan and the themed cards of Jiayuan series were issued. Our Bank also conducted R&D for POS business, and launched a series of large car-oriented installment products. All these laid a solid foundation for the credit cards to maintain a strong competitiveness in the market. As of 31 December 2013, our Bank totally issued 121,900 credit cards, up 72,200 over the previous year end.

4. Agency services

In 2013, with the rapid development of Internet banking, our Bank paid more attention to the “customer-oriented” operation philosophy, enhancing the customer service experience, and committed to strengthening the establishment in such aspects as product system, electronic channels and customer service of the personal fee- and commission-based business. At the same time, our Bank strove to carry out other agency services, including fund distribution, bancassurance and precious metals, so as to meet the diverse demands from customers.

(iii) Treasury operations

In 2013, our Bank continued to strengthen our research on macroeconomic policies and market analysis in order to reduce the adverse impacts of market volatility minimise the impact of a slowdown in the PRC economic development and ensure steady growth of the operating income of our treasury operations. For the year ended 31 December 2013, the operating income of our treasury operations (including international treasury operations) amounted to RMB3,077.3 million, accounting for 36.0% of our total operating income and representing a year-on-year increase of 9.6%.

1. Money Market Transactions

In 2013, the funds rate, driven by the oversea capital, went up sharply, and the overnight weighted interest rate hit a record high. As the People's Bank of China injected a large number of capital into the market, the liquidity was gradually eased. The money market moved up first and then down, presenting a fluctuating image through the year. In 2013, our Bank closely monitored the development and changes in the cost of capital in the money market, actively took advantage of market opportunities and increased profitability whilst ensuring liquidity. As of 31 December 2013, the balance of our due from and placements with banks and other financial institutions and financial assets held under reverse repurchase agreements reached RMB84,982.1 million, representing a year-on-year increase of 18.5% and accounting for 26.4% of our total assets. As of the same date, the balance of our due to and placements from banks and other financial institutions and financial assets sold under repurchase agreements reached RMB69,702.0 million, representing a year-on-year increase of 17.4% and accounting for 23.1% of our total liabilities. In 2013, our Bank was named by the National Interbank Funding Centre for 11 consecutive years as one of the "Top 100 Traders in National Interbank Bond Market (by Transaction Volume)", and was recognised for four consecutive years by China Central Depository & Clearing Co., Ltd. as an "Outstanding Settlement Member in the National Interbank Bond Market".

2. Investments in Securities and Other Financial Assets

In 2013, our Bank adjusted our investment strategies and analysis on financial market and changes of policy environment. In 2013, the bond yields rose sharply due to the affection of the capital, therefore, the yields of each maturity variety hit a record high. In such environment, our Bank drew a close attention to changes in the economic environment and the bond market. Based on the forecast of market interest rates, our Bank dynamically adjusted the positions in the trading accounts, in order to achieve a better spread income. Meanwhile, it made reasonable arrangements for investment opportunities, and realized the sound investment, timely making profit.

As our Bank absorbed more deposits in 2013, it owned more capital available for investment. In order to apply the various types of investment more efficiently and expand investment channels constantly, our Bank appropriately increased the investments in debt instruments issued by financial institutions, expecting an improvement in the capital efficiency.

As of 31 December 2013, the balance of our bond investments was RMB27,666.3 million, representing a year-on-year decrease of 4.6%. As of the same date, the balance of our investments in debt instruments issued by financial institutions was RMB43,345.0 million, representing an increase of RMB21,201.0 million as compared with the previous year and representing a year-on-year increase of 95.7%. According to China Central Depository & Clearing Co., Ltd., the bonds traded by our Bank for the 12 months ended 31 December 2013 amounted to RMB2.16 trillion.

3. Treasury Operations Conducted on Behalf of Customers

While making sure that our Bank's wealth management funds were invested in line with the national macro-control policies and regulatory policies, our Bank has worked to meet the needs of wealth management customers in 2013. For the year ended 31 December 2013, our Bank issued 387 tranches of wealth management products to our customers, and raised funds in total of RMB80,902.2 million, up 35.1% over 2012. As of 31 December 2013, the total outstanding amount of wealth management products issued by us was RMB30,595.0 million, of which the balance of our investments in non-standard debt-based assets was RMB6,532.0 million, representing approximately 21.4% of the balance of our Bank's wealth management products as of 31 December 2013, and approximately 2.4% of our Bank's total assets as of 31 December 2012. These balances complied with the regulatory requirements of the CBRC.

Our Bank started from the customers' needs and launched the wealth management products with different maturities and yields in our wealth management business to meet the investment demands from the wealth management customers according to the market change and their risk tolerance. After years of development, our Bank has established a relatively refined "Lilac Wealth Management" product system which was widely accepted by the customers. Our Bank won "2013 China's Best Wealth Management Product" for its wealth management products in the selection of the Most Respected Bank i.e. the Best Retail Bank in China launched by "Moneyweek" magazine in 2013.

(iv) Development of key unique business

1. Microcredit business

Through persistent development of our microcredit business, the scale of our microcredit business continued to grow over the periods. As of 31 December 2013, the total balance of our microcredit loans reached RMB73,159.8 million, representing a year-on-year increase of 25.2% and accounting for 69.1% of our total loans to customers. For the year ended 31 December 2013, the interest income from our microcredit business was RMB5,172.0 million, accounting for 67.9% of the total interest income from loans to customers.

The following table sets forth the distribution of the microcredit loans byproduct type as of the date indicated.

	As of 31 December			
	2013		2012	
	Amount	% of total	Amount	% of total
<i>(In millions of RMB, except percentages)</i>				
Corporate loans to small enterprises	32,661.2	44.6%	23,638.0	40.4%
Personal loans	40,498.6	55.4%	34,810.1	59.6%
Total microcredit	73,159.8	100.0%	58,448.1	100.0%

Loans to small enterprises

In 2013, our Bank actively supported national policies and provided strong support to Small Enterprise Customers. Our loans to Small Enterprise Customers (including corporate loans to Small Enterprises and personal loans to Small Enterprise Owners) have become the core component in the implementation of our microcredit strategy. As of Dec 31, 2013, our Bank had more than 33,000 Small Enterprises customers. Our Bank has strengthened the marketing of loans to Small Enterprise Customers and developed new customer services, comprehensively developing the business of loans to Small Enterprises.

Our Bank established the branches specially for Small Enterprises in 2013 with an approval from the China Banking Regulatory Commission, and on Oct 14, 2013, the Harbin Bank Center of Financial Services for Small Enterprise Customers was officially established. Based on the center, the vertical management structure for the special branches was set up, and the direct marketing team was established for loans to Small Enterprise, providing a professional service channel for small and micro customers. As of Dec 31, 2013, the financial services center for Small Enterprises established 11 direct marketing teams.

Our Bank founded the Harbin Bank Lilac Coalition of Small and Micro Enterprise Customers, and built up an efficient platform for the cross-selling, customers referral and risk management in such ways as the financial services, including pre-credit services and credit lines upgrade for coalition customers and other non-financial services, like training for customers' growth and the customers' deal-making. It could further enhance customers' satisfaction and achieve win-win situation between our Bank and small enterprises. By the end of 2013, our Bank had set up 43 "Small and Micro Enterprise families" and 6 community financial service stations.

Our Bank tried its best to provide a full range of products and service system for small and micro enterprises customers, and develop more unique products without stop according to the features and needs of small and micro customers. Our Bank launched such products as Zengxintong, and accomplished a comprehensive upgrade of Shangquantong, Joint Guaranteed Loans and Yibaotong in 2013.

Our Bank continued to strengthen risk management, effectively raising the quality of assets of small business for credit. The management over risks for small enterprises was continuously strengthened in 2013, by means of score-card post-loan management technology, remote monitoring technology and highly efficient and flexible daily control measures.

In 2013, our microcredit business has won one international award, three domestic awards and three provincial awards, including: (1) “Just-for-you”(乾道嘉) microcredit was awarded as “Best Microfinance Product in China in 2013” (2013 年度中國最佳小額信貸產品) by the Asian Banker. (2) In the Symposium of the Medium and Small Bank Development in China & the 2nd Best Medium and Small Bank Presentation Award Ceremony in 2013, we have won “Best Medium and Small Bank of 2012 — Best SME Service Award” (2012年最佳中小銀行 — 中小企業服務獎), and have been awarded as the “Leading Banking Institution Providing Services to Small and Micro Enterprises in China” (全國銀行業金融機構小微企業金融服務先進單位) for five consecutive times by the CBRC. The Small and Micro Enterprises Financing Plan of Shanquantong (商全通) was recognised as “Top 20 Financial Service Products for Small and Micro Enterprises 2013” by the China Banking Association. (3) We have received three honours, including “The CBRC Heilongjiang Bureau 2012 Leading Financial Services to Small and Micro Enterprises” (黑龍江銀監局2012年度小微企業金融服務先進單位), “Financial Service Featured Products for Small and Micro Enterprises” (小微企業金融服務特色產品) and “Promotion Month Outstanding Organisation Award of Financial Service for Small and Micro Enterprises” (小微企業金融服務宣傳月活動優秀組織獎) by CBRC Heilongjiang Bureau.

Loans to farmers

With years of continuous efforts and exploration, the business of loans to farmers achieved fruitful results in customer development, team building, product innovation, channel establishment and risk management. In 2013, our Bank took advantage of the favorable opportunity of the comprehensive reforms of modern agriculture in “Two Plains” implemented in Heilongjiang Province, actively adjusting the business management models, continuing the innovation in rural financial products and improving the ability to manage risks from loans to farmers, so that the competitive advantage of loans to farmers significantly upgraded. As of 31 December 2013, the number of farmers with loans surpassed 190,000, and the balance of loans to farmers was RMB9,247.9 million.

During the reporting period, our Bank further optimized the structure of business management over loans to farmers, and the rural finance department executed the professional management over the business of loans to farmers, setting up the county-level rural financial center to strengthen the management of the county-level branches. It also established a scientific and effective business operating model and structure, providing a guarantee to better serve rural customers.

During the reporting period, our Bank speeded up the innovation of products featured with rural finance in response to the development trend of modern agriculture, and with R&D launched many products, namely mortgage loans against the rural land contract for management rights, mortgage loans against forest rights, loans to members of farmers’ specialized cooperative and consolidated consumption loans to urbanization farmers. Therefore, our Bank boosted its market competitiveness steadily and effectively met the

diversified financial needs of customers in rural areas. “Just-for-you” Financial Product on Microfinance to Agritainment of our Bank won the “Innovation Award for Ten Best Financial Products” in the selection for “China Financial Innovation Award of 2013” launched by “The Banker” magazine.

Our Bank vigorously carried out the construction of “Just-for-you” Farmer-assistance e-stations during the reporting period. Up to 31 December 2013, our Bank has established 896 “Just-for-you” Farmer-assistance e-stations, providing small cash withdrawals, transfers and balance inquiries to the rural customers, so that more customers in the rural areas were able to enjoy the basic financial services. In 2013, the “Just-for-you” Farmer-assistance e-stations was awarded “the advanced group for improving the national payment service environment in rural areas” in the contest for the advanced group improving the national payment service environment in rural areas held by the Headquarter of the People’s Bank of China in 2013.

Microcredit Know-how and Technology Exportation

Our Bank constantly refined the microcredit core technology, and became the first to export the technology to other banks. Currently, our Bank had extended the microcredit technology to Southwestern China, Central China, Eastern China and Northern China, covering Sichuan, Henan, Shandong, Jiangsu and Zhejiang, and the target customers included urban commercial banks, rural commercial banks, rural credit cooperatives and rural banks, realizing the change from a single project output to the output of a batch of projects. In addition, the technology exportation achieved a breakthrough in standardization, process management and institutionalization.

As of 31 December 2013, our Bank had entered into 23 microcredit know-how and technology exportation contracts (including 16 contracts that have been completed). As of the same date, aggregate fee income generated from microcredit technology exportation amounted to RMB15.6 million. In April 2013, the microcredit technology exportation was exhibited as a significant achievement for the second consecutive year in the exhibition of achievements in financial services for small and micro enterprises in China banking industry held by China Banking Regulatory Commission.

2. International business

Our Bank focused on the development of both domestic business and international business, and made efforts to provide customers with comprehensive financial services in RMB and foreign currencies, at home and abroad. Our Bank reached U.S.\$2,310.0 million in international settlements in 2013, up 52% YoY. As of 31 December 2013, the balance of our foreign currency loan to corporate customers amounted to U.S.\$202.5 million and the balance of our foreign currency deposit from corporate customers amounted to U.S.\$83.8 million.

Our Bank made continuous study and innovation in the Sino-Russia financial service network, operating system, development of unique products, professional talents reserves and Sino-Russia cross-border e-commerce services, building core competitiveness in Sino-Russia finance. Our Bank always insisted on the development of the border trade with Russia, supporting the ports construction towards Russia. Our Bank in 2013 focused on the development of Suifenhe and Dongning Ports for the financial business with Russia, and accelerated each financial business with Russia, maintaining the leading position in market-making transactions in ruble and ruble cash exchange among the peers. During the same period, our Bank had handled the ruble cash exchange of RUB7,145.6 million, accounting for more than half of total ruble cash exchange in the domestic financial institutions, and the ruble cash transactions amounted to RUB17,760.3 million. In addition, the trading volume of market-making in rubles was RUB5,586.7 million. From the commencement of the business until Dec 31, 2013, our Bank had implemented cross-border transactions in rubles cash of RUB985.0 million, and accumulated to RMB81.8 million in RMB trading with Russian banks.

Our Bank gradually improved the product system and the financial operation branches with Russia, and also established the all-in-one service platform named Sino-Russia cross-border financial service center, becoming the designated bank by SAFE for ruble banknotes dispatching and flatting. With the multiple supports from the National Development and Reform Commission and the Harbin municipal government, our Bank set up a special team for e-commerce with Russia and completed the cooperation with the local largest electricity supplier of B2C with Russia, realizing the RUB-RMB direct exchange. In 2013, our Bank had successfully organized the “Sino-Russia Inter-bank Financial Cooperation Summit” and “Forum of Cooperation with Peers for Finance with Russia”, and signed with 6 Russian commercial banks an “Agreement on Cross-border Financial Comprehensive Cooperation”. The number of correspondent banks in Russia grew to 107, totally covering all regions in Russia. In the meantime, our Bank has successfully achieved a self and valet forward foreign exchange license and operated an online forward foreign exchange system.

(V) Distribution Network

1. **Physical Network**

By the end of the reporting period, the Group had a total of 301 branch outlets, including: 15 branches, 244 sub-branches, 24 village and township banks and their 18 sub-branches. In 2013, the newly-established entities included: 1 new branch-level financial service center for small enterprises; 2 branches, namely Jiamusi Branch and Qiqihar Branch; 28 traditional sub-branches, including sub-branches established outside Heilongjiang, namely Tianjin Hebei Sub-branch, Dalian Jinzhou Sub-branch, Shenyang Sujiatun Sub-branch, Shenyang Liaozhong Sub-branch, Chongqing Fuling Sub-branch, New District in Chongqing North Sub-branch, Chongqing Xiyong Sub-branch, Chongqing Liangjiang New District Sub-branch, Chongqing Kai County Sub-branch, Chengdu Xindu Sub-branch and Chengdu Jinsha Sub-branch; and branches and sub-branches in

Heilongjiang province, namely Jiamusi Branch, Qiqihar Branch, Harbin Qunli Sub-branch, Harbin Hezhong Sub-branch, Harbin Herun Sub-branch, Harbin Fangzhengtong'an Sub-branch, Yilan Jiaxing Sub-branch, Shuangyashan Eight Five Nine Sub-branch, Shuangyashan Guomao Sub-branch, Jixi Hengshan Sub-branch, Qitaihe Xuri Sub-branch, Qitaihe Qiezihe Sub-branch, Suihua Beilin Sub-branch, Mudanjiang Suifenhe Guanghua Sub-branch, Mudanjiang Wenhua Sub-branch, Mudanjiang Muling Sub-branch, Daqing Yinyi Sub-branch, Daqing Longfeng Sub-branch and Suihua Zhengyang Sub-branch.

2. Electronic Banking

The Bank provided 24-hour service to corporate and personal customers by means of electronic banking, such as self-service terminals, internet banking, customer service center, phone banking and mobile banking.

(1) Self-service terminals

As of 31 December, 2013, the Bank had 710 self-service terminals, up 21.58% as compared to the previous year end. Such self-service terminals includes ATMs, the cash recycling system and multi-media inquiry machines, facilitating access to funds, account inquiry, bill payment, passcode changing and transfer services. The self-service terminals were deployed in various places, including shopping malls, main streets, hotel lobbies, supermarkets, large residential areas, hospitals and universities, in order to support the Bank's own business and facilitate uses by the Bank's customers.

The Bank is a member of China UnionPay Co., Ltd., which operates bank cards, exchanges interbank e-banking information and provides network services in China. By becoming a member of the China UnionPay Co., Ltd., the distribution network of the Bank has been significantly broadened by allowing customers to use any self-service equipment within the UnionPay network in and outside China.

(2) Internet banking

At the end of 2013, the Bank had 317,562 online customer accounts, up 65.35% as compared to the previous year end. Among this, the number of online corporate customer accounts was 25,722, up 48.6% as compared to last year end; annual transaction amounted to RMB1,390.74 billion, up 265.88% over last year. The number of online personal customer account was 291,840, up 67.01% as compared to last year end; annual transaction amounted to RMB133.489 billion, up 48.22% over last year.

The Bank's online corporate banking comprises a variety of different categories of services, including account management, group services, international businesses, e-commerce bills, online banking connection management and bank account

checking. The Bank's different categories of online personal banking include account services, financial products, fund investment, loan services, credit cards, transfer services and self-service payment.

(3) Phone banking

The Bank provided 24-hour operator services and self-voice services to customers through the unified national customer service hotline 95537 since the beginning of 2010. Such services include account inquiries, bill payment, credit card, oral freeze, operator inquiry and outgoing calls. As of 31 December 2013, the annual business volume of the customer service center totaled 2,512,208 calls.

(4) Mobile banking

The Bank launched its mobile banking services in 2012, consisting primarily of financial and other related services such as business inquiries, transfers and bill payment. The mobile banking service supported multiple transaction functions, namely, account management, basic finance, transfer, self-service payment, credit card and funds. At the end of 2013, the number of mobile banking customers amounted to 76,104, up 344.71% as compared to the previous year; the annual transaction totaled RMB201.743 million, up 399.73% over the previous year; the number of annual transaction with account movement reached 106,546 times, up 272.47% over the previous year.

(VI) Information Technology

The Bank firmly pushed forward scientific and technological projects, achieving fruitful results. A batch of key projects were successfully put on line, including the whole process of loan and credit, ECIF, the first phase of the data platform, OCRM for enterprises, new messaging platform, beforehand and afterwards supervision and management system, which enhanced the business development and upgraded the management of the Bank.

The building up of the technical team also saw a considerable progress. Through introducing a considerable number of high-end personnel and by establishing a new management level, the technical staff reached a totaled 230 people. Through on-going staff training, the abilities of the staff received remarkable improvement.

The capability of information technology risk prevention was further enhanced, and the work received was well appraised by the regulatory authorities. Firstly, the Bank achieved good evaluation results in the annual regulatory rating in the part relating to information technology, ranking top among the city commercial banks in China; secondly, it smoothly passed the annual check of ISO27001 information security system certification, and its capacity in information security management was in line with national certification requirements.

Management Discussion and Analysis (Continued)

The Bank strengthened the management over technology standardization, improving technology management and operational efficiency. The Information Technology Management Committee and the Technology Construction Committee have set up and have been running a joint conference management mechanism, and management systems on outsourcing and annual management program were fully implemented.

The R&D and management capabilities were enhanced simultaneously. A total of 800 development tasks have been completed through the year, including 20 medium and large projects completed independently. The management system for project development has basically been established.

Technology services and operation and maintenance management system continued to be strengthened. Firstly, high quality and efficient technological support services were provided, and average daily telephone call for services totaled 40 and assisted the departments in the headquarters, branches and sub-branches in making external data enquiries for 823 times and external data maintenance for 699 times, thereby providing security for the Bank's business development. Secondly, such projects as disaster recovery (phase 2), virtualization (phase 2), backup of critical time and monitoring (phase 2) have been successfully completed.

(VII) Management over Employees and Human Resources

1. Basic information on staff

By the end of 2013, the Bank employed 7,534 staff, of which 6,209 staff had a bachelor degree or above, accounting for 82.41% of total number of employees. In addition, the Bank had 939 employees at the Bank's village and township banks subsidiaries.

2. Overall human resources management

In 2013, the Bank continued to uphold the philosophy of "Human resources are the fundamental of business growth" and optimized its human resources allocation. It actively expanded the recruitment channels, carefully selected and researched assessment tools, and comprehensively explored for human resources; by adhering to the human resources principle of "Matching personnel with positions, coordinating work and personnel", the Bank directed its staff to make scientific career plans and fully mobilized the enthusiasm of the staff; by improving its human resources system, optimized the human resources management system and greatly enhanced the human capital value.

In terms of payroll, the Bank had successfully built a diverse, standardized, systematic and broad payroll management system, implementing the management mode of market-oriented and regionally differentiated payroll, so as to scientifically and effectively encourage the staff to ensure the smooth implementation of the Bank's strategic development.

3. Training

The Bank was put great emphases on the growth of its employees, focusing on the different levels of development and growth of its employees, and adopted various ways to upgrade the training effect, including providing training on professional skills, management skills, English knowledge, cutting-edge information of business development, with training coverage up to 100%. Such trainings comprehensively improved the quality and capabilities of the staff and provided effectively support the business development of the Bank.

IX. Risk Management

The Bank set the risk management as 2013 annual theme of its work, and followed the core risk management concept of “risk management creating value”. The target was to achieve maximized risk-adjusted revenue. The Bank deepened the reform of risk management, and popularized the culture of risk management and technology application in all round. A great effort was made to build a risk prevention network with all employees’ participation, effectively enhancing the risk control ability and implementing a comprehensive, whole-process risk management mode with every employee’s participation.

(I) Credit Risk

Credit risk refers to the risk of economic losses caused by a debtor or a counter-party failing to fulfill his obligations under the contract or credit quality changes, affecting the value of financial products. The Bank’s credit risk exists mainly in the loan portfolio, investment portfolio, guarantees, commitments and other off-balance-sheet exposures. The Bank has executed a unified risk appetite in credit risk management, and limited risk within a acceptable range, in order to achieve a high rate of risked return and realize the identification, measurement, monitoring and control of credit risk.

The Bank developed a policy framework of major risk management in early 2013. Combined with the national economic structural adjustment policies and regional development planning, it defined the policy of credit risk management in the aspects of industries, customers, risk mitigation and risk pricing based on its own business attributes.

During the reporting period, the Bank took the opportunity of the implementation of Basel Accords to start the development and application of the internal rating model of retail and non-retail risk exposures, and completed the establishment of overall policies and approaches as well as analysis on the Bank’s data and data collection. With such foundation, the statistical modeling was built. The Bank fully used the achievement of the modeling, forming a complete credit risk limit management system with RAROC at its core. With reference to the Basel new capital requirements and advanced experience in the industry, the new model of authorization for branch’s credit business was set up. Based on analysis upon historical data, the benchmark permissions were determined by taking into account regional differences, risk management ability, interbank competition and risk appetite. The first phase of whole-process

Management Discussion and Analysis (Continued)

credit system succeeded in running online, effectively controlling the entire loan process. The Bank accelerated the refinement of the credit management. The application of the above risk management tools and systems raised the credit risk management capability.

(II) Liquidity Risk

Liquidity risk refers to the risk of a commercial bank failing to acquire sufficient funds at reasonable cost in order to pay the due debt, honor other payment obligations and meet the capital requirement of operating normally.

The Asset and Liability Management Committee of the Bank is responsible for formulating liquidity management policies, and reviewing the major events of the liquidity management activities. The daily management is under control of Risk Management Department, Financial Planning Department, International Business Department and Investment banking and Interbank Department. A Treasurer is set up in the Financial Planning Department, specifically managing the funds of the Bank. The Bank has established the bank-wide liquidity risk management system, comprehensively managing the upcoming liquidity risk. The Bank is armed with liquidity risk management indicators, and has the indicators monitored and controlled at the agreed frequency. The liquidity risk stress testing is done on a quarterly basis for controlling and managing liquidity risk. A multi-sectoral liquidity risk contingency plan has been developed to effectively resolve the liquidity crisis. The Bank has successfully addressed the industry-wide systemic liquidity risk during the reporting period, and no events of difficulties in due payment and other liquidity crisis occurred.

During the reporting period, the Bank deemed the implementation of Basel Accords as an opportunity to start the liquidity risk management project. With the target of complying with the regulatory requirements of Basel Capital Accord and meeting the internal need of extensive risk management, it sorted out and improved organization structure, institutional system, monitoring approaches and means of liquidity risk management, significantly boosting the liquidity risk management capability.

The following table sets forth, as of 31 December 2013, the remaining maturities of our assets and liabilities.

	As of 31 December 2013									
	Repayable		3 months					Over 5 years	Indefinite	Total
	Overdue	on demand	Up to 1 month	1 up to 3 months	up to 1 year	1 up to 5 years				
	<i>(In millions of RMB)</i>									
Total assets	930.5	19,646.3	50,217.9	31,615.1	87,379.7	56,341.9	32,578.8	43,465.2	322,175.4	
Total liabilities	—	117,162.2	25,720.8	33,541.4	88,172.9	37,606.7	44.1	—	302,248.2	
Net liquidity	930.5	(97,515.9)	24,497.1	(1,926.3)	(793.2)	18,735.2	32,534.7	43,465.2	19,927.3	

(III) Market Risk

Market risk refers to the risk of loss in our on- and off-balance sheet businesses as a result of adverse changes in market prices (interest rates, exchange rates, stock prices and commodity prices).

Currently, the market risks include interest rate risk and exchange rate risk. The Bank's objective of market risk management is to maximize risk-adjusted revenue while limiting the potential losses arising from market risk within a reasonably acceptable level based on our bank-wide risk appetite.

Analysis on interest rate risk

Interest rate risk mainly consists of bank account interest rate risk and trading account interest rate risk.

Bank account interest rate risk refers to the risk of decrease in net interest income or long-term market value of the assets and liabilities portfolio as a result of interest rate fluctuation. Our bank account interest rate risk arises primarily from the differences in the maturity dates (for fixed rate) or repricing dates (for floating rate) of bank assets, liabilities and off-balance sheet businesses. The Bank assesses the undertaking bank account interest rate risk based on analysis upon interest rate repricing and sensitivity analysis, and further evaluates the influence upon net interest income and net worth caused by changes in interest rates in different interest rate scenarios.

Interest Rate Repricing Analysis

The following table sets forth the results of our gap analysis as of 31 December 2013, based on the earlier of (i) the next expected re-pricing dates and (ii) the final maturity dates for our assets and liabilities.

	As of 31 December 2013					
	3 months				Non-interest bearing	Total
	Up to 3 months	up to 1 year	1 up to 5 years	Over 5 years		
	<i>(In millions of RMB)</i>					
Total assets	151,777.0	106,448.0	36,809.6	13,761.9	13,379.0	322,175.4
Total liabilities	174,234.6	86,912.8	36,672.7	43.9	4,384.3	302,248.2
Interest rate sensitivity gap	(22,457.6)	19,535.2	136.9	13,718.0	N/A	N/A

Sensitivity analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income and shareholders' equity. The effect on net interest income refers to the effect on net interest income from a change in interest rates, to a certain extent, on the financial assets and liabilities which were held at the end of the period and expected to have their interest rates reset within the next year. Impact on equity refers to that of net fair value changes arising from the revaluation of available-for-sale financial assets bearing the fixed interest rates held at the end of the year on other consolidated revenue as a result of movements in certain interest rates.

The following table sets forth, as of the dates indicated, the results of the interest rate sensitivity analysis based on our assets and liabilities.

	As of 31 December			
	2013		2012	
	Changes in net interest income	Changes in shareholders' equity	Changes in net interest income	Changes in shareholders' equity
	<i>(In millions of RMB)</i>			
100 basis points increase	(140.0)	(107.2)	(80.6)	(153.9)
100 basis points decrease	140.0	113.4	80.6	162.3

Based on our calculation on assets and liabilities as of December 31, 2013, if interest rate increase by 100 basis points, our net interest income and shareholders' equity for the year ended Dec 31, 2013 would decrease by RMB140.0 million and RMB107.2 million, respectively. Based on our calculation on assets and liabilities as of December 31, 2013, if interest rate decrease by 100 basis points, our net interest income and shareholders' equity for the year ended December 31, 2013 would increase by RMB140.0 million and RMB113.4 million, respectively.

The above interest rate sensitivity analysis is used only as an example and is based on a simplified situation. The analysis shows each of the projected yield curve scenario and the estimated changes in the net interest income and equity under our current interest rate risk conditions. However, it does not take into consideration the risk management activities that may be taken to mitigate the interest rate risk. These estimates assume that the interest rates of all periods fluctuate by the same percentage; therefore, they do not reflect the potential impact on net interest income and interest under circumstances that certain interest rates are adjusted while others remaining unchanged.

Trading account interest rate risk refers to the risk of loss in the on- and off-balance sheet businesses under our trading accounts as a result of adverse changes in interest rates. The interest rate risk associated with our trading accounts exists mainly in the trading businesses, including bonds trading and derivatives trading. In terms of trading account interest rate risk management, our Bank has clear trading account classification standards, reevaluates the market value of assets under our trading accounts on a daily basis, sets trading caps, stop-loss limits and risk limits, and monitors and controls them by frequency. Our Bank uses duration analysis, sensitivity analysis and other methods to measure trading account interest rate risk. We use standardized methods to measure our interest rate risk capital in trading accounts in strict compliance with regulatory requirements.

(IV) Analysis on Exchange Rate Risk

Exchange rate risk refers to the risk of loss in our on- and off-balance sheet businesses as a result of adverse changes in exchange rates. Our exchange rate risk exists mainly in our foreign currency-related trading and non-trading businesses, including foreign currency loans, foreign currency deposits, proprietary foreign exchange trading and foreign exchange settlement on behalf of customers. Our Bank sets transaction caps, stop-loss limits and exposure limits to manage exchange rate risk arising from our foreign exchange business. For the Ruble market-making business and the Ruble cash exchange business, our Bank implements Ruble exposure management on each trading day. Our headquarters implement centralized management in respect of the bank-wide exchange rate risk so as to reduce the exchange rate risk and improve exchange rate risk management efficiency. We use standardized methods to measure our exchange rate risk capital in strict compliance with regulatory requirements.

We mainly operate Renminbi business, while part of our transactions involve U.S. dollar and Ruble. Only few transactions involve other currencies.

The following table sets forth our financial assets and liabilities by currency as of 31 December 2013.

	As of 31 December 2013				
	RMB	USD equivalent to RMB	RUB equivalent to RMB	Other currencies equivalent to RMB	RMB and equivalent to RMB Total
	<i>(In millions of RMB)</i>				
Total assets	320,676.8	1,369.5	61.1	68.1	322,175.4
Total liabilities	300,976.8	1,180.4	34.6	56.3	302,248.2
Net position of assets and liabilities	19,700.0	189.1	26.5	11.8	19,927.3
Credit commitments	47,693.0	404.3	—	0.9	48,098.2

Management Discussion and Analysis (Continued)

Sensitivity analysis

The following table sets forth, as of the dates indicated, the impact of an annual 1% depreciation of the U.S. dollar against RMB on our profit before tax and equity. If the U.S. dollar appreciates against RMB by the same percentage, it would have the opposite impact on our profit before tax and equity by the same amount. The affected amounts disclosed in the following table are on the assumption that our foreign exchange exposures remain unchanged at the end of the year and have not taken into consideration the measures we may take to eliminate the adverse impact of foreign exchange exposures on our profits.

		As of 31 December				
		2013		2012		
Changes in exchange rate %	Changes in profit before tax		Changes in shareholders' equity			
	tax		equity		Changes in profit before tax	Changes in shareholders' equity
		<i>(In millions of RMB)</i>				
USD	-1%	(1.9)	—	(4.5)	—	

(V) Operational Risk

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

With a unified operational risk appetite, our Bank uses a standardized operational risk management system for daily risk management, and has established a full set of operational risk management systems, covering relevant corporate governance structures, policies and systems, management tools, measurement methods and IT system, effectively preventing events of high operational risk.

During the reporting period, with the implementation of Basel Accords as an opportunity, the Bank carried out the automation of internal control project, scientifically designing control matrix, effectively identifying control points, and fully applying to the business information system. Therefore, it achieved the automatic hard control over risk points located in the high-risk areas and weak links. Three major management tools, including Risk and Control Self Assessment (RCSA), Key Risk Indicators (KRI) and Loss Data Collection (LDC), were adopted bank-wide. The process-oriented bank establishment was started, to optimize and re-construct business processes and risk management processes. The Bank has pushed forward the establishment of the centralized risk management model in high-risk businesses such as accounting, finance, seals and charge off as well as crucial administration areas to mitigate operational risk.

(VI) Reputational Risk

Reputational risk refers to the risk of negative comments about our Bank generated by relevant interested parties in respect of our Bank's operations, management and other activities or external events. Our reputational risk management objectives are to build an effective reputational risk management mechanism, so as to identify, monitor, control and eliminate reputational risk, to build and maintain a good corporate image and to promote our continuous and healthy development.

The Reputational Risk Contingency Steering Group of our Bank is responsible for the supervision, coordination and process control of emergency recovery measures in the event of significant reputational incidents. Each department and branch is responsible for routine work such as the identification, assessment, monitoring and prevention of reputational risk in accordance with their respective duties.

Our major reputational risk management measures are to:

- formulate unified basic policies and management system for reputational risk management to ensure the completeness and feasibility of the system;
- communicate with media to enhance our positive influence;
- focus on the trend of public opinions, implement the daily reporting of public opinions and strengthen our capabilities in alerting and responding to sensitive financial issues;
- establish a press spokesperson system, with our headquarters coordinating our internal and external relationships;
- enhance customer services and complaints management, and improve service quality and levels; and
- enhance training of frontline staff.

X. Development and Management of Human Resources

The Bank adheres to the philosophy of "Human resources are the fundamental of business growth" and focuses on human resources development and management. In 2013, in terms of selection and hiring of human resources, the Bank strengthened its cooperation with both traditional and new media to enlarge the recruitment channels, fully and persistently explored personnel resources, applied scientific assessment tools in personnel selection, thus setting a good employer image among social and campus recruitments. The Bank won the "China HR 2012–2013 Best Employer Brand Award", "Peking University Guanghua School of Management 2012–2013 Best Partner Award" and "51job Outstanding Enterprise Management Award in Human Resources".

Management Discussion and Analysis (Continued)

In terms of human resources and reserves, the Bank has insisted on the human resources principle of “Matching personnel with positions, coordinating work and personnel”. Through on-the-job training and secondment, competitive selection for employment and promotion, the Bank fully takes advantage of the initiatives of its staff and ensure their scientific career planning. Through competitive selection and democratic evaluation, the Bank set up a mechanism to flexibly deploy key personnel work on high or low positions. Human reserves have been built-up through competitive selection to fill vacancies in the headquarters and branches, and by nomination of assistants to presidents of branches and sub-branches and selection of young cadres; the Bank has successfully appointed a reserve of 82 assistants to presidents and appointed 123 young cadres.

As for human resources training and development, the Bank has a new training philosophy, which emphasizes on the development of special training programs for professional managers and the use of summer internship programs to build up and develop its future managers and technical experts. Currently, there are 175 training targets for professional managers, and the Bank has made planned stage progress, with significant results. The Bank also focuses on the different levels of development and growth of its employees, and has adopted various ways to upgrade the training effect, including providing training on professional skills, management skills, English knowledge, cutting-edge information on business development, with training coverage up to 100%. By fastening the training and strengthening the skills and abilities of the staff, and the capital value of human resources, the Bank ensures that its human resources will provide effective support for its business development.

In the perspective of human resources risk identification and prevention, the Bank has taken the supervision on employees’ behavior as the core and issued *Notice of Centralized Examination on Behaviors of Employees of the Harbin Bank*, *Notice of Self-examination and Rectification on the Management over Incompatible Positions*, and the incompatible position list as well as *Advice of Strict Implementation of “Four Institutions”*; by enforcing key examination, standardized management and implementation of the four institutions, and by strict enforcement of risk management and solution for key risks, the Bank has enhanced the effective management of internal control of its staff.

XI. Prospects

In 2014, there could be a real hope that the world economy may come out of the shadow of the international financial crisis. The three major economies, the United States, Japan and Europe, will pace by pace gradually move towards recovery and positive economic growth, while the economic growth in the emerging markets will become more stabilized and the momentum of global economic growth will pick up. China’s economy, under the influence of factors such as the deepening economic reform, improvement in external environment, advancement of new urbanization and consumption-driven growth, will continue to enjoy steady growth. The Chinese government will continue to implement a proactive fiscal policy and a prudent monetary policy. The fiscal policy will focus on tax reduction and spending cuts to improve efficiency of the use of financial funds and strengthen the reform of the fiscal and taxation system; the monetary policy will remain prudent, focusing on revitalizing the existing economy, and ensuring reasonable economic operations and a stable economy.

The banking industry will face even more challenges in 2014, and the overall earning growth of the industry is expected to gradually move close to the average growth level of the economy. Factors such as economic restructuring and deleveraging, financial disintermediation, further interest rate liberalization, introduction of a deposit insurance system, asset quality pressures and gradual relaxation of industry access, will serve to exert pressure on banks performances. In face of a deepening reform and heightened internal and external competition in the financial industry, the Bank will upgrade innovation and accelerate transformation, by changing the traditional concepts and models, earnestly implement the spirit of Third Plenary Session of the 18th CPC Central Committee and the Central Economic Working Conference and follow the guiding principle of “maintain stability while pursuing progress, improving quality and enhancing efficiency”. With transformation and adjustment should be the main theme, maximization of value as the target and effective prevention of risks as a guarantee, the Bank will stick to the microcredit strategy. We will sub-divide the microcredit professional markets and target customers, integrate and expand the online and offline marketing channels, and push forward targeted product and service innovations. The Bank will also diversify its sources of income by actively expand its business contacts and vigorously develop microfinance, consumer finance and Internet financial sector. Keeping up with changes in market demand, the Bank will continue to optimize the existing management mode and technical means in order to strengthen the establishment of its professional teams and specialized operational entities, and raise the levels and efficiency of its professional and unique services. Through deepening exchanges and cooperation in domestic and international micro-credit, mutual learning of advanced experience, the Bank will ensure that it will continue to secure a domestic leading position, expand brand influence and contribute to the microcredit business development in China.

Changes in Shares Capital and Information on Shareholders

I. Changes in Shares of the Bank

(I) Capitalization

On 13 September 2013, following the capitalization of the 2012 retained profits with approval by the shareholders' meeting, the registered capital of the Bank was increased by RMB686,701,310, the total number of issued shares increased from 7,560,198,243 Domestic Shares to 8,246,899,533 Domestic Shares.

In addition to the above capital increase, the Bank or its subsidiaries did not issue any transferable or redeemable securities, options or warrants in 2013.

(II) Listing on the Hong Kong Stock Exchange on 31 March 2014

The Bank was listed on the Hong Kong Stock Exchange on 31 March 2014, upon an issuance of 2,748,700,000 H Shares (assuming the Over-allotment Option was not exercised). After completion of the issuance, the total share capital of the Bank increased 10,995,599,533 Shares, with a registered capital of RMB10,995,599,533.

Unit: Shares

	1 January 2013		Increase/decrease during the reporting period (+/-)			31 March 2014	
	Number	Percentage	New shares issued	Issuance of additional shares as dividends	Subtotal	Number	Percentage
Domestic shares							
1. Non-listed shares held by domestic corporations	7,484,879,767	99.00%		679,487,985	679,487,985	7,889,497,752	71.75%
Including: (1) Shares held by state-owned enterprises	2,239,236,609	29.62%		230,423,191	230,423,191	2,194,789,800	19.96%
(2) Shares held by private enterprises	5,245,643,158	69.38%		449,064,794	449,064,794	5,694,707,952	51.79%
2. Non-listed shares held by domestic natural person	75,318,476	1.00%		7,213,325	7,213,325	82,531,801	0.75%
H Shares							
3. Shareholders of H Shares			2,748,700,000		2,748,700,000	3,023,570,000	27.50%
Total shares	7,560,198,243	100%		686,701,310	686,701,310	10,995,599,553	100%

Changes in Shares Capital and Information on Shareholders (Continued)

II. Information on Shareholders

(I) Total Shareholders by the End of the Reporting Period

For the year ended 31 December 2013, the Bank had a total of 3,670 holders of Domestic Shares.

