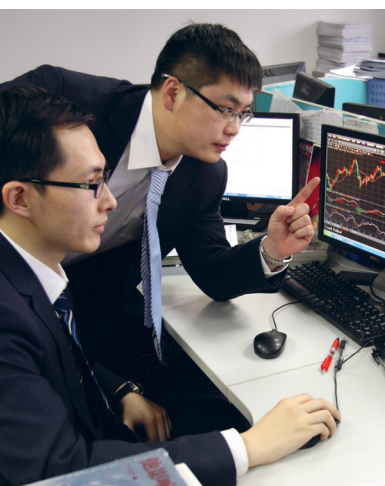


HARBIN BANK CO., LTD.

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

Stock Code: 6138

2014 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.

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Definitions

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

“Company”, or “Bank”, or “Group”	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 The Stock Exchange of Hong Kong Limited
“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 to the Hong Kong Listing Rules
“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:

SUN Feixia

Joint Company Secretaries:

SUN Feixia; NGAI Wai Fung

Registered 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

Contact Address:

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

Telephone:

86-451-86779999

Facsimile:

86-451-86779888

Email:

ir@hrbb.com.cn

Website for Publishing this Report:

www.hrbb.com.cn

Place of Listing, Stock Name and Stock Code:

The Stock Exchange of Hong Kong Limited,
HARBIN BANK, 6138

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 in Hong Kong

Hong Kong H Share Registrar and Transfer Office:

Computershare Hong Kong Investor Services Limited

Company Profile

Company Profile

Harbin Bank was granted its finance permit to carry on financial business by the People's Bank of China ("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. The Bank has promoted the establishment of 17 branches in Tianjin, Chongqing, Dalian, Shenyang, Chengdu and Harbin, etc. and 24 village and township banks in 14 provinces and centrally governed municipalities, including Beijing, Guangdong, Jiangsu, Jilin and Heilongjiang. The Bank, as a controlling shareholder, promoted the establishment of Harbin Bank Financial Leasing Co., Ltd. and, as a strategic investor, participated in equity investment in Guangdong Huaxing Bank. As of 31 December 2014, the Group had 332 branch outlets with business outlets across six administrative regions in the PRC.

As of 31 December 2014, the Bank had total assets of RMB343,641.6 million, total loans and advances to customers of RMB123,930.3 million and total deposits from customers of RMB232,197.2 million.

According to the "Top 1,000 World Banks 2014" published by The Banker, a UK-based magazine, the Bank ranked 282nd in terms of total tier 1 capital, and the 32nd among the Chinese banks.

On 31 March 2014, the Company was listed on the Main Board of the Hong Kong Stock Exchange.

Company Profile

Major Awards for 2014

List of Major Awards for 2014

No.	Name of Award	Awarding Party	Date of Award
1	2013 China Microcredit Best Banking Service Award (2013中國小微金融最佳行業服務獎)	China Microfinance Institution Association	January 2014
2	2013 Best Sino-Russia Cross-border Financial Service Bank (2013年度最佳中俄跨境金融服務銀行)	Trade Finance Magazine (《貿易金融》雜誌) SINOTF.com (中國貿易金融網)	February 2014
3	2013 Top 100 Most Trustworthy Financial Service Provider for Micro and Small Enterprises (MSEs) (2013年度最受信賴小微企業金融服務提供商100強)	GUOPEIWANG.com	March 2014
4	The Most Competitive Bank (最具競爭力銀行)	China International Finance Forum (全國金融論壇) Financial News (《金融時報》) JRJ.com (金融界網站)	April 2014
5	2013 Preferred Service Provider for China Small and Medium Enterprises (SMEs) (2013中國中小企業首選 服務商)	China International Cooperation Association of SMEs	April 2014
6	2013 Excellent Trader in Inter-bank Demotic Market (2013年度銀行間本幣市場優秀交易成員)	National Interbank Funding Centre	May 2014
7	2013 Excellent Institution with Great Data Quality in the Credit System (2013年度企業徵信系統數據質量工作 優秀機構)	Credit Management Centre of the PBOC	June 2014
8	2014 Annual Best City Commercial Bank Awarded by the Banking Industry (2014年度銀行業綜合評選 “年度最佳城市商業銀行”)	FINANCE.SINA.com (新浪財經)	July 2014
9	2013 Best City Commercial Bank Rendering Financial Service to MSEs (2013年度最佳小微企業金融服務 城市商業銀行)	The Banker (《銀行家》)	September 2014
10	Top 500 Asia Brand (亞洲品牌500強)	Asia Brand Association (ABAS)	September 2014
11	2014 Best City Commercial Bank in the Stars of China Awards (2014年“中國之星”之“最佳城市商業銀行獎”)	Global Finance in U.S.	November 2014
12	Top 10 Banks Supporting SMEs (十佳支持小微銀行)	ZDFJR.org (全國地方金融論壇)	November 2014
13	2014 Top 10 Commercial Banks Supporting the Development of SMEs in China (2014年度全國 支持中小企業發展十佳商業銀行)	China Association for SMEs	November 2014
14	Annual Small and Medium Bank with Excellent Growth Potential (年度卓越成長潛力中小銀行)	The Economic Observer (《經濟觀察報》)	November 2014
15	The Strongest Bank in Heilongjiang, China (中國最具實力銀行(黑龍江))	The Asian Banker (《亞洲銀行家》)	December 2014
16	2014 Class A Foreign Exchange Management (2014年外匯管理A級單位)	Heilongjiang Branch of the SAFE	December 2014
17	2014 Best City Commercial Micro and Small Bank in China (2014中國最佳城商行小微金融銀行)		December 2014
18	2014 Best City Commercial Retail Bank in China (2014中國最佳城商行零售銀行)	Money Week	December 2014
19	2014 Best City Commercial Bank in China (2014中國最佳城市商業銀行)	(《理財周報》)	December 2014
20	2014 Best Innovative Business of City Commercial Bank in China (2014中國最佳城商行創新業務)		December 2014

Company Profile

Major Subsidiaries

The major subsidiaries of the Company as of 31 December 2014 were as follows:

Company Name	Place of incorporation/ registration and operations Place in the PRC	Nominal value of issued share/ paid-up capital RMB millions	Percentage ownership/ voting rights directly owned by the Bank %	Amount invested by the Bank RMB millions
Bayan Rongxing Village and Township Bank Co., Ltd.	Bayan, Heilongjiang	50	90.00	45
Huining Huishi Village and Township Bank Co., Ltd.	Huining, Gansu	30	100.00	30
Beijing Huairou Rongxing Village and Township Bank Co., Ltd.	Huairou, Beijing	100	90.00	90
Yushu Rongxing Village and Township Bank Co., Ltd.	Yushu, Jilin	30	100.00	30
Shenzhen Baoan Rongxing Village and Township Bank Co., Ltd.	Baoan, Shenzhen	200	70.00	140
Yanshou Rongxing Village and Township Bank Co., Ltd.	Yanshou, Heilongjiang	30	100.00	30
Chongqing Dadukou Rongxing Village and Township Bank Co., Ltd.	Dadukou, Chongqing	60	90.00	54
Suining Anju Rongxing Village and Township Bank Co., Ltd.	Suining, Sichuan	80	75.00	60
Huachuan Rongxing Village and Township Bank Co., Ltd.	Huachuan, Heilongjiang	50	98.00	49
Baiquan Rongxing Village and Township Bank Co., Ltd.	Baiquan, Heilongjiang	30	100.00	30
Yanshi Rongxing Village and Township Bank Co., Ltd.	Yanshi, Henan	30	100.00	30
Leping Rongxing Village and Township Bank Co., Ltd.	Leping, Jiangxi	30	100.00	30
Jiangsu Rudong Rongxing Village and Township Bank Co., Ltd.	Rudong, Jiangsu	100	80.00	80
Honghu Rongxing Village and Township Bank Co., Ltd.	Honghu, Hubei	30	100.00	30

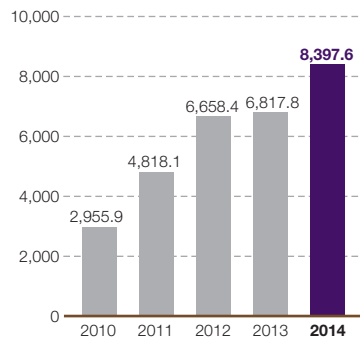
Company Profile

Company Name	Place of incorporation/ registration and operations Place in the PRC	Nominal value of issued share/ paid-up capital RMB millions	Percentage ownership/ voting rights directly owned by the Bank %	Amount invested by the Bank RMB millions
Zhuzhou Rongxing Village and Township Bank Co., Ltd.	Zhuzhou, Hunan	50	80.00	40
Chongqing Wulong Rongxing Village and Township Bank Co., Ltd.	Wulong, Chongqing	50	70.00	35
Xin'an Rongxing Village and Township Bank Co., Ltd.	Xin'an, Henan	30	100.00	30
Anyi Rongxing Village and Township Bank Co., Ltd.	Anyi, Jiangxi	30	100.00	30
Yingcheng Rongxing Village and Township Bank Co., Ltd.	Yingcheng, Hubei	30	100.00	30
Leiyang Rongxing Village and Township Bank Co., Ltd.	Leiyang, Hunan	50	100.00	50
Hainan Baoting Rongxing Village and Township Bank Co., Ltd.	Baoting, Hainan	30	96.67	29
Chongqing Shapingba Rongxing Village and Township Bank Co., Ltd.	Shapingba, Chongqing	100	80.00	80
Hejian Ronghui Village and Township Bank Co., Ltd.	Hejian, Hebe	50	100.00	50
Chongqing Youyang Rongxing Village and Township Bank Co., Ltd.	Youyang, Chongqing	60	100.00	60
Harbin Bank Financial Leasing Co., Ltd.	Harbin, Heilongjiang	2,000	80.00	1,600

Summary of Accounting Data and Financial Indicators

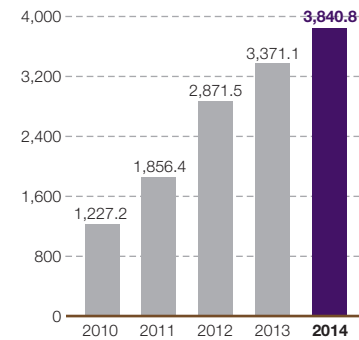
Net interest income

millions of RMB



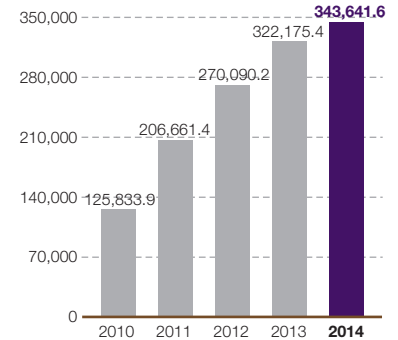
Net profit

millions of RMB



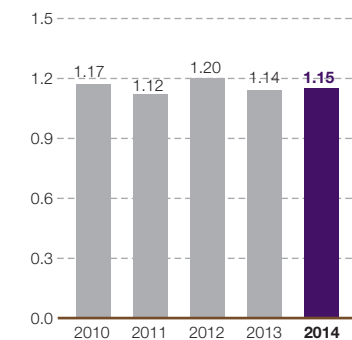
Total assets

millions of RMB



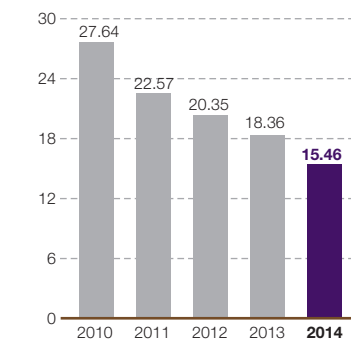
Return on average total assets

%



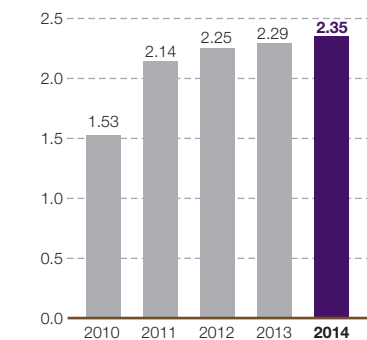
Return on average equity

%



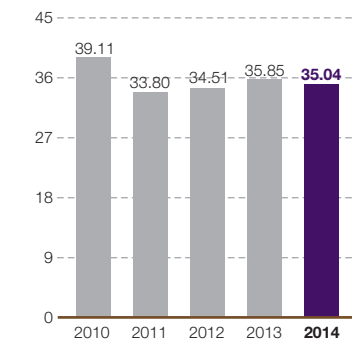
Impairment losses on loans

%



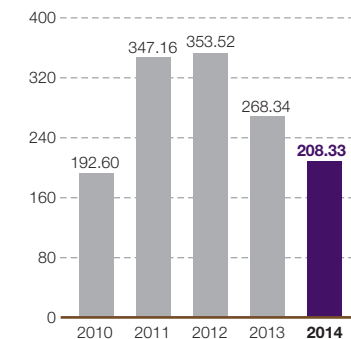
Cost-to-income ratio

%



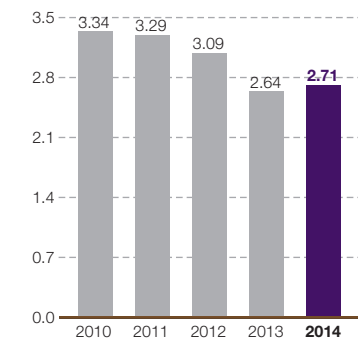
Impairment coverage ratio

%



Net interest margin

%



Summary of Accounting Data and Financial Indicators

Financial Highlights

The financial information contained herein is prepared under the International Financial Reporting Standards on a consolidated basis. Unless otherwise stated, such information is the data of the Group denominated in RMB.

	For the year ended 31 December					
	2014	2013	2014 vs. 2013	2012	2011	2010
	(In millions of RMB, except percentages)					
Results of operations	Rate of change					
Net interest income	8,397.6	6,817.8	23.17%	6,658.4	4,818.1	2,955.9
Net fee and commission income	1,600.3	1,247.1	28.32%	678.7	411.8	116.2
Operating income	10,252.8	8,543.9	20.00%	7,711.3	5,414.0	3,245.4
Operating expenses	(4,433.3)	(3,591.0)	23.46%	(3,025.5)	(2,082.8)	(1,401.5)
Impairment losses	(709.2)	(506.1)	40.13%	(836.2)	(823.8)	(227.0)
Profit before tax	5,127.5	4,450.0	15.22%	3,859.0	2,507.4	1,616.9
Net profit	3,840.8	3,371.1	13.93%	2,871.5	1,856.4	1,227.2
Net profit attributable to shareholders of the Bank	3,806.6	3,350.3	13.62%	2,864.3	1,854.2	1,227.6
For each share (RMB yuan)	Rate of change					
Net assets per share attributable to shareholders of the Bank	2.69	2.39	12.55%	2.22	1.84	2.40
Earnings per share	0.37	0.41	-9.76%	0.37	0.34	0.26
Profitability indicators	Rate of change					
Return on average total assets ⁽¹⁾	1.15%	1.14%	0.01%	1.20%	1.12%	1.17%
Return on average equity ⁽²⁾	15.46%	18.36%	-2.90%	20.35%	22.57%	27.64%
Net interest spread ⁽³⁾	2.49%	2.56%	-0.07%	3.06%	3.27%	3.38%
Net interest margin ⁽⁴⁾	2.71%	2.64%	0.07%	3.09%	3.29%	3.34%
Net fee and commission income to operating income ratio	15.61%	14.60%	1.01%	8.80%	7.61%	3.58%
Cost-to-income ratio ⁽⁵⁾	35.04%	35.85%	-0.81%	34.51%	33.80%	39.11%

Summary of Accounting Data and Financial Indicators

	As of 31 December					
	2014	2013	2014 vs. 2013	2012	2011	2010
	(In millions of RMB, except percentages)					
Capital adequacy indicators⁽⁶⁾	Changes					
Capital adequacy ratio pursuant to the new Measures						
Core tier 1 capital adequacy ratio	13.94%	10.68%	3.26%	–	–	–
Tier 1 capital adequacy ratio	13.94%	10.68%	3.26%	–	–	–
Capital adequacy ratio	14.64%	11.95%	2.69%	–	–	–
Capital adequacy ratio calculated pursuant to the old Measures						
Core capital adequacy ratio	–	11.67%	–	11.94%	11.37%	9.04%
Capital adequacy ratio	–	12.55%	–	12.97%	12.61%	11.75%
Total equity to total assets	8.78%	6.19%	2.59%	6.27%	5.58%	4.08%
Assets quality indicators	Changes					
Non-performing loan ratio ⁽⁷⁾	1.13%	0.85%	0.28%	0.64%	0.62%	0.79%
Impairment coverage ratio ⁽⁸⁾	208.33%	268.34%	-60.01%	353.52%	347.16%	192.60%
Impairment losses on loans ⁽⁹⁾	2.35%	2.29%	0.06%	2.25%	2.14%	1.53%
Other indicators	Changes					
Loan-deposit ratio	53.37%	47.26%	6.11%	46.75%	46.92%	47.86%
Scale indicators	Rate of Change					
Total assets	343,641.6	322,175.4	6.66%	270,090.2	206,661.4	125,833.9
Of which: loans and advances to customers, net	121,014.3	103,515.0	16.91%	85,298.1	67,018.2	53,200.5
Total liabilities	313,479.0	302,248.2	3.72%	253,153.2	195,131.0	120,695.2
Of which: due to customers	232,197.2	224,178.1	3.58%	186,642.4	145,962.4	112,891.6
Share capital	10,995.6	8,246.9	33.33%	7,560.2	6,187.8	2,100.3
Equity attributable to shareholders of the Bank	29,530.3	19,727.5	49.69%	16,764.7	11,385.6	5,034.2
Non-controlling interests	632.3	199.7	216.62%	172.3	144.8	95.6
Total equity	30,162.6	19,927.2	51.36%	16,937.0	11,530.4	5,138.7

Summary of Accounting Data and Financial Indicators

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 the 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 new and old Capital Adequacy Measures, other related regulations of the PRC and PRC GAAP. The new Measures have been adopted for calculation of capital adequacy ratio since 2013, and the old Measures have ceased to be adopted by the Bank for such calculation since 2014.
- (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.

Chairman's Statement



Guo Zhiwen

Chairman

The year of 2014 witnessed an increasing downward pressure on the domestic economy, stricter regulatory policies, booming internet finance and accelerated financial disintermediation, while significant progress was also made in the interest rate marketization reform and implementation of the deposit insurance scheme. Facing these “new situations” and “new changes”, the Board of Directors, through persistent and diligent work and with strong support from our shareholders, customers and all sectors of the community, led all staff members in overcoming difficulties and challenges by completing two major events significant to the future sustainable development of the Bank.

The first task was the successful listing of the Bank. The Bank was successfully listed on the Main Board of the Hong Kong Stock Exchange on 31 March 2014 upon the issuance of 3.024 billion H Shares, which accounted for 27.5% of the Bank's total issued share capital upon completion of the issuance, and raised net proceeds of HK\$7.722 billion. At the same time, several cornerstone investors such as Fubon Financial Holdings of Taiwan and CITIC Capital of Hong Kong were also introduced. The successful listing has timely and effectively supplemented our capital, optimized our equity structure and enhanced brand awareness and our reputation, therefore opening a new chapter in the development of the Bank.

Chairman's Statement

The second task was the successful establishment of a financial leasing company. Harbin Bank Financial Leasing Co., Ltd. ("Harbin Bank Leasing"), which was promoted and established by the Bank, formally launched its business on 12 June 2014. Harbin Bank Leasing has a registered capital of RMB2 billion and is the first financial leasing company in the northeast region of China. The successful establishment of Harbin Bank Leasing marked an important step forward in the conglomeration development and grouping management of the Bank.

At the same time, focusing around the theme of "Brand Building Year", the Bank has achieved good performance in various aspects, maintaining steady and healthy growth in various operating indicators and continuously enhancing its customer services.

- (I) Steady improvement in operating efficiency. In 2014, the Bank's net profit attributable to shareholders was RMB3.8066 billion, representing an increase of 13.6% when compared with the previous year. The return on average total assets and the return on average equity were 1.15% and 15.46%, respectively. Both interest income and non-interest income maintained rapid growth, while the cost-income ratio continued to decline.
- (II) Steady and healthy development of the holding company. As of the end of 2014, Harbin Bank Leasing had invested RMB4.2 billion, realizing a net profit of over RMB30 million. The 24 village and town banks controlled by the Bank earned a net profit of RMB248.7 million, making important contributions to the development of the Bank.
- (III) Continuous enhancement of brand value. In addition to the successful listing, the Company has made new achievements in areas such as Sino-Russian financing, consumer finance, issuance of financial bonds and organizing social welfare activities, making important contributions to enhancement of our brand value. According to *The Banker*, the Bank ranked 282nd among the Top 1000 World Banks in 2014, making a great leap forward by 31 places as compared with last year, and showing continuous enhancement in awareness of our brand, reputation and market influence.
- (IV) Consolidation of microfinance advantage. Through years of accumulated experience and practices, the Bank continued to maintain a leading edge in domestic microfinance business. As of the end of December 2014, the amount of microfinance business of the Bank exceeded RMB80 billion, accounting for 65% of total loans, with microfinance interest income accounting for 69% of the total interest income. In addition, new achievements in microfinance have been made in areas such as brand management, cross-selling, customer segmentation, team building, channel development, product research and development, and technology exportation.
- (V) Continuous improvement of business systems. In 2014, the Bank set up a special department for interbank business management. Through departmentalization reform and corporatization operation, the Bank has achieved independent and specialized operations for certain aspects of its business, enhanced its risk management and risk segregation, shortened the operating chain and management range, and lowered management costs and customer financing costs, thereby laying a solid foundation for further improving our customer service quality.
- (VI) Strict observance of compliant operations. In 2014, the Board of the Bank further increased the number of indicators and its assessment weightings for the risk management of our senior management members, compliance operations and internal controls, highlighting the assessment bottom-line of our compliant operations. As a result, our risk governance structure, including application of advanced technology and legal compliance systems, was effectively enhanced. At the same time, the Board has further clarified its duties in areas such as corporate social responsibility, consumer protection and data governance.

In 2015, the reform and restructuring of China's banking industry will enter an even more crucial period. The Bank will continue to strictly comply with listing rules and regulatory requirements. We will resolutely implement our strategies in microfinance, and by focusing on "mobile financing", increase our earning capabilities and fulfil our social responsibilities, create greater value and higher returns for our shareholders, staff members and all sectors of the community.



Guo Zhiwen
Chairman

President's Statement



Gao Shuzhen

President

2014 was a year of exceptional development in the history of Harbin Bank. During the year, under a complex internal and external environment, the Bank, by persistently implementing regulatory policies and strategic decisions of the Board, successfully achieved our goal of listing in Hong Kong, effectively launched our brand building work, conducted in-depth operation management reform, thus realizing enhancement of our corporate value and setting a good start for our business development after the listing.

In 2014, seizing favourable development opportunities from the listing, the Bank comprehensively balanced between quality and benefit, maintaining stable and sustainable growth in its operating results. As of the end of 2014, the Bank's total assets were RMB343.6 billion, representing an increase of 6.7%; total loans were RMB123.9 billion, representing an increase of 17.0%; total deposits were RMB232.2 billion, representing an increase of 3.6%; NPL ratio was 1.13%; and impairment coverage ratio was 208.33%. In 2014, the net profit attributable to shareholders was RMB3.8 billion, representing a year-on-year increase of 13.6%. The Bank has a total of 332 institutions including two newly established branches, namely Yichun Branch and Nongken Branch.

President's Statement

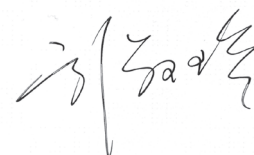
In 2014, deepening its customer-oriented and market-directed operation philosophy, the Bank established diversified business platforms and specialized business divisions, and continuously enhanced its brand value. Unique businesses, such as small credit and Sino-Russia financing, achieved innovative developments, and emerging businesses, such as consumer finance and internet finance, expanded rapidly, successively receiving a number of special awards, including "China Microcredit Best Banking Service Award" by the China Microfinance Institution Association, and the China Retail Financial Services "Excellent Car Loans Programs 2014" by Asian Banker. The Bank successfully put into operation the Sino-Russia cross-border e-commerce online payment platform, and signed a cooperation agreement with the Savings Bank of the Russian Federation, the largest bank in Russia. The Bank obtained qualification as an underwriting member of the China inter-bank Bond Market Non-Financial Enterprises Debt Financing Instruments.

In 2014, following the development and transformation trend in the banking industry, the Bank accelerated the transformation of its operation and growth modes, effectively enhancing its internal management. Overall management of assets and liabilities were further strengthened; the resources allocation mechanism and performance appraisal system based on economic capital at their cores were enhanced; overall business developments of the Bank were further promoted and operating efficiency and efficacy were steadily raised. By deepening comprehensive budget management and promotion of refined financial management, costs and expenses were effectively controlled. Through promotion and implementation of management accounting, the transformation from cost management to value management was accelerated. The specialized operation management mode of each business division was improved through adjusting the organization structure of the head office, branches and sub-branches, deepening the reform of internal mechanisms, and optimizing the decision-making mechanism of all committees, including the micro-credit committee. To consolidate its information technology foundation, the Bank successfully completed a three-year planning and construction plan for its information technology; through extensive introduction of external high-end talents, the Bank's professional management team was enriched.

In 2014, the Bank comprehensively strengthened its internal risk control and management in accordance with the Listing Rules and regulatory requirements, further improving its operation compliance and risk prevention and control. The Bank completed its first Compliance Risk Handbook, carried out its Basel project group as planned, continued to advance internal control informationization, and enhanced its risk monitoring and warning system. Meanwhile, the Bank further strengthened its key risks prevention and control based on the prevailing circumstances. The Bank, by improving its credit management mechanisms, including customer unified credit and remote credit, and by the establishment of a comprehensive whole process credit management and non-performing assets daily prevention and control mechanism, refinement of the management structure and responsibilities on case prevention and control, improving its reputation risks warning and control and strict implementation of the "four systems", achieved a "safe year" record for ten consecutive years.

These results could not have been achieved without strong support from the Board of Directors, the Board of Supervisors and our shareholders, and also the trust of our customers and the hard work of all of our staff members. Here, I extend my most sincere gratitude to them on behalf of management!

2015 is the final year in implementation of the Bank's "2011-2015" development plan, and also the Bank's theme year to vigorously develop mobile finance. Led by its small credit strategy and driven by the provision of internet and traditional services as the driving forces for a balanced development of the traditional and emerging businesses, the Bank will deepen transformation and development, reform and innovation, increasingly improve its customer services quality and operating benefits, join hands with customers and friends from all sectors of the community, to create brand-new development results!



Gao Shuzhen

President

Management Discussion and Analysis



I. Past economic and environment and operation overview

(I) Past economic and financial environment

2014 witnessed the continued divergence in global economic recovery with insufficient endogenous driving forces for economic growth. The withdrawal of the U.S. Fed's quantitative easing policy and more easing policies in Europe and Japan have brought about violent fluctuations in the international financial market. Against the backdrop of a fluctuating, complicated and volatile international political and economic situation and a weak economic recovery, Chinese economic development showed active changing trends, including changes in economic growth from high to high-to-middle growth, economic structural adjustment towards tertiary industry and consumer demands, growth driving forces changed from factors-driven and investment-driven to innovation-driven. Affected by this, China's macro economic operation maintained overall stability with growth within a reasonable range. The annual gross domestic product (GDP) amounted to RMB63.6 trillion, up 7.4% over the previous year, and the consumer price index (CPI) rose 2.0% over the previous year. At the end of the reporting period, the balance of M2 amounted to RMB122.84 trillion, up 12.2% over the previous year end; the balance of M1 amounted to RMB34.81 trillion, up 3.2%; and the balance of M0 amounted to RMB6.03 trillion, up 2.9%. At the end of reporting period, the balance of RMB loans across the country amounted to RMB81.68 trillion, and the balance of RMB deposits amounted to RMB113.86 trillion. New RMB loans made during the year amounted to RMB9.78 trillion, up RMB890 billion over the previous year, and new RMB deposits amounted to RMB9.48 trillion, down RMB3.08 trillion from the previous year.

Management Discussion and Analysis

In 2014, in order to adapt to the new normal economy, Heilongjiang province, by vigorously implementing the “Five Major Plans” development strategy, insisting on taking multi-measures structural adjustment to achieve steady growth, fully pushing forward the construction of ten key industries, and thoroughly implementing the “Two Big Plains” experimental reforms, introduced and implemented a number of reform measures, and achieved a sustainable development in its economy and society. During the past year, Sino-Russian trade volume hit a record high of US\$95.28 billion, up 6.8%, contrary to the general trend. As a major province in Sino-Russia trade, the Sino-Russian trade volume of Heilongjiang province amounted to US\$23.28 billion, up 4.1%, accounting for 24.4% of the total Sino-Russian trade volume in China. By thoroughly implementing the strategic plan of “One Belt and One Road” and with the opportunities arising from accelerating the construction of the Longjiang terrestrial and maritime Silk Road of the “China-Mongolia-Russia Economic Corridor”, Heilongjiang province will strengthen its comprehensive cooperation with Russia, driving the economic and trade cooperation to a higher level.

In 2014, Harbin City’s annual gross local production increased approximately 7% over the previous year, and fixed assets investment increased 12.2%. Total retail sales of social consumer goods amounted to RMB307.09 billion, up 12.6%. The consumer price index (CPI) rose 2.0%, lower than the regulated cap in China. The new jobs created for urban areas reached 137,000, and the registered unemployment rate was controlled within 3.72%; the overall economy basically moved in a reasonable range. Annual gross grain production hit a record high of 35.0 billion cattier, realizing a historic “eleventh-consecutive year growth” in harvest, becoming the largest grain production city in China for three consecutive years.

(II) Operation overview

In 2014, faced with a reduced speed in domestic economic growth, accelerated reform of the financial market, tighter regulatory policies and intensified industry competition, the Bank, through the leadership of the Board and supervision of the Supervisory Board, proactively met challenges posed by such changes, accelerated its business transformation, strictly adhered to the microcredit development strategy, and through stabilizing and diversifying operations, strengthened its risk management and exploring transformation models, thereby achieving continued growth in profitability with stable asset quality.

Increasing profitability

In 2014, the Bank recorded net profit attributable to equity holders of RMB3,806.6 million, up RMB456.3 million or 13.6% as compared with the same period last year, mainly due to increases in both net interest income as well as net fee and commission income. In 2014, the Bank recorded net interest income of RMB8,397.6 million, up RMB1,579.8 million or 23.2% as compared with the same period last year, and net fee and commission income of RMB1,600.3 million, up RMB353.2 million or 28.3% as compared with the same period last year. The return on average total assets increased to 1.15% as compared with 1.14% for 2013. Due to the issuance of new shares, the return on average equity was 15.46%, which represented a decrease as compared with 18.36% for 2013.

Steady business development

As of 31 December 2014, the Bank had total assets of RMB343,641.6 million, up RMB21,466.2 million or 6.7% from the end of last year. The Bank’s total loans and advances to customers amounted to RMB123,930.3 million, up RMB17,989.0 million or 17.0% from the end of last year. The Bank’s deposits from customers amounted to RMB232,197.2 million, up RMB8,019.1 million or 3.6% from the end of last year.

Management Discussion and Analysis

Stable asset quality

As of 31 December 2014, the Bank had non-performing loans balance of RMB1,399.7 million, increased by RMB495.5 million or 54.8% from the end of last year. NPL ratio, impairment losses on loans ratio and impairment coverage ratio amounted to 1.13%, 2.35% and 208.33%, increased by 0.28 and 0.06 percentage points and decreased by 60.01 percentage points from the end of last year, respectively.

II. Analysis on income statement

	For the year ended 31 December			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Interest income	18,596.8	14,141.7	4,455.1	31.5%
Interest expense	(10,199.2)	(7,323.9)	(2,875.3)	39.3%
Net interest income	8,397.6	6,817.8	1,579.8	23.2%
Fee and commission income	1,775.8	1,376.5	399.3	29.0%
Fee and commission expense	(175.5)	(129.4)	(46.1)	35.6%
Net fee and commission income	1,600.3	1,247.1	353.2	28.3%
Net trading income	181.5	283.9	(102.4)	-36.1%
Net loss on financial investments	(57.0)	(46.5)	(10.5)	22.6%
Other operating income, net	130.4	241.6	(111.2)	-46.0%
Operating income	10,252.8	8,543.9	1,708.9	20.0%
Operating expenses	(4,433.3)	(3,591.0)	(842.3)	23.5%
Impairment losses:				
Loans and advances to customers	(567.1)	(517.7)	(49.4)	9.5%
Others	(142.1)	11.6	(153.7)	1,325.0%
Operating profit	5,110.3	4,446.8	663.5	14.9%
Share of profits of an associate	17.2	3.2	14.0	437.5%
Profit before tax	5,127.5	4,450.0	677.5	15.2%
Income tax expense	(1,286.7)	(1,078.9)	(207.8)	19.3%
Net profit	3,840.8	3,371.1	469.7	13.9%

In 2014, the Bank recorded profit before tax of RMB5,127.5 million and net profit of RMB3,840.8 million, representing an increase of 15.2% and 13.9% as compared to last year, respectively.

(i) Net interest income, net interest spread and net interest margin

In 2014, the Bank recorded net interest income of RMB8,397.6 million, representing an increase of RMB1,579.8 million or 23.2% as compared to the same period last year. Among this, a net interest income growth of RMB2,073.6 million was attributable to the expansion of the Bank's business scale and a decrease of net interest income of RMB493.8 million was attributable to changes in yield or cost rate. The following tables set forth, for the periods indicated, the average balance of the Bank's 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

For the year ended 31 December

	2014			2013		
	Average balance ⁽⁶⁾	Interest income	Average yield	Average balance ⁽⁶⁾	Interest income	Average yield
(In millions of RMB, except percentages)						
Interest-earning assets						
Loans and advances to customers	118,792.3	9,432.5	7.94%	99,990.5	7,621.2	7.62%
Investments in debt securities ⁽¹⁾	74,333.0	4,628.0	6.23%	40,288.8	2,373.3	5.89%
Cash and balances with central bank	45,224.8	671.0	1.48%	41,262.6	602.1	1.46%
Due from banks and other financial institutions ⁽²⁾	71,449.5	3,833.9	5.37%	76,989.1	3,545.1	4.60%
Long-term receivables	547.4	31.4	5.74%	–	–	–
Total interest-earning assets	310,347.0	18,596.8	5.99%	258,531.0	14,141.7	5.47%

For the year ended 31 December

	2014			2013		
	Average balance ⁽⁶⁾	Interest expense	Average cost	Average balance ⁽⁶⁾	Interest expense	Average cost
(In millions of RMB, except percentages)						
Interest-bearing liabilities						
Due to customers	213,194.4	5,678.3	2.66%	185,801.6	4,160.7	2.24%
Due to banks and other financial institutions ⁽³⁾	73,681.1	4,305.3	5.84%	61,956.7	2,965.6	4.79%
Debt securities issued	3,516.4	173.8	4.94%	3,500.0	174.2	4.98%
Due to central bank	1,300.1	41.8	3.22%	664.3	23.4	3.52%
Total interest-bearing liabilities	291,692.0	10,199.2	3.50%	251,922.6	7,323.9	2.91%
Net interest income		8,397.6			6,817.8	
Net interest spread⁽⁴⁾			2.49%			2.56%
Net interest margin⁽⁵⁾			2.71%			2.64%

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, financial assets sold under reverse repurchase agreements and borrowing from banks and other financial and institutions.
- (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 the Bank's daily balances.

Management Discussion and Analysis

The following table sets out, for the periods indicated, the changes in the Bank's 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 the Bank's interest-earning assets and interest-bearing liabilities and changes in rates are measured by changes in the average rates of the Bank's 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		
	2014 vs. 2013		
	Increase/(decrease) due to		Net increase/ (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
	(In millions of RMB)		
Interest-earning assets			
Loans to customers	1,432.7	378.6	1,811.3
Investments in debt securities	2,005.2	249.5	2,254.7
Cash and balances with central bank	57.8	11.1	68.9
Due from banks and other financial institutions	(255.1)	543.9	288.8
Long-term receivables	31.4	–	31.4
Change in interest income	3,272.0	1,183.1	4,455.1
Interest-bearing liabilities			
Due to customers	613.6	904.0	1,517.6
Due to banks and other financial institutions	561.6	778.1	1,339.7
Debt securities issued	0.8	(1.2)	(0.4)
Due to central bank	22.4	(4.0)	18.4
Change in interest expense	1,198.4	1,676.9	2,875.3

Notes:

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

Management Discussion and Analysis

(ii) Interest income

In 2014, the Bank's interest income increased by RMB4,455.1 million or 31.5% to RMB18,596.8 million as compared to the same period last year. The Bank's average balance of interest-earning assets increased by 20.0% from RMB258,531.0 million for last year to RMB310,347.0 million for 2014 attributable to increases in the Bank's loans and advances to customers and due from banks and other financial institutions. The average yield of the Bank's interest-earning assets increased from 5.47% for last year to 5.99% for 2014, which was primarily the result of a slightly higher proportion of loans to customers and investments in receivables in interest-earning assets for 2014.

