



YOUR WEALTH MANAGEMENT BANK

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

2014 ANNUAL REPORT

Stock Code: 03328



COMPANY PROFILE

Founded in 1908, Bank of Communications Co., Ltd. is one of the Banks with the longest history and was one of the note-issuing banks in China in the past. Bank of Communications started its business operation after its re-establishment in 1987. It is the first nationwide state-owned joint-stock commercial bank in China, with its head office located in Shanghai. The Bank was listed on the Hong Kong Stock Exchange in June 2005 and on the Shanghai Stock Exchange in May 2007. The Bank ranked No. 19 among the global top 1,000 banks in terms of Tier 1 Capital rated by *The Banker* in 2014, positioning among the top 20 of global banks and ranked No. 217 among the “Fortune 500 Companies”.

The Bank currently has 224 domestic branches, comprising 30 tier-1 branches, 7 branches directly managed by the Head Office and 187 tier-2 branches. The Bank has also established 2,785 banking outlets in 230 prefecture-level cities or above and 165 county-level cities nationwide. In addition, the Bank has set up 13 overseas¹ institutions, which comprise branches in Hong Kong, New York, San Francisco, Tokyo, Singapore, Seoul, Frankfurt, Sydney, Macau, Ho Chi Minh City, and Taipei, Bank of Communications (UK) Co., Ltd. and representative office in Toronto. It has established 54 overseas banking outlets in total.

The Bank is one of the major financial services providers in China. The Bank’s business scope comprises of commercial banking, securities services, trust services, financial leasing, fund management, insurance, offshore financial services and so on. Its wholly-owned subsidiaries include BOCOM International Holdings Company Limited, China BOCOM Insurance Co., Ltd. and Bank of Communications Finance Leasing Co., Ltd. Subsidiaries controlled by the Bank include Bank of Communications Schroder Fund Management Co., Ltd., Bank of Communications International Trust Co., Ltd., BoCommLife Insurance Company Limited, Dayi Bocomm Xingmin Rural Bank, Zhejiang Anji BOCOM Rural Bank Ltd., Xinjiang Shihezi BOCOM Rural Bank and Qingdao Laoshan BOCOM Rural Bank. The Bank is also the largest shareholder of Jiangsu Changshu Rural Commercial Bank Co., Ltd. and the paratactic largest shareholder of Bank of Tibet Co., Ltd.

The Bank’s development strategy is to become “a first class listed comprehensive banking group focusing on international expansion and specialising in wealth management” (hereinafter referred to as “BoCom Strategy”).

¹ Include Hong Kong, Macao and Taiwan.

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Bank of Communications Co., Ltd.

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DEFINITIONS AND IMPORTANT RISK REMINDER

Definitions

The following terms will have the following meanings in the Annual Report unless otherwise stated:

“Model Code”	Refers to Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Hong Kong Listing rules
“Company Law”	Refers to the Company Law of the People’s Republic of China
“Articles of Associations”	Refers to the Articles of Association of Bank of Communications Co., Ltd. as approved by CBRC
“Securities Law”	Refers to Securities Law of the People’s Republic of China
“Reporting Period”	Refers to the period from 1 January 2014 to 31 December 2014
“Group”	Refers to the Bank and its subsidiaries
“Bank”	Refers to Bank of Communications Co., Ltd.
“Ministry of Finance”	Refers to the Ministry of Finance of the People’s Republic of China
“North Eastern China”	Refers to Includes Liaoning Province, Jilin Province and Heilongjiang Province
“Overseas”	Refers to Includes Hong Kong Branch, New York Branch, Singapore Branch, Seoul Branch, Tokyo Branch, Frankfurt Branch, Macau Branch, Ho Chi Minh City Branch, San Francisco Branch, Sydney Branch, Taipei Branch, Bank of Communications (UK) Co., Ltd., representative office in Toronto and other overseas subsidiaries
“Northern China”	Refers to Includes Beijing, Tianjin, Hebei Province, Shanxi Province and Inner Mongolia Autonomous Region
“Eastern China”	Refers to Includes Shanghai (excluding the Head Office), Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province
“Central and Southern China”	Refers to Includes Henan Province, Hunan Province, Hubei Province, Guangdong Province, Hainan Province and Guangxi Autonomous Region
“HSBC”	Refers to The Hongkong and Shanghai Banking Corporation Limited
“Basis point”	Refers to one in ten thousand
“BoCOM Insurance”	Refers to China BOCOM Insurance Co., Ltd.
“BoCOM International”	Refers to BOCOM International Holdings Company Limited
“BoCOM International Trust”	Refers to Bank of Communications International Trust Co., Ltd.
“BoCommLife Insurance”	Refers to BoCommLife Insurance Company Limited
“BoCOM Schroder”	Refers to Bank of Communications Schroder Fund Management Co., Ltd.
“BoCOM Leasing”	Refers to Bank of Communications Finance Leasing Co., Ltd.