(II) Holders of 5% or more Domestic Shares the Bank by the End of the Reporting Period, as follows:

SN	Holders of Domestic Shares	Number of Domestic Shares held (shares)	Percentage of total issued share capital (%)
1	Harbin Economic Development and Investment Company	2,431,114,194	29.48
2	Harbin Kechuang Xingye Investment Company Limited	720,262,554	8.73
3	Heilongjiang Keruan Software Technologies Company Limited	719,816,019	8.73
4	Heilongjiang Xinyongsheng Trading Company Limited	639,804,806	7.76
5	Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	572,253,048	6.94
6	Heilongjiang Tuokai Economic and Trading Company Limited	522,447,109	6.33

Changes in Shares Capital and Information on Shareholders (Continued)

(III) Interests in Shares and Short Positions in Hong Kong in accordance with the Hong Kong Securities and Futures Ordinance

During the reporting period, the Bank's shares were not listed on the Hong Kong Stock Exchange, and Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance, which provided for the disclosure to the Bank the interests or short positions in our Shares or relevant Shares, or interests or short positions registered on the register pursuant to Section 336 of Securities and Futures Ordinance, were not applicable to the Bank. On 31 March 2014, the securities of the Bank were listed on the Hong Kong Stock Exchange. According to the prospectus of the Bank released on 19 March 2014, immediately following completion of the Global Offering, the following persons had interests or short positions in our Shares or relevant Shares which were required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, were interested in 5% or more of the nominal value of any class of our share capital which carries voting power at general meetings:

Name of shareholder	Number of Shares	Immediately after completion of the Global Offering (assuming the Over-allotment Option was not exercised)	
		Approximate percentage of total issued share capital (%)	Approximate percentage of total issued capital of the relevant class (%)
Domestic Shares			
Harbin Economic Development	2,160,507,748	19.65	27.10
Harbin Kechuang Xingye Investment Company Limited	720,262,554	6.55	9.03
Tianjin Wenhua Tianhai Industrial Company Limited	720,262,554	6.55	9.03
Baotou Ronghui Trading Company Limited	720,262,554	6.55	9.03
Hangzhou Jiela Trading Company Limited	720,262,554	6.55	9.03
Jinan Kangze Commercial and Trading Company Limited	720,262,554	6.55	9.03
Tan Ran	720,262,554	6.55	9.03
Zhang Yanyong	720,262,554	6.55	9.03
Heilongjiang Keruan Software Technologies Company Limited	719,816,019	6.55	9.03
Dalian Yujixin Technology Company Limited	719,816,019	6.55	9.03

Changes in Shares Capital and Information on Shareholders (Continued)

Name of shareholder	Number of Shares	Immediately after completion of the Global Offering (assuming the Over-allotment Option was not exercised)	
		Approximate percentage of total issued share capital (%)	Approximate percentage of total issued capital of the relevant class (%)
Liang Yifeng	719,816,019	6.55	9.03
Diao Xiaoxi	719,816,019	6.55	9.03
Heilongjiang Xinyongsheng Trading Company	639,804,806	5.82	8.03
Beijing Chengxinfenghui Technology and Trading Company Limited	639,804,806	5.82	8.03
Liu Kun	639,804,806	5.82	8.03
Zhao Yonghe	639,804,806	5.82	8.03
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	572,253,048	5.20	7.18
Beijing Huifutong International Investment Company Limited	572,253,048	5.20	7.18
Dong Yan	572,253,048	5.20	7.18
Heilongjiang Tuokai Economic and Trading Company Limited	522,447,109	4.75	6.55
Beijing Tailonghuasheng Technology Company Limited	522,447,109	4.75	6.55
Beijing Jiashengtiancheng Trading Company Limited	522,447,109	4.75	6.55
Guan Wu	522,447,109	4.75	6.55
H Shares			
Fubon Life Insurance Company Limited	773,124,000	7.03	25.57
Fubon Financial Holding Co.	773,124,000	7.03	25.57
CITIC Capital HB Investment L.P.	401,275,000	3.65	13.27
CITIC Capital HB Investment GP Limited	401,275,000	3.65	13.27
CITIC Capital Global Services Holdings Limited	401,275,000	3.65	13.27
CITIC Capital Holdings Limited	401,275,000	3.65	13.27
CITIC Limited	401,275,000	3.65	13.27
CITIC Group Corporation	401,275,000	3.65	13.27

Changes in Shares Capital and Information on Shareholders (Continued)

(IV) The Single Largest Shareholder and Its Parent Company

For the year ended 31 December 2013, Harbin Economic Development, as the single largest shareholder of the Bank, held 29.4791% of the then total issued shares of the Bank. According to the Business License (Registration No.: 230100100001678) issued by Harbin Administration of Industry and Commerce on 30 May 2012, and Amendment to the Articles of Association of Harbin Economic Development and Investment Company issued on 19 September 2011, Harbin Economic Development was a validly subsisting economic entity owned by the whole people, with the Harbin Municipal Finance Bureau as its sole shareholder.

(V) Pledge of Shares by holders of More Than 5% Shareholding of the Banks

As at 31 December 2013, three shareholders with more than 5% (including 5%) shareholding pledged 570,668,173 Shares.

SN	Shareholders with pledged Shares	Number of pledged Shares (shares)	Percentage of pledged Shares in total shares (%)
1	Heilongjiang Tuokai Economic and Trading Company Limited	398,752,747	4.84
2	Heilongjiang Xinyongsheng Trading Company Limited	91,915,426	1.11
3	Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	80,000,000	0.97

Report of the Board of Directors

I. Principal Business

The Bank is primarily engaged in PRC banking and related financial services, including corporate banking, personal banking, treasury operation and other business.

II. Results and Distribution

(I) Dividends

The results of the Bank were set out in the Bank's 2013 annual financial statements and notes to the financial statements. On 17 April 2014, the Board recommended the payment of 2013 final dividend in cash in an aggregate amount of approximately RMB419.72 million, representing a dividend of RMB0.38 per 10 Shares (before tax), on the basis of total number of Shares as at 31 March 2014 (assuming the Over-allotment Option is not exercised). If the Over-allotment Option is exercised, the final dividend for 2013 of RMB0.38 per 10 Shares will be re-calculated in accordance with the aggregate amount of the final dividend in cash and the total number of Shares after the exercise of the Over-allotment Option. The distribution plan is subject to approval by the Shareholders at the annual general meeting scheduled on Thursday, 19 June 2014. If approved, the 2013 final dividend will be denominated and declared in RMB, and paid in RMB or the equivalent Hong Kong Dollars. For such conversion, RMB will be converted into Hong Kong Dollars based on the average benchmark exchange rate of RMB against Hong Kong Dollars released by the People's Bank of China prevailing one week before the date (including the day the meeting was held) when the annual general meeting was to be held (i.e. 19 June 2014). If approved, the Bank make further announcement relating to the dividend distribution arrangement, including the dividend distribution record date and closure date of register of Shareholders. There is no capitalization under this distribution.

(II) Closure of Register of Share Transfer

In order to determine the list of Shareholders who are entitled to attend and vote at the annual general meeting to be held on Thursday, 19 June 2014, the register of members of the Bank will be closed from Wednesday, 21 May 2014 to Thursday, 19 June 2014 (both days inclusive). Shareholders whose names appear on the register of H Share members and register of Domestic Share members of the Bank on Wednesday, 21 May 2014 will be entitled to attend and vote at the annual general meeting. The holders of H Shares who intend to attend and vote at the annual general meeting must lodge all the transfer documents accompanied by the relevant H Share certificates with the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited (address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to process the registration not later than 4:30 p.m. on Tuesday, 20 May 2014.

In order to determine the list of Shareholders who are entitled to receive the final dividend, the register of members of the Bank will be closed from Monday, 30 June 2014 to Friday, 4 July 2014 (both dates inclusive). Shareholders whose names appear on the register of H Share members and register of Domestic Share members on Friday, 4 July 2014 are entitled to receive the final dividend. The holders of H Shares who intend to receive the final dividend must lodge all the transfer documents accompanied by the relevant H Share certificates with the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited (address: Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to process the registration not later than 4:30 p.m. on Friday, 27 June 2014.

(III) Tax on Dividends

Withholding foreign non-resident enterprise income tax

Pursuant to the applicable provisions and the implementing regulations of the *Enterprise Income Tax of the PRC*, when distributing the final dividend to non-resident enterprise holders of H Shares (including the H Shares registered in the name of HKSCC Nominees Limited), the Bank will withhold enterprise income tax at the rate of 10%.

Withholding foreign non-resident individual shareholder's individual income tax

Pursuant to the applicable provisions and the implementing regulations of the *Individual Income Tax Law of the PRC and Notice of Tax*, the Bank is about to withhold individual income tax from the holders of H Shares according to the following arrangement:

For individual holder of H Shares who is a resident of Hong Kong, Macau or other country/region who are resident of a country or region that has signed a tax treaty with the PRC stipulating a dividend rate of 10%, the Bank will withhold and pay individual income tax at the rate of 10% on behalf of such H Shares when distributing the final dividend;

For individual holder of H Shares who is a resident of a country/region which has signed a tax treaty with the PRC stipulating a dividend rate of lower than 10%, the Bank will temporarily withhold and pay individual income tax at the rate of 10% on behalf of such holders of H Shares while distributing the final dividend. In case the relevant holders of H Shares is to apply for refund of the extra withholding tax, the Bank will follow the *Notice of Tax* to handle the application of the relevant tax benefits on their behalf. The qualifying holders of H Shares are required to submit the written authorization and all application materials to the H Share Registrar, Computershare Hong Kong Investor Services Limited, in a timely manner; the Bank will forward the provided documents to the competent tax authorities for review, and if approved, thereafter the Bank will assist in handling the refund of the extra withholding tax;

For individual holder of H Shares who is a resident of a country/region who has signed a tax treaty with the PRC stipulating a dividend rate higher than 10% but lower than 20%, the Bank will withhold the individual income tax at the applicable rate stipulated in the relevant tax treaty while distributing the final dividend; and

For individual holder of H Shares who is a resident of a country/region which has signed a tax treaty with the PRC stipulating a dividend rate of 20% or has no tax treaty with China or otherwise, the Bank will withhold the individual income tax at the rate of 20% while distributing the final dividend.

III. Share Capital

Please refer to Chapter 5 “Changes in Shares and Information on Shareholders” for the information relating to the share capital of the Bank.

The Bank was listed on the Hong Kong Stock Exchange on 31 March 2014, and issued a total of 2,748,700,000 H Shares upon listing (assuming the Over-allotment Option was not exercised). After completion of the issuance, the total share capital of the Bank increased to 10,995,599,553 Shares, with a registered capital of RMB10,995,599,553. The details are as follows:

	Number of Shares	Approximate percentage of total issued share capital (%)
Domestic shares	7,972,029,553	72.5
H Shares	3,023,570,000 ⁽¹⁾	27.5
Total share capital	10,995,599,553	100.00

Note:

- (1) 3,023,570,000 H Shares include (i) 2,748,700,000 new H Shares issued in the Global Offering; and (ii) 274,870,000 H Shares converted from Domestic Shares and sold for the benefit of the National Social Security Fund pursuant to relevant PRC laws and regulations relating to reduction of state-owned shares.

IV. Reserves

For the year ended 31 December 2013, the details of changes in reserves of the Bank are set out in the Consolidated Statement of Changes in Equity.

V. Property, Plant and Equipment

The changes in property, plant and equipment of the Bank and the Group are set out in Note 26 to the Financial Statements.

VI. Distributable Reserves

The distributable reserves of the Bank are set out in Note 35 to the Financial Statements.

Report of the Board of Directors (Continued)

VII. Connected Transactions

During the reporting period, the securities of the Bank were not listed on the Hong Kong Stock Exchange, and therefore, the connected transaction rules under the Hong Kong Listing Rules were not yet applicable to the Bank.

The securities of the Bank were listed on the Hong Kong Stock Exchange on 31 March 2014. In the ordinary and usual course of business of the Bank, it provides commercial banking services and products to members of the public in China, which include the Shareholders, certain Directors and Supervisors, the President and/or each of their respective associates. Each of the above people is a connected person of the Bank under Hong Kong Listing Rules. As these transactions are entered into on normal commercial terms in the ordinary and usual course of the business of the Bank, such transactions are exempt from the reporting, annual review, disclosure and independent shareholders' approval requirement under Hong Kong Listing Rules.

VIII. Directors' and Supervisors' Interests in Business in Competition with the Bank

None of Directors and Supervisors of the Bank holds any interest in any business which competes or likely to compete, whether directly or indirectly, with the Bank.

IX. Remuneration of the Directors and Supervisors

Details of the remuneration of the Directors and Supervisors of the Bank are set out in Note 11 to the Financial Statements.

X. Directors' and Supervisors' Service Contracts

During the reporting period, the Directors and Supervisors of the Bank did not sign service contracts which is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

XI. Directors', Chief Executives' and Supervisors' Interests in Shares of the Bank

For the year ended 31 December 2013, since the Shares of the Bank were not yet listed on the Hong Kong Stock Exchange, the disclosure requirements of relevant laws of Hong Kong, including Divisions 7 and 8 of Part XV and section 352 of Securities and Futures Ordinance and the Model Code Governing Securities Transactions by Directors of Listed Companies of the Hong Kong Listing Rules, were not applicable to the Bank and its Directors, Chief Executives and Supervisors.

On 31 March 2014, the securities of the Bank were listed on the Hong Kong Stock Exchange. As at 31 March 2014, the Directors, Supervisors and President and their respective associates did not hold any Shares, relevant shares or interests or short positions of debentures of the Bank or associated corporations (as defined in the Securities and Futures Ordinance) which were required to be registered in the register pursuant to section 352 of Securities and Futures Ordinance or to be disclosed to the Bank and the Hong Kong Stock Exchange as provided by the Model Code Governing Securities Transactions by Directors of Listed Companies.

During the reporting period, the Bank did not authorize the rights to subscribe for Shares or debentures of the Bank or any associated corporations to its Directors, Supervisors and President (including spouses or children under eighteen years).

XII. Directors' and Supervisors' Material Interests in Transactions, Arrangements or Contracts

For the year ended 31 December 2013, the Bank or its subsidiaries did not conclude any transaction, arrangement or contract of significance where the Directors and Supervisors directly or indirectly had a material interest.

XIII. Management Contracts

There was no management or administration contracts for the entire or major part of the business of the Bank in the last year.

XIV. Purchase, Sale or Repurchase of the Listed Securities of the Bank

Other than the date of listing of the shares of the Company on 31 March 2014, the Bank and its subsidiaries had not purchased, sold or redeemed its shares up to the date of this report.

XV. Pre-emptive Rights

The Bank does not have provisions in respect of pre-emptive rights in its Articles of Association of the Bank and under the PRC laws.

XVI. Donations

The Bank made charitable and other donations in an aggregate sum of RMB1.541 million for the year ended 31 December 2013.

XVII. Public Float

During the reporting period, the securities of the Bank were not listed on the Hong Kong Stock Exchange. On 31 March 2014, upon the listing on the Main Board of the Hong Kong Stock Exchange, the total issued shares of the Bank increased to 10,995,599,553 Shares, and public float of H Shares amounted to 3,023,570,000 (assuming the Over-allotment Option was not exercised), representing 27.50% of the total issued share capital of the Bank, which is in compliance with the requirements of Hong Kong Listing Rules. Up to the date of this report, based on the publicly available information, the Bank is in compliance with the public float requirement of the Hong Kong Listing Rules.

XVIII. Corporate governance

Details of corporate governance of the Bank are set out in the Annual Corporate Governance Report.

XIX. Auditors

Please refer to the section "*Corporate Governance — External Auditors and Auditors' Remuneration*" for the information on the auditors of the Bank.

XX. Substantial Customers

(I) Five Largest Depositors of the Bank

Depositor (single customer)	Balance of deposits (In millions of RMB)	% of total deposits
Depositor A	1,400.147	0.62
Depositor B	110.430	0.05
Depositor C	100.000	0.04
Depositor D	94.288	0.04
Depositor E	68.186	0.03
Total	1,773.05	0.79

(II) Five Largest Borrowers

For the year ended 31 December 2013, the Bank was in compliance with the lending limit of 10% of our net capital to any single borrower. The following table sets forth the loan balances of the five largest single borrowers (excluding group borrowers) for the year ended 31 December 2013, none of which was a non-performing loan.

		As of 31 December 2013		
		Loan balance	% of total loans	% of net capital
		<i>(In millions of RMB, except percentages)</i>		
Borrower A	Agriculture, forestry, husbandry, fishery	1,000.0	0.94%	4.50%
Borrower B	Wholesale and services	996.0	0.94%	4.48%
Borrower C	Manufacturing	754.7	0.71%	3.39%
Borrower D	Manufacturing	600.0	0.57%	2.70%
Borrower E	Wholesale and services	505.8	0.48%	2.28%
Total		3,856.5	3.64%	17.35%

By the end of the reporting period, the interest income from the five largest borrowers of the Bank did not exceed 30% of total interest income. The Directors of the Bank and their respective associates did not have any interest in these five largest borrowers.

XXI. Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the Model Code set out in Appendix 10 of the Hong Kong Listing Rules as its codes governing securities transactions by its Directors and Supervisors. Having made the inquiries, all Directors and Supervisors confirmed that they had complied with the above codes for the period for the year ended 31 December 2013 up to the date of this report. The Bank also set up guidelines related to dealings by relevant employees in the securities of the Bank in terms no less exacting than those of the Model Code. The Bank did not have notice that any relevant employee had breached the guidelines.

XXII. Other Matters

1. As of the date of this report, the Bank was not aware that any shareholders had waived or agreed to waive any dividend arrangement.
2. As of the date of this report, none of the Directors waived or agreed to waive the related remuneration arrangements.
3. During the reporting period, the Bank had not pledged any significant assets.
4. During the reporting period, there were no significant contracts entered into between the Bank or any of its subsidiaries and the controlling shareholder or its subsidiary(ies).

By order of the Board of Directors
Guo Zhiwen, *Chairman*

Harbin, China
17 April 2014

Report of the Board of Supervisors

I. Meeting of the Board of Supervisors

The Board of Supervisors held six meetings in the year of 2013, which were as follows:

- (I) On 18 April 2013, the meeting of the Board of Supervisors passed a total of 10 resolutions, including: *2012 Work Report of the Board of Supervisors of Harbin Bank Co., Ltd.*; *2012 Annual Financial Audit Report of Harbin Bank Co., Ltd.*; *2012 Evaluation Report of the Performance of Supervisors of Harbin Bank Co., Ltd.*; *2012 Evaluation Report of the Performance of the Board of Directors, the Board of Supervisors and the Senior Management of Harbin Bank Co., Ltd.*; *2012 Evaluation Report by the Board of Supervisors on the Performance of the Board of Directors of Harbin Bank Co., Ltd.*; *2012 Draft Rules of Procedure for the Board of Supervisors of Harbin Bank Co., Ltd.* (applicable for the transition period); *Draft Election Rules of the Supervisors of Harbin Bank Co., Ltd.*; *Draft Work Rules of the Nomination Committee of the Board of Supervisors of Harbin Bank Co., Ltd.*; *Draft Work Rules of the Supervision and Evaluation Committee of the Board of Supervisors of Harbin Bank Co., Ltd.*, and *Rules of Procedure for the Board of Supervisors of Harbin Bank Co., Ltd. (H-Share)*.
- (II) On 5 July 2013, the meeting of the Board of Supervisors passed three resolutions, including: *the Resignation of Ms. Liu Wei as an External Supervisor*; *the Nomination of Ms. Bai Fan as an External Supervisor Candidate*, and *the Employment of Ernst & Young Hua Ming LLP as the External Auditing Agency of the Company in 2013*.
- (III) On 23 July 2013, the meeting of the Board of Supervisors passed the resolution on *the Proposal on the Adjustment of the Audit Committee Members of the Board of Supervisors*.
- (IV) On 20 August 2013, the meeting of the Board of Supervisors passed the resolution on *the Audit Report on the Financial Responsibility of Comrade Sun Jiawei*.
- (V) On 18 September 2013, the meeting of the Board of Supervisors passed three resolutions, including: *the Management Measures on the Allowances for the Board of Supervisors of Harbin Bank Co., Ltd.*; *the Change of Shareholders Representative Supervisors*; and *the Nomination of Additional External Supervisors*.
- (VI) On 26th of September 2013, the meeting of the Board of Supervisors passed the resolution on *the Appointment of members of the Special Committees of the Board of Supervisors*.

II. Major Work of the Board of Supervisors

(I) System Establishment

During the reporting period, the Board of Supervisors participated in the revision of *the Articles of Association of the Company*, organized the revision of *Rules of Procedure for the Board of Supervisors of Harbin Bank Co., Ltd.*; *Election Rules of the Supervisors of Harbin Bank Co., Ltd.*; *Work Rules of the Nomination Committee of the Board of Supervisors of Harbin Bank Co., Ltd.*; *Work Rules of the Supervision and Evaluation Committee of the Board of Supervisors of Harbin Bank Co., Ltd.* and *Rules of Procedure for the Board of Supervisors of Harbin Bank Co., Ltd. (H-Share)*, and revised and passed the *Management Measures on the Allowances for the Board of Supervisors of Harbin Bank Co., Ltd.*

(II) Supervision and Investigation

During the reporting period, the Board of Supervisors, in performance of their duties, monitored the compliance of the Board of Directors and the senior management and matters relating to the financial operation, risk management and internal control, as well as by organizing and implementing relevant activities, including: first, interviews with the head office and branches and listening to the on-site reports; focusing mainly on interviews with the internal audit, risk management, compliance management, risk assets departments, and paying special attention on various types of risk management; second, on-site visits to and interviews with a number of village and township banks; third, based on the interviews and the investigation of provincial institutions last year, making return visits and following up the opinion implementation; fourth, making special inspection on the operating risk of investment institutions; fifth, together with the board of directors of Village and Township banks, investigating into “Questions Relating to Remuneration Incentives and Restraints of the Village and Township Banks Established by Harbin Bank”.

(III) Supervision of Duty Performance

During the reporting period, the Board of Supervisors continued with the supervision of the performance of the Board and the senior management in accordance with the relevant rules of *the Articles of Association* and the measures relating to the evaluation of performance by the Board of Supervisors. Through attending the meetings of the Board and the senior management, and based on the actual duty performance of the Directors and senior management, the Board of Supervisors monitored the performance of the Board of Directors and the senior management and their members. Based on the annual supervision of performance, the Board of Supervisors evaluated the work performance of the Board and the senior management and their members and reported the evaluation results to the Shareholders' General Meeting and the relevant supervisory departments.

Report of the Board of Supervisors (Continued)

(IV) Putting Forward Management Suggestions

During the reporting period, the Board of Supervisors consistently paid attention to all kinds of risk status and control measures of the Company, and by focusing mainly on the distressed asset ratio, agricultural loans collection, financial liquidity, investment and financing, off-balance-sheet business, real estate, financing platform loans, credit asset growth, interbank deposit fluctuation, enhancement of risk management level and so on during their investigations and supervision process, the Board of Supervisors put forward specific comments and suggestions, formed meeting minutes and submitted relevant investigation reports to the Board, the senior management and the controlling entity of the investment institutions for operational reference and decision.

(V) Self-enrichment

The Board of Supervisors self-enrichment activities included: first, organizing supervisory investigation and trainings for the Supervisors, including organizing training on the “Guidelines on the Work of the Supervisory Board of Commercial Banks” issued by China Banking Regulatory Commission (CBRC) and the Rules of the Board of Supervisors; continuously enhancing the supervisory ability of the Supervisors by organizing trainings on corporate governance, laws, finance, deposit insurance and listing related matters organized for Directors and Supervisors; organizing external Supervisors to participate in investigation activities; second, strengthening communication with the industry peers: during the reporting period, the Board of Supervisors studied the operation of the board of supervisors of Minsheng Bank, received the study team members from the supervisory boards of Tianjin Bank and other banks, and exchanged experiences on duty performance supervision, office establishment, strategic evaluation and enhancement of the level of governance of supervisory board, thereby strengthening the level of supervisory ability of the Board of Supervisors; and third, strengthening communication with the Board and the senior management: during the reporting period, the Board of Supervisors and the Board of Directors jointly edited and released “the Internal Reference”; the Board of Supervisors released information relating to the supervisory policies and the main activities of the Board, which provided references for the decision-making and management of the Board and senior management and in the duty performance of the Supervisors.

(VI) Independent Opinions of the Board of Supervisors on Related Matters of Harbin Bank

1. Operation in accordance with the law

The Company's business operations this year conformed with the Company Law, Commercial Banking Law and *the Articles of Association*. Decision procedures were legitimate and effective. No violation of laws and regulations and *the Articles of Association*, or any behavior against the interest of the Company and the shareholders had ever been found during the duty performance of the Board and the senior management.

2. Authenticity of the Financial Report

The annual financial report of the Company had been audited by Ernst & Young Hua Ming LLP and Ernst & Young according to the national and international auditing standards, and a standard unqualified audit report had been issued. The Board of Supervisors believes that the financial report of the Company has truly, accurately and completely reflected the financial status and operation results of the Company.

3. Connected Transactions

The Risk Management and Related Transaction Control Committee of the Board of Directors and the relevant departments had confirmed, reviewed and disclosed the related transactions according to the *Management Measures of Connected Transactions* and related measures of the Company and that all related transactions were conducted in accordance with the laws, regulations, and relevant provisions of *the Articles of Association* with no behavior against the interests of the Company and shareholders having been detected.

By Order of the Board of Supervisors

Zhang Bin

Chairman of the Board of Supervisors

Harbin, China.

17 April 2014

Important Events

I. Issuance of Shares and Listing

The Company was listed on the Hong Kong Stock Exchange on 31 March 2014. A total number of 3,023,570,000 H Shares were issued in the Global Offering (comprising 2,748,700,000 new Shares offered by the Company and 274,870,000 sale Shares were offered by the selling shareholders). The offer price was HK\$2.90 per H Share. The nominal value is RMB1.00 per H Share. The net proceeds were approximately HK\$7.722 billion (about RMB6.184 billion) and the Stock Code is 6138. As at the date of this annual report, the Company had not yet used the funds proceeds.

II. Significant Business Development

The Company, as the main promoter, applied to the China Banking Regulatory Commission for the promotion and establishment of Harbin Bank Financial Leasing Co., Ltd, and on 15 January 2014, obtained the approval to proceed with establishment of the company under the approval document number: Yin Jian Fu [2014] No. 35. The company's registered address is in Harbin City of Heilongjiang Province with a registered capital of RMB2 billion. As the main promoter, the Company shall invest RMB1.6 billion for an equity interest of 80%. Harbin Bank Financial Leasing Co., Ltd shall follow "Giving priority to agriculture, focusing on agricultural machinery, homing in northeast China and serving small and medium-sized enterprises" as its strategic positioning, match-up with the policy orientation in the development of modern agriculture in Heilongjiang Province and China, fully promote the agricultural industrialization and upgrading of the agricultural equipment manufacturing industry, innovate rural financial service channels and promote the development of both the agriculture industry and the regional economy. At present, the preparation work is ongoing and it is expected that formal business operation will commence before 15 July 2014.

III. Debt Securities Issuing

The Bank has not issued any bond during the reporting period.

Details of the bonds issued by the Bank were as follows:

(I) Subordinated Bonds in 2009

According to the resolutions of the ninth meeting of the fourth Board of Directors on 9 February 2009 and the 2009 first extraordinary general meeting of the shareholders on 6 March 2009, the Board and the Shareholders' General Meeting approved the issuance of subordinated bonds of not more than RMB1 billion.

According to the "Approval for Harbin Bank to Issue Subordinated Bonds" issued by the CBRC under approval document: Yin Jian Fu [2009] No.396 dated 15 October 2009 and the "Administrative Approval Decision" by the People's Bank of China under approval document: Banking Market License [2009] No.72 dated 24 November 2009, the Company obtained the consent and permission from the CBRC and the People's Bank of China for the issuance of the 2009 subordinated bonds.

According to the “2009 Subordinated Bonds Raising Prospectus of Harbin Bank Co., Ltd.” prepared in December 2009, the major terms of the bond issuance were as follows:

Bond Name	Subordinated bonds of Harbin Bank Co., Ltd. in 2009
Issuing Scale	RMB1 billion
Variety and Maturity	10 years of fixed rate bonds, and the Bank shall have the redemption option at the end of the fifth year.
Coupon Rate	The annual coupon rate of the first 5 interest-bearing years shall be confirmed by book keeping and centralized allocation and shall not change in the first 5 interest-bearing years; if the Bank does not exercise the redemption option, the annual coupon rate of the later 5 interest-bearing years shall be 3 percentage points higher than the former one, from the 6th interest-bearing year to the maturity of the bonds; yearly simple interest shall be adopted with no compound interest, and no more interest accounted after maturity.
Interest-bearing Period	If the Bank does not exercise the redemption option, the interest-bearing period of the current bond shall be from 9 December 2009 to 8 December 2019; if the Bank exercises such option, the interest-bearing period for the redemption part of the current bond shall be from 9 December 2009 to 8 December 2014.

According to the *2010 Interest Payment Notice for the 2009 Subordinated Bonds of Harbin Bank Co., Ltd.* published on 19 November 2010, the *2011 Interest Payment Notice for the 2009 Subordinated Bonds of Harbin Bank Co., Ltd.* published on 23 November 2011, the *2012 Interest Payment Notice for the 2009 Subordinated Notes of Harbin Bank Co., Ltd.* published on 5 November 2012, and the *2013 Interest Payment Notice for the 2009 Subordinated Notes of Harbin Bank Co., Ltd.* published on 11 November 2013 and the interest payment voucher, 4 interest payments have been timely and fully paid to the investors on the above-stated 2009 subordinated bonds since December of 2009 after they have been issued.

(II) Financial Bonds in 2012

According to the resolutions of the 31st meeting of the fourth Board on 8 August 2011 and the 2011 extraordinary general meeting of shareholders' on 25 August 2011, the Board and the Shareholders' General approved Meeting *the Proposal of Harbin Bank to Issue Financial Bonds* and agreed the public issuance by the Bank of RMB2.5 billion of ordinary (non-subordinated) financial bonds in the interbank market of China.

Important Events (Continued)

According to the “Approval for Harbin Bank to Issue Financial Bonds” issued by the CBRC under approval document: Yin Jian Fu [2011] No. 570 on 15 December 2011 and the “Administrative Approval Decision” by the People’s Bank of China under approval document: Banking Market License [2012] No. 19 on 21 March 2012, the Bank obtained the consent and permission from the CBRC and the People’s Bank of China for the issuance of the financial bonds.

According to *the “2012 Financial Bonds Raising Prospectus of Harbin Bank Co., Ltd.”* prepared in May 2012, the major terms of the bond issuance were as follows:

Bond Name	Financial bonds of Harbin Bank Co., Ltd in 2012
Bond Properties	Financial bonds of commercial banks
Issuing Scale	No more than RMB2.5 billion
Variety and Maturity	5 years
Coupon Rate	Fixed interest rate adopted; the final coupon rate shall be confirmed by book keeping and centralized allocation and shall not change during the bond duration; yearly simple interest shall be adopted with no compound interest, and no more interest accounted after maturity.
Value Date	Value date starts from the payment deadline
Interest Payment Date	16 May of each year during the period
Redemption Date	16 May 2017

According to the *2013 Interest Payment Notice for the 2012 Financial Bonds of Harbin Bank Co., Ltd.* published on 6 May 2013, the *Confirmation of Interest Payment/Redemption Completion for Stock Agents* issued by China Central Depository Trust & Clearing Co., Ltd. on 6 June 2013 and the statements of the Bank, the “Harbin Bank Financial Bond 12” under the central bond bookkeeping system of China Central Depository Trust & Clearing Co., Ltd. had completed the interest payment of a total sum of RMB113,750,000 on 16 May 2013.

I. Overview of Internal Control

The Board as the decision-making level of our Bank is responsible for the consolidation and effective implementation of internal control; the management at various levels is responsible for coordinating the establishment of the implementation of internal control and its daily operation work; the various branch organizations and departments are responsible for establishing and continuously improving their own internal control systems in accordance with the requirements of laws and regulations; the compliance departments and the independent internal audit departments are responsible for the supervision and evaluation of the internal control system of the Bank. At present, the Bank has established an internal control system covering the five major aspects of internal control, namely internal environment, risk assessment, control activities, information and communication, and internal supervision, in accordance with the “Basic Rules on Enterprise Internal Control” and its supporting guidelines, and the “Internal Control Guidelines for Commercial Banks”.

During the reporting period, the Bank, by clarifying the responsibility boundaries of departments such as business departments, internal compliance, internal audit and so on, has formed a three-line internal control defense in business management, compliance inspection and internal audit with orderly division of work and an internal control monitoring system covering all grades and levels. Based on the requirements of the Basel New Capital Accords and those of the regulators, and through fully conducting risk management projects and by self-evaluation and risks selection, the Bank has identified and controlled internal risks which further improved the Bank’s level of risk measurement. By implementing internal control information construction projects and bank workflow projects and by relying on a more scientific and rigorous internal control system integrated with advanced technologies and control methods, the Bank has set up safety barriers for effective protection against various risks. By clearly identifying the responsible departments for reporting and the reporting paths, the Bank has established a better internal system for internal information exchange and communication, thereby ensuring that various departments and entities at all levels of the head office can timely convey all information on the strategies, policies, systems and relevant requirements of the decision-making level to the employees and at the same time provide supports to the employees for timely report of internal control problems to the managements at various levels. The Bank has also established and improved the common supervision working system with multi-level, multi-dimension and multi-channel features, which provides prior warning, on-the-spot control and afterward supervision on the business of the Bank.

Internal Control (Continued)

II. Implementation of Internal Guideline

Our Bank has paid great attention to the implementation of the “Basic Rules on Enterprise Internal Control” and its supporting guidelines. During the reporting period, we conducted the second phase of internal control construction. Based on the guidelines of COSO and those issued by China’s five ministries, we further introduced the idea of information system application control of COBIT, promoted the organic combination of internal control process management with information system to improve the automation control rate of the business system and to realize the transformation of internal control from man-control to machine-control and from decentralization to centralization. Meanwhile, through introducing advanced information conception of internal control and the evaluation of the importance of internal control environment, we integrated internal control with our main information system. By strengthening the automation rate of internal control, we have further realized the automation and normalization of the control system in the first layer of defense so as to move forward the function of risk control management and significantly increase the effectiveness of control in the business process.

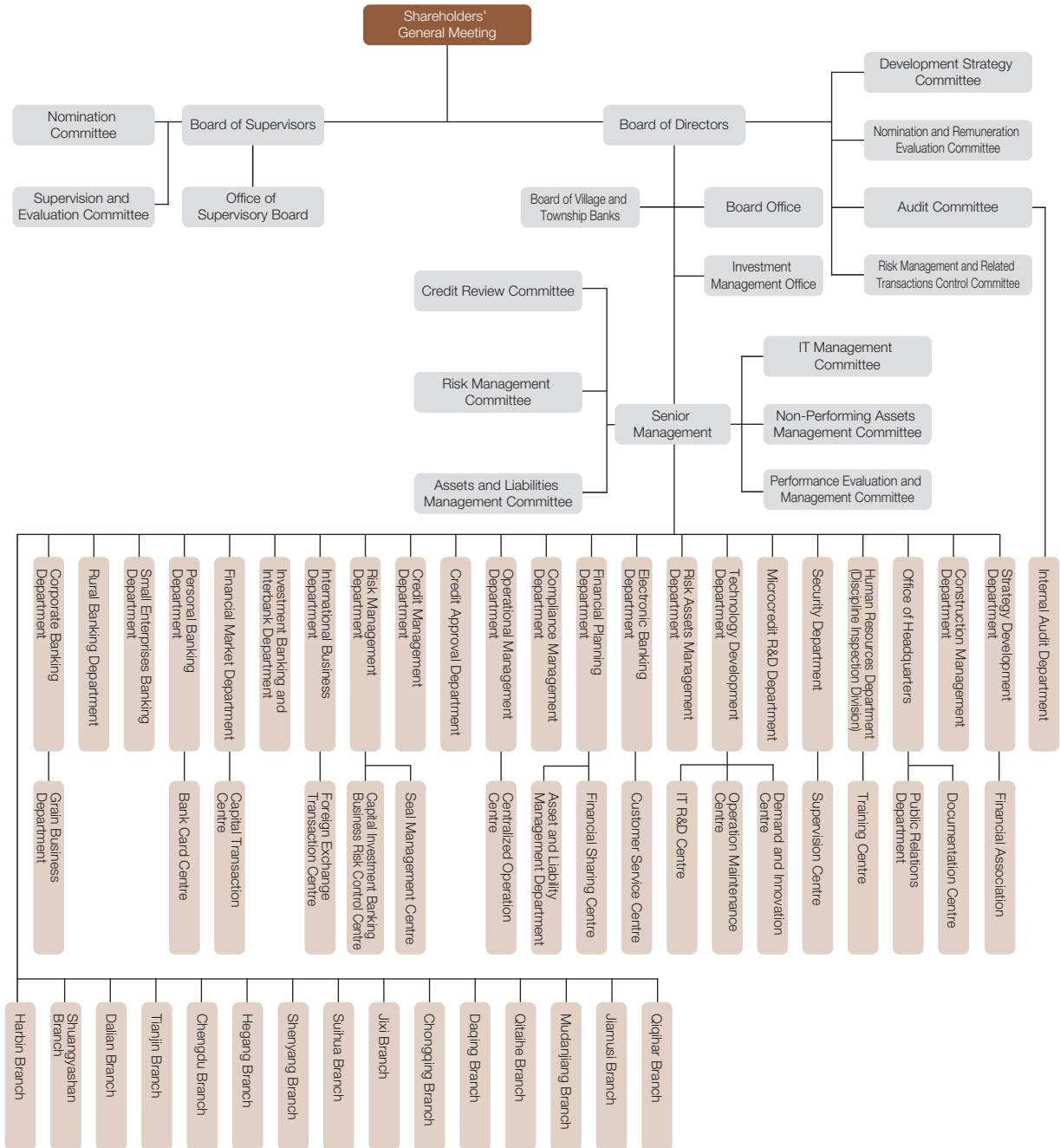
III. Internal Audit

The internal audit department of our Bank carries out internal audit in accordance with the principle of “verticality, independence and effectiveness”, and is responsible for and report work to the Board and the audit committee. The audit department has regional divisions in Harbin, Shuangyashan and Tianjin, and audit centers on-site, off-site and at the village and township banks, which are responsible for the evaluation of the effectiveness of internal control and risk management of the various entities of the Bank and the village and township banks, the compatibility between operational results and risk level as well as the duty performance ability of staff holding important positions.

During the reporting period, the internal audit department, with managing institutions, risks and internal control as its main goal, strengthened the auditing of key areas/regions, lines and projects, and organized the implementation of comprehensive audit on the branches; through audit projects on operation management lines, credit lines, information and technology lines, and through special leaves for staff holding important positions, and through economic responsibility audit during the terms of office (outgoing), the Bank focused on the evaluation and management of operation risk, credit risk, market risk and liquidity risk. The Board and the senior management emphasized on the audit findings and transformation of audit results, actively promoted the system optimization and process improvement, supervised the effective duty performance of the units under auditing and improve the risk control ability.

Corporate Governance Report

I. Organization Chart of Corporate Governance



II. Corporate Governance Overview

Sound corporate governance is the responsibility of the Board of our Bank. From 2013 to prior to our listing on the Hong Kong Stock Exchange in March of 2014 and in preparation for our listing overseas, our Bank has modified and updated our Bank's corporate governance documents according to the requirements of the Hong Kong Listing Rules so as to enhance and strengthen the corporate governance level of our Bank, including further strengthened the composition of the Board and the Board of Supervisors, increased the numbers and proportion of independent non-executive Directors and external Supervisors, and revised the composition of the committees of the Board, in compliance with the standards of requirements of the Hong Kong Listing Rules. Our Bank has adopted the Corporate Governance Code in Appendix 14 of the Hong Kong Listing Rules, and has met the requirements of the PRC commercial bank administrative measures and corporate governance requirements and has established a sound corporate governance system. Currently, the principal corporate governance documents of the Company include: the Articles of Association, the Rules of Procedure for the Shareholders' General Meeting, the Rules of Procedure for the Board of Directors, the Working Rules for the Independent Directors, the Terms of Reference of the Audit Committee, the Terms of Reference of the Nomination and Remuneration Committee, the Terms of Reference of the President, the Connected Transactions Administrative Measures, the Information Disclosure Administrative Measures, etc. The Board believes that upon listing on 31 March 2014, our Bank has complied with the requirements of the provisions of the Corporate Governance Code in Appendix 14 of the Hong Kong Listing Rules.

In addition, the Board has adopted the *Model Code for Securities Transactions by Directors of Listed Issuers* under Appendix 10 of the Hong Kong Listing Rules for the Directors, Supervisors and relevant employees of our Bank. Having enquired, the Directors, Supervisors and relevant employees have confirmed that they have complied with relevant requirements of the code, since our listing on the Hong Kong Stock Exchange on 31 March 2014.