1. Interest income from loans and advances to customers

In 2014, interest income from loans and advances to customers increased by RMB1,811.3 million or 23.8% to RMB9,432.5 million as compared to the same period last year, primarily as a result of a 18.8% increase in the average balance of loans and advances to customers, which in turn was attributable to an expansion of the Bank's branch network and the Bank's efforts to develop the Bank's microcredit business, and a 0.32% increase in the average yield of the Bank's loans and advances to customers, which in turn was attributable to the Bank's further enhancing loan pricing management, optimizing market-oriented pricing mechanisms and steady implementation of microcredit strategy.

The following table sets out, for the periods indicated, the average balance, interest income and average yield for each component of the Bank's loans and advances to customers.

	For the year ended 31 December					
	2014			2013		
	Average Balance	Interest income	Average yield	Average Balance	Interest income	Average yield
	(In millions of RMB, except percentages)					
Corporate loans	75,266.1	5,736.2	7.62%	56,235.9	4,145.7	7.37%
Personal loans	41,119.5	3,529.3	8.58%	38,056.8	3,083.6	8.10%
Discounted bills	2,406.7	167.0	6.94%	5,697.8	391.9	6.88%
Total loans and advances to customers	118,792.3	9,432.5	7.94%	99,990.5	7,621.2	7.62%

Management Discussion and Analysis

2. Interest Income from Investments in Debt Securities

In 2014, interest income from investments in debt securities increased by RMB2,254.7 million or 95.0% to RMB4,628.0 million as compared to the same period last year, principally attributable to a 84.5% increase in the average balance of the Bank's investments in debt securities and a 0.34% increase in the average yield of the Bank's investments in debt securities. The increase in the average balance of the Bank's investments in debt securities was primarily attributable to an expanded and diversified investment portfolio as a result of increased capital sources from customers, while the increase in the average yield of the Bank's investments in debt securities was attributable to the Bank's strengthened management of the Bank's investment portfolio and timely allocation to financial bonds with higher yields and quality corporate bonds and an increase in the average balance of investments in receivables with a higher yield than other debt securities investments.

3. Interest Income from Cash and Balances with Central Bank

In 2014, interest income from cash and balances with central bank increased by RMB68.9 million or 11.4% to RMB671.0 million as compared to the same period last year, primarily attributable to a 9.6% increase in the average balance of the Bank's cash and balances with central bank as a result of receipt of increased deposits.

4. Interest Income from amounts due from Banks and Other Financial Institutions

In 2014, interest income from amounts due from banks and other financial institutions increased by RMB288.8 million or 8.1% to RMB3,833.9 million as compared with the same period last year, primarily attributable to a 0.77% increase in the average yield of the relevant assets, which was partially offset by a 7.2% decrease in the average balance of such assets. Such decrease was primarily attributable to more capital sources being applied to loans to customers and lesser application of such assets to investments in debt securities, whereas the increase in the average yield of the relevant assets was attributable to changes in market liquidity and structure of such assets.

5. Interest Income from long-term receivables

In 2014, interest income from long-term receivables amounted to RMB31.4 million, primarily attributable to income generated by Harbin Bank Financial Leasing Co., Ltd., a newly established subsidiary of the Bank.

(iii) Interest expense

In 2014, the Bank's interest expense increased by RMB2,875.3 million or 39.3% to RMB10,199.2 million as compared to the same period last year, primarily attributable to a 15.8% increase in the average balance of the interest-bearing liabilities from RMB251,922.6 million as of the end of 2013 to RMB291,692.0 million as of the end of 2014 resulting from a significant increase in the Bank's customer deposits. The average cost rate of interest-bearing liabilities increased from 2.91% for last year to 3.50% this year.

Management Discussion and Analysis

1. Interest Expense on Due to Customers

In 2014, the Bank's interest expense on due to customers increased by RMB1,517.6 million or 36.5% to RMB5,678.3 million as compared to the same period last year, primarily attributable to (i) a 14.7% increase in the average balance of the total due to customers from RMB185,801.6 million for 2013 to RMB213,194.4 million for 2014, and (ii) an increase in the average cost of the Bank's due to customers from 2.24% for 2013 to 2.66% for 2014. The increase in the average balance of total due to customers was primarily attributable to the expansion of the scale of the Bank's due to customers, while the increase in the average cost of the Bank's deposits was primarily attributable to the interest rate marketization which resulted in increased market competition.

	For the year ended 31 December					
	2014			2013		
	Average balance	Interest expense	Average cost ratio	Average balance	Interest expense	Average cost ratio
	(In millions of RMB, except percentages)					
Corporate deposits						
Demand	58,772.6	384.4	0.65%	60,442.9	367.4	0.61%
Time	85,594.1	3,592.9	4.20%	72,656.4	2,558.3	3.52%
Subtotal	144,366.7	3,977.3	2.75%	133,099.3	2,925.7	2.20%
Personal deposits						
Demand	25,476.9	101.7	0.40%	23,170.1	113.1	0.49%
Time	43,350.8	1,599.3	3.69%	29,532.2	1,121.9	3.80%
Subtotal	68,827.7	1,701.0	2.47%	52,702.3	1,235.0	2.34%
Total deposits from customers	213,194.4	5,678.3	2.66%	185,801.6	4,160.7	2.24%

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

In 2014, the Bank's interest expense on due to banks and other financial institutions increased by RMB1,339.7 million or 45.2% to RMB4,305.3 million as compared with the same period last year, primarily attributable to a 18.9% increase in the average balance of relevant liabilities from RMB61,956.7 million for 2013 to RMB73,681.1 million for 2014, and an increase in the average cost of the underlying liabilities from 4.79% for 2013 to 5.84% for 2014. The average balance of the underlying liabilities increased mainly because the Bank actively absorbed interbank funds and broadened its sources of liabilities, taking comprehensive consideration of the need to match assets and liabilities, while the increase in the average cost of the underlying liabilities was mainly because of the changes in market liquidity and in the structure of such liabilities.

3. Interest Expense on Debt Securities Issued

In 2014, the Bank's interest expense on debt securities issued amounted to RMB173.8 million.

Management Discussion and Analysis

(iv) Net Interest Spread and Net Interest Margin

The Bank's net interest spread decreased from 2.56% for 2013 to 2.49% for 2014, mainly attributable to the gradually smaller spread between loan and deposit rates in the banking sector resulting from the advance in the marketization of interest rate. The Bank's net interest margin increased from 2.64% for 2013 to 2.71% for 2014, mainly attributable to the slightly higher proportion of interest-generating assets with high yields during the reporting period.

(v) Non-interest income

1. Net fee and commission income

In 2014, the Bank's net fee and commission income increased by RMB353.2 million or 28.3% to RMB1,600.3 million as compared with the same period last year, primarily attributable to an increase in the Bank's advisory and consulting fees, agency and custodian fees and bank card fees as a result of the development of the related businesses.

	For the year ended 31 December			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Fee and commission income	1,775.8	1,376.5	399.3	29.0%
Advisory and consultancy fee	783.1	488.2	294.9	60.4%
Settlement fee	78.1	83.4	(5.3)	-6.4%
Agency and custodian fee	655.0	617.3	37.7	6.1%
Of which: non-principal protected wealth management agency fee	280.7	284.7	(4.0)	-1.4%
Bank card fee	210.0	149.3	60.7	40.7%
Others	49.6	38.4	11.2	29.2%
Fee and commission expense	(175.5)	(129.4)	(46.1)	35.6%
Net fee and commission income	1,600.3	1,247.1	353.2	28.3%

In 2014, the Bank's advisory and consultancy fee income reached RMB783.1 million, up RMB294.9 million or 60.4% as compared with the same period last year, mainly attributable to the expansion of the Bank's advisory and consultancy businesses, resulting in an increase in the number of the Bank's customers and a sustained growth in business volume.

The Bank realized an income of RMB78.1 million from settlement fees for 2014, down slightly as compared with the same period last year.

In 2014, the Bank's agency and custodian fee income was RMB655.0 million, up 6.1% or RMB37.7 million as compared with the same period last year, mainly as a result of the development of the Bank's trust fund custody business and wealth management business.

Management Discussion and Analysis

In 2014, the Bank earned RMB210.0 million from bank card fee, up 40.7% or RMB60.7 million as compared with the same period last year, mainly attributable to the development and marketing of the Bank card business and a rise in the issuance and transaction volume of the Bank cards during the reporting period.

Other charges and commission generated income of RMB49.6 million, up 29.2% or RMB11.2 million as compared with the same period last year. It was associated with foreign exchange business.

2. Net trading income

In 2014, the Bank's net trading income decreased by RMB102.4 million or 36.1% to RMB181.5 million as compared with the same period last year, mainly attributable to a decrease in bonds held for trading and the change in the conditions of the bond market.

3. Net loss on financial investments

In 2014, the Bank's net losses increased by RMB10.5 million or 22.6% to RMB57.0 million as compared with the same period last year, mainly attributable to fluctuations in bond markets and an increase in trading volumes of bonds.

4. Other operating income, net

In 2014, the Bank's other operating income decreased by RMB111.2 million or 46.0% to RMB130.4 million as compared with the same period last year.

(vi) Operating expenses

In 2014, the Bank's operating expenses increased by RMB842.3 million or 23.5% to RMB4,433.3 million as compared with the same period last year primarily attributable to growth in the Bank's staff cost and business tax and surcharges.

	For the year ended 31 December			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Staff costs	1,822.6	1,559.0	263.6	16.9%
Business tax and surcharges	840.3	528.2	312.1	59.1%
Depreciation and amortization	328.2	273.9	54.3	19.8%
Others	1,442.2	1,229.9	212.3	17.3%
Total operating expenses	4,433.3	3,591.0	842.3	23.5%

Staff costs are the largest component of the Bank's operating expenses, representing 41.1% and 43.4% of the Bank's total operating expenses for 2014 and 2013, respectively.

Management Discussion and Analysis

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

	For the year ended 31 December			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Staff costs				
Salaries, bonuses and allowances	1,444.8	1,248.8	196.0	15.7%
Social insurance	176.9	126.6	50.3	39.7%
Housing fund	76.4	69.1	7.3	10.6%
Staff benefits	103.4	95.8	7.6	7.9%
Labour's union expenditure and education costs	16.3	12.3	4.0	32.5%
Early retirement benefits	4.8	6.4	1.6	-25.0%
Total	1,822.6	1,559.0	263.6	16.9%

In 2014, the staff costs of the Bank were RMB1,822.6 million, up 16.9% or RMB263.6 million as compared with the same period last year, primarily attributable to more branches being established by the Bank, thus increasing the number of the Bank's staff, and their wages and benefits.

In 2014, the Bank had to pay business tax and surcharges of RMB840.3 million, up 59.1% or RMB312.1 million as compared with the same period last year, primarily attributable to the increase in interest income as well as income from fee and commission.

In 2014, depreciation and amortization were RMB328.2 million, up 19.8% or RMB54.3 million as compared with the same period last year, primarily as a result of an expansion of the distribution network and an increase in the operating offices related cost.

In 2014, the Bank's other operating expenses were RMB1,442.2 million, up 17.3% or RMB212.3 million as compared with the same period last year, primarily attributable to the Bank's business expansion.

Management Discussion and Analysis

(vii) Impairment losses

In 2014, the Bank's impairment losses increased by RMB203.1 million or 40.1% to RMB709.2 million as compared with the same period last year, primarily attributable to increase of the Bank's loans, and impairment provision for assets on prudent and dynamic basis given the comprehensive consideration as to the uncertainties in economic environment, and pursuant to the relevant requirements of the regulatory authorities.

	For the year ended 31 December			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Loans and advances to customers	567.1	517.7	49.4	9.5%
Others	142.1	(11.6)	153.7	1,325.0%
Total impairment losses	709.2	506.1	203.1	40.1%

(viii) Income Tax Expenses

In 2014, the Bank's income tax increased by RMB207.8 million or 19.3% to RMB1,286.7 million as compared to the same period last year, which was generally consistent with the increase in the Bank's operating profit.

	For the year ended 31 December			
	2014	2013	Change in amount	Rate of change
	(In millions of RMB, except percentages)			
Current income tax expenses	1,474.5	1,101.8	372.7	33.8%
Deferred income tax expenses	(187.8)	(22.9)	(164.9)	720.1%
Effective income tax expenses	1,286.7	1,078.9	207.8	19.3%

Management Discussion and Analysis

III. Analysis of key items of financial position

(i) Assets

As of 31 December 2014, the Bank's total assets increased by RMB21,466.2 million or 6.7% to RMB343,641.6 million from the end of last year. The increase was mainly attributable to the increase in the Bank's loans and advances to customers and investment securities and other financial assets.

The following table sets out, as of the dates indicated, the components of the Bank's total assets.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Loans and advances to customers, gross	123,930.3	36.1%	105,941.3	32.9%
Allowance for impairment losses	(2,916.0)	-0.8%	(2,426.3)	-0.8%
Loans and advances to customers, net	121,014.3	35.3%	103,515.0	32.1%
Investment securities and other financial assets, net	86,647.5	25.2%	71,035.9	22.1%
Cash and balances with central bank	53,871.0	15.7%	51,552.1	16.0%
Due from banks and other financial institutions	28,207.2	8.2%	33,871.2	10.5%
Reverse repurchase agreements	37,267.5	10.8%	51,111.0	15.9%
Other assets	16,634.1	4.8%	11,090.3	3.4%
Total assets	343,641.6	100.0%	322,175.4	100.0%

Management Discussion and Analysis

1. Loans and advances to customers

As of 31 December 2014, the Bank's total loans and advances to customers increased by RMB17,989.0 million to RMB123,930.3 million, representing an increase of 17.0% as compared with the end of last year.

The following table sets out, as of the dates indicated, a breakdown of the Bank's loans by business lines.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate loans	79,898.5	64.5%	63,538.2	60.0%
Personal loans	43,227.7	34.9%	40,498.6	38.2%
Discounted bills	804.1	0.6%	1,904.5	1.8%
Total loans and advances to customers	123,930.3	100.0%	105,941.3	100.0%

(1) Corporate loans

As of 31 December 2014, the Bank's corporate loans increased by RMB16,360.3 million to RMB79,898.5 million, representing an increase of 25.7% as compared with the end of last year, mainly due to an increase in the Bank's 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 out a breakdown of the Bank's corporate loans by customer type as of the dates indicated.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Loans to Small Enterprises ¹	37,609.2	47.1%	32,661.2	51.4%
Other corporate loans excluding loans to Small Enterprises	42,289.3	52.9%	30,877.0	48.6%
Total corporate loans	79,898.5	100.0%	63,538.2	100.0%

¹ Loans to Small Enterprises include corporate loans to small enterprises and micro enterprises as defined in the SME Classification Standards. According to the SME Classification Standards, there are different classification standards for different industries. For example, industrial enterprises having more than 20 but less 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 less 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 less than 20 employees or generating less than RMB3 million in operating income in a year are classified as micro enterprises, while enterprises having less 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

As of 31 December 2014, the Bank's loans to Small Enterprises increased by RMB4,948.0 million to RMB37,609.2 million, representing an increase of 15.1% as compared with the end of last year. The increase in the Bank's loans to Small Enterprises was primarily due to the Bank's proactive development of microcredit business to respond to the national policy on promoting the development of SMEs. As of 31 December 2014 and 31 December 2013, the Bank's loans to Small Enterprises accounted for 47.1% and 51.4%, respectively, of the Bank's total corporate loans.

(2) Personal loans

As of 31 December 2014, the Bank's personal loans increased by RMB2,729.1 million to RMB43,227.7 million, representing an increase of 6.7% as compared with the end of last year. This increase was mainly attributable to the Bank's 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 rural areas. The Bank's personal loans (including loans to small enterprise owners, personal consumption loans and loans to farmers) are an important component of the Bank's microcredit business, which increased accordingly under the Bank's strategy of focusing on the development of the Bank's microcredit business.

The following table sets out a breakdown of the Bank's personal loans by product type as of the dates indicated.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Loans to Small Enterprise				
Owners	15,938.1	36.9%	15,380.5	38.0%
Personal consumption loans	17,819.6	41.2%	15,870.2	39.2%
Loans to farmers	9,470.0	21.9%	9,247.9	22.8%
Total personal loans	43,227.7	100.0%	40,498.6	100.0%

As of 31 December 2014, loans to small enterprise owners, personal consumption loans and loans to farmers increased as compared with the end of last year, representing an increase of 3.6%, 12.3% and 2.4%, respectively.

Management Discussion and Analysis

2. Investment securities and other financial assets

As of 31 December 2014, the total of the Bank's investment securities and other financial assets increased by RMB15,711.6 million to RMB86,747.5 million, representing an increase of 22.1% as compared with the end of last year. The increase in such assets for 2014 was mainly due to the Bank's efforts to increase various types of investments, and continue the expansion of the Bank's capital operating channels, in order to improve the efficiency of the Bank's use of funds.

The following table sets out the components of the Bank's investment securities and other financial assets as of the dates indicated.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Investments in receivables	49,244.6	56.8%	43,528.7	61.3%
Held-to-maturity investments	19,655.7	22.7%	17,080.8	24.0%
Available-for-sale financial assets	15,934.6	18.3%	7,914.1	11.2%
Financial assets held for trading	1,912.6	2.2%	2,512.3	3.5%
Total investment securities and other financial assets	86,747.5	100.0%	71,035.9	100.0%

The following table sets out, as of the dates indicated, the distribution of the Bank's investment securities and other financial assets by debt investments and equity investments.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Debt investments:				
Bond investments	37,598.7	43.3%	27,666.3	39.0%
Debt instruments issued by financial institutions ⁽¹⁾	49,124.2	56.7%	43,345.0	61.0%
Subtotal	86,722.9	100.0%	71,011.3	100.0%
Equity investment	24.6	0.0%	24.6	0.0%
Total investment securities and other financial assets	86,747.5	100.0%	71,035.9	100.0%

Note:

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

Management Discussion and Analysis

As of 31 December 2014, the Bank's investment in debt instruments issued by financial institutions increased by RMB5,779.2 million to RMB49,124.2 million, representing an increase of 13.3% as compared with the end of last year. As a percentage of total investment securities and other financial assets, such investments decreased from 61.0% as of 31 December 2013 to 56.7% as of 31 December 2014. This decrease was mainly due to a slight decrease in the balance of certain debt instruments upon their expiry.

The following table sets out the components of bond investments as of the dates indicated.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Government bonds	3,356.3	8.9%	3,069.0	11.1%
Bonds issued by financial institutions	1,458.1	3.9%	349.0	1.2%
Corporate bonds	8,089.5	21.5%	7,771.4	28.1%
Bonds issued by policy banks	24,694.8	65.7%	16,476.9	59.6%
Total bond investments	37,598.7	100.0%	27,666.3	100.0%

3. Other components of The Bank's Assets

Other components of the Bank's 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.

As of 31 December 2014, the Bank's cash and balances with central bank increased by RMB2,318.9 million to RMB53,871.0 million, representing an increase of 4.5% as compared with the end of last year.

As of 31 December 2014, the Bank's due from banks and other financial institutions decreased by RMB5,664.0 million to RMB28,207.2 million, representing a decrease of 16.7% as compared with the end of last year.

As of 31 December 2014, the Bank's financial assets held under reverse repurchase agreements decreased by RMB13,843.5 million to RMB37,267.5 million, representing a decrease of 27.1% as compared with the end of last year. The changes in due from banks and other financial institutions and the financial assets held under reverse repurchase agreements above was largely because the Bank moderately adjusted the scale of such assets based on the need to match assets and liabilities and changes in liquidity in the market.

Management Discussion and Analysis

(ii) Liabilities

As of 31 December 2014, the Bank's total liabilities increased by RMB11,230.8 million to RMB313,479.0 million, representing an increase of 3.7% as compared with the end of last year.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Due to customers	232,197.2	74.2%	224,178.1	74.2%
Due to banks and other financial institutions ⁽¹⁾	63,020.5	20.1%	50,610.9	16.7%
Repurchase agreements	6,002.5	1.9%	19,091.2	6.3%
Debt securities issued	4,498.2	1.4%	3,500.0	1.1%
Due to central bank	1,716.9	0.5%	787.2	0.3%
Other liabilities ⁽²⁾	6,043.7	1.9%	4,080.8	1.4%
Total liabilities	313,479.0	100.0%	302,248.2	100.0%

Notes:

- (1) Due to banks and other financial institutions and includes borrowing from banks and other financial institutions.
- (2) Other liabilities primarily consist of negative fair value of derivatives, income tax payable and other tax payable, interest payable, items in the process of clearance and settlement as well as staff salary payable.

Management Discussion and Analysis

1. Due to customers

As of 31 December 2014, the Bank's due to customers increased by RMB8,019.1 million to RMB232,197.2 million, representing an increase of 3.6% as compared with the end of last year. This increase in the Bank's due to customers was primarily attributable to the expansion of outlets, improvement of service and strengthening of marketing capabilities.

The following table sets out the Bank's due to customers by product type and maturity profile of deposits as of the dates indicated.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate deposits				
Demand deposits	77,449.4	33.4%	79,909.6	35.6%
Time deposits	78,163.2	33.6%	76,894.5	34.3%
Subtotal	155,612.6	67.0%	156,804.1	69.9%
Personal deposits				
Demand deposits	29,179.3	12.6%	33,789.1	15.1%
Time deposits	47,405.3	20.4%	33,584.9	15.0%
Subtotal	76,584.6	33.0%	67,374.0	30.1%
Total due to customers	232,197.2	100.0%	224,178.1	100.0%

2. Due to banks and other financial institutions

As of 31 December 2014, the amount due to banks and other financial institutions increased by RMB12,409.6 million to RMB63,020.5 million, representing an increase of 24.5% as compared with the end of last year. This increase in these liabilities was primarily due to the Bank's actively accepting liabilities from other banks and broadening the Bank's sources of liabilities in order to increase return in response to the changes in market liquidity and the need to match assets and liabilities.

Management Discussion and Analysis

3. Repurchase amounts

As of 31 December 2014, the Bank's repurchase amounts decreased by RMB13,088.7 million to RMB6,002.5 million, representing a decrease of 68.6% as compared with the end of last year. The changes in the Bank's repurchase amounts reflected adjustments to the proportion of repurchase amounts to the Bank's liabilities based on market liquidity and the Bank's capital needs in view of the need to match assets and liabilities.

(iii) Shareholders' Equity

As of 31 December 2014, the Bank's shareholders' equity increased by RMB10,235.4 million to RMB30,162.6 million, representing an increase of 51.4% as compared with the end of last year. As of 31 December 2014, equity attributable to shareholders of the parent company increased by RMB9,802.8 million to RMB29,530.3 million, representing an increase of 49.7% as compared with the end of last year. The increase in shareholders' equity was mainly due to the issue of the Bank's new shares as well as an increase of the Bank's net profit.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Share capital	10,995.6	36.5%	8,246.9	41.4%
Reserves	13,047.6	43.2%	7,449.9	37.4%
Retained profit	5,487.1	18.2%	4,030.7	20.2%
Equity attributable to equity holders of the Bank	29,530.3	97.9%	19,727.5	99.0%
Non-controlling interests	632.3	2.1%	199.7	1.0%
Total equity	30,162.6	100.0%	19,927.2	100.0%

Management Discussion and Analysis

IV. Off-balance Sheet Commitments

The following table sets out the contractual amounts of the Bank's off-balance sheet commitments as of the dates indicated.

	As of 31 December	
	2014	2013
	(In millions of RMB)	
Credit commitments:		
Bank bills acceptance	37,142.5	42,654.8
Issued letters of guarantee	5,302.5	1,821.1
Issued sight letters of credit	1,231.8	2,204.1
Credit limit of credit card	635.8	1,238.2
Subtotal	44,312.6	47,918.2
Capital expenditure commitments	1,687.1	1,437.4
Operating lease commitments	1,031.5	670.1
Treasury bond redemption commitments	2,220.0	1,620.0
Relief obligation under risk cooperative fund	180.0	180.0
Total	49,431.2	51,825.7

In addition, as of 31 December 2014, there was no material litigation in which either the Bank or subsidiaries of the Bank is a defendant. As of the reporting date, the Bank had no significant contingent liabilities. Details of off-balance sheet commitments contracts are disclosed in note "commitments and contingent liabilities" in financial statements.

Management Discussion and Analysis

V. Analysis on Loan Quality

During the reporting period, the Bank continued to strengthen credit risk management, improve credit investigation and credit approvals and strengthen 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, the Bank faced an upward pressure upon non-performing loans due to changes in the external business environment and the impact of natural disasters in the Heilongjiang region last year. As of 31 December 2014, the balance of non-performing loans was RMB1,399.7 million. The non-performing loans ratio amounted to 1.13%, up 0.28% as compared with the end of last year.

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

The following table sets out the Bank's loans and advances to customers in each category of the Bank's five-category loan classification as of the dates indicated.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Pass	120,540.4	97.3%	103,945.6	98.1%
Special mention	1,990.2	1.6%	1,091.5	1.0%
Substandard	535.2	0.4%	405.4	0.4%
Doubtful	445.4	0.4%	265.3	0.3%
Loss	419.1	0.3%	233.5	0.2%
Total loans to customers	123,930.3	100.0%	105,941.3	100.0%
Non-performing loans and NPL ratio⁽¹⁾	1,399.7	1.13%	904.2	0.85%

Note:

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

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

Management Discussion and Analysis

(ii) The distribution of loans and non-performing loans by business line

The following table sets out the Bank's loans and non-performing loans by business lines as of the dates indicated.

	As of 31 December					
	2014			2013		
	Loan amount	NPL amount	NPL ratio	Loan amount	NPL amount	NPL ratio
	(In millions of RMB, except percentages)					
Corporate loans						
Loans to small enterprises	37,609.2	448.9	1.19%	32,661.2	160.9	0.49%
Other corporate loans excluding						
Loans to small enterprises	42,289.3	77.5	0.18%	30,877.0	30.0	0.10%
Subtotal	79,898.5	526.4	0.66%	63,538.2	190.9	0.30%
Personal loans						
Loans to small enterprise owners	15,938.1	109.1	0.68%	15,380.5	110.7	0.72%
Personal consumption loans	17,819.6	86.8	0.49%	15,870.2	88.1	0.56%
Loans to farmers	9,470.0	677.4	7.15%	9,247.9	514.5	5.56%
Subtotal	43,227.7	873.3	2.02%	40,498.6	713.3	1.76%
Discounted bills	804.1	–	–	1,904.5	–	–
Total	123,930.3	1,399.7	1.13%	105,941.3	904.2	0.85%

In 2014, the Bank actively responded to the national policies by strengthening the adjustment of loans structure and continuing to develop microcredit business (corporate loans to small enterprises and personal loans). At the end of the reporting period, the NPL ratio of corporate loans rose by 0.36% to 0.66%, mainly due to an increase in non-performing corporate loans to small enterprises. The NPL ratio of personal loans increased by 0.26% to 2.02%, mainly due to the increase of non-performing loans to farmers.

Management Discussion and Analysis

(iii) The distribution of loans and non-performing loans classified by industry

The following table sets out the distribution of the Bank's loans and non-performing loans by industry as of the dates indicated.

	As of 31 December							
	2014				2013			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
(In millions of RMB, except percentages)								
Agriculture, forestry, husbandry and fishery	3,563.6	2.9%	11.0	0.31%	4,163.2	3.9%	1.6	0.04%
Mining	371.9	0.3%	–	–	874.6	0.8%	–	–
Manufacturing	11,582.6	9.3%	238.1	2.06%	13,603.7	12.8%	60.3	0.44%
Production and supply of electricity, gas and water	2,125.2	1.7%	–	–	1,535.6	1.5%	–	–
Construction	5,895.5	4.8%	14.4	0.24%	5,171.5	4.9%	10.4	0.20%
Transportation, storage and postal services	2,662.7	2.2%	–	–	2,194.0	2.1%	–	–
Information transmission, computer services and software	584.6	0.5%	0.9	0.15%	544.2	0.5%	0.9	0.17%
Wholesale and services	28,378.9	22.9%	255.3	0.90%	21,778.9	20.6%	113.9	0.52%
Accommodations and Catering	2,571.6	2.1%	–	–	1,234.0	1.2%	–	–
Finance	44.0	0.0%	–	–	20.0	0.0%	–	–
Real estate	6,853.5	5.5%	2.9	0.04%	2,236.3	2.1%	3.4	0.15%
Rental and commercial services	11,620.4	9.4%	–	–	5,523.2	5.2%	0.4	0.01%
Scientific research, technical services and geological prospecting	378.6	0.3%	3.8	1.00%	179.9	0.2%	–	–
Water conservation, environment, public utility management and investment	2,068.2	1.7%	–	–	2,543.6	2.4%	–	–
Residential and other services	430.0	0.3%	–	–	992.2	0.9%	–	–
Education	405.2	0.3%	–	–	481.2	0.5%	–	–
Health, social security and social welfare	235.3	0.2%	–	–	264.4	0.3%	–	–
Culture, sports and entertainment	126.7	0.1%	–	–	180.3	0.2%	–	–
Public management and social organization	–	–	–	–	17.4	0.0%	–	–
Total corporate loans	79,898.5	64.5%	526.4	0.66%	63,538.2	60.0%	190.9	0.30%
Total personal loans	43,227.7	34.9%	873.3	2.02%	40,498.6	38.2%	713.3	1.76%
Discounted bills	804.1	0.6%	–	–	1,904.5	1.8%	–	–
Total	123,930.3	100.0%	1,399.7	1.13%	105,941.3	100.0%	904.2	0.85%

As of 31 December 2014, the non-performing corporate loans of the Bank concentrated in the wholesale and service industry and the manufacturing industry, with NPL ratio of 0.90% and 2.06%, respectively.

Management Discussion and Analysis

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

The following table sets out the distribution of the Bank's loans and non-performing loans by geographical region as of the dates indicated.

	As of 31 December							
	2014				2013			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
	(In millions of RMB, except percentages)							
Heilongjiang region	61,960.3	50.0%	1,127.2	1.82%	53,879.6	50.9%	805.4	1.49%
Other Northeast region	22,515.2	18.2%	113.2	0.50%	18,343.1	17.3%	73.2	0.40%
Southwest region	27,074.3	21.8%	93.5	0.35%	23,555.6	22.2%	0.7	0.00%
Northern China	10,104.8	8.2%	47.5	0.47%	7,517.2	7.1%	17.7	0.24%
Other regions	2,275.7	1.8%	18.3	0.80%	2,645.8	2.5%	7.2	0.27%
Total	123,930.3	100.0%	1,399.7	1.13%	105,941.3	100.0%	904.2	0.85%

As of 31 December 2014, a majority of the Bank's 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 the Bank's loans and advances to customers.

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

The following table sets out the distribution of the Bank's loans and non-performing loans by collateral as of the dates indicated.

	As of 31 December							
	2014				2013			
	Loan amount	% of total	NPL amount	NPL ratio	Loan amount	% of total	NPL amount	NPL ratio
	(In millions of RMB, except percentages)							
Unsecured loans	5,452.1	4.4%	73.3	1.34%	4,902.8	4.6%	38.9	0.79%
Guaranteed loans	46,219.0	37.3%	980.0	2.12%	41,061.8	38.8%	586.8	1.43%
Collateralized loans	61,378.4	49.5%	313.9	0.51%	45,948.2	43.4%	278.5	0.61%
Pledged loans	10,880.8	8.8%	32.5	0.30%	14,028.5	13.2%	-	-
Total	123,930.3	100.0%	1,399.7	1.13%	105,941.3	100.0%	904.2	0.85%

Management Discussion and Analysis

(vi) Concentration of Borrowers

As of 31 December 2014, the Bank was in compliance with the lending limit of 10% of the Bank's net capital to any single borrower. The following table sets out, as of 31 December 2014, the Bank's 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 2014		
		Loan balance	% of Total loans	% of Net capital
(In millions of RMB, except percentages)				
Borrower A	Wholesale and services	1,000.0	0.81%	3.16%
Borrower B	Wholesale and services	988.0	0.80%	3.13%
Borrower C	Real estate	786.7	0.63%	2.49%
Borrower D	Wholesale and services	700.0	0.56%	2.21%
Borrower E	Accommodation and catering	638.3	0.52%	2.02%
Borrower F	Leasing and business services	615.0	0.50%	1.95%
Borrower G	Wholesale and services	578.0	0.47%	1.83%
Borrower H	Real estate	556.0	0.45%	1.76%
Borrower I	Leasing and business services	540.0	0.43%	1.71%
Borrower J	Real estate	520.5	0.42%	1.65%
Total		6,922.5	5.59%	21.91%

Management Discussion and Analysis

(vii) Overdue loans and advances to customers

The following table sets out, as of the dates indicated, the distribution of the Bank's loans and advances to customers by maturity.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Current loans	120,961.1	97.6%	104,566.0	98.7%
Loans past due: ⁽¹⁾				
For 1 to 90 days	1,428.9	1.2%	440.1	0.4%
For 91 days to 1 year	789.4	0.6%	588.3	0.6%
For 1 year and above	750.9	0.6%	346.9	0.3%
Subtotal	2,969.2	2.4%	1,375.3	1.3%
Total loans to customers	123,930.3	100.0%	105,941.3	100.0%

As of 31 December 2014, the amount of overdue loans totaled RMB2,969.2 million, up RMB1,593.9 million as compared with the end of last year; the overdue loans accounted for 2.4% of the total loans, up 1.1% as compared with the end of last year. The increase in the overdue loans was mainly due to changes in external business environment.

Note:

(1) Loans to customers with specific repayment date are classified as overdue when the principal becomes overdue.

Management Discussion and Analysis

(viii) Movements of allowance for impairment losses on loans

The Bank adopts individual assessment and collective assessment on impairment loss on loans as of the balance sheet dates. The Bank takes prudence as its principle and makes provision for impairment in the full amount. As of 31 December 2014, impairment losses on loans amounted to RMB2,916.1 million, up RMB489.8 million as compared with the end of last year. The impairment losses on loans ratio was 2.35%, up 0.06 percentage points as compared with the end of last year.

Movements of allowance for impairment losses are as follows:

Items	As of 31 December	
	2014	2013
	(In millions of RMB)	
Balance at the beginning of the period	2,426.3	1,966.3
Exchange difference	0.3	(0.5)
Impairment loss:	567.1	517.7
Impairment allowances charged	571.0	520.9
Reversal of impairment allowances	(3.9)	(3.2)
Accreted interest on impaired loans	(45.0)	(36.2)
Write-off	(58.6)	(62.9)
Recoveries of loans and advances previously written off	26.0	41.9
Balance at the end of the period	2,916.1	2,426.3

Management Discussion and Analysis

VI. Segment Report

(i) Geographical Segment Report

The description of the geographical areas is as follows:

Heilongjiang region:	Head Office, branches in Harbin, Shuangyashan, Jixi, Hegang, Suihua, Daqing, Qitaihe, Mudanjiang, Jiamusi, Qiqihar, Yichun and Nongken as well as Harbin Bank Leasing and village and township banks operating within Heilongjiang.
Other northeast region:	Branches in Dalian, Shenyang, as well as village and township banks operating in Northeastern China excluding the ones in Heilongjiang.
Southwest region:	Branches in Chengdu, Chongqing, as well as village and township banks operating mainly in Sichuan and Chongqing and located in Southwest China.
Northern China:	Branches in 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 out certain key financial indicators of each of the Bank's head office and branches in the geographical regions for the periods indicated.

	Mainland China					Total
	Heilongjiang region	Other northeast region	Southwest region	Northern China	Other regions	
	(In millions of RMB)					
For the year ended 31 December 2014						
Operating income	6,161.3	1,127.4	1,851.0	772.7	340.4	10,252.8
Operating expenses	2,853.1	499.5	683.7	250.8	146.2	4,433.3
Impairment losses	471.5	82.7	65.5	63.5	26.0	709.2
Operating profit	2,836.7	545.3	1,101.8	458.4	168.1	5,110.3
For the year ended 31 December 2014						
Segment assets	215,750.8	42,678.9	58,879.9	18,859.9	7,472.1	343,641.6
Segment liabilities	190,846.7	43,458.6	51,176.9	21,377.3	6,619.5	313,479.0

Management Discussion and Analysis

The table below sets out the Bank's operating income by geographical regions and their proportion to the Bank's total operating income for the periods indicated:

	For the year ended 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Heilongjiang region	6,161.3	60.1%	5,481.7	64.1%
Other northeast region	1,127.4	11.0%	960.6	11.2%
Southwest region	1,851.0	18.1%	1,280.7	15.0%
Northern China	772.7	7.5%	568.2	6.7%
Other regions	340.4	3.3%	252.6	3.0%
Total operating income	10,252.8	100.0%	8,543.8	100.0%

(ii) Business Segment Report

The table below sets out the Bank's operating income by business segments and their proportion to the Bank's total operating income for periods as indicated:

	For the year ended 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate banking business	3,442.5	33.6%	2,906.6	34.0%
Personal banking business	2,425.8	23.7%	2,434.7	28.5%
Treasury operations	4,257.1	41.5%	3,077.3	36.0%
Other businesses ⁽¹⁾	127.4	1.2%	125.2	1.5%
Total operating income	10,252.8	100.0%	8,543.8	100.0%

Note:

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

Management Discussion and Analysis

VII. Analysis on Capital Adequacy Ratio

The Group continued to optimize its business structure and strengthen capital management, and as of 31 December 2014, the capital adequacy ratio, tier 1 capital adequacy ratio and core tier 1 capital adequacy ratio were 14.64%, 13.94% and 13.94%, up 2.69%, 3.26% and 3.26%, respectively, as compared with the end of last year, which were in line with the requirements during the transition period provided in the Regulations Governing Capital of Commercial Banks (Provisional) issued by CBRC. The changes in capital adequacy ratio were mainly due to the increase in net profit and the scale of capital resulting from the listing of new shares on the Hong Kong Stock Exchange in March 2014, the effect of which on the capital adequacy ratio was partially offset by the increase in risk-weighted assets.