DEFINITIONS AND IMPORTANT RISK REMINDER (CONTINUED)

“SSE”	Refers to the Shanghai Stock Exchange
“SSF”	Refers to the National Council for Social Security Fund
“Western China”	Refers to Includes Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Autonomous Region, Xinjiang Uyghur Autonomous Region and Tibet Autonomous Region
“HKEx”	Refers to The Stock Exchange of Hong Kong Limited
“Hong Kong Listing Rules”	Refers to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“CBRC”	Refers to China Banking Regulatory Commission
“CSRC”	Refers to China Securities Regulatory Commission
“Head Office”	Refers to the Group’s Head Office in Shanghai

Important Risk Reminder

The Bank is mainly exposed to credit risk, market risk, operational risk and compliance risk during its operation and development. The Bank has taken and will continue to take various measures to proactively manage risks it faces during its business operation. Please refer to “Risk Management” under “Management Discussion and Analysis”.

CORPORATE INFORMATION

CORPORATE INFORMATION

Chinese name	交通銀行股份有限公司
Chinese abbreviation	交通銀行
English name	Bank of Communications Co.,Ltd.
Legal representative	Niu Ximing

CONTACT DETAILS

Name	Du Jianguo (secretary to the Board of Directors and Company Secretary)
Contact address	No.188, Yin Cheng Zhong Lu, Pudong New District, Shanghai, P.R. China
Tel	86-21-58766688
Fax	86-21-58798398
E-mail	investor@bankcomm.com
Postal code	200120

GENERAL INFORMATION

Registered address	No.188, Yin Cheng Zhong Lu, Pudong New District, Shanghai, P.R. China
Postal code of registered address	200120
Official website	www.bankcomm.com
Head office address	No.188, Yin Cheng Zhong Lu, Pudong New District, Shanghai, P.R. China
Postal code of office address	200120
Principal place of business in Hong Kong	20 Pedder Street, Central, Hong Kong

INFORMATION DISCLOSURE AND PLACES WHERE THE ANNUAL REPORT IS AVAILABLE

Newspapers for information disclosure (A share)	China Securities Journal, Shanghai Securities News, Securities Times
Designated website for information disclosure (A share)	Website of SSE at www.sse.com.cn
Designated website for information disclosure (H share)	Website of HKEx at www.hkexnews.hk
Places where the annual report is available	Head Office of the Bank and principal business locations

LISTING INFORMATION

Classes	Stock exchange	Stock name	Stock code
A share	SSE	Bank of Communications	601328
H share	HKEx	Bank of Communications	03328

AUDITORS

Accounting firm employed (domestic)	
Name	
Office address	11th Floor PricewaterhouseCoopers Centre, 2 Corporate Avenue, 202 Hu Bin Road, Shanghai, PRC
Name of auditor signed	Yeung Sheung Yuen, Zhou Zhang
Accounting firm employed (overseas)	
Name	
Office address	22/F Prince's Building, Central, Hong Kong
Name of auditor signed	Jimmy Leung Kwok Wai

AUTHORISED REPRESENTATIVE

Qian Wenhui¹
Du Jianglong

LEGAL ADVISER

Hong Kong legal adviser: DLA Piper Hong Kong
PRC legal adviser: King & Wood Mallesons

SHARE REGISTRAR AND TRANSFER OFFICE

A Share: China Securities Depository and Clearing Corporation Limited, Shanghai Branch
3/F, China Insurance Building, No. 166
Lujiazui Dong Road, Pudong New District,
Shanghai, P.R. China

H Share: Computershare Hong Kong Investor Services Limited,
Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai,
Hong Kong

OTHER INFORMATION

First registration date: 30 March 1987

The query index of details of first registration: State Administration for Industry & Commerce of the People's Republic of China (www.saic.gov.cn)

Registration date of change of business: 28 October 2013

Registration authority: State Administration for Industry & Commerce of the People's Republic of China