For the period from 2013 to 31 March 2014, the Shareholders' General Meeting passed the following resolutions relating to corporate governance of our Bank:

At the 2012 annual general meeting of our Bank held on 10 May 2013, the following reports and regulatory documents on corporate governance were passed and approved: the *2012 Work Report of the Board of Directors*; the *2012 Work Report of the Board of Supervisors*; the *2012 Financial Report*; the *2012 Profit Distribution Plan*; the *2012 Resolution on the Evaluation Report of the Duty Performance of the Directors*; the *2012 Resolution on the Evaluation Report of the Duty Performance of the Supervisors*; the *2012 Report on the Management and Implementation of Connected Transactions*; the *Resolutions on the Amendments of the Articles of Association of Harbin Bank Co., Ltd.*; the *Resolution on the Amendments of the Rules of Procedure for the Shareholders' General Meeting of Harbin Bank Co., Ltd.*; the *Resolution on the Amendments of Rules of Procedure for the Board of Directors of Harbin Bank Co., Ltd.*; the *Resolution on the Amendments of the Rules of Procedure for the Board of Supervisors of Harbin Bank Co., Ltd.*; the *Resolution on the Amendments of the Rules of Election of the Directors of Harbin Bank Co., Ltd.*; the *Resolution on the Amendments of the Rules of the Election of the Supervisors of Harbin Bank Co., Ltd.*; the *Resolution on the Amendments of the Connected Transactions Administrative Measures of Harbin Bank Co., Ltd.*; the *Resolutions Relating to the Adoption of the Articles of Association of Harbin Bank Co., Ltd. (H-Share)*, the *Rules of Procedure for Shareholders' General Meeting of Harbin Bank Co., Ltd. (H-Share)*, the *Rules of Procedure for the Board of Directors of Harbin Bank Co., Ltd. (H-Share)*; and *Other Resolutions Relating to the Internal Control Systems*, etc.

At the 2013 first extraordinary general meeting of the shareholders held on 23 July 2013, the following resolutions were passed and approved: the *Resignation of Mr. Ma Shuwei as the Shareholder Representative Director*; the *Resignation of Mr. Wang Yuanqing as an Independent Director*; the *Nomination of Mr. Wan Kam To as a Candidate for Appointment as an Independent Director*; the *Nomination of Mr. Kong Siu Chee as a Candidate for Appointment as an Independent Director*, the *Resignation of Ms. Liu Wei as an External Supervisor*; the *Nomination of Ms. Bai Fan as a Candidate for Appointment as an External Supervisor*; the *Resolution on the Changes to the Registered Capital and the Articles of Association*, etc.

At the 2013 second extraordinary general meeting of shareholders held on 26 September 2013, the following resolutions were passed and approved: the *Administrative Measures on the Allowances for the Directors of Harbin Bank Co., Ltd.*; the *Administrative Measures on the Allowances for the Supervisors of Harbin Bank Co., Ltd.*; the *Resolution on the Nomination of Additional External Supervisors*; the *Resolution on the Change of Shareholders Representative Supervisor*, etc.

Corporate Governance Report (Continued)

In 2013, our Bank has totally organized and held 49 important meetings of all kinds, including three general meetings of shareholders, eight meetings of the Board of Directors, 25 meetings of the special committees of the Board of Directors, six meetings of Board of Supervisors and seven meetings of the special committees of the Board of Supervisors. The meetings approved and passed 210 major items of proposals and reports, including: the Work Report of the Board of Directors, the Work Report of the President, the Financial Report, the Profit Distribution Plan, the Comprehensive Operation Plan, the Report on the Implementation of Connected Transactions, the Risk Control Report, the nomination of Directors and Supervisors, the amendments of *the Articles of Association* and the related rules, the institutional development plan, etc. To facilitate the listing of our Bank on the Hong Kong Stock Exchange, our Bank has drawn up the *Administrative Measures for Proposal of Resolution to the Board of Directors*, and the *Working Rules for Independent Supervisors*, and has revised *the Articles of Association*, the *Rules of Procedure for the Shareholders' General Meeting*, the *Rules of Procedure for the Board of Directors*, the *Rules of Procedure for the Board of Supervisors*, the *Measures for Nomination of Supervisors*, the *Measures for Nomination of Directors*, the *Administrative Measures for Connected Transactions*, the *Information Disclosure Measures*, the *Terms of Reference of the Audit Committee*, the *Terms of Reference of the Nomination and Remuneration Committee*, etc.

During the reporting period, the Board of Directors of our Bank conducted an annual evaluation of the senior management in accordance with the stipulation of *the Administrative Measures on the Performance Evaluation of Senior Management*, and applied the performance evaluation results in the remuneration distribution and terms of employment of the evaluated targets, so as to provide incentives for the continuous improvement of duty performance of the senior management and to systematize, standardize and normalize the evaluation mechanism of the senior management by the Board of Directors.

According to the stipulations of the Evaluation Method on Duty Performance of Directors, the Nomination and Remuneration Committee of the Company conducted an annual evaluation of duty performance of the Directors, which facilitated the careful, earnest and diligent duty performance and self-discipline of the Directors.

Our Bank has continued to deepen the establishment of its internal control system, starting from the establishment and implementation of various rules and regulations of internal control and by means of systematic publicity and education, developed good internal control culture, strengthened the business management and control model of all business lines and regions, and achieved the successful completion of various internal control targets through various effective measures such as division of responsibilities, lines of reporting, incentive and restraint, etc.

To innovate the information sharing mechanism, our Bank has launched its own internal magazine, the "Internal Reference", and successfully completed its initial first two publications, which built up a centralized and convenient platform of sharing information on corporate governance among the Board, the Board of Supervisors and the senior management.

III. Board of Directors

The Board of Directors of our Bank shall hold at least four regular meetings a year, and convene special meetings when necessary. The meetings of the Board of Directors shall be held in the form of physical meetings or by way of telecommunication. The notices and materials of the regular meetings shall be sent to all Directors 10 days before the relevant meeting is convened. After our listing on the Hong Kong Stock Exchange, our Bank will send the notices and materials of the regular meetings to each Director at least 14 days and three days before the relevant meeting is convened, respectively, in accordance with the related corporate governance requirements under the Hong Kong Listing Rules. Each Director may put forward proposals to be added to the agenda of the meeting of the Board of Directors. The detailed minutes of the meetings of the Board of Directors will be provided to all Directors attended for their review and comment, and then signed by all Directors for confirmation. A good communication and report mechanism has been established among the Board of Directors, the Directors and senior management of the Bank. Senior management personnel provides sufficient information for the Board and its committee to make informed decisions. All Directors may seek independent professional opinions paid by our bank. The president of the Bank regularly reports to the Board and accepts their supervision. Relevant senior management members may be invited to attend the meetings of the Board of Directors from time to time for explanation or answering inquiries. At the meetings of the Board of Directors, all Directors can present their opinions freely, and decisions on important matters should be made after detailed discussion.

As the administrative body of the Board of Directors, the Board Office is responsible for the preparation of the Shareholders' General Meeting, and the meetings of Board of Directors and special committees of the Board of Directors, information disclosure matters and other daily routines.

As the decision-making organ of the Company, the Board of Directors is accountable to the Shareholders' General Meeting and responsible for implementing the resolutions of the Shareholders' General Meeting. The Board of Directors mainly exercises the following functions and powers:

1. To convene the Shareholders' General Meeting, and report to the Shareholders' General Meeting;
2. To implement the resolutions of the Shareholders' General Meeting;
3. To decide on the development plans of the Company;
4. To decide on operation plans, investment plans and major assets disposal plans of the Company;
5. To formulate annual financial budgets and final accounts of the Company;
6. To formulate profit distribution plans and loss recovery plans of the Company;

Corporate Governance Report (Continued)

7. To formulate proposals on the increase or decrease of registered capital, the issuance of bonds or other securities and the listing of the Company;
8. To formulate proposals on major acquisitions by the Company, acquisitions of the stock of the Company or merger, division, dissolution and change of the corporate form;
9. To regularly evaluate and improve the Company's corporate governance;
10. To decide on external investment, acquisition and disposal of assets, assets mortgage, external security, related transactions and other matters of the Company, within the scope of authorization of the Shareholders' General Meeting;
11. To determine arrangement plans for the Company's internal management institutions, branches and personnel and positions of the managers;
12. To appoint or dismiss the president or board secretary of the Company, according to the nomination of the chairman of the Board of Directors; appoint or dismiss senior management such as the vice-president, assistant president and financial chief, according to the nomination of the president;
13. To decide on remuneration and disciplinary matters of senior management personnel;
14. To formulate basic management system and explicate the working rules for the president;
15. To formulate proposal on amendments to the Articles of Association of the Company;
16. To manage the information disclosure matters of the Company;
17. To propose on the engagement or replacement of the accounting firm that audits the Company to the Shareholders' General Meeting;
18. To listen to the work report of the president of the Company and check the work of the president;
19. Other functions and powers granted by laws, administrative regulations, department rules or the Articles of Association of the Company.

IV. Board Members

As at the end of the reporting period, the Board of Directors of our Company consisted of 13 directors, including three executive Directors: Guo Zhiwen, Gao Shuzhen and Liu Zhuo, four non-executive Directors: Zhang Taoxuan, Chen Danyang, Cui Luanyi and Qin Hongfu, and six independent non-executive Directors: Du Qingchun, Ma Yongqiang, Zhang Shengping, He Ping, Wan Kam To and Kong Siu Chee. The non-executive Directors are all from shareholders and have working experience in the fields of management, finance and accounting; three executive Directors have worked in the areas of banking and management for a long time and possess professional expertise in those areas; six independent non-executive Directors are all experts in economic, financial, accounting and legal fields, two of whom are from Hong Kong, one with experience in auditing, finance, management consulting and the other with experience in corporate governance, risk control and management of the banking industry.

V. Change of Director Members during the Reporting Period

During the reporting period, Mr. Wang Yuanqing resigned from the positions of independent non-executive Director and member of the special committee of the Board of Directors on 30 May 2013. Mr. Ma Shuwei resigned from the positions of non-executive Director and member of the special committee of the Board of Directors on 25 May 2013. The Board of Directors considered the resignation on 29 June 2013. At the Shareholders' General Meeting of our Bank on 23 July 2013, Mr. Wan Kam To and Mr. Kong Siu Chee were elected as the independent non-executive Directors of the fifth Board of Directors. Among the 13 directors, Mr. Du Qingchun and Mr. He Ping will serve the term from September of 2012 to April of 2015 in the Board of Directors, Mr. Wan Kam To and Mr. Kong Siu Chee will serve the term from July of 2013 to April of 2015 in the Board of Director, and all other Directors will serve the term from April of 2012 to April of 2015 in the Board of Directors.

VI. Chairman and President

The roles and works of the chairman of the Board and president of our Bank are taken by different individuals. There is a clear division of these responsibilities to conform with the recommendations of the Hong Kong Listing Rules. Mr. Guo Zhiwen, as the chairman of the Board of Directors, is mainly in charge of convening Shareholders' General Meetings, convening and chairing meetings of the Board of Directors, supervising and examining the implementation of the resolutions of the Board of the Directors, proposing candidates of the special committees to the Board of the Bank, and signing important documents of the Board of Directors and other documents which shall be signed by the legal representative of our Bank.

Ms. Gao Shuzhen, as the president, is mainly in charge of the management of daily operation and the implementation of relevant resolutions and operation plans of the Board of Directors.

VII. Duties of Directors

During the reporting period, all Directors carefully, earnestly and diligently exercised the rights granted by our Bank and regulatory authorities, and devoted enough time and energy to handle the matters of the Company. During the year, the attendance of each Director to participate in physical meetings (including attendance by proxy with the signed authorization letter in accordance with the unmodified *Articles of Association/Rules of Procedure for the Board of Directors*) is 100%.

The independent non-executive Directors have expressed professional advice on the proposals considered by the Board of Directors, such as the profit distribution plan and appointment of senior management. In addition, the independent non-executive Directors have also given full play to their professional expertise in the special committees of the Board of Directors, and put forward professional and independent opinions on the corporate governance and operation management of our Bank.

During the reporting period, our Board of Supervisors conducted annual evaluation of the performance of duties of the Directors, and reported the results of the evaluation to the Shareholders' General Meeting.

After listing, our Bank has purchased the liability insurance for the Director, Supervisors and Senior Management.

VIII. Meetings of Board of Directors and the Directors' Attendance

During the reporting period, our Bank held eight meetings of the Board of Directors, considering and approving major proposals on development strategies, operation plans, financial policies, system modification and other matters, including 55 proposals and reports such as the working report of the Board, the working report of the president, financial report, profit distribution plan, performance evaluation index of senior management, comprehensive operation plan, management and implementation of connected transactions.

Meeting	Meeting Date	Meeting Mode
The 9th Meeting of the 5th Board of Directors	20 February 2013	Telecommunication Mode
The 10th Meeting of the 5th Board of Directors	19 April 2013	Physical Mode
The 11th Meeting of the 5th Board of Directors	14 June 2013	Telecommunication Mode
The 12th Meeting of the 5th Board of Directors	29 June 2013	Physical Mode
The 13th Meeting of the 5th Board of Directors	6 July 2013	Telecommunication Mode
The 14th Meeting of the 5th Board of Directors	10 September 2013	Physical Mode
The 15th Meeting of the 5th Board of Directors	1 November 2013	Telecommunication Mode
The 16th Meeting of the 5th Board of Directors	21 November 2013	Physical Mode

The attendance of each Director in meetings of the Board of Directors and general meetings in 2013 is set out below:

Board Members	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate ^(Note)	Numbers of General Meetings Requiring Attendance/ Numbers of General Meetings Attended (Including by Proxy)
Guo Zhiwen	8	8	0	100%	3/2
Gao Shuzhen	8	8	0	100%	3/3
Liu Zhuo	8	7	1	100%	3/3
Zhang Taoxuan	8	7	1	100%	3/0
Chen Danyang	8	8	0	100%	3/3
Cui Luanyi	8	8	0	100%	3/3
Qin Hongfu	8	8	0	100%	3/3
Zhang Shengping	8	8	0	100%	3/1
Ma Yongqiang	8	7	1	100%	3/1
Du Qingchun	8	8	0	100%	3/2
He Ping	8	7	1	100%	3/3
Wan Kam To	2	2	0	100%	0/0
Kong Siu Chee	2	2	0	100%	0/0
Resigned Directors					
Wang Yuanqing	6	6	0	100%	2/1
Ma Shuwei	6	5	1	100%	2/0

Note: During the reporting period, attendance by proxy with authorization was deemed as attendance.

IX. Duty Performance of Independent Non-Executive Directors

The Board now has 6 independent non-executive Directors who were appointed in full compliance with the provisions of China Banking Regulatory Commission, China Securities Regulatory Commission and the Hong Kong Listing Rules regarding requirements of the qualification, number and proportion of independent non-executive directors. During the reporting period, they maintained communication with the Bank through site visits, special researches, trainings, department interviews and other approaches. And to fully discharge their roles as independent non-executive Directors, they have actively voiced opinions in the meetings of the Board and its special committees, and attached importance to shareholders' interests and demands.

The Bank has received independence confirmation letters from all the independent non-executive Directors. In the opinion of the Bank, all the independent non-executive directors are independent from 31 March 2014, the listing date of the Bank on the Hong Kong Stock Exchange, to the date of the report.

X. Special Committees of the Board

The Board has four special committees including Audit Committee, Nomination and Remuneration Evaluation Committee, Risk Management and Related Transaction Control Committee and Development Strategy Committee. Both the structure and the composition of each special committee comply with the provisions of regulatory authorities and *the Articles of Association*. Among these committees, Nomination and Remuneration Evaluation Committee, Risk Management and Related Transaction Control Committee and Audit Committee are chaired by independent non-executive Directors, which further strengthens the supervision on the Bank by independent non-executive Directors.

In 2013, the special committees of the Board exercised their power in an independent, regular and effective manner in accordance with the law. They held 25 meetings in the year, at which 87 proposals on regular reports, structural adjustment, change of Directors and senior management and other matters were studied and considered, and the same was done to topics which are critical to the sustainable development and corporate governance of the Bank. As a result, work efficiency and decision-making capacity of the Board has been improved and the development of our businesses boosted.

Members of the four special committees, authority scope and work for 2013 of the committees are as follows:

(I) Audit Committee

The Audit Committee mainly consists of independent non-executive Directors, one member of which also serves as chairman of the committee. Members include independent non-executive Directors: Ma Yongqiang (chairman of the committee), Zhang Shengping, Wan Kam To, Kong Siu Chee and a non-executive Director Qin Hongfu.

The Audit Committee mainly has the following authorities after the listing of the Bank:

1. examining the Bank's accounting policies, financial condition and financial reporting procedure;
2. reviewing the Bank's financial information and its disclosure;
3. overseeing the Bank's financial reporting system and internal control procedures;
4. monitoring and evaluating the Bank's Internal Audit Department;
5. making recommendations to the Board on the appointment, re-appointment and removal of external auditors; and
6. coordinating internal and external audit work.

In 2013, the Audit Committee held 4 meetings, at which 7 proposals and reports including *Proposal for an Auditors' Report for three financial years and a stub period from 2009 to 2013*, *Proposal for the Information Disclosure Management System of Harbin Bank Co., Ltd.*, *Proposal for 2013 Interim Auditors' Report* were passed. In 2013, the Audit Committee investigated 17 head office departments, branch offices and holding subsidiaries including International Business Department, Credit Management Department, Dalian Branch, Shuangyashan Branch, and village and township banks in Hebei Hejian Ronghui and Anyi Rongxing, through interviews and site visits of which, the committee knew the situation of risk management, microcredit market, the rural credit market and demand, business innovation, risk control and establishment and execution of systems in branches. Besides, the committee listened to the work reports from the internal audit department many times, continued to deepen the implementation of the internal control system, supervised and guided the audit and examination work, and further improved the establishment of the internal control system. The committee also organized the preparation and review of the 2012 annual report according to regulators' disclosure requirements on the annual financial report and the audit disclosure plan of the Audit Committee. It held the second 2014 annual meeting on 23 March 2014 at which the 2013 annual financial data was reviewed. The attendance of each member in the meetings of Audit Committee in 2013 is as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate ^(Note)
Ma Yongqiang	4	4	0	100%
Zhang Shengping	4	4	0	100%
Wan Kam To	1	1	0	100%
Kong Siu Chee	1	1	0	100%
Qin Hongfu	4	4	0	100%

Note: During the reporting period, attendance by proxy with authorization was deemed as attendance.

(II) Nomination and Remuneration Evaluation Committee

Nomination and Remuneration Evaluation Committee mainly consists of independent non-executive Directors, one member of which also serves as chairman of the committee. Members include independent non-executive Directors: Du Qingchun (chairman of the committee), Ma Yongqiang, He Ping, Wan Kam To and a non-executive Director Chen Danyang.

Corporate Governance Report (Continued)

The Nomination and Remuneration Evaluation Committee mainly has the following authorities after the listing of the Bank:

1. reviewing the structure, size and composition of the Board (including skills, knowledge and experience) at least on an annual basis and proposing suggestions about the planned change of the Board in accordance with company policy;
2. determining the conditions of service, criteria and selection procedures for Directors and senior management;
3. conducting preliminary review on the service qualifications and appointment conditions of Directors and senior management and propose suggestions to the Board;
4. assessing the independence of independent Directors;
5. making and implementing the remuneration policy and structure for directors and senior management;
6. reviewing and approving the remuneration proposals of the management with reference to the enterprise policy and objective formulated by the Board;
7. making recommendations to the Board on the remuneration and incentives measures and schemes of the senior management;
8. drafting the performance review standards for senior management and conducting such performance review, and reporting the results to the Board;
9. evaluating the amounts of annual incentive compensation to be distributed to senior management, operating and management personnel and other employees; and
10. formulating Board diversification strategy.

In 2013, Nomination and Remuneration Evaluation Committee held 5 meetings. All members strictly performed the obligations listed in Terms of Reference for the Nomination and Remuneration Evaluation Committee and perfectly completed this year's work arrangements. Major works were launched as follows: selecting qualified director candidates, conducting performance assessment of Directors and senior management, determining the 2013 annual performance assessment index and target value of senior management, adjusting the allowance standard of Directors according to other banking institutions standard, and improving such systems as the *Working System of the Independent Directors* and the *Election Measures of Directors*. Meanwhile, the committee reviewed and passed 14 proposals and reports including the *Proposal for 2013 Annual Performance Assessment Index for Senior Management*, the *Proposal for the Appointment of Senior Management* and the *Proposal for the Working System of Independent Directors*. The attendance of each member in the meetings of Nomination and Remuneration Evaluation Committee in 2013 is as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate^(Note)
Du Qingchun	5	5	0	100%
Ma Yongqiang	4	4	0	100%
He Ping	4	4	0	100%
Wan Kam To	1	1	0	100%
Chen Danyang	5	5	0	100%
Resigned director				
Wang Yuanqing	4	4	0	100%

Note: During the reporting period, attendance by proxy with authorization was deemed as attendance.

(III) Risk Management and Related Transactions Control Committee

The Risk Management and Related Transactions Control Committee consists of independent non-executive Directors, being Zhang Shengping (chairman), He Ping and Du Qingchun, an executive Director, being Liu Zhuo and a non-executive Director, being Cui Luanyi.

The Risk Management and Related Transactions Control Committee mainly has the following authorities after the listing of the Bank:

1. supervising the risk control by senior management in respects of, among others, credit, market and operation;
2. making regular assessment of the Bank's risk status;
3. providing advice on improving the Bank's risk management and internal control;

Corporate Governance Report (Continued)

4. reviewing the Bank's asset liability management policies;
5. collecting and compiling lists and information of the Bank's related parties;
6. examining and supervising the control of related party transactions of the Bank, as well as the implementation of related party transactions control system by the Directors, senior management and related parties, and reporting the results to the Board; and
7. approving or conducting preliminary review of matters to be approved or preliminarily reviewed by the committee as set out in the Articles of Association and any other internal rules, keeping records of the relevant matters and reporting to the Board in accordance with the rules.

In 2013, the Risk Management and Related Transactions Control Committee held 11 meetings and reviewed 50 proposals and reports such as *Proposal for the Purchase of Xi'an Road Sub-branch Business Property by Dalian Branch*, *Proposal for the Purchase of Finance Bureau Property by Jiamusi Branch* and *Proposal for the Disposal of Non-Performing Assets of Shenyang Orient Steel Limited*. The attendance of each member in the meetings of Risk Management and Related Transactions Control Committee in 2013 is as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended in Proxy	Attendance Rate^(Note)
Zhang Shengping	11	11	0	100%
He Ping	11	10	1	100%
Du Qingchun	11	11	0	100%
Liu Zhuo	11	11	0	100%
Cui Luanyi	11	11	0	100%

Note: During the reporting period, attendance by proxy was deemed as attendance.

(IV) Development Strategy Committee

The Development Strategy Committee consists of executive Directors, being Guo Zhiwen (chairman), Gao Shuzhen and Liu Zhuo, an independent non-executive Director, being Kong Siu Chee and a non-executive Director, being Zhang Taoxuan.

The Development Strategy Committee mainly has the following main authorities after the listing of the Bank:

1. researching and providing advice on the Bank's long and medium term development strategies;

2. researching and providing advice on material investment and financing programmes, material capital operation and asset operating projects to be approved by the Board as required under the Articles of Association;
3. researching and providing advice on other material matters which may affect the development of the Bank;
4. drafting the Bank's annual business targets;
5. supervising and inspecting the implementation by senior management of the Bank's long and medium term development plans, annual business targets, investment and financing programmes and capital operation programmes.

In 2013, the Development Strategy Committee held five meetings, reviewed and passed 16 proposals and reports such as Proposal for the Board of Supervisors to Implement Strategic Evaluation, Proposal for the Issuance of Special Financial Bonds for Agriculture, Farmers and Rural Areas, Proposal for the Amendments to Management Measures of Village and Township Banks of Harbin Bank Co., Ltd.. The attendance of each member in the meetings of Development Strategy Committee in 2013 as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate^(Note)
Guo Zhiwen	5	4	1	100%
Gao Shuzhen	5	5	0	100%
Liu Zhuo	5	5	0	100%
Kong Siu Chee	1	1	0	100%
Zhao Taoxuan	5	5	0	100%
Resigned Director				
Ma Shuwei	4	3	1	100%

Note: During the reporting period, attendance by proxy was deemed as attendance.

XI. Board of Supervisors

The Board of Supervisors now consists of eight Supervisors, among which there are three external Supervisors and three employees representative Supervisors. The number and personnel composition of the Board of Supervisors is in compliance with the provisions of laws and regulations.

Corporate Governance Report (Continued)

During the reporting period, the Board of Supervisors held six meetings at which 19 proposals were reviewed and approved such as the Work Report of the Board of Supervisors, annual financial and audit reports, performance evaluation reports, economic obligation audit reports of senior management, relevant systems of the Board of Supervisors and supervisor nomination. The attendance of each Supervisor in the meetings of the Board of Supervisors in 2013 is as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate^(Note)
Zhang Bin	6	6	0	100%
Cheng Yun	6	6	0	100%
Wang Jiheng	6	6	0	100%
Meng Rongfang	1	1	0	100%
Bai Fan	4	4	0	100%
Lu Yujuan	1	1	0	100%
Wang Ying	6	6	0	100%
Chen Yutao	6	5	1	100%
Resigned Supervisors				
Liu Wei	2	2	0	100%
Zang Shaolin	5	5	0	100%

Note: During the reporting period, attendance by proxy was deemed as attendance.

During the reporting period, the Supervisory Board Committees, which originally consisted of the Supervisory Board Audit Committee and the Supervisory Board Nomination and Supervision Evaluation Committee, were adjusted into the Supervisory Board Nomination Committee and the Supervisory Board Supervision and Evaluation Committee. The structure and staff composition of each Supervisory Board Committee is in compliance with the provisions of regulatory authorities and the Articles of Association and each Committee is chaired by external Supervisor. Each Supervisory Board Committee will carry out the work according to the laws, regulations, the Articles of Association, rules of procedure for the Board of Supervisors and detailed work rules of each Committee.

During the reporting period, the Supervisory Board Committees performed their power in an independent, regular and effective manner in accordance with the law. Seven meetings were held throughout the year at which 15 proposals were studied and reviewed such as Supervisor candidate nomination, annual performance evaluation report, management measures of Supervisor allowance, annual audit report, engagement of external auditor, and economic responsibility audit of senior management.

The composition and authorities of each Supervisory Board Committee are as follows:

(I) Supervisory Board Nomination Committee

The Supervisory Board Nomination Committee consists of external Supervisors, being Wang Jiheng (chairman) and Bai Fan, and an employees representative supervisor, being Wang Ying.

It mainly has the following authorities:

1. drafting the conditions of service, criteria and selection procedures for supervisors;
2. conducting preliminary review and providing advice to the Board of Supervisors on the service qualifications and conditions of candidate Supervisors nominated by shareholders;
3. nominating qualified candidate external supervisors and recommending Supervisors to the Board of Supervisors;
4. providing advice to the Board of Supervisors on the size and composition of the Board of Supervisors based on the Bank's operational and management status, total asset value and shareholding structure.

(II) Supervisory Board Supervision and Evaluation Committee

The Supervisory Board Supervision and Evaluation Committee consists of an external Supervisor, being Meng Rongfang (chairman), a shareholders representative Supervisor, being Lu Yujuan, and an employees representative Supervisor, being Chen Yutao.

It mainly has the following authorities:

1. supervising the performance and realization of duties and responsibilities by Directors, senior management and drafting and submitting relevant rules to the Board of Supervisors for review, and implementing relevant rules upon approval;
2. drafting audit plan for the leaving of senior management and implementing such plans as approved by the Board of Supervisors;
3. supervising the Bank's financial activities, operational decisions, risk management and internal control pursuant to relevant working rules of the Board of Supervisors and proposing supervisory recommendations;
4. tracking the formulation of the Board's regular reports and relevant material adjustments and reporting the same to the Board of Supervisors;

Corporate Governance Report (Continued)

- communicating with relevant Board Committees, relevant departments of the Bank and agency institutions and proposing supervisory recommendations on the engagement of external auditor when necessary.

2013 annual duty performance of former Supervisory Board Committees:

(I) **Supervisory Board Audit Committee**

During the reporting period, the Supervisory Board Audit Committee held four meetings at which four proposals and reports were reviewed and approved such as *2012 Annual Financial and Audit Report of Harbin Bank Co., Ltd.*, *Proposal for Report on the Economic Responsibility Audit of Sun Jiawei*, *Proposal for the Economic Responsibility Audit of Sun Jiawei*, *Proposal for the Engagement of Ernst & Young Hua Ming LLP as External Auditor for 2013*. The attendance of each member in the meetings of the Supervisory Board Audit Committee in 2013 is as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate^(Note)
Bai Fan	2	4	0	100%
Zang Shaolin	4	4	0	100%
Chen Yutao	4	4	0	100%
Resigned Supervisor				
Liu Wei	2	2	0	100%

Note: During the reporting period, attendance by proxy was deemed as attendance.

(II) Supervisory Board Nomination and Supervision Evaluation Committee

During the reporting period, the Supervisory Board Nomination and Supervision Evaluation Committee held three meetings at which 11 proposals and reports were reviewed and approved such as proposals for Evaluation Report on the 2012 Duty Performance of the Board of Directors of Harbin Bank Co., Ltd., Evaluation Report on the 2012 Duty Performance of the Board of Supervisors of Harbin Bank Co., Ltd., Evaluation Report on the 2012 Duty Performance of Senior Management of Harbin Bank Co., Ltd., Evaluation Report on the 2012 Duty Performance of Supervisors of Harbin Bank Co., Ltd., Evaluation Report on the 2012 Duty Performance of Directors of Harbin Bank Co., Ltd., Proposal for the Resignation of Ms. Liu Wei as the External Supervisor, Proposal for the Nomination of Ms. Bai Fang as the External Supervisor Candidate, Proposal for Management Measures of Allowance Distributed to Supervisors of Harbin Bank Co., Ltd., Proposal for the Replacement of Shareholders Representative Supervisors, Proposal for the Addition of External Supervisors. The attendance of each member in the meetings of the Supervisory Board Nomination and Supervision Evaluation Committee in 2013 is as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate^(Note)
Wang Jiheng	3	3	0	100%
Zang Shaolin	3	3	0	100%
Wang Ying	3	3	0	100%

Note: During the reporting period, attendance by proxy was deemed as attendance.

XII. Change in the Members of the Board of Supervisors during the Reporting Period

During the reporting period, Ms. Liu Wei and Mr. Zang Shaolin resigned as Supervisors. In July 2013, Ms. Bai Fang was appointed as external Supervisor of the Board of Supervisors; in September 2013, Ms. Lu Yujuan and Ms. Meng Rongfang were appointed as shareholders representative Supervisor and external Supervisor, respectively.

XIII. Financial and Business Relationship and Kinship among Directors, Supervisors and Senior Management

No relationship exists among members of the Board of Directors, Supervisors and senior management of the Bank, including financial and business relationship, kinship or other major relationship.

XIV. Training and Survey Situation of Directors and Supervisors during the Reporting Period

During the reporting period, Board of Directors of the Bank organized survey and investigations by Directors for seven times, during which they went to 17 headquarter departments, branch offices and holding subsidiaries such as International Business Department, Credit Management Department, Dalian Branch, Shuangyashan Branch, and village and township banks in Hebei Hejian Ronghui and Anyi Rongxing to conduct interviews and site visits and understood the situation of risk management, microcredit market, the rural credit market and demand, and the business innovation, risk control and the establishment and execution of systems in branches.

During the reporting period, the Board of Supervisors organized survey and investigations by Supervisors twice by visiting 20 headquarter departments, branch offices and holding subsidiaries such as Internal Audit Department, Risk Management Department, Operational Management Department, Chongqing Branch, Jixi Branch and village and township banks in Chongqing Dadukou and Hubei Yingcheng with focus on risk control level, proportion of non-performing assets, asset liquidity, investment and financial services, off-balance sheet businesses, credit asset growth, interbank deposit fluctuation; operational risk inspection was conducted on village and township banks; researches and surveys were carried out in respect of the remuneration incentive and restraint. Besides, Board of Supervisors exchanged experience with and learned from interbank in terms of supervision of duty performance, establishment of offices, strategic evaluation and how to improve the governance work level of Board of Supervisors by sending people to Minsheng Bank and giving reception to persons from other interbank such as Tianjin Bank, so as to promote the supervision level of Board of Supervisors.

During the reporting period, three trainings had been organized for Directors and Supervisors in groups and batches by the Bank on the specific topics concerning the regulatory policy interpretation and market hotspot analysis to cause them to learn some professional knowledge of corporate governance, law, finance, deposit insurance and the Hong Kong Listing Rules and systems, ensuring that they can properly have an understanding of the operation, business of the Bank and the due responsibilities under the relevant laws and regulations.

XV. Company Secretaries under the Hong Kong Listing Rules

Mr. Liu Zhuo has acted as board secretary since September 2008 and Ms. Sun Feixia and Mr. Ngai Wai Fung have acted as joint company secretaries of the Bank since January 2014. Please refer to “Executive Director” and “joint company secretaries” for the biographical details of Mr. Liu, Ms. Sun and Mr. Ngai. Each Director may discuss with, seek advice and obtain materials from the joint company secretaries.

XVI. Communication with Shareholders

In the management of investor relationship, we should focus on our strategic objectives, highlight the market position of “being a bank for small enterprises credit” and give emphasis to displaying investors our latest achievements and future potential of developing small and micro business of private enterprises.

During the reporting period, the Bank's senior management and persons in charge of key business departments and branches actively participated in the investor relationship management by visiting major shareholders and hosting large domestic and foreign institutional investors in order to display to the investors the distinctiveness, strength and future potential of the Bank in terms of strategic position and specific business operation. The Bank continued to broaden channels accessible to investors, for example, website, investors' phone calls and joint surveys, with cumulative receptions of investors via visits, investors' phone calls and emails exceeding 500 times.

Shareholders may at any time make inquiries to the Board in writing via the Board Office, whose contact details are as follows:

Address: No. 160 Shangzhi Street, Harbin, China

Post code: 150010

Tel: 86-10-86779933

Fax: 86-10-86779888

E-mail: ir@hrbb.com.cn

XVII. Rights of Shareholders

(I) Procedure of convening an extraordinary general meeting of shareholders

According to the provisions of *the Articles of Association and Rules of Procedure for Shareholders' General Meeting*:

1. Shareholders individually or jointly holding 10% or more of shares may sign one or more written request in the same form and content that the Board of Directors should convene an extraordinary general meeting or a separate meeting of classes of shareholders while declaring the topic of such meeting in such request. The Board of Directors shall, within 10 days after receipt of the request, make written feedback to agree or disagree to convene an extraordinary general meeting or a separate meeting of classes of shareholders in accordance with provisions of the laws, administrative regulations and the *Articles of Association*;
2. The Board of Directors shall deliver such notice of convening an extraordinary general meeting or a separate meeting of classes of shareholders within five days after the decision of the Board of Directors if it agrees to convene an extraordinary general meeting or a separate meeting of classes of shareholders. Any change of the former request in the notice shall be made with the consent of relevant shareholders;
3. Where the Board of Directors disagrees to convene an extraordinary general meeting or a separate meeting of classes of shareholders or does not give feedback within ten days after the receipt of such request, shareholders individually or joint holding 10% or more of shares are entitled to propose the Board of Supervisors convene an extraordinary general meeting by submitting such request in writing;

Corporate Governance Report (Continued)

4. Where the Board of Supervisors agrees to convene an extraordinary general meeting or a separate meeting of classes of shareholders, it shall, within five days after the receipt of the request, deliver such notice, in which any change in the former proposal shall be made with the consent of relevant shareholders;
5. In the event that the Board of Supervisors fails to deliver such notice to convene an extraordinary general meeting or a separate meeting of classes of shareholders in a specified period, such acts shall be deemed to be refusal to convene such aforesaid meeting by the Board of Supervisors. Such shareholders individually or jointly holding 10% or more of shares for 90 consecutive days may at their discretion convene and preside over such aforesaid meeting.

(II) Procedure of submitting a proposal to the general meeting of shareholders

Shareholders individually or jointly holding 3% or more of the shares may propose an interim proposal in writing and submit it to the convener. The convener shall issue a supplementary notice of the general meeting within two days after receiving the proposal and announce such proposal, which shall satisfy such provisions as otherwise specified in the local listing rules. Except as provided in the precedent paragraphs, the convener after the issuance of notice of the general meeting shall not alter proposals listed or add any proposal in the notice of the general meeting.

XVIII. External Auditors and Auditors' Remuneration

The Bank engaged Ernst & Young Hua Ming LLP and Ernst & Young to respectively act as auditors for 2013 annual financial report of the Bank prepared according to the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards.

For the year ended 31 December 2013, the Bank has respectively paid RMB9.2 million and RMB0 to such external auditors for audit services and non-audit services.

XIX. Internal Control

For details of the internal control of the Bank, please refer to "Internal Control" of this report.

Directors, Supervisors, Senior Management, Employees and Organizations

I. Incumbent Directors, Supervisors and Senior Management

Name	Gender	Age	Position	Term of office
Directors				
Guo Zhiwen	Male	46	Chairman of the Board	April 2012–April 2015
Gao Shuzhen	Female	50	Executive Director, President	April 2012–April 2015
Liu Zhuo	Male	50	Vice Chairman, Executive Director, Secretary of the Board	April 2012–April 2015
Zhang Taoxuan	Male	52	Non-Executive Director	April 2012–April 2015
Chen Danyang	Male	40	Non-Executive Director	April 2012–April 2015
Cui Luanyi	Male	33	Non-Executive Director	April 2012–April 2015
Qin Hongfu	Male	36	Non-Executive Director	April 2012–April 2015
Ma Yongqiang	Male	38	Independent Non-Executive Director	April 2012–April 2015
Du Qingchun	Male	42	Independent Non-Executive Director	September 2012–April 2015
He Ping	Male	48	Independent Non-Executive Director	September 2012–April 2015
Zhang Shengping	Male	48	Independent Non-Executive Director	April 2012–April 2015
Wan Kam To	Male	61	Independent Non-Executive Director	July 2013–April 2015
Kong Siu Chee	Male	67	Independent Non-Executive Director	July 2013–April 2015
Supervisors				
Zhang Bin	Male	55	Chairman of the Board of Supervisors	April 2012–April 2015
Cheng Yun	Female	50	Vice-Chairman of the Board of Supervisors, Employees Representative Supervisor	April 2012–April 2015
Wang Ying	Female	42	Employees Representative Supervisor	April 2012–April 2015
Chen Yutao	Male	39	Employees Representative Supervisor	April 2012–April 2015
Lu Yujuan	Female	29	Shareholders Representative Supervisor	September 2013–April 2015
Bai Fan	Female	39	External Supervisor	July 2013–April 2015
Wang Jiheng	Male	49	External Supervisor	April 2012–April 2015
Meng Rongfang	Female	48	External Supervisor	September 2013–April 2015

Directors, Supervisors, Senior Management, Employees and Organizations (Continued)

Name	Gender	Age	Position	Term of office
Senior Management				
Li Qiming	Male	55	Vice President	April 2012–April 2015
Zhang Qiguang	Male	41	Vice President, Chief Financial Officer	April 2012–April 2015
Lv Tianjun	Male	47	Vice President, Chief Risk Officer	April 2012–April 2015
Lu Weidong	Male	43	Vice President, Chief Information Officer	August 2013–April 2015
Xu Shaoguang	Male	53	Chief Credit Approval Officer	April 2012–April 2015
Wang Haibin	Male	44	Assistant to the President	April 2012–April 2015
Sun Jiawei	Female	44	Assistant to the President	April 2012–April 2015

II. Information on Remuneration Paid to Directors, Supervisors and Senior Management for 2013

Please refer to Note 11 and 12 to the Financial Statements for the total amount of the remuneration of Directors, Supervisors and senior management.

III. Information of Directors, Supervisors and Senior Management

(I) Information of Chairman, President and Directors

Executive Directors

Mr. Guo Zhiwen (郭志文), 46, has been an Executive Director of our Bank since May 2004 and Chairman of our Board since October 2008. Mr. Guo has been the Legal Representative of our Bank since October 2008 and Secretary of the Party Committee of our Bank since December 2003. He is also currently a Deputy to the 12th People's Congress of Heilongjiang Province. Mr. Guo joined our Bank in July 1997. From July 1997 to October 2008, he worked as President of the Longqing Sub-branch of our Bank, Assistant to the President, Vice President and the President of our Bank. Prior to joining our Bank, from August 1994 to July 1997, Mr. Guo worked at Heilongjiang Longqing Urban Credit Cooperatives as Deputy General Manager and General Manager. Between August 1994 and December 1995, Mr. Guo also concurrently served as General Manager of the Exploitation Division of the Youth Development Foundation of Heilongjiang. Prior to that, from July 1988 to August 1994, Mr. Guo was Deputy General Manager of the Operational Department of Heilongjiang Youth Social Service Centre and Deputy General Manager of the Exploitation Division of the Youth Development Foundation of Heilongjiang. Mr. Guo received a Bachelor's degree in Economics from Renmin University of China in January 1998 and an EMBA degree from Peking University in July 2008. He has 19 years of experience in banking, and has been a Senior Economist as accredited by the Personnel Department of Heilongjiang Province since September 1998.