In accordance with Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) issued by China Banking Regulatory Commission, the capital adequacy ratio of the Bank was (in the new measures) as follows:

	As of 31 December	
	2014	2013
	(In millions of RMB, except percentages)	
Core capital	30,160.0	19,926.6
Core Tier 1 Capital deductibles item		
Full deductibles items	(78.7)	(58.7)
Net core tier 1 capital	30,081.3	19,867.9
Net other tier 1 capital	0.0	0.0
Net tier 1 capital	30,081.3	19,867.9
Net tier 2 capital	1,516.3	2,362.8
Net capital	31,597.6	22,230.7
Credit risk-weighted assets	195,532.3	169,098.0
Market risk-weighted assets	3,990.1	3,589.7
Operational risk-weighted assets	16,301.5	13,326.8
Total risk-weighted assets	215,823.9	186,014.5
Core tier 1 capital adequacy ratio	13.94%	10.68%
Tier 1 capital adequacy ratio	13.94%	10.68%
Capital adequacy ratio	14.64%	11.95%

Management Discussion and Analysis

VIII. Business Operation

(i) Corporate banking business

In 2014, while responding positively to changes of macro economics and policy environment, the Bank actively promoted the steady development of the Bank's corporate banking business and comprehensively improved sales abilities and customer services, aiming to optimize business structure and improve contribution capacities. In 2014, the Bank's operating income from corporate banking business amounted to RMB3,442.5 million, accounting for 33.6% of the total operating income over the same period, representing a year-on-year increase of 18.4%. By leveraging the advantages of the Bank's cross-regional operating network, the number of corporate customers in northeastern regions, Tianjin, Chengdu and Chongqing have demonstrated a growing trend. As of 31 December 2014, the Bank had more than 71,500 corporate customers, representing a year-on-year increase of 17.2%.

1. *Corporate deposits and loans*

The Bank provided current and term deposits service to customers based on the statutory interest rate and floating range, mostly denominated in RMB. As of 31 December 2014, the Bank's total corporate deposits amounted to RMB155,612.6 million, representing a decrease of 0.76% as compared with the end of last year.

As of 31 December 2014, the Bank's total corporate loans amounted to RMB79,898.5 million. Meanwhile, with continuous optimization of corporate loan asset structure, medium- and long-term loans due over one year accounted for 52%; loan customer renewal rate amounted to 28%.

2. *Other banking products*

The corporate banking product system was further improved. Through rationalization of businesses and products and increasingly developing products tailored to customer's actual demands, the Bank's product varieties were enriched and management process was gradually optimized, and, in particular, products relating to cash management have provided beneficial product support for business development. Through establishment of cash management system, the Bank made great efforts to improve the Bank's customer experience. The Bank initially realized funds collective management for financial clients and group clients, which increasingly expanded the Bank's customer scope and improved the comprehensive contribution of the Bank's customers.

3. *Customer management and team building*

Customer base was further consolidated by comprehensively deepening customer management work. Based on comprehensive analysis of the overall customer base, the Bank further defined customers' requirements and growth targets at different stages, and by leveraging the application and promotion of OCRM system, the Bank gradually built and improved a fully functional, unified and highly effective customer relationship management platform, and preliminarily realized customer hierarchical management, and effectively improved customer relationship and account managers' management efficiency.

During the reporting period, the Bank progressively optimized the Bank's team of account managers, and established a risk manager team and a product managers team, thus further improving the Bank's CPR marketing management structure. By actively promoting the construction of a public finance school, and relying on the "construction of college system", the Bank established differentiated ladder training courses, by combining training and testing, deepening business understanding, providing guidance to branches in carrying the Bank's "learning and education" training activities, further improving the strength and cohesion of the Bank's corporate business team. The Bank strengthened business risk management and control, optimized risk management system, enriched the team of risk managers, regulated operation system and strengthened analysis on business risks from an independent risk perspective.

Management Discussion and Analysis

4. *Demonstration work for corporate customers*

During the reporting period, in terms of debt business management, the Bank boldly adopted an innovative market-based deposit pricing operation model. By marketing the upper floating margin of term deposit rate and pricing it by negotiation according to customers' contribution, the Bank is, in the terms of knowledge and technical operation, fully preparing itself for the introduction of interest rate marketization. Leveraging its stable and outstanding corporate business performance, the Bank was awarded the "Best Corporate Business" in the third best small and medium-sized banks selection by Modern Bankers in 2014.

(ii) Personal banking

In 2014, through the Bank's continuous product innovation, product system enrichment and improvement, customer structure optimization and network efficiency enhancement, the Bank's personal banking attained a rapid development. In 2014, the Bank's operating income from personal banking business amounted to RMB2,425.8 million, accounting for 23.7% of the total operating income of the same period, representing a year-on-year decrease of 0.4%. For the year ended 31 December 2014, the number of the Bank's personal customers exceeded 6.58 million, up 17.5% over the previous year end.

1. *Personal deposits*

Adhering to the principle of customer-orientation, the Bank insisted on quality services and value enhancement to fully optimize the Bank's personal product system. The Bank deeply promoted customer value enhancement, in order to realize customer hierarchical management. The Bank formulated differentiated marketing services system with regional characteristics and improved network efficiency through constant team building, pushing personal deposit business to a new level. As of 31 December 2014, the Bank's total personal deposits amounted to RMB76,584.6 million, up RMB9,210.6 million or 13.7% over the previous year end. Total personal deposits, annual increment and market share ran ahead of the peers in the region.

2. *Personal loans*

The Bank sets the goal of becoming a first-class domestic microcredit bank known worldwide; by sustaining its dominant position of the personal loans business, constantly optimizing its credit structure, developing new personal credit products and facilitating the adjustment of customer structure and product structure, the Bank achieved a steady growth in personal loans, and was ranked a leading position in the local financial markets. As of 31 December 2014, the balance of the Bank's personal loans reached RMB43,227.7 million, accounting for 34.9% of the Bank's total loans to customers, of which, loans to small enterprise owners, personal consumption loans and loans to farmers amounted to RMB15,938.1 million, RMB17,819.6 million and RMB9,470.0 million, respectively, and accounted for 12.9%, 14.4% and 7.6%, respectively, of the Bank's total personal loans.

Management Discussion and Analysis

3. *Bank cards*

Built upon flexible instalment payments and by gradually improving and packaging the service products under the brand names of Yi Zhi Tong (一指通) and Harbin Shopping Season (哈行購物季), the Bank gained wide recognitions from the market and customers, with steady growth in its bank card revenue indicators and remarkably better performances as compared with other financial institutions of the similar type and size in terms of the Bank's average card yields and average card transaction volume. The Bank's self-developed self-receiving phone (自收單電話) POS products grew quickly; co-brand cards and affinity cards of multi-categories have achieved good sales performance in the regional market. As of 31 December 2014, the Bank issued 7,475,700 debit cards in total, and the number of the newly issued of the year amounted to 1,543,300. The Bank totally issued 155,100 credit cards, up 33,200 over the previous year end, including 108,700 activated ones.

4. *Products and services*

The Bank innovated and developed structured wealth management products and periodic open-end guaranteed wealth management products and successively realized online sales for such products. In addition, the Bank fully upgraded its sales management system and optimized its business process to improve service and management. The Bank also strengthened its cooperation with peers and carried out targeted sales of fund distribution, and continuous sales of insurance products as sales agent and sales of precious metals and other products to meet the diverse demands from customers.

(iii) *Treasury operations*

In 2014, the Bank continued to strengthen the Bank's research on macroeconomic policies and market analysis in order to seize market opportunities and reduce the adverse impacts of market volatility, minimize the impact of a slowdown in the PRC economic development and ensure steady growth of the operating income of the Bank's treasury operations. In 2014, the operating income of the Bank's treasury operations amounted to RMB4,257.1 million, accounting for 41.5% of the Bank's total operating income during the same period and representing a year-on-year increase of 38.3%.

1. *Money Market Transactions*

During the reporting period, China maintained an overall accommodative monetary policy, interbank bond market yields were under great downward pressure, though the liquidity levels oscillated in stages from time to time, however the overall market eased, and the year of 2014 under review witnessed an overall fluctuating bull market. In 2014, the 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 2014, the balance of the Bank's due from and placements with banks and other financial institutions and financial assets held under reverse repurchase agreements reached RMB65,474.7 million, representing a year-on-year decrease of 23.0% and accounting for 19.1% of the Bank's total assets. As of the same date, the balance of the Bank's due to and placements from banks and other financial institutions and financial assets sold under repurchase agreements reached RMB69,023.0 million, representing a year-on-year decrease of 1.0% and accounting for 22.0% of the Bank's total liabilities.

Management Discussion and Analysis

2. *Investments in Securities and Other Financial Assets*

During the Reporting Period, the Bank paid a close attention to the changes in the economic environment and the bond market. Based on the forecast of market interest rates, the Bank dynamically adjusted the positions in the trading accounts and seized swing trading opportunities and achieved a better spread income. Meanwhile, the Bank made suitable arrangements for investment opportunities, and realized sound investment and made timely profit. Moreover, the Bank enhanced the terms of its deposits-taking to increase its funds available for investment; in order to make full use of various investment and to continuously expand the channels for the use of various funds, the Bank appropriately increased investment in bond instruments issued by financial institutions, with a view to enhancing its fund utilization rate.

As of 31 December 2014, the Bank's total bond investments and other financial assets amounted to RMB86,747.5 million, representing an increase of RMB15,711.6 million or 22.1% as compared with the end of last year. As of 31 December 2014, the total amount of the Bank's bond investments was RMB37,598.7 million, representing an increase of 35.9% as compared with the end of last year. As of the same date, the total amount of the Bank's bond instruments issued by financial institutions was RMB49,124.2 million, representing a year-on-year increase of RMB5,779.2 million or 13.3%. Moreover, according to China Central Depository & Clearing Co., Ltd., the bonds traded by the Bank in 2014 amounted to RMB1.17 trillion.

3. *Wealth management business*

After years of operation and development, the Bank has established a comprehensive capital management and operation system for its wealth management business. The Bank has built up its "Lilac Wealth Management" brand, which is widely recognized by customers. Since 2014, the Bank strictly implemented national macro-control policies and various regulatory laws and regulations. The Bank conducted its wealth management business in a prudent manner according to law and regulations, thereby fulfilling the demands for wealth management services of the Bank's customers. In order to follow the direction of national policies and fulfill market and customers' demands, the Bank has reformed its wealth management business, facilitated product innovation and diversified product portfolio. In 2014, the Bank issued 674 tranches of wealth management products to the Bank's customers throughout the year, and raised funds in total of RMB144,293.0 million, up 78.4% over 2013. At the end of the reporting period, the balance of wealth management products and investments in non-standard debt-based assets was RMB61,106.9 million and RMB11,864.3 million, respectively. The balance of investments in non-standard debt-based assets and wealth management products represented 19.42% and 3.68% of the balance at the end of the prior year. These balances complied with the restrictions on investments in non-standard debt-based assets by commercial banks of the CBRC.

(IV) Development of key unique businesses

1. *Microcredit business*

During 2014, the Bank adhered to its microcredit business strategy. Focusing on the work theme of "Brand Building Year", the Bank explored and introduced innovative measures in a number of areas, including product research and development from an international perspective, establishing distribution channels, exporting international technology, and building a microcredit brand management system. The Bank's head office has established a microcredit committee. Meanwhile, the Bank also established various special departments including the Microcredit Department and the Consumer Finance Department, which effectively facilitated the specialized and diversified operation of microcredit business. As of 31 December 2014, the balance of the Bank's microcredit loans reached RMB80,836.9 million, representing a year-on-year increase of 10.5%, accounting for 65.2% of the Bank's total loans to customers. In 2014, the interest income from the Bank's microcredit business was RMB6,565.0 million, accounting for 69.6% of the total interest income from loans to customers.

Management Discussion and Analysis

The following table sets out the distribution of the microcredit loans by product type as of the date indicated.

	As of 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
	(In millions of RMB, except percentages)			
Corporate loans to small enterprises	37,609.2	46.5%	32,661.2	44.6%
Personal loans	43,227.7	53.5%	40,498.6	55.4%
Total microcredit	80,836.9	100.0%	73,159.8	100.0%

(1) Small enterprise financial business

During 2014, focusing on the six major aspects of small enterprise financial business, namely “Brand Building”, “NPL Controlling”, “Channel Establishing”, “Product Capturing”, “Technology Focusing” and “Team Strengthening”, the Bank solidly and steadily implemented its various strategies on small enterprise financial business.

During the reporting period, the Bank expanded its services channels for Small Enterprises through coalition with its Small and Micro Enterprise Customers, setting up of direct marketing team for Small Enterprises, specialized branches for Small Enterprises, and establishment of small and micro branches, with a view to establishing a more comprehensive financial service system for Small Enterprises. As of 31 December 2014, the Bank had more than 42,500 small enterprise customers, representing an increase of 28.61% as compared with the end of last year. In addition, the Bank focused on product innovation and technology upgrade and through its own research and development, introduced three technical services, namely Small Enterprise Evaluation Card, Joint Customer Evaluation Card and Individual Customer Evaluation Card, respectively and upgraded a total of 100 credit risk techniques for small enterprises. Comprehensive evaluation and upgrading for small enterprises were conducted, resulting in an average yield on loans from small enterprise financial business of 8.41%.

During the reporting period, the Bank closely monitored economic changes and conducted comprehensive risk evaluation over small enterprise financial business. It strictly controlled loan quality through various measures. The Bank proactively optimized loan structure, established overdue loan management system and effective and flexible credit approval system, strengthened risk research and control, and adjusted risk management policies in a timely manner. As a result, the Bank's loans to small enterprises maintained a good quality.

During the reporting period, the Bank strengthened its Small Enterprise team through business training at different levels and strengthening the establishment of its performance assessment system. Through the Bank's excellent performance in small business financial service, the Small-business Finance Department of the Bank's head office was awarded “2014 Excellent Small-business Finance Team (2014小微金融優秀團隊)”, and the Bank's “Revolving Loans for Small and Micro Enterprises (小微企業循環貸款)” product was awarded “Double Top 10 Characteristic Product Awards (雙十佳特色產品獎)” for Small and Micro Enterprises by Heilongjiang Banking Association.

Management Discussion and Analysis

(2) Rural financial business

In 2014, guided by the modern agriculture industry policy of the State, the Bank continued to increase its support for new agriculture operation bodies, actively optimized structure of loans to farmers, increasingly strengthened rural financial products innovation, vigorously promoted agriculture industry-chain financial services model, and further improved risk mitigation measures on loans to farmers. Hence, the Bank's market competitiveness was steadily enhanced. As of 31 December 2014, the balance of loans to farmers of the Bank was RMB9,470.0 million.

During the reporting period, grasping the opportunities arising from the comprehensive supporting reforms of Sanjiang Plain and Songnen Plain and the implementation of the plans for border areas development and opening, the Bank expanded into blue ocean markets featuring new agricultural operation entities, such as agricultural cooperatives, family farms, leading specialized farming households. The Bank proactively leveraged on the Development and Opening-up Planning for the Border Areas in Heilongjiang and Northeastern Region of Inner Mongolia (黑龍江和內蒙古東北部地區沿邊開發開放規劃), by providing strong support for the development of different entities along border areas next to Russia, which experiences were highly recognized by the provincial and municipal leaders, as well as leaders from regulatory authorities. Centering on product innovation for new agricultural operation entities, the Bank has developed different unique products such as loans to leading specialized farming households and family farms, revolving loans to farmers, "Property Loan Pass (地貸通)" and "Warehouse Loan Pass (倉貸通)". The Bank also explored and implemented various measures, including the service mode of "government + guarantee company + bank" for new type agricultural entities, and the establishment of "Lilac" Agricultural Cooperative Association, thereby enhancing the Bank's core competitiveness in serving new agricultural entities.

During the reporting period, the Bank continued to strengthen risk management on loans to farmers. Drawing post-loan management experiences from international microcredit institutions, the Bank innovated the post-loan management on loans to farmer in terms of management structure, job duties, customer segmentation and post-sale services, and explored and implemented a three-layer post-loan management system. Meanwhile, it proactively conducted inspection and post-approval management, thereby further strengthening risk control on the Bank's loans to farmers.

During the reporting period, the Bank continued to increase the Bank's support for the establishment of rural payment channels and facilitated the construction of Farmer-assistance e-stations. As of 31 December 2014, the Bank had over 1,500 "Just-for-you" Farmer-assistance e-stations and completed approximately 310,000 transactions of various types. The Bank vigorously pushed forward a cooperative mobile phone banking project with International Finance Company (IFC), by establishing distributor network in rural areas, with a view to increasingly enhancing the Bank's core competitiveness in rural payment channels. Meanwhile, the Bank facilitated the Fu Nong Pass (福農通) "Real-time Payment" operation, which is a electronic payment method for grain purchasing enterprises, thus providing a more convenient and faster financial services for them.

Management Discussion and Analysis

(3) Micro-financing and consumer financing

In order to deepen its micro-credit strategy and inclusive financial services, the Bank has established the Microfinance Business Department and Consumer Finance Business Department to focus on the provision of small loans to owners of Small and Micro Enterprises, individual commercial enterprises and employees in towns and cities.

In respect of micro-financing, the department completed the model design from an international perspective, by establishing an operating structure with collective management and professionalised team, and a head office and branch management structure by establishing the Harbin and Dalian branches. By building up a “Credit Factory” mode and changing from a “Department Bank” into a “Procedural Bank”, the Bank has enhanced its service efficiency and risk control. By accelerating standard product innovation and an expanded marketing channel targeting specific customer groups, the Bank has established a quality control system and anti-fraud control matrix, thereby increasing the quality of its micro-financing services.

In respect of consumer financing, in order to explore consumer financing and the goal of establishing a fast expanded customer base, the Bank established the Consumer Finance Business Department in 2014. It developed individual consuming loan products based on the characteristics and needs of customers. It also explored new markets with its strategic cooperative units. As of 31 December 2014, the Consumer Finance Business Department provided individual consuming loans of more than RMB55 million, serving over 27,000 customers.

(4) Microcredit know-how and technology R&D and exportation

In 2014, the Bank continued to advance its micro-credit strategy, by focusing on technology innovation and R&D. Leveraging on the theme of “Brand Building Year”, the establishment of micro-credit brand achieved breakthrough, including the establishment of a new micro-credit branch management structure, which is branch facing, and brand-oriented business development, aiming to increase the loyalty and recognition of the Bank’s employees. As there is no united standard in PRC micro-credit industry, the Bank successfully initiated and completed the “Bank Micro-credit Industry Standard Research” (銀行小額信貸行業標準研究) jointly commenced by the Financial Consumer Protection Bureau of the People’s Bank of China, Institute of Finance and Banking of Chinese Academy of Social Sciences and other units. The research has filled up the gap in this industry, and further strengthened the Bank’s leading position in the micro-credit field.

The Bank is committed to promote and facilitate financial business development, and continued to strengthen the promotion of micro-credit technology exportation. Under the framework of South-South Cooperation, the Bank successfully completed the technology exportation to Axis Bank, a German bank. This is the first international micro-credit technology exportation of the Bank. Meanwhile, the Bank gradually facilitated the implementation of contracted technology exportation projects. 7 domestic contracted technology exportation projects were completed as scheduled, with 19 guidance staff sent. As of 31 December 2014, a total of 5,700 micro loans were granted under all of the Bank’s technology exportation cooperative projects, which amounted to RMB6,900 million with NPL ratio of 0.01%. The Bank has assisted cooperative banks in establishing 46 small loan service organizations, with 390 employees.

Management Discussion and Analysis

2. *International business and Sino-Russia financial business*

In 2014, the Bank focused on the development of both domestic and international business, and made efforts to provide customers with comprehensive financial services in RMB and foreign currencies, at home and abroad. Centering on the key work requirements with Russia put forward by the State, provinces, and municipalities, the Bank paid high attention to the development of Sino-Russia financial services by escalating it as a bank-wide strategy, and setting-up the Sino-Russia Financial Service Department. It provided multi-sessions and whole-process Sino-Russia financial services with integration of domestic and foreign trade for Russia-related enterprises, thereby establishing a comprehensive Sino-Russia financial service platform with integrated financing, settlement, risk aversion and wealth management. In terms of market-making transactions in Ruble, the Bank achieved significant breakthroughs in Sino-Russia financial services in cash exchange, cooperation with banks, cross-border financing. Such services gradually became the pioneer of innovation in Sino-Russia financial services, enriching the position of Heilongjiang province as a bridgehead for Sino-Russia financial services.

During the reporting period, the Bank's international settlements reached US\$2,580 million, representing a year-on-year increase of 12%. A total of US\$790 million foreign currency loans and international trade financing were granted. In addition, the Bank accelerated the development speed of various financial businesses with Russia, maintaining the leading position among domestic banks in Ruble market-making transactions and Ruble cash exchange. As of 31 December 2014, the Bank handled Ruble cash exchange of RUB5,502.7 million. The Bank is a bank designated by PBOC for cross-border cash transaction. Under the prerequisite of consolidating cross-border channels of European Ruble cash with Russia, the Bank opened up the Far East channel with Russia, thus achieving a breakthrough in Ruble cash transaction with Russia in the Far East. Accumulated cross-border transaction in Ruble cash throughout the year amounted to RUB4,975.0 million, representing a year-on-year increase of 537.8%, constituting the Bank as the biggest Sino-Russia cash transaction institution in China. The trading volume of Ruble foreign exchange amounted to RUB35,991.4 million, of which the trading volume of domestic interbank market amounted to RUB20,320.9 million, representing a year-on-year increase of 263.7%. The transaction volume of Renminbi with banks in Russia amounted to RMB29.6 million, representing a year-on-year increase of 61.7%.

During the reporting period, the Bank focused on the cooperation with overseas financial institutions. As of 31 December 2014, the number of the Bank's overseas agencies reached 688, including 114 agencies in Russia, constituting the Bank as the bank with the largest number of Sino-Russia agencies and accounts in China. In addition, the Bank successfully entered into a cooperation agreement with Sberbank, the largest bank in Russia, realizing money placements of RMB1 billion. This facilitated the internationalization of RMB. Under the 2014 Interbank Foreign Exchange Market Appraisal, leveraging on its capacity as the taker (i.e. conduct active transaction), the Bank ranked in the Top 20 list for its high transaction volume. Thus, the reputation and influence of the Bank in the interbank market had greatly increased. At the same time, the Bank became the Designated Foreign Exchange Bank classified as Class A Foreign Exchange Management by the State Administration of Foreign Exchange, Heilongjiang Branch for six consecutive years, which is the only bank in Heilongjiang Province with such designation.

Management Discussion and Analysis

(V) Development of controlling subsidiaries

1. *Village and township banks*

At the end of the reporting period, the Bank had 24 controlling village and township banks, 29 village and township sub-branches, which are mainly located in the eastern, central and western regions of China, across 7 administrative regions in northeast, northern, northwest, southwest, central south, south and eastern China. As of 31 December 2014, the total assets of our 24 village and township banks amounted to RMB16,900 million. Of which, the total amount of loans amounted to RMB9,500 million, representing an increase of 15.1% as compared with the end of last year. The balance of deposit amounted to RMB11,800 million, representing an increase of 14.2% as compared with the end of last year. Net profit amounted to RMB249 million, representing a year-on-year increase of 21.5%.

The village and township banks invested and established by the Bank thoroughly implemented the overall strategy of the Group. Centering on the “four adherences” i.e. adhering to localization, lower stream expansion, specialised operation and serving the “three rurals” and Small and Micro Enterprises, the Bank, based on the characteristics of village and township banks at different development stages, gradually established the unique culture, philosophy, management mode and working procedure for its village and township banks, with a view to developing them into the best local banks for the common people.

2. *Harbin Bank Financial Leasing Co., Ltd.*

The Bank, as the main promoter, applied to the CBRC for the promotion and establishment of Harbin Bank Financial Leasing Co., Ltd. The registered address of Harbin Bank Financial Leasing Co., Ltd. is Harbin City, Heilongjiang Province, with a registered capital of RMB2 billion in which the Company investment is RMB1.6 billion for an equity interest of 80%. On 15 January 2014, Harbin Bank Financial Leasing Co., Ltd. obtained the approval for establishment under approval document number: No. 35 [2014] of the CBRC. Harbin Bank Financial Leasing Co., Ltd. obtained the commencement of business approval by the CBRC Heilongjiang Bureau (No. 147 [2014] of the CBRC, Heilongjiang office) on 10 June 2014, and it formally commenced business operation since 12 June 2014.

By adhering to the strategic positioning of “giving priority to agriculture, focusing on agriculture machinery, being based on Longjiang and geared to China” and line with the development of “two plains”, namely Sanjiang Plain and Songnen Plain, in Heilongjiang and the policy guidelines for the development of modern agriculture in China, Harbin Bank Financial Leasing Co., Ltd. fully promoted the upgrading of agricultural industry and equipment manufacturing industry, and made innovations on rural financial service channels, in order to promote the development of agriculture and regional economy. As of 31 December 2014, total assets and net profit of Harbin Bank Financial Leasing Co., Ltd. amounted to RMB5,815.9 million and RMB33.1 million respectively, with rental yield of 100%. In December 2014, it was awarded the “Best Agricultural Financing Services and Leasing Company (最佳農業金融服務租賃公司)” by CBN (《第一財經》).

Management Discussion and Analysis

(VI) Distribution Channels

1. *Physical Network*

As of 31 December 2014, the Group had a total of 332 branch outlets, including: 17 branches, 261 sub-branches, 1 branch-level financial service center for small enterprises, and 24 controlling village and township banks and their 29 sub-branches. During the year, there were 2 newly established branches, namely Yichun Branch and Nongken Branch. The Nongken Branch was set up through the upgrading of the former Jiansanjiang sub-branch of Heilongjiang Province.

2. *Electronic Banking*

Insisting on developing through innovation, centering on application and promotion of new platforms, and based on improving customer experience, the Bank strengthened the establishment and optimization of basic electronic platforms to expand their application into new businesses, and proactively facilitated the strategic transformation of marketing and services of electronic banking.

(1) **Self-service banking**

From the perspective of building up self-service channels, the Bank pushed forward the upgrading and improvement of relevant systems of self-service terminals. Such terminals provided various convenient services to customers, including deposit and withdrawal, account inquiry, bill payment, passcode changing and transfer services. As of 31 December 2014, the Bank had 780 self-service terminals, up 9.86% as compared to the end of last year, including 344 automatic withdrawal machine, 277 ATMs and 159 multi-media inquiry machines.

(2) **Online banking**

Being customer-oriented, the Bank accelerated the application and promotion of new online banking. As of 31 December 2014, a total of 525,570 new customers opened their online banking accounts, representing an increase of 165.50% over last year. Of which: new corporate customers amounted to 18,802, representing an increase of 57.59% over last year, with transaction amount reaching RMB527,147 million. New personal customers amounted to 506,768, representing an increase of 204.66% over last year, with transaction amount reaching RMB127,441 million.

(3) **Phone banking**

The Bank provided 24-hour services to customers through the unified national customer service hotline 95537. Such services include account inquiries, bill payment, transfer, investment and wealth management, credit card, verbal report of loss, passcode service, operator inquiry and outgoing calls. As of 31 December 2014, the business volume of the customer service center totaled 2,340,000 calls.

(4) **WeChat banking**

In November 2014, the version V1.0 of WeChat banking “Xiao Ha (小哈)” was officially launched. After launching the WeChat red envelope campaign, there were a total of 140,000 new followers, of which 50,000 were new debit card users. A headcount of 3,250,000 users in aggregate opened the red envelopes. The link for red envelope sharing covered most of the friend circle of users in Harbin, and it became a hot topic between citizens in Harbin.

Management Discussion and Analysis

(VII) Information Technology:

In 2014, the Bank continued its work on information technology establishment and achieved good results in the establishment of major application systems, support on business innovation and development, establishment of infrastructures, independent research and development, as well as optimization of internal management procedures.

1. *Progressing and planning project construction with quality and quantity, as well as enhancing the Bank's IT support*

In 2014, the Bank successfully completed the launch and operation of 28 projects, including the Sino-Russia cross-border e-commerce payment platform, new generation customer service center and second generation payment services. Of which, the launch of Sino-Russia cross-border e-commerce payment platform, a key project of the Bank, not only completed the significant assignment from the State, but also provided a cross-border e-commerce payment platform for enterprises or shops with an all-in-one and all-rounded online and offline capital solution. The Bank's microcredit system won the "Second Prize in Scientific Technology Research" awarded by the People's Bank of China. Under the intense competition in the online financial market, the Bank launched the POS loan product, securing a position for itself in online financial products.

2. *Facilitating technology and business innovation centering on the customer needs*

The Bank continued to focus on the needs of the Bank's customers. With a view to increasing the Bank's value, the Bank pushed forward the works on service transformation, centralization of back-up operation, enhancement of network service, as well as the establishment of online POS loans and e-commerce platform. The Bank held its First Technology Innovation Competition and implemented the nominated innovative proposals including "Smart Network" and "WeChat Banking", which effectively stimulated the creativity of the Bank's staff, and created a positive and breakthrough pursuing environment throughout the Bank.

3. *Optimizing infrastructure construction, and improving self-innovation ability*

After years of efforts, the Bank gradually established the applied-level disaster recovery system in the same city and different areas, which formed a data center structure with three centers in two cities. The monitoring system has continuously enhanced improving. The Bank successfully completed phase II of the monitoring project, which covered 8 types of infrastructure and 73 operating systems. The coverage and effectiveness of the monitoring system greatly improved, and monitoring became more accurate and timely. The Bank continued to enhance its R&D ability, and completed the R&D works on various projects including the blacklist system, new intermediate business platform and pre-processing system. Meanwhile, the Bank completed over 700 R&D tasks throughout the year. It proactively initiated the optimization of SMS model of core systems and reform of year-end settlement. This enhanced the serving capability of core systems.

IX. Risk Management

In 2014, centering on the theme of "Brand Building Year", the Bank continuously improved its risk management system and adhered to the core concept of "risk management creating value", aiming to maximize the risk-adjusted revenue. The Bank promoted the innovation and application of risk management techniques, and optimized and adjusted risk management system in compliance with new regulation standards under the Basel Accords, enhancing the overall risk management level and risk prevention and control abilities.

Management Discussion and Analysis

(I) Credit Risk

Credit risk refers to the Bank's 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 the financial products. The Bank's credit risks exist mainly in loan portfolios, investment portfolios, guarantees, commitments and other on- and off-balance-sheet exposures. The Bank executed a unified risk appetite in credit risk management and controlled risk within an acceptable level, in order to achieve a higher risk return and realize the identification, measurement, monitoring and control of credit risk.

The Bank formulated the 2014 major risk management policies and 2014 credit management policies early this year. By incorporating national economic structural adjustment policies into regional development planning, the Bank specified credit risk management policies in different aspects of industries, customers, risk mitigation and risk pricing based on the Bank's own business characteristics. The Bank adjusted its credit risk management policy based on the changes in external macroeconomic policy and economic environment.

During the reporting period, taking the opportunity in implementing the Basel Accords, the Bank completed the mode development and application of the internal rating system for retail and non-retail operations. Based on the Bank's historical data and operation risk characteristics, the Bank developed various rating cards, pool division models and rating card application strategies which covered all retail risk exposures. It also developed the customer rating model, LGD model and model application which covered all non-retail risk exposures. The new rating model has been applied on a trial basis in some of the Bank's operations, reflecting a better risk verification ability and operation applicability. The Bank completed the pre-operation verification for models (duplicate), and adjusted the model based on the verification results. It launched the establishment of internal rating system for retail and non-retail operations, and commenced internal rating system requirements analysis. The Bank gradually commenced the design and development works for internal rating system based on the Bank's system development plan. The Bank facilitated the reassessment on risk value of collateral and completed the risk value assessment for collateral. It also conducted trial works on internal risk value assessment for collateral based on the assessment model. The Bank implemented risk data mart project, and the risk alert system was successfully applied. The risk alert system comprised over 100 alert rules, which strictly regulated alert frequency and level. The Bank has fundamentally systematised its risk alert system. A risk data mart structure which is designed to meet the requirements of internal evaluation system establishment, model verification and risk weighted assets (RWA) measurement, is under development and testing. The establishment and application of the above risk management tools and systems have further enhanced the Bank's credit risk management.

During the reporting period, the Bank optimized and further enhanced its risk monitoring and alert system. It conducted comprehensive monitoring of credit risk, dynamically adjusted industry, regional and product risk level, and timely adjusted the steel industry credit policy, direction for hospitality and catering industry policy, as well as credit guarantee policy. The Bank has strengthened the credit asset quality management, put greater efforts on monitoring and management of overdue loans, formulated specific pressure relief policy, and optimized the working procedure on transfer of non-performing loans. In view of the downward trend of the macro economy, the Bank further enhanced the management on the repayment of customers and credit loan quality assessment. It commenced risk inspection on key areas, thereby enhancing the Bank's credit risk control.

Management Discussion and Analysis

(II) Liquidity Risk

Liquidity risk refers to the risk of the Bank failing to acquire sufficient funds at reasonable cost in time in order to pay the due debt, fulfill other payment obligations and meet the capital requirements for normal operation.

The Bank has established a bank-wide liquidity risk management system to comprehensively manage liquidity risks. It has also set up liquidity risk management indicators, which monitor and control liquidity risk at a prescribed frequency.

During the reporting period, the Bank took the opportunity in implementing the Basel Accords and proactively applied the liquidity risk management project results, strengthened the monitoring of liquidity risks, the daily monitoring of liquidity flow level, interbank offered rate and repurchase rate, as well as by timely conducting analysis and reporting on abnormal changes in liquidity level. It also introduced liquidity risk analysis for branch outlets and provided guidance on liquidity control for branches. Moreover, the Bank adopted liquidity risk stress testing by combining maturity gap analysis with cash flow analysis, there by enhancing the Bank's liquidity risk management ability. The Bank combined the opinions of regulatory authorities and relevant requirements on deposit deviation management in its ordinary liquidity risk management and timely monitored and reported on the relevant indicators for consideration when formulating the policies for the next year. The Bank implemented the risk data mart project by for meeting the requirements on daily liquidity risk monitoring based on liquidity risk indicators, including monitor focus, liquidity structure monitoring and liquidity reserve monitoring, for timely and accurate monitoring of liquidity risk.

The following table sets out the remaining maturities of our financial assets and financial liabilities:

As of 31 December 2014									
	Overdue	Repayable on demand	Up to 1 month	1 up to 3 months	3 months up to 1 year	1 up to 5 years	Over 5 years	Indefinite	Total
In millions of RMB									
Total financial assets	2,242.7	18,429.5	25,685.6	40,427.8	109,654.4	53,790.1	46,286.7	36,241.4	332,758.2
Total financial liabilities	0.0	135,073.3	28,723.2	34,973.3	71,926.9	35,368.0	6,057.1	0.0	312,121.8
Net liquidity	2,242.7	(116,643.8)	(3,037.6)	5,454.5	37,727.5	18,422.1	40,229.6	36,241.4	20,636.4

(III) Market Risk

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

The market risks currently faced by the Bank are 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 the Bank-wide risk appetite.

Management Discussion and Analysis

1. 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 incurring loss on overall income and economic value of bank account due to adverse changes in interest rate and term structure etc. The Bank's account interest rate risk primarily exists in bank assets, liabilities and on-and-off-balance sheet businesses. The Bank assesses bank account interest rate risk through various measures including sensitivity analysis. It further analyses the effect of interest rate change under different scenarios on net interest income and net corporate value.

Trading account interest rate risk refers to the risk of loss in the Bank's on- and off-balance sheet businesses under the Bank's trading account as a result of adverse changes in interest rates. The interest rate risk associated with the Bank's trading accounts exists mainly in bond trading and derivative trading. In the management process, the classification standards for trading accounts and bank accounts are clearly defined and trading account interest rate risk is managed through duration analysis, sensitivity analysis, risk valuation and other methods. The Bank also strictly complied with relevant regulatory requirements to measure trading account interest rate risk using market risk standards. On the other hand, the Bank re-evaluates the market value of assets under the Bank's trading accounts on a daily basis, and conduct risk management by setting rating caps, stop-loss limits and risk limits.

The following table sets out the results of our gap analysis as of 31 December 2014, based on the earlier of (i) the next expected re-pricing dates and (ii) the final maturity dates for our financial assets and financial liabilities.