Business registration number: 10000000005954

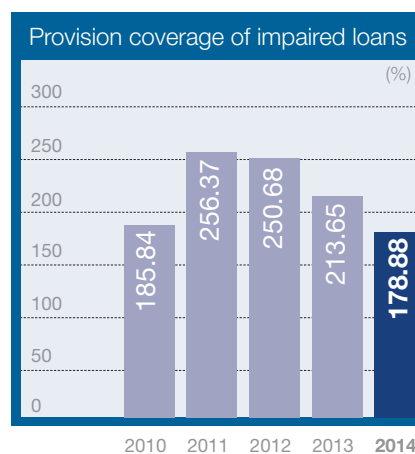
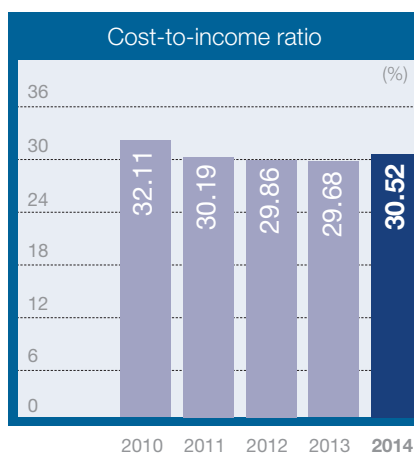
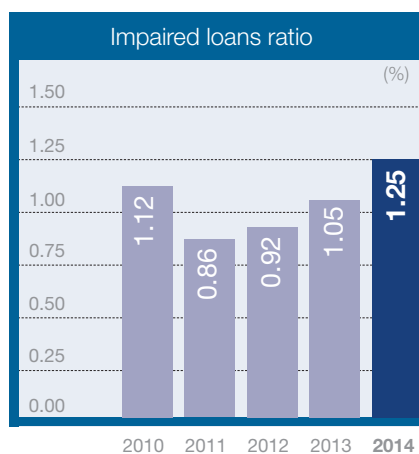
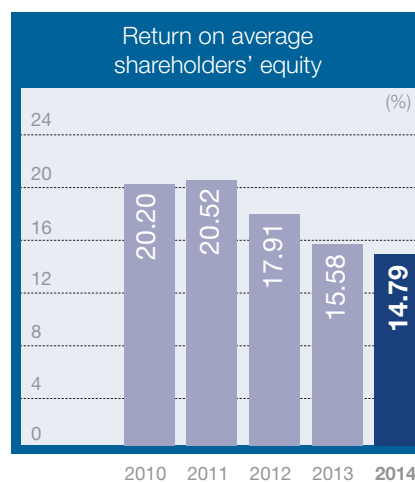
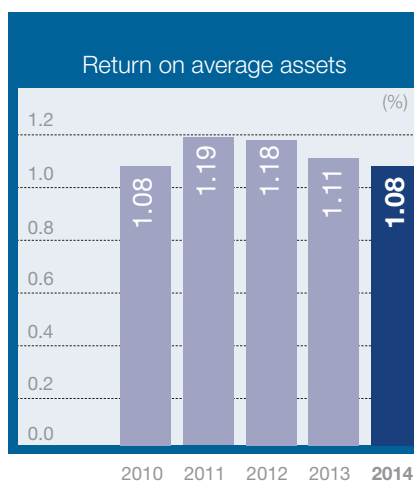
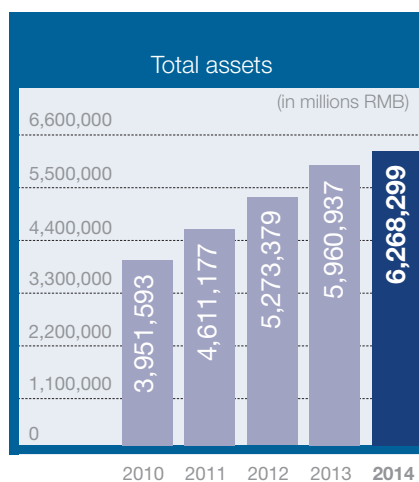
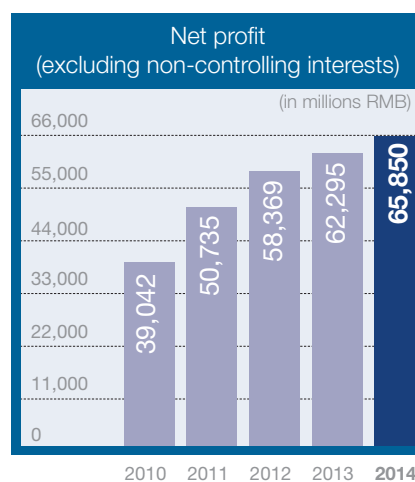
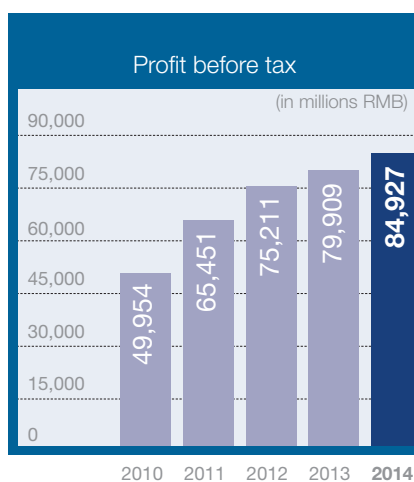
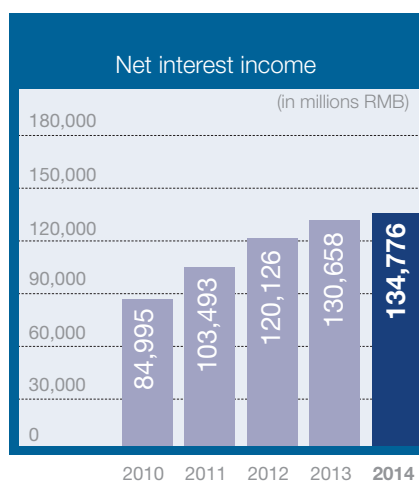
Tax registration number: 31004310000595X