Mr. Liu Zhuo (劉卓), 50, has been an Executive Director of our Bank since September 2007 and vice Chairman of our Bank since April 2012. Mr. Liu has also been Secretary to the Board of our Bank since September 2008. Mr. Liu joined our Bank in October 2000. From October 2000 to April 2012, he held a number of positions in our Bank, including Office General Manager, Deputy Chairman of the Labor Union, General Manager of the Business Department and Assistant to the President of our Bank. Prior to joining our Bank, from May 1990 to October 2000, Mr. Liu held various positions in the Harbin Municipal Committee of the Communist Youth League, including Section Officer of the Industrial Office, Deputy Head of the Urban Areas Department. From August 1986 to May 1990, Mr. Liu worked at the Technological Section of Harbin Municipal Shipyard. Mr. Liu received a Bachelor's degree in Engineering from Wuhan Water Transportation Engineering Institute in July 1986. He has 13 years of experience in banking.

Ms. Gao Shuzhen (高淑珍), 50, has been an Executive Director of our Bank since May 2011 and President of our Bank since May 2010. Ms. Gao is also currently a Deputy to the 14th People's Congress of Harbin. Ms. Gao joined our Bank in January 2001. From January 2001 to May 2010, she held a number of positions in our Bank, including General Manager of the Market Development Department, General Manager of the Personal Banking Department, Assistant to the President and Vice President. Prior to joining our Bank, from July 1988 to January 2001, Ms. Gao worked at the Harbin Branch of Agricultural Bank of China as Section Chief of the System Management Section under the International Business Department, Vice President of the Huijin sub-branch and Deputy General Manager of the Market Development Department. Ms. Gao received a Bachelor's degree in Economics from Heilongjiang University in July 1985, a Master's degree in Economics from Harbin Normal University in July 1988, a Doctor's degree in Management from Northeast Agricultural University in June 2006 and an EMBA degree from Tsinghua University in June 2011. She has 25 years of experience in banking, and has been a Senior Economist as accredited by Agricultural Bank of China since December 1996.

Non-Executive Directors

Mr. Zhang Taoxuan (張濤軒), 52, has been a Non-Executive Director of our Bank since May 2012. Mr. Zhang has been General Manager of Harbin Economic Development, head of the treasury division and General Manager of the payment centre of Harbin Municipal Finance Bureau since April 2011. From December 2005 to April 2011, Mr. Zhang was the Deputy head of the treasury division and Deputy General Manager of the payment centre in Harbin Municipal Finance Bureau, and the Deputy General Manager and General Manager of Harbin Microfinance Loan Guarantee Centre for the Laid-off and Unemployed. From November 1996 to December 2005, Mr. Zhang held a number of positions in Harbin Municipal Finance Bureau, including associate chief officer and chief officer of budget division, chief officer of the treasury division. From June 1990 to November 1996, Mr. Zhang held a number of positions in Songhua Jiang Municipal Finance Bureau, including officer in industry division, chief Accountants and Deputy General Manager in budget division. From March 1981 to June 1990, Mr. Zhang worked at the Harbin Tonghe Sub-branch of Agricultural Bank of China. Mr. Zhang received a Master's degree in Agriculture Popularisation from Northeast Agricultural University in January 2010. He has nine years of experience in banking, and has been an Accountant as accredited by the MOF since December 1992.

Mr. Chen Danyang (陳丹陽), 40, has been a Non-Executive Director of our Bank since April 2006. Mr. Chen has been Vice President of Heilongjiang Tuokai Economic and Trading Company Limited since October 2003. Prior to that, Mr. Chen used to work at the Haikou Office of China Cinda Asset Management Co., Ltd. and China Construction Bank. Mr. Chen received a Bachelor's degree in Economics from Hunan College of Finance and Economics in June 1995 and has been an Accountant as accredited by the MOF since May 1999.

Mr. Cui Luanyi (崔鸞懿), 33, has been a Non-Executive Director of our Bank since May 2011. Mr. Cui has been Chief Business Officer of Heilongjiang Tiandi Yuanyuan Network Technology Company Limited since May 2006. Prior to that, from September 2003 to May 2006, Mr. Cui worked as a teacher at the Telecommunications School of Tianjin University. Mr. Cui received a Bachelor's degree in Engineering from Tianjin University in June 2003 and a Master's degree in Economics from University Of International Business and Economics in June 2009.

Mr. Qin Hongfu (覃紅夫), 36, has been a Non-Executive Director of our Bank since May 2011. Mr. Qin has been Chief Financial Officer of Harbin Kechuang Xingye Investment Company Limited since September 2004. Prior to that, from July 2000 to August 2004, Mr. Qin was an Accountant of Hebei Yongzhengde Accounting Firm. Mr. Qin received a Bachelor's degree in Management from Shijiazhuang University of Economics in June 2000 and has been an Accountant as accredited by the MOF since September 2005.

Independent Non-executive Directors

Mr. Ma Yongqiang (馬永強), 38, has been an independent Non-Executive Director of our Bank since June 2012. Mr. Ma has been Executive Dean of the School of Accounting of Southwestern University of Finance and Economics since June 2013, and has been its professor and doctoral tutor since September 2006. From September 2006 to June 2013, Mr. Ma worked as Deputy Dean of the School of Accounting of Southwestern University of Finance and Economics. From July 2004 to August 2006, Mr. Ma worked at the Postdoctoral Studies Centre of Renmin University of China. Mr. Ma received a Bachelor's degree in Management from Hunan College of Finance and Economics in June 1999, and a Doctor's degree in Management from Southwestern University of Finance and Economics in June 2004.

Mr. Zhang Shengping (張聖平), 48, has been an independent Non-Executive Director of our Bank since June 2012. Mr. Zhang has been independent Director of Guangdong No. 2 Hydropower Engineering Company (listed on Shenzhen Stock Exchange, stock code: 002060) since November 2013. Mr. Zhang has been independent Director of Huizhou Speed Wireless Technology Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 300322) since January 2012, independent Director of Guangdong Golden Horse Tourism Group Co., Ltd. (previously listed on Shenzhen Stock Exchange, stock code: 000602, has been delisted since 14 August 2013) since August 2011. Mr. Zhang has been member of the Party Committee of Guanghua School of Management of Peking University since July 2011, Assistant Dean and Executive Director of the ExEd (Executive Education) of Guanghua School of Management of Peking University since May 2011 and Associate Professor of Guanghua School of Management of Peking University since August 2002. From June 2006 to December 2012, Mr. Zhang was

Directors, Supervisors, Senior Management, Employees and Organizations (Continued)

independent Director of Yinzuo Group Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600858). From June 2006 to June 2012, Mr. Zhang was independent Non-Executive Director of Hisense Kelon Electrical Holdings Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 00921; listed on Shenzhen Stock Exchange, stock code: 000921). Prior to his position as an Associate Professor of Guanghua School of Management of Peking University, from July 2000 to June 2002, Mr. Zhang was a Post Doctorate of Guanghua School of Management of Peking University. From July 1987 to June 2000, Mr. Zhang worked as a Teaching Assistant, Lecturer and Associate Professor at the School of Economics of Shandong University. Mr. Zhang received a Doctor's degree in Economics from Nankai University in July 2000.

Mr. He Ping (何平), 48, has been an independent Non-Executive Director of our Bank since October 2012. Mr. He has been teaching in the School of Finance of Renmin University of China since 1991 and is currently Deputy Dean, Professor and Doctoral Tutor of the School. Mr. He is also a Deputy to the 15th People's Congress of Haidian District of Beijing and a member of its Finance and Economics Working Committee. He studied in Renmin University of China as a Master's degree Candidate from 1988 to 1991. Prior to that and from July 1985 to August 1988, Mr. He worked at the Enshi Autonomous Prefecture Bureau of Cultural Affairs, Hubei Province. Mr. He received a Bachelor's degree in History from Wuhan University in July 1985, a Master's degree in History from Renmin University of China in June 1991 and a Doctor's degree in History from Renmin University of China in July 1996.

Mr. Du Qingchun (杜慶春), 42, has been an independent Non-Executive Director of our Bank since October 2012. Mr. Du has been a Partner of Beijing Dacheng Law Offices since August 2013. From April 2002 to July 2013, Mr. Du was Executive Partner and a Lawyer of Beijing Weiming Law Firm. From July 1998 to January 2001, Mr. Du worked at China Construction Bank. He studied in Peking University as a Master's degree Candidate from 1995 to 1998. He worked at the Political Management Cadre School of Heilongjiang Province from July 1992 to July 1995. Mr. Du received a Bachelor's degree in Law from Peking University in July 1992, and a Master's degree in Law from Peking University in July 1998.

Mr. Wan Kam To (尹錦滔), 61, has been an independent Non-Executive Director of our Bank since October 2013. Mr. Wan has been an independent Non-Executive Director of Kerry Logistics Network Limited (listed on Hong Kong Stock Exchange, stock code: 00636) since November 2013, Mr. Wan has been independent Non-Executive Director of Shanghai Pharmaceuticals Holding Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 02607; listed on Shanghai Stock Exchange, stock code: 601607) since June 2013, independent Non-Executive Director of S.Culture International Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 01255) since May 2013, independent Non-Executive Director of KFM Kingdom Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 03816) since September 2012, independent Non-Executive Director of Dalian Port (PDA) Company Limited (listed on Hong Kong Stock Exchange, stock code: 02880; listed on Shanghai Stock Exchange, stock code: 601880) since June 2011, independent Director of RDA Microelectronics, Inc. (listed on NASDAQ Stock Market, stock code: RDA) since November 2010, independent Non-Executive Director of Huaneng Renewables Corporation Limited (listed on Hong Kong Stock Exchange, stock code: 00958)

Directors, Supervisors, Senior Management, Employees and Organizations (Continued)

since August 2010, independent Non-Executive Director of Fairwood Holdings Limited (listed on Hong Kong Stock Exchange, stock code: 00052) since September 2009, independent Non-Executive Director of China Resources Land Limited (listed on Hong Kong Stock Exchange, stock code: 01109) since March 2009 and independent Director of Mindray Medical International Limited (listed on New York Stock Exchange, stock code: MR) since September 2008. Prior to that, Mr. Wan was independent Non-Executive Director of Greater China Professional Services Limited (listed on Hong Kong Stock Exchange, stock code: 08193) from May 2011 to November 2013. From July 1975 to June 2008, Mr. Wan held various positions in PricewaterhouseCoopers Hong Kong, including Audit Manager, Audit Director and Partner, and was a Partner of PricewaterhouseCoopers Hong Kong for over 16 years. Mr. Wan received Advanced Diploma in Accounting from the Hong Kong Polytechnic (currently known as the Hong Kong Polytechnic University) in October 1975 and has been a Hong Kong Chartered Accountant and a member of Hong Kong Institute of Certified Public Accountants since June 1989 and the Association of Chartered Certified Accountants since September 1985.

Mr. Kong Siu Chee (江紹智), 67, has been an independent Non-Executive Director of our Bank since October 2013. Mr. Kong has been independent Non-Executive Director of Digital Hong Kong (listed on Hong Kong Stock Exchange, stock code: 8007) since March 2014 and China New Town Development Co., Ltd. (listed on Hong Kong Stock Exchange, stock code: 01278; listed on Singapore Stock Exchange, stock code: D4N) since November 2006. Prior to that, from April 1999 to December 2005, he was Director and alternate Chief Executive Officer of CITIC Ka Wah Bank. From 1993 to 1994, he was Director of Champion Technology Holdings Limited. Mr. Kong joined Standard Chartered Bank in 1969 and had served the Bank for almost 24 years, during which period, he was a senior administrative member. Mr. Kong received a Bachelor's degree of arts from The University of Hong Kong in November 1969 and an MBA degree from the Chinese University of Hong Kong in December 1980, and received a diploma in Banking from the Chartered Banker Institute in London in December 1973.

(II) Information of Supervisors

Mr. Zhang Bin (張濱), 55, has been Chairman of the Board of Supervisors of our Bank since April 2012 and member of Eleventh CPPCC at present. Mr. Zhang joined our Bank in July 1997. From July 1997 to April 2012, he worked as President of the Taiping Sub-branch (governing sub-branch), General Manager of the Assets Management Department, President of the Dazhi Sub-branch (governing sub-branch), Assistant to the President and Vice President of our Bank. Prior to joining our Bank, from July 1996 to July 1997, Mr. Zhang was Director of Harbin Taiping Bridge Urban Credit Cooperatives. From July 1988 to July 1996, Mr. Zhang held various positions in Harbin Taiping District Finance Bureau, including head of the Credit Division and Deputy General Manager of the Finance Bureau. Prior to that, Mr. Zhang had worked as Accountant and salesman. Mr. Zhang received an MBA degree from Harbin Institution of Technology in July 1999. He has 17 years of experience in banking, and is a Senior Accountant and a Senior Economist as accredited by the Personnel Department of Heilongjiang Province in September 2003 and September 1997, respectively.

Ms. Cheng Yun (程雲), 50, has been an Employees' Representative Supervisor and Vice Chairman of our Board of Supervisors since April 2012. Ms. Cheng joined our Bank in July 1997. From July 1997 to April 2012, she has held a number of positions in our Bank, including Deputy General Manager and General Manager, respectively, of the Finance and Accounts Department, Assistant to the President and Vice President. Prior to joining our Bank, Ms. Cheng was a clerk in the Finance and Accounts Department of the Preparatory Office set for the establishment of our Bank from December 1996 to July 1997, and Manager of the Business Department of the Shekou Sub-branch of Shenzhen Commercial Bank from September 1993 to December 1996. Ms. Cheng also worked at the Accounts Office of the Hexing Sub-branch of Harbin Industrial & Commercial Bank from July 1983 to September 1993. Ms. Cheng received a Bachelor's degree in Economics from Heilongjiang University in June 2004. She has 30 years of experience in banking, and has been a Senior Accountant as accredited by the Personnel Department of Heilongjiang Province since June 2004 and a Senior Accountant as accredited by Chinese Association for Development Strategy since November 2006.

Ms. Wang Ying (王穎), 42, has been an Employees' Representative Supervisor of our Bank since June 2007 and has also been General Manager of the Internal Audit Department of our Bank since September 2012. Ms. Wang joined our Bank in July 1997. From July 1997 to September 2012, she has held several positions in our Bank, including Assistant to the General Manager of the Office of the Board of Supervisors, Deputy General Manager and Assistant to the General Manager of the Internal Audit Department. From August 1992 to July 1997, prior to joining our Bank, Ms. Wang worked as Cashier and Accountant respectively of Harbin Urban Credit Union. Ms. Wang graduated from Renmin University of China in 1997 majoring in Monetary Banking and received a Master's degree in Law from China University of Political Science and Law in 2010. Ms. Wang has 21 years of experience in banking, and has been an Accountant as accredited by the Personnel Department of Heilongjiang Province since May 1998.

Mr. Chen Yutao (陳宇濤), 39, has been an Employees' Representative Supervisor of our Bank since April 2011. Mr. Chen has been concurrently Deputy General Manager of the Financial Planning Department and General Manager of the Assets and Liabilities Management Department of our Bank since January 2011. He held positions of Deputy General Manager and Assistant to the General Manager of the Financial Planning Department at our Bank since March 2010. Prior to joining our Bank, Mr. Chen was senior Manager of the Financial Planning Department of the Shanghai Branch of Hangzhou Bank from November 2008 to March 2010. He worked at Ping An Bank from June 2005 to November 2008 and previously served as (presiding) Assistant to the General Manager of the Finance Department of the Quanzhou Branch of Ping An Bank. Prior to that, Mr. Chen also has work experience as Business Manager of the Financial Planning Department of the Heilongjiang Branch of China Construction Bank. Mr. Chen received a Bachelor's degree in Economics from Heilongjiang Economic Management Cadre College in July 2000 and an EMBA degree from Fudan University in June 2013. He has 18 years of experience in banking, and has been a Senior Accountant as accredited by the Personnel Department of Guangdong Province since September 2008.

Ms. Lu Yujuan (盧育娟), 29 has been the Shareholders' Representative Supervisor of our Bank since September 2013. Ms. Lu has been Chief Executive Officer of Heilongjiang Keruan Software Technologies Company Limited since June 2010. From December 2008 to June 2010, Ms. Lu was Vice Manager of the Beijing Office of Heilongjiang Keruan Software Technologies Company Limited. From March 2008 to August 2008, Ms. Lu worked at the Office of Television Bureau of Changge, Henan Province. From November 2003 to December 2004, Ms. Lu was a first sergeant of Jinan Armed-police Command School. From November 2002 to November 2003, Ms. Lu was a first sergeant of Beidaihe Sanatorium of the Air Force. From September 2002 to November 2002, Ms. Lu was a first sergeant of Third Brigade of the Third Department of the Air Defense. From December 2000 to September 2002, Ms. Lu served as a first sergeant in the Telecom Battalion of the 199 Infantry Division. Ms. Lu received a Bachelor's degree in Arts from Communication University of China in June 2010, and a Master's degree in Radio and TV from Communication University of China in June 2012.

Ms. Bai Fan (白帆), 39, has been an external Supervisor of our Bank since July 2013. Ms. Bai has been an Associate Professor of Sichuan Staff University of Science and Technology since November 2011 and Assistant to the Head of its Business Administration Department since September 2010. From February 2002 to February 2004, Ms. Bai was an Assistant to the General Manager of Sichuan Fangzheng Agriculture Joint Stock Limited Company. Ms. Bai received an MBA degree from Southwestern University of Finance and Economics in December 2001 and a Doctor's degree in Economics from the School of Economics of Southwestern University of Finance and Economics in December 2012.

Mr. Wang Jiheng (王吉恒), 49, has been an external Supervisor of our Bank since August 2011. Mr. Wang has taught as a Professor at Northeast Agricultural University since August 2003, and was appointed as Doctoral Tutor in June 2004. From July 1985 to July 2003, he was a teacher of Heilongjiang Bayi Agricultural University. Mr. Wang received a Bachelor's degree in Science from Heilongjiang University in July 1985 and a Doctor's degree in Management from Northeast Agricultural University in June 2003.

Ms. Meng Rongfang (孟榮芳), 48, has been an external Supervisor of our Bank since September 2013. Ms. Meng has been Director, Senior Partner, and General Manager of the Risk Management Committee of BDO China Shu Lun Pan Certified Public Accountants LLP since January 2000. From August 1988 to December 1999, Ms. Meng worked successively as Assistant, Registered Accountant, Assistant to the Director and Vice Director Accountant of Shanghai Certified Public Accountants. Ms. Meng was a member of the 10th and 11th Public Offering Review Committee of the CSRC. In 2003, Ms. Meng graduated from East China College of Political Science and Law (currently known as East China University of Political Science and Law) majoring in Law. From December 2006 to December 2008, Ms. Meng studied at the EMPAcc Program jointly held by the Chinese University of Hong Kong and Shanghai National Accounting Institute, and received a Master's degree in Accounting from the Chinese University of Hong Kong. Ms. Meng has been a Senior Accountant as accredited by Shanghai Human Resources and Social Security Bureau since April 2009.

(III) Information of Senior Management

For the biography of **Ms. GaoShuzhen (高淑珍)**, Executive Director and President of our Bank, please see “Executive Directors”.

Mr. Li Qiming (李啟明), 55, has been a Vice President of our Bank since November 2007. Mr. Li joined our Bank in April 1999. From April 1999 to July 2011, he held a number of positions in our Bank, including General Manager of Personal Banking Department, General Manager of Human Resources Department, General Manager of the Audit Department and Deputy Secretary-General of the Discipline Committee of our Bank. From March 1996 to April 1999, Mr. Li was Deputy General Manager of Harbin Jinqiao Urban Credit Cooperatives whilst also worked successively as Deputy General Manager of Heilongjiang Patent Centre and Soybean Research and Development Centre. Prior to that, from March 1992 to March 1996, Mr. Li was Deputy Secretary-General of Heilongjiang Scientific Instruments Company, Secretary-General of its Discipline Committee and Chairman and General Manager of Heilongjiang Scientific Materials Development Co., Ltd. From July 1984 to July 1988 and from July 1990 to March 1992, Mr. Li worked successively as Secretary-General of the Youth League Committee and member of the Party Committee of Heilongjiang Science Committee. From 1988 to 1990, Mr. Li attended the training course for young leaders of Chinese Communist Party held by the Party School of Heilongjiang Province. Prior to that, from January 1982 to July 1984, Mr. Li worked at Harbin Cold Rolled Steel Strip Factory. Mr. Li graduated from Anshan Iron and Steel Institute (currently known as Liaoning University of Technology), with a Bachelor degree of Engineering in January 1982. In July 1990, he graduated from the training course for the young leaders of Chinese Communist Party held by the Party School of Heilongjiang Province (equivalent to postgraduate course) majoring in Administrative Management. He has 18 years of experience in banking, and has been a senior Engineer as accredited by the Personnel Department of Heilongjiang Province since September 1997.

Mr. Zhang Qiguang (張其廣), 41, has been a Vice President of our Bank since April 2012 and Chief Financial Officer of our Bank since May 2011. Mr. Zhang has been President of our Harbin Branch since March 2012. Mr. Zhang is also currently a member of Harbin Municipal Committee of the 12th Chinese People’s Political Consultative Conference, Deputy General Manager of its Economics Committee, and a Deputy to the 15th People’s Congress of Nangang District of Harbin. Mr. Zhang joined our Bank in June 2001. From June 2001 to September 2012, Mr. Zhang held a number of positions in our Bank, including General Manager of the Business Department at the Headquarters, Executive Deputy General Manager of the Harbin Management Department and General Manager of the Financial Planning Department of our Bank. Prior to joining our Bank, from November 1993 to June 2001, Mr. Zhang worked at the PBOC Harbin Central Sub-branch. From July 1993 to November 1993, Mr. Zhang worked at Harbin Securities Company. Mr. Zhang received a Bachelor’s degree in Economics from Renmin University of China in January 1998 and received a Master’s degree in Professional Accounting from the Chinese University of Hong Kong in December 2008. He has 20 years of experience in banking, and has been a Registered Accountant as accredited by the MOF since July 2003.

Mr. Lv Tianjun (呂天君), 47, has been a Vice President of our Bank since April 2012 and Chief Risk Officer of our Bank since May 2011. Mr. Lv joined our Bank in June 2001. From June 2001 to April 2012, Mr. Lv held a number of positions in our Bank, including General Manager of the Human Resources Department, General Manager of the Risk Management Department and Deputy Secretary-General of the Discipline Committee of our Bank. Prior to joining our Bank, from January 1999 to June 2001, Mr. Lv worked at the PBOC Harbin Central Sub-branch as Reporter and Editor at Editorial Office, and from July 1988 to December 1998, Mr. Lv worked at the Heilongjiang Branch of the PBOC successively as staff at its Treasury Division and Reporter and Editor at its Research Institute. Mr. Lv graduated from Nankai University in July 1997 majoring in Monetary Banking (correspondence course). He has 25 years of experience in banking, and has been an Economist accredited by the PBOC since October 1996.

Mr. Lu Weidong (盧衛東), 43, has been a Vice President and Chief Information Officer of our Bank since August 2013. Prior to joining our Bank, from April 2005 to August 2013, Mr. Lu held various positions in Deloitte Consulting (Shanghai) Co., Ltd. including being a Partner. From May 2002 to March 2005, he worked at Bearing Point (Shanghai) Management Consulting Co., Ltd. From March 2001 to April 2002, he was Senior Consultant of Andersen Management Consulting (Shanghai) Co., Ltd. From November 2000 to February 2001, he worked at the Shanghai Branch of China Star Corporation. From December 1999 to October 2000, he worked at Shanghai International Enterprises Cooperative Corp. and from August 1996 to December 1999, he worked at Shanghai Institute of Telecommunication Technology Research. Mr. Lu received a Master's degree in Science from Fudan University in July 1996.

Mr. Xu Shaoguang (徐紹光), 53, has been the Chief Credit Approval Officer of our Bank since May 2011. Mr. Xu joined our Bank in July 1997. From July 1997 to September 2012, Mr. Xu held a number of positions in our Bank, including President of the Zhongda Sub-branch, President of the Longjiang Sub-branch, General Manager of the Risk Management Department and General Manager of the Credit Approval Department of our Bank. Prior to that, from September 1996 to July 1997, Mr. Xu was Officer of Zhongda Urban Credit Union. From May 1992 to September 1996, Mr. Xu was Officer of the Credit Department of Harbin Urban Credit Union. From July 1982 to May 1992, Mr. Xu worked in various departments, including Technological Renovation Department, Chief Engineer Office and Computer Centre, of Harbin Cigarette Factory. Mr. Xu received a Bachelor's degree in Science from Heilongjiang University in July 1982. He has 21 years of experience in banking, and has been a Senior Engineer as accredited by the Personnel Department of Heilongjiang Province since September 2000.

Mr. Wang Haibin (王海濱), 44, has been an Assistant to the President of our Bank since April 2012. Mr. Wang has also served concurrently as Executive Vice President of our Harbin Branch since February 2012 and as General Manager of the Human Resources Department of our Bank since June 2011. Mr. Wang joined our Bank in July 1997. From July 1997 to April 2012, Mr. Wang held a number of positions in our Bank, including President of our Dazhi Sub-branch, General Manager of the Operational Management Office and General Manager of the Corporate

Banking Department of our Bank. Prior to joining our Bank, from February 1997 to July 1997, Mr. Wang worked as a General Officer of the Preparatory Office set for the establishment of our Bank. From August 1991 to February 1997, he worked as a Vice Director Officer at the Harbin Branch of the PBOC. Mr. Wang received a Bachelor's degree in Engineering from Jilin Industrial University in July 1991 and a Master's degree in Engineering from Northeast Forestry University in January 2007. He has 22 years of experience in banking, and has been an Economist accredited by the PBOC since September 1996.

Ms. Sun Jiawei (孫嘉巍), 44, has been an Assistant to the President of our Bank since April 2012. Ms. Sun joined our Bank in July 1997. From July 1997 to December 2013, Ms. Sun held various positions in our Bank, including Vice President of our Dongli Sub-branch, General Manager of the Personal Wealth Management Department, General Manager of the Microcredit R&D Centre, General Manager of Small Enterprises Banking Department and General Manager of Rural Banking Department. From November 1989 to July 1997, Ms. Sun worked as a Deputy General Manager of the Business Department of Longguang Credit Union. Ms. Sun graduated from the Harbin Economic Management Cadre Institute in January 2002 majoring in Financial Accounting (correspondence course), and received an MBA degree from Harbin Engineering University in December 2011. She has 24 years of experience in banking and has been an Economist as accredited by the Ministry of Personnel (currently known as the Ministry of Human Resources and Social Security) since November 2002.

Joint Company Secretaries

Ms. Sun Feixia (孫飛霞), 43, has been appointed as the Joint Company Secretary of our Bank since January 2014. Ms. Sun has been the General Manager of the Investment Management Office under the Board since November 2012, and the General Manager of the Office of the Board since March 2008. Ms. Sun joined our Bank in July 1997 and held positions such as Credit General Officer of our Wenchang Branch, General Officer of the Legal Department and the Internal Audit Department, as well as Assistant to the General Manager and the Deputy General Manager of the Office of the Board from July 1997 to March 2008. From February 1997 to July 1997, Ms. Sun also helped with the preparation for the establishment of our Bank as General Officer at the Debt Clearance Office. From July 1993 to February 1997, Ms. Sun was the General Manager of the Securities Department of Harbin Urban Credit Union. Ms. Sun received a Bachelor's degree in Economics from the Renmin University of China in January 1998 (correspondence course) and received a Master's degree in Management from Northeast Agricultural University in June 2004, as well as a Doctor's degree in Management from Northeast Agricultural University in June 2011. Ms. Sun has 20 years of experience in banking, and has been a Senior Economist as accredited by the Personnel Department of Heilongjiang Province since September 2004.

Mr. Ngai Wai Fung (魏偉峰), 52, *FCIS, FCS (PE), CPA and FCCA*, joined our Bank since January 2014 as our Joint Company Secretary. Mr. Ngai is also currently Director and Chief Executive Officer of SW Corporate Services Group Limited. Mr. Ngai currently acts as the Joint Company Secretary of China Pacific Insurance (Group) Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 02601, and the Shanghai Stock Exchange, stock code: 601601), China

Directors, Supervisors, Senior Management, Employees and Organizations (Continued)

Eastern Airlines Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 00670, the Shanghai Stock Exchange, stock code: 600115 and the New York Stock Exchange, stock code: CEA), China Cinda Asset Management Co., Ltd (listed on the Hong Kong Stock Exchange, stock code: 01359) and Huishang Bank Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 03698); the Company Secretary of Anton Oilfield Services Group (listed on the Hong Kong Stock Exchange, stock code: 03337) and Sinosoft Technology Group Limited (listed on the Hong Kong Stock Exchange, stock code: 01297). In January 2013, Mr. Ngai was appointed as a Non-Official Member of the Working Group on Professional Services under the Economic Development Commission led by the Chief Executive of Hong Kong SAR and a member of Qualification and Examinations Board of Hong Kong Institute of Certified Public Accountants. He is also an Adjunct Professor of Law of Hong Kong Shue Yan University. Mr. Ngai held a number of positions in companies that were listed on the Hong Kong Stock Exchange, including COSCO International Holdings Limited (stock code: 00517), China Unicom (Hong Kong) Limited (stock code: 00762) and Industrial and Commercial Bank of China (Asia) Ltd. (stock code: 00349, which was delisted on 21 December 2010). Mr. Ngai was an independent Non-Executive Director of China Life Insurance Company Limited (listed on the Hong Kong Stock Exchange, stock code: 02628, the Shanghai Stock Exchange, stock code: 601628 and the New York Stock Exchange, stock code: LFC). Mr. Ngai obtained a Master's degree in Business Administration (MBA) from Andrews University in Michigan of the United States in August 1992 and a Bachelor's degree (Honors) in Law from the University of Wolverhampton the United Kingdom in October 1994. Mr. Ngai obtained a Master's degree in Corporate Finance from the Hong Kong Polytechnic University in November 2002, and a Doctorate in Finance from the Shanghai University of Finance and Economic in June 2011, Mr. Ngai possesses over 25 years of company secretarial experience. He is a Vice President of Hong Kong Institute of Chartered Secretaries ("HKICS"). Mr. Ngai was admitted a fellow member of HKICS in November 2000, a fellow member of the Institute of Chartered Secretaries and Administrators in the United Kingdom in November 2000, a member of the Hong Kong Institute of Certified Public Accountants in July 2007 and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom in March 2012.

IV. Information on Evaluation and Incentive Scheme and Annual Remuneration for Directors, Supervisors and Senior Management

In accordance with *Methods of Evaluation of Duty Performance of Directors*, *Methods of Evaluation of Duty Performance of Supervisors* and *Methods of Evaluation by Board of Supervisors on Duty Performance of Directors*, we have completed the evaluation on Directors through self-evaluation, mutual evaluation, evaluation by Board and evaluation by Board of Supervisors; and evaluation on Supervisors through evaluation by Board of Supervisors and mutual evaluation between Supervisors; the Nomination and Remuneration Evaluation Committee under the Board of Directors has set up scientific and reasonable evaluation indicators and systems pursuant to *the Management Measures of Performance Review of Senior Management* based on the principle of linking performance to remuneration and combination of qualitative and quantitative methods, in order to mobilize the enthusiasm and creativity of senior management to the largest extent.

Directors, Supervisors, Senior Management, Employees and Organizations (Continued)

Our bank provides subsidies for independent non-executive Directors, non-executive Directors, external Supervisors and shareholders representative Supervisors in accordance with provisions of *Directors' Subsidies Management Measures* and *Supervisors' Subsidies Management Measures*, and provides remuneration for executive Directors and employees representative Supervisors and senior management in accordance with provisions of *Remuneration Management Measures*. Remuneration for senior management should be in strict compliance with requirements of *Guidelines on Supervising the Stable Payment of Commercial Banks* released by CBRC.

V. Confirmation of Independence of Independent Non-Executive Directors

Prior to its listing on 31 March 2014, our Bank had already received letters of confirmation on independence submitted by each independent non-executive Director and believes that all non-executive Directors are independent and in compliance with relevant guidelines provided by Article 3.13 of the Hong Kong Listing Rules. Our bank has received letters from each independent non-executive Director confirming their independence from the listing on 31 March 2014 to the date of this reporting.

Our independent non-executive Directors neither have any business or financial interests in the Bank and its subsidiaries nor hold any management position in the Bank. They are all elected for a term of three years. They may continue to serve as non-executive Directors but not independent non-executive Directors after the expiration of the term.

VI. H Share Appreciation Rights Incentive Plan during the Reporting Period

Our bank did not adopt any H share appreciation rights incentive plan during the reporting period.

VII. Employees

(I) Personnel composition

At the end of 2013, our Bank had 7,534 employees in total, among which 917 were Headquarters staff, accounting for 12.17% of the total, 2,702 were Harbin Branch staff, and 3,915 were staff of branches at other towns. Besides, village and township banks which are subsidiaries of our Bank had a total of 939 employees.

(II) Age composition

The average age of employees of our Bank is 31.3. 1,621 employees are 25 years old or younger, accounting for 21.52%; 2,937 are between 26 and 30 years old, accounting for 38.98%; 1,041 are between 31 and 35 years old, accounting for 13.82%; 776 are between 36 and 40 years old, accounting for 10.30%; 815 are between 41 and 45 years old, accounting for 10.82%; 267 are between 46 and 50 years old, accounting for 3.54%; 77 are older than 50 years old, accounting for 1.02%.

(III) Gender composition

There are 3,320 male employees, accounting for 44% of the total and 4,214 female employees, accounting for 56%.

Directors, Supervisors, Senior Management, Employees and Organizations (Continued)

(IV) Educational level

There are 1,325 employees with degree below Bachelor, accounting for 17.59% of the total; 5,284 employees with Bachelor degree, accounting for 70.14%; 925 employees with Master degree or above, accounting for 12.28%, including 8 with PhD degree.

(V) Professional constitution

Employees of our Bank are majored in finance, economics, management, accounting, information technology, language, administration and other areas.

(VI) Remuneration policy for employees

Our bank has successfully established a broadband salary management system with diversified composition, standardized management and systematic implementation and adopted a market-oriented and regionally diversified management mode in order to scientifically and effectively encourages our employees and ensures the smooth implementation of our strategic development. Our remuneration is composed of fixed remuneration, short-term incentive, long-term incentive and welfare income, setting up differentiated combination of elements of remuneration for different groups. Meanwhile, our Bank can strictly execute regulatory requirements concerning remuneration payment, adopting deferred payment and locking payment deadline for senior management as well as employees holding positions that may exert significant influence to risks in order to organically combine job duties and risk management responsibilities. Staff cost of our Bank for 2013 is RMB1,559.0 million.

(VII) Staff training programs

Our training programs in 2013 were carried out focusing on our strategic objectives and annual target direction. We continued to improve the content and methods for training management, carried out scientific planning and forward thinking, highlighted assessment on quality of training, innovated training management system and actively provided hierarchical employee education training to promote employee career development. We focused on the establishment of efficient management team to improve senior management skills; strengthened the new staff training to accelerate their role transformation; emphasized evaluation on training effectiveness to inspire performance of training in multiple forms; improved talent planning and training mode to enhance the cultivation of specific target; paid attention to promote the scientific level of training and provided a strong intellectual support and talent insurance for the booming of our Bank.

(VIII) Staff incentive policy

We have established a scientific staff evaluation system to implement comprehensive performance management. At the beginning of each year, we set up performance planning for staff by breaking down our strategy layer by layer, carry out pre-review at the half of a year and final review at the year end. In order to be scientific to the largest extent in staff review, we also adopt multi-dimensional measurement to evaluate employee performance and use forced distribution method to prepare the performance review results in order to ensure truthful evaluation of employee performance and promote the achievement of staff performance through effective communication.

Our bank has established a series of staff incentive policies in line with our development based on scientific performance review results: first of all, we adopt a broadband salary system to provide staff with incentive remuneration by raising and lowering remuneration grades; second, we have established a career development platform to select and mobilize personnel scientifically and opened up multi-channel career development paths for employees through talent exchange, secondment for getting experience and other forms; third, we have created various talent training programs including “090&091” Training Program, “Professional Managers” Training Program and “Successor Program” as well as strategic talent reserve plans including “Talent Pool for Management Positions”, “Specialized Talent Pool” and “Leading Talent Team” to broaden the channels for talent development; fourth, we set up a high level staff education and training mechanism by innovating training methods, breaking down three-level training and providing oversea training; fifth, we give full play to the staff incentive policy by combining material and spirit incentives.

VIII. Retirement and Benefits

Our bank has identified benefits for retired employees as liabilities, and the amount of benefit costs and liabilities is calculated based on various assumptions, including discount rates, inflation rate and other factors. Differences between actual results and assumptions should be identified and credited into current expenses immediately after occurrence. The management believes these assumptions are appropriate and only changes in actual staff experience or assumptions will influence the expense and liability balance relating to benefits of our retired employees. For details, see Note 4 to the Financial Statements of this annual report.

Financial Statements

- I. Independent Auditor's Report
- II. Financial Statements (Consolidated Income Statements, Consolidated Statements of Comprehensive Income, Consolidated Statements of Financial Position, Consolidated Statements of Changes in Equity, Consolidated Statement of Cash Flows, Statements of Financial Position of the Bank)
- III. Notes to Financial Statements
- IV. Unaudited Supplementary Financial Information

Independent Auditors' Report



22nd Floor
CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

To the shareholders of Harbin Bank Co., Ltd.

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

We have audited the consolidated financial statements of Harbin Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") set out on pages 131 to 259, which comprise the consolidated and company 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.

Independent Auditors' Report (Continued)

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.

Opinion

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

Ernst & Young

Certified Public Accountants

Hong Kong

24 March 2014

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

	Notes	Years ended 31 December	
		2013	2012
Interest income	5	14,141,665	12,993,170
Interest expense	5	(7,323,890)	(6,334,803)
NET INTEREST INCOME	5	6,817,775	6,658,367
Fee and commission income	6	1,376,550	811,437
Fee and commission expense	6	(129,428)	(132,787)
NET FEE AND COMMISSION INCOME	6	1,247,122	678,650
Net trading income	7	283,851	356,579
Net loss on financial investments	8	(46,534)	(87,409)
Other operating income, net	9	241,622	105,019
OPERATING INCOME		8,543,836	7,711,206
Operating expenses	10	(3,590,990)	(3,025,519)
Impairment losses on:			
Loans and advances to customers	22	(517,717)	(837,225)
Others	13	11,657	1,019
OPERATING PROFIT		4,446,786	3,849,481
Share of profits of an associate		3,231	9,429
PROFIT BEFORE TAX		4,450,017	3,858,910
Income tax expense	14	(1,078,926)	(987,451)
PROFIT FOR THE YEAR		3,371,091	2,871,459
Attributable to:			
Equity holders of the parent company	15	3,350,342	2,864,250
Non-controlling interests		20,749	7,209
		3,371,091	2,871,459
EARNINGS PER SHARE (RMB yuan)			
– basic and diluted	17	0.41	0.37

Details of the dividends declared and paid or proposed are disclosed in note 16 to these financial statements.