	As of 31 December 2014					Total
	Up to 3 months	3 months up to 1 year	1 up to 5 years	Over 5 years	Non interest bearing	
	In millions of RMB					
Total financial assets	147,518.5	139,209.8	26,694.6	14,407.5	4,927.8	332,758.2
Total financial liabilities	199,276.9	68,099.3	33,968.4	6,001.1	4,776.1	312,121.8
Interest rate sensitivity gap	(51,758.4)	71,110.5	(7,273.8)	8,406.4	N/A	N/A

2. Exchange Rate Risk

Exchange rate risk refers to the risk of loss in the Bank's businesses as a result of adverse changes in exchange rates. The Bank's exchange rate risk exists mainly in the Bank's foreign exchange-related trading and non-trading businesses, including foreign currency deposits, loans, spot forward and swap transactions. During the management process, the Bank effectively monitors exchange rate risk through foreign currency exposure analysis and other methods. The Bank also strictly complied with relevant regulatory requirements to measure exchange rate risk using market analysis standard. Meanwhile, the Bank sets transaction caps, stop-loss limits and exposure limits to manage exchange rate risk arising from the Bank's foreign exchange business. In respect of the Bank's unique business of market-making transactions in Ruble and Ruble cash exchange, the Bank monitors the Ruble exposure on a daily basis in order to lower exchange rate risk.

During the reporting period, the Bank continuously pushed forward the establishment of the OPICS system. It has developed and launched online the local currency bond model, thereby achieving the comprehensive integration of local and foreign currency under the Bank's capital transaction system. The Bank is going to launch the online OPICS RISK system which will serve as the engine for market risk measurement through post-inspection and pressure test, and to provide the relevant bases for the preparation of market risk report.

Management Discussion and Analysis

The following table sets out our financial assets and liabilities by currency as of 31 December 2014.

	As of 31 December 2014					
	RMB	USD equivalent to RMB	HKD equivalent to RMB	RUB equivalent to RMB	Other currencies equivalent to RMB	RMB and equivalent to RMB Total
	(In millions of RMB)					
Total financial assets	329,854.7	1,968.5	824.5	28.4	82.1	332,758.2
Total financial liabilities	310,782.2	1,119.3	91.9	14.0	114.4	312,121.8
Net position of financial assets and liabilities	19,072.5	849.2	732.6	14.4	(32.3)	20,636.4
Credit commitments	43,971.0	512.7	0.0	0.0	8.9	44,492.6

(IV) Operational Risk

Operational risk refers to the risk of loss arising from flawed internal procedures, and loss caused by staff, IT systems, and external events. Operational risk includes legal risk, but exclude strategic risk and reputation risk.

The Bank's manages operational risk at the frontline, second line and third line separately and independently. Under a unified operational risk appetite, the Bank uses a standardized operational risk management system for daily risk management to establish a full set of operational risk management systems, covering relevant corporate governance structures, policies and systems, management tools, measurement methods and IT system, which would effectively prevent occurrence of events of high operational risk.

During the reporting period, taking the opportunity arising from the implementation of the Basel Accords, the Bank promoted the bank-wide application of three major management tools, namely self-assessment on risks and control, key risk indicators, loss data collection, and put into online operation of the internal smart system operational risk management mode, which enhanced the automatic level and efficiency of operational risk management. The Bank incorporated the automatic internal control into its operation. Regular internal control procedures are conducted in the Bank's systems, thereby tracing and controlling operational risks. By strengthening operation management and supervision and promoting the post-event monitoring system across the whole bank, the Bank kept the occurrence of errors in its counter services within good control. In addition, the Bank enforced real-time alert on its counter services through the counter service risk alert system, which effectively controls the occurrence of operation risk in its counter services. By applying risk management and control mode such as centralization on accounting items, financial, seal management and lending, the Bank can effectively identify and control operational risk in key business areas. By fully enhancing the level of continuous business management, the Bank's key information systems on core businesses maintained a 100% stable operation rate. By monitoring and controlling the whole network and system on a real-time basis, the Bank ensured safe operation of its systems. The Bank conducted the influence analysis and risk assessment on its operations, identified the key operations and information system, and established the RTO and RPO indicators. By enriching 16 major types of exercise scenarios and strengthening key information system emergency management, the Bank achieved a 100% completion rate in its key information system emergency scenario exercises. By carrying out continuous construction of disaster recovery system throughout the Bank, the Bank finished its work goals of expanding applied-level disaster recovery centers in the same city and construction of applied-level disaster recovery centers in different places. It also successfully established the disaster recovery system with "three centers in two cities", which ensures the sustainable operation of the Bank's key businesses.

Management Discussion and Analysis

(V) Anti-money Laundering Management

In 2014, the Bank continued to implement the comprehensive trial works on large-sum anti-money laundering transactions and suspicious transactions. The operation efficiency on anti-money laundering works was enhanced by defining own monitoring rules, upgrading anti-money laundering detection system and improving anti-money laundering system. The Bank promoted the implementation of the requirements of the People's Bank of China in customer identification and customer risk rating. The Bank also proactively cooperated with authorities in commencing anti-money laundering inspection, and enhanced efforts on assessment of working quality and efficiency. In addition, the Bank held bank-wide anti-money laundering trainings and enhanced anti-money laundering awareness by organizing an anti-money laundering month within the Bank, and proactively participated in competitions organized by regulatory authorities. It won the second prize under the Fourth Heilongjiang Financial Institution Anti-money Laundering competition organized by the Harbin branch of the People's Bank of China. The Bank focused on enhancing the anti-money laundering prevention skill of staff and the overall management standard relating anti-money laundering. This helps to prevent relevant risks effectively.

X. Prospects

Looking forward, the global economy will grow at a faster pace in 2015. However, risks such as policy divergence and regional unrest still exist. Under the backdrop of a stable and growing external environment, releases of more benefits from reforms and new growth momentum, China's economy will continue to maintain a stable growth. In view of the needs for stable growth, it is expected that the government will implement proactive fiscal policy and stimulate market dynamics through innovation and reform in future. The government will implement sound monetary policy while stressing its flexibility and direction. Combining with the three major strategies of "One Belt and One Road", Beijing-Tianjin-Hebei coordinated development and Yangtze River Economic Zone, the government will promulgate preferential policies, implement differentiated credit policies in strong support of new industrialization, informatization, urbanization and agriculture modernization, and will increase financial support for small businesses, the "three rurals", and special groups. The government will vigorously promote financial reform and opening up while accelerating interest rate marketization.

Looking forward, the Bank will comprehensively implement the spirit of the Central Economic Working Conference. It will uphold the business philosophy of "being customer-oriented and market-oriented", and stick to implementing its micro-credit strategy. Focusing on mobile finance, the Bank will strive to promote innovation in key areas, enhance corporate value, and seek new business growth points. While maintaining its leading position in unique business and advantageous products in their respective areas and by leveraging on the projects on mobile finance, the Bank will establish itself as an online-offline integration financial institution group with special characteristics, thus laying a solid foundation for building a first-class listed bank.

Changes in Share Capital and Information on Shareholders

I. Changes in Shares of the Bank

(I) Share Capital

The Bank was listed on the Hong Kong Stock Exchange on 31 March 2014, upon an issuance of 2,748,700,000 H Shares in total. 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.

(II) Statement of Changes in Shares

Unit: shares

	1 January 2014		Increase/decrease during the reporting period (+/-)					31 December 2014	
	Number	Percentage	Private placement	New share issued	Bonus issue	Others	Subtotal	Number	Percentage
1. Non-listed shares held by domestic corporations	8,164,367,752	99.00%				-274,870,000	274,870,000	7,889,497,752	71.75%
Including: (1) shares held by state-owned enterprises	2,469,659,800	29.95%				-274,870,000	274,870,000	2,194,789,800	19.96%
(2) shares held by private enterprises	5,694,707,952	69.05%						5,694,707,952	51.79%
2. Non-listed shares held by domestic individuals	82,531,801	1.00%						82,531,801	0.75%
3. Overseas listed foreign shares				2,748,700,000		274,870,000	3,023,570,000	3,023,570,000	27.50%
Total number of shares	8,246,899,553	100%						10,995,599,553	100%

Changes in Share Capital and Information on Shareholders

II. Information on Shareholders

(I) Total Shareholders during the Reporting Period

As of 31 December 2014, the Bank had a total of 3,670 holders of Domestic Shares.

(II) Shareholdings of Shareholders

At the end of the reporting period, the Bank had a total of 10,995,599,553 shares, comprising 7,972,029,553 non-overseas listed Domestic Shares and 3,023,570,000 overseas listed H Shares.

Shareholdings of Top 10 shareholders of Non-overseas Listed Domestic Shares

Name of Shareholder	Nature of Shareholder	Number of shares held (shares)	Shareholding percentage (%)	Number of shares pledged	Type of shares
1 Harbin Economic Development	State-owned	2,160,507,748	19.65%	–	Non-overseas listed Domestic Shares
2 Harbin Kechuang Xingye Investment Company Limited	Private enterprise	720,262,554	6.55%	–	Non-overseas listed Domestic Shares
3 Heilongjiang Keruan Software Technologies Company Limited	Private enterprise	719,816,019	6.55%	–	Non-overseas listed Domestic Shares
4 Heilongjiang Xinyongsheng Trading Company Limited	Private enterprise	639,804,806	5.82%	135,811,219	Non-overseas listed Domestic Shares
5 Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	Private enterprise	572,253,048	5.20%	80,000,000	Non-overseas listed Domestic Shares
6 Heilongjiang Tuokai Economic and Trading Company Limited	Private enterprise	522,447,109	4.75%	157,491,263	Non-overseas listed Domestic Shares
7 Heilongjiang Tongda Investment Co., Ltd.	Private enterprise	358,578,793	3.26%	–	Non-overseas listed Domestic Shares
8 Harbin Jubang Investment Co., Ltd.	Private enterprise	301,170,095	2.74%	–	Non-overseas listed Domestic Shares
9 Beijing Xinrun Investment Co., Ltd.	Private enterprise	255,418,587	2.32%	–	Non-overseas listed Domestic Shares
10 Dongning Lizhi Architecture and Decoration Engineering Company Limited	Private enterprise	199,010,054	1.81%	194,982,174	Non-overseas listed Domestic Shares

Note: The aforesaid pledged or frozen shares held by the shareholders are subject to pledge only and not judicial moratorium.

Changes in Share Capital and Information on Shareholders

Substantial Interests and Short Positions

As at 31 December 2014, the interests and short positions of substantial shareholders (within the meaning of the SFO), other than directors and supervisors, in the shares and underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of shareholder	Number of shares	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 Yujiaxin Technology Company Limited	719,816,019	6.55	9.03
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 Jieshengtiancheng 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 Group Corporation	401,275,000	3.65	13.27

Changes in Share Capital and Information on Shareholders

(III) The Single Largest Shareholder and Its Parent Company (Substantial Shareholders of the Bank)

As at 31 December 2014, Harbin Economic Development, as the single largest shareholder of the Bank, held 19.65% of the 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 state-owned economic entity, with the Harbin Municipal Finance Bureau as its sole shareholder.

(IV) Pledge and Freeze of Shares by Holders of 5% or more Shareholding of the Bank

As at 31 December 2014, 215,811,219 shares held by two shareholders each with a shareholding of 5% or above of the Bank were subject to pledge.

SN	Shareholders with pledged shares	Number of pledged shares (shares)	Percentage of pledged shares in total shares (%)
1	Heilongjiang Xinyongsheng Trading Company Limited	135,811,219	1.24
2	Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	80,000,000	0.73

(V) Controlling Shareholders and Actual Controllers

The Bank has neither controlling shareholders nor actual controllers.

(VI) Shareholders with Shareholding of 5% or More of the Company

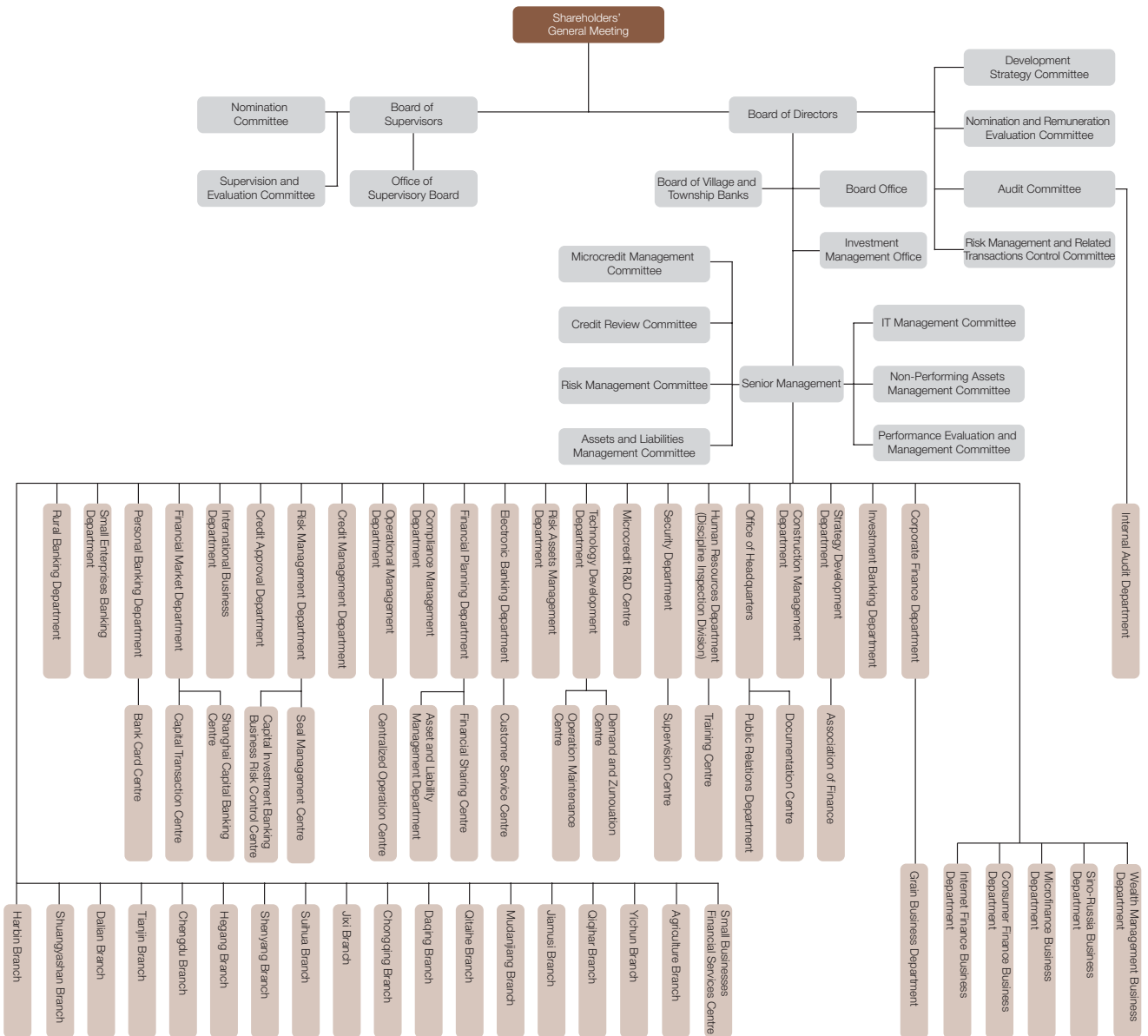
Please see (II) Shareholdings of Shareholders above for particulars of shareholders with shareholding of 5% or more of the Company as at 31 December 2014.

(VII) Performance of Undertakings by the Bank and Shareholders Holding more than 5% of the Shares

During the reporting period, neither the Bank nor the shareholders holding more than 5% of the total shares in issue of the Bank gave any undertakings.

Corporate Governance Report

I. Organization Chart of Corporate Governance



Corporate Governance Report

II. Corporate Governance Overview

Sound corporate governance is the responsibility of the Board of the Bank. In 2014, to further satisfy relevant overseas listing regulatory requirements, improve the Bank's corporate governance mechanism and enhance and improve the Bank's corporate governance, the Bank has modified and updated the Bank's corporate governance documents according to the requirements of the Hong Kong Listing Rules. The Bank has adopted the Corporate Governance Code in Appendix 14 to 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 Working Rules for the Development Strategy Committee of the Board of Directors, the Working Rules for the Risk Management and Related Transactions Control Committee of the Board of Directors, the Terms of Reference of the Audit Committee of the Board of Directors, the Terms of Reference of the Nomination and Remuneration Evaluation Committee of the Board of Directors, 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 up to 31 December 2014, the Bank has complied with the requirements of the provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules.

In addition, the Board has adopted the Model Code under Appendix 10 to the Hong Kong Listing Rules for the Directors, Supervisors and relevant employees of the Bank. After inquiries by the Bank, the Directors, Supervisors and relevant employees have confirmed that they have complied with relevant requirements of the code since the Bank's listing on the Hong Kong Stock Exchange on 31 March 2014 up to 31 December 2014.

During 2014, the Shareholders' General Meeting passed the following resolutions relating to corporate governance of the Bank:

At the 2013 annual general meeting of the Bank held on 19 June 2014, the following reports and regulatory documents on corporate governance were considered and approved: the 2013 Work Report of the Board of Directors; the 2013 Work Report of the Board of Supervisors; the 2013 annual financial statements of the Bank; the 2014 financial budgets of the Bank; the 2013 profit distribution plan; the 2013 Annual Report of the Bank; the appointment of auditors for 2014; the amendments to the Articles of Association and Rules of Procedure for Shareholders' General Meetings; and the granting to the Board a general mandate to issue additional H Shares.

In 2014, the Bank has organized and held 46 important meetings in total of all kinds, including one general meeting 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, five meetings of the special committees of the Board of Supervisors and one meeting of the chairman and independent non-executive Directors. At the meetings, the Bank considered and approved 172 major proposals and reports, including: the Work Report of the Board of Directors, the Work Report of the Board of Supervisors, the Work Report of the President, the Financial Budget Report, the Financial Statements, the Profit Distribution Plan, the performance evaluation index of senior management, the Comprehensive Operation Plan, the Report on the Implementation of Connected Transactions, the Risk Control Report, the amendments of the Articles of Association and Rules of Procedure for Shareholders' General Meeting, the institutional development plan, etc. To further optimize the corporate governance mechanism in satisfying requirements of the Hong Kong Listing Rules, in 2014, the Bank has formulated the Working Rules for Independent Directors, the Connected Transactions Implementation Rules and the Information Disclosure Measures (Implementing Rules), and has revised the Working Rules of the President, the Terms of Reference of the Audit Committee, the Terms of Reference of the Nomination and Remuneration Evaluation Committee, the Articles of Association, the Rules of Procedure for the Shareholders' General Meeting, the Connected Transactions Administrative Measures, etc.

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During the reporting period, the Board of Directors of the Bank conducted an annual evaluation of the senior management in accordance with the requirements 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 requirements of the Evaluation Method on Duty Performance of Directors, the Nomination and Remuneration Evaluation Committee of the Company conducted an annual evaluation of duty performance of the Directors, in order to promote careful, earnest and diligent duty performance and self-discipline of the Directors.

The Bank has continued to deepen the development of its internal control system, starting from the creation and perfection and implementation of various rules and regulations of internal controls and by means of systematic publicity and education, the development of good internal control culture, refined the business management and control mode of all business lines and business of various regions, and 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 improve the information sharing mechanism, the Bank has launched its own internal magazine, the “Internal Reference”, and successfully completed its initial first six 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 the 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 meeting is convened. After the Bank’s listing on the Hong Kong Stock Exchange, the Bank sends the notices and materials of the 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 and the Articles of Association. 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 attending Directors for their review, 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 provide sufficient information for the Board and its special committees to make decisions. All Directors may seek independent professional opinions at the cost of the Bank. The president of the Bank regularly reports to the Board and is subject to their supervision. Relevant senior management members may be invited to attend the meetings of the Board of Directors and of its special committees 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, investor relations management and other daily routines.

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As the decision-making body 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 financial statements of the Company;
6. To formulate profit distribution plans and loss recovery plans of the Company;
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 departments, branches and personnel and positions of the managers;
12. To appoint or remove the president or board secretary of the Company, according to the nomination of the chairman of the Board of Directors; appoint or remove 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 scheme and adopt 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;

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17. To propose the engagement or replacement of the accounting firm that audits the Company to the Shareholders' General Meeting;
18. To hear 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 extensive bank management experience and 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 in the Composition of the Board of Directors during the Reporting Period

During the reporting period, there was no change in the composition of the Board of Directors.

VI. Chairman and President

The roles and works of the chairman of the Board and president of the Bank are taken by different individuals. There is a clear division of these responsibilities in compliance with to the recommendations of the Hong Kong Listing Rules. Mr. Guo Zhiwen, as the chairman of the Board of Directors, is mainly in charge of chairing 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 to the Board candidates of the special committees, the president and secretary to the Board of the Bank, signing important documents of the Board of Directors and other documents which shall be signed by the legal representative of our Bank, encouraging different constructive opinions from Directors and facilitating effective contribution by non-executive Directors. During the reporting period, the chairman had one meeting with independent non-executive Directors in the absence of other executive Directors to discuss issues relevant to the growth and improvement of the Board of Directors such as further improving the effectiveness of the independent non-executive Directors.

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

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VII. Duties of Directors

During the reporting period, all Directors carefully, earnestly and diligently exercised the rights granted by the Bank and regulatory authorities, and devoted enough time and energy to handle the matters of the Company. During the year, the attendance of Cui Luanyi, Zhang Shengping, Ma Yongqiang to participate in physical meetings was 75%, 87.5% and 87.5%, respectively, and the attendance of remaining Directors was 100%.

The independent non-executive Directors have given professional advice on the proposals considered by the Board of Directors, such as the profit distribution plan. 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 the Bank.

During the reporting period, the Bank's 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, the 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, the Bank held eight meetings of the Board of Directors, considering and approving major proposals on development strategies, operation plans, financial policies, rule amendments and other matters, including 57 proposals and reports such as the working report of the Board, the working report of the president, financial budget, financial statements, profit distribution plan, performance evaluation index of senior management, comprehensive operation plan, management and implementation of connected transactions, amendments to the Articles of Association and Rules of Procedure for Shareholders' General Meeting.

Meeting	Meeting Date	Meeting Mode
The 17th Meeting of the 5th Board of Directors	7 January 2014	On-site
The 18th Meeting of the 5th Board of Directors	13 March 2014	On-site
The 19th Meeting of the 5th Board of Directors	24 March 2014	By Telecommunication
The 20th Meeting of the 5th Board of Directors	17 April 2014	On-site
The 21st Meeting of the 5th Board of Directors	19 June 2014	On-site
The 22nd Meeting of the 5th Board of Directors	19 August 2014	On-site
The 23rd Meeting of the 5th Board of Directors	14 November 2014	On-site
The 24th Meeting of the 5th Board of Directors	3 December 2014	By Telecommunication

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The attendance of each Director in meetings of the Board of Directors and general meetings in 2014 is set out below:

Board Members	Number of	Number of	Number of	Attendance Rate ^(Note)	Numbers of
	Meetings Requiring Attendance	Meetings Attended in Person	Meetings Attended by Proxy		General Meetings Requiring Attendance/ Numbers of General Meetings Attended
Guo Zhiwen	8	8	0	100%	1/1
Gao Shuzhen	8	8	0	100%	1/1
Liu Zhuo	8	8	0	100%	1/1
Zhang Taoxuan	8	8	0	100%	1/1
Chen Danyang	8	8	0	100%	1/1
Cui Luanyi	8	6	2	75%	1/0
Qin Hongfu	8	8	0	100%	1/1
Zhang Shengping	8	7	1	87.5%	1/1
Ma Yongqiang	8	7	1	87.5%	1/1
Du Qingchun	8	8	0	100%	1/1
He Ping	8	8	0	100%	1/1
Wan Kam To	8	8	0	100%	1/1
Kong Siu Chee	8	8	0	100%	1/1

Note: During the reporting period, attendance by proxy with authorization was not deemed as attendance.

IX. Duty Performance of Independent Non-Executive Directors

The Board now has six independent non-executive Directors, the appointments of which are in full compliance with the requirements of CBRC and CSRC and the Hong Kong Listing Rules regarding qualification, number and proportion of independent non-executive directors. During the reporting period, they maintained communications with the Bank through meeting with the chairman, site visits, special researches, trainings, department interviews and other approaches. Independent non-executive Directors have actively voiced independent and professional opinions in the meetings of the Board and their special committees, attached importance to safeguarding minority shareholders' interests, and played a full role as independent non-executive directors.

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.

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X. Special Committees of the Board

The Board has four special committees including the Audit Committee, Nomination and Remuneration Evaluation Committee, Risk Management and Related Transactions 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. Amongst these committees, Nomination and Remuneration Evaluation Committee, Risk Management and Related Transactions 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 2014, 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, rule amendments 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, professionalism of Board meetings, work efficiency and decision-making capacity of the Board have been improved and the sustainable and healthy development of our businesses were boosted.

Members of the four special committees, responsibilities scope and work, for 2014 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 responsibilities during the reporting period:

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 process 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;
6. coordinating internal and external audit work; and
7. reporting to the Board of Directors on Corporate Governance Code and terms of reference with respect to the Audit Committee in accordance with Appendix 14 to the Hong Kong Listing Rules.

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In 2014, the Audit Committee held 7 meetings, at which 19 proposals and reports were considered and passed, including the Proposal on 2013 Work Summary and 2014 Work Plan of the Internal Audit Department, Proposal on 2014 budget of the Internal Audit Department, Proposal on 2013 Work Summary and 2014 Work Plan of the Audit Committee of the Board, Proposal on Approval of Preparation of 2013 Annual Financial Statements according to the China Accounting Standards for Business Enterprises and International Financial Reporting Standards, 2013 Financial Accounts Report, the 2014 Financial Budget Report, Proposal on 2013 Profit Distribution Plan, Proposal on 2013 Annual Report, Proposal on 2014 First Quarterly Report, Proposal on the Engagement of Auditors for 2014, Proposal on 2014 First Quarterly Work Report of the Internal Audit Department, Proposal on Information Disclosure Management System (Implementing Regulations) of Harbin Bank Co., Ltd., Proposal on Approval of Preparation of 2014 Unaudited Interim Financial Statements according to the International Financial Reporting Standards, Proposal on Consideration and Approval of 2014 Interim Results Announcement and Interim Report, Proposal on 2014 Interim Work Report of the Internal Audit Department, Proposal on 2014 Third Quarterly Work Report of the Internal Audit Department, Proposal on Changes in Accounting Policies and Proposal on 2014 Financial Report Audit Plan. In 2014, the Audit Committee heard 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 internal control system. The Audit Committee also organized the preparation and review of the 2013 annual report according to regulators' disclosure requirements on the annual financial report and the audit disclosure plan of the Audit Committee. During the reporting period, the Audit Committee had one meeting with the external auditors in the absence of executive Directors and senior management. It held the third meeting for 2015 on 29 March 2015, at which the committee reviewed the audited consolidated financial statements for the year ended 31 December 2014 prepared in accordance with the accounting principles and police of the Bank. The attendance of each member in the meetings of the Audit Committee in 2014 was as follows:

Member of Audit Committee	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Ma Yongqiang	7	7	0	100%
Zhang Shengping	7	7	0	100%
Wan Kam To	7	7	0	100%
Kong Siu Chee	7	7	0	100%
Qin Hongfu	7	7	0	100%

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(II) Nomination and Remuneration Evaluation Committee

The Nomination and Remuneration Evaluation Committee mainly consists of independent non-executive Directors, one 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.

The Nomination and Remuneration Evaluation Committee mainly has the following responsibilities during the reporting period:

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 proposed change of the Board in accordance with company strategy;
2. determining the conditions of service, criteria and selection procedures for Directors and senior management;
3. conducting preliminary review on the 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 policies and objectives formulated by the Board;
7. making recommendations to the Board on the remuneration and incentives measures and schemes for 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 diversity strategy.

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In 2014, the Nomination and Remuneration Evaluation Committee held 4 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: conducting performance assessment of Directors and senior management, determining the 2014 annual performance assessment indicators and target value of senior management, and fine-tuning the 2014 performance assessment indicators for senior management. Meanwhile, 12 proposals and reports including the Proposal on 2014 Annual Performance Assessment Index for Senior Management, the Staff Salary Adjustment Report, and Proposal on Board Diversity Strategy were reviewed and passed. The attendance of each member in the meetings of the Nomination and Remuneration Evaluation Committee in 2014 was as follows:

Member of Nomination and Remuneration Evaluation Committee	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Du Qingchun	4	4	0	100%
Ma Yongqiang	4	4	0	100%
He Ping	4	4	0	100%
Wan Kam To	4	4	0	100%
Chen Danyang	4	4	0	100%

(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 responsibilities 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;
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 control scheme of related party transactions by the Directors, senior management and related parties, and reporting the results to the Board; and

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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 2014, the Risk Management and Related Transactions Control Committee held 8 meetings and at which 32 proposals and reports were considered and approved, including Proposal on 2014 Risk Management Policy, Proposal on Case Prevention and Control Management Policy of Harbin Bank Co., Ltd. and Proposal on Consideration and Approval Internal Related Persons List. The attendance of each member in the meetings of Risk Management and Related Transactions Control Committee in 2014 was as follows:

Member of Risk Management and Related Transactions Control Committee	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate ^(Note)
Zhang Shengping	8	8	0	100%
He Ping	8	7	1	87.5%
Du Qingchun	8	8	0	100%
Liu Zhuo	8	8	0	100%
Cui Luanyi	8	7	1	87.5%

Note: During the reporting period, attendance by proxy was not 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 responsibilities during the reporting period:

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 programs, 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; and
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 programs and capital operation programs.

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In 2014, the Development Strategy Committee held six meetings, at which 24 proposals and reports such as Proposal on Approval of Submitting Application Documents relating to H Share Listing, Proposal on Approval of Appointment of Companies relating to H Share Listing, Proposal on 2014 Comprehensive Operation Plan, and Proposal on Establishment of a Microcredit Management Committee were considered and approved. The attendance of each member in the meetings of Development Strategy Committee in 2014 was as follows:

Member of Development Strategy Committee	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Guo Zhiwen	6	6	0	100%
Gao Shuzhen	6	6	0	100%
Liu Zhuo	6	6	0	100%
Kong Siu Chee	6	6	0	100%
Zhang Taoxuan	6	6	0	100%

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 are in compliance with the provisions of laws and regulations. During the reporting period, the Board of Supervisors held six meetings at which 11 proposals such as the Work Report of the Board of Supervisors, periodic reports, performance evaluation reports, relevant systems of the Board of Supervisors were considered and approved. The attendance of each Supervisor in the meetings of the Board of Supervisors in 2014 was as follows:

Member of Board of Supervisions	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Zhang Bin	6	6	0	100%
Cheng Yun	6	6	0	100%
Wang Jiheng	6	6	0	100%
Meng Rongfang	6	6	0	100%
Bai Fan	6	6	0	100%
Lu Yujuan	6	6	0	100%
Wang Ying	6	6	0	100%
Chen Yutao	6	6	0	100%

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During the reporting period, the Board of Supervisors had two special committees, namely the Supervisory Board Nomination Committee and the Supervisory Board Supervision and Evaluation Committee. The structure and staff composition of each Supervisory Board Committee are in compliance with the provisions of regulatory authorities and the Articles of Association and each committee is chaired by external Supervisor. Each special 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 special committees of the Board of Supervisors exercised its authority and power in an independent, regular and effective manner in accordance with the law. Five meetings were held throughout the year at which 7 proposals such as annual performance evaluation report, periodic reports and the profit distribution plan were studied and considered.

(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 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 discharge 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;

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4. tracking the formulation of the Board's regular reports and relevant material adjustments and reporting the same to the Board of Supervisors;
5. 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.

The annual performance of duties of the special committees in 2014 was as follows:

(I) *Supervisory Board Nomination Committee*

During the reporting period, the Supervisory Board Audit Committee held one meeting, at which it discussed how to improve functions of the Board of Supervisors and special committees in accordance with applicable regulations and requirements relating to listed companies.

The attendance of each member in the meetings of the Supervisory Board Nomination Committee in 2014 is as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Wang Jiheng	1	1	0	100%
Bai Fan	1	1	0	100%
Wang Ying	1	1	0	100%

(II) *Supervisory Board Supervision and Evaluation Committee*

During the reporting period, the Supervisory Board Supervision and Evaluation Committee held four meetings at which 7 proposals and reports were considered and approved, such as the Proposal on the Board of Supervisors' Evaluation Report on the 2013 Duty Performance of the Board of Directors and Directors of Harbin Bank Co., Ltd., Proposal on the Evaluation Report on the 2013 Duty Performance of the Board of Supervisors and Supervisors of Harbin Bank Co., Ltd., Proposal on the Board of Supervisors' Evaluation Report on the 2013 Duty Performance of the Senior Management and its members of Harbin Bank Co., Ltd., Proposal on 2013 Profit Distribution Plan, the 2013 Annual Report, Proposal on 2014 First Quarterly Report and the 2014 Interim Report. The attendance of each member in the meetings of the Supervisory Board Supervision and Evaluation Committee in 2014 is as follows:

Committee Member	Number of Meetings Requiring Attendance	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Meng Rongfang	6	6	0	100%
Lu Yujuan	6	6	0	100%
Chen Yutao	6	6	0	100%

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

During the reporting period, there was no change in the composition of the Board of Supervisors.

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, the Board of Directors of the Bank organized survey and investigations by independent Directors for three times, during which they went to 14 headquarter departments, branch offices and holding subsidiaries such as General Personal Finance Department, Small Business Finance Department, Credit Examination Department, Harbin Branch, Tianjin Branch and Rongxing village and township banks in Chongqing Wulong and Suining Anju. Through interviews and site visits, the independent Directors gained understanding of the establishment of regulatory systems of the departments and branches and the effect of listing on them and risk management and operation, instructed them to raise awareness of risks and improve risk management capability and gave independent, objective and professional opinions and recommendations on their operation and management.

During the reporting period, the Board of Supervisors organized survey and investigations by Supervisors 3 times by visiting over 20 headquarter departments, branch offices and holding subsidiaries such as Internal Audit Department, Risk Asset Management Department, Compliance Department, Enterprise Finance Department, Rural Finance Department, Chongqing Branch, Chengdu Branch, Daqing Branch and village and township banks in Chongqing Dadukou, Shapingba and Suining Anju with focus on risk and internal control, strategy implementation, product innovation, asset and liability management and performance management. Additionally, the Board of Supervisors shared experience with Supervisory Committees of other banks such as Minsheng Bank in terms of supervision of duty performance, strategic evaluation, so as to learn from them and enhance the supervisory capabilities of the Board of Supervisors.

During the reporting period, by leveraging the expertise and academic resources of the professionals and Directors, three training sessions had been organized for Directors and Supervisors in groups and batches by the Bank on the specific topics concerning post-listing connected transaction management, information disclosure, construction of board of directors and hot issues in the industry and on topics relating to corporate governance, law, finance and the Hong Kong Listing Rules and systems, ensuring that they possess an understanding of the operation, business of the Bank and the due responsibilities under the relevant laws and regulations.

Corporate Governance Report

The attendance of each Director in trainings on specific topics and site business visits in 2014:

Name of Directors	Number of trainings on specific topics	Number of site business visits
Guo Zhiwen	10	7
Gao Shuzhen	9	5
Liu Zhuo	9	6
Zhang Shengping	4	11
Ma Yongqiang	11	11
He Ping	9	12
Du Qingchun	4	12
Kong Siu Chee	4	1
Wan Kam To	6	11
Cui Luanyi	4	0
Zhang Taoxuan	4	0
Chen Danyang	4	0
Qin Hongfu	4	2

XV. Amendments to Articles of Association

The Bank adopted the current Articles of Association on 10 May 2013, which came into effect on the date of listing, being 31 March 2014. At the general meeting on 19 June 2014, a proposed amendment to the Articles of Association was approved, which became effective upon obtaining the approval of the relevant regulatory authorities on 6 August 2014. Save for the above, there has been no material change in the Articles of Association up to the date hereof.

XVI. Company Secretaries under the Hong Kong Listing Rules

Mr. Liu Zhuo had acted as board secretary since September 2008 and resigned from the position as approved at the 24th meeting of the fifth session of the Board held on 3 December 2014. The appointment of Ms. Sun Feixia as board secretary was approved at the 24th meeting of the fifth session of the Board held on 3 December 2014 and her qualification was reviewed and approved by the CBRC, Heilongjiang Office on 19 January 2015.

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 company secretaries. Both of Mr. Ngai and Ms. Sun have confirmed their receipt of not less than 15 hours of relevant professional trainings. The principal contact person of Mr. Ngai with the Bank is Ms. Sun.

Corporate Governance Report

XVII. Communication with Shareholders

In the management of investor relationship, the Bank should closely adhere to the strategic objective to “become a first-class domestic microcredit bank known worldwide”, highlight the unique market position of microcredit, rural credit and Sino-Russia credit and give emphasis to displaying investors the Bank’s latest achievements and future potential of developing microcredit and Sino-Russia credit.