Consolidated Financial Statements (Continued)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

	Notes	Years ended 31 December	
		2013	2012
Profit for the year		3,371,091	2,871,459
Other comprehensive income (after tax, net):			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent year/period</i>			
Net loss on available-for-sale financial assets	36	(157,823)	(40,063)
Share of other comprehensive income of an associate	36	(56,291)	7,585
Subtotal of other comprehensive loss for the year		(214,114)	(32,478)
Total comprehensive income for the year		3,156,977	2,838,981
Total comprehensive income attributable to:			
Equity holders of the parent company		3,136,228	2,831,772
Non-controlling interests		20,749	7,209
		3,156,977	2,838,981

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

	Notes	As at 31 December	
		2013	2012
ASSETS			
Cash and balances with central bank	18	51,552,089	51,858,511
Due from banks and other financial institutions	19	33,871,192	19,946,805
Financial assets held for trading	20	2,512,264	7,878,959
Reverse repurchase agreements	21	51,110,948	51,745,648
Loans and advances to customers	22	103,515,015	85,298,079
Financial investments	23	68,523,601	43,301,170
Investment in an associate	25	963,955	1,017,014
Property and equipment	26	7,314,942	6,038,230
Deferred income tax assets	27	333,855	258,314
Other assets	28	2,477,579	2,747,422
TOTAL ASSETS		322,175,440	270,090,152
LIABILITIES			
Due to central bank		787,198	594,861
Due to banks and other financial institutions	29	50,610,868	36,523,548
Repurchase agreements	30	19,091,166	22,832,655
Due to customers	31	224,178,126	186,642,384
Income tax payable		262,941	311,148
Debt securities issued	32	3,500,000	3,500,000
Other liabilities	33	3,817,854	2,748,575
TOTAL LIABILITIES		302,248,153	253,153,171
EQUITY			
Equity attributable to equity holders of the parent company			
Share capital	34	8,246,900	7,560,198
Reserves		7,449,935	6,025,456
Retained profits		4,030,707	3,179,086
		19,727,542	16,764,740
Non-controlling interests		199,745	172,241
TOTAL EQUITY		19,927,287	16,936,981
TOTAL EQUITY AND LIABILITIES		322,175,440	270,090,152

Financial Statements signed by persons below:

Guo Zhiwen

Chairman

Gao Shuzhen

President

Zhang Qiguang

Chief Financial Officer

Chen YutaoGeneral Manager of
Finance and Accounting
Department

Consolidated Financial Statements (Continued)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the parent company										Non-controlling interests	Total equity
	Issued share capital	Reserves					Subtotal	Retained profits	Total			
		Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserves						
Balance as at 1 January 2013	7,560,198	4,222,379	869,686	950,325	(24,237)	7,303	6,025,456	3,179,086	16,764,740	172,241	16,936,981	
Profit for the year	–	–	–	–	–	–	–	3,350,342	3,350,342	20,749	3,371,091	
Other comprehensive income												
– Change in fair value of available-for-sale investments, net of tax	–	–	–	–	(157,823)	–	(157,823)	–	(157,823)	–	(157,823)	
– Share of other comprehensive income of an associate	–	–	–	–	–	(56,291)	(56,291)	–	(56,291)	–	(56,291)	
Total comprehensive income	–	–	–	–	(157,823)	(56,291)	(214,114)	3,350,342	3,136,228	20,749	3,156,977	
Capital contributed by owners	–	–	–	–	–	–	–	–	–	5,004	5,004	
Dividends – 2012 final (note 16)	–	–	–	–	–	–	–	(171,675)	(171,675)	–	(171,675)	
Appropriation to surplus reserve	–	–	320,331	–	–	–	320,331	(320,331)	–	–	–	
Appropriation to general reserve (i)	–	–	–	1,320,013	–	–	1,320,013	(1,320,013)	–	–	–	
Retained profits converted into share capital	686,702	–	–	–	–	–	–	(686,702)	–	–	–	
Others	–	–	–	–	–	(1,751)	(1,751)	–	(1,751)	1,751	–	
Balance as at 31 December 2013	8,246,900	4,222,379	1,190,017	2,270,338	(182,060)	(50,739)	7,449,935	4,030,707	19,727,542	199,745	19,927,287	

(i) Includes the appropriation made by subsidiaries in the amount of RMB35,479 thousand.

	Attributable to equity holders of the parent company										Non-controlling interests	Total equity
	Issued share capital	Reserves					Subtotal	Retained profits	Total			
		Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserves						
Balance as at 1 January 2012	6,187,823	2,262,379	587,816	701,708	15,826	–	3,567,729	1,630,073	11,385,625	144,750	11,530,375	
Profit for the year	–	–	–	–	–	–	–	2,864,250	2,864,250	7,209	2,871,459	
Other comprehensive income												
– Change in fair value of available-for-sale investments, net of tax	–	–	–	–	(40,063)	–	(40,063)	–	(40,063)	–	(40,063)	
– Share of other comprehensive income of an associate	–	–	–	–	–	7,585	7,585	–	7,585	–	7,585	
Total comprehensive income	–	–	–	–	(40,063)	7,585	(32,478)	2,864,250	2,831,772	7,209	2,838,981	
Capital contributed by owners	980,000	1,960,000	–	–	–	–	1,960,000	–	2,940,000	20,000	2,960,000	
Dividends – 2011 final (note 16)	–	–	–	–	–	–	–	(392,375)	(392,375)	–	(392,375)	
Appropriation to surplus reserve	–	–	281,870	–	–	–	281,870	(281,870)	–	–	–	
Appropriation to general reserve (i)	–	–	–	248,617	–	–	248,617	(248,617)	–	–	–	
Retained profits converted into share capital	392,375	–	–	–	–	–	–	(392,375)	–	–	–	
Others	–	–	–	–	–	(282)	(282)	–	(282)	282	–	
Balance as at 31 December 2012	7,560,198	4,222,379	869,686	950,325	(24,237)	7,303	6,025,456	3,179,086	16,764,740	172,241	16,936,981	

(i) Includes the appropriation made by subsidiaries in the amount of RMB14,760 thousand.

CONSOLIDATED STATEMENT OF CASH FLOWS

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

	Notes	Years ended 31 December	
		2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		4,450,017	3,858,910
Adjustments for:			
Share of profits of an associate		(3,231)	(9,429)
Depreciation and amortization	10	273,927	208,255
Net trading gain	7	(283,851)	(356,579)
Dividend income	8	(579)	(507)
Interest income on financial investments		(2,373,340)	(2,674,149)
Impairment loss on loans and advances to customers		517,717	837,225
Reversal of impairments of other assets	13	(11,657)	(1,019)
Unrealized foreign exchange gain		(5,935)	(7,000)
Interest expense on issuance of bonds		174,226	146,202
Accreted interest on impaired loans	22	(36,169)	(17,057)
Net loss on disposal of available-for-sale financial assets	8	47,113	87,916
Net gain on disposal of property and equipment and other assets	9	—	(209)
		2,748,238	2,072,559
Net decrease/(increase) in operating assets:			
Due from central bank		(1,672,445)	(10,429,323)
Due from banks and other financial institutions		(14,962,134)	(884,568)
Reverse repurchase agreements		(6,884,728)	(4,418,605)
Loans and advances to customers		(18,698,484)	(18,780,603)
Other assets		40,490	(1,733,229)
		(42,177,301)	(36,246,328)
Net increase/(decrease) in operating liabilities:			
Due to central bank		192,337	420,097
Due to banks and other financial institutions		14,087,320	18,472,422
Repurchase agreements		(3,741,489)	(5,139,869)
Due to customers		37,535,742	40,679,958
Other liabilities		1,124,322	2,718,837
		49,198,232	57,151,445
Net cash flows from operating activities before tax		9,769,169	22,977,676
Income tax paid		(1,150,066)	(955,485)
Net cash flows from operating activities		8,619,103	22,022,191

Consolidated Financial Statements (Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

	Notes	Years ended 31 December	
		2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment		(1,580,805)	(2,805,622)
Proceeds from disposal of property and equipment		12	5,937
Cash paid for investments		(431,137,381)	(1,031,684,982)
Proceeds from sale and redemption of investments		410,978,809	1,015,596,118
Investment in an associate		—	—
Dividends received	8	579	507
Return on investments		2,926,975	2,859,545
Net cash flows used in investing activities		(18,811,811)	(16,028,497)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		—	2,940,000
Capital injection by non-controlling shareholders		5,004	20,000
Proceeds from issuance of other debt securities			2,500,000
Interest paid on debt securities		(173,750)	(75,000)
Dividends paid on ordinary shares		(163,903)	(377,842)
Net cash flows from/(used in) financing activities		(332,649)	5,007,158
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the year		64,094,278	53,092,155
Effect of exchange rate changes on cash and cash equivalents		(10,685)	1,271
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	37	53,558,236	64,094,278
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES INCLUDE:			
Interest received		11,732,269	10,255,274
Interest paid		(6,258,123)	(5,688,030)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

	Notes	As at 31 December	
		2013	2012
ASSETS			
Cash and balances with central bank	18	49,825,452	50,661,199
Due from banks and other financial institutions	19	34,256,632	19,381,731
Financial assets held for trading	20	2,512,264	7,878,959
Reverse repurchase agreements	21	50,910,948	51,483,015
Loans and advances to customers	22	94,248,125	79,932,859
Financial investments	23	68,523,601	43,301,170
Investments in subsidiaries	24	1,142,000	1,142,000
Investments in an associate	25	963,955	1,017,014
Property and equipment	26	7,165,433	5,896,052
Deferred income tax assets	27	301,928	242,898
Other assets	28	2,390,157	2,693,518
TOTAL ASSETS		312,240,495	263,630,415
LIABILITIES			
Due to central bank		65,714	83,613
Due to banks and other financial institutions	29	52,318,918	37,230,676
Repurchase agreements	30	19,091,166	22,676,761
Due to customers	31	213,786,375	180,433,163
Income tax payable		230,830	295,808
Debt securities issued	32	3,500,000	3,500,000
Other liabilities	33	3,729,129	2,709,549
TOTAL LIABILITIES		292,722,132	246,929,570
EQUITY			
Share capital	34	8,246,900	7,560,198
Reserves	35	7,394,561	6,003,810
Retained profits	35	3,876,902	3,136,837
TOTAL EQUITY		19,518,363	16,700,845
TOTAL EQUITY AND LIABILITIES		312,240,495	263,630,415

Financial Statements signed by persons below:

Guo Zhiwen*Chairman***Gao Shuzhen***President***Zhang Qiguang***Chief Financial Officer***Chen Yutao***General Manager of
Finance and Accounting
Department*

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

II NOTES TO THE FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND STRUCTURE

Harbin Bank Co., Ltd., which was previously known as Harbin Urban Cooperative Bank, is a joint-stock commercial bank established on 25 July 1997 based on the authorisation of the People's Bank of China ("PBOC") designated as YinFu [1997] No. 69 "Approval upon the opening of Harbin Urban Cooperative Bank".

In June 1998, according to YinFa [1998] No. 94 issued by PBOC and State Administration for Industry & Commerce of the PRC ("SAIC"), the Bank changed its name from Harbin Urban Cooperative Bank to Harbin City Commercial Bank Co., Ltd. In November 2007, according to YinJianFu [2007] No. 480 approved by the China Banking Regulatory Commission ("CBRC"), the Bank changed its name from Harbin City Commercial Bank Co., Ltd to Harbin Bank Co., Ltd.

The Bank obtained its finance permit No. B0306H223010001 from the CBRC of the PRC. The Bank obtained its business license No. 230100100006877 from the SAIC. The legal representative is Guo Zhiwen and the registered office is located at No. 160 Shangzhi Avenue, Daoli District, Harbin, Heilongjiang Province.

As at 31 December 2013, the Bank has a total of 15 branches in Harbin, Shenyang, Daqing, Dalian, Shuangyashan, Hegang, Jixi, Chengdu, Chongqing, Tianjin, Mudanjiang, Qitaihe, Suihua, Qiqihar and Jiamusi, with 244 sub-branches. The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") comprise deposits, loans, payment and settlement services, as well as other banking services approved by the CBRC.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

1. CORPORATE INFORMATION AND STRUCTURE (Continued)

The subsidiaries of the Bank as at 31 December 2013 are as follows:

Company name	Notes	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage owned by the Bank/ voting rights %	Amount invested by the Bank	Principal activities
Bayan Rongxing Village and Township Bank Co., Ltd.	(i)	Bayan, Heilongjiang	50,000	90.00	45,000	Village and Township Bank
Huining Huishi Village and Township Bank Co., Ltd.	(ii)	Huining, Gansu	30,000	100.00	30,000	Village and Township Bank
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	(iii)	Huairou, Beijing	100,000	90.00	90,000	Village and Township Bank
Yushu Rongxing Village and Township Bank Co., Ltd.	(iv)	Yushu, Jilin	30,000	100.00	30,000	Village and Township Bank
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	(v)	Baoan, Shenzhen	200,000	70.00	140,000	Village and Township Bank
Yanshou Rongxing Village and Township Bank Co., Ltd.	(vi)	Yanshou, Heilongjiang	30,000	100.00	30,000	Village and Township Bank
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	(vii)	Dadukou, Chongqing	60,000	90.00	54,000	Village and Township Bank
Suining Anju Rongxing Village and Township Bank Co., Ltd.	(viii)	Suining, Sichuan	80,000	75.00	60,000	Village and Township Bank
Huachuan Rongxing Village and Township Bank Co., Ltd.	(ix)	Huachuan, Heilongjiang	50,000	98.00	49,000	Village and Township Bank
Baiquan Rongxing Village and Township Bank Co., Ltd.	(x)	Baiquan, Heilongjiang	30,000	100.00	30,000	Village and Township Bank
Yanshi Rongxing Village and Township Bank Co., Ltd.	(xi)	Yanshi, Henan	30,000	100.00	30,000	Village and Township Bank
Leping Rongxing Village and Township Bank Co., Ltd.	(xii)	Leping, Jiangxi	30,000	100.00	30,000	Village and Township Bank
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	(xiii)	Rudong, Jiangsu	100,000	80.00	80,000	Village and Township Bank
Honghu Rongxing Village and Township Bank Co., Ltd.	(xiv)	Honghu, Hubei	30,000	100.00	30,000	Village and Township Bank
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	(xv)	Zhuzhou, Hunan	50,000	80.00	40,000	Village and Township Bank
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	(xvi)	Wulong, Chongqing	50,000	70.00	35,000	Village and Township Bank
Xin'an Rongxing Village and Township Bank Co., Ltd.	(xvii)	Xin'an, Henan	30,000	100.00	30,000	Village and Township Bank
Anyi Rongxing Village and Township Bank Co., Ltd.	(xviii)	Anyi, Jiangxi	30,000	100.00	30,000	Village and Township Bank
Yingcheng Rongxing Village and Township Bank Co., Ltd.	(xix)	Yingcheng, Hubei	30,000	100.00	30,000	Village and Township Bank
Leiyang Rongxing Village and Township Bank Co., Ltd.	(xx)	Leiyang, Hunan	50,000	100.00	50,000	Village and Township Bank
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	(xxi)	Baoting, Hainan	30,000	96.67	29,000	Village and Township Bank
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	(xxii)	Shapingba, Chongqing	100,000	80.00	80,000	Village and Township Bank
Hejian Ronghui Village and Township Bank Co., Ltd.	(xxiii)	Hejian, Hebei	30,000	100.00	30,000	Village and Township Bank
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	(xxiv)	Youyang, Chongqing	60,000	100.00	60,000	Village and Township Bank

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

1. CORPORATE INFORMATION AND STRUCTURE (Continued)

Statutory financial statements of the subsidiaries of the Bank prepared under China Accounting Standards (“CASs”) for the year ended 31 December 2012 have been audited by BDO China Shu Lun Pan Certified Public Accountants LLP, and for the year ended 31 December 2013 have been audited by Ernst and Young Hua Ming Certified Public Accountants LLP.

Major changes to the structure of the Group during the Relevant Periods are as follows:

- (i) On 6 January 2009, the Bank established a wholly-owned subsidiary of Bayan Rongxing Village and Township Bank Co., Ltd. (“Bayan Rongxing”) with a registered capital of RMB23.8 million. On 8 April 2011, the Bank made additional capital injection of RMB21.2 million into Bayan Rongxing. After the injection, the total registered capital increased to RMB45 million. On 17 February 2013, International Finance Company made additional capital injection of RMB5 million into Bayan Rongxing. After the injection, the total registered capital has increased to RMB50 million. The Bank’s equity interest has decreased to 90% and is still the controlling shareholder of Bayan Rongxing.
- (ii) On 19 May 2009, the Bank established a wholly-owned subsidiary of Huining Huishi Village and Township Bank Co., Ltd. with a registered capital of RMB30 million.
- (iii) On 4 January 2010, the Bank, along with the Beijing Express Bosch Auto Sales & Service Co., Ltd., jointly established Beijing Huairou Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB100 million. The Bank holds 90% of the shares, making it the controlling shareholder of the business entity.
- (iv) On 21 January 2010, the Bank established a wholly-owned subsidiary of Yushu Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB30 million.
- (v) On 11 June 2010, the Bank, along with China Baoan Group Co., Limited, HSBC Asset Management Co., Ltd., and Shenzhen Ning Jia Investment and Development Co., Ltd., jointly funded the establishment of Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB200 million. The Bank holds 70% of the shares, making it the controlling shareholder of the business entity.
- (vi) On 10 August 2010, the Bank established the wholly-owned subsidiary of Yanshou Rongxing Village and Township Bank Co., Ltd. (“Yanshou Rongxing”) with a registered capital of RMB10 million. On 15 June 2012, the Bank made additional capital injection of RMB20 million into Yanshou Rongxing, increasing its total registered capital to RMB30 million.
- (vii) On 15 December 2010, the Bank, along with Chongqing Tiantai Green Agricultural Development (Group) Co., Ltd., jointly funded the establishment of Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB60 million. The Bank holds a 90% stake in the Company, making it the controlling shareholder.

1. CORPORATE INFORMATION AND STRUCTURE *(Continued)*

- (viii) On 22 December 2010, the Bank, along with Suining Rougang Investment Co., Ltd, Suining Kaiming Food Co., Ltd., Sichuan Zhuotong Industrial Co., Ltd., Sichuan Xinghe Real Estate Development Co., Ltd., jointly funded the establishment of Suining Anju Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB80 million. The Bank holds 75% stake in the Company, making it the controlling shareholder.
- (ix) On 27 January 2011, the Bank, along with Huachuan Xinying Urban Construction Investment Co., Ltd., jointly funded the establishment of Huachuan Rongxing Village and Township Bank Co., Ltd. (“Huachuan Rongxing”) with a registered capital of RMB10 million. The Bank holds a 90% stake of the Company, making it the controlling shareholder. On 30 March 2012, the Bank made additional capital injection of RMB40 million into Huachuan Rongxing. After the capital injection, the registered capital of Huachuan Rongxing is RMB50 million, the Bank’s stake in the Company rose to 98%, it remains the controlling shareholder.
- (x) On 7 April 2011, the Bank established the wholly-owned subsidiary of Baiquan Rongxing Village and Township Bank Co., Ltd. (“Baiquan Rongxing”) with a registered capital of RMB5 million. On 23 April 2012, the Bank made additional capital injection of RMB25 million into Baiquan Rongxing, increasing its total registered capital to RMB30 million.
- (xi) On 19 April 2011, the Bank established a wholly-owned subsidiary of Yanshi Rongxing Village and Township Co., Ltd. with a registered capital of RMB30 million.
- (xii) On 25 April 2011, the Bank established a wholly-owned subsidiary of Leping Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB30 million.
- (xiii) On 9 May 2011, the Bank, along with Rudong Textile Rubber Co., Ltd. and Nantong Xiangfeng Electronics Co., Ltd. jointly funded the establishment of Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB100 million. The Bank holds 80% shares of the Company, making it the controlling shareholder.
- (xiv) On 16 May 2011, the Bank established a wholly-owned subsidiary of Honghu Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB30 million.
- (xv) On 4 May 2011, the Bank, along with Zhuzhou Hongda Electronic Co., Ltd., Zhuzhou Huachen Real Estate Development Co., Ltd., jointly funded the establishment of Zhuzhou Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB50 million. The Bank holds an 80% stake in the Company, making it the controlling shareholder.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

1. CORPORATE INFORMATION AND STRUCTURE (Continued)

- (xvi) On 1 June 2011, the Bank, along with Wulong Water Co., Ltd., Chongqing Sanxing Industrial Company, Pengshui Shengda Hydropower Co., Ltd., Chongqing Tianlu Concrete Co., Ltd., jointly established Chongqing Wulong Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB50 million. The Bank holds a 70% stake in the Company, making it the controlling shareholder.
- (xvii) On 8 June 2011, the Bank established the wholly-owned subsidiary of Xin an Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB30 million.
- (xviii) On 20 June 2011, the Bank established a wholly-owned subsidiary of Anyi Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB30 million.
- (xix) On 16 June 2011, the Bank established a wholly-owned subsidiary of Yingcheng Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB30 million.
- (xx) On 17 June 2011, the Bank established a wholly-owned subsidiary of Leiyang Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB50 million.
- (xxi) On 6 July 2011, the Bank, along with Hainan Airlines Property Holdings (Group) Co., Ltd. jointly established Hainan Baoting Rongxing Village and Township Bank Co., Ltd. (“Baoting Rongxing”) with a registered capital of RMB10 million. The Bank held a 90% stake in the Company, making it the controlling shareholder. In September 2012, the Bank made additional capital injection of RMB20 million into Baoting Rongxing, increasing its total registered capital to RMB30 million. The Bank’s stake in the Company rose to 96.67%, and the Bank is still the controlling shareholder.
- (xxii) On 28 May 2012, the Bank, along with Chongqing Arcas Hotel Investment Management Ltd, Chongqing Caizhi Business Management Co., Ltd., jointly established Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB100 million. The Bank holds an 80% stake in the Company, making it the controlling shareholder.
- (xxiii) On 25 June 2012, the Bank established the wholly-owned subsidiary of Hejian Ronghui Village and Township Bank Co., Ltd. with a registered capital of RMB30 million.
- (xxiv) On 24 May 2012, the Bank established the wholly-owned subsidiary of Youyang Rongxing Village and Township Bank Co., Ltd. with a registered capital of RMB60 million.

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and interpretations promulgated by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from 1 January 2013, together with the relevant transitional provisions, have been early adopted by the Group in preparation of the Financial Information throughout the Relevant Periods.

These financial statements have been prepared under the historical cost convention, except for financial assets held for trading and available-for-sale financial assets (unless the fair value cannot be reliably measured) that have been measured at fair value, as further explained in the respective accounting policies below. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

- (a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (b) Exposure, or rights, to variable returns from its involvement with the investee, and
- (c) The ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) The contractual arrangement with the other vote holders of the investee;
- (b) Rights arising from other contractual arrangements;
- (c) The Group’s voting rights and potential voting rights.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Bank gains control until the date the Bank ceases to control the subsidiary. 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.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- (a) derecognises the assets (including goodwill) and liabilities of the subsidiary;
- (b) derecognises the carrying amount of any non-controlling interest;
- (c) derecognises the cumulative translation differences recorded in equity;
- (d) recognises the fair value of the consideration received;
- (e) recognises the fair value of any investment retained;
- (f) recognises any resulting surplus or deficit in profit or loss; and
- (g) reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained profits, as appropriate.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated income statement, and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the parent company. An acquisition of non-controlling interests is accounted for as an equity transaction.

2.2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements:

IFRS 9	<i>Financial Instruments</i> ³
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> ³
IFRS 10, IFRS 12 and IAS 27 Amendments	<i>Investment Entities</i> ¹
IAS 19 Amendments	<i>Amendments to HKAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions</i> ²
IAS 32 Amendments	<i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ¹
IAS 39 Amendments	<i>Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
IFRIC 21	<i>Levies</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ No mandatory effective date yet determined but is available for adoption

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39 (Amendments)

These amendments added to IFRS 9 the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to IFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to IFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other IFRS 9 requirements at the same time.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

2.2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39 (Amendments) (Continued)

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of IFRS 9 was removed by the IASB in December 2013 and a mandatory effective date will be determined after the entire replacement of IAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10, IFRS 12 and IAS 27 (Amendments) – Investment Entities

Amendments to IFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9.

Consequential amendments were made to IFRS 12 and IAS 27 (Revised) for new disclosure requirements related to investment entities. The Group is considering the impact of the above standards and amendments on both the consolidated and the parent statements.

Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions

The IAS 19 Amendments apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The Group does not expect that amendment will have material financial impact in future financial statements.

IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments clarified the meaning of “currently has a legally enforceable right to set-off”. These amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact of these amendments on its financial position and performance.

2.2. IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

The IAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The Group does not expect that amendment will have material financial impact in future financial statements.

IFRIC Interpretation 21 Levies

IFRIC-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The Group is considering the impact of the above interpretation on both the consolidated and the parent statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in an associate are accounted for under the equity method of accounting. Under the equity method, an investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the associate, less any impairment losses. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Group's interests in the associate.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(1) Associate (Continued)

The results of the associate are included in the Bank's income statement to the extent of dividends received and receivable. The Bank's investments in an associate are stated at cost less any impairment losses.

The reporting periods of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(2) Foreign currency translation

The consolidated financial statements of the Group are presented in RMB, being the functional and presentation currency of the Bank and its subsidiaries.

Foreign currency transactions are initially recorded at the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined.

(3) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition of financial instruments

At initial recognition, financial assets are classified into four categories: financial assets at fair value through profit or loss, held-to-maturity financial investments, loans and receivables and available-for-sale financial assets.

At initial recognition, financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

A financial asset or financial liability is measured initially at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Measurement of fair value

The fair value of a financial asset or financial liability traded in active markets is based on its quoted market price.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include making reference to the prices from recent arm's length market transactions between knowledgeable and willing parties, if available, current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include financial assets or financial liabilities held for trading and financial assets or financial liabilities designated at fair value through profit or loss.

Financial assets or financial liabilities held for trading

A financial asset or financial liability is classified as held for trading if:

- (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or
- (iii) it is a derivative.

Financial assets held for trading mainly include bond investments.

Financial assets or financial liabilities held for trading are measured at fair value after initial recognition. Realised or unrealised income or expenses are recognised in the income statement.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Financial assets or financial liabilities designated at fair value through profit or loss

A financial instrument may be designated as a financial asset or financial liability at fair value through profit or loss upon initial recognition, if it meets any of the criteria set out below:

- (i) It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial asset or financial liability or from recognising the gains and losses on them on different bases;
- (ii) It applies to a group of financial assets, financial liabilities or both which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- (iii) 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.

In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it cannot be designated as a financial asset at fair value through profit or loss.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity and which the Group has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Gains and losses are recognised in the income statement when the held-to-maturity financial investments are derecognised or impaired, as well as through the amortisation process. All the held-to-maturity financial investments are bond investments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Held-to-maturity financial investments (Continued)

The Group shall reclassify any remaining held-to-maturity investments as available for sale and shall not classify any financial assets as held to maturity during the current financial year or during the two preceding financial years, if the Group has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (more than insignificant in relation to the total amount of held-to-maturity investments) except for sale or reclassification that:

- (i) is so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- (ii) occurs after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- (iii) is attributable to an isolated event that is beyond the Group's control, is non-recurring and could not have been reasonably anticipated by the Group.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the assets immediately or in the near term. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest rate method, less any allowance for impairment losses. Gains and losses are recognised in the income statement when such assets are derecognised or impaired, as well as through the amortisation process. Loans and receivables mainly include loans and advances to customers, receivables and discounted bills.

Discounted bills are granted by the Group to its customers based on the bank acceptance held which has not matured. Discounted bills are carried at face value less unrealised interest income and the interest income of the discounted bills is recognised using the effective interest rate method.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Financial instruments (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are designated as such or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest rate method and are taken to the income statement as interest income. Changes in fair value of available-for-sale financial assets are recognised as a separate component of other comprehensive income until the financial asset is derecognised or determined to be impaired at which time the cumulative gains or losses previously recorded in other comprehensive income are transferred to the income statement. Dividend and interest income on available-for-sale financial assets are recorded in the income statement.

In the case of an equity investment classified as available for sale, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, it will be measured at cost less any impairment loss.

Other financial liabilities

Other financial liabilities are carried at amortised cost using the effective interest rate method.

(4) Impairment of financial assets

An assessment on carrying amount of financial assets is made at the end of each reporting period. Impairment is recognised if there is objective evidence of impairment of financial assets, i.e., one or more events that occur after the initial recognition of those assets and have an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, they would probably enter into bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*(4) Impairment of financial assets *(Continued)***Financial assets carried at amortised cost**

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate and shall include the value of any relevant collateral. The original effective interest rate is the rate used to determine the values of financial assets at initial recognition. With respect to floating-rate loans, receivables and held-to-maturity investments, the discount rate could be the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows of 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 impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the assets does not exceed its amortised cost at the reversal date.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

When an item of loans and receivables is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on the financial asset, the amount of impairment loss, measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, is recognised in the income statement. In the case of an equity investment, if neither a quoted market price in an active market exists nor its fair value can be reliably measured, the amount of impairment loss is recognised in the income statement. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If there is objective evidence that the financial asset is impaired, the cumulative loss, 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, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The Group considers the period and consistency of the decline in evaluating whether a decline in fair value is prolonged. The Group considers the time period and continuity of the magnitude of the decline to evaluate whether the decline in fair value is prolonged. More significantly the fair value declines relative to the cost, the less the volatility moves, and the longer the decline lasts or the more obvious the continuity of the magnitude of the decline is, the more likely the equity investment impairs. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised as other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Impairment of financial assets (Continued)

Available-for-sale financial assets (Continued)

In the case of debt instruments classified as available for sale, if, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impaired loss is reversed through the income statement.

(5) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset; or has retained its rights to receive cash flows from the asset but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and either the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Derecognition of financial assets and liabilities (Continued)

Sales of assets on condition of repurchase

The derecognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(6) Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

(7) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Group has a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(8) Repurchase and reverse repurchase transactions

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a “repurchase agreement”, reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(8) Repurchase and reverse repurchase transactions (Continued)

Conversely, assets purchased under agreements to resell at a specified future date (“reverse repos”) are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a “reverse repurchase agreement”. The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

(9) Property and equipment

Property and equipment, other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Construction in progress comprises the direct costs of construction during the period of construction and is not depreciated. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value and annual depreciation rate of each item of property and equipment are as follows:

	Estimated useful life	Estimated residual value rate	Annual depreciation rate
Properties and buildings	30 years	5%	3.17%
Office equipment	3–10 years	0 or 5%	9.5%–31.67%
Motor vehicles	5 years	5%	19.00%
Leasehold improvements	Over the shorter of the economic useful lives and remaining lease terms		

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(9) Property and equipment (Continued)

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

(10) Land use rights

Land use rights are recognised at cost, which is the consideration paid. The rights are amortised using the straight-line basis over the period of the leases.

(11) Repossessed Assets

Repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(12) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Business combination and goodwill (Continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, is recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as gain on bargain purchase.

(13) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(14) Asset impairment

Impairment losses on assets except for deferred tax assets, financial assets and goodwill are determined based on the following:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the CGU to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(15) Cash and cash equivalents

Cash and cash equivalents refer to short term highly liquid assets, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash, unrestricted balances with central banks, amounts due from banks and other financial institutions and reverse repurchase agreements with original maturity of less than three months.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

Statutory defined contribution plans

In accordance with the relevant laws and regulations, employees of the Group participate in various social insurance schemes like basic pension insurance, medical insurance, unemployment insurance and housing fund schemes administered by the local government authorities. The Group calculates and contributes to the local government agencies the above pension and insurance schemes using applicable contribution basis and rates stipulated in the relevant local regulations in the period the employees providing their services to the Group. Contributions to these plans are recognised in the income statement as incurred.

Early retirement benefits

According to the Bank's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Bank. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. The amounts of retirement benefit expense and present value of these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, retirement benefit growth rates and other factors. Gains and losses arising from the changes in assumptions and amendments to pension plans are recognised in the income statement as incurred.

(17) Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreement with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(17) Fiduciary activities (Continued)

The Group grants entrusted loans on behalf of trustors, which are recorded off-balance sheet. The Group, as a trustee, grants such entrusted loans to borrowers under the direction of those trustors who fund these loans. The Group has been contracted by those trustors to manage the administration and collection of these loans on their behalf. Those trustors determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The Group charges a commission related to its activities in connection with entrusted loans which are recognised rateably over the period in which the service is provided. The risk of loss is borne by those trustors.

(18) Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest income and expense

For all financial instruments measured at amortised cost and interest-generating financial instruments classified as available-for-sale financial assets, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in profit or loss.

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.

Fee and commission income

Fee and commission income is recognised after services have been rendered, and the chargeable amount is reasonably estimated.

The fair value of the award credits granted to the bank card holders is deferred and recognised as fee and commission income when the award credits are redeemed or expire.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(18) Recognition of income and expense (Continued)

Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

Net trading income

Net trading income arising from trading activities include the gains and losses from changes in fair value for financial assets held for trading.

(19) Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the income statement except that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- (i) Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(19) Income tax (Continued)

Deferred income tax (Continued)

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (i) Where the deferred income tax asset relating to the deductible temporary differences 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 the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(20) Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*(20) Leases *(Continued)***Operating leases**

Rental payments applicable to operating leases are charged to the income statement on the straight-line basis over the lease terms.

When the Group is the lessor under operating leases, the assets subject to operating leases are accounted for as the Group's assets. Rental income is recognised as "other operating income, net" in the income statement on the straight-line basis over the lease term.

(21) Related Parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

Or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(21) Related Parties (Continued)

(b) the party is an entity where any of the following conditions applies: (Continued)

- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(22) Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

The Group initially measures all financial contracts at fair value, in other liabilities, being the premium received. This amount is recognised ratably over the period of the contract as fee and commission income. Subsequently, the liabilities are measured at the higher of the initial fair value less cumulative amortisation and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to a financial guarantee is taken to the income statement.

(23) 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. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

(24) Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Bank. Dividend for the year that is approved after the end of the reporting period is disclosed as an event after the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(25) Structured entities

A structured entity is an entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity. Unconsolidated structured entities refer to equity in other entities which have no significant impact to the Group, including but not limited to equity instrument or debt instruments or any other involvements. The Group's unconsolidated structured entities mainly include off balance sheet non-guaranteed wealth management products sponsored by the Group. See Note 39 (a).

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant use of judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments when the Group has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as a held-to-maturity investment, significant management judgement is required. If the Group fails to correctly assess its intention and ability to hold the investments to maturity and the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Group shall reclassify the whole held-to-maturity investment portfolio as available for sale.

Impairment losses of loans and advances, amounts due from banks and other financial institutions and receivables

The Group determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances, amounts due from banks and other financial institutions and receivables. If any such evidence exists, the Group assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgment on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Income tax

Determining income tax provisions requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

Fair value of financial instruments

If the market for a financial instrument is not active, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

Early retirement benefit obligations

The Bank has established liabilities in connection with benefits payable to early retired employees. These amounts of employee benefit expense and these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, inflation rates, and other factors. Actual results that differ from the assumptions are recognised immediately and, therefore, affect recognised expense 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 the Bank's expense related to its employee early retirement benefit obligations.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

5. NET INTEREST INCOME

	Year ended 31 December	
	2013	2012
Interest income on:		
Loans and advances to customers	7,621,205	6,537,440
— Corporate loans and advances	4,145,653	3,086,756
— Personal loans	3,083,604	2,830,916
— Discounted bills	391,948	619,768
Reverse repurchase agreements	2,251,530	2,140,515
Available for sale financial assets	439,120	269,272
Held-to-maturity financial investments	565,680	483,866
Receivables	1,368,540	1,921,011
Due from central bank	602,087	490,242
Deposits with banks and other financial institutions	1,293,503	1,150,824
Subtotal	14,141,665	12,993,170
Interest expense on:		
Due to customers	(4,160,741)	(2,967,699)
Repurchase agreements	(1,001,818)	(1,400,270)
Deposits from banks and other financial institutions	(1,963,740)	(1,822,705)
Debt securities issued	(174,226)	(131,202)
Due to central bank	(23,365)	(12,927)
Subtotal	(7,323,890)	(6,334,803)
Net interest income	6,817,775	6,658,367
Included: interest income on impaired loans	36,169	17,057
Interest income from:		
Listed debt instruments	1,004,800	753,138
Unlisted debt instruments	13,136,865	12,240,032
Subtotal	14,141,665	12,993,170

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

6. NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2013	2012
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	488,221	273,765
Settlement and clearing fees	83,410	95,299
Agency and custodian fees	617,264	374,902
Including: non-guaranteed wealth management product	284,684	96,853
Bank card fees	149,264	47,877
Others	38,391	19,594
Subtotal	1,376,550	811,437
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	(16,120)	(13,185)
Agency fees	(7,473)	(37,691)
Bank card fees	(69,539)	(44,015)
Others	(36,296)	(37,896)
Subtotal	(129,428)	(132,787)
NET FEE AND COMMISSION INCOME	1,247,122	678,650

7. NET TRADING INCOME

	Year ended 31 December	
	2013	2012
Listed in mainland China:		
Debt securities	283,851	356,579

The above amounts include gains and losses arising from the buying and selling of, interest income on, and changes in the fair value of financial assets held for trading.

8. NET LOSS ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2013	2012
Dividends from available-for-sale equity investments	579	507
Loss on disposal of available-for-sale financial assets, net	(47,113)	(87,916)
Total	(46,534)	(87,409)

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

9. OTHER OPERATING INCOME, NET

	Year ended 31 December	
	2013	2012
Net gain on disposal of property and equipment	—	209
Net gain on sale of repossessed assets	121,160	8,887
Gain/(loss) from foreign exchange, net	(4,750)	8,271
Leasing income	3,681	6,319
Government grants and subsidy	97,162	63,045
Penalty and compensation payments	180	5
Others	24,189	18,283
Total	241,622	105,019

10. OPERATING EXPENSES

	Year ended 31 December	
	2013	2012
Staff costs:		
Salaries, bonuses and allowances	1,248,762	1,085,066
Social insurance	126,616	96,622
Housing fund	69,089	53,902
Staff benefits	95,795	79,512
Labour union expenditure and education costs	12,330	20,809
Early retirement benefits	6,392	6,147
Subtotal	1,558,984	1,342,058
General and administrative expenses	725,677	638,034
Business tax and surcharges	528,158	364,068
Depreciation and amortisation	273,927	208,255
Leasing expense	199,053	172,099
Auditors' remuneration	9,246	4,459
Others	295,945	296,546
Total	3,590,990	3,025,519

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the directors' and supervisors' emoluments before tax are as follows:

Name	Position	Year ended 31 December 2013						Actual amount of remuneration paid (pre-tax) RMB'000
		Fees RMB'000	Remuneration paid RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution schemes RMB'000	Total emoluments before tax RMB'000	Of which: deferred payment RMB'000	
		(1)	(2)	(3)	(4)	(5)=(1)+(2)+(3)+(4)	(6)	(7)=(5)-(6)
Guo Zhiwen	Chairman	—	703	2,873	24	3,600	1,115	2,485
Liu Zhuo	Vice Chairman	—	390	1,585	24	1,999	699	1,300
Gao Shuzhen	Executive director	—	566	2,276	24	2,866	938	1,928
Chen Danyang	Director	73	—	—	—	73	—	73
Zhang Taoxuan	Director	72	—	—	—	72	—	72
Cui Luanyi	Director	73	—	—	—	73	—	73
Ma Shuwei	Director	36	—	—	—	36	—	36
Qin Hongfu	Director	73	—	—	—	73	—	73
Wang Yuanqing	Independent Director	90	—	—	—	90	—	90
Zhang Shenping	Independent Director	153	—	—	—	153	—	153
Ma Yongqiang	Independent Director	153	—	—	—	153	—	153
He ping	Independent Director	147	—	—	—	147	—	147
Du Qingchun	Independent Director	153	—	—	—	153	—	153
Kong Siu Chee	Independent Director	118	—	—	—	118	—	118
Wan Kam To	Independent Director	118	—	—	—	118	—	118
Zhang Bin	Chairman of the Board of Supervisors	—	488	1,890	24	2,402	759	1,643
Cheng Yun	Vice Chairman of the Board of Supervisors	—	390	1,541	24	1,955	690	1,265
Zang Shaolin	Supervisor	18	—	—	—	18	—	18
Lu Yujuan	Supervisor	15	—	—	—	15	—	15
Wang Ying	Employee Supervisor	—	383	540	24	947	138	809
Chen Yutao	Employee Supervisor	—	268	381	18	667	97	570
Wang Jiheng	External Supervisor	99	—	—	—	99	—	99
Liu Wei	External Supervisor	49	—	—	—	49	—	49
Bai Fan	External Supervisor	44	—	—	—	44	—	44
Meng Rongfang	External Supervisor	36	—	—	—	36	—	36

Note: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive Directors and other senior management members are deferred.

- (1) On the first extraordinary general meeting for 2013 held on 23 July 2013, Kong Siu Chee and Wan Kam To were nominated as the Independent directors of the Bank. Wang Yuanqing ceased to act as Independent directors of the Bank. Ma Shuwei ceased to act as Director of the Bank.
- (2) On the first extraordinary general meeting for 2013 held on 23 July 2013, the resignation of Liu Wei as the External supervisor was passed and Bai Fan was elected as the External supervisor of the fifth session of the Board of Supervisors.
- (3) On the second extraordinary general meeting for 2013 held on 26 September 2013, Meng Rongfang was elected as the External supervisor of the fifth session of the Board of Supervisors; the resignation of Zang Shaolin as the shareholders representative supervisor was passed and Lu Yujuan was elected as the shareholders representative supervisor of the fifth session of the Board of Supervisors.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

*(In RMB thousands, unless otherwise stated)*11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(Continued)*

Year ended 31 December 2012

Name	Position	Fees RMB'000	Remuneration paid RMB'000	Discretionary bonuses RMB'000	Contributions		Total emoluments before tax RMB'000	Of which: deferred payment RMB'000	Actual amount of remuneration paid (pre-tax) RMB'000
					to defined contribution schemes RMB'000	(5)=(1)+(2)+ (3)+(4)			
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(7)=(5)-(6)
Guo Zhiwen	Chairman	—	706	2,873	24	3,603	1,252	2,351	
Liu Zhuo	Vice Chairman	—	374	1,525	27	1,926	617	1,309	
Gao Shuzhen	Executive director	—	567	2,256	24	2,847	989	1,858	
Chen Danyang	Director	48	—	—	—	48	—	48	
Jin Weidong	Director	13	—	—	—	13	—	13	
Xia Mei	Director	13	—	—	—	13	—	13	
Zhang Taoxuan	Director	32	—	—	—	32	—	32	
Cui Luanyi	Director	48	—	—	—	48	—	48	
Ma Shuwei	Director	48	—	—	—	48	—	48	
Qin Hongfu	Director	48	—	—	—	48	—	48	
Wang Yuanqing	Independent director	120	—	—	—	120	—	120	
Liu Wei	Independent director	35	—	—	—	35	—	35	
Zhang Shengping	Independent director	80	—	—	—	80	—	80	
Ma Yongqiang	Independent director	80	—	—	—	80	—	80	
He ping	Independent director	30	—	—	—	30	—	30	
Du Qingchun	Independent director	30	—	—	—	30	—	30	
Zhang Bin	Chairman of the Board of Supervisors	—	459	1,799	26	2,284	691	1,593	
Cheng Yun	Vice Chairman of the Board of Supervisors	—	398	1,579	25	2,002	601	1,401	
Tian Xingbin	Former Chairman of the Board of Supervisors (Former)	—	146	—	—	146	—	146	
Song Zhenlei	Supervisor	7	—	—	—	7	—	7	
Zhang Chuan	Supervisor	7	—	—	—	7	—	7	
Zang Shaolin	Supervisor	17	—	—	—	17	—	17	
Wang Ying	Employee supervisor	—	322	694	27	1,043	69	974	
Chen Yutao	Employee supervisor	—	276	525	15	816	—	816	
Wang Jiheng	External supervisor	84	—	—	—	84	—	84	
Liu Wei	External supervisor	58	—	—	—	58	—	58	

Note: Pursuant to the PRC relevant regulations, a portion of the discretionary bonus payments for the Chairman of the Board of Directors, the President, the Chairman of the Board of Supervisors, Executive directors and other senior management members are deferred.

- (1) Guo Zhiwen, Liu Zhuo, Gao Shuzhen, Wang Yuanqing, Ma Yongqiang, Zhang Shengping, Zhang Taoxuan, Chen Danyang, Cui Luanyi, Ma Shuwei and Qin Hongfu have been elected as the fifth board members of the Bank, while Liu Wei, Jin Weidong and Xia Mei ceased to act as directors of the Bank in the shareholders' general meeting for 2011 held on 27 April 2012.
- (2) Zhang Bin, Cheng Yun, Liu Wei, Wang Jiheng, Zang Shaolin, Wang Ying and Chen Yutao have been elected as the fifth supervisory board members, while Tian Xingbin ceased to act as the Chairman of the Board of Supervisors, and Song Zhenlei and Zhang Chuan ceased to act as the Supervisors of the Bank at the shareholders' general meeting for 2011 held on 27 April 2012.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

- (3) Guo Zhiwen has been elected as Chairman and Liu Zhuo has been elected as Vice Chairman at the fifth board meeting held on 27 April 2012.
- (4) Gao Shuzhen has been appointed as President of the Bank as proposed by Guo Zhiwen, Li Qiming, Zhan Qiguang, Lv Tianjun have been appointed as Vice President of the Bank, Xu Shaoguang has been appointed as Chief Credit Officer of the Bank, and Wang Haibin, Sun Jiawei have been appointed as assistants of the President as proposed by Gao Shuzhen at the fifth board meeting held on 27 April 2012.
- (5) The Bank held the first extraordinary general meeting for 2012 on 24 September 2012. He Ping and Du Qingchun have been elected as independent directors at the meeting.

During the year ended 31 December 2013, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration (2012: Nil).

During the year ended 31 December 2013, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or were payable to such persons upon joining the Group or as compensation for loss of office (2012: Nil).

12. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals of the Group are employees of the Bank. Their emoluments were determined based on the prevailing market rates of the region where the Bank is operating. In the years ended 31 December 2012 and 2013, the five highest paid individuals of the Group comprised three directors and two supervisors, and three directors and one supervisor, respectively, whose emoluments are disclosed in notes 11 and 42(c) to the financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Years ended 31 December	
	2013	2012
Salaries, allowances and discretionary bonuses	12,716	12,536
Contribution to defined contribution schemes	120	126
Total	12,836	12,662

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

*(In RMB thousands, unless otherwise stated)*12. FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The number of non-director and non-supervisor whose emoluments fell within the following bands is set out below.

	Number of employees Years ended 31 December	
	2013	2012
RMB500,001 to RMB1,000,000	—	—
RMB1,000,001 to RMB1,500,000	—	—
RMB1,500,001 to RMB2,000,000	1	—
Total	1	—

During the year ended 31 December 2013, no emoluments were paid by the Group to any of these non-director and non-supervisor individuals as an inducement to join or were payable to such persons upon joining the Group or as compensation for loss of office (2012: Nil).

13. IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	Year ended 31 December	
	2013	2012
Reversal of impairment losses on:		
Placements with banks and other financial institutions	—	—
Other assets	(11,657)	(1,019)
	(11,657)	(1,019)

14. INCOME TAX EXPENSE

(a) Income tax

	Year ended 31 December	
	2013	2012
Current income tax	1,101,859	1,065,402
Deferred income tax	(22,933)	(77,951)
	1,078,926	987,451

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

14. INCOME TAX EXPENSE (Continued)

(b) Reconciliation between income tax and accounting profit

The income tax of the Group's institutions has been provided at the statutory rate of 25%. A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December	
	2013	2012
Profit before tax	4,450,017	3,858,910
Tax at the PRC statutory income tax rate	1,112,504	964,728
Non-deductible expenses ⁽ⁱ⁾	20,163	64,126
Non-taxable income ⁽ⁱⁱ⁾	(52,910)	(39,174)
Underprovision/(overprovision) in respect of prior years	(23)	128
Profits attributable to an associate	(808)	(2,357)
Tax expense at the Group's effective income tax rate	1,078,926	987,451

Notes: (i) The non-deductible expenses mainly represent non-deductible write-offs.

(ii) The non-taxable income mainly represents interest income arising from the PRC government bonds and microloans to farmers, which are exempted from income tax, under Chinese tax regulations.

15. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY

The consolidated profit attributable to equity holders of the parent company for the year ended 31 December 2013 includes a profit of RMB3,203 million (2012: RMB2,819 million) which has been dealt with in the financial statements of the Company.

16. DIVIDENDS

	Year ended 31 December	
	2013	2012
Dividends on ordinary shares declared and paid:		
Final dividend for 2012:		
RMB0.025 per share**		
(2011: RMB0.1 per share*)	171,675	392,375
Dividends on ordinary shares proposed for approval		
(not recognised as at 31 December):		
Final dividend for 2013:***		
(2012: RMB0.025 per share**)	—	171,675

(*): Based on the 2011 weighted average number of shares at RMB0.1 per share, distributed in cash.

(**): Based on the 2012 weighted average number of shares at RMB0.025 per share, distributed in cash.

(***): Final dividends plan of 2013 is under consideration by the management of our Bank.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

17. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Year ended 31 December	
	2013	2012
Earnings:		
Profit attributable to equity holders of the parent company	3,350,342	2,864,250
Shares:		
Weighted average number of ordinary shares in issue (in thousands) ^(note a)	8,246,900	7,791,708
Basic and diluted earnings per share (in RMB yuan)	0.41	0.37

The group had no potential ordinary shares for both the current and prior years.

(a) weighted average number of shares in issue

	Year ended 31 December	
	2013	2012
Share capital at 1 January	7,560,198	6,187,823
Weighted average number of new shares issued in the year	—	524,808
Weighted average number of shares issued due to rights issue in 2012	—	392,375
Weighted average number of shares issued due to rights issue in 2013	686,702	686,702
Weighted average number of ordinary shares in issue at the end of year	8,246,900	7,791,708

Basic earnings per share as at 31 December 2012 and 2013 is computed by dividing the current net profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue. As described in note 34 Share Capital, the Bank had right issues in 2012 and 2013. In the calculation of earnings per share, the Rights Issue was deemed in issue at the earliest accounting period. For the detailed information on new shares issued and rights issue in the above periods, please refer to note 34 Share Capital.

18. CASH AND BALANCES WITH CENTRAL BANK

Group

	31 December	
	2013	2012
Cash and unrestricted balances with central bank:		
Cash on hand	1,302,418	815,255
Mandatory reserves with central bank ⁽ⁱ⁾	34,780,277	33,111,756
Surplus reserves with central bank ⁽ⁱ⁾	15,441,836	17,907,866
Fiscal deposits with the PBOC	27,558	23,634
Total	51,552,089	51,858,511

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

18. CASH AND BALANCES WITH CENTRAL BANK (Continued)

Bank

	31 December	
	2013	2012
Cash and unrestricted balances with central bank:		
Cash on hand	1,200,109	768,662
Mandatory reserves with central bank ⁽ⁱ⁾	33,888,246	32,312,911
Surplus reserves with central bank ⁽ⁱⁱ⁾	14,709,539	17,555,992
Fiscal deposits with the PBOC	27,558	23,634
Total	49,825,452	50,661,199

- (i) The Group is required to place mandatory reserve deposits with the PBOC, mandatory reserve deposits with central bank are not available for use in the Group's daily operations. As at 31 December 2012 and 2013, the mandatory deposit reserve ratios of the branches and subsidiaries of the Bank in respect of customer deposits denominated in RMB and foreign currencies were consistent with the requirement of the PBOC.
- (ii) Surplus reserves with the PBOC include funds for the purpose of cash settlement and other kinds of unrestricted deposits.

19. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Group

	31 December	
	2013	2012
Nostro accounts:		
Banks operating in Mainland China	29,338,173	16,889,315
Other financial institutions operating in Mainland China	2,364	687
Banks operating outside Mainland China	130,655	168,303
	29,471,192	17,058,305
Less: Allowance for impairment losses	—	—
	29,471,192	17,058,305
Placements with banks and other financial institutions:		
Banks operating in Mainland China	—	2,100,000
Other financial institutions operating in Mainland China	4,400,000	788,500
	4,400,000	2,888,500
Less: Allowance for impairment losses	—	—
	4,400,000	2,888,500
	33,871,192	19,946,805

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

19. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)

Bank

	31 December 2013	2012
Nostro accounts:		
Banks operating in Mainland China	29,723,613	16,324,241
Other financial institutions operating in Mainland China	2,364	687
Banks operating outside Mainland China	130,655	168,303
	29,856,632	16,493,231
Less: Allowance for impairment losses	—	—
	29,856,632	16,493,231
Placements with banks and other financial institutions:		
Banks operating in Mainland China	—	2,100,000
Other financial institutions operating in Mainland China	4,400,000	788,500
	4,400,000	2,888,500
Less: Allowance for impairment losses	—	—
	4,400,000	2,888,500
	34,256,632	19,381,731

20. FINANCIAL ASSETS HELD FOR TRADING

Group/Bank

	31 December 2013	2012
Debt securities	2,512,264	7,878,959
Debt securities analysed into:		
Listed in Mainland China	2,512,264	7,878,959

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

21. REVERSE REPURCHASE AGREEMENTS

Group

	31 December 2013	2012
Reverse repurchase agreements analysed by counterparty:		
Banks	49,757,728	46,863,276
Other financial institutions	1,353,220	4,882,372
	51,110,948	51,745,648
Reverse repurchase agreements analysed by collateral:		
Securities	9,034,553	25,794,923
Bills	28,312,319	25,912,232
Trust beneficial rights	13,564,076	—
Loans	200,000	38,493
	51,110,948	51,745,648

Bank

	31 December 2013	2012
Reverse repurchase agreements analysed by counterparty:		
Banks	49,757,728	46,874,494
Other financial institutions	1,153,220	4,608,521
	50,910,948	51,483,015
Reverse repurchase agreements analysed by collateral:		
Securities	9,034,553	25,794,923
Bills	28,312,319	25,649,599
Trust beneficial rights	13,564,076	—
Loans	—	38,493
	50,910,948	51,483,015

As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. At 31 December 2013, the Group had received securities with a fair value of approximately RMB403 million (31 December 2012: 998 million). As of 31 December 2013, none of these securities have been repledged under repurchase agreements (31 December 2012: Nil). The Group had also received notes with a fair value of approximately RMB9,133 million as of 31 December 2013 (31 December 2012: RMB25,912 million); Of these securities, securities with a fair value of approximately RMB5,104 million have been repledged under repurchase agreements (31 December 2012: 12,192 million). The Group has an obligation to return the securities to its counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

22. LOANS AND ADVANCES TO CUSTOMERS

Group

	31 December 2013	2012
Corporate loans and advances	63,538,241	51,108,045
Personal loans	40,498,599	34,810,052
Discounted bills	1,904,481	1,346,235
	105,941,321	87,264,332
Less: Allowance for impairment	(2,426,306)	(1,966,253)
	103,515,015	85,298,079

Bank

	31 December 2013	2012
Corporate loans and advances	58,995,054	49,127,156
Personal loans	36,256,796	32,314,340
Discounted bills	1,230,612	368,463
	96,482,462	81,809,959
Less: Allowance for impairment	(2,234,337)	(1,877,100)
	94,248,125	79,932,859

Movements of allowance for impairment losses during the year are as follows:

Group

	Individually assessed	Collectively assessed	Total
As at 1 January 2012	167,306	1,298,273	1,465,579
Exchange difference	—	(34)	(34)
Impairment loss:	(58,226)	895,451	837,225
Impairment allowances charged	9,580	895,451	905,031
Reversal of impairment allowances	(67,806)	—	(67,806)
Accreted interest on impaired loans (note 5)	(17,057)	—	(17,057)
Write-offs	(270)	(342,445)	(342,715)
Recoveries of loans and advances previously written off	540	22,715	23,255
At 31 December 2012 and 1 January 2013	92,293	1,873,960	1,966,253
Exchange difference	(476)	(1)	(477)
Impairment loss:	27,303	490,414	517,717
Impairment allowances charged	30,463	490,414	520,877
Reversal of impairment allowances	(3,160)	—	(3,160)
Accreted interest on impaired loans (note 5)	(7,801)	(28,368)	(36,169)
Write-offs	(38,075)	(24,831)	(62,906)
Recoveries of loans and advances previously written off	5,980	35,908	41,888
As at 31 December 2013	79,224	2,347,082	2,426,306

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Movements of allowance for impairment losses during the year are as follows (Continued):

Bank

	Individually assessed	Collectively assessed	Total
As at 1 January 2012	167,306	1,271,739	1,439,045
Exchange difference	—	(34)	(34)
Impairment loss:	(58,226)	832,346	774,120
Impairment allowances charged	9,580	832,346	841,926
Reversal of impairment allowances	(67,806)	—	(67,806)
Accreted interest on impaired loans	(17,057)	—	(17,057)
Write-offs	(270)	(341,959)	(342,229)
Recoveries of loans and advances previously written off	540	22,715	23,255
At 31 December 2012 and 1 January 2013	92,293	1,784,807	1,877,100
Exchange difference	(476)	(1)	(477)
Impairment loss:	24,907	387,294	412,201
Impairment allowances charged	28,067	387,294	415,361
Reversal of impairment allowances	(3,160)	—	(3,160)
Accreted interest on impaired loans	(7,801)	(28,368)	(36,169)
Write off for the year	(38,075)	(22,101)	(60,176)
Recoveries of loans and advances previously written off	5,980	35,878	41,858
As at 31 December 2013	76,828	2,157,509	2,234,337

Group

	31 December	
	2013	2012
Loans and advances:		
Unimpaired loans and advances ⁽ⁱ⁾	105,037,131	86,708,136
Impaired loans and advances to customers ⁽ⁱⁱ⁾		
Individually assessed	190,910	110,332
Collectively assessed	713,280	445,864
	105,941,321	87,264,332
Less: Allowance for impairment losses:		
Unimpaired loans and advances ⁽ⁱ⁾	1,966,911	1,700,497
Impaired loans and advances to customers ⁽ⁱⁱ⁾		
Individually assessed	79,224	92,293
Collectively assessed	380,171	173,463
	2,426,306	1,966,253
Net loans and advances:		
Unimpaired loans and advances ⁽ⁱ⁾	103,070,220	85,007,639
Impaired loans and advances to customers ⁽ⁱⁱ⁾		
Individually assessed	111,686	18,039
Collectively assessed	333,109	272,401
	103,515,015	85,298,079
Percentage of impaired loans and advances	0.85%	0.64%

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

Bank

	31 December 2013	2012
Loans and advances:		
Unimpaired loans and advances ⁽ⁱ⁾	95,592,863	81,265,065
Impaired loans and advances to customers ⁽ⁱⁱ⁾		
Individually assessed	184,131	110,332
Collectively assessed	705,468	434,562
	96,482,462	81,809,959
Less: Allowance for impairment losses:		
Unimpaired loans and advances ⁽ⁱ⁾	1,780,853	1,616,832
Impaired loans and advances to customers ⁽ⁱⁱ⁾		
Individually assessed	76,828	92,293
Collectively assessed	376,656	167,975
	2,234,337	1,877,100
Net loans and advances:		
Unimpaired loans and advances ⁽ⁱ⁾	93,812,010	79,648,233
Impaired loans and advances to customers ⁽ⁱⁱ⁾		
Individually assessed	107,303	18,039
Collectively assessed	328,812	266,587
	94,248,125	79,932,859
Percentage of impaired loans and advances	0.92%	0.67%

(i) Unimpaired loans and advances should be collectively assessed for impairment.

(ii) Impaired loans and advances to customers include those with objective evidence of impairment.

23. FINANCIAL INVESTMENTS

Group/Bank

	31 December 2013	2012
Receivables ^(a)	43,528,672	22,733,333
Held-to-maturity investments ^(b)	17,080,814	12,323,533
Available-for-sale financial assets ^(c)	7,914,115	8,244,304
	68,523,601	43,301,170

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

23. FINANCIAL INVESTMENTS (Continued)

(a) Receivables

The receivables are unlisted and stated at amortised cost and comprise the following:

Group/Bank

	31 December	
	2013	2012
Certificate treasury bonds	183,715	589,346
Wealth management products issued by other financial institutions ⁽ⁱ⁾	18,399,265	5,819,832
Trust fund plans ⁽ⁱⁱ⁾	24,945,692	16,324,155
	43,528,672	22,733,333

(i) Wealth management products issued by other financial institutions are fixed term products. These include investments in trust beneficiary rights, trust loans etc.

(ii) The trust fund plans are purchased from trust companies, with no active market quotes, definite period lengths (1–5 years), interest rate is fixed or determinable (5–12%). These include investments in trust loans and trust beneficiary rights etc.

(b) Held-to-maturity investments

Held-to-maturity investments are stated at amortised cost and comprise the following:

Group/Bank

	31 December	
	2013	2012
Debt securities analysed into:		
Listed in Mainland China	17,080,814	12,323,533

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

Group/Bank

	31 December	
	2013	2012
Debt securities analysed into:		
Listed in Mainland China	7,869,495	8,219,684
Unlisted:		
Equity investments at cost ⁽ⁱ⁾	24,620	24,620
Others	20,000	—
	7,914,115	8,244,304
Market value of listed debt securities	7,869,495	8,219,684

(i) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

24. INVESTMENTS IN SUBSIDIARIES

Bank

	31 December	
	2013	2012
Unlisted Investments, at cost	1,142,000	1,142,000

25. INVESTMENT IN AN ASSOCIATE

Group/Bank

	31 December	
	2013	2012
Investment in an associate	963,955	1,017,014

Details of the Group's associate are as follows:

Name	Percentage of equity/voting rights		Place of incorporation/registration	Principal activities
	2013-12-31 %	2012-12-31 %		
Unlisted investments directly held: Guangdong Huaxing Bank Company Limited ("Huaxing Bank")	16	16	Guangdong, PRC	Commercial Banking

Note: Though the Group controls 16% of the voting rights of Huaxing Bank, it is the second largest shareholder of Huaxing Bank and holds positions of a director and assistant governor, and is thus capable to exert significant influence on the operating and financial decisions of the investee. Accordingly, the Group classified it as an associate.

The following table illustrates the summarised financial information of the Group's associate:

	31 December	
	2013	2012
Assets	52,030,241	31,691,900
Liabilities	(47,255,524)	(26,585,563)
Net assets	4,774,717	5,106,337
Proportion of Group's ownership	16%	16%
Share of the net assets	763,955	817,014
Goodwill on acquisition	200,000	200,000
Carrying amount of the investment	963,955	1,017,014

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

25. INVESTMENT IN AN ASSOCIATE (Continued)

	31 December	
	2013	2012
Revenue	868,038	573,531
Continuing operation profit	9,833	54,885
Non continuing operation profit/(loss)	483	(7)
Profit for the year	20,196	58,931
Group's share of profit	3,231	9,429
Total comprehensive income	(331,620)	(9,358)
Dividends received	—	—

The financial information above was extracted from the financial statements of the associate company.

As at 31 December 2012 and 2013, contingent liabilities of the associate mainly include bank acceptances, guarantees issued and sight letter of credit. The associate has no significant capital commitments as at the end of the reporting period.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

26. PROPERTY AND EQUIPMENT

Group

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost:						
At and 1 January 2012	1,760,350	1,493,135	129,903	489,150	50,702	3,923,240
Additions	135,222	2,413,145	48,840	173,600	7,381	2,778,188
CIP transfers	245,065	(384,687)	39,956	67,652	—	(32,014)
Disposals	(12,012)	—	(812)	—	(45)	(12,869)
At 31 December 2012 and 1 January 2013	2,128,625	3,521,593	217,887	730,402	58,038	6,656,545
Additions	180,334	1,107,108	30,824	223,488	9,517	1,551,271
CIP transfers	206,954	(287,979)	23,951	16,457	—	(40,617)
Disposals	—	—	(4,731)	(4,314)	—	(9,045)
At 31 December 2013	2,515,913	4,340,722	267,931	966,033	67,555	8,158,154
Accumulated depreciation:						
At 1 January 2012	160,603	—	68,930	188,229	16,981	434,743
Depreciation charge for the year	59,190	—	30,464	91,897	9,166	190,717
Disposals	(6,322)	—	(812)	—	(11)	(7,145)
At 31 December 2012 and 1 January 2013	213,471	—	98,582	280,126	26,136	618,315
Depreciation charge for the year	71,912	—	12,651	132,585	9,417	226,565
Disposals	—	—	(1,332)	(336)	—	(1,668)
At 31 December 2013	285,383	—	109,901	412,375	35,553	843,212
Net carrying amount:						
At 31 December 2012	1,915,154	3,521,593	119,305	450,276	31,902	6,038,230
At 31 December 2013	2,230,530	4,340,722	158,030	553,658	32,002	7,314,942

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

26. PROPERTY AND EQUIPMENT (Continued)

Bank

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost:						
At 1 January 2012	1,736,930	1,489,531	97,472	462,770	35,771	3,822,474
Additions	112,305	2,390,325	33,219	165,140	5,087	2,706,076
CIP transfers	245,065	(384,687)	39,955	67,657	—	(32,010)
Disposals	(12,012)	—	—	—	—	(12,012)
At 31 December 2012 and 1 January 2013	2,082,288	3,495,169	170,646	695,567	40,858	6,484,528
Additions	175,006	1,097,852	17,472	209,900	7,332	1,507,562
CIP transfers	184,308	(256,326)	23,951	11,475	—	(36,592)
Disposals	—	—	—	(45)	—	(45)
At 31 December 2013	2,441,602	4,336,695	212,069	916,897	48,190	7,955,453
Accumulated depreciation:						
At 1 January 2012	160,333	—	62,800	184,554	14,300	421,987
Depreciation charge for the year	58,327	—	22,482	85,985	6,017	172,811
Disposals	(6,322)	—	—	—	—	(6,322)
At 31 December 2012 and 1 January 2013	212,338	—	85,282	270,539	20,317	588,476
Depreciation charge for the year	68,937	—	1,833	124,530	6,277	201,577
Disposals	—	—	—	(33)	—	(33)
At 31 December 2013	281,275	—	87,115	395,036	26,594	790,020
Net carrying amount:						
At 31 December 2012	1,869,950	3,495,169	85,364	425,028	20,541	5,896,052
At 31 December 2013	2,160,327	4,336,695	124,954	521,861	21,596	7,165,433

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

*(In RMB thousands, unless otherwise stated)*26. PROPERTY AND EQUIPMENT *(Continued)*

The carrying value of the Group's and the Bank's properties and buildings is analysed based on the remaining terms of the land leases as follows:

Group

	31 December	
	2013	2012
Held in China		
Over 50 years	175,217	182,732
10 to 50 years	2,016,350	1,732,422
Less than 10 years	38,963	—
	2,230,530	1,915,154

Bank

	31 December	
	2013	2012
Held in China		
Over 50 years	174,915	180,836
10 to 50 years	1,946,449	1,689,114
Less than 10 years	38,963	—
	2,160,327	1,869,950

As at 31 December 2013, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB637 million (31 December 2012: RMB610 million) was still in progress. Management is of the view that the aforesaid matter would not affect the rights of the Group to these assets nor have any significant impact on the business operation of the Group.

As at 31 December 2013, the carrying value transferred from construction in progress to other assets of the Group is RMB40,617 thousand (31 December 2012: RMB32,014 thousand).

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

27. DEFERRED INCOME TAX ASSETS AND LIABILITIES

(a) Analysed by nature

Group

	31 December			
	2013		2012	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	998,776	249,694	921,786	230,447
Change in fair value of available-for-sale financial assets	242,748	60,687	32,316	8,079
Change in fair value of held for trading financial assets	39,640	9,910	16,668	4,167
Salaries, bonuses, allowances and subsidies payables	24,555	6,139	17,636	4,409
Early retirement benefits	15,371	3,843	16,938	4,234
Deductible tax losses	14,327	3,582	27,912	6,978
Net deferred income tax	1,335,417	333,855	1,033,256	258,314

Bank

	31 December			
	2013		2012	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	892,164	223,041	890,604	222,651
Change in fair value of available-for-sale financial assets	242,748	60,687	32,316	8,079
Change in fair value of held for trading financial assets	39,640	9,910	16,668	4,167
Salaries, bonuses, allowances and subsidies payables	17,788	4,447	15,068	3,767
Early retirement benefits	15,371	3,843	16,936	4,234
Net deferred income tax	1,207,711	301,928	971,592	242,898

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

27. DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

(b) Movements of deferred income tax

Group

	At 1 January 2013	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2013
Deferred income tax assets:				
Allowance for impairment losses	230,447	19,247	—	249,694
Change in fair value of available-for-sale financial assets	8,079	—	52,608	60,687
Change in fair value of held for trading financial assets	4,167	5,743	—	9,910
Salaries, bonuses, allowances and subsidies payables	4,409	1,730	—	6,139
Early retirement benefits	4,234	(391)	—	3,843
Deductible tax losses	6,978	(3,396)	—	3,582
Total	258,314	22,933	52,608	333,855

	At 1 January 2012	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2012
Deferred income tax assets:				
Allowance for impairment losses	162,530	67,917	—	230,447
Change in fair value of available-for-sale financial assets	—	—	8,079	8,079
Change in fair value of held for trading financial assets	—	4,167	—	4,167
Salaries, bonuses, allowances and subsidies payables	—	4,409	—	4,409
Early retirement benefits	4,301	(67)	—	4,234
Deductible tax losses	5,549	1,429	—	6,978
Subtotal	172,380	77,855	8,079	258,314
Deferred income tax liabilities				
Change in fair value of available-for-sale financial assets	(5,275)	—	5,275	—
Change in fair value of held for trading financial assets	(96)	96	—	—
Subtotal	(5,371)	96	5,275	—
Net deferred income tax	167,009	77,951	13,354	258,314

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

27. DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

(b) Movements of deferred income tax (Continued)

Bank

	At 1 January 2013	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2013
Deferred income tax assets:				
Allowance for impairment losses	222,651	390	—	223,041
Change in fair value of available-for-sale financial assets	8,079	—	52,608	60,687
Change in fair value of held for trading financial assets	4,167	5,743	—	9,910
Salaries, bonuses, allowances and subsidies payables	3,767	680	—	4,447
Early retirement benefits	4,234	(391)	—	3,843
Total	242,898	6,422	52,608	301,928

	At 1 January 2012	Total gains/(losses) recorded in profit or loss	Total gains recorded in other comprehensive income	At 31 December 2012
Deferred income tax assets:				
Allowance for impairment losses	161,561	61,090	—	222,651
Change in fair value of available-for-sale financial assets	—	—	8,079	8,079
Change in fair value of held for trading financial assets	—	4,167	—	4,167
Salaries, bonuses, allowances and subsidies payables	—	3,767	—	3,767
Early retirement benefits	4,301	(67)	—	4,234
	165,862	68,957	8,079	242,898
Deferred income tax liabilities				
Change in fair value of available-for-sale financial assets	(5,275)	—	5,275	—
Change in fair value of held for trading financial assets	(96)	96	—	—
Subtotal	(5,371)	96	5,275	—
Net deferred income tax	160,491	69,053	13,354	242,898

The Group and the Bank did not have significant unrecognized deferred income tax assets and liabilities at the end of the accounting period.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

28. OTHER ASSETS

Group

	31 December	
	2013	2012
Interest receivable ^(a)	1,893,102	2,075,605
Land use rights ^(b)	99	28,857
Advance payments	212,496	278,561
Settlement and clearing accounts	267,007	196,052
Repossessed assets ^(c)	—	74,072
Intangible assets ^(d)	54,247	42,820
Others	50,628	51,455
	2,477,579	2,747,422

Bank

	31 December	
	2013	2012
Interest receivable ^(a)	1,836,929	2,034,047
Land use rights ^(b)	99	28,857
Advance payments	188,895	269,641
Settlement and clearing accounts	265,898	195,141
Repossessed assets ^(c)	—	74,072
Intangible assets ^(d)	52,775	41,345
Others	45,561	50,415
	2,390,157	2,693,518

(a) Interest receivable

Group

	31 December	
	2013	2012
Banks and other financial institution	115,728	105,693
Reverse repurchase agreements	227,098	201,886
Loans and advances to customers	875,613	874,804
Bond and other investments	674,663	893,222
	1,893,102	2,075,605

Bank

	31 December	
	2013	2012
Banks and other financial institution	113,765	106,795
Reverse repurchase agreements	224,210	200,924
Loans and advances to customers	824,291	833,106
Bond and other investments	674,663	893,222
	1,836,929	2,034,047

As of 31 December 2013 and 2012, all interest receivables are due within one year.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

28. OTHER ASSETS (Continued)

(b) Land use rights

Group/Bank

	31 December	
	2013	2012
Located in Mainland China 10–50 years	99	28,857

(c) Repossessed assets

Group/Bank

	31 December	
	2013	2012
Land use rights and buildings	—	74,072
Subtotal	—	74,072
Less: Allowance for impairment losses	—	—
	—	74,072

(d) Intangible assets

Intangible assets consist primarily of computer software, which is amortised within five years.

29. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Group

	31 December	
	2013	2012
Deposits:		
Banks operating in Mainland China	49,876,599	32,860,356
Other financial institutions operating in Mainland China	51,507	1,456,756
Banks operating outside Mainland China	3,144	1,621
	49,931,250	34,318,733
Placements:		
Banks operating in Mainland China	677,789	2,194,470
Other financial institutions operating in Mainland China	526	40
Banks operating outside Mainland China	1,303	10,305
	679,618	2,204,815
	50,610,868	36,523,548

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

29. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)

Bank

	31 December 2013	2012
Deposits:		
Banks operating in Mainland China	51,584,649	33,567,484
Other financial institutions operating in Mainland China	51,507	1,456,756
Banks operating outside Mainland China	3,144	1,621
	51,639,300	35,025,861
Placements:		
Banks operating in Mainland China	677,789	2,194,470
Other financial institutions operating in Mainland China	526	40
Banks operating outside Mainland China	1,303	10,305
	679,618	2,204,815
	52,318,918	37,230,676

Interest due to banks and other financial institutions are calculated based on contract interest rates.

30. REPURCHASE AGREEMENTS

Repurchase agreements comprise repurchase of bonds and bills.

Group

	31 December 2013	2012
Repurchase agreements analysed by counterparty:		
Banks	18,565,166	22,832,655
Other financial institutions	526,000	—
	19,091,166	22,832,655
Repurchase agreements analysed by collateral:		
Bonds	4,423,920	8,863,100
Bills	14,667,246	13,969,555
	19,091,166	22,832,655

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

30. REPURCHASE AGREEMENTS (Continued)

Bank

	31 December 2013	2012
Repurchase agreements analysed by counterparty:		
Banks	18,565,166	22,676,761
Other financial institutions	526,000	—
	19,091,166	22,676,761
Repurchase agreements analysed by collateral:		
Bonds	4,423,920	8,863,100
Bills	14,667,246	13,813,661
	19,091,166	22,676,761

31. DUE TO CUSTOMERS

Group

	31 December 2013	2012
Demand deposits:		
Corporate customers	79,909,581	69,981,487
Personal customers	33,789,153	27,107,158
	113,698,734	97,088,645
Time deposits:		
Corporate customers	76,894,539	61,058,338
Personal customers	33,584,853	28,495,401
	110,479,392	89,553,739
	224,178,126	186,642,384

Bank

	31 December 2013	2012
Demand deposits:		
Corporate customers	75,001,841	67,043,072
Personal customers	32,456,609	26,532,368
	107,458,450	93,575,440
Time deposits:		
Corporate customers	74,297,084	59,328,662
Personal customers	32,030,841	27,529,061
	106,327,925	86,857,723
	213,786,375	180,433,163

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

32. DEBT SECURITIES ISSUED

Group/Bank

	31 December 2013	2012
Subordinated bonds issued ^(a)	1,000,000	1,000,000
Financial bonds issued ^(b)	2,500,000	2,500,000
	3,500,000	3,500,000

(a) Subordinated bonds

As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds through open market in 2009. These subordinated bonds were traded in the bond market among banks. The Bank has not had any defaults of principal or interest or other breaches with respect to the subordinated bonds during the year ended 31 December 2013 (2012: Nil). The relevant information on these subordinated bonds is set out below:

Name	Issue date	Issue price (RMB)	Coupon rate	Value date	Maturity date	Issue amount (RMB)	Notes
09 Harbin Bank subordinated bonds	7 Dec 2009	100	6.00%	9 Dec 2009	9 Dec 2019	1,000 million	(i)

(i) The Bank has the option to redeem all or part of the bonds at face value on 9 December 2014. If the Bank does not exercise this option, the annual coupon rate will increase by 300 basis points (“bps”) thereafter.

(b) Financial bonds

As approved by the PBOC and the CBRC, the Bank issued financial bonds through open market in 2012. These financial bonds were traded in the inter-bank bond market. The Bank has not had any defaults of principal or interest or other breaches with respect to the financial bonds during the year ended 31 December 2013 (2012: Nil). The relevant information on these financial bonds is set out below:

Name	Issue date	Issue price (RMB)	Coupon rate	Value date	Maturity date	Issue amount (RMB)
12 Harbin Bank financial bonds	15 May 2012	100	4.55%	16 May 2012	16 May 2017	2,500 million

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

33. OTHER LIABILITIES

Group

	31 December	
	2013	2012
Interest payable ^(a)	2,493,209	1,601,192
Wealth management products payable	136,753	363,156
Settlement and clearing accounts	193,752	149,605
Account payable from agency services	67,833	25,110
Salaries, bonuses, allowances and subsidies payables ^(b)	420,781	336,137
Sundry tax payables	189,219	137,661
Deferred revenue ^(c)	147,993	39,892
Dividends payable	41,802	34,030
Accrued expenses	21,339	599
Others	105,173	61,193
	3,817,854	2,748,575

Bank

	31 December	
	2013	2012
Interest payable ^(a)	2,426,802	1,575,374
Wealth management products payable	136,753	363,156
Settlement and clearing accounts	193,382	148,846
Account payable from agency services	67,621	25,110
Salaries, bonuses, allowances and subsidies payables ^(b)	414,862	332,044
Sundry tax payables	182,669	133,893
Deferred revenue ^(c)	147,993	39,892
Dividends payable	41,802	34,030
Accrued expenses	21,339	599
Others	95,906	56,605
	3,729,129	2,709,549

(a) Interest payable

Group

	31 December	
	2013	2012
Deposits of banks and other financial institutions	394,436	234,130
Borrowings from banks	34	118
Due to customers	1,908,493	1,152,296
Repurchase agreements	114,787	139,665
Bonds payable	75,459	74,983
	2,493,209	1,601,192

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

33. OTHER LIABILITIES (Continued)

(a) Interest payable (Continued)

Bank

	31 December	
	2013	2012
Deposits of banks and other financial institutions	384,710	234,738
Borrowings from banks	34	118
Due to customers	1,851,812	1,126,297
Repurchase agreements	114,787	139,238
Bonds payable	75,459	74,983
	2,426,802	1,575,374

(b) Salaries, bonuses, allowances and subsidies payable

Group

	31 December	
	2013	2012
Salaries, bonuses and allowances	376,705	289,606
Social insurance	5,313	4,377
Housing fund	4,778	2,607
Employee benefits	132	—
Labour union expenditure and education costs	18,482	22,609
Early retirement benefits	15,371	16,938
	420,781	336,137

Bank

	31 December	
	2013	2012
Salaries, bonuses and allowances	373,316	287,037
Social insurance	4,788	4,124
Housing fund	4,645	2,603
Employee benefits	20	—
Labour union expenditure and education costs	16,722	21,342
Early retirement benefits	15,371	16,938
	414,862	332,044

(c) Deferred revenue

Deferred revenue consists mainly of advisory fees, government grants related to assets and reverse repurchase agreements, deferred revenue will be recognised in the next few years in accordance with the corresponding amortisation expense that is charged to the income statement.

Group/Bank

	31 December	
	2013	2012
Advisory fees	76,702	36,016
Asset-related government grants	2,556	3,876
Reverse repurchase agreements	68,735	—
	147,993	39,892

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

34. SHARE CAPITAL

Bank

	31 December			
	2013		2012	
	Number of shares (thousands)	Nominal value (thousands)	Number of shares (thousands)	Nominal value (thousands)
Opening balance	7,560,198	7,560,198	6,187,823	6,187,823
Shares issued			980,000	980,000
Retained profits converted into share capital	686,702	686,702	392,375	392,375
Ending balance	8,246,900	8,246,900	7,560,198	7,560,198

- (a) In April 2012, the Bank transferred RMB392,375 thousand of undistributed profit into share capital, resulting in an increase of 392,375 thousand shares in the share capital of the Bank. RSM China Certified Public Accountants (LLP) verified the capital injection, and issued the capital verification report (RSM hei Yanzi 2012. No. 30) on 28 June 2012.
- (b) In March 2012, 980,000 thousand ordinary shares with a par value of RMB1 were issued at RMB3 per share to new shareholders. The premium arising from the issuance of new shares amounting to RMB1,960,000 thousand was recorded in capital reserve accounts. RSM China Certified Public Accountants (LLP) has verified the capital injection, and issued the capital verification report (RSM hei Yanzi 2012. No. 20) on 5 May 2012.
- (c) In May 2013, the Bank transferred RMB686,702 thousand of undistributed profit into share capital, resulting in an increase of 686,702 thousand shares in share capital of the Bank. RSM China Certified Public Accountants (LLP) has verified the capital injection, and issued the capital verification report (RSM hei Yanzi 2013. No. 11) on 8 June 2013.

35. RESERVES

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserve

(i) Statutory surplus reserve

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

35. RESERVES (Continued)

(b) Surplus reserve (Continued)

(i) Statutory surplus reserve (Continued)

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

For the year ended 31 December 2013, the Bank made an appropriation of 10% of the profit for the year determined under the generally accepted accounting principles of PRC ("PRC GAAP") to the statutory surplus reserve amounting to RMB320.331 million (2012: RMB281.870 million).

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the year determined under PRC GAAP to the discretionary surplus reserve upon approval by the shareholders in general meetings. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated losses of the Bank, if any, and may be converted into capital.

(c) General reserve

From 1 July 2012, the Bank is required by the Ministry of Finance ("MOF") to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year ending balance of its risk assets (2012: no less than 1%).

For the year ended 31 December 2012 and 2013, the Bank made appropriation to the general reserve amounting to RMB233,857 thousand and RMB1,284,534 thousand respectively.

(d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes of available-for-sale financial assets.