During the reporting period, the Bank actively communicated information with investors and potential investors and invited officials to investor campaigns. Through proactive high-level dynamic exchange, the Bank deepened investors’ recognition and understanding of the Bank and enhanced the Bank’s investment value and core competitiveness, which maximized the Bank’s value and shareholders’ interest and safeguard interest of investors. In 2014, the Bank held 2 regular results briefings and analyst conferences, 2 press releases and 2 global annual results roadshows to maintain in-depth and effective communication with 68 domestic and foreign institutional investors and answered 400 enquiry telephone calls from investors and analysts.

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, Daoli District, Harbin, China

Post code: 150010

Tel: 86-451-86779933

Fax: 86-451-86779888

E-mail: ir@hrbb.com.cn

XVIII. 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 of the Bank may sign one or more written requests 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 of the Bank are entitled to propose that the Board of Supervisors should convene an extraordinary general meeting by submitting such request in writing;

Corporate Governance Report

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 refusing to convene such aforesaid meeting by the Board of Supervisors. Such shareholders individually or jointly holding 10% or more of shares of the Bank 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 of the Bank may propose an interim proposal in writing and submit it to the convener ten days before the general meeting. 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.

XIX. External Auditors and Auditors' Remuneration

The Bank engaged Ernst & Young Hua Ming LLP and Ernst & Young to respectively act as auditors for 2014 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 2014, the Bank has respectively paid RMB5.5 million and RMB0 to such external auditors for audit services and non-audit services.

XX. Internal Control

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

Corporate Social Responsibility

In 2014, the Bank upheld the operational principle of “Inclusive Finance, Harmonious Co-Enrichment”, integrating its historic mission with serving the people by further reinforcing social responsibility management, ever raising its comprehensive competitiveness and fostering its beneficial corporate culture. The Bank contribute to the community by practicing social responsibility.

In 2014, the Bank engaged a reputable brand consulting company to conduct research on brand building and corporate social responsibility management, and made great progress in brand building and value enhancement work. A corporate social responsibility framework of Harbin Bank, based on three responsibility systems, namely, corporate finance responsibility, environmental protection responsibility and corporate social responsibility, was established. In performing its corporate finance responsibility, the Bank insisted on the implementation of an all inclusive finance small credit strategy, enhanced customer-oriented transaction system based on transparency and efficiency, strengthened consumer education focusing on financial customer protection; by building up an anti-money laundering suspicious transaction monitoring system to fight crime and to perform the Bank’s corporate finance duties; by promoting green card, green office and green social responsibility actions, to perform the Bank’s environmental protection responsibilities. Moreover, the Bank made great effort to improve working conditions for its staff and give full play of their potential and guide and encourage them to actively participate in social welfare activities. The Bank invested RMB6.12 million in social welfare activities in 2014.

Centering on the 2014 “Brand Building Year” theme, the Bank strived to improve the recognition of the Bank’s brand among the public and the reputation of its cooperative partners, and raised customer loyalty and trust of its investors, to build-up the Bank as a bank “embracing inclusive finance, with strong development momentum and distinctive brand characteristics” in the minds of the public.

Report of the Board of Directors

The Board of Directors of the Bank hereby presents the report of the Board of Directors together with the audited financial statements of the Group for the year ended 31 December 2014.

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 for the year ended 31 December 2014, and the state of affairs of the Group as at that date were set out in the financial statements and notes thereto in this annual report.

Pursuant to the resolutions passed at the annual general meeting of 2013 on 19 June 2014, the Bank distributed to all the shareholders 2013 final dividends in cash in an aggregate amount of RMB417.83 million, representing a dividend of RMB0.38 per 10 shares (tax inclusive). Such dividends were distributed to holders of Domestic Shares and holders of H Shares whose names appeared on the register of members of the Bank on 4 July 2014. Such proposed distribution of dividends were denominated in RMB. Dividends payable to holders of Domestic Shares were settled in RMB, whereas dividends payable to holders of H Shares were settled in HKD. The amount of the actual distribution in respect of HKD, was calculated based on the average benchmark exchange rate of one week preceding the date of the annual general meeting of the Bank (i.e. 19 June 2014, including the date thereof) as announced by the People's Bank of China (PBOC). The abovementioned dividends for the year 2013 were distributed on 19 August 2014.

According to the Board meeting held on 30 March 2015, the Board of Directors of the Bank proposed a distribution of cash final dividends of approximately RMB1,132.547 million (tax inclusive) for 2014 to all the shareholders, representing a dividend of RMB0.103 per share (tax inclusive). The dividend distribution plan will be submitted to the annual general meeting of 2014 for consideration and approval.

Report of the Board of Directors

(II) 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 an individual holder of H Shares who is a resident of Hong Kong, Macau or other country/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 Shareholders when distributing the final dividend;

For an 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 are to apply for refund of the tax over-withheld, 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 timely submit the written authorization and all application materials to the H Share Registrar, Computershare Hong Kong Investor Services Limited; the Bank will forward the received documents to the competent tax authorities for review, and if approved, the Bank will assist in handling the refund of the over-withheld tax;

For an individual holder of H Shares who is a resident of a country/region that 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 an 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.

Report of the Board of Directors

III. Share Capital and Substantial Shareholders

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

IV. The Use of Proceeds

Please refer to “Important Events” I for the detailed information relating to the use of proceeds.

V. Reserves

For the year ended 31 December 2014, the details of changes in reserves of the Bank are set out in the Consolidated Statement of Changes in Equity.

VI. Property and Equipment

The changes in property and equipment of the Bank and the Group are set out in Note 27 to the Financial Statements.

VII. Distributable Reserves

The distributable reserves of the Bank are set out in Note 38 to the Financial Statements.

VIII. Connected Transactions

During the reporting period, 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, the Bank provides commercial banking services and products to the public in China, which include the shareholders, certain Directors and Supervisors, the President and/or their respective associates. Each of the above persons 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 reporting, annual review, disclosure and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

IX. 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 is likely to compete, whether directly or indirectly, with the Bank.

X. Remuneration of the Directors and Supervisors

Details of the remuneration of the Directors and Supervisors of the Bank are set out in Notes 11 and 12 to the Financial Statements.

XI. Directors' and Supervisors' Service Contracts

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

Report of the Board of Directors

XII. Directors', Supervisors' and Chief Executives' Interests in Shares of the Bank and Their Rights to Acquire Shares or Debentures

On 31 March 2014, the securities of the Bank were listed on the Hong Kong Stock Exchange. For the year ended 31 December 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.

During the reporting period, the Bank did not grant any right to subscribe for Shares or debentures of the Bank or any associated corporations to its Directors, Supervisors and President (including their spouses or children under the age at 18).

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

For the year ended 31 December 2014, 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.

XIV. Management Contracts

There were no management or administration contracts for the entire or major part of the business of the Bank during the reporting period.

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

The Bank had not purchased, sold or redeemed its Shares from 31 March 2014, the listing date of the Bank on the Hong Kong Stock Exchange up to the date of this report.

XVI. 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.

XVII. Donations

The Bank made charitable and other donations in an aggregate sum of RMB6.12 million for the year ended 31 December 2014.

XVIII. Public Float

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, 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 has been in compliance with the public float requirement of the Hong Kong Listing Rules.

Report of the Board of Directors

XIX. Corporate governance

The Bank is committed to maintaining a high level of corporate governance. Details of corporate governance of the Bank are set out in the Corporate Governance Report of the report.

XX. Auditors

Please refer to the section “Corporate Governance Report – External Auditors and Auditors’ Remuneration” for the information on the auditors of the Bank.

XXI. Substantial Customers

By the end of the reporting period, the balance of the Bank’s loans to any single borrower did not exceed 10% of the Bank’s net capital. 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.

XXII. 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. After making inquiries with all Directors and Supervisors, the Bank confirmed that they had complied with the above codes for the period from 31 March 2014 when the Bank was listed on the Hong Kong Stock Exchange up to 31 December 2014. The Bank also set up guidelines in respect of dealings by relevant employees in the securities of the Bank on terms no less exacting than those of the Model Code. The Bank did not have knowledge that any relevant employee had breached the guidelines.

XXIII. 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
30 March 2015

Report of the Board of Supervisors

I. Meeting of the Board of Supervisors

The Board of Supervisors held six meetings in the year of 2014, which were as follows:

- (I) On 9 January 2014, the 12th meeting of the Board of Supervisors of the fifth session passed a resolution on Confirming that Supervisors are Required to Sign on Forms, Confirmation Letters and Undertakings relating to the H Share Listing.
- (II) On 11 April 2014, the 13th meeting of the Board of Supervisors of the fifth session passed three resolutions on the Board of Supervisors' Evaluation Report on the 2013 Duty Performance of the Board of Directors and Directors of Harbin Bank Co., Ltd., the Board of Supervisors' Evaluation Report on the 2013 Duty Performance of the Board of Supervisors and Supervisors of Harbin Bank Co., Ltd., the Board of Supervisors' Evaluation Report on the 2013 Duty Performance of the Senior Management and its members of Harbin Bank Co., Ltd..
- (III) On 22 April 2014, the 14th meeting of the Board of Supervisors of the fifth session passed four resolutions on the 2013 Work Report of the Board of Supervisors of Harbin Bank Co., Ltd., the 2013 Profit Distribution Plan, the 2013 Annual Report and the 2014 First Quarterly Report.
- (IV) On 28 June 2014, the 15th meeting of the Board of Supervisors of the fifth session passed a resolution on the amendment to the Rules of Procedures for the Board of Supervisors of Harbin Bank Co., Ltd.
- (V) On 19 August 2014, the 16th meeting of the Board of Supervisors of the fifth session passed a resolution on the 2014 Interim Report.
- (VI) On 18 September 2014, the 17th meeting of the Board of Supervisors of the fifth session passed a resolution on the appointment of Hao Libo as the officer of the Board of Supervisors of the Bank.

II. Major Work of the Board of Supervisors

(I) System Establishment

During the reporting period, the Board of Supervisors participated in the amendment to the Articles of Association of the Company and organized the amendment to the Rules of Procedures 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 duty performance of the Board of Directors and the senior management and matters relating to the financial operation, risk management and internal control, as well as organized and implemented relevant activities, including: first, interactions with the senior management on internal control setup including making communications and proposals about taking actions to ensure operating objectives are satisfied and value of the Bank is enhanced with respect to strategy implementation, overall risk control, bad debt management, downward economic movements and interest rate liberalization; second, performance assessment of the departments of the headquarter with focus on strategy implementation, work quality and efficiency and management of compliance risk; third, interviews with the departments of the headquarter and listening to the on-site reports; focusing mainly on interviews with the departments of internal audit, compliance management, risk assets and relevant departments, and paying special attention on various types of risk management and compliant operation; and fourth, on-site supervisory inspections and interviews with a number of branches and village and township banks with focus on operation and risk control of distant branches and investment institutions.

Report of the Board of Supervisors

(III) Supervision of Duty Performance

During the reporting period, the Board of Supervisors continued supervising on the performance of the Board and the senior management in accordance with the relevant rules of the Articles of Association and the requirements 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 on the performance, the Board of Supervisors evaluated the annual work performance and compiled reports to submit to the Shareholders' general meeting and relevant regulatory authorities.

(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 risk and internal control, strategy implementation, product innovation, asset and liability management and performance management and so on during their investigations and supervision process, the Board of Supervisors provided specific comments and suggestions, compiled meeting minutes and submitted relevant investigation reports to the Board, the senior management and the controlling entities for reference for decision-making and operation.

(V) Self-enrichment

The Board of Supervisors' self-enrichment activities included: first, organizing all supervisors and office member of the Board of Supervisors to gain understanding from the Opinions on Further Promoting Regulated Operation and Deepening Reform of Foreign Listed Companies (《關於進一步促進境外上市公司規範運作和深化改革的意見》) issued by the State Economic and Trade Commission and the CSRC to further regulate work of the Board of Supervisors; second, organizing external Supervisors to provide trainings on regulated operation of listed companies to the senior management and mid-level executives to further enhance their awareness of listing and regulatory systems and to develop consciousness to regulate personal and operational behaviors, which attained good results; third, organizing participation in training on new rules and practices of internal control led by the internal audit department and strengthening awareness of internal control and understanding of new rules and listing regulations; fourth, exchanging experience with the board of supervisors of Minsheng Bank in terms of supervision on duty performance and strategic evaluation, thereby improving its supervisory ability; fifth, strengthening communications 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 its main activities, which provided references for the decision-making of the Board and senior management and for the duty performance of the Supervisors; and sixth, participating in relevant training organized by the Board of Directors and senior management.

By Order of the Board of Supervisors

Zhang Bin

Chairman of the Board of Supervisors

Important Events

I. Issuance of Shares and Listing and Use of Proceeds

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 under the Global Offering (comprising 2,748,700,000 new Shares offered by the Company and 274,870,000 sale Shares 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 of the date of this report, the Company has applied the proceeds to replenish capital by increasing the registered capital to RMB10,995,599,553 and completed the changes of business registrations in June 2014. As at 31 December 2014, RMB2,748,700,000 from the net proceeds raised by the Company was used as supplementary registered capital, while the remaining net proceeds were used as supplementary capital reserve.

II. Significant Business Development

- (I) The Company, as the main promoter, applied to the CBRC for the promotion and establishment of Harbin Bank Financial Leasing Co., Ltd., which on 12 June 2014 formally commenced its business operation. Please see “Management Discussion and Analysis – Business Development of Subsidiaries” for basic information of the above company.
- (II) The Company has received a notice from the PBOC Harbin Central Sub-branch (Ha Yin Fa [2014] No. 93) that pursuant to the Notice on Targeted Reduction of RMB Deposit Reserve Ratio of Certain Financial Institutions published by the People’s Bank of China (《中國人民銀行關於定向降低部分金融機構存款準備金率的通知》) (Yin Fa [2014] No. 164), effective from 16 June 2014, the Bank has implemented a RMB deposit reserve ratio of 17.5%, which is 0.5 percentage point lower than the previous RMB deposit reserve ratio applied by the Bank.

III. Debt Securities Issuing and Redemption

(I) Securities Issuance during the year 2014

During the reporting period, the Bank issued the first tranche of “agriculture, rural areas and farmers” special financial bonds of RMB2.0 billion in 2014, detailed as follows:

According to the resolutions of the 14th meeting of the fifth session of the Board on 10 September 2013 and the 2013 second extraordinary general meeting of the Bank on 16 September 2013, the Board and the Shareholders’ general meeting approved the issuance of “agriculture, rural areas and farmers” special financial bonds of not more than RMB10.0 billion.

According to the “Approval for Harbin Bank to Issue ‘Agriculture, Rural Areas and Farmers’ Special Financial Bonds” issued by the CBRC (Yin Jian Fu [2014] No. 615) dated 12 September 2014 and the “Administrative Approval Decision” by the People’s Bank of China (Banking Market License [2014] No. 241) dated 5 December 2014, the issuance by the Bank of financial bonds of not more than RMB6.0 billion in the interbank market was approved. The Company obtained the consent and permission from the CBRC and the PBOC for the issuance of the first tranche of the financial bonds in 2014 on 15 December 2014.

The first tranche of our financial bonds in 2014 is of RMB2.0 billion with a term of three years, a fixed coupon rate of 4.60% accrued annually and a short name as “14 Harbin Bank 01” (bond code: 11420045).

Important Events

(II) Previous Issuance

1. *Subordinated Bonds in 2009*

According to the resolutions of the ninth meeting of the fourth session of the 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 (Yin Jian Fu [2009] No. 396) dated 15 October 2009 and the "Administrative Approval Decision by the People's Bank of China" (Banking Market License [2009] No. 72) dated 24 November 2009, the Company obtained the consent and permission from the CBRC and the PBOC 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, terms of the bond issuance were as follows: the issuing scale was RMB1.0 billion; the variety and maturity were as 10-year fixed rate bonds, and the Bank shall have the redemption option at the end of the fifth year; the fixed annual coupon rate for the first five interest-bearing years is 6% and, if the Bank does not exercise the redemption option, from the sixth interest-bearing year to the maturity of the bonds, the annual coupon rate for the later five interest-bearing years are 9%.

According to the Resolutions in Relation to Early Redemption in Full of the Subordinated Bonds passed at the 22nd meeting of the fifth session of the Board of Directors on 19 August 2014, it was resolved that the subordinated bonds of RMB1.0 billion issued by the Bank on 9 December 2009 be early redeemed. A relevant announcement was made on 9 November 2014. On 8 December 2014, relevant redemption payment together with interest thereon for the year 2014 amounting to RMB1.06 billion were transferred to a designated account of China Central Depository Trust & Clearing Co., Ltd., which completed the redemption on behalf of the Bank. The full redemption was completed as of 31 December 2014.

2. *Financial Bonds in 2012*

According to the resolutions of the 31st meeting of the fourth session of the Board on 8 August 2011 and the 2011 extraordinary general meeting of shareholders' on 25 August 2011, the Board and the Shareholders' general meeting approved 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.

According to the "Approval for Harbin Bank to Issue Financial Bonds" issued by the CBRC (Yin Jian Fu [2011] No. 570) on 15 December 2011 and the "Administrative Approval Decision" by the People's Bank of China (Banking Market License [2012] No. 19) on 21 March 2012, the Bank obtained the consent and permission from the CBRC and the PBOC for the issuance of the financial bonds.

According to the "2012 Financial Bonds Raising Prospectus of Harbin Bank Co., Ltd." prepared in May 2012, terms of the bond issuance were as follows: the issuing scale was no more than RMB2.5 billion; the variety and maturity were as 5-year financial bonds of commercial banks; the coupon rate was as fixed interest rate; the final coupon rate shall be determined 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; and its short name was "12 Harbin Bank Financial Bonds" (bond code: 1220008).

Important Events

IV. Material Legal Proceedings and Arbitrations

As at the end of the reporting period, pending legal proceedings in which the Bank was involved as a defendant or a third party amounted to RMB3,660,000. In the opinion of the Bank, it would not have any material impact on the Bank's operating activities. During the reporting period, there were no material legal proceedings or arbitration which had substantial impact on the operating activities of the Bank.

V. Material Related Party Transactions

The Bank had no significant related party transactions with related parties by the end of the reporting period.

VI. Penalties Imposed on the Bank and Directors, Supervisors and Senior Management of the Bank

During the reporting period, the Bank and all its Directors, Supervisors and senior management had no record of being imposed on inspections, administrative penalties and circulating criticisms by CSRC or public censures by the Hong Kong Stock Exchange, or penalties by relevant regulatory authorities that posed significant impact on the Bank's operation.

VII. Performance of Undertakings by the Bank and Shareholders Holding 5% or More of the Shares

During the reporting period, neither the Bank nor the shareholders holding 5% or more of the total shares in issue of the Bank gave any undertakings.

VIII. Material Contracts and Their Performance

During the reporting period, the Bank had no material contracts to be performed.

IX. The Audit Review

The Bank's consolidated financial statements for the year 2014 prepared in accordance with International Financial Reporting Standards had been audited by Ernst & Young, who had issued an unqualified audit report. The Bank's report for the year 2014 had been reviewed by the Audit Committee of the Board and the Board.

X. Implementation of Share Incentive Scheme during the Reporting Period

During the reporting period, the Bank had not implemented any share incentive scheme.

XI. Appointment and Dismissal of Auditors

The appointment of Ernst & Young as the auditors of the Company for the year 2014 was considered and approved at the 2013 annual general meeting held on 19 June 2014.

XII. Material Acquisition and Disposal of Assets and Merger of Enterprises

During the reporting period, the Bank had no material acquisition, disposal of assets or merger of enterprises.

XIII. Profit Distribution during the Reporting Period

The 2013 profit distribution plan of the Bank was considered and approved at the 2013 annual general meeting held on 19 June 2014. A dividend of RMB0.38 per 10 Shares (inclusive of tax) was paid on 19 August 2014.

Internal Control and Internal Audit

I. Internal Control

In accordance with laws and regulations on implementing requirements of internal control normative system for enterprises including the Basic Internal Control Norms for Enterprises and its relevant guidelines jointly issued by five ministries and commissions and the Guidelines for Internal Control of Commercial Banks issued by the CBRC in 2014, the Bank formulated and improved a scientific internal control system by borrowing advanced ideas from foreign countries. The Bank has established a well-defined internal control management framework, including, the Board as the decision-making body of the Bank is responsible for the creation, development and effective implementation of internal control; the management at various levels is responsible for coordinating the establishment and implementation of internal control and its daily operation; 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 at different levels and the independent internal audit departments are responsible for the supervision and evaluation of the internal control system of the Bank.

With a view to building a sound internal control system, the Bank has established Harbin Bank Basic Internal Control Rules accompanied by ancillary requirements, providing the Bank with a system based on of its own internal control management. Relying on its information system platform, the Bank carried out comprehensive analysis and establishment of normative internal control rules and regulation and external regulatory rules. During the reporting period, following the principle of “systems within process and process within systems”, the Bank deepened and pushed forward internal control informationalization projects, organically combined the establishment of information systems with internal control systems, and introduced advanced internal control informationalization concepts. From the perspective of assessing the priority of internal control, the Bank incorporated, rationalized and optimized internal control points into over 30 key information systems of 10 lines including credit, operation, international business and online banking during the establishment of internal control system. By effectively combining the internal control process with business operation systems, the rate of automatic control over operation and management was improved.

For the establishment of information transmission and communication channels, the Bank established a two-way communication mechanism from two dimensions, namely top-down and down-top communication. 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 mechanism. Furthermore, through optimizing information exchanging platforms with the industry such as the OA system and internal control system, it ensured that various departments and entities at all levels of the head office can convey in a timely manner all information on the strategies, policies, systems and relevant requirements at the decision-making level to the employees and at the same time provide support to the employees for timely reporting of internal control problems to the managements at various levels. Regarding external disclosure and information gathering, the Bank also specified responsible departments, relevant processes and document circulation mechanisms to ensure compliance thereof and timely circulation of external documents.

Internal Control and Internal Audit

In order to enhance the effectiveness and efficiency of internal control self-assessment, the Bank carried out an internal control system building project, which was designed based on the corporate risk management framework and general internal control framework of COSO and control guidelines issued by China's five ministries and commissions and focused on putting the three risk defensive lines on a unified platform for synergy in evaluating the internal control establishment, giving risk alert and conducting online internal control audit. The project also explored the integration of internal control management and operational risk management in aspects of organization and duties, system and process, management tools and information systems. Results of the operational risk self-assessment were verified against those of internal control self-assessment to make them more objective and rational and to lower costs which would otherwise arise if the assessments were conducted separately. The Bank also commenced large-scale internal control campaigns covering all business lines and branches to promote internal control methodologies and systems, and combined practices of self-assessment to promote internal control concepts, culture and training while cultivating talents. It perfectly integrated concepts, tools and teams.

The Bank has established and improved a multi-level, multi-dimension and multi-channel system of common inspection and supervision over the effectiveness of internal control, which provides pre-warning, control when matters happen, and post-supervision of the business of the Bank. The Bank also checked regularly the effectiveness of its risk management system through a joint rolling inspection and independent auditing, ensuring its compliance with external regulatory requirements while promoting normalization and standardization of risk systems of the Bank.

(II) Internal Audit

The Bank has in place an independent and vertical internal audit management system, in which the Board of Directors are responsible for building and maintaining a sound and effective internal audit system. The Board of Director establishes the Audit Committee, which is accountable to the Board, whereas the Internal Audit Department is the Bank's department for internal audit, shall be responsible for internal audit on operation and management of the Bank, and is accountable to the Board and the Audit Committee. The Internal Audit Department exercises its right of internal audit as authorized by the Board and is not subordinated to any other departments or persons effected thereby. Neither does it take part in any specific operating activities within the scope of duties of other departments.

During the reporting period, on the principle of discovering material risks and potential risks, the Internal Audit Department focused on improving service efficiency and continued to strengthen audit innovation. It strengthened supervision over "key risks, key business, key departments and key personnel" and analysis of knowledge transfer and audit results, enhancing auditing quality. During the reporting period, it reached a 100% auditing coverage over branches and sub-branches of the Bank. 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 improved the Bank's risk control ability.

The Company has reviewed the effectiveness of internal control systems of the Group for the year ended 31 December 2014. The Board is of the view that, during the year, the business and matters within the scope of internal control assessment by the Company involved various kinds of control on the corporate and operational levels as well as in the area of information technologies and covered the principal aspects including Company's financial, operational and regulatory control and risk management. In addition, the Board also reviewed and was satisfied with the sufficiency of resources and the qualifications and experience of the employees for performing the Company's accounting and financial reporting functions, as well as the adequacy of the employee training courses and the relevant budget.

Directors, Supervisors, Senior Management, Employees and Organizations

I. Incumbent Directors, Supervisors and Senior Management

Directors

Name	Gender	Age	Position	Term of office
Guo Zhiwen	Male	47	Chairman of the Board	April 2012-April 2015
Gao Shuzhen	Female	51	Executive Director, President	April 2012-April 2015
Liu Zhuo	Male	51	Vice Chairman, Secretary of the Board	April 2012-April 2015
Zhang Taoxuan	Male	53	Non-Executive Director	April 2012-April 2015
Chen Danyang	Male	41	Non-Executive Director	April 2012-April 2015
Cui Luanyi	Male	34	Non-Executive Director	April 2012-April 2015
Qin Hongfu	Male	36	Non-Executive Director	April 2012-April 2015
Ma Yongqiang	Male	39	Independent Non-Executive Director	April 2012-April 2015
Du Qingchun	Male	43	Independent Non-Executive Director	September 2012-April 2015
He Ping	Male	49	Independent Non-Executive Director	September 2012-April 2015
Zhang Shengping	Male	49	Independent Non-Executive Director	April 2012-April 2015
Wan Kam To	Male	62	Independent Non-Executive Director	July 2013-April 2015
Kong Siu Chee	Male	68	Independent Non-Executive Director	July 2013-April 2015

Supervisors

Name	Gender	Age	Position	Term of office
Zhang Bin	Male	56	Chairman of the Board of Supervisors	April 2012-April 2015
Cheng Yun	Female	51	Vice-Chairman of the Board of Supervisors, Employees Representative Supervisor	April 2012-April 2015
Wang Ying	Female	43	Employees Representative Supervisor	April 2012-April 2015
Chen Yutao	Male	40	Employees Representative Supervisor	April 2012-April 2015
Lu Yujuan	Female	30	Shareholders Representative Supervisor	September 2013-April 2015
Bai Fan	Female	40	External Supervisor	July 2013-April 2015
Wang Jiheng	Male	50	External Supervisor	April 2012-April 2015
Meng Rongfang	Female	49	External Supervisor	September 2013-April 2015

Directors, Supervisors, Senior Management, Employees and Organizations

Senior Management

Name	Gender	Age	Position	Term of office
Li Qiming	Male	56	Vice President	April 2012-April 2015
Zhang Qiguang	Male	42	Vice President, Chief Financial Officer	April 2012-April 2015
Lv Tianjun	Male	48	Vice President, Chief Risk Officer	April 2012-April 2015
Lu Weidong	Male	44	Vice President, Chief Information Officer	August 2013-April 2015
Xu Shaoguang	Male	54	Chief Credit Approval Officer	April 2012-April 2015
Wang Haibin	Male	45	Assistant to the President	April 2012-April 2015
Sun Jiawei	Female	45	Assistant to the President	April 2012-April 2015

II. Information on Remuneration Paid to Directors, Supervisors and Senior Management for 2014

Please refer to Notes 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), has been an Executive Director of the Bank since May 2004 and Chairman of our Board of Directors since October 2008. Mr. Guo has been the Legal Representative of the Bank since October 2008 and Secretary of the Party Committee of the Bank since December 2003. He is also currently a Deputy to the 12th People's Congress of Heilongjiang Province. From July 1997 to October 2008, he worked as President of the Longqing Sub-branch of the Bank, Assistant to the President, Vice President and the President of the Bank. Prior to joining the 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 an EMBA degree from Peking University in July 2008. He is a Senior Economist as accredited by the Personnel Department of Heilongjiang Province.

Mr. Liu Zhuo (劉卓), has been an Executive Director of the Bank since September 2007 and vice Chairman of the Bank since April 2012. From October 2000 to April 2012, he held a number of positions in the Bank, including Office General Manager, Deputy Chairman of the Labor Union, General Manager of the Business Department and Assistant to the President of the Bank. Mr. Liu has also been Secretary to the Board of the Bank from September 2008 to December 2014. Prior to joining the 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.

Directors, Supervisors, Senior Management, Employees and Organizations

Ms. Gao Shuzhen (高淑珍), has been an Executive Director of the Bank since May 2011 and President of the Bank since May 2010. Ms. Gao is also currently a Deputy to the 14th People's Congress of Harbin. From January 2001 to May 2010, she held a number of positions in the 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 the 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 Doctor's degree in Management from Northeast Agricultural University in June 2006 and an EMBA degree from Tsinghua University in June 2011. She is a Senior Economist as accredited by Agricultural Bank of China.

Non-Executive Directors

Mr. Zhang Taoxuan (張濤軒), has been a Non-Executive Director of the 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 center 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 center 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 Songhuajiang 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 Popularization from Northeast Agricultural University in January 2010. He is an Accountant as accredited by the MOF.

Mr. Chen Danyang (陳丹陽), has been a Non-Executive Director of the 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 is an Accountant as accredited by the MOF.

Mr. Cui Luanyi (崔鸞懿), has been a Non-Executive Director of the 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 Master's degree in Economics from University Of International Business and Economics in June 2009.

Mr. Qin Hongfu (覃紅夫), has been a Non-Executive Director of the 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 is an Accountant as accredited by the MOF.

Directors, Supervisors, Senior Management, Employees and Organizations

Independent Non-executive Directors

Mr. Ma Yongqiang (馬永強), has been an independent Non-Executive Director of the 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 Doctor's degree in Management from Southwestern University of Finance and Economics in June 2004.

Mr. Zhang Shengping (張聖平), has been an independent Non-Executive Director of the 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. Before that, 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), has been an independent Non-Executive Director of the 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 Doctor's degree in History from Renmin University of China in July 1996.

Mr. Du Qingchun (杜慶春), has been an independent Non-Executive Director of the 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 Master's degree in Law from Peking University in July 1998.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Wan Kam To (尹錦滔), has been an independent Non-Executive Director of the Bank since October 2013. Mr. Wan has been an independent Non-Executive Director of Target Insurance (Holdings) Limited (listed on Hong Kong Stock Exchange, stock code: 06161) since 1 November 2014, 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 code: RDA) from November 2010 to 18 July 2014, independent Non-Executive Director of Huaneng Renewables Corporation Limited (listed on Hong Kong Stock Exchange, stock code: 00958) 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) from September 2008 to 10 December 2014. Prior to that, from July 1975 to June 2008, Mr. Wan held various positions in PricewaterhouseCoopers Hong Kong, including Audit Manager, Audit Director and Partner. 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), has been an independent Non-Executive Director of the 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) from March 2014 to October 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 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), has been Chairman of the Board of Supervisors of the Bank since April 2012 and member of Eleventh CPPCC at present. Mr. Zhang joined the 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 the Bank. Prior to joining the 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 is a Senior Accountant and a Senior Economist as accredited by the Personnel Department of Heilongjiang Province.

Directors, Supervisors, Senior Management, Employees and Organizations

Ms. Cheng Yun (程雲), has been an Employees' Representative Supervisor and Vice Chairman of our Board of Supervisors since April 2012. From July 1997 to April 2012, she has held a number of positions in the 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 the Bank, Ms. Cheng was a clerk in the Finance and Accounts Department of the Preparatory Office set for the establishment of the 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 is a Senior Accountant as accredited by Chinese Association for Development Strategy.

Ms. Wang Ying (王穎), has been an Employees' Representative Supervisor of the Bank since June 2007 and has also been General Manager of the Internal Audit Department of the Bank since September 2012. From July 1997 to September 2012, she has held several positions in the 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 the Bank, Ms. Wang worked as Cashier and Accountant respectively of Harbin Urban Credit Union. Ms. Wang received a Master's degree in Law from China University of Political Science and Law in 2010. Ms. Wang is an Accountant as accredited by the Personnel Department of Heilongjiang Province.

Mr. Chen Yutao (陳宇濤), has been an Employees' Representative Supervisor of the 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 the Bank since January 2011. He held positions of Deputy General Manager and Assistant to the General Manager of the Financial Planning Department at the Bank since March 2010. Prior to joining the 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 an EMBA degree from Fudan University in June 2013. He is a Senior Accountant as accredited by the Personnel Department of Guangdong Province.

Ms. Lu Yujuan (盧育娟), has been the Shareholders' Representative Supervisor of the 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 Master's degree in Arts from Communication University of China in June 2012.

Directors, Supervisors, Senior Management, Employees and Organizations

Ms. Bai Fan (白帆), has been an external Supervisor of the 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 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), has been an external Supervisor of the 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 Doctor's degree in Management from Northeast Agricultural University in June 2003.

Ms. Meng Rongfang (孟荣芳), has been an external Supervisor of the 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. 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 is a Senior Accountant as accredited by Shanghai Human Resources and Social Security Bureau.

(III) Information of Senior Management

For the biography of Ms. Gao Shuzhen (高淑珍), Executive Director and President of the Bank, please see "Executive Directors".

Mr. Li Qiming (李启明), has been a Vice President of the Bank since November 2007. From April 1999 to July 2011, he held a number of positions in the 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 the 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. 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 is a senior Engineer as accredited by the Personnel Department of Heilongjiang Province.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Zhang Qiguang (張其廣), has been a Vice President of the Bank since April 2012 and Chief Financial Officer of the 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. From June 2001 to September 2012, Mr. Zhang held a number of positions in the 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 the Bank. Prior to joining the 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 is a Registered Accountant as accredited by the MOF.

Mr. Lv Tianjun (呂天君), has been a Vice President of the Bank since April 2012 and Chief Risk Officer of the Bank since May 2011. From June 2001 to April 2012, Mr. Lv held a number of positions in the 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 the Bank. Prior to joining the 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 is an Economist accredited by the PBOC.

Mr. Lu Weidong (盧衛東), has been a Vice President and Chief Information Officer of the Bank since August 2013. Prior to joining the 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), has been the Chief Credit Approval Officer of the Bank since May 2011. From July 1997 to September 2012, Mr. Xu held a number of positions in the 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 the 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 is a Senior Engineer as accredited by the Personnel Department of Heilongjiang Province.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Wang Haibin (王海濱), has been an Assistant to the President of the Bank since April 2012. Mr. Wang has also served concurrently as Executive Vice President of the Bank's Harbin Branch since February 2012 and as General Manager of the Human Resources Department of the Bank since June 2011. From July 1997 to April 2012, Mr. Wang held a number of positions in the Bank, including President of the Bank's Dazhi Sub-branch, General Manager of the Operational Management Office and General Manager of the Corporate Banking Department of the Bank. Prior to joining the Bank, from February 1997 to July 1997, Mr. Wang worked as a General Officer of the Preparatory Office set for the establishment of the 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 Master's degree in Engineering from Northeast Forestry University in January 2007. He is an Economist accredited by the PBOC.

Ms. Sun Jiawei (孫嘉巍), has been an Assistant to the President of the Bank since April 2012. Ms. Sun joined the Bank in July 1997. From July 1997 to December 2013, Ms. Sun held various positions in the 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 received an MBA degree from Harbin Engineering University in December 2011. She is an Economist as accredited by the Ministry of Human Resources and Social Security.

Joint Company Secretaries

Ms. Sun Feixia (孫飛霞), has been appointed as the Joint Company Secretary of the Bank since January 2014. Ms. Sun has been the Secretary of the Board of Directors since January 2015. 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 held positions such as Credit General Officer of the Bank's 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 the 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 Doctor's degree in Management from Northeast Agricultural University in June 2011. Ms. Sun is a Senior Economist as accredited by the Personnel Department of Heilongjiang Province.

Directors, Supervisors, Senior Management, Employees and Organizations

Mr. Ngai Wai Fung (魏偉峰), FCIS, FCS (PE), CPA and FCCA, joined the Bank since January 2014 as the Bank's 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 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 Doctorate in Finance from the Shanghai University of Finance and Economic in June 2011, Mr. Ngai possesses over 26 years of company secretarial experience. He is the 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, the Bank has 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 tying performance to remuneration and the combination of qualitative and quantitative methods, in order to mobilize the enthusiasm and creativity of senior management to the largest extent.

The Bank provides allowance to 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.

Directors, Supervisors, Senior Management, Employees and Organizations

V. Confirmation of Independence of Independent Non-Executive Directors

Prior to its listing on 31 March 2014, the 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 Rule 3.13 of the Hong Kong Listing Rules. The 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.

The Bank's 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 for three years after the expiration of the term.

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

The Bank did not adopt any H share appreciation rights incentive plan during the reporting period.

VII. Employees

(I) Personnel composition

As at 31 December 2014, the Bank had 7,408 employees, among which 839 were headquarters staff, accounting for 11.3% of the total, 2,631 were Harbin Branch staff, and 3,938 were staff of branches at other towns. Regarding with age composition, the average age of employees of the Bank is 32.6. 2,904 are between 26 and 30 years old, accounting for 39.2%. In education level, there are 6,078 employees with bachelor degree or above, accounting for 82.0% of the total. Additionally, subsidiaries of the Bank had 933 employees.

(II) Staff training programs

In 2014, the Bank emphasized improvement of practical problem-solving capabilities of existing talents and building a learning team as its driving force while centering on enhancing the pertinence and effectiveness of trainings under the main guideline of improving training quality, in order to set up a new training concept, introduce new training methods, optimize training resources and plans, and push forward various professional regular training sessions. The Bank advanced its high-end talent project by enriching channels, enhanced cultivation effectiveness of talent reserve training by refining plans, made the "most down-to-earth" benefit programs by optimizing proposals, did a good job in orientation training for new employees at different levels through innovations in form. Through training and development, the Bank further improved the Bank's employees' knowledge, skills, cohesiveness and fighting strength, providing support in driving force and intellectual capital for the Bank's rapid development.

(III) Staff incentive policy

The Bank has established a scientific and reasonable staff evaluation system to implement comprehensive performance management. At the beginning of each year, other than the evaluation of performance, the Bank set up performance planning for staff by breaking down the bank's 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, the Bank also adopted 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.

Directors, Supervisors, Senior Management, Employees and Organizations

The Bank has established a series of staff incentive policies in line with the bank's development based on scientific performance review results: firstly, the Bank has adopted a broadband salary system to provide staff with incentive remuneration by raising and lowering remuneration grades; secondly, the Bank has established a career development platform to facilitate scientific selection and movement of personnel and created multiple paths of career development through talents exchange and on-the-job placement; thirdly, the Bank has 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; fourthly, the Bank has set up a high level staff education and training mechanism by innovating training methods, breaking down training into three levels and providing overseas training; fifthly, the Bank has given full play to the staff incentive policy by effectively combining material and spiritual incentives.

(IV) Remuneration policy for employees

The Bank has successfully established a broadband salary management system with diversified composition, standardized management and systematic implementation and adopted a market-oriented and diversified management by region in order to scientifically and effectively motivate the Bank's employees and ensure the smooth implementation of the Bank's strategic development. The Bank's remuneration package 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, the Bank is able to strictly comply with regulatory requirements in remuneration payment by adopting deferred payment and setting up a lock-up period for paying senior management as well as employees holding positions that may exert significant influence to risks in order to tie job duties with risk management responsibilities. As of 2014, staff cost of the Bank is RMB1,551.2 million.

(V) Retirement and Benefits

The Bank pays the welfare benefits for employees who have not yet reached the statutory retirement age limit but are approved by the Bank to voluntarily retire from their employment from the internal retirement date to the statutory retirement age limit.

In accordance with the Labor Law of the People's Republic of China and relevant requirements of the State and local governments, the Bank provides various social insurances and other benefits to employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing provident fund, accidental injury insurance as well as male/female welfare insurance, and also sets up a benefit society across the Bank. Basic pension insurance, basic medical insurance, unemployment insurance and housing provident fund are contributed by the Bank and employees at a certain proportion in accordance with the relevant local requirements. The social insurance premiums payable by employees are paid by the Bank on behalf of them.

Directors, Supervisors, Senior Management, Employees and Organizations

VIII. Basic information of branches under the parent company

No.	Name of branch	Business address	Notes
1	Harbin branch	No. 160, Shangzhi Street, Daoli District, Harbin	142 sub-branches
2	Shuangyashan Branch	Jinyu Building, Xinxing Street, Jianshan District, Shuangyashan	12 sub-branches
3	Dalian Branch	Yinzhou International Plaza No. 11 Qiyi Street, Zhongshan District, Dalian City	13 sub-branches
4	Tianjin Branch	No. 223, Yong'an Road, Hexi District, Tianjin	11 sub-branches
5	Chengdu Branch	No. 210 Xiyulong Street, Qingyang District, Chengdu	9 sub-branches
6	Hegang Branch	North of Railway Station Square, Hegang	8 sub-branches
7	Shenyang Branch	No. 200 Shifu Road, Heping District, Shenyang City	11 sub-branches
8	Suihua Branch	Crossing of Huanghe North Road and Xinhua Street, Beilin District, Suihua	9 sub-branches
9	Jixi Branch	No. 253 Zhongxin Street, Jiguan District, Jixi	10 sub-branches
10	Chongqing Branch	No. 197 Wuyi Road, Yuzhong District, Chongqing	15 sub-branches
11	Daqing Branch	H-A, Jingsan Street, Dongfengxin Village, Saertu District, Daqing	6 sub-branches
12	Qitaihe Branch	No. 57 Dongjin Street, Taoshan District, Qitaihe	5 sub-branches
13	Mudanjiang Branch	No. 137, Guanghua Street, Dong'an District, Mudanjiang	6 sub-branches
14	Jiamusi Branch	Crossroads between Zhongshan Street and Binjiang Road, Xiangyang District, Jiamusi	1 sub-branch
15	Qiqihaer Branch	No. 37 Longsha Road, Jianhua District, Qiqihaer City	
16	Yichun Branch	South Shop, 1/F China Unicom Building, No. 70 Tonghe Road, Yichun District, Yichun City	
17	Nongken branch	Crossroads between Shengli Street and Yingbin Road, Heilongjiang Province Jiansanjiang Farming Cultivate Bureau	3 sub-branches
18	Small Business Financial Service Centre	No. 160, Shangzhi Street, Daoli District, Harbin	

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 114 to 239, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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

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 2014, 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
30 March 2015

Consolidated Income Statement

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

	Notes	Years ended 31 December	
		2014	2013
Interest income	5	18,596,813	14,141,665
Interest expense	5	(10,199,196)	(7,323,890)
NET INTEREST INCOME	5	8,397,617	6,817,775
Fee and commission income	6	1,775,883	1,376,550
Fee and commission expense	6	(175,542)	(129,428)
NET FEE AND COMMISSION INCOME	6	1,600,341	1,247,122
Net trading income	7	181,502	283,851
Net loss on financial investments	8	(57,063)	(46,534)
Other operating income, net	9	130,371	241,622
OPERATING INCOME		10,252,768	8,543,836
Operating expenses	10	(4,433,284)	(3,590,990)
Impairment losses on:			
Loans and advances to customers	22	(567,115)	(517,717)
Others	13	(142,024)	11,657
OPERATING PROFIT		5,110,345	4,446,786
Share of profits of an associate		17,150	3,231
PROFIT BEFORE TAX		5,127,495	4,450,017
Income tax expense	14	(1,286,723)	(1,078,926)
PROFIT FOR THE YEAR		3,840,772	3,371,091
Attributable to:			
Equity holders of the parent company	15	3,806,554	3,350,342
Non-controlling interests		34,218	20,749
		3,840,772	3,371,091
EARNINGS PER SHARE (RMB yuan)			
– basic and diluted	17	0.37	0.41

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

Consolidated Statement of Comprehensive Income

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December	
		2014	2013
Profit for the year		3,840,772	3,371,091
Other comprehensive income (after tax, net):			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent year</i>			
Net gain/(loss) on available-for-sale financial assets	39	183,942	(157,823)
Share of other comprehensive income/(loss) of an associate	39	64,387	(56,291)
Subtotal of other comprehensive income/(loss) for the year		248,329	(214,114)
Total comprehensive income for the year		4,089,101	3,156,977
Total comprehensive income attributable to:			
Equity holders of the parent		4,054,883	3,136,228
Non-controlling interests		34,218	20,749
		4,089,101	3,156,977

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

	Note	As at 31 December	
		2014	2013
ASSETS			
Cash and balances with central bank	18	53,871,038	51,552,089
Due from banks and other financial institutions	19	28,207,243	33,871,192
Financial assets held for trading	20	1,912,551	2,512,264
Reverse repurchase agreements	21	37,267,471	51,110,948
Loans and advances to customers	22	121,014,264	103,515,015
Financial investments	23	84,734,900	68,523,601
Finance lease receivables	24	4,160,425	–
Investment in an associate	26	1,045,492	963,955
Property and equipment	27	7,952,212	7,314,942
Deferred income tax assets	28	460,372	333,855
Other assets	29	3,015,650	2,477,579
TOTAL ASSETS		343,641,618	322,175,440
LIABILITIES			
Due to central bank		1,716,910	787,198
Borrowings from banks and other financial institutions	30	3,400,000	–
Due to banks and other financial institutions	31	59,620,479	50,610,868
Negative fair value of derivatives	32	600	–
Repurchase agreements	33	6,002,521	19,091,166
Due to customers	34	232,197,156	224,178,126
Income tax payable		492,497	262,941
Debt securities issued	35	4,498,190	3,500,000
Other liabilities	36	5,550,644	3,817,854
TOTAL LIABILITIES		313,478,997	302,248,153
EQUITY			
Equity attributable to equity holders of the parent company			
Share capital	37	10,995,600	8,246,900
Reserves		13,047,620	7,449,935
Retained profits		5,487,055	4,030,707
		29,530,275	19,727,542
Non-controlling interests		632,346	199,745
TOTAL EQUITY		30,162,621	19,927,287
TOTAL EQUITY AND LIABILITIES		343,641,618	322,175,440

Guo Zhiwen

Chairman

Gao Shuzhen

President

Zhang Qiguang

Chief Financial Officer

Chen YutaoGeneral Manager of Finance
and Accounting Department

Consolidated Statement of Changes in Equity

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the parent company										
	Reserves							Retained profits	Total	Non-controlling interests	Total equity
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserves	Subtotal				
Balance as at 1 January 2014	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
Profit for the year	-	-	-	-	-	-	-	3,806,554	3,806,554	34,218	3,840,772
Other comprehensive income											
- Change in fair value of available-for-sale investments, net of tax	-	-	-	-	183,942	-	183,942	-	183,942	-	183,942
- Share of other comprehensive income of an associate	-	-	-	-	-	64,387	64,387	-	64,387	-	64,387
Total comprehensive income	-	-	-	-	183,942	64,387	248,329	3,806,554	4,054,883	34,218	4,089,101
Capital contributed by owners	2,748,700	3,416,983	-	-	-	-	3,416,983	-	6,165,683	400,000	6,565,683
Dividends – 2013 final (note 16)	-	-	-	-	-	-	-	(417,833)	(417,833)	(1,617)	(419,450)
Appropriation to surplus reserve	-	-	357,355	-	-	-	357,355	(357,355)	-	-	-
Appropriation to general reserve (i)	-	-	-	1,575,018	-	-	1,575,018	(1,575,018)	-	-	-
Balance as at 31 December 2014	10,995,600	7,639,362	1,547,372	3,845,356	1,882	13,648	13,047,620	5,487,055	29,530,275	632,346	30,162,621

(i) Includes the appropriation made by subsidiaries in the amount of RMB12,106 thousand.

Consolidated Statement of Changes in Equity

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the parent company										
	Reserves							Retained profits	Total	Non-controlling interests	Total equity
	Issued share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Other reserves	Subtotal				
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 RMB35,749 thousand.

Consolidated Statement of Cash Flows

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December	
		2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		5,127,495	4,450,017
Adjustments for:			
Share of profits of an associate		(17,150)	(3,231)
Depreciation and amortisation	10	328,158	273,927
Net trading gain	7	(181,502)	(283,851)
Dividend income	8	(652)	(579)
Interest income on financial investments		(4,628,015)	(2,373,340)
Impairment loss on loans and advances to customers	22	567,115	517,717
(Reversal of) impairments of other assets	13	142,024	(11,657)
Unrealised foreign exchange loss/(gain)		27,798	(5,935)
Interest expense on issuance of bonds	5	173,750	174,226
Accreted interest on impaired loans	22	(45,038)	(36,169)
Net loss on disposal of available-for-sale financial assets	8	57,715	47,113
Net gain on disposal of property and equipment and other assets		(2,230)	–
		1,549,468	2,748,238
Net decrease/(increase) in operating assets:			
Due from central bank		(1,411,546)	(1,672,445)
Due from banks and other financial institutions		6,911,705	(14,962,134)
Reverse repurchase agreements		5,312,895	(6,884,728)
Loans and advances to customers		(18,021,326)	(18,698,484)
Financial lease receivables		(4,202,449)	–
Other assets		(264,200)	40,490
		(11,674,921)	(42,177,301)
Net increase/(decrease) in operating liabilities:			
Due to central bank		929,712	192,337
Borrowings from banks and other financial institutions		3,400,000	–
Due to banks and other financial institutions		9,009,611	14,087,320
Repurchase agreements		(13,088,645)	(3,741,489)
Due to customers		8,019,030	37,535,742
Other liabilities		1,588,670	1,124,322
		9,858,378	49,198,232
Net cash flows from/(used in) operating activities before tax		(267,075)	9,769,169
Income tax paid		(1,183,684)	(1,150,066)
Net cash flows from/(used in) operating activities		(1,450,759)	8,619,103

Consolidated Statement of Cash Flows

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

	Note	Years ended 31 December	
		2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property and equipment		(1,334,359)	(1,580,805)
Proceeds from disposal of items of property and equipment		346,179	12
Cash paid for investments		(131,662,626)	(431,137,381)
Proceeds from sale and redemption of investments		116,191,009	410,978,809
Dividends received		652	579
Return on investments		4,447,484	2,926,975
Net cash flows used in investing activities		(12,011,661)	(18,811,811)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		6,243,818	–
Capital injection by non-controlling shareholders		400,000	5,004
Proceeds from issuance of other debt securities		2,000,000	–
Payment for redemption of other debt securities		(1,000,000)	–
Interest paid on debt securities		(175,560)	(173,750)
Dividends paid on ordinary shares		(410,392)	(163,903)
Distribution of dividends to non-controlling shareholders		(1,617)	–
Net cash flows from/(used in) financing activities		7,056,249	(332,649)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the year		53,558,236	64,094,278
Effect of exchange rate changes on cash and cash equivalents		30,748	(10,685)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	40	47,182,813	53,558,236
NET CASH FLOWS FROM/(USED IN)			
OPERATING ACTIVITIES INCLUDE:			
Interest received		13,673,372	11,732,269
Interest paid		(9,033,587)	(6,258,123)

Statement of Financial Position

AS AT 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

	Note	As at 31 December	
		2014	2013
ASSETS			
Cash and balances with central bank	18	51,746,375	49,825,452
Due from banks and other financial institutions	19	25,377,770	34,256,632
Financial assets held for trading	20	1,912,551	2,512,264
Reverse repurchase agreements	21	37,267,471	50,910,948
Loans and advances to customers	22	111,796,660	94,248,125
Financial investments	23	84,734,900	68,523,601
Investments in subsidiaries	25	2,762,000	1,142,000
Investments in an associate	26	1,045,492	963,955
Property and equipment	27	7,499,983	7,165,433
Deferred income tax assets	28	439,750	301,928
Other assets	29	2,963,829	2,390,157
TOTAL ASSETS		327,546,781	312,240,495
LIABILITIES			
Due to central bank		600,000	65,714
Due to banks and other financial institutions	31	61,442,579	52,318,918
Negative fair value of derivatives	32	600	–
Repurchase agreements	33	6,002,521	19,091,166
Due to customers	34	220,423,443	213,786,375
Income tax payable		453,923	230,830
Debt securities issued	35	4,498,190	3,500,000
Other liabilities	36	5,037,426	3,729,129
TOTAL LIABILITIES		298,458,682	292,722,132
EQUITY			
Share capital	37	10,995,600	8,246,900
Reserves	38	12,980,140	7,394,561
Retained profits	38	5,112,359	3,876,902
TOTAL EQUITY		29,088,099	19,518,363
TOTAL EQUITY AND LIABILITIES		327,546,781	312,240,495

Guo Zhiwen

Chairman

Gao Shuzhen

President

Zhang Qiguang

Chief Financial Officer

Chen YutaoGeneral Manager of Finance
and Accounting Department

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

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 2014, the Bank has a total of 17 branches in Harbin, Shenyang, Daqing, Dalian, Shuangyashan, Hegang, Jixi, Chengdu, Chongqing, Tianjin, Mudanjiang, Qitaihe, Suihua, Qiqihar, Jiamus, Yichun and Nongken with 261 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.

The subsidiaries of the Bank as at 31 December 2014 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

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

1. CORPORATE INFORMATION AND STRUCTURE (Continued)

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
				%		
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	50,000	100.00	50,000	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
Harbin Bank Financial Leasing Co., Ltd	(xxv)	Harbin, Heilongjiang	2,000,000	80.00	1,600,000	Leasing Company

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

(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 2014 and 2013 have been audited by Ernst and Young Hua Ming Certified Public Accountants LLP.

Major changes to the structure of the Group 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 an 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 an 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.
- (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.

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

1. CORPORATE INFORMATION AND STRUCTURE *(Continued)*

- (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 Xiangfen 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.
- (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.

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

1. CORPORATE INFORMATION AND STRUCTURE *(Continued)*

- (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. (“Hejian Ronghui”) with a registered capital of RMB30 million. On 29 August 2014, the Bank made additional capital injection of RMB20 million into Hejian Ronghui, increasing its total registered capital to RMB50 million. The Bank’s stake in the company remains 100%.
- (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.
- (xxv) On 11 June 2014, the Bank established Harbin Bank Financial Leasing Co., Ltd. with Dongninglizhi Decoration Engineering Co., Ltd. and Harbin Express Auto sales Co.,Ltd.. The Bank holds 80% shares of the company with a registered capital of RMB2 billion.

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 2014, together with the relevant transitional provisions, have been early adopted by the Group in preparation of the Financial Information throughout the reporting periods.

These financial statements have been prepared under the historical cost convention, except for financial assets held for trading, available-for-sale financial assets and derivative financial instruments (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.

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December 2014. 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.

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:

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

2.1 BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

- (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 STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2014

On 1 January 2014, the Group adopted the following new standards, amendments and interpretations:

IAS 32 Amendments	<i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
IAS 36 Amendments	<i>Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets</i>
IAS 39 Amendments	<i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	<i>Investment Entities</i>
IFRIC Interpretation 21	<i>Levies</i>

The Group adopted the IAS 32 Amendments – Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities in 2014. It provides additional application guidance to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. IFRS 7 Amendments – Financial Instruments: Disclosure is also amended to require disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, and master netting agreements, etc. on the entity's financial position.

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

2.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2014 *(Continued)*

The Group adopted the IAS 36 Amendments – Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets in 2014. It restricts the requirement to disclose the recoverable amount of an asset or cash-generating unit (“CGU”) to periods in which an impairment loss has been recognised or reversed. In addition, the amendments require two additional disclosures when an impairment is recognised or reversed and recoverable amount is based on fair value less costs of disposal: (i) the level of the IFRS 13 “fair value hierarchy” within which the fair value measurement of the asset or cash-generating unit has been determined; (ii) for fair value measurements at Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique, key assumptions used in the measurement of fair value, including the discount rates used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.

The Group adopted the IAS 39 Amendments – Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting in 2014. It provides an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The amendments cover novations: (i) that arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) where the parties to the hedging instrument agree that one or more clearing counterparties replace the original counterparty to become the new counterparty to each of the parties; (iii) that did not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing.

The Group adopted the IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments – Investment Entities in 2014. The amendments apply to a particular class of business that qualifies as investment entities. Investment entity refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investments income or both. An investment entity must also evaluate the performance of its investments on a fair value basis. The amendments provide an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The Group adopted the IFRIC Interpretation 21 – Levies in 2014. The interpretation sets out the accounting for an obligation to pay a levy that is applicable to all levies other than income tax and applies to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out the criteria for recognition of a liability, one of the requirements is that the obligation for past events (called an obligation event) generated by the entity should be recognised as a liability in the current period. The interpretation clarifies that an entity recognises an obligation event for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It 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 is recognised before the specified minimum threshold is reached.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

2.3 STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP IN 2014

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

		Effective for annual periods beginning on or after
IFRS 9	Financial Instruments	1 January 2018
IAS 19 Amendments	Defined Benefit Plans: Employee Contributions	1 July 2014
IAS 27 Amendments	Equity Method in Separate Financial Statements	1 January 2016
IFRS 10, IAS 28 Amendments	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2017
IFRS 10, IFRS 12 and IAS 28 Amendments	Investment Entities: Applying the Consolidation Exception	1 January 2016
IAS 1 Amendments	Disclosure Initiative	1 January 2016
Annual Improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle (issued in December 2013)		1 July 2014
Annual Improvements to IFRSs 2012-2014 cycle (issued in September 2014)		1 January 2016

IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 – Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IAS 19 Amendments – Defined Benefit Plans: Employee Contributions

IAS 19 Amendments requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, 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 in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

2.3 STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP IN 2014 *(Continued)*

IAS 27 Amendments – Equity Method in Separate Financial Statements

IAS 27 Amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

IFRS 10, IAS 28 Amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

IFRS 10, IFRS 12 and IAS 28 Amendments – Investment Entities: Applying the Consolidation Exception

The amendments to IFRS 10, IFRS 12 and IAS 28 address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exception from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

IAS 1 Amendments – Disclosure Initiative

The amendments to IAS 1 include narrow-focus improvements in materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments.

The Group is in the process of assessing the impact of these new standards and amendments on the consolidated and separate financial statements of the Group and the Bank respectively.

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2.3 STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP IN 2014 *(Continued)*

Annual Improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle (issued in December 2013)

In addition, Annual Improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle were issued in December 2013. The annual improvements process was established to make non-urgent but necessary amendments to IFRSs. The amendments are effective from annual period beginning on or after 1 July 2014. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2014.

Annual Improvements to IFRSs 2012-2014 cycle (issued in September 2014)

Annual Improvements to IFRSs 2012-2014 cycle was issued in September 2014. The annual improvements process was established to make non-urgent but necessary amendments to IFRSs. The amendments are effective from annual period beginning on or after 1 January 2016. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2014.

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.

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.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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

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(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.

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 entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(3) Financial instruments *(Continued)*

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.

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.

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.

Notes to Financial Statements

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(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)

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.

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.

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.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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%
Operating lease fixed assets	20 years	5%	4.75%
Leasehold improvements	Over the shorter of the economic useful lives and remaining lease terms		

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.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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

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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.

(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.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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.

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.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

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.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(19) Income tax *(Continued)*

Deferred income tax *(Continued)*

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.

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.

Finance Lease

When the Group is a lessor under financial lease, at the leasing commencement date, the minimum lease payments receivables and initial direct costs are recognised as finance lease receivables and any unguaranteed residual value is recognised at the same time. The difference between the sum of minimum lease payments receivables, initial direct costs, the unguaranteed residual value and their present value is accounted for as unearned finance income.

The unearned finance income is amortised using the effective interest method over the lease period.

Impairment losses on lease receivables are accounted for in accordance with the accounting policies set out in note 3(4).

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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;
- (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).

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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 (note 44).

Notes to Financial Statements

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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, financial lease receivables 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, financial lease receivables 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 judgement on whether the objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

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 valuation techniques. These 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 the 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.

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5. NET INTEREST INCOME

	Year ended 31 December	
	2014	2013
Interest income on:		
Loans and advances to customers	9,432,470	7,621,205
– Corporate loans and advances	5,736,212	4,145,653
– Personal loans	3,529,254	3,083,604
– Discounted bills	167,004	391,948
Reverse repurchase agreements	2,521,994	2,251,530
Available-for-sale financial assets	648,876	439,120
Held-to-maturity financial investments	835,811	565,680
Receivables	3,143,328	1,368,540
Due from central bank	671,017	602,087
Deposits with banks and other financial institutions	1,311,876	1,293,503
Financial lease receivables	31,441	–
Subtotal	18,596,813	14,141,665
Interest expense on:		
Due to customers	(5,678,348)	(4,160,741)
Repurchase agreements	(489,536)	(1,001,818)
Deposits from banks and other financial institutions	(3,799,188)	(1,963,740)
Debt securities issued	(173,750)	(174,226)
Due to central bank	(41,824)	(23,365)
Borrowings from other financial institutions	(16,550)	–
Subtotal	(10,199,196)	(7,323,890)
Net interest income	8,397,617	6,817,775
Included: interest income on impaired loans	45,038	36,169
Interest income from:		
– Listed debt instruments	1,484,687	1,004,800
– Unlisted debt instruments	17,112,126	13,136,865
Subtotal	18,596,813	14,141,665

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

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6. NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2014	2013
FEE AND COMMISSION INCOME:		
Advisory and consulting fees	783,147	488,221
Agency and custodian fees	654,981	617,264
Including: non-guaranteed wealth management product	280,705	284,684
Bank card fees	210,048	149,264
Settlement and clearing fees	78,119	83,410
Others	49,588	38,391
Subtotal	1,775,883	1,376,550
FEE AND COMMISSION EXPENSE:		
Settlement and clearing fees	(17,529)	(16,120)
Agency fees	(10,761)	(7,473)
Bank card fees	(97,076)	(69,539)
Others	(50,176)	(36,296)
Subtotal	(175,542)	(129,428)
NET FEE AND COMMISSION INCOME	1,600,341	1,247,122

7. NET TRADING INCOME

	Year ended 31 December	
	2014	2013
Debt securities	182,102	283,851
Others	(600)	–
	181,502	283,851

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.

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8. NET LOSS ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2014	2013
Dividends from available-for-sale equity investments	652	579
Loss on disposal of available-for-sale financial assets, net	(57,715)	(47,113)
Total	(57,063)	(46,534)

9. OTHER OPERATING INCOME, NET

	Year ended 31 December	
	2014	2013
Net gain on sale of repossessed assets	–	121,160
Gain/(loss) from foreign exchange, net	2,950	(4,750)
Leasing income	3,348	3,681
Government grants and subsidies	85,200	97,162
Penalty and compensation payments	11	180
Others	38,862	24,189
Total	130,371	241,622

10. OPERATING EXPENSES

	Year ended 31 December	
	2014	2013
Staff costs:		
Salaries, bonuses and allowances	1,444,715	1,248,762
Social insurance	176,910	126,616
Housing fund	76,408	69,089
Staff benefits	103,381	95,795
Labour union expenditure and education costs	16,341	12,330
Early retirement benefits	4,807	6,392
Subtotal	1,822,562	1,558,984
General and administrative expenses	733,727	725,677
Business tax and surcharges	840,291	528,158
Depreciation and amortisation	328,158	273,927
Leasing expense	299,317	199,053
Auditors' remuneration	5,500	9,246
Others	403,729	295,945
Total	4,433,284	3,590,990

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11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Name	Position	Year ended 31 December 2014						
		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	Actual amount of remuneration paid (pre-tax) RMB'000
		(1)	(2)	(3)	(4)	(5)=(1)+(2) +(3)+(4)	(6)	(7)=(5)-(6)
Guo Zhiwen	Chairman	-	771	3,402	35	4,208	1,590	2,618
Liu Zhuo	Vice Chairman	-	435	1,685	33	2,153	-	2,153
Gao Shuzhen	Executive Director	-	624	3,071	34	3,729	1,322	2,407
Chen Danyang	Director	145	-	-	-	145	-	145
Zhang Taoxuan	Director	145	-	-	-	145	-	145
Qin Hongfu	Director	147	-	-	-	147	-	147
Cui Luanyi	Director	145	-	-	-	145	-	145
Zhang Shengping	Independent Director	308	-	-	-	308	-	308
Ma Yongqiang	Independent Director	298	-	-	-	298	-	298
He Ping	Independent Director	245	-	-	-	245	-	245
Du Qingchun	Independent Director	315	-	-	-	315	-	315
Kong Siu Chee	Independent Director	326	-	-	-	326	-	326
Wan Kam To	Independent Director	331	-	-	-	331	-	331
Zhang Bin	Chairman of the Board of Supervisors	-	546	2,823	33	3,402	1,171	2,231
Cheng Yun	Vice Chairman of the Board of Supervisors	-	435	1,936	33	2,404	1,017	1,387
Lu Yujuan	Supervisor	60	-	-	-	60	-	60
Wang Ying	Employee Supervisor	-	434	360	32	826	140	686
Chen Yutao	Employee Supervisor	-	303	313	20	636	116	520
Wang Jiheng	External Supervisor	144	-	-	-	144	-	144
Bai Fan	External Supervisor	120	-	-	-	120	-	120
Meng Rongfang	External Supervisor	144	-	-	-	144	-	144

Note: Pursuant to the relevant PRC 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.

Notes to Financial Statements

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11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

		Year ended 31 December 2013						
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			
		(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 an independent director 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.

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(In RMB thousands, unless otherwise stated)

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(Continued)*

During the year ended 31 December 2014, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration (2013: Nil).

During the year ended 31 December 2014, 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 (2013: 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 2014 and 2013, the five highest paid individuals of the Group comprised two directors and two supervisors and three directors and one supervisor of the Bank, respectively, whose emoluments are disclosed in notes 11 and 46(c) to the financial statements. Details of the emoluments in respect of the five highest paid individuals are as follows:

	Year ended 31 December	
	2014	2013
Salaries, allowances and discretionary bonuses	16,844	12,716
Contribution to defined contribution schemes	134	120
Total	16,978	12,836

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

	Number of employees	
	Year ended 31 December	
	2014	2013
RMB1,500,001 to RMB2,000,000	–	1
RMB3,000,001 to RMB3,500,000	1	–
Total	1	1

During the year ended 31 December 2014, 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 (2013: Nil).

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

	Year ended 31 December	
	2014	2013
Impairment losses on:		
Placements with banks and other financial institutions	100,000	–
Financial lease receivables	42,024	–
Other assets	–	(11,657)
	142,024	(11,657)

14. INCOME TAX EXPENSE

(a) Income tax

	Year ended 31 December	
	2014	2013
Current income tax	1,474,554	1,101,859
Deferred income tax	(187,831)	(22,933)
	1,286,723	1,078,926

(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	
	2014	2013
Profit before tax	5,127,495	4,450,017
Tax at the PRC statutory income tax rate	1,281,874	1,112,504
Non-deductible expenses (i)	43,560	20,163
Non-taxable income (ii)	(38,683)	(52,910)
Underprovision/(overprovision) in respect of prior years	4,260	(23)
Profits attributable to an associate	(4,288)	(808)
Tax expense at the Group's effective income tax rate	1,286,723	1,078,926

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.

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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 2014 includes a profit of RMB3,574 million (2013: RMB3,203 million) which has been dealt with in the financial statements of the Company.

16. DIVIDENDS

	Year ended 31 December	
	2014	2013
Dividends on ordinary shares declared and paid:		
Final dividend for 2013: RMB0.038 per share** (2012: RMB0.025 per share*)	417,833	171,675
Dividends on ordinary shares proposed for approval (not recognised as at 31 December):		
Final dividend for 2014: RMB0.103 per share *** (2013: RMB0.038 per share**)	1,132,547	417,833

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

(**): Based on the 2013 weighted average number of shares at RMB0.038 per share, distributed in cash.

(***): Based on the 2014 weighted average number of shares at RMB0.103 per share, distributed in cash.

17. EARNINGS PER SHARE

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

	Year ended 31 December	
	2014	2013
Earnings:		
Profit attributable to equity holders of the parent company	3,806,554	3,350,342
Shares:		
Weighted average number of ordinary shares in issue (in thousands) (note a)	10,308,425	8,246,900
Basic and diluted earnings per share (in RMB yuan)	0.37	0.41

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

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17. EARNINGS PER SHARE *(Continued)*

(a) Weighted average number of shares in issue

	Year ended 31 December	
	2014	2013
Share capital at 1 January	8,246,900	7,560,198
Weighted average number of new shares issued in the year	2,061,525	–
Weighted average number of shares issued due to rights issue in 2013	–	686,702
Weighted average number of ordinary shares in issue at the end of year	10,308,425	8,246,900

Basic earnings per share as at 31 December 2014 and 2013 were computed by dividing the profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year. As described in note 37, Share Capital, the Bank had a right issue in 2013. In the calculation of earnings per share, the rights issue was deemed in issue at the earliest accounting period.

18. CASH AND BALANCES WITH CENTRAL BANK

	Group	
	31 December	
	2014	2013
Cash and balances with central bank:		
Cash on hand	1,065,082	1,302,418
Mandatory reserves with central bank (i)	36,184,313	34,780,277
Surplus reserves with central bank (ii)	16,586,575	15,441,836
Fiscal deposits with the PBOC	35,068	27,558
Total	53,871,038	51,552,089

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18. CASH AND BALANCES WITH CENTRAL BANK *(Continued)*

	Bank	
	31 December	
	2014	2013
Cash and unrestricted balances with central bank:		
Cash on hand	984,902	1,200,109
Mandatory reserves with central bank (i)	35,134,073	33,888,246
Surplus reserves with central bank (ii)	15,592,332	14,709,539
Fiscal deposits with the PBOC	35,068	27,558
Total	51,746,375	49,825,452

(i) The Group is required to place mandatory reserve deposits with the PBOC. Mandatory reserve deposits with the central bank are not available for use in the Group's daily operations. As at 31 December 2014 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	
	2014	2013
Nostro accounts:		
Banks operating in Mainland China	24,366,180	29,338,173
Other financial institutions operating in Mainland China	2,000	2,364
Banks operating outside Mainland China	365,310	130,655
	24,733,490	29,471,192
Less: Allowance for impairment losses	-	-
	24,733,490	29,471,192
Placements with banks and other financial institutions:		
Banks operating in Mainland China	1,921,077	-
Other financial institutions operating in Mainland China	-	4,400,000
Banks operating outside Mainland China	1,552,676	-
	3,473,753	4,400,000
Less: Allowance for impairment losses	-	-
	3,473,753	4,400,000
	28,207,243	33,871,192

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

	Bank	
	31 December	
	2014	2013
Nostro accounts:		
Banks operating in Mainland China	21,536,707	29,723,613
Other financial institutions operating in Mainland China	2,000	2,364
Banks operating outside Mainland China	365,310	130,655
	21,904,017	29,856,632
Less: Allowance for impairment losses	-	-
	21,904,017	29,856,632
Placements with banks and other financial institutions:		
Banks operating in Mainland China	1,921,077	-
Other financial institutions operating in Mainland China	-	4,400,000
Banks operating outside Mainland China	1,552,676	-
	3,473,753	4,400,000
Less: Allowance for impairment losses	-	-
	3,473,753	4,400,000
	25,377,770	34,256,632

20. FINANCIAL ASSETS HELD FOR TRADING

	Group/Bank	
	31 December	
	2014	2013
Debt securities	1,912,551	2,512,264
Debt securities analysed into:		
Listed in Mainland China	1,912,551	2,512,264

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21. REVERSE REPURCHASE AGREEMENTS

	Group	
	31 December	
	2014	2013
Reverse repurchase agreements analysed by counterparty:		
Banks	37,267,471	49,757,728
Other financial institutions	–	1,353,220
	37,267,471	51,110,948
Reverse repurchase agreements analysed by collateral:		
Securities	690,000	9,034,553
Bills	30,827,471	28,312,319
Trust beneficial rights	5,750,000	13,564,076
Loans	–	200,000
	37,267,471	51,110,948
	Bank	
	31 December	
	2014	2013
Reverse repurchase agreements analysed by counterparty:		
Banks	37,267,471	49,757,728
Other financial institutions	–	1,153,220
	37,267,471	50,910,948
Reverse repurchase agreements analysed by collateral:		
Securities	690,000	9,034,553
Bills	30,827,471	28,312,319
Trust beneficial rights	5,750,000	13,564,076
	37,267,471	50,910,948

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21. REVERSE REPURCHASE AGREEMENTS *(Continued)*

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 2014, the Group had received securities with a fair value of approximately RMB699 million (31 December 2013: RMB403 million). As of 31 December 2014, none of these securities have been repledged under repurchase agreements (31 December 2013: Nil). The Group had also received notes with a fair value of approximately RMB1,095 million as of 31 December 2014 (31 December 2013: RMB9,133 million); Of these securities, there were no securities have been repledged under repurchase agreements (31 December 2013: RMB5,104 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.