(e) Other reserves

Other reserves represent reserves of subsidiaries and share of reserves of an associate other than the items listed above.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

35. RESERVES (Continued)

(f) Distributable profits

The Bank's distributable profits are based on the retained profits of the Bank as determined under PRC GAAP and IFRSs, whichever is lower. The amount that the Bank's subsidiaries can legally distribute is determined by reference to their profits as reflected in their financial statements prepared in accordance with the PRC GAAP. These profits may differ from those dealt with in these financial statements, which are prepared in accordance with IFRSs.

The movements in reserves and retained profits of the Bank during the years are set out below.

	Reserves					Total	Retained profits
	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Other reserves		
Balances at 1 January 2012	2,262,379	587,816	694,540	15,826	—	3,560,561	1,618,616
Profit for the year	—	—	—	—	—	—	2,818,698
Change in fair value of available-for-sale investments	—	—	—	(40,063)	—	(40,063)	—
Other reserves	—	—	—	—	7,585	7,585	—
Retained profits converted into share capital	—	—	—	—	—	—	(392,375)
Share premium	1,960,000	—	—	—	—	1,960,000	—
Dividend — 2011 final (note 16)	—	—	—	—	—	—	(392,375)
Appropriation to surplus reserves ⁽ⁱ⁾	—	281,870	—	—	—	281,870	(281,870)
Appropriation to general reserve	—	—	233,857	—	—	233,857	(233,857)
Balance as at 31 December 2012 and 1 January 2013	4,222,379	869,686	928,397	(24,237)	7,585	6,003,810	3,136,837
Profit for the year	—	—	—	—	—	—	3,203,307
Change in fair value of available-for-sale investments	—	—	—	(157,823)	—	(157,823)	—
Other reserves	—	—	—	—	(56,291)	(56,291)	—
Retained profits converted into share capital	—	—	—	—	—	—	(686,702)
Dividend — 2012 final (note 16)	—	—	—	—	—	—	(171,675)
Appropriation to surplus reserve ⁽ⁱ⁾	—	320,331	—	—	—	320,331	(320,331)
Appropriation to general reserve	—	—	1,284,534	—	—	1,284,534	(1,284,534)
Balances at 31 December 2013	4,222,379	1,190,017	2,212,931	(182,060)	(48,706)	7,394,561	3,876,902

36. COMPONENTS OF OTHER COMPREHENSIVE INCOME

Group

	31 December	
	2013	2012
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive income/(loss)	(222,188)	(79,848)
Less: Transfer to the income statement arising from disposal	11,757	26,431
Income tax effect	52,608	13,354
	(157,823)	(40,063)
Share of other comprehensive income of an associate	(56,291)	7,585
	(214,114)	(32,478)

37. ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

On the consolidated cash flow statement, cash and cash equivalents include an original maturity of less than three months as follows.

Group

	31 December	
	2013	2012
Cash on hand (note 18)	1,302,418	815,255
Balances with central bank (note 18)	15,441,836	17,907,866
Due from banks and other financial institutions	10,753,938	11,791,685
Reverse repurchase agreements	26,060,044	33,579,472
	53,558,236	64,094,278

During the reporting period, investing and financing activities of the Group and the Bank that did not involve cash receipts and payments only included the conversion of retained profits into share capital. Details of the retained profits converted into share capital are disclosed in note 35(f).

38. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

At the end of the reporting period, the Group and the Bank had capital commitments as follows:

Group

	31 December	
	2013	2012
Authorised, but not contracted	4,747	33,172
Contracted, but not provided	1,432,616	1,350,523
	1,437,363	1,383,695

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

38. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(a) Capital commitments (Continued)

Bank

	31 December	
	2013	2012
Authorised, but not contracted	1,526	33,000
Contracted, but not provided	1,425,929	1,343,836
	1,427,455	1,376,836

(b) Operating lease commitments

Operating lease commitments – Lessee

At the end of the reporting period, the Group and the Bank lease certain of its office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

Group

	31 December	
	2013	2012
Within one year	175,322	105,408
After one year but not more than five years	351,076	286,614
After five years	143,738	121,186
	670,136	513,208

Bank

	31 December	
	2013	2012
Within one year	167,482	88,526
After one year but not more than five years	342,765	238,322
After five years	143,544	103,490
	653,791	430,338

(c) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

*(In RMB thousands, unless otherwise stated)*38. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*(c) Credit commitments *(Continued)*

Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments and undrawn credit card limit are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the reporting period had the counterparties failed to perform as contracted.

Group

	31 December	
	2013	2012
Bank acceptances	42,654,802	46,845,488
Guarantees issued	1,821,053	235,876
Sight letters of credit	2,204,106	1,267,653
Undrawn credit card limit	1,238,232	1,040,325
	47,918,193	49,389,342

Bank

	31 December	
	2013	2012
Bank acceptances	42,340,961	46,794,702
Guarantees issued	58,247	212,134
Sight letters of credit	2,204,106	1,267,653
Undrawn credit card limit	1,238,232	1,040,325
	45,841,546	49,314,814

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

38. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

- (d) Credit risk-weighted amount of financial guarantees and credit related commitments

Group

	31 December	
	2013	2012
Financial guarantees and credit related commitments	19,303,684	18,346,757

Bank

	31 December	
	2013	2012
Financial guarantees and credit related commitments	19,211,008	18,290,214

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

- (e) Legal proceedings

As at 31 December 2013 and 2012, there were no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

- (f) Redemption commitments of government bonds

As an underwriting agent of the Government, the Bank underwrites certain PRC government bonds and sells the bonds to the general public, in which the Bank is obliged to redeem these bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2013, the Bank had underwritten and sold bonds with an accumulated amount of RMB1,620 million (31 December 2012: RMB1,852 million) to the general public, and these government bonds have not yet matured nor been redeemed. Management expects that the amount of redemption of these government bonds through the Bank prior to maturity will not be material.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

38. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(g) Risk fund rescue obligation

The Bank has been a member of the Asia Financial Cooperation Association (“AFCA”) since 31 December 2012, who has established a risk fund divided into equal shares. The price per share equaled to RMB100 million as at the fund establishment date. The Bank subscribed for 2 shares with 10% cash and 90% cooperative obligation. This means the Bank has the obligation of providing support to the AFCA members through certain methods such as placement, within the limit of RMB180 million.

39 WEALTH MANAGEMENT AND CUSTODY

(a) Wealth management

The Bank sponsored Lilac RMB wealth management products to individual and institutional investors, the funds are mainly used in the interbank market for securities investments, trust loans, rights and other equity earnings. The balances of non-guaranteed wealth management products are as follows:

Group and Bank

	31 December	
	2013	2012
Entrusted funding	29,608,320	36,495,500
Entrusted investments	29,608,320	36,495,500

During the reporting period, the gains from the off-balance sheet non-guaranteed wealth management products of the Bank mainly include fee and financial advisory service fees. For the specific amounts, please see note 6 Net Fee and Commission Fee Income. The gains from the off-balance sheet non-guaranteed wealth management products of the Bank are the same with the Bank’s maximum exposure to loss from its gains in such business.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

39. WEALTH MANAGEMENT AND CUSTODY (Continued)

(b) Designated funds and loans

Group

	31 December	
	2013	2012
Designated funds	11,821,990	7,163,843
Designated loans	11,821,990	7,163,843

Bank

	31 December	
	2013	2012
Designated funds	11,403,610	7,093,843
Designated loans	11,403,610	7,093,843

The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group does not bear any risk.

The designated funds represent the funding that the trustors have instructed the Group to use to make loans to third parties as designated by them. The credit risk remains with the trustors.

40. ASSETS PLEDGED AS SECURITY

Financial assets of the Group including securities, bills and loans have been pledged as security for liabilities or contingent liabilities, mainly arising from repurchase agreements and negotiated deposits. As at 31 December 2013, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB31,230 million (31 December 2012: RMB26,036 million).

41. FIDUCIARY ACTIVITIES

The Group provides custody, trust and asset management services to third parties. Revenue from such activities is included in "Net Fee and Commission Income" set out in note 6 above. Those assets held in a fiduciary capacity are not included in the Group's consolidated statement of financial position.

42. RELATED PARTY DISCLOSURES

(a) Significant related party disclosures

(i) Shareholders of the Bank with 5% or above ownership

Name	Share percentage in the Bank	
	31 December	
	2013	2012
	%	%
Harbin Economic Development and Investment Company	29.48	29.33
Harbin Kechuang Xingye Investment Company Limited	8.73	8.69
Heilongjiang Keruan Software Technology Company Limited	8.73	8.68
Heilongjiang Xin Yongsheng Trading Company Limited	7.76	7.72
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	6.94	6.90
Heilongjiang Takai Trading Company Limited	6.34	6.30

(ii) Subsidiaries of the Bank

Details of the subsidiaries of the Bank are set out in note 1 of section II Corporate Information and Structure.

(b) Related party transactions

(i) Transactions between the Bank and major shareholders

	31 December	
	2013	2012
Balances at end of the year:		
Deposits	395	385

	31 December	
	2013	2012
Transactions during the year:		
Interest expense on deposits	36	243
Interest rate ranges during the year are as follows:	%	%
Deposits	0.35–0.50	0.35–0.50

(ii) Transactions between the Bank and subsidiaries

There are various related party transactions that occur between the Bank and its subsidiaries. These transactions are equitable and follow regular business procedures. The material balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements. In the opinion of management, the transactions between the Bank and subsidiaries have no significant impact on profit or loss.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

42. RELATED PARTY DISCLOSURES (Continued)

(c) Key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group, directly or indirectly, including members of the board of directors, the supervisory board and executive officers

(i) Transactions between the Bank and key management personnel

	31 December	
	2013	2012
Balances at end of the year:		
Loans	12,811	7,882
Deposits	6,245	10,262

	31 December	
	2013	2012
Transactions during the year:		
Interest income on loans	703	448
Interest expense on deposits	57	48
Interest rate ranges during the year are as follows:	%	%
Loans	4.59–6.55	4.56–9.17
Deposits	0.39–4.75	0.39–4.75

(ii) Key management personnel compensation

The aggregate compensation for the year is as follows:

	31 December	
	2013	2012
Emoluments and other short term employment benefits	27,203	22,671

43. SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into four different operating segments as below:

Corporate banking

The corporate banking covers the provision of financial products and services to corporate customers. The products and services include deposits, loans, settlement and clearing and other relating to trading business.

Personal banking

The personal banking covers the provision of financial products and services to individual customers. The products and services include deposits, bank cards and credit cards, personal loans and collateral loans, and personal wealth management services.

Treasury operations

The treasury operations covers money market placements, investments and repurchasing, foreign exchange transactions, for the Group's own accounts or on behalf of customers.

Others

This represents business other than corporate banking, personal banking and treasury banking, whose assets, liabilities, income and expenses can not directly attributable or can not be allocated to a segment on a reasonable basis.

Inter-segment transfer price is calculated in accordance with the sources and funding period, matching the interest rates announced by PBOC and the interbank market rates. Expenses are allocated between segments based on benefits.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

43. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Year ended 31 December 2013</u>					
External net interest income	1,368,598	1,917,640	3,531,537	—	6,817,775
Internal net interest income/(expense)	1,144,257	408,999	(1,553,256)	—	—
Net fee and commission income	277,379	108,053	861,690	—	1,247,122
Other income, net ⁽ⁱ⁾	116,410	—	237,317	125,212	478,939
Operating income	2,906,644	2,434,692	3,077,288	125,212	8,543,836
Operating expenses	(1,480,265)	(887,703)	(1,163,590)	(59,432)	(3,590,990)
Impairment losses on:					
Loans and advances to customers	(250,911)	(266,806)	—	—	(517,717)
Others	—	—	—	11,657	11,657
Operating profit	1,175,468	1,280,183	1,913,698	77,437	4,446,786
Share of profits of an associate	—	—	—	3,231	3,231
Profit before tax	1,175,468	1,280,183	1,913,698	80,668	4,450,017
Income tax expense					(1,078,926)
Profit for the year					<u>3,371,091</u>
Other segment information:					
Depreciation and amortization	89,891	75,296	104,471	4,269	273,927
Capital expenditure	518,754	434,523	602,893	24,635	1,580,805
<u>As at 31 December 2013</u>					
Segment assets	96,748,549	58,822,129	164,884,267	1,720,495	322,175,440
Segment liabilities	161,983,865	68,470,209	71,160,705	633,374	302,248,153
Other segment information:					
Credit commitments	47,700,560	217,633	180,000	—	48,098,193

(i) Includes trading income, net loss on financial investments and other net operating income.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

43. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Year ended 31 December 2012</u>					
External net interest income	1,499,386	1,939,153	3,219,828	—	6,658,367
Internal net interest income/(expense)	1,003,467	286,024	(1,289,491)	—	—
Net fee and commission income	65,542	3,539	609,569	—	678,650
Other income, net ⁽ⁱ⁾	17,158	—	268,664	88,367	374,189
Operating income	2,585,553	2,228,716	2,808,570	88,367	7,711,206
Operating expenses	(1,239,034)	(615,841)	(1,141,492)	(29,152)	(3,025,519)
Impairment losses on:					
Loans and advances to customers	(333,484)	(503,741)	—	—	(837,225)
Others	1,999	—	—	(980)	1,019
Operating profit	1,015,034	1,109,134	1,667,078	58,235	3,849,481
Share of profits of an associate	—	—	—	9,429	9,429
Profit before tax	1,015,034	1,109,134	1,667,078	67,664	3,858,910
Income tax expense					(987,451)
Profit for the year					<u>2,871,459</u>
Other segment information:					
Depreciation and amortisation	70,702	46,431	89,687	1,435	208,255
Capital expenditure	952,502	625,520	1,208,271	19,329	2,805,622
<u>As at 31 December 2012</u>					
Segment assets	87,740,237	49,828,440	131,117,864	1,403,611	270,090,152
Segment liabilities	136,037,077	56,218,371	60,518,261	379,462	253,153,171
Other segment information:					
Credit commitments	48,349,017	1,040,325	—	—	49,389,342

(i) Includes trading income, net income (losses) from financial investments and other net operating income.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

43. SEGMENT INFORMATION (Continued)

(b) Geographical information

The Group operates principally in Mainland China.

The distribution of the geographical areas is as follows:

Mainland China (Head Office and domestic branches):

Heilongjiang Province: Including Head Office, Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqiharas well as Village and Township Banks operating within Heilongjiang.

Northeastern China: Including Dalian, Shenyang, as well as Village and Township Banks operating in Northeastern China excluding the ones in Heilongjiang.

Southwestern China: Chengdu, Chongqing, as well as Village and Township Banks operating in Southwest China and mainly located in Sichuan and Chongqing.

Northern China: Tianjin, as well as Village and Township Banks operating in Northern China and mainly located in Beijing and Tianjing.

Other regions: Village and Township Banks operating in regions other than those listed above.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

43. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

	Mainland China					Total
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	
<u>Year ended 31 December 2013</u>						
External net interest income	4,913,865	490,488	897,661	275,969	239,792	6,817,775
Internal net interest income/ (expense)	(520,704)	273,948	88,671	192,020	(33,935)	—
Net fee and commission income	742,067	143,980	269,210	84,555	7,310	1,247,122
Other income, net ⁽ⁱ⁾	346,467	52,206	25,192	15,615	39,459	478,939
Operating income	5,481,695	960,622	1,280,734	568,159	252,626	8,543,836
Operating expenses	(2,326,896)	(416,833)	(537,982)	(195,257)	(114,022)	(3,590,990)
Impairment losses on:						
Loans and advances to customers	(276,723)	(68,661)	(73,559)	(54,003)	(44,771)	(517,717)
Others	11,657	—	—	—	—	11,657
Operating profit	2,889,733	475,128	669,193	318,899	93,833	4,446,786
Share of profits of an associate	3,231	—	—	—	—	3,231
Profit before tax	2,892,964	475,128	669,193	318,899	93,833	4,450,017
Income tax expense						(1,078,926)
Profit for the year						<u>3,371,091</u>
Other segment information:						
Depreciation and amortization	150,812	21,340	30,633	7,691	63,451	273,927
Capital expenditure	1,029,107	177,472	232,633	102,206	39,387	1,580,805
<u>As at 31 December 2013</u>						
Segment assets	208,122,221	31,736,387	57,867,060	17,687,397	6,762,375	322,175,440
Segment liabilities	172,892,690	43,844,076	60,595,242	18,887,407	6,028,738	302,248,153
Other segment information:						
Credit commitments	3,827,681	16,808,359	15,449,918	9,963,760	2,048,475	48,098,193

(i) Includes trading income, net loss on financial investments and other net operating income.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

43. SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

	Mainland China					Total
	Heilongjiang region	Northeastern China	Southwestern China	Northern China	Other regions	
<u>Year ended 31 December 2012</u>						
External net interest income	4,884,057	703,068	584,051	360,557	126,634	6,658,367
Internal net interest income/ (expense)	(527,585)	103,315	300,944	125,951	(2,625)	—
Net fee and commission income	407,312	43,383	166,710	61,247	(2)	678,650
Other income, net ⁽ⁱ⁾	256,183	22,482	70,987	11,877	12,660	374,189
Operating income	5,019,967	872,248	1,122,692	559,632	136,667	7,711,206
Operating expenses	(2,099,369)	(322,655)	(346,950)	(168,033)	(88,512)	(3,025,519)
Impairment losses on:						
Loans and advances to customers	(497,267)	(99,705)	(158,392)	(54,388)	(27,473)	(837,225)
Others	1,019	—	—	—	—	1,019
Operating profit	2,424,350	449,888	617,350	337,211	20,682	3,849,481
Share of profits of an associate	9,429	—	—	—	—	9,429
Profit before tax	2,433,779	449,888	617,350	337,211	20,682	3,858,910
Income tax expense						(987,451)
Profit for the year						<u>2,871,459</u>
Other segment information:						
Depreciation and amortisation	127,287	22,214	36,046	9,540	13,168	208,255
Capital expenditure	2,019,366	279,425	298,617	157,597	50,617	2,805,622
<u>As at 31 December 2012</u>						
Segment assets	171,368,038	33,639,009	43,401,202	17,085,713	4,596,190	270,090,152
Segment liabilities	155,684,967	33,552,542	43,038,612	16,939,328	3,937,722	253,153,171
Other segment information:						
Credit commitments	12,525,614	9,403,905	18,502,424	8,866,689	90,710	49,389,342

(i) Includes trading income, net income from financial investments and other net operating income.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT

A description and an analysis of the major risks faced by the Group are as follows:

The board of directors (the “Board”) has the ultimate responsibility for risk management and oversees the Group’s risk management functions through the Risk Management Committee and the Audit Committee of the Board.

The President supervises the risk management strategies and reports directly to the Board. He chairs two management committees including the Risk Management Committee and the Asset and Liability Management Committee. These two committees formulate and make recommendations in respect of risk management strategies and policies through the President to the Risk Management Committee of the Board. The Chief Risk Officer assists the President to supervise and manage various risks.

The group has also assigned departments monitoring financial risks within the Group, including the Risk Management Department to monitor credit risk and operational risk as well as the Asset and Liability Management department together with the Risk Management Department to monitor market and liquidity risks. The Risk Management Department is primarily responsible for coordinating and establishing a comprehensive risk management framework, preparing consolidated reports on credit risk, market risk, liquidity risk and operational risk and reporting directly to the Chief Risk Officer.

The Bank maintains a dual-reporting line structure at the branch level for risk management purposes. Under this structure, the risk management departments of the branches report to both the corresponding risk management departments at the head office and management of the relevant branches.

(a) Credit risk

Credit risk is the risk of loss arising from a borrower’s or counterparty’s inability to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate guarantee, commitment or investment of funds. Credit risk affecting the group is primarily due to loans, debt instruments, guarantees, commitment as well as other risks both on and off the balance sheet.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The principal features of the Group's credit risk management function include:

- Centralised credit management procedures;
- Risk management rules and procedures that focus on risk control throughout the entire credit business process, including customer investigation and credit rating, granting of credit limits, loan evaluation, loan review and approval, granting of loan and post-disbursement loan monitoring;
- Stringent qualification system for the loan approval officers; and
- Information management systems designed to enable a real time risk monitoring.

To enhance the credit risk management practices, the Group also launches training programs periodically for credit officers at different levels.

In addition to the credit risk exposures on credit-related assets and amounts due from or lending to banks and other financial institutions, credit risk also arises in other areas. In addition, the Group also makes available to its customers' guarantees which may require the Group to make payments on their behalf. Such payments are collected from customers based on the terms of the agreements signed. They expose the Group to similar risks as loans and these are mitigated by the same control processes and policies.

Risk Concentration

Credit risk is often greater when counterparties are concentrated in one single industry, or geographic location or have comparable economic characteristics.

Impairment Assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any liquidity problems of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Impairment Assessment (Continued)**Individually assessed loans**

All corporate loans and discounted bills are individually reviewed for objective evidence of impairment and classified based on a five-tier classification system. Corporate loans and discounted bills that are classified as substandard, doubtful or loss are assessed individually for impairment.

If there is objective evidence that an impairment loss on a loan or advance has been incurred on an individual basis, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The allowance for impairment loss is deducted in the carrying amount. The impairment loss is recognised in the income statement. In determining allowances on an individual basis, the following factors are considered:

- The sustainability of the counterparty's business plan;
- The borrower's ability to improve performance once a financial difficulty has arisen;
- Projected receipts and the expected payout should bankruptcy ensue;
- The availability of other financial support and the realisable value of collateral; and
- The timing of the expected cash flows.

It may not be possible to identify a single, discrete event that caused the impairment, but it may be possible to identify impairment through the combined effect of several events. The impairment losses are evaluated at the end of each reporting period, unless unforeseen circumstances require more careful attention.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Impairment Assessment (Continued)

Collectively assessed loans

Loans that are assessed for impairment losses on a collective basis include the following:

- Homogeneous groups of loans, including all personal loans; and
- All loans for which no impairment can be identified individual, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

Objective evidence of impairment losses on a collective basis consists of observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans since the initial recognition of those loans, including:

- Adverse changes in the payment status of borrowers in the group of loans; and
- National or local economic conditions that correlate with defaults on assets in the portfolio of loans.

The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar risk characteristics; and
- The current economic and credit environment and, whether these, in management's experience, indicate that the actual level of incurred but not yet identified losses is likely to be greater or less than that suggested by historical experience.

Collateral

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

Reverse repurchase business is mainly collateralised by bills, loans or investment securities. As part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge in the absence of default by their owners. Fair value of collateral is shown in note 21.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Collateral (Continued)

Corporate loans are mainly collateralised by properties or other assets. As at 31 December 2013, the carrying value of corporate loans covered by collateral amounted to RMB36,421 million (31 December 2012: RMB28,477 million).

Personal loans are mainly collateralised by residential properties. As at 31 December 2013, the carrying value of personal loans covered by collateral amounted to RMB21,010 million (31 December 2012: RMB18,095 million).

The Group prefers more liquid collateral with relatively stable market value and does not accept the collateral that is illiquid, with difficulties in registration or high fluctuations in market value. The value of collateral should be assessed and confirmed by the Group or valuation agents identified by the Group. The value of collateral should adequately cover the outstanding balance of loans. The loan-to-value ratio depends on types of collateral, usage condition, liquidity, price volatility and realisation cost. All collateral has to be registered in accordance with the relevant laws and regulations. The credit officers inspect the collateral and assess the changes in the value of collateral regularly.

Although collateral can be an important mitigation of credit risk, the Group grants loans based on the assessment of the borrowers' ability to meet obligations out of their cash flow, instead of the value of collateral. The necessity of a collateral is dependent on the nature of the loan. In the event of default, the Group might sell the collateral for repayment. The fair value of collateral of past due but not impaired loans and impaired loans are disclosed in note 44(a)(iii).

The credit business management department monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

It is the Group's policy to dispose of repossessed assets in an orderly manner. In general, the Group does not occupy repossessed assets for business use.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(i) **Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

As at the end of the reporting period, the maximum credit risk exposure of the Group and of the Bank without taking account of any collateral and other credit enhancements is set out below:

Group

	31 December	
	2013	2012
Balances with central bank	50,249,671	51,043,256
Due from banks and other financial institutions	33,871,192	19,946,805
Financial assets held for trading	2,512,264	7,878,959
Reverse repurchase agreements	51,110,948	51,745,648
Loans and advances to customers	103,515,015	85,298,079
Financial investments		
— Receivables	43,528,672	22,733,333
— Held-to-maturity investments	17,080,814	12,323,533
— Available-for-sale financial assets	7,889,495	8,219,684
Others	2,210,737	2,323,112
	311,968,808	261,512,409
Credit commitments	48,098,193	49,389,342
Total maximum credit risk exposure	360,067,001	310,901,751

Bank

	31 December	
	2013	2012
Balances with central bank	48,625,343	49,892,537
Due from banks and other financial institutions	34,256,632	19,381,731
Financial assets held for trading	2,512,264	7,878,959
Reverse repurchase agreements	50,910,948	51,483,015
Loans and advances to customers	94,248,125	79,932,859
Financial investments		
— Receivables	43,528,672	22,733,333
— Held-to-maturity investments	17,080,814	12,323,533
— Available-for-sale financial assets	7,889,495	8,219,684
Others	2,148,388	2,279,603
	301,200,681	254,125,254
Credit commitments	46,021,546	49,314,814
Total maximum credit risk exposure	347,222,227	303,440,068

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) Risk concentrations**By industry distribution**

The credit risk exposures of the Group mainly comprise loans and advances to customers and investments in securities. Details of the composition of the Group's investments in debt securities are set out in note 44(a)(iv) to the financial statements. The composition of the Group's and of the Bank's gross loans and advances to customers by industry is analysed as follows:

Group

	31 December 2013	2012
Agriculture, forestry, animal husbandry and fishing	4,163,165	2,277,869
Mining	874,551	880,110
Manufacturing	13,603,698	10,793,878
Production and supply of electricity, gas and water	1,535,576	1,460,876
Construction	5,171,527	3,269,563
Transportation, storage and postal services	2,194,039	966,251
Information transmission, computer services and software	544,186	636,707
Commercial trade	21,778,908	18,512,749
Lodging and catering	1,234,045	880,463
Finance	20,000	671,726
Real estate	2,236,329	2,443,899
Leasing and commercial services	5,523,246	2,562,806
Scientific research, technological Services and geological prospecting	179,898	138,920
Water, environment and public utility management and investment industry	2,543,580	3,059,600
Resident services and other services	992,222	1,013,897
Education	481,172	518,250
Health, social security and social welfare	264,400	379,600
Culture, sports and entertainment	180,325	140,500
Public administration and social organizations	17,374	500,381
Subtotal for corporate loans and advances	63,538,241	51,108,045
Personal Loans:		
Personal business	15,380,484	13,731,128
Personal consumption	15,870,180	11,203,313
Loans to farmers	9,247,935	9,875,611
Subtotal for personal loans	40,498,599	34,810,052
Discounted bills	1,904,481	1,346,235
Total for loans and advances to customers	105,941,321	87,264,332

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) **Risk concentrations** (Continued)

By industry distribution (Continued)

Bank

	31 December 2013	2012
Agriculture, forestry, animal husbandry and fishing	3,755,005	1,986,600
Mining	846,101	872,610
Manufacturing	11,770,224	10,939,422
Production and supply of electricity, gas, and water	1,512,126	1,424,176
Construction	4,625,627	3,062,504
Transportation, storage and postal services	2,126,597	926,518
Information transmission, computer services and software	505,886	606,741
Commercial trade	20,610,151	17,897,126
Lodging and catering	1,189,978	859,347
Finance	—	5,000
Real estate	2,229,029	2,429,999
Leasing and commercial services	5,339,906	2,469,239
Scientific research, technological services and geological prospecting	179,898	138,920
Water, environment and public utility management and investment industry	2,528,730	3,035,600
Resident services and other services	905,950	981,523
Education	450,472	490,850
Health, social security and social welfare	258,900	370,600
Culture, sports and entertainment	153,100	130,000
Public administration and social organizations	7,374	500,381
Subtotal for corporate loans and advances	58,995,054	49,127,156
Personal loans:		
Personal business	13,811,194	12,350,550
Personal consumption	15,032,028	10,946,369
Loans to farmers	7,413,574	9,017,421
Subtotal for personal loans	36,256,796	32,314,340
Discounted bills	1,230,612	368,463
Total for loans and advances to customers	96,482,462	81,809,959

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers

The total credit risk exposures of loans and advances to customers are summarised as follows:

Group

	31 December	
	2013	2012
Neither past due nor impaired	104,468,259	86,508,016
Past due but not impaired	568,872	200,120
Impaired	904,190	556,196
	105,941,321	87,264,332
Less: Allowance for impairment losses		
Collectively assessed	(2,347,082)	(1,873,960)
Individually assessed	(79,224)	(92,293)
	(2,426,306)	(1,966,253)
	103,515,015	85,298,079

Bank

	31 December	
	2013	2012
Neither past due nor impaired	95,033,802	81,067,162
Past due but not impaired	559,061	197,903
Impaired	889,599	544,894
	96,482,462	81,809,959
Less: Allowance for impairment losses		
Collectively assessed	(2,157,509)	(1,784,807)
Individually assessed	(76,828)	(92,293)
	(2,234,337)	(1,877,100)
	94,248,125	79,932,859

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) **Loans and advances to customers** (Continued)

Neither past due nor impaired

Management of the Group considers that these loans are exposed to normal business risk and there was no identifiable objective evidence of impairment for these loans which may incur losses to the Group at the end of the reporting period.

The following table presents the types of loans and advances to customers which are neither past due nor impaired as at the end of the reporting period:

Group

	31 December 2013		Total
	High Quality	Standard Quality	
Unsecured loans	4,812,762	28,689	4,841,451
Guaranteed loans	39,878,220	234,408	40,112,628
Loans secured by mortgages	45,176,272	322,952	45,499,224
Pledged loans	14,014,456	500	14,014,956
	103,881,710	586,549	104,468,259

	31 December 2012		Total
	High Quality	Standard Quality	
Unsecured loans	4,474,890	428	4,475,318
Guaranteed loans	34,758,476	230,005	34,988,481
Loans secured by mortgages	31,458,459	280,561	31,739,020
Pledged loans	15,234,197	71,000	15,305,197
	85,926,022	581,994	86,508,016

Bank

	31 December 2013		Total
	High Quality	Standard Quality	
Unsecured loans	4,724,938	28,689	4,753,627
Guaranteed loans	35,511,628	228,908	35,740,536
Loans secured by mortgages	42,437,242	320,282	42,757,524
Pledged loans	11,781,615	500	11,782,115
	94,455,423	578,379	95,033,802

	31 December 2012		Total
	High Quality	Standard Quality	
Unsecured loans	4,379,849	309	4,380,158
Guaranteed loans	32,271,831	227,881	32,499,712
Loans secured by mortgages	29,915,729	280,561	30,196,290
Pledged loans	13,920,002	71,000	13,991,002
	80,487,411	579,751	81,067,162

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers (Continued)**Past due but not impaired**

The following tables present the ageing analysis of each type of loans and advances to customers of the Group and the Bank that are subject to credit risk which are past due but not impaired as at the end of the reporting period:

Group

	31 December 2013		Total
	Corporate Loans and advances	Personal loans	
Past due for:			
Less than one month	82,563	26,259	108,822
One to two months	218,683	16,399	235,082
Two to three months	69,178	13,304	82,482
Over three months	17,970	124,516	142,486
	388,394	180,478	568,872
Fair value of collateral held	265,519	34,532	300,051

	31 December 2012		Total
	Corporate Loans and advances	Personal loans	
Past due for:			
Less than one month	3,700	35,325	39,025
One to two months	19,914	14,331	34,245
Two to three months	30,000	8,728	38,728
Over three months	59,669	28,453	88,122
	113,283	86,837	200,120
Fair value of collateral held	30,984	59,641	90,625

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) **Loans and advances to customers** (Continued)

Past due but not impaired (Continued)

Bank

	31 December 2013		Total
	Corporate Loans and advances	Personal loans	
Past due for:			
Less than one month	82,563	25,134	107,697
One to two months	218,683	15,753	234,436
Two to three months	64,188	12,576	76,764
Over three months	17,970	122,194	140,164
	383,404	175,657	559,061
Fair value of collateral held	253,891	30,274	284,165

	31 December 2012		Total
	Corporate Loans and advances	Personal loans	
Past due for:			
Less than one month	3,300	35,016	38,316
One to two months	19,914	13,561	33,475
Two to three months	30,000	8,438	38,438
Over three months	59,669	28,005	87,674
	112,883	85,020	197,903
Fair value of collateral held	30,984	57,046	88,030

Impaired

Impaired loans and advances are defined as those loans and advances have objective evidence of impairment as a result of one or more events that occurred after initial recognition and that event has an impact on the estimated future cash flows of loans and advances that can be reliably estimated.

The fair values of collateral that the Group and the Bank hold relating to loans individually determined to be impaired as at 31 December 2013 amounted to RMB245.996 million (31 December 2012: RMB12.940 million). The collateral mainly consists of land, buildings, equipment and also others.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Debt securities

The credit risk of debt securities mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities by different types of issuers are generally subject to different degrees of credit risk.

The following tables present an analysis of the Group's total credit risk exposures of debt securities by types of issuers and investments:

Group

31 December 2013

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor Impaired					
Governments and central bank	183,715	1,492,417	769,728	623,126	3,068,986
Policy banks	—	12,294,323	3,741,432	441,190	16,476,945
Banks and other financial institutions	18,399,265	329,001	—	—	18,728,266
Corporate entities	24,945,692	2,965,073	3,358,335	1,447,948	32,717,048
Total	43,528,672	17,080,814	7,869,495	2,512,264	70,991,245

31 December 2012

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor Impaired					
Governments and central bank	589,346	1,060,386	49,900	1,417,653	3,117,285
Policy banks	—	8,922,329	5,876,747	4,188,832	18,987,908
Banks and other financial institutions	5,819,832	—	—	—	5,819,832
Corporate entities	16,324,155	2,340,818	2,293,037	2,272,474	23,230,484
Total	22,733,333	12,323,533	8,219,684	7,878,959	51,155,509

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) **Debt securities** (Continued)

Bank

31 December 2013

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and central bank	183,715	1,492,417	769,728	623,126	3,068,986
Policy banks	—	12,294,323	3,741,432	441,190	16,476,945
Banks and other financial institutions	18,399,265	329,001	—	—	18,728,266
Corporate entities	24,945,692	2,965,073	3,358,335	1,447,948	32,717,048
Total	43,528,672	17,080,814	7,869,495	2,512,264	70,991,245

31 December 2012

	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	Total
Neither past due nor impaired					
Governments and central bank	589,346	1,060,386	49,900	1,417,653	3,117,285
Policy banks	—	8,922,329	5,876,747	4,188,832	18,987,908
Banks and other financial institutions	5,819,832	—	—	—	5,819,832
Corporate entities	16,324,155	2,340,818	2,293,037	2,272,474	23,230,484
Total	22,733,333	12,323,533	8,219,684	7,878,959	51,155,509

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at reasonable cost in a timely manner for the repayment of debts due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims at:

- optimizing the structure of assets and liabilities;
- maintaining the stability of the deposit base;
- projecting cash flows and evaluating the level of current assets; and
- in terms of liquidity of the branches, maintaining an efficient internal fund transfer mechanism.