22. LOANS AND ADVANCES TO CUSTOMERS

	Group	
	31 December	
	2014	2013
Corporate loans and advances	79,898,554	63,538,241
Personal loans	43,227,683	40,498,599
Discounted bills	804,098	1,904,481
	123,930,335	105,941,321
Less: Allowance for impairment	(2,916,071)	(2,426,306)
	121,014,264	103,515,015
	Bank	
	31 December	
	2014	2013
Corporate loans and advances	76,328,515	58,995,054
Personal loans	37,667,657	36,256,796
Discounted bills	477,134	1,230,612
	114,473,306	96,482,462
Less: Allowance for impairment	(2,676,646)	(2,234,337)
	111,796,660	94,248,125

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22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

Group

	Individually assessed	Collectively assessed	Total
As at 1 January 2014	79,224	2,347,082	2,426,306
Exchange difference	300	5	305
Impairment loss:	180,809	386,306	567,115
Impairment allowances charged	184,651	386,306	570,957
Reversal of impairment allowances	(3,842)	–	(3,842)
Accreted interest on impaired loans (note 5)	(19,876)	(25,162)	(45,038)
Write-offs	(9,467)	(49,118)	(58,585)
Recoveries of loans and advances previously written off	–	25,968	25,968
As at 31 December 2014	230,990	2,685,081	2,916,071
As at 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

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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 2014	76,828	2,157,509	2,234,337
Exchange difference	300	5	305
Impairment loss:	180,115	331,316	511,431
Impairment allowances charged	183,775	331,316	515,091
Reversal of impairment allowances	(3,660)	–	(3,660)
Accreted interest on impaired loans	(19,876)	(25,162)	(45,038)
Write off for the year	(9,467)	(40,890)	(50,357)
Recoveries of loans and advances previously written off	–	25,968	25,968
As at 31 December 2014	227,900	2,448,746	2,676,646
As at 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-offs	(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

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22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	Group	
	31 December	
	2014	2013
Loans and advances:		
Unimpaired loans and advances (i)	122,530,607	105,037,131
Impaired loans and advances to customers (ii)		
Individually assessed	526,393	190,910
Collectively assessed	873,335	713,280
	123,930,335	105,941,321
Less: Allowance for impairment losses:		
Unimpaired loans and advances (i)	2,107,081	1,966,911
Impaired loans and advances to customers (ii)		
Individually assessed	230,990	79,224
Collectively assessed	578,000	380,171
	2,916,071	2,426,306
Net loans and advances:		
Unimpaired loans and advances (i)	120,423,526	103,070,220
Impaired loans and advances to customers (ii)		
Individually assessed	295,403	111,686
Collectively assessed	295,335	333,109
	121,014,264	103,515,015
Percentage of impaired loans and advances	1.13%	0.85%

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22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	Bank	
	31 December	
	2014	2013
Loans and advances:		
Unimpaired loans and advances (i)	113,118,053	95,592,863
Impaired loans and advances to customers (ii)		
Individually assessed	503,401	184,131
Collectively assessed	851,852	705,468
	114,473,306	96,482,462
Less: Allowance for impairment losses:		
Unimpaired loans and advances (i)	1,875,120	1,780,853
Impaired loans and advances to customers (ii)		
Individually assessed	227,900	76,828
Collectively assessed	573,626	376,656
	2,676,646	2,234,337
Net loans and advances:		
Unimpaired loans and advances (i)	111,242,933	93,812,010
Impaired loans and advances to customers (ii)		
Individually assessed	275,501	107,303
Collectively assessed	278,226	328,812
	111,796,660	94,248,125
Percentage of impaired loans and advances	1.18%	0.92%

(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.

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23. FINANCIAL INVESTMENTS

	Group/Bank	
	31 December	
	2014	2013
Receivables (a)	49,244,609	43,528,672
Held-to-maturity investments (b)	19,655,690	17,080,814
Available-for-sale financial assets (c)	15,934,601	7,914,115
Subtotal	84,834,900	68,523,601
Less: Allowance for impairment losses	(100,000)	–
Net balance	84,734,900	68,523,601

(a) Receivables

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

	Group/Bank	
	31 December	
	2014	2013
Certificate treasury bonds	120,368	183,715
Wealth management products issued by other financial institutions (i)	24,254,625	18,399,265
Trust fund plans (ii)	24,869,616	24,945,692
Subtotal	49,244,609	43,528,672
Less: Allowance for impairment losses	(100,000)	–
Net balance	49,144,609	43,528,672

- (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), and the interest rate is fixed or determinable (5-11%). These include investments in trust loans and trust beneficiary rights, etc.

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23. FINANCIAL INVESTMENTS (Continued)

(b) Held-to-maturity investments

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

	Group/Bank	
	31 December	
	2014	2013
Debt securities analysed into:		
Listed in Mainland China	19,655,690	17,080,814

(c) Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	Group/Bank	
	31 December	
	2014	2013
Debt securities analysed into:		
Listed in Mainland China	15,237,981	7,869,495
Unlisted:		
Equity investments at cost (i)	24,620	24,620
Wealth management products	650,000	–
Others	22,000	20,000
	15,934,601	7,914,115
Market value of listed debt securities	15,237,981	7,869,495

- (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.

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24. FINANCE LEASE RECEIVABLES

	Group	
	31 December	
	2014	2013
Financial lease receivables	4,845,522	–
Less: unearned finance lease income	(643,073)	–
Present value of minimum finance lease receivables	4,202,449	–
Less: allowance for impairment losses	(42,024)	–
Including: collective assessment	(42,024)	–
Net balance	4,160,425	–

Finance lease receivables, unearned finance lease income and minimum finance lease receivables analysed by remaining period are listed as follows:

	Group					
	31 December					
	2014			2013		
	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables	Finance lease receivables	Unearned finance lease income	Minimum finance lease receivables
Less than 1 year	1,228,041	(241,192)	986,849	–	–	–
1 year to 2 years	1,134,065	(178,809)	955,256	–	–	–
2 years to 3 years	976,318	(120,688)	855,630	–	–	–
3 years to 5 years	1,405,919	(98,429)	1,307,490	–	–	–
More than 5 years	101,179	(3,955)	97,224	–	–	–
	4,845,522	(643,073)	4,202,449	–	–	–

25. INVESTMENTS IN SUBSIDIARIES

	Bank	
	31 December	
	2014	2013
Unlisted investments, at cost	2,762,000	1,142,000

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26. INVESTMENT IN AN ASSOCIATE

	Group/Bank	
	31 December	
	2014	2013
Investment in an associate	1,045,492	963,955

Details of the Group's associate are as follows:

Name	Percentage of equity/ voting rights		Place of incorporation/ registration	Principal activities
	2014-12-31	2013-12-31		
	%	%		
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	
	2014	2013
Assets	68,283,646	52,030,241
Liabilities	(62,999,321)	(47,255,524)
Net assets	5,284,325	4,774,717
Proportion of Group's ownership	16%	16%
Share of the net assets	845,492	763,955
Goodwill on acquisition	200,000	200,000
Carrying amount of the investment	1,045,492	963,955
Revenue	531,008	868,038
Continuing operation profit	122,243	9,833
Non continuing operation profit	2,278	483
Profit for the year	107,190	20,196
Group's share of profit	17,150	3,231
Total comprehensive income	509,608	(331,620)
Dividends received	–	–

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

As at 31 December 2014 and 2013, contingent liabilities of the associate mainly include bank acceptances, guarantees issued and sight letters of credit. The associate has no significant capital commitments as at the end of the year.

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27. PROPERTY AND EQUIPMENT

Group

	Properties and buildings	Construction in progress	Leasehold improve- ments	Office equipment	Motor vehicles	Operating lease fixed assets	Total
Cost:							
At 1 January 2014	2,515,913	4,340,722	267,931	966,033	67,555	–	8,158,154
Additions	151,393	498,455	127,237	193,900	7,659	294,317	1,272,961
CIP transfers	164,134	(223,563)	–	59,429	–	–	–
Disposals	(39)	(341,883)	(14)	(5,824)	(43)	–	(347,803)
At 31 December 2014	2,831,401	4,273,731	395,154	1,213,538	75,171	294,317	9,083,312
At 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 2014	285,383	–	109,901	412,375	35,553	–	843,212
Depreciation charge for the year	79,646	–	56,765	144,065	11,266	–	291,742
Disposals	(37)	–	(14)	(3,762)	(41)	–	(3,854)
At 31 December 2014	364,992	–	166,652	552,678	46,778	–	1,131,100
At 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 2014	2,466,409	4,273,731	228,502	660,860	28,393	294,317	7,952,212
At 31 December 2013	2,230,530	4,340,722	158,030	553,658	32,002	–	7,314,942

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27. PROPERTY AND EQUIPMENT (Continued)

Bank

	Properties and buildings	Construction in progress	Leasehold improve- ments	Office equipment	Motor vehicles	Operating lease fixed assets	Total
Cost:							
At 1 January 2014	2,441,602	4,336,695	212,069	916,897	48,190	-	7,955,453
Additions	150,993	495,666	113,077	174,057	7,179	-	940,972
CIP transfers	164,135	(219,993)	-	55,858	-	-	-
Disposals	(39)	(341,883)	(14)	(5,793)	(43)	-	(347,772)
At 31 December 2014	2,756,691	4,270,485	325,132	1,141,019	55,326	-	8,548,653
At 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 2014	281,275	-	87,115	395,036	26,594	-	790,020
Depreciation charge for the year	76,522	-	44,290	134,330	7,360	-	262,502
Disposals	(37)	-	(14)	(3,760)	(41)	-	(3,852)
At 31 December 2014	357,760	-	131,391	525,606	33,913	-	1,048,670
At 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 2014	2,398,931	4,270,485	193,741	615,413	21,413	-	7,499,983
At 31 December 2013	2,160,327	4,336,695	124,954	521,861	21,596	-	7,165,433

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27. 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	
	2014	2013
Held in China		
Over 50 years	202,908	175,217
10 to 50 years	2,224,435	2,016,350
Less than 10 years	39,066	38,963
	2,466,409	2,230,530
	Bank	
	31 December	
	2014	2013
Held in China		
Over 50 years	202,908	174,915
10 to 50 years	2,156,957	1,946,449
Less than 10 years	39,066	38,963
	2,398,931	2,160,327

As at 31 December 2014, the process of obtaining the titles for the Group's properties and buildings with an aggregate net carrying value of RMB302 million (31 December 2013: RMB637 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.

During the year ended 31 December 2014, there was no construction in progress transfer to other assets of the Group. (2013: RMB40,617 thousand).

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28. DEFERRED INCOME TAX ASSETS

(a) Analysed by nature

Group

	31 December			
	2014		2013	
	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	1,673,063	418,266	998,776	249,694
Change in fair value of available-for-sale financial assets	–	–	242,748	60,687
Change in fair value of held for trading financial assets	–	–	39,640	9,910
Change in fair value of derivatives	600	150	–	–
Salaries, bonuses, allowances and subsidies payables	24,228	6,057	24,555	6,139
Early retirement benefits	14,881	3,720	15,371	3,843
Deferred revenue	147,609	36,902	–	–
Deductible tax losses	–	–	14,327	3,582
Subtotal	1,860,381	465,095	1,335,417	333,855
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(2,508)	(627)	–	–
Change in fair value of held for trading financial assets	(16,386)	(4,096)	–	–
Subtotal	(18,894)	(4,723)	–	–
Net deferred income tax	1,841,487	460,372	1,335,417	333,855

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28. DEFERRED INCOME TAX ASSETS *(Continued)*

(a) Analysed by nature *(Continued)*

Bank

	31 December			
	2014		2013	
	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	1,598,911	399,728	892,164	223,041
Change in fair value of available-for-sale financial assets	–	–	242,748	60,687
Change in fair value of held for trading financial assets	–	–	39,640	9,910
Change in fair value of derivatives	600	150	–	–
Salaries, bonuses, allowances and subsidies payables	15,892	3,973	17,788	4,447
Early retirement benefits	14,881	3,720	15,371	3,843
Deferred revenue	147,609	36,902	–	–
Subtotal	1,777,893	444,473	1,207,711	301,928
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	(2,508)	(627)	–	–
Change in fair value of held for trading financial assets	(16,386)	(4,096)	–	–
Subtotal	(18,894)	(4,723)	–	–
Net deferred income tax	1,758,999	439,750	1,207,711	301,928

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28. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements of deferred income tax

Group

	At 1 January 2014	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	At 31 December 2014
Deferred income tax assets:				
Allowance for impairment losses	249,694	168,572	–	418,266
Change in fair value of available-for-sale financial assets	60,687	–	(60,687)	–
Change in fair value of held-for-trading financial assets	9,910	(9,910)	–	–
Changes in fair value of derivatives	–	150	–	150
Salaries, bonuses, allowances and subsidies payables	6,139	(82)	–	6,057
Early retirement benefits	3,843	(123)	–	3,720
Deferred revenue	–	36,902	–	36,902
Deductible tax losses	3,582	(3,582)	–	–
Subtotal	333,855	191,927	(60,687)	465,095
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	–	–	(627)	(627)
Change in fair value of held-for-trading financial assets	–	(4,096)	–	(4,096)
Subtotal	–	(4,096)	(627)	(4,723)
Total	333,855	187,831	(61,314)	460,372

	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

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(In RMB thousands, unless otherwise stated)

28. DEFERRED INCOME TAX ASSETS (Continued)

(b) Movements of deferred income tax (Continued)

Bank

	At 1 January 2014	Total gains/ (losses) recorded in profit or loss	Total gains/ (losses) recorded in other comprehensive income	At 31 December 2014
Deferred income tax assets:				
Allowance for impairment losses	223,041	176,687	–	399,728
Change in fair value of available-for-sale financial assets	60,687	–	(60,687)	–
Change in fair value of held-for-trading financial assets	9,910	(9,910)	–	–
Changes in fair value of derivatives	–	150	–	150
Salaries, bonuses, allowances and subsidies payables	4,447	(474)	–	3,973
Early retirement benefits	3,843	(123)	–	3,720
Deferred revenue	–	36,902	–	36,902
Subtotal	301,928	203,232	(60,687)	444,473
Deferred income tax liabilities:				
Change in fair value of available-for-sale financial assets	–	–	(627)	(627)
Change in fair value of held-for-trading financial assets	–	(4,096)	–	(4,096)
Subtotal	–	(4,096)	(627)	(4,723)
Total	301,928	199,136	(61,314)	439,750

	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

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THE YEAR ENDED 31 DECEMBER 2014
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29. OTHER ASSETS

	Group	
	31 December	
	2014	2013
Interest receivable (a)	2,414,052	1,893,102
Land use rights (b)	822	99
Advance payments	212,465	212,496
Settlement and clearing accounts	160,700	266,129
Repossessed assets (c)	43,363	–
Intangible assets (d)	78,719	54,247
Other receivables	105,208	51,328
Others	321	178
	3,015,650	2,477,579
	Bank	
	31 December	
	2014	2013
Interest receivable (a)	2,338,432	1,836,929
Land use rights (b)	93	99
Advance payments	166,239	188,895
Settlement and clearing accounts	160,700	265,898
Repossessed assets (c)	43,363	–
Intangible assets (d)	75,775	52,775
Community bank suspended investment	90,420	–
Other receivables	88,486	45,383
Others	321	178
	2,963,829	2,390,157

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29. OTHER ASSETS (Continued)

(a) Interest receivable

	Group	
	31 December	
	2014	2013
Banks and other financial institution	254,902	115,728
Reverse repurchase agreements	299,496	227,098
Loans and advances to customers	936,100	875,613
Bond and other investments	923,554	674,663
	2,414,052	1,893,102
	Bank	
	31 December	
	2014	2013
Banks and other financial institution	256,228	113,765
Reverse repurchase agreements	299,496	224,210
Loans and advances to customers	859,154	824,291
Bond and other investments	923,554	674,663
	2,338,432	1,836,929

As of 31 December 2014, all interest receivables are due within one year.

(b) Land use rights

	Group	
	31 December	
	2014	2013
Located in Mainland China		
10-50 years	822	99
	Bank	
	31 December	
	2014	2013
Located in Mainland China		
10-50 years	93	99

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29. OTHER ASSETS *(Continued)*

(c) Repossessed assets

	Group/Bank	
	31 December	
	2014	2013
Buildings	43,363	–
Subtotal	43,363	–
Less: Allowance for impairment losses	–	–
	43,363	–

(d) Intangible assets

Intangible assets consist primarily of computer software, which is amortised within five years.

30. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group	
	31 December	
	2014	2013
Unsecured borrowings	2,900,000	–
Pledged borrowings	500,000	–
	3,400,000	–

As at 31 December 2014, the pledged borrowings of RMB500 million were secured by the finance lease receivables of RMB557 million. There was no remaining credit limit under these pledged borrowings.

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(In RMB thousands, unless otherwise stated)

31. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	Group	
	31 December	
	2014	2013
Deposits:		
Banks operating in Mainland China	54,602,695	49,876,599
Other financial institutions operating in Mainland China	1,596,638	51,507
Banks operating outside Mainland China	8,842	3,144
	56,208,175	49,931,250
Placements:		
Banks operating in Mainland China	3,359,727	677,789
Other financial institutions operating in Mainland China	40	526
Banks operating outside Mainland China	52,537	1,303
	3,412,304	679,618
	59,620,479	50,610,868
	Bank	
	31 December	
	2014	2013
Deposits:		
Banks operating in Mainland China	56,424,795	51,584,649
Other financial institutions operating in Mainland China	1,596,638	51,507
Banks operating outside Mainland China	8,842	3,144
	58,030,275	51,639,300
Placements:		
Banks operating in Mainland China	3,359,727	677,789
Other financial institutions operating in Mainland China	40	526
Banks operating outside Mainland China	52,537	1,303
	3,412,304	679,618
	61,442,579	52,318,918

Interest due to banks and other financial institutions are calculated based on contract interest rates.

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32. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into interest rate related derivative financial instruments for trading.

The contractual/notional amounts and fair values of derivative instruments held by the Group are set out in the following tables. The contractual/notional amounts of financial instruments provide a basis for comparison with fair value instruments recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates relative to their terms.

	Group/Bank					
	31 December					
	2014			2013		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
Assets		Liabilities	Assets		Liabilities	
Interest rate derivatives						
Interest rate swaps	467,205	–	600	–	–	–

33. REPURCHASE AGREEMENTS

Repurchase agreements comprise repurchase of bonds and bills.

	Group/Bank	
	31 December	
	2014	2013
Repurchase agreements analysed by counterparty:		
Banks	6,002,521	18,565,166
Other financial institutions	–	526,000
	6,002,521	19,091,166
Repurchase agreements analysed by collateral:		
Bonds	6,002,521	4,423,920
Bills	–	14,667,246
	6,002,521	19,091,166

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34. DUE TO CUSTOMERS

	Group	
	31 December	
	2014	2013
Demand deposits:		
Corporate customers	77,449,373	79,909,581
Personal customers	29,179,343	33,789,153
	106,628,716	113,698,734
Time deposits:		
Corporate customers	78,163,146	76,894,539
Personal customers	47,405,294	33,584,853
	125,568,440	110,479,392
	232,197,156	224,178,126
	Bank	
	31 December	
	2014	2013
Demand deposits:		
Corporate customers	71,721,770	75,001,841
Personal customers	28,014,195	32,456,609
	99,735,965	107,458,450
Time deposits:		
Corporate customers	75,192,997	74,297,084
Personal customers	45,494,481	32,030,841
	120,687,478	106,327,925
	220,423,443	213,786,375

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35. DEBT SECURITIES ISSUED

	Group/Bank	
	31 December	
	2014	2013
Subordinated bonds issued (a)	–	1,000,000
Financial bonds issued (b)	4,498,190	2,500,000
	4,498,190	3,500,000

(a) Subordinated bonds

As approved by the PBOC and the CBRC, the Bank issued callable subordinated bonds through the 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 2014 (2013: Nil). The relevant information on these subordinated bonds is set out below:

Name	Issue date	Issue price	Coupon rate	Value date	Maturity date	Issue amount
		(RMB)				(RMB)
09 Harbin Bank subordinated bonds	7 Dec 2009	100	6.00%	9 Dec 2009	9 Dec 2019	1,000 million

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. The bank has redeemed all of these bonds on 9 December 2014.

(b) Financial bonds

As approved by the PBOC and the CBRC, the Bank issued financial bonds through the open market in 2012 and 2014. 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 2014 (2013: Nil). The relevant information on these financial bonds is set out below:

Name	Issue date	Issue price	Coupon rate	Value date	Maturity date	Issue amount
		(RMB)				(RMB)
12 Harbin Bank financial bonds	15 May 2012	100	4.55%	16 May 2012	16 May 2017	2,500 million
14 Harbin Bank 01	15 December 2014	100	4.60%	17 December 2014	17 December 2017	2,000 million

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36. OTHER LIABILITIES

	Group	
	31 December	
	2014	2013
Interest payable (a)	3,485,068	2,493,209
Wealth management products payable	7,409	136,753
Settlement and clearing accounts	242,969	193,752
Account payable from agency services	312,434	67,833
Salaries, bonuses, allowances and subsidies payables (b)	453,842	420,781
Sundry tax payables	217,473	189,219
Deferred revenue (c)	144,096	147,993
Dividends payable	49,243	41,802
Accrued expenses	120,760	21,339
Lease guarantee fee	274,780	–
Other payables	242,570	105,173
	5,550,644	3,817,854
	Bank	
	31 December	
	2014	2013
Interest payable (a)	3,401,333	2,426,802
Wealth management products payable	7,409	136,753
Settlement and clearing accounts	239,268	193,382
Account payable from agency services	312,327	67,621
Salaries, bonuses, allowances and subsidies payables (b)	411,175	414,862
Sundry tax payables	188,345	182,669
Deferred revenue (c)	144,096	147,993
Dividends payable	49,243	41,802
Accrued expenses	74,226	21,339
Other payables	210,004	95,906
	5,037,426	3,729,129

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36. OTHER LIABILITIES (Continued)

(a) Interest payable

	Group	
	31 December	
	2014	2013
Deposits of banks and other financial institutions	962,836	394,436
Borrowings from banks	18,327	34
Due to customers	2,425,686	1,908,493
Repurchase agreements	2,760	114,787
Bonds payable	75,459	75,459
	3,485,068	2,493,209
	Bank	
	31 December	
	2014	2013
Deposits of banks and other financial institutions	953,411	384,710
Borrowings from banks	18,200	34
Due to customers	2,351,503	1,851,812
Repurchase agreements	2,760	114,787
Bonds payable	75,459	75,459
	3,401,333	2,426,802

(b) Salaries, bonuses, allowances and subsidies payable

	Group	
	31 December	
	2014	2013
Salaries, bonuses and allowances	415,350	376,705
Social insurance	5,249	5,313
Housing fund	3,739	4,778
Employee benefits	172	132
Labour union expenditure and education costs	14,451	18,482
Early retirement benefits	14,881	15,371
	453,842	420,781

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36. OTHER LIABILITIES *(Continued)*

(b) Salaries, bonuses, allowances and subsidies payable *(Continued)*

	Bank	
	31 December	
	2014	2013
Salaries, bonuses and allowances	375,986	373,316
Social insurance	5,107	4,788
Housing fund	2,835	4,645
Employee benefits	99	20
Labour union expenditure and education costs	12,267	16,722
Early retirement benefits	14,881	15,371
	411,175	414,862

(c) Deferred revenue

Deferred revenue consists mainly of intermediary services and reverse repurchase agreements deferred revenues. 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	
	2014	2013
Intermediary services	79,142	76,702
Reverse repurchase agreements	64,734	68,735
Others	220	2,556
	144,096	147,993

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37. SHARE CAPITAL

Bank

	31 December			
	2014		2013	
	Number of shares (thousands)	Nominal value (thousands)	Number of shares (thousands)	Nominal value (thousands)
Opening balance	8,246,900	8,246,900	7,560,198	7,560,198
Shares issued (b)	2,748,700	2,748,700	–	–
Retained profits converted into share capital (a)	–	–	686,702	686,702
Ending balance	10,995,600	10,995,600	8,246,900	8,246,900

(a) 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.

(b) In March 2014, 2,748,700 thousand ordinary shares with par value of RMB1 were issued at HK\$2.90 per share in an initial public offering on the Main Board of The Stock Exchange of Hong Kong Limited. The premium arising from the issuance of new shares was recorded in the capital reserve account. Ernst & Young Hua Ming Certified Public Accountants (LLP) Shanghai Branch has verified the capital injection and issued the capital verification report (Ernst & Young Hua Ming 2014 Yanzi No.60715519_B01) on 28 May 2014.

38. 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.

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 this capitalisation is not less than 25% of the registered capital immediately before capitalisation.

For the year ended 31 December 2014, 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 RMB357.355 million (2013: RMB320.331 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. For the year ended 31 December 2014, the bank made no appropriation to the discretionary surplus reserve (2013: Nil).

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38. RESERVES (Continued)

(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.

For the year ended 31 December 2014, the Bank made appropriation to the general reserve amounting to RMB1,562,912 thousand (2013: RMB1,284,534 thousand).

(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.

(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		
Balance as at 1 January 2014	4,222,379	1,190,017	2,212,931	(182,060)	(48,706)	7,394,561	3,876,902
Profit for the year	-	-	-	-	-	-	3,573,557
Change in fair value of available-for-sale investments	-	-	-	183,942	-	183,942	-
Other reserves	-	-	-	-	64,387	64,387	-
Retained profits converted into share capital	3,416,983	-	-	-	-	3,416,983	-
Dividend – 2013 final (note 16)	-	-	-	-	-	-	(417,833)
Appropriation to surplus reserve	-	357,355	-	-	-	357,355	(357,355)
Appropriation to general reserve	-	-	1,562,912	-	-	1,562,912	(1,562,912)
Balance as at 31 December 2014	7,639,362	1,547,372	3,775,843	1,882	15,681	12,980,140	5,112,359
Balance at 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 reserves (i)	-	320,331	-	-	-	320,331	(320,331)
Appropriation to general reserve	-	-	1,284,534	-	-	1,284,534	(1,284,534)
Balance as at 31 December 2013	4,222,379	1,190,017	2,212,931	(182,060)	(48,706)	7,394,561	3,876,902

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39. COMPONENTS OF OTHER COMPREHENSIVE INCOME

	Group	
	31 December	
	2014	2013
Available-for-sale financial assets:		
Changes in fair value recorded in other comprehensive income/(loss)	167,841	(222,188)
Transfer to the income statement arising from disposal	77,415	11,757
Income tax effect	(61,314)	52,608
	183,942	(157,823)
Share of other comprehensive income of an associate	64,387	(56,291)
	248,329	(214,114)

40. 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	
	2014	2013
Cash on hand (note 18)	1,065,082	1,302,418
Balances with central bank (note 18)	16,586,575	15,441,836
Due from banks and other financial institutions	12,001,694	10,753,938
Reverse repurchase agreements	17,529,462	26,060,044
	47,182,813	53,558,236

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 38(f).

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41. 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	
	2014	2013
Authorised, but not contracted	1,627	4,747
Contracted, but not provided	1,685,439	1,432,616
	1,687,066	1,437,363
	Bank	
	31 December	
	2014	2013
Authorised, but not contracted	–	1,526
Contracted, but not provided	1,658,439	1,425,929
	1,658,439	1,427,455

(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	
	2014	2013
Within one year	235,530	175,322
After one year but not more than five years	512,060	351,076
After five years	283,941	143,738
	1,031,531	670,136

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41. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Operating lease commitments (Continued)

Operating lease commitments – Lessee (Continued)

	Bank	
	31 December	
	2014	2013
Within one year	220,619	167,482
After one year but not more than five years	473,616	342,765
After five years	278,758	143,544
	972,993	653,791

(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.

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	
	2014	2013
Bank acceptances	37,142,540	42,654,802
Guarantees issued	5,302,537	1,821,053
Sight letters of credit	1,231,767	2,204,106
Undrawn credit card limit	635,773	1,238,232
	44,312,617	47,918,193

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41. COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

(c) Credit commitments *(Continued)*

	Bank	
	31 December	
	2014	2013
Bank acceptances	35,734,098	42,340,961
Guarantees issued	16,298	58,247
Sight letters of credit	1,231,767	2,204,106
Undrawn credit card limit	635,773	1,238,232
	37,617,936	45,841,546

(d) Credit risk-weighted amount of financial guarantees and credit related commitments

	Group	
	31 December	
	2014	2013
Financial guarantees and credit related commitments	16,253,133	19,303,684

	Bank	
	31 December	
	2014	2013
Financial guarantees and credit related commitments	14,722,460	19,211,008

The credit risk-weighted amount of financial guarantees and credit related commitments 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 2014 and 2013, 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 2014, the Bank had underwritten and sold bonds with an accumulated amount of RMB2,220 million (31 December 2013: RMB1,620 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.

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41. 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, which 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.

42. FIDUCIARY ACTIVITIES

Designated funds and loans

	Group	
	31 December	
	2014	2013
Designated funds	15,660,475	11,821,990
Designated loans	15,659,920	11,821,990

	Bank	
	31 December	
	2014	2013
Designated funds	15,097,776	11,403,610
Designated loans	15,097,221	11,403,610

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.

The Group provides custody, trust and asset management services to third parties. Revenue from these 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.

43. TRANSFERS OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose trusts. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

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43. TRANSFERS OF FINANCIAL ASSETS (Continued)

Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include debt securities held by counterparties as collateral under repurchase. The counterparties are allowed to sell or repledge those securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require or be required to pay additional cash collateral. The Group has determined that the Group retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, the Group recognises a financial liability for cash received as collateral.

The following table analyses the carrying amount of the above mentioned financial assets transferred to third parties that did not qualify for derecognition and their associated financial liabilities:

	As at 31 December 2014		As at 31 December 2013	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	–	–	1,360,209	1,339,611

44. INTEREST OF UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments and assets management. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on the Group's controls on them. The interests held by the Group in the unconsolidated structured entities are set out as below:

Structured entities sponsored by the Group

When conducting wealth management business, the Group established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. As at 31 December 2014, the balance of the unconsolidated wealth management products issued by the Group amounted to RMB46,318 million (31 December 2013: RMB29,608 million). For the year ended 31 December 2014, fee and commission income includes commission, custodian fee and management fee income from wealth management business that amounted to RMB280,705 thousand (for the year ended 31 December 2013: RMB284,688 thousand).

For the purpose of asset-liability management, wealth management products may trigger short-term financing needs for the Group and other banks. However, the Group is not contractually obliged to provide financing and during the year ended 31 December 2014, the Group did not provide any financing to the unconsolidated wealth management products (for the year ended 31 December 2013: Nil).

Structured entities sponsored by other financial institutions

As at 30 December 2014, the interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out as below:

	As at 31 December 2014			
	Available-for-sale financial assets	Receivables	Total	Maximum exposure to loss
Fund	22,000	–	22,000	22,000
Wealth management products	650,000	–	650,000	650,000
Investment trusts and assets management plans	–	49,024,241	49,024,241	49,124,241

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44. INTEREST OF UNCONSOLIDATED STRUCTURED ENTITIES *(Continued)*

	As at 31 December 2013			Maximum exposure to loss
	Available-for-sale financial assets	Receivables	Total	
Fund	20,000	–	20,000	20,000
Investment trusts and assets management plans	–	43,344,957	43,344,957	43,344,957

45. 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 2014, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB11,522 million (31 December 2013: RMB31,230 million).

46. 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	
	2014	2013
	%	%
Harbin Economic Development and Investment Company	19.65	29.48
Fubon Life Insurance Company Limited	7.03	–
Harbin Kechuang Xingye Investment Company Limited	6.55	8.73
Heilongjiang Keruan Software Technology Company Limited	6.55	8.73
Heilongjiang Xin Yongsheng Trading Company Limited	5.82	7.76
Heilongjiang Tiandi Yuanyuan Network Technology Company Limited	5.20	6.94
Heilongjiang Takai Trading Company Limited	4.75	6.34

(ii) *Subsidiaries of the Bank*

Details of the subsidiaries of the Bank are set out in note 1 Corporate Information and Group Structure.

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46. RELATED PARTY DISCLOSURES *(Continued)*

(b) Related party transactions

(i) *Transactions between the Bank and major shareholders*

	31 December	
	2014	2013
Balances at end of the year:		
Deposits	473	395
Transactions during the year:		
Interest expense on deposits	27	36
Interest rate ranges during the year are as follows:	%	%
Deposits	0.39-0.42	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.

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46. 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	
	2014	2013
Balances at end of the year:		
Loans	9,210	12,811
Deposits	6,129	6,245
Transactions during the year:		
Interest income on loans	507	703
Interest expense on deposits	31	57
Interest rate ranges during the year are as follows:	%	%
Loans	4.31-9.65	4.59-6.55
Deposits	0.39-5.90	0.39-4.75

(ii) *Key management personnel compensation*

The aggregate compensation for the year is as follows:

	31 December	
	2014	2013
Emoluments and other short term employment benefits	37,111	27,203

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47. SEGMENT INFORMATION

(a) Operating segments

For management purposes, the Group is organised into four different operating segments as below:

Corporate banking

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

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

Treasury operations cover 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 operations, whose assets, liabilities, income and expenses are not directly attributable or cannot be allocated to a segment on a reasonable basis.

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47. SEGMENT INFORMATION (Continued)

(a) Operating segments (Continued)

	Corporate banking	Personal banking	Treasury operations	Others	Total
<u>Year ended 31 December 2014</u>					
External net interest income	1,992,179	1,729,281	4,676,157	–	8,397,617
Internal net interest income/(expense)	1,198,550	547,976	(1,746,526)	–	–
Net fee and commission income	248,804	148,494	1,203,043	–	1,600,341
Other income, net (i)	2,950	–	124,439	127,421	254,810
Operating income	3,442,483	2,425,751	4,257,113	127,421	10,252,768
Operating expenses	(1,811,630)	(1,060,261)	(1,517,727)	(43,666)	(4,433,284)
Impairment losses on:					
Loans and advances to customers	(270,667)	(296,448)	–	–	(567,115)
Others	(42,024)	–	(100,000)	–	(142,024)
Operating profit	1,318,162	1,069,042	2,639,386	83,755	5,110,345
Share of profits of an associate	–	–	–	17,150	17,150
Profit before tax	1,318,162	1,069,042	2,639,386	100,905	5,127,495
Income tax expense					(1,286,723)
Profit for the year					3,840,772
Other segment information:					
Depreciation and amortisation	117,790	68,916	139,669	1,783	328,158
Capital expenditure	478,810	280,225	567,045	8,279	1,334,359
<u>As at 31 December 2014</u>					
Segment assets	105,850,813	73,407,993	159,908,290	4,474,522	343,641,618
Segment liabilities	162,583,175	77,504,237	72,528,003	863,582	313,478,997
Other segment information:					
Credit commitments	43,676,844	635,773	180,000	–	44,492,617

(i) Includes trading income, net loss on financial investments and other net operating income.

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47. 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					3,371,091
Other segment information:					
Depreciation and amortisation	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.

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47. 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, Yichun and Nongken as well as Harbin Bank Financial Leasing Co., Ltd. and 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 Tianjin.
Other regions:	Village and Township Banks operating in regions other than those listed above.

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47. 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 2014</u>						
External net interest income	4,727,855	1,005,662	1,737,097	647,867	279,136	8,397,617
Internal net interest income/(expense)	234,623	(25,736)	(178,638)	(30,249)	-	-
Net fee and commission income	1,026,395	137,125	264,938	147,971	23,912	1,600,341
Other income, net (i)	172,425	10,345	27,578	7,122	37,340	254,810
Operating income	6,161,298	1,127,396	1,850,975	772,711	340,388	10,252,768
Operating expenses	(2,853,068)	(499,439)	(683,706)	(250,839)	(146,232)	(4,433,284)
Impairment losses on:						
Loans and advances to customers	(329,500)	(82,654)	(65,420)	(63,507)	(26,034)	(567,115)
Others	(142,024)	-	-	-	-	(142,024)
Operating profit	2,836,706	545,303	1,101,849	458,365	168,122	5,110,345
Share of profits of an associate	17,150	-	-	-	-	17,150
Profit before tax	2,853,856	545,303	1,101,849	458,365	168,122	5,127,495
Income tax expense						(1,286,723)
Profit for the year						<u>3,840,772</u>
Other segment information:						
Depreciation and amortisation	216,448	31,833	52,559	13,845	13,473	328,158
Capital expenditure	811,561	145,863	237,801	99,634	39,500	1,334,359
<u>As at 31 December 2014</u>						
Segment assets	215,750,812	42,678,953	58,879,883	18,859,862	7,472,108	343,641,618
Segment liabilities	190,846,674	43,458,608	51,176,884	21,377,337	6,619,494	313,478,997
Other segment information:						
Credit commitments	2,974,948	12,937,944	17,075,024	6,169,500	5,335,201	44,492,617

(i) Includes trading income, net loss on financial investments and other net operating income.

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47. 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 amortisation	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.

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48. 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.

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 customer guarantees which may require the Group to make payments on their behalf. Those payments are collected from customers based on the terms of the agreements signed. They expose the Group to similar risks as loans and 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.

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48. FINANCIAL INSTRUMENTS RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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.

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.

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 individually, 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.

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48. FINANCIAL INSTRUMENTS RISK MANAGEMENT *(Continued)*

(a) Credit risk *(Continued)*

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.

Corporate loans are mainly collateralised by properties or other assets. As at 31 December 2014, the carrying value of corporate loans covered by collateral amounted to RMB46,264 million (31 December 2013: RMB36,421 million).

Personal loans are mainly collateralised by residential properties. As at 31 December 2014, the carrying value of personal loans covered by collateral amounted to RMB23,630 million (31 December 2013: RMB21,010 million).

The Group prefers more liquid collateral with a 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 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 48(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.