The Group and the Bank's expected remaining maturity of its financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:
Group

31 December 2013

	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank	–	16,744,254	–	–	–	–	–	34,807,835	51,552,089
Due from banks and other financial institutions	–	2,900,358	5,624,829	6,416,085	11,881,920	7,048,000	–	–	33,871,192
Financial assets held for trading	–	–	117,814	239,316	414,507	1,288,213	452,414	–	2,512,264
Reverse repurchase agreements	–	–	29,460,789	10,447,888	6,052,271	5,150,000	–	–	51,110,948
Loans and advances to customers	924,091	–	7,288,896	12,061,277	51,679,916	14,562,200	16,998,635	–	103,515,015
Financial investments	–	–	7,118,330	1,877,305	16,419,423	28,169,593	14,894,330	44,620	68,523,601
Investments in an associate	–	–	–	–	–	–	–	963,955	963,955
Others assets (including deferred income tax assets)	6,370	1,733	607,255	573,198	931,692	123,876	233,455	7,648,797	10,126,376
Total assets	930,461	19,646,345	50,217,913	31,615,069	87,379,729	56,341,882	32,578,834	43,465,207	322,175,440
Liabilities:									
Due to central bank	–	–	34,967	108,262	603,969	40,000	–	–	787,198
Due to banks and other financial institutions	–	119,155	5,988,761	10,307,207	23,851,745	10,344,000	–	–	50,610,868
Repurchase agreements	–	–	7,839,748	2,952,618	8,298,800	–	–	–	19,091,166
Due to customers	–	116,250,665	11,497,411	19,439,297	53,158,264	23,788,666	43,823	–	224,178,126
Debt securities issued	–	–	–	–	1,000,000	2,500,000	–	–	3,500,000
Other liabilities	–	792,387	359,888	734,007	1,260,154	934,042	317	–	4,080,795
Total liabilities	–	117,162,207	25,720,775	33,541,391	88,172,932	37,606,708	44,140	–	302,248,153
Net liquidity gap	930,461	(97,515,862)	24,497,138	(1,926,322)	(793,203)	18,735,174	32,534,694	43,465,207	19,927,287

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

(Continued)

Group (Continued)

31 December 2012

	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank	–	18,723,121	–	–	–	–	–	33,135,390	51,858,511
Due from banks and other financial institutions	–	2,723,531	2,388,000	9,412,764	5,043,610	378,900	–	–	19,946,805
Financial assets held for trading	–	–	–	405,852	709,398	4,898,372	1,865,337	–	7,878,959
Reverse repurchase agreements	–	–	29,630,226	12,049,982	10,065,440	–	–	–	51,745,648
Loans and advances to customers	404,764	–	3,815,579	14,010,005	40,325,670	13,641,008	13,101,053	–	85,298,079
Financial investments	–	–	663,459	3,708,056	11,030,265	19,963,807	7,910,963	24,620	43,301,170
Investments in an associate	–	–	–	–	–	–	–	1,017,014	1,017,014
Others assets (including deferred income tax assets)	22,609	210,453	202,193	780,418	1,169,596	333,575	28,578	6,296,544	9,043,966
Total assets	427,373	21,657,105	36,699,457	40,367,077	68,343,979	39,215,662	22,905,931	40,473,568	270,090,152
Liabilities:									
Due to central bank	–	–	116,904	103,625	374,332	–	–	–	594,861
Due to banks and other financial institutions	–	1,771,465	2,537,838	9,565,758	22,048,487	600,000	–	–	36,523,548
Repurchase agreements	–	121	12,204,287	8,138,991	2,489,256	–	–	–	22,832,655
Due to customers	–	101,121,840	8,532,037	17,835,874	49,297,386	9,855,247	–	–	186,642,384
Debt securities issued	–	–	–	–	–	3,500,000	–	–	3,500,000
Other liabilities	–	877,072	578,915	674,051	691,031	238,507	147	–	3,059,723
Total liabilities	–	103,770,498	23,969,981	36,318,299	74,900,492	14,193,754	147	–	253,153,171
Net liquidity gap	427,373	(82,113,393)	12,729,476	4,048,778	(6,556,513)	25,021,908	22,905,784	40,473,568	16,936,981

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

(Continued)

Bank

31 December 2013

	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank	-	15,909,648	-	-	-	-	-	33,915,804	49,825,452
Due from banks and other financial institutions	-	1,691,712	4,371,000	6,649,000	14,466,920	7,078,000	-	-	34,256,632
Financial assets held for trading	-	-	117,814	239,316	414,507	1,288,213	452,414	-	2,512,264
Reverse repurchase agreements	-	-	29,460,789	10,247,888	6,052,271	5,150,000	-	-	50,910,948
Loans and advances to customers	906,345	-	6,737,084	10,029,554	46,455,089	13,289,160	16,830,893	-	94,248,125
Financial investments	-	-	7,118,330	1,877,305	16,419,423	28,169,593	14,894,330	44,620	68,523,601
Investments in an associate	-	-	-	-	-	-	-	2,105,955	2,105,955
Others assets (including deferred income tax assets)	6,123	1,733	581,304	561,353	912,372	98,829	228,443	7,467,361	9,857,518
Total assets	912,468	17,603,093	48,386,321	29,604,416	84,720,582	55,073,795	32,406,080	43,533,740	312,240,495
Liabilities:									
Due to central bank	-	-	-	45,892	19,822	-	-	-	65,714
Due to banks and other financial institutions	-	1,862,206	5,448,760	9,594,007	25,063,945	10,350,000	-	-	52,318,918
Repurchase agreements	-	-	7,839,748	2,952,618	8,298,800	-	-	-	19,091,166
Due to customers	-	110,563,238	10,825,001	18,458,026	50,950,508	22,989,602	-	-	213,786,375
Debt securities issued	-	-	-	-	1,000,000	2,500,000	-	-	3,500,000
Other liabilities	-	732,376	345,862	735,277	1,225,375	920,855	214	-	3,959,959
Total liabilities	-	113,157,820	24,459,371	31,785,820	86,558,450	36,760,457	214	-	292,722,132
Net liquidity gap	912,468	(95,554,727)	23,926,950	(2,181,404)	(1,837,868)	18,313,338	32,405,866	43,533,740	19,518,363

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

(Continued)

Bank (Continued)

31 December 2012

	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Assets:									
Cash and balances with central bank	–	18,324,654	–	–	–	–	–	32,336,545	50,661,199
Due from banks and other financial institutions	–	2,185,920	3,001,000	8,816,651	4,999,260	378,900	–	–	19,381,731
Financial assets held for trading	–	–	–	405,852	709,398	4,898,372	1,865,337	–	7,878,959
Reverse repurchase agreements	–	–	29,630,226	12,100,294	9,752,495	–	–	–	51,483,015
Loans and advances to customers	395,537	–	–	16,518,559	37,314,254	12,724,884	12,979,625	–	79,932,859
Financial investments	–	–	663,459	3,708,055	11,030,265	19,963,808	7,910,963	24,620	43,301,170
Investments in an associate	–	–	–	–	–	–	–	2,159,014	2,159,014
Others assets (including deferred income tax assets)	22,210	205,601	195,011	752,698	1,159,598	542,388	58,910	5,896,052	8,832,468
Total assets	417,747	20,716,175	33,489,696	42,302,109	64,965,270	38,508,352	22,814,835	40,416,231	263,630,415
Liabilities:									
Due to central bank	–	–	33,752	29,918	19,943	–	–	–	83,613
Due to banks and other financial institutions	–	2,613,593	2,529,451	9,534,145	21,953,487	600,000	–	–	37,230,676
Repurchase agreements	–	121	12,204,287	8,182,219	2,290,134	–	–	–	22,676,761
Due to customers	–	97,560,892	8,129,082	16,993,512	48,109,667	9,640,010	–	–	180,433,163
Debt securities issued	–	–	–	–	–	3,500,000	–	–	3,500,000
Other liabilities	–	848,473	565,037	676,661	681,675	233,365	146	–	3,005,357
Total liabilities	–	101,023,079	23,461,609	35,416,455	73,054,906	13,973,375	146	–	246,929,570
Net liquidity gap	417,747	(80,306,904)	10,028,087	6,885,654	(8,089,636)	24,534,977	22,814,689	40,416,231	16,700,845

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) **Maturity analysis of contractual undiscounted cash flows**

The tables below summarize the maturity profile of the Group's and of the Bank's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group and the Bank's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

Group

31 December 2013

	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	-	16,744,254	-	-	-	-	-	34,807,835	51,552,089
Due from banks and other financial institutions (*)	-	3,556,382	35,948,196	18,138,493	18,721,775	12,386,415	-	-	88,751,261
Financial assets held for trading	-	-	127,820	277,464	491,863	1,522,342	512,669	-	2,932,158
Loans and advances to customers (**)	203,351	-	7,928,185	13,190,688	54,882,658	21,451,814	24,394,498	871,472	122,922,666
Financial investments	-	-	7,308,383	2,853,389	19,101,788	34,700,196	18,770,664	44,620	82,779,040
Other financial assets	-	267,007	-	15,281	36,368	664	-	-	319,320
Total financial assets	203,351	20,567,643	51,312,584	34,475,315	93,234,452	70,061,431	43,677,831	35,723,927	349,256,534
Financial liabilities:									
Due to central bank	-	-	34,999	147,438	614,401	41,340	-	-	838,178
Due to banks and other financial institutions (***)	-	189,742	13,930,408	14,604,239	33,243,241	11,646,527	-	-	73,614,157
Due to customers	-	116,832,994	11,635,868	19,758,136	54,690,731	28,732,167	48,205	-	231,698,101
Debt securities issued	-	-	-	-	1,113,750	2,901,250	-	-	4,015,000
Other financial liabilities	-	70,551	59,718	7,533	748,375	37,687	139	-	924,003
Total financial liabilities	-	117,093,287	25,660,993	34,517,346	90,410,498	43,358,971	48,344	-	311,089,439

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) Maturity analysis of contractual undiscounted cash flows (Continued)**Group (Continued)**

31 December 2012

	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	–	18,723,121	–	–	–	–	–	33,135,390	51,858,511
Due from banks and other financial institutions (*)	–	2,723,531	32,198,708	21,741,153	15,377,679	378,900	–	–	72,419,971
Financial assets held for trading	–	–	14,990	492,296	936,414	5,734,335	2,092,129	–	9,270,164
Loans and advances to customers (**)	62,781	–	4,032,874	14,807,867	43,605,756	19,208,090	18,736,627	611,338	101,065,333
Financial investments	–	–	795,761	4,340,268	12,629,274	23,063,179	8,880,864	24,620	49,733,966
Other financial assets	–	197,678	–	–	41,899	7,930	–	–	247,507
Total financial assets	62,781	21,644,330	37,042,333	41,381,584	72,591,022	48,392,434	29,709,620	33,771,348	284,595,452
Financial liabilities:									
Due to central bank	–	–	116,904	103,625	374,332	–	–	–	594,861
Due to banks and other financial institutions (***)	–	1,771,586	15,007,406	18,039,788	25,379,678	666,000	–	–	60,864,458
Due to customers	–	101,137,731	8,631,276	18,043,329	50,449,320	12,007,675	–	–	190,269,331
Debt securities issued	–	–	–	–	173,750	4,015,000	–	–	4,188,750
Other financial liabilities	–	173,813	163,199	199,958	56,281	5,819	–	–	599,070
Total financial liabilities	–	103,083,130	23,918,785	36,386,700	76,433,361	16,694,494	–	–	256,516,470

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) Maturity analysis of contractual undiscounted cash flows (Continued)

Bank

31 December 2013

	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	-	15,909,648	-	-	-	-	-	33,915,804	49,825,452
Due from banks and other financial institutions (*)	-	1,764,136	34,071,482	17,316,420	21,006,502	12,416,415	-	-	86,574,955
Financial assets held for trading	-	-	127,820	277,464	491,863	1,522,342	512,669	-	2,932,158
Loans and advances to customers (**)	200,985	-	7,315,908	11,053,317	49,388,666	19,973,936	24,145,186	854,358	112,932,356
Financial investments	-	-	7,308,383	2,853,389	19,101,788	34,700,196	18,770,664	44,620	82,779,040
Other financial assets	-	265,898	-	13,478	32,079	585	-	-	312,040
Total financial assets	200,985	17,939,682	48,823,593	31,514,068	90,020,898	68,613,474	43,428,519	34,814,782	335,356,001
Financial liabilities:									
Due to central bank	-	-	-	46,000	20,000	-	-	-	66,000
Due to banks and other financial institutions (***)	-	1,867,792	13,320,812	13,922,684	34,552,319	11,676,527	-	-	75,340,134
Due to customers	-	110,576,824	10,896,217	18,678,738	52,262,200	27,853,196	-	-	220,267,175
Debt securities issued	-	-	-	-	1,113,750	2,901,250	-	-	4,015,000
Other financial liabilities	-	6,392	44,291	8,930	710,118	23,182	26	-	792,939
Total financial liabilities	-	112,451,008	24,261,320	32,656,352	88,658,387	42,454,155	26	-	300,481,248

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) Maturity analysis of contractual undiscounted cash flows (Continued)**Bank (Continued)**

31 December 2012

	Overdue	Repayable on demand	Less than One month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and balances with central bank	–	18,324,654	–	–	–	–	–	32,336,545	50,661,199
Due from banks and other financial institutions (*)	–	2,185,921	32,725,228	21,214,633	15,020,384	378,900	–	–	71,525,066
Financial assets held for trading	–	–	14,990	492,296	936,414	5,734,335	2,092,129	–	9,270,164
Loans and advances to customers (**)	52,698	–	4,032,874	14,807,867	40,351,620	18,218,126	18,605,412	611,338	96,679,935
Financial investments	–	–	795,761	4,340,268	12,495,461	23,034,180	8,880,864	24,620	49,571,154
Other financial assets	–	197,678	–	–	39,948	7,930	–	–	245,556
Total financial assets	52,698	20,708,253	37,568,853	40,855,064	68,843,827	47,373,471	29,578,405	32,972,503	277,953,074
Financial liabilities:									
Due to central bank	–	–	33,752	29,918	19,943	–	–	–	83,613
Due to banks and other financial institutions (***)	–	2,613,714	14,999,270	18,051,760	25,205,842	666,000	–	–	61,536,586
Due to customers	–	97,576,782	8,631,276	18,043,329	49,261,602	11,792,437	–	–	185,305,426
Debt securities issued	–	–	–	–	173,750	4,015,000	–	–	4,188,750
Other financial liabilities	–	173,813	163,199	199,958	50,930	5,819	–	–	593,719
Total financial liabilities	–	100,364,309	23,827,497	36,324,965	74,712,067	16,479,256	–	–	251,708,094

(*) Includes reverse repurchase agreements.

(**) Undated loans and advances to customers which are impaired or not impaired but overdue for more than one month are included.

(***) Includes repurchase agreements.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(iii) Analysis of credit commitments by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of the commitments.

Group

	Repayable on demand	Less than One months	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
31 December 2013 Credit commitments	1,240,113	7,385,350	14,385,233	24,905,064	2,433	—	180,000	48,098,193
31 December 2012 Credit commitments	42,802	26,629,488	7,447,880	15,261,792	7,380	—	—	49,389,342

Bank

	Repayable on demand	Less than One months	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
31 December 2013 Credit commitments	1,240,113	7,317,607	14,142,634	23,138,759	2,433	—	180,000	46,021,546
31 December 2012 Credit commitments	42,802	26,601,513	7,440,394	15,222,725	7,380	—	—	49,314,814

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices. Market risk arises from both the Group's trading and non-trading businesses.

The Group's market risk contains interest rate risk and currency risk.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions.

The Group's currency risk mainly results from the risk arising from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities, and off-balance sheet foreign exchange positions arising from derivative transactions.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group. The Bank uses different management methods to control market risk comprising of trading book and banking book risks respectively.

(i) Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, JPY, Ruble ("RUB") and, to a lesser extent, other currencies. Transactions in foreign currencies mainly arise from the Group's treasury operations, foreign exchange dealings and overseas investments.

The exchange rate of RMB to USD is managed under a floating exchange rate system.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecasted cash flows. 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. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the year end are kept unchanged and, therefore, have not incorporated actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk.

The Group sets trading limits, stop loss limits and exposure limits to foreign exchange transactions for manage foreign exchange risk and to keep currency risk within limits. Base on the guidelines provided by Risk Management Committee, laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimizes the possibility of mismatch through more reasonable allocation of foreign currency source and deployment.

Group/Bank

	Change in rate	Effect on profit before tax	
		31 December	
		2013	2012
USD	-1%	(1,891)	(4,512)
JPY	-1%	(49)	(58)
RUB	-1%	(264)	(169)

While the table above indicates the effect on profit before tax of 1% depreciation of USD, JPY and RUB, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) **Currency risk** (Continued)

A breakdown of the assets and liabilities analysed by currency is as follows:

Group

31 December 2013

	RMB	USD (equivalent to RMB)	JPY (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:						
Cash and balances with central bank	51,446,815	32,301	21,522	49,481	1,970	51,552,089
Due from banks and other financial institutions	33,695,667	120,126	37,380	11,602	6,417	33,871,192
Financial assets held for trading	2,512,264	—	—	—	—	2,512,264
Reverse repurchase agreements	51,110,948	—	—	—	—	51,110,948
Loans and advances to customers	102,305,828	1,208,383	—	—	804	103,515,015
Financial investments	68,523,601	—	—	—	—	68,523,601
Investments in an associate	963,955	—	—	—	—	963,955
Property and equipment	7,314,942	—	—	—	—	7,314,942
Deferred income tax	330,533	3,322	—	—	—	333,855
Others	2,472,218	5,358	3	—	—	2,477,579
Total assets	320,676,771	1,369,490	58,905	61,083	9,191	322,175,440
Liabilities:						
Due to central bank	787,198	—	—	—	—	787,198
Due to banks and other financial institutions	49,928,032	655,012	—	27,824	—	50,610,868
Repurchase agreements	19,091,166	—	—	—	—	19,091,166
Due to customers	223,593,450	521,556	54,039	6,808	2,273	224,178,126
Income tax payable	262,941	—	—	—	—	262,941
Debt securities issued	3,500,000	—	—	—	—	3,500,000
Others	3,814,027	3,793	—	—	34	3,817,854
Total liabilities	300,976,814	1,180,361	54,039	34,632	2,307	302,248,153
Net position	19,699,957	189,129	4,866	26,451	6,884	19,927,287
Credit commitments	47,693,012	404,281	—	—	900	48,098,193

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

A breakdown of the assets and liabilities analysed by currency is as follows: (Continued)

Group (Continued)

31 December 2012

	RMB	USD (equivalent to RMB)	JPY (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:						
Cash and balances with central bank	51,808,132	9,720	13,105	25,393	2,161	51,858,511
Due from banks and other financial institutions	19,735,795	192,330	14,256	2,006	2,418	19,946,805
Financial assets held for trading	7,878,959	—	—	—	—	7,878,959
Reverse repurchase agreements	51,745,648	—	—	—	—	51,745,648
Loans and advances to customers	84,142,234	1,153,699	90	—	2,056	85,298,079
Financial investments	43,301,170	—	—	—	—	43,301,170
Investments in an associate	1,017,014	—	—	—	—	1,017,014
Property and equipment	6,038,230	—	—	—	—	6,038,230
Deferred income tax	257,289	1,024	—	—	1	258,314
Others	2,741,966	5,450	4	—	2	2,747,422
Total assets	268,666,437	1,362,223	27,455	27,399	6,638	270,090,152
Liabilities:						
Due to central bank	594,861	—	—	—	—	594,861
Due to banks and other financial institutions	36,112,335	396,672	—	10,323	4,218	36,523,548
Repurchase agreements	22,832,655	—	—	—	—	22,832,655
Due to customers	186,103,921	514,172	21,686	131	2,474	186,642,384
Income tax payable	311,148	—	—	—	—	311,148
Debt securities issued	3,500,000	—	—	—	—	3,500,000
Others	2,748,452	90	—	25	8	2,748,575
Total liabilities	252,203,372	910,934	21,686	10,479	6,700	253,153,171
Net position	16,463,065	451,289	5,769	16,920	(62)	16,936,981
Credit commitments	48,999,616	386,053	587	—	3,086	49,389,342

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) **Currency risk** (Continued)

A breakdown of the assets and liabilities analysed by currency is as follows: (Continued)

Bank

31 December 2013

	RMB	USD (equivalent to RMB)	JPY (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:						
Cash and balances with central bank	49,720,178	32,301	21,522	49,481	1,970	49,825,452
Due from banks and other financial institutions	34,081,107	120,126	37,380	11,602	6,417	34,256,632
Financial assets held for trading	2,512,264	—	—	—	—	2,512,264
Reverse repurchase agreements	50,910,948	—	—	—	—	50,910,948
Loans and advances to customers	93,038,938	1,208,383	—	—	804	94,248,125
Financial investments	68,523,601	—	—	—	—	68,523,601
Investments in subsidiaries and an associate	2,105,955	—	—	—	—	2,105,955
Property and equipment	7,165,433	—	—	—	—	7,165,433
Deferred income tax	298,606	3,322	—	—	—	301,928
Others	2,384,796	5,358	3	—	—	2,390,157
Total assets	310,741,826	1,369,490	58,905	61,083	9,191	312,240,495
Liabilities:						
Due to central bank	65,714	—	—	—	—	65,714
Due to banks and other financial institutions	51,636,082	655,012	—	27,824	—	52,318,918
Repurchase agreements	19,091,166	—	—	—	—	19,091,166
Due to customers	213,201,699	521,556	54,039	6,808	2,273	213,786,375
Income tax payable	230,830	—	—	—	—	230,830
Debt securities issued	3,500,000	—	—	—	—	3,500,000
Others	3,725,302	3,793	—	—	34	3,729,129
Total liabilities	291,450,793	1,180,361	54,039	34,632	2,307	292,722,132
Net position	19,291,033	189,129	4,866	26,451	6,884	19,518,363
Credit commitments	45,616,365	404,281	—	—	900	46,021,546

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(i) Currency risk (Continued)

A breakdown of the assets and liabilities analysed by currency is as follows: (Continued)

Bank (Continued)

31 December 2012

	RMB	USD (equivalent to RMB)	JPY (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Assets:						
Cash and balances with central bank	50,610,820	9,720	13,105	25,393	2,161	50,661,199
Due from banks and other financial institutions	19,170,722	192,330	14,255	2,006	2,418	19,381,731
Financial assets held for trading	7,878,959	—	—	—	—	7,878,959
Reverse repurchase agreements	51,483,015	—	—	—	—	51,483,015
Loans and advances to customers	78,777,014	1,153,699	90	—	2,056	79,932,859
Financial investments	43,301,170	—	—	—	—	43,301,170
Investments in subsidiaries and an associate	2,159,014	—	—	—	—	2,159,014
Property and equipment	5,896,052	—	—	—	—	5,896,052
Deferred income tax	241,873	1,024	—	—	1	242,898
Others	2,688,062	5,450	4	—	2	2,693,518
Total assets	262,206,701	1,362,223	27,454	27,399	6,638	263,630,415
Liabilities:						
Due to central bank	83,613	—	—	—	—	83,613
Due to banks and other financial institutions	36,819,463	396,672	—	10,323	4,218	37,230,676
Repurchase agreements	22,676,761	—	—	—	—	22,676,761
Due to customers	179,894,700	514,172	21,686	131	2,474	180,433,163
Income tax payable	295,808	—	—	—	—	295,808
Debt securities issued	3,500,000	—	—	—	—	3,500,000
Others	2,709,426	90	—	25	8	2,709,549
Total liabilities	245,979,771	910,934	21,686	10,479	6,700	246,929,570
Net position	16,226,930	451,289	5,768	16,920	(62)	16,700,845
Credit commitments	48,936,019	375,122	587	—	3,086	49,314,814

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) **Interest rate risk**

The Group's bank account interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB interest rate policy which includes a cap for RMB deposit rates and a floor for RMB loan rates.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

A principal part of the Group's management of interest rate risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modeling). The Group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging on the current revenue.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Bank's net interest income and equity.

The sensitivity of the net interest income is the effect of the assumed changes in interest rates on the net interest income, arising from the financial assets and financial liabilities held at year end that are subject to repricing within the coming year. The sensitivity of equity is the effect of the assumed changes in interest rates on other comprehensive income, calculated by revaluing fixed rate available-for-sale financial assets held at year end.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

Interest rate risk of the Group's trading book, mainly exists in transactions, including those of bonds. For the management of interest rate risk, the Group uses explicit criteria for the classification of financial assets in the trading account, revaluating the market value of trading account assets daily, sets trading limits, stop-loss limits and risk limitation for the purpose of limit management. The Group also monitors and controls this by frequency.

Group

Change in basis points	Effect on net interest income		Effect on equity	
	31 December		31 December	
	2013	2012	2013	2012
+100 basis points	(139,965)	(80,611)	(107,245)	(153,869)
-100 basis points	139,965	80,611	113,407	162,276

Bank

Change in basis points	Effect on net interest income		Effect on equity	
	31 December		31 December	
	2013	2012	2013	2012
+100 basis points	(164,152)	(85,890)	(107,245)	(153,869)
-100 basis points	164,152	85,890	113,407	162,276

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net interest income and equity based on the projected yield curve scenarios and the Group's and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk. The projections above also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income and equity in the case where some rates change while others remain unchanged.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Group's assets and liabilities:

Group

31 December 2013

	Less than three months	Three months to one year	One to five years	More than five years	Non- interest- bearing	Total
Assets:						
Cash and balances with central bank	50,249,671	—	—	—	1,302,418	51,552,089
Due from banks and other financial institutions	14,941,272	11,881,920	7,048,000	—	—	33,871,192
Financial assets held for trading	748,602	414,507	896,741	452,414	—	2,512,264
Reverse repurchase agreements	39,908,677	6,052,271	5,150,000	—	—	51,110,948
Loans and advances to customers	28,590,978	71,558,331	2,296,508	145,107	924,091	103,515,015
Financial investments	17,337,796	16,540,976	21,418,340	13,164,331	62,158	68,523,601
Investments in an associate	—	—	—	—	963,955	963,955
Property and equipment	—	—	—	—	7,314,942	7,314,942
Deferred income tax	—	—	—	—	333,855	333,855
Others	—	—	—	—	2,477,579	2,477,579
Total assets	151,776,996	106,448,005	36,809,589	13,761,852	13,378,998	322,175,440
Liabilities:						
Due to central bank	143,229	603,969	40,000	—	—	787,198
Due to banks and other financial institutions	16,415,123	23,851,745	10,344,000	—	—	50,610,868
Repurchase agreements	10,792,366	8,298,800	—	—	—	19,091,166
Due to customers	146,883,847	53,158,264	23,788,665	43,823	303,527	224,178,126
Income tax payable	—	—	—	—	262,941	262,941
Debt securities issued	—	1,000,000	2,500,000	—	—	3,500,000
Others	—	—	—	—	3,817,854	3,817,854
Total liabilities	174,234,565	86,912,778	36,672,665	43,823	4,384,322	302,248,153
Total interest sensitivity gap	(22,457,569)	19,535,227	136,924	13,718,029	N/A	N/A

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Group's assets and liabilities: (Continued)

Group (Continued)

31 December 2012

	Less than three months	Three months to one year	One to five years	More than five years	Non- interest- bearing	Total
Assets:						
Cash and balances with central bank	51,043,256	—	—	—	815,255	51,858,511
Due from banks and other financial institutions	14,564,295	5,382,510	—	—	—	19,946,805
Financial assets held for trading	1,072,247	1,028,443	4,228,259	1,550,010	—	7,878,959
Reverse repurchase agreements	41,680,208	10,065,440	—	—	—	51,745,648
Loans and advances to customers	26,494,513	54,940,285	2,964,189	495,856	403,236	85,298,079
Financial investments	14,820,277	9,614,559	13,464,246	5,343,738	58,350	43,301,170
Investments in an associate	—	—	—	—	1,017,014	1,017,014
Property and equipment	—	—	—	—	6,038,230	6,038,230
Deferred income tax	—	—	—	—	258,314	258,314
Others	—	121	793	—	2,746,508	2,747,422
Total assets	149,674,796	81,031,358	20,657,487	7,389,604	11,336,907	270,090,152
Liabilities:						
Due to central bank	207,528	367,333	20,000	—	—	594,861
Due to banks and other financial institutions	13,882,721	17,473,487	5,165,000	—	2,340	36,523,548
Repurchase agreements	20,343,278	2,489,256	—	—	121	22,832,655
Due to customers	127,205,848	48,426,415	9,883,598	6,098	1,120,425	186,642,384
Income tax payable	—	—	—	—	311,148	311,148
Debt securities issued	—	—	3,500,000	—	—	3,500,000
Others	—	—	—	—	2,748,575	2,748,575
Total liabilities	161,639,375	68,756,491	18,568,598	6,098	4,182,609	253,153,171
Total interest sensitivity gap	(11,964,579)	12,274,867	2,088,889	7,383,506	N/A	N/A

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Bank's assets and liabilities:

Bank

31 December 2013

	Less than three months	Three months to one year	One to five years	More than five years	Non- interest- bearing	Total
Assets:						
Cash and balances with central bank	48,625,343	—	—	—	1,200,109	49,825,452
Due from banks and other financial institutions	12,711,712	14,466,920	7,078,000	—	—	34,256,632
Financial assets held for trading	748,602	414,507	896,741	452,414	—	2,512,264
Reverse repurchase agreements	39,708,677	6,052,271	5,150,000	—	—	50,910,948
Loans and advances to customers	22,710,599	68,714,072	1,792,465	124,643	906,346	94,248,125
Financial investments	17,337,796	16,540,976	21,418,340	13,164,331	62,158	68,523,601
Investments in subsidiaries and an associate	—	—	—	—	2,105,955	2,105,955
Property and equipment	—	—	—	—	7,165,433	7,165,433
Deferred income tax	—	—	—	—	301,928	301,928
Others	—	—	—	—	2,390,157	2,390,157
Total assets	141,842,729	106,188,746	36,335,546	13,741,388	14,132,086	312,240,495
Liabilities:						
Due to central bank	45,892	19,822	—	—	—	65,714
Due to banks and other financial institutions	16,904,973	25,063,945	10,350,000	—	—	52,318,918
Repurchase agreements	10,792,366	8,298,800	—	—	—	19,091,166
Due to customers	139,542,739	50,950,508	22,989,601	—	303,527	213,786,375
Income tax payable	—	—	—	—	230,830	230,830
Debt securities issued	—	1,000,000	2,500,000	—	—	3,500,000
Others	—	—	—	—	3,729,129	3,729,129
Total liabilities	167,285,970	85,333,075	35,839,601	—	4,263,486	292,722,132
Total interest sensitivity gap	(25,443,241)	20,855,671	495,945	13,741,388	N/A	N/A

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

The tables below summarise the contractual repricing or maturity dates, whichever is earlier, of the Bank's assets and liabilities: (Continued)

Bank (Continued)

31 December 2012

	Less than three months	Three months to one year	One to five years	More than five years	Non- interest- bearing	Total
Assets:						
Cash and balances with central bank	49,892,537	—	—	—	768,662	50,661,199
Due from banks and other financial institutions	14,003,571	5,378,160	—	—	—	19,381,731
Financial assets held for trading	1,072,247	1,028,443	4,228,259	1,550,010	—	7,878,959
Reverse repurchase agreements	41,730,520	9,752,495	—	—	—	51,483,015
Loans and advances to customers	25,132,367	51,699,114	2,330,077	375,764	395,537	79,932,859
Financial investments	14,820,276	9,614,559	13,464,247	5,343,738	58,350	43,301,170
Investments in subsidiaries and an associate	—	—	—	—	2,159,014	2,159,014
Property and equipment	—	—	—	—	5,896,052	5,896,052
Deferred income tax	—	—	—	—	242,898	242,898
Others	—	—	—	—	2,693,518	2,693,518
Total assets	146,651,518	77,472,771	20,022,583	7,269,512	12,214,031	263,630,415
Liabilities:						
Due to central bank	63,670	19,943	—	—	—	83,613
Due to banks and other financial institutions	14,674,849	17,423,487	5,130,000	—	2,340	37,230,676
Repurchase agreements	20,386,506	2,290,134	—	—	121	22,676,761
Due to customers	123,280,811	47,252,086	9,644,617	771	254,878	180,433,163
Income tax payable	—	—	—	—	295,808	295,808
Debt securities issued	—	—	3,500,000	—	—	3,500,000
Others	—	—	—	—	2,709,549	2,709,549
Total liabilities	158,405,836	66,985,650	18,274,617	771	3,262,696	246,929,570
Total interest sensitivity gap	(11,754,318)	10,487,121	1,747,966	7,268,741	N/A	N/A

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(d) Capital management

The Group's objectives on capital management are:

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To allocate capital using an efficient and risk-based approach to optimise the risk adjusted return to the shareholders; and
- To maintain an adequate capital base to support the development of its business.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust its profit distribution policy, issue or redeem own shares, long term subordinated bonds, convertible bonds and hybrid instruments.

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on regulations issued by the CBRC. The required information is filed with the CBRC by the Group and the Bank semi-annually and quarterly.

The CBRC requires each bank to maintain the capital adequacy ratio and core capital adequacy ratio not below the minimum of 8% and 4%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. Market risk capital adjustment is calculated using the standardised approach.

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

The Group computes the capital adequacy ratio and core capital adequacy ratio in accordance with “Regulations Governing Capital Adequacy of Commercial Banks” and related regulations promulgated by the CBRC. The requirements pursuant to these regulations may have significant differences comparing to those applicable in Hong Kong and other countries.

The capital adequacy ratios and related components of the Group are computed in accordance with the statutory financial statements of the Group prepared under PRC GAAP. During the year, the Group has complied in full with all its externally imposed capital requirements.

From 2013 onwards, the Group started to implement “The Trial Measures for Capital Management of Commercial Banks” and continue to improve the disclosure information on an ongoing basis.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

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

	31 December	
	2013	2012
Core capital adequacy ratio	11.67%	11.94%
Capital adequacy ratio	12.55%	12.97%
Components of capital base		
Core capital:		
Share capital	8,246,900	7,560,198
Qualified part of capital reserve ⁽ⁱ⁾	3,988,869	4,204,734
Surplus reserve and general reserves ⁽ⁱ⁾	3,460,355	1,820,011
Qualified part of retained earnings ⁽ⁱ⁾	4,030,707	3,007,410
Non-controlling interests	199,745	172,241
Total core capital	19,926,576	16,764,594
Supplementary capital:		
General provisions for loan impairment ⁽ⁱⁱ⁾	1,059,413	897,481
Long term subordinated bonds	900,000	1,000,000
Other supplementary capital	—	—
Total supplementary capital	1,959,413	1,897,481
Total capital base before deductions	21,885,989	18,662,075
Deductions:		
Unconsolidated equity investments ⁽ⁱⁱⁱ⁾	(1,000,000)	(1,000,000)
Business enterprise equity investments ⁽ⁱⁱⁱ⁾	(400)	(400)
Net capital base	20,885,589	17,661,675
Net core capital base	19,426,375	16,264,394
Risk weighted assets		
On-balance sheet	143,024,397	117,843,282
Off-balance sheet	19,839,971	18,346,757
Total risk-weighted assets	162,864,368	136,190,039
Market risk capital	287,175	—

- (i) Pursuant to the Administrative Measures of Capital Adequacy Ratios of Commercial Banks issued by the CBRC, reserves include the valid portion of capital reserve and retained profits, surplus reserve and general reserve.
- (ii) Pursuant to the Notice on Specifying the Calculating Method of General Provisions for Loan Impairment issued by the CBRC, the general provisions for loan impairment included in supplementary capital should not exceed 1% of the total loan balance since the second quarter of 2010.
- (iii) Pursuant to the Administrative Measures of Capital Adequacy Ratios of Commercial Banks issued by the CBRC, 100% and 50% costs of investment in unconsolidated equity investments were deducted when calculating the net capital base and net core capital base, respectively.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

44. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(d) Capital management (Continued)

Since 1 January 2013, the Group began to disclose the capital adequacy ratio in accordance with the “Trial Measures for Capital Management of Commercial Banks “ and will continue to promote the content of this disclosure. The CBRC requires that a commercial bank maintains its core tier 1 capital adequacy ratio above 5%, the tier 1 capital adequacy ratio above 6% and the capital adequacy ratio above 8%.

31 December 2013

Core capital	
Qualified part of share capital	8,246,900
Qualified part of capital reserve	3,988,869
Surplus reserve and general reserves	3,460,355
Retained earnings	4,030,707
Qualified part of non-controlling interests	199,745
Core Tier 1 Capital deductibles items:	
Full deductibles items	(58,659)
Net core tier 1 capital	19,867,917
Net other tier 1 capital	—
Net tier 1 capital	19,867,917
Net tier 2 capital	2,362,830
Net capital	22,230,747
On-balance sheet risk — weighted assets	149,754,123
Off-balance sheet risk — weighted assets	19,343,872
Credit risk — weighted assets	169,097,995
Market risk — weighted assets	3,589,682
Operational risk — weighted assets	13,326,841
Total risk — weighted assets	186,014,518
Core tier 1 capital adequacy ratio	10.68%
Tier 1 capital adequacy ratio	10.68%
Capital adequacy ratio	11.95%

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

45. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable, and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy:

Group/Bank

31 December 2013

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	—	2,512,264	—	2,512,264
Available-for-sale financial assets				
Debt securities	—	7,869,495	—	7,869,495
Funds	—	20,000	—	20,000
	—	7,889,495	—	7,889,495
	—	10,401,759	—	10,401,759
<u>Financial assets disclosed at fair value</u>				
Receivables	—	—	43,529,804	43,529,804
Held-to-maturity investments	—	—	16,176,542	16,176,542
	—	—	59,706,346	59,706,346
<u>Financial liabilities disclosed at fair value</u>				
Subordinated bonds	—	—	990,904	990,904
Financial bonds	—	—	2,371,372	2,371,372
			3,362,276	3,362,276

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy: (Continued)

Group/Bank (Continued)

31 December 2012

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value:</u>				
Financial assets held for trading				
Debt securities	—	7,878,959	—	7,878,959
Available-for-sale financial assets				
Debt securities	—	8,219,684	—	8,219,684
	—	16,098,643	—	16,098,643
<u>Financial assets disclosed at fair value:</u>				
Receivables	—	—	22,686,667	22,686,667
Held-to-maturity investments	—	—	12,082,138	12,082,138
	—	—	34,768,805	34,768,805
<u>Financial liabilities disclosed at fair value:</u>				
Subordinated bonds	—	—	1,010,817	1,010,817
Debt securities	—	—	2,430,005	2,430,005
	—	—	3,440,822	3,440,822

Financial assets held for trading and available-for-sale financial assets are stated at fair value by reference to the quoted market prices when available. If quoted market prices are not available then fair values are estimated on the basis of discounted cash flows or pricing models. For debt securities, the fair value of these bonds are determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data.

Notes to Financial Statements (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

45. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Determination of fair value and fair value hierarchy (Continued)

Subject to the existence of an active market, such as an authorised securities exchange, the market value is the best reflection of the fair value of financial instruments. As there is no available market value for certain of the financial assets and liabilities held and issued by the Group, the discounted cash flow method or other valuation methods described below are adopted to determine the fair values of these assets and liabilities:

- (i) The receivables are not quoted in an active market. In the absence of any other relevant observable market, the fair values of receivables are estimated on the basis of pricing models or discounted cash flows.
- (ii) The fair values of held-to-maturity investments, subordinated bonds and financial bonds are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows.

All of the above-mentioned assumptions and methods provide a consistent basis for the calculation of the fair values of the Group and the Bank's assets and liabilities. However, other institutions may use different assumptions and methods. Therefore, the fair values disclosed by different financial institutions may not be entirely comparable.

Those financial instruments for which their carrying amounts are the reasonable approximations of their fair values because, for example, they are short term in nature or reprised at current market rates frequently, are as follows:

Assets	Liabilities
Balances with central bank	Due to banks and other financial institutions
Due from banks and other financial institutions	Repurchase agreements
Reverse repurchase agreements	Due to customers
Loans and advances to customers	Other financial liabilities
Other financial assets	

46. SIGNIFICANT EVENTS

On 19 April 2013 and 10 May 2013, the draft resolution for the issuance of qualified Tier II capital instruments was approved at the 10th meeting of the Bank's 5th board of directors and the annual general meeting of 2012 fiscal year. On 10 September 2013, the resolution on relevant deliberations over the issuance of qualified Tier II capital instruments was approved at the 14th meeting of the Bank's 5th board of directors. The Bank is authorised to issue fixed-interest-rate capital bonds not exceeding RMB4 billion with a term of less than 5 years, and the funds raised net of issuance expenses will be used under the applicable law and with the approval of the authorities to fortify the Tier II capital base of the Bank.

On 10 September 2013 and 26 September 2013, at the 14th meeting of the Bank's 5th board of directors and the 2nd temporary Stockholders' meeting of 2013 fiscal year, the resolution for the issuance of the special financial bonds for rural loans was approved. The Bank is authorised to issue special financial bonds not exceeding RMB10 billion with a term of less than 5 years; the funds raised will be specially used for rural loans.

47. SUBSEQUENT EVENTS

Save as disclosed in this report, no dividend distribution has been declared or made by the Group in respect of any period subsequent 31 December 2013.

Propose to set up a new subsidiary:

To diversify the Bank's business operations, the Bank applied to the CBRC to set up a financial leasing company and have received preliminary approval Yin Jian Fu 2014 No.35 from the CBRC on 15 January 2014. The Bank should complete the preparatory work for the setting up of such financial leasing company within six months of obtaining the approval from CBRC. As at the date of this audit report, such preparation work is still at the initial stage.

48. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 24 March 2014.

Unaudited Supplementary Financial Information

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

In accordance with the Hong Kong Listing Rules and Banking (Disclosure) Rules, the Group discloses the unaudited supplemental financial information as follow:

(a) Liquidity ratio

	31 December 2013	2012
RMB current assets to RMB current liabilities	41.94%	40.22%
Foreign currency current assets to foreign currency current liabilities	148.65%	145.93%

These liquidity ratios are calculated based on relevant regulations provided by CBRC and Chinese accounting policies.

(b) Currency concentrations

	USD	EUR	HKD	Others	Total
31 December 2013					
Current asset	1,369,490	4,094	3,013	122,072	1,498,669
Current liability	(1,180,361)	(1,015)	(1,233)	(88,730)	(1,271,339)
Net position	189,129	3,079	1,780	33,342	227,330
31 December 2012					
Current asset	1,362,223	3,378	2,268	55,846	1,423,715
Current liability	(910,934)	(4,907)	(1,286)	(32,672)	(949,799)
Net position	451,289	(1,529)	982	23,174	473,916

(c) Cross-border claims

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as cross-border claims.

Cross-border claims include due from banks and other financial institutions.

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 transfers are 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.

Unaudited Supplementary Financial Information (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

(c) Cross-border claims (Continued)

Due from banks and other financial institutions	31 December	
	2013	2012
Asia Pacific excluding Mainland China	1,304	—
— of which attributed to Hong Kong	1,304	—
Europe	32,352	4,124
North and South America	96,999	164,179
Total	130,655	168,303

(d) Loans and advances to customers

(i) Overdue loans and advances to customers

	31 December	
	2013	2012
Amount for overdue loans and advances to customers		
Between 3 and 6 months	28,352	113,629
Between 6 and 12 months	560,040	215,983
Over 12 months	346,902	178,282
As a percentage of the total gross loans and advances to customers		
Between 3 and 6 months	0.03%	0.13%
Between 6 and 12 months	0.53%	0.25%
Over 12 months	0.33%	0.20%
	0.89%	0.58%

The definition of overdue loans and advances to customers is set out as follows:

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular instalments, if part of the instalments is overdue, the whole amounts of these loans and advances would be classified as overdue.

Unaudited Supplementary Financial Information (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

(d) Loans and advances to customers (Continued)

(ii) Overdue and impaired loans and advances to customers by geographical distribution 31 December 2013

	Overdue loans and advances to customers			Impaired loans and advances to customers		Collectively assessed allowance for impairment losses
	Gross amount	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Individually assessed to be impaired	Individually assessed allowance for impairment losses	
Heilongjiang region	1,029,051	129,491	65,458	140,192	67,598	1,341,927
Northeastern China	308,738	32,603	6,963	32,603	6,963	377,317
Southwest China	600	—	—	—	—	418,674
Northern China	22,041	11,336	2,267	11,336	2,267	149,343
Other region	14,918	6,779	2,396	6,779	2,396	59,821
Total	1,375,348	180,209	77,084	190,910	79,224	2,347,082

31 December 2012

	Overdue loans and advances to customers			Impaired loans and advances to customers		Collectively assessed allowance for impairment losses
	Gross amount	Individually assessed to be impaired	Individually assessed allowance for impairment losses	Individually assessed to be impaired	Individually assessed allowance for impairment losses	
Heilongjiang region	574,890	100,332	89,293	110,332	92,293	1,238,207
Northeastern China	30,671	—	—	—	—	264,941
Southwest China	11,298	—	—	—	—	214,826
Northern China	18,061	—	—	—	—	116,997
Other region	9,470	—	—	—	—	38,989
Total	644,390	100,332	89,293	110,332	92,293	1,873,960

(e) Overdue due from banks and other financial institutions

As at 31 December 2012 and 2013, there are no overdue from banks and other financial institutions in respect of principal or interests.

(f) Overdue placements with banks and other financial institutions

As at 31 December 2012 and 2013, there are no overdue placements with banks and other financial institutions in respect of principal or interests.

Unaudited Supplementary Financial Information (Continued)

THE YEAR ENDED 31 DECEMBER 2013

(In RMB thousands, unless otherwise stated)

(g) Exposures to Mainland China non-bank entities

	31 December 2013	2012
On-balance sheet exposure	102,508,831	85,918,097
Off-balance sheet exposure	49,018,509	49,389,342
Individually assessed allowance for impairment losses	79,224	92,293

In addition to those disclosed above, exposures to other non-bank counterparties outside Mainland China to which credit is granted for use in Mainland China are considered insignificant to the Group.

Documents for Inspection

- I. Financial Statements with Signature and Seal of Legal Representative, Person in Charge of Accounting Work and Person in Charge of Accounting Firms
- II. Original Audit Report with Accounting Firms' Seals and Certified Public Accountants' Signatures and Seals
- III. Text of Annual Report Autographed by Directors of the Company
- IV. *Articles of Association* of the Company