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48. 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	
	2014	2013
Balances with central bank	52,805,956	50,249,671
Due from banks and other financial institutions	28,207,243	33,871,192
Financial assets held for trading	1,912,551	2,512,264
Reverse repurchase agreements	37,267,471	51,110,948
Loans and advances to customers	121,014,264	103,515,015
Financial investments		
– Receivables	49,144,609	43,528,672
– Held-to-maturity investments	19,655,690	17,080,814
– Available-for-sale financial assets	15,909,981	7,889,495
Finance lease receivables	4,160,425	–
Others	2,679,960	2,210,559
	332,758,150	311,968,630
Credit commitments	44,492,617	48,098,193
Total maximum credit risk exposure	377,250,767	360,066,823
	Bank	
	31 December	
	2014	2013
Balances with central bank	50,761,473	48,625,343
Due from banks and other financial institutions	25,377,770	34,256,632
Financial assets held for trading	1,912,551	2,512,264
Reverse repurchase agreements	37,267,471	50,910,948
Loans and advances to customers	111,796,660	94,248,125
Financial investments		
– Receivables	49,144,609	43,528,672
– Held-to-maturity investments	19,655,690	17,080,814
– Available-for-sale financial assets	15,909,981	7,889,495
Others	2,678,038	2,148,210
	314,504,243	301,200,503
Credit commitments	37,797,936	46,021,546
Total maximum credit risk exposure	352,302,179	347,222,049

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(In RMB thousands, unless otherwise stated)

48. 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 48(a)(v) 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	
	2014	2013
Agriculture, forestry, animal husbandry and fishing	3,563,557	4,163,165
Mining	371,936	874,551
Manufacturing	11,582,629	13,603,698
Production and supply of electricity, gas and water	2,125,184	1,535,576
Construction	5,895,534	5,171,527
Transportation, storage and postal services	2,662,710	2,194,039
Information transmission, computer services and software	584,636	544,186
Commercial trade	28,378,893	21,778,908
Lodging and catering	2,571,630	1,234,045
Finance	44,000	20,000
Real estate	6,853,450	2,236,329
Leasing and commercial services	11,620,355	5,523,246
Scientific research, technological services and geological prospecting	378,621	179,898
Water, environment and public utility management and investment industry	2,068,208	2,543,580
Resident services and other services	430,036	992,222
Education	405,175	481,172
Health, social security and social welfare	235,300	264,400
Culture, sports and entertainment	126,700	180,325
Public administration and social organisations	-	17,374
Subtotal for corporate loans and advances	79,898,554	63,538,241
Personal loans:		
Personal business	15,938,045	15,380,484
Personal consumption	17,819,589	15,870,180
Loans to farmers	9,470,049	9,247,935
Subtotal for personal loans	43,227,683	40,498,599
Discounted bills	804,098	1,904,481
Total for loans and advances to customers	123,930,335	105,941,321

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48. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(ii) Risk concentrations (Continued)

By industry distribution (Continued)

	Bank	
	31 December	
	2014	2013
Agriculture, forestry, animal husbandry and fishing	3,037,907	3,755,005
Mining	348,481	846,101
Manufacturing	10,562,184	11,770,224
Production and supply of electricity, gas and water	2,091,772	1,512,126
Construction	5,520,992	4,625,627
Transportation, storage and postal services	2,578,870	2,126,597
Information transmission, computer services and software	561,636	505,886
Commercial trade	27,346,381	20,610,151
Lodging and catering	2,516,507	1,189,978
Finance	4,000	–
Real estate	6,848,450	2,229,029
Leasing and commercial services	11,428,465	5,339,906
Scientific research, technological services and geological prospecting	378,621	179,898
Water, environment and public utility management and investment industry	2,058,618	2,528,730
Resident services and other services	340,756	905,950
Education	362,975	450,472
Health, social security and social welfare	235,300	258,900
Culture, sports and entertainment	106,600	153,100
Public administration and social organisations	–	7,374
Subtotal for corporate loans and advances	76,328,515	58,995,054
Personal loans:		
Personal business	13,592,770	13,811,194
Personal consumption	17,295,633	15,032,028
Loans to farmers	6,779,254	7,413,574
Subtotal for personal loans	37,667,657	36,256,796
Discounted bills	477,134	1,230,612
Total for loans and advances to customers	114,473,306	96,482,462

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THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

48. 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	
	2014	2013
Neither past due nor impaired	120,889,031	104,468,259
Past due but not impaired	1,641,576	568,872
Impaired	1,399,728	904,190
	123,930,335	105,941,321
Less: Allowance for impairment losses		
Collectively assessed	(2,685,081)	(2,347,082)
Individually assessed	(230,990)	(79,224)
	(2,916,071)	(2,426,306)
	121,014,264	103,515,015
	Bank	
	31 December	
	2014	2013
Neither past due nor impaired	111,512,536	95,033,802
Past due but not impaired	1,605,517	559,061
Impaired	1,355,253	889,599
	114,473,306	96,482,462
Less: Allowance for impairment losses		
Collectively assessed	(2,448,746)	(2,157,509)
Individually assessed	(227,900)	(76,828)
	(2,676,646)	(2,234,337)
	111,796,660	94,248,125

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48. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers (Continued)

Neither past due nor impaired

The loans and advances to customers of the Group that are neither past due nor impaired are classified as “Pass” or “Special mention” under the five-tier loan classification system maintained by the Group. 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 2014		
	Pass	Special Mention	Total
Unsecured loans	5,292,037	2,266	5,294,303
Guaranteed loans	44,282,876	266,578	44,549,454
Loans secured by mortgages	59,897,259	573,081	60,470,340
Pledged loans	10,549,934	25,000	10,574,934
	120,022,106	866,925	120,889,031

	31 December 2013		
	Pass	Special Mention	Total
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

Bank

	31 December 2014		
	Pass	Special Mention	Total
Unsecured loans	5,196,904	2,266	5,199,170
Guaranteed loans	39,453,361	266,578	39,719,939
Loans secured by mortgages	56,201,436	573,081	56,774,517
Pledged loans	9,793,910	25,000	9,818,910
	110,645,611	866,925	111,512,536

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THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

48. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iii) Loans and advances to customers (Continued)

Neither past due nor impaired (Continued)

Bank (Continued)

	31 December 2013		
	Pass	Special Mention	Total
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

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 2014		
	Corporate loans and advances	Personal loans	Total
Past due for:			
Less than one month	552,472	73,129	625,601
One to two months	325,144	36,826	361,970
Two to three months	419,436	14,448	433,884
Over three months	133,760	86,361	220,121
	1,430,812	210,764	1,641,576
Fair value of collateral held	2,005,167	180,995	2,186,162

	31 December 2013		
	Corporate loans and advances	Personal loans	Total
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

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48. 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 2014		
	Corporate loans and advances	Personal loans	Total
Past due for:			
Less than one month	540,719	71,566	612,285
One to two months	306,893	35,140	342,033
Two to three months	416,751	14,334	431,085
Over three months	133,760	86,354	220,114
	1,398,123	207,394	1,605,517
Fair value of collateral held	1,936,429	179,766	2,116,195

	31 December 2013		
	Corporate loans and advances	Personal loans	Total
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

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 2014 amounted to RMB624.823 million and 588.884 million (31 December 2013 the Group and the Bank: RMB260.413 million and 245.996 million). The collateral mainly consists of land, buildings, equipment and also others.

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

48. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(iv) Financial lease receivables

	Group	
	31 December	
	2014	2013
The lease amount		
Neither past due nor impaired	4,202,449	–
	4,202,449	–
Less: Allowance for impairment losses	(42,024)	–
Net amount	4,160,425	–

(v) 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 2014				Total
	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	
Neither past due nor impaired					
Governments and central bank	120,368	1,494,479	1,093,771	647,720	3,356,338
Policy banks	–	14,436,671	8,656,406	400,548	23,493,625
Banks and other financial institutions	24,224,625	1,208,966	672,000	–	26,105,591
Corporate entities	24,675,083	2,515,574	5,487,804	864,283	33,542,744
Subtotal	49,020,076	19,655,690	15,909,981	1,912,551	86,498,298
Past due but not impaired					
Corporate entities	224,533	–	–	–	224,533
Subtotal	224,533	–	–	–	224,533
Less: Allowance of impairment losses	(100,000)	–	–	–	(100,000)
Total	49,144,609	19,655,690	15,909,981	1,912,551	86,622,831

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THE YEAR ENDED 31 DECEMBER 2014
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48. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Debt securities (Continued)

Group (Continued)

	31 December 2013				Total
	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	
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	20,000	–	18,748,266
Corporate entities	24,945,692	2,965,073	3,358,335	1,447,948	32,717,048
Total	43,528,672	17,080,814	7,889,495	2,512,264	71,011,245

Bank

	31 December 2014				Total
	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	
Neither past due nor impaired					
Governments and central bank	120,368	1,494,479	1,093,771	647,720	3,356,338
Policy banks	–	14,436,671	8,656,406	400,548	23,493,625
Banks and other financial institutions	24,224,625	1,208,966	672,000	–	26,105,591
Corporate entities	24,675,083	2,515,574	5,487,804	864,283	33,542,744
Subtotal	49,020,076	19,655,690	15,909,981	1,912,551	86,498,298
Past due but not impaired					
Corporate entities	224,533	–	–	–	224,533
Subtotal	224,533	–	–	–	224,533
Less: Allowance of impairment losses	(100,000)	–	–	–	(100,000)
Total	49,144,609	19,655,690	15,909,981	1,912,551	86,622,831

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THE YEAR ENDED 31 DECEMBER 2014

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48. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

(v) Debt securities (Continued)

Bank (Continued)

	31 December 2013				Total
	Receivables	Held-to-maturity investments	Available-for-sale financial assets	Financial assets held-for-trading	
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	20,000	–	18,748,266
Corporate entities	24,945,692	2,965,073	3,358,335	1,447,948	32,717,048
Total	43,528,672	17,080,814	7,889,495	2,512,264	71,011,245

(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:

- optimising 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.

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48. 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 2014

	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	-	16,586,575	-	-	-	-	-	36,219,381	52,805,956
Due from banks and other financial institutions	-	1,659,303	4,730,760	8,976,647	12,040,533	800,000	-	-	28,207,243
Financial assets held for trading	-	-	140,011	459,019	529,451	525,175	258,895	-	1,912,551
Reverse repurchase agreements	-	-	4,742,028	12,184,304	19,441,139	900,000	-	-	37,267,471
Loans and advances to customers	2,093,723	-	10,479,048	10,739,540	49,684,623	20,762,052	27,255,278	-	121,014,264
Financial investments	124,533	-	5,011,965	6,951,640	26,231,867	27,700,915	18,667,360	22,000	84,710,280
Finance lease receivables	-	-	-	160,030	816,951	3,087,192	96,252	-	4,160,425
Other financial assets	24,454	183,576	581,749	956,666	909,828	14,767	8,920	-	2,679,960
Total financial assets	2,242,710	18,429,454	25,685,561	40,427,846	109,654,392	53,790,101	46,286,705	36,241,381	332,758,150
Financial liabilities:									
Due to central bank	-	-	50,414	300,598	1,365,898	-	-	-	1,716,910
Borrowings from banks and other financial institutions	-	-	-	900,000	2,500,000	-	-	-	3,400,000
Due to banks and other financial institutions	-	-	-	13,748,821	28,327,143	4,850,000	-	-	59,620,479
Negative fair value of derivatives	-	-	-	428	172	-	-	-	600
Repurchase agreements	-	-	6,002,521	-	-	-	-	-	6,002,521
Due to customers	-	134,283,608	9,774,162	19,111,844	38,406,246	24,620,212	6,001,084	-	232,197,156
Debt securities issued	-	-	-	-	-	4,498,190	-	-	4,498,190
Other financial liabilities	-	676,248	315,099	911,617	1,327,407	1,399,608	56,011	-	4,685,990
Total financial liabilities	-	135,073,371	28,723,196	34,973,308	71,926,866	35,368,010	6,057,095	-	312,121,846

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THE YEAR ENDED 31 DECEMBER 2014

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48. 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 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	-	15,441,836	-	-	-	-	-	34,807,835	50,249,671
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	20,000	68,498,981
Other financial assets	6,370	267,007	492,502	688,862	755,157	661	-	-	2,210,559
Total financial assets	930,461	18,609,201	50,103,160	31,730,733	87,203,194	56,218,667	32,345,379	34,827,835	311,968,630
Financial liabilities:									
Due to central bank	-	-	34,967	108,262	603,969	40,000	-	-	787,198
Due to banks and other financial institutions	-	119,155	5,998,761	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 financial liabilities	-	278,029	328,483	527,720	962,366	921,247	214	-	3,018,059
Total financial liabilities	-	116,647,849	25,669,970	33,835,104	87,875,144	37,593,913	44,037	-	301,185,417

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48. 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 2014

	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	Uncated	Total
Financial assets:									
Cash and balances with central bank	-	15,592,332	-	-	-	-	-	35,169,141	50,761,473
Due from banks and other financial institutions	-	1,304,147	2,357,774	8,946,047	11,969,802	800,000	-	-	25,377,770
Financial assets held for trading	-	-	140,011	459,019	529,451	525,175	258,895	-	1,912,551
Reverse repurchase agreements	-	-	4,742,028	12,184,304	19,441,139	900,000	-	-	37,267,471
Loans and advances to customers	2,023,372	-	9,741,906	9,555,967	44,106,211	19,274,504	27,094,700	-	111,796,660
Financial investments	124,533	-	5,011,965	6,951,640	26,231,867	27,700,915	18,667,360	22,000	84,710,280
Other financial assets	24,386	182,068	532,846	937,896	978,356	14,568	7,918	-	2,678,038
Total financial assets	2,172,291	17,078,547	22,526,530	39,034,873	103,256,826	49,215,162	46,028,873	35,191,141	314,504,243
Financial liabilities:									
Due to central bank	-	-	-	-	600,000	-	-	-	600,000
Due to banks and other financial institutions	-	1,735,615	12,590,000	13,748,821	28,518,143	4,850,000	-	-	61,442,579
Negative fair value of derivatives	-	-	-	428	172	-	-	-	600
Repurchase agreements	-	-	6,002,521	-	-	-	-	-	6,002,521
Due to customers	-	125,715,760	9,437,424	18,425,837	36,656,320	24,188,102	6,000,000	-	220,423,443
Debt securities issued	-	-	-	-	-	4,498,190	-	-	4,498,190
Other financial liabilities	-	664,132	305,343	839,700	1,270,562	1,158,774	6,056	-	4,244,567
Total financial liabilities	-	128,115,507	28,335,288	33,014,786	67,045,197	34,695,066	6,006,056	-	297,211,900

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48. 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 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	-	14,709,539	-	-	-	-	-	33,915,804	48,625,343
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	20,000	68,498,981
Other financial assets	6,123	266,124	468,534	667,495	739,580	354	-	-	2,148,210
Total financial assets	912,468	16,667,375	48,273,551	29,710,558	84,547,790	54,975,320	32,177,637	33,935,804	301,200,503
Financial 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 financial liabilities	-	277,075	328,483	491,158	930,263	914,611	214	-	2,941,804
Total financial liabilities	-	112,702,519	24,441,992	31,541,701	86,263,338	36,754,213	214	-	291,703,977

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48. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) Maturity analysis of contractual undiscounted cash flows

The tables below summarise 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 2014

	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	-	16,586,575	-	-	-	-	-	36,219,381	52,805,956
Due from banks and other financial institutions (*)	-	1,664,013	9,820,874	21,503,375	32,091,176	1,744,836	-	-	66,824,274
Financial assets held for trading	-	-	158,620	482,848	576,810	582,352	271,697	-	2,082,327
Loans and advances to customers (**)	769,304	-	11,463,970	12,467,516	54,195,129	31,512,088	38,312,206	1,538,613	150,258,826
Financial investments	124,533	-	5,662,834	8,087,161	29,262,478	34,816,288	23,071,078	22,000	101,046,372
Finance lease receivables	-	-	22,403	205,095	1,000,543	3,516,301	101,180	-	4,845,522
Other financial assets	-	160,804	15,597	28,292	37,528	14,767	8,920	-	265,908
Total financial assets	893,837	18,411,392	27,144,298	42,784,287	117,163,664	72,186,632	61,765,081	37,779,994	378,129,185
Financial liabilities:									
Due to central bank	-	-	55,247	309,013	1,380,637	-	-	-	1,744,897
Borrowings from banks and other financial institutions	-	-	16,477	929,105	2,564,426	-	-	-	3,510,008
Due to banks and other financial institutions (**)	-	114,021	18,974,812	14,517,305	29,459,811	5,147,719	-	-	68,213,668
Negative fair value of derivatives	-	-	-	428	172	-	-	-	600
Due to customers	-	134,371,372	10,302,676	20,087,374	40,743,631	30,847,924	6,032,224	-	242,385,201
Debt securities issued	-	-	17,475	33,258	230,476	4,835,358	-	-	5,116,567
Other financial liabilities	-	561,950	15,243	87,144	142,562	344,065	49,958	-	1,200,922
Total financial liabilities	-	135,047,343	29,381,930	35,983,627	74,521,715	41,175,066	6,082,182	-	322,171,863

(*) 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.

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48. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) Maturity analysis of contractual undiscounted cash flows (Continued)

Group (Continued)

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	-	15,441,836	-	-	-	-	-	34,807,835	50,249,671
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 (**)	203,951	-	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	20,000	82,754,420
Other financial assets	-	267,007	-	15,281	34,508	661	-	-	317,457
Total financial assets	203,951	19,265,225	51,312,584	34,475,315	93,232,592	70,061,428	43,677,831	35,699,307	347,927,633
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	19,738,136	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	-	262,109	136,770	58,069	44,558	23,326	18	-	524,850
Total financial liabilities	-	117,284,845	25,735,045	34,567,882	89,706,681	43,344,610	48,223	-	310,690,286

(*) 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.

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48. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) Maturity analysis of contractual undiscounted cash flows (Continued)

Bank

31 December 2014

	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	-	15,592,332	-	-	-	-	-	35,168,141	50,761,473
Due from banks and other financial institutions (*)	-	1,305,811	7,396,722	21,471,264	32,016,070	1,744,836	-	-	63,934,703
Financial assets held for trading	-	-	147,627	470,843	559,535	582,352	271,697	-	2,032,054
Loans and advances to customers (**)	753,012	-	10,614,473	11,146,878	48,292,512	29,825,256	38,076,495	1,481,376	140,190,002
Financial investments	124,533	-	5,441,854	7,725,635	28,972,516	34,816,288	23,071,078	22,000	100,173,904
Other financial assets	-	160,804	8,800	25,890	121,626	14,568	7,918	-	339,606
Total financial assets	877,545	17,058,947	23,609,476	40,840,510	109,962,259	66,983,300	61,427,188	36,672,517	357,431,742
Financial liabilities:									
Due to central bank	-	-	2,067	3,933	606,000	-	-	-	612,000
Due to banks and other financial institutions (***)	-	1,735,998	18,975,339	14,519,598	29,654,643	5,147,719	-	-	70,033,297
Negative fair value of derivatives	-	-	-	428	172	-	-	-	600
Due to customers	-	125,803,526	9,955,259	19,385,323	38,956,100	30,373,863	6,031,111	-	230,506,182
Debt securities issued	-	-	17,475	33,258	230,476	4,835,358	-	-	5,116,567
Other financial liabilities	-	557,263	14,392	70,009	98,336	103,231	3	-	843,234
Total financial liabilities	-	128,096,787	28,965,532	34,012,549	69,545,727	40,460,171	6,031,114	-	307,111,880

(*) 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.

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(In RMB thousands, unless otherwise stated)

48. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

(ii) Maturity analysis of contractual undiscounted cash flows (Continued)

Bank (Continued)

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	-	14,709,539	-	-	-	-	-	33,915,804	48,625,343
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	19,973,986	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	20,000	82,754,420
Other financial assets	-	266,124	-	13,888	30,915	354	-	-	311,281
Total financial assets	200,985	16,739,799	48,823,593	31,514,478	90,019,734	68,613,243	43,428,519	34,790,162	334,130,513
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	-	-	-	-	1,173,750	2,841,250	-	-	4,015,000
Other financial liabilities	-	261,154	136,770	56,407	38,963	21,689	18	-	515,001
Total financial liabilities	-	112,705,770	24,353,799	32,703,829	88,047,232	42,392,662	18	-	300,203,310

(*) 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.

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48. 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 month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
31 December 2014								
Credit commitments	635,773	8,406,712	13,857,244	20,699,497	713,391	-	180,000	44,492,617
31 December 2013								
Credit commitments	1,240,113	7,385,350	14,385,233	24,905,064	2,433	-	180,000	48,098,193

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 2014								
Credit commitments	635,773	6,682,818	12,603,290	17,693,951	2,104	-	180,000	37,797,936
31 December 2013								
Credit commitments	1,240,113	7,317,607	14,142,634	23,138,759	2,433	-	180,000	46,021,546

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48. FINANCIAL INSTRUMENTS RISK MANAGEMENT *(Continued)*

(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.

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 trading book and banking book risks, respectively.

(i) Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD, Russian 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 to manage foreign exchange risk and to keep currency risk within limits. Based on the guidelines provided by the Risk Management Committee, laws and regulations as well as evaluation of the current market, the Group sets its risk limits and minimises the possibility of mismatch through more reasonable allocation of foreign currency sources and deployment.

Group/Bank

Currency	Change in rate	Effect on profit before tax	
		31 December	
		2014	2013
USD	-1%	(13,708)	(1,891)
HKD	-1%	(7,340)	(18)
RUB	-1%	(333)	(264)

While the table above indicates the effect on profit before tax of 1% depreciation of USD, HKD and RUB, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

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48. 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 2014

	RMB	USD (equivalent to RMB)	HKD (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total (equivalent to RMB)
Financial assets:						
Cash and balances with central bank	52,762,783	43,109	64	-	-	52,805,956
Due from banks and other financial institutions	26,866,868	405,578	824,373	28,374	82,050	28,207,243
Financial assets held for trading	1,912,551	-	-	-	-	1,912,551
Reverse repurchase agreements	37,267,471	-	-	-	-	37,267,471
Loans and advances to customers	119,501,155	1,513,109	-	-	-	121,014,264
Financial investments	84,710,280	-	-	-	-	84,710,280
Finance lease receivables	4,160,425	-	-	-	-	4,160,425
Other financial assets	2,673,165	6,687	105	-	3	2,679,960
Total financial assets	329,854,698	1,968,483	824,542	28,374	82,053	332,758,150
Financial liabilities:						
Due to central bank	1,716,910	-	-	-	-	1,716,910
Borrowings from banks and other institutions	3,400,000	-	-	-	-	3,400,000
Due to banks and other financial institutions	59,200,247	419,811	-	384	37	59,620,479
Negative fair value of derivatives	600	-	-	-	-	600
Repurchase agreements	6,002,521	-	-	-	-	6,002,521
Due to customers	231,412,381	687,351	1,308	13,604	82,512	232,197,156
Debt securities issued	4,498,190	-	-	-	-	4,498,190
Other financial liabilities	4,551,367	12,140	90,616	-	31,867	4,685,990
Total financial liabilities	310,782,216	1,119,302	91,924	13,988	114,416	312,121,846
Net position	19,072,482	849,181	732,618	14,386	(32,363)	20,636,304
Credit commitments	43,971,081	512,664	-	-	8,872	44,492,617

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(In RMB thousands, unless otherwise stated)

48. 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 2013

	RMB	USD (equivalent to RMB)	HKD (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Financial assets:						
Cash and balances with central bank	50,222,534	27,082	55	-	-	50,249,671
Due from banks and other financial institutions	33,695,667	120,126	1,701	11,602	42,096	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	68,498,981	-	-	-	-	68,498,981
Other financial assets	2,205,198	5,358	-	-	3	2,210,559
Total financial assets	310,551,420	1,360,949	1,756	11,602	42,903	311,968,630
Financial 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	1,233	6,808	55,079	224,178,126
Debt securities issued	3,500,000	-	-	-	-	3,500,000
Other financial liabilities	3,014,232	3,793	-	-	34	3,018,059
Total financial liabilities	299,914,078	1,180,361	1,233	34,632	55,113	301,185,417
Net position	10,637,342	180,588	523	(23,030)	(12,210)	10,783,213
Credit commitments	47,693,012	404,281	-	-	900	48,098,193

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THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

48. 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 2014

	RMB	USD (equivalent to RMB)	HKD (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Financial assets:						
Cash and balances with central bank	50,718,300	43,109	64	-	-	50,761,473
Due from banks and other financial institutions	24,037,395	405,578	824,373	28,374	82,050	25,377,770
Financial assets held for trading	1,912,551	-	-	-	-	1,912,551
Reverse repurchase agreements	37,267,471	-	-	-	-	37,267,471
Loans and advances to customers	110,283,551	1,513,109	-	-	-	111,796,660
Financial investments	84,710,280	-	-	-	-	84,710,280
Other financial assets	2,671,243	6,687	105	-	3	2,678,038
Total financial assets	311,600,791	1,968,483	824,542	28,374	82,053	314,504,243
Financial liabilities:						
Due to central bank	600,000	-	-	-	-	600,000
Due to banks and other financial institutions	61,022,347	419,811	-	384	37	61,442,579
Negative fair value of derivatives	600	-	-	-	-	600
Repurchase agreements	6,002,521	-	-	-	-	6,002,521
Due to customers	219,638,668	687,351	1,308	13,604	82,512	220,423,443
Debt securities issued	4,498,190	-	-	-	-	4,498,190
Other financial liabilities	4,109,974	12,140	90,616	-	31,837	4,244,567
Total financial liabilities	295,872,300	1,119,302	91,924	13,988	114,386	297,211,900
Net position	15,728,491	849,181	732,618	14,386	(32,333)	17,292,343
Credit commitments	37,276,400	512,664	-	-	8,872	37,797,936

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48. 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 2013

	RMB	USD (equivalent to RMB)	HKD (equivalent to RMB)	RUB (equivalent to RMB)	Others (equivalent to RMB)	Total
Financial assets:						
Cash and balances with central bank	48,598,206	27,082	55	-	-	48,625,343
Due from banks and other financial institutions	34,081,107	120,126	1,701	11,602	42,096	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	68,498,981	-	-	-	-	68,498,981
Other financial assets	2,142,849	5,358	-	-	3	2,148,210
Total financial assets	299,783,293	1,360,949	1,756	11,602	42,903	301,200,503
Financial 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	1,233	6,808	55,079	213,786,375
Debt securities issued	3,500,000	-	-	-	-	3,500,000
Other financial liabilities	2,937,977	3,793	-	-	34	2,941,804
Total financial liabilities	290,432,638	1,180,361	1,233	34,632	55,113	291,703,977
Net position	9,350,655	180,588	523	(23,030)	(12,210)	9,496,526
Credit commitments	45,616,365	404,281	-	-	900	46,021,546

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48. 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 an 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.

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, reevaluating the market value of trading account assets daily, setting 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	
	2014	2013	2014	2013
+100 basis points	(199,040)	(139,965)	(217,613)	(107,245)
-100 basis points	199,040	139,965	229,843	113,407

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

48. FINANCIAL INSTRUMENTS RISK MANAGEMENT *(Continued)*

(c) **Market risk** *(Continued)*

(ii) **Interest rate risk** *(Continued)*

Bank

Change in basis points	Effect on net interest income		Effect on equity	
	31 December		31 December	
	2014	2013	2014	2013
+100 basis points	(265,032)	(164,152)	(217,613)	(107,245)
-100 basis points	265,032	164,152	229,843	113,407

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

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

48. 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 2014

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Financial assets:						
Cash and balances with central bank	52,805,956	-	-	-	-	52,805,956
Due from banks and other financial institutions	15,366,710	12,040,533	800,000	-	-	28,207,243
Financial assets held for trading	799,889	529,451	324,316	258,895	-	1,912,551
Reverse repurchase agreements	16,926,332	19,441,139	900,000	-	-	37,267,471
Loans and advances to customers	33,075,212	82,223,522	2,897,045	724,762	2,093,723	121,014,264
Financial investments	24,383,980	24,975,108	21,773,223	13,423,847	154,122	84,710,280
Finance lease receivables	4,160,425	-	-	-	-	4,160,425
Other financial assets	-	-	-	-	2,679,960	2,679,960
Total financial assets	147,518,504	139,209,753	26,694,584	14,407,504	4,927,805	332,758,150
Financial liabilities:						
Due to central bank	351,012	1,365,898	-	-	-	1,716,910
Borrowings from other financial institutions	3,400,000	-	-	-	-	3,400,000
Due to banks and other financial institutions	26,443,336	28,327,143	4,850,000	-	-	59,620,479
Negative fair value of derivatives	-	-	-	-	600	600
Repurchase agreements	6,002,521	-	-	-	-	6,002,521
Due to customers	163,080,057	38,406,246	24,620,212	6,001,084	89,557	232,197,156
Debt securities issued	-	-	4,498,190	-	-	4,498,190
Other financial liabilities	-	-	-	-	4,685,990	4,685,990
Total financial liabilities	199,276,926	68,099,287	33,968,402	6,001,084	4,776,147	312,121,846
Total interest sensitivity gap	(51,758,422)	71,110,466	(7,273,818)	8,406,420	N/A	N/A

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

48. 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 2013

Financial assets:	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Cash and balances with central bank	50,249,671	-	-	-	-	50,249,671
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	37,538	68,498,981
Other financial assets	-	-	-	-	2,210,559	2,210,559
Total financial assets	151,776,996	106,448,005	36,809,589	13,761,852	3,172,188	311,968,630
Financial 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
Debt securities issued	-	1,000,000	2,500,000	-	-	3,500,000
Other financial liabilities	-	-	-	-	3,018,059	3,018,059
Total financial liabilities	174,234,565	86,912,778	36,672,665	43,823	3,321,586	301,185,417
Total interest sensitivity gap	(22,457,569)	19,535,227	136,924	13,718,029	N/A	N/A

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

48. 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 2014

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Financial assets:						
Cash and balances with central bank	50,761,473	-	-	-	-	50,761,473
Due from banks and other financial institutions	12,607,969	11,969,801	800,000	-	-	25,377,770
Financial assets held for trading	799,889	529,451	324,316	258,895	-	1,912,551
Reverse repurchase agreements	16,926,332	19,441,139	900,000	-	-	37,267,471
Loans and advances to customers	27,969,878	78,784,076	2,339,307	680,027	2,023,372	111,796,660
Financial investments	24,383,980	24,975,108	21,773,223	13,423,847	154,122	84,710,280
Other financial assets	-	-	-	-	2,678,038	2,678,038
Total financial assets	133,449,521	135,699,575	26,136,846	14,362,769	4,855,532	314,504,243
Financial liabilities:						
Due to central bank	-	600,000	-	-	-	600,000
Due to banks and other financial institutions	28,074,436	28,518,143	4,850,000	-	-	61,442,579
Negative fair value of derivatives	-	-	-	-	600	600
Repurchase agreements	6,002,521	-	-	-	-	6,002,521
Due to customers	153,493,254	36,656,320	24,188,102	6,000,000	85,767	220,423,443
Debt securities issued	-	-	4,498,190	-	-	4,498,190
Other financial liabilities	-	-	-	-	4,244,567	4,244,567
Total financial liabilities	187,570,211	65,774,463	33,536,292	6,000,000	4,330,934	297,211,900
Total interest sensitivity gap	(54,120,690)	69,925,112	(7,399,446)	8,362,769	N/A	N/A

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

48. 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 2013

	Less than three months	Three months to one year	One to five years	More than five years	Non-interest- bearing	Total
Financial assets:						
Cash and balances with central bank	48,625,343	-	-	-	-	48,625,343
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	37,538	68,498,981
Other financial assets	-	-	-	-	2,148,210	2,148,210
Total financial assets	141,842,729	106,188,746	36,335,546	13,741,388	3,092,094	301,200,503
Financial 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
Debt securities issued	-	1,000,000	2,500,000	-	-	3,500,000
Other financial liabilities	-	-	-	-	2,941,804	2,941,804
Total financial liabilities	167,285,970	85,333,075	35,839,601	-	3,245,331	291,703,977
Total interest sensitivity gap	(25,443,241)	20,855,671	495,945	13,741,388	N/A	N/A

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

48. 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, etc.

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 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. The requirements pursuant to these regulations may have significant differences comparing to those applicable in Hong Kong and other countries.

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 7.5%, the tier 1 capital adequacy ratio above 8.5% and the capital adequacy ratio above 10.5%.

- (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

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

48. FINANCIAL INSTRUMENTS RISK MANAGEMENT *(Continued)*

(d) Capital management *(Continued)*

	Group	
	31 December	
	2014	2013
Core capital		
Qualified part of share capital	10,995,600	8,246,900
Qualified part of capital reserve	7,652,295	3,988,869
Surplus reserve and general reserves	5,392,728	3,460,355
Retained earnings	5,487,055	4,030,707
Qualified part of non-controlling interests	632,346	199,745
Core tier 1 capital deductible items:		
Fully deductible items	(78,719)	(58,659)
Net core tier 1 capital	30,081,305	19,867,917
Net other tier 1 capital	-	-
Net tier 1 capital	30,081,305	19,867,917
Net tier 2 capital	1,516,343	2,362,830
Net capital	31,597,648	22,230,747
Total risk-weighted assets	215,823,886	186,014,518
Core tier 1 capital adequacy ratio	13.94%	10.68%
Tier 1 capital adequacy ratio	13.94%	10.68%
Capital adequacy ratio	14.64%	11.95%

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

49. 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 2014

	Level 1	Level 2	Level 3	Total
<u>Financial assets measured at fair value</u>				
Financial assets held for trading				
Debt securities	–	1,912,551	–	1,912,551
Available-for-sale financial assets				
Debt securities	–	15,237,981	–	15,237,981
Wealth management products	–	650,000	–	650,000
Others	–	22,000	–	22,000
	–	15,909,981	–	15,909,981
	–	17,822,532	–	17,822,532
<u>Financial liabilities at fair value</u>				
Negative fair value of derivatives	–	600	–	600
<u>Financial assets disclosed at fair value</u>				
Receivables	–	49,139,387	–	49,139,387
Held-to-maturity investments	–	20,853,714	–	20,853,714
	–	69,993,101	–	69,993,101
<u>Financial liabilities disclosed at fair value</u>				
Financial bonds	–	4,470,065	–	4,470,065

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

49. 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 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
Others	–	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

Financial assets held for trading, available-for-sale financial assets and derivatives 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.

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.

Notes to Financial Statements

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

49. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

Determination of fair value and fair value hierarchy *(Continued)*

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 central bank
Due from banks and other financial institutions	Borrowings from banks and other financial institutions
Reverse repurchase agreements	Due to banks and other financial institutions
Loans and advances to customers	Repurchase agreements
Finance lease receivables	Due to customers
Other financial assets	Other financial liabilities

50. SUBSEQUENT EVENTS

As approved at the Board of Directors' meeting held on 30 March 2015, the profit distribution plan of 2014 was as follow:

- (1) Appropriated 10% of 2013 net profit amounting to RMB357,355,000 as statutory surplus reserve;
- (2) Appropriated RMB207,011,000 to the general reserve;
- (3) Based on the number of total shares 10,995,600,000 issued as at 31 December 2014, a cash dividend of RMB0.103 per share amounted to approximately RMB1,133 million was approved, and is subject to the approval of the Bank's shareholders at the forthcoming annual general meeting.

Except for the above, there were no other significant events after the reporting period.

51. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2015.

Unaudited Supplementary Financial Information

THE YEAR ENDED 31 DECEMBER 2014

(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 2014	31 December 2013
RMB current assets to RMB current liabilities	43.12%	41.94%
Foreign currency current assets to foreign currency current liabilities	125.65%	148.65%

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 2014					
Current asset	1,968,483	5,806	824,542	104,621	2,903,452
Current liability	(1,119,302)	(255)	(91,924)	(128,149)	(1,339,630)
Net position	849,181	5,551	732,618	(23,528)	1,563,822
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

Unaudited Supplementary Financial Information

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

(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.

	31 December	
	2014	2013
Due from banks and other financial institutions		
Asia Pacific excluding Mainland China	200,876	1,304
– of which attributed to Hong Kong	199,431	1,304
Europe	38,250	32,352
North and South America	126,184	96,999
Total	365,310	130,655

Unaudited Supplementary Financial Information

THE YEAR ENDED 31 DECEMBER 2014

(In RMB thousands, unless otherwise stated)

(d) Loans and advances to customers

(i) Overdue loans and advances to customers

	31 December	
	2014	2013
Amount for overdue loans and advances to customers		
Between 3 and 6 months	73,385	28,352
Between 6 and 12 months	715,990	560,040
Over 12 months	750,918	346,902
As a percentage of the total gross loans and advances to customers		
Between 3 and 6 months	0.06%	0.03%
Between 6 and 12 months	0.58%	0.53%
Over 12 months	0.61%	0.33%
	1.25%	0.89%

(ii) Overdue loans and advances to customers by geographical distribution

	31 December	
	2014	2013
Amount for overdue loans and advances to customers		
Heilongjiang region	1,636,368	1,029,051
Northeastern China	561,436	308,738
Southwest China	500,386	600
Northern China	251,500	22,041
Other region	19,497	14,918
	2,969,187	1,375,348

Unaudited Supplementary Financial Information

THE YEAR ENDED 31 DECEMBER 2014
(In RMB thousands, unless otherwise stated)

(e) Overdue due from banks and other financial institutions

As at 31 December 2014 and 2013, there are no overdue accounts from banks and other financial institutions in respect of principal or interest.

(f) Overdue placements with banks and other financial institutions

As at 31 December 2014 and 2013, there are no overdue placements with banks and other financial institutions in respect of principal or interest.

(g) Exposures to Mainland China non-bank entities

	31 December	
	2014	2013
On-balance-sheet exposure	125,015,095	102,508,831
Off-balance-sheet exposure	44,492,617	49,018,509
Individually assessed allowance for impairment losses	230,990	79,224

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

 **哈尔滨银行** HRBanK HARBIN BANK