Organisation code: 10000595-X

Changes in main responsibilities: None

¹ Mr. Qian Wenhui resigned as authorised representative on 10 February 2015 due to re-designation of work. The Bank has appointed Ms. Yu Yali as an authorised representative.

FINANCIAL HIGHLIGHTS



FINANCIAL HIGHLIGHTS (CONTINUED)

I. Major Financial Data and Financial Indicators

As at 31 December 2014, major accounting data and financial indicators prepared by the Group in accordance with International Financial Reporting Standards (the “IFRS”) are as follows:

Item	2014	2013	2012	2011	2010
Full year results				<i>(in millions of RMB)</i>	
Net interest income	134,776	130,658	120,126	103,493	84,995
Profit before tax	84,927	79,909	75,211	65,451	49,954
Net profit (excluding non-controlling interests) (attributable to shareholders of parent company)	65,850	62,295	58,369	50,735	39,042
As at the end of the year				<i>(in millions of RMB)</i>	
Total assets	6,268,299	5,960,937	5,273,379	4,611,177	3,951,593
Include: loans and advances to customers	3,431,735	3,266,368	2,947,299	2,561,750	2,236,927
Total liabilities	5,794,694	5,539,453	4,891,932	4,338,389	3,727,936
Include: due to customers	4,029,668	4,157,833	3,728,412	3,283,232	2,867,847
Shareholders' equity (excluding non-controlling interests) (attributable to shareholders of parent company)	471,055	419,561	379,918	271,802	222,773
Per share				<i>(in RMB)</i>	
Earnings per share (excluding non-controlling interests) (attributable to shareholders of parent company)	0.89	0.84	0.88	0.82	0.66
Net assets per share (excluding non-controlling interests) (attributable to shareholders of parent company)	6.34	5.65	5.12	4.39	3.96
Major financial ratios				<i>(%)</i>	
Return on average assets	1.08	1.11	1.18	1.19	1.08
Return on average shareholders' equity	14.79	15.58	17.91	20.52	20.20
Cost-to-income ratio ¹	30.52	29.68	29.86	30.19	32.11
Impaired loans ratio	1.25	1.05	0.92	0.86	1.12
Provision coverage of impaired loans	178.88	213.65	250.68	256.37	185.84
Capital adequacy indicators				<i>(in millions of RMB unless otherwise stated)</i>	
Net capital ²	584,502	516,482	N/A	N/A	N/A
Include: net core Tier 1 Capital ²	470,456	416,961	N/A	N/A	N/A
other Tier 1 Capital ²	10	4	N/A	N/A	N/A
supplementary capital ²	114,036	99,517	N/A	N/A	N/A
Risk-weighted assets ²	4,164,477	4,274,068	N/A	N/A	N/A
Capital adequacy ratio (%) ²	14.04	12.08	N/A	N/A	N/A
Tier 1 Capital adequacy ratio (%) ²	11.30	9.76	N/A	N/A	N/A
Core Tier 1 Capital adequacy ratio (%) ²	11.30	9.76	N/A	N/A	N/A

Notes:

- Refers to business and administrative expenses against the total of various net incomes.
- Calculated pursuant to the *Administrative Measures for the Capital Management of Commercial Banks (Trial)* issued by the CBRC, which was started to come into effect from 2013. Hence, no comparative figures for previous years are presented. In addition, upon the approval from regulatory authorities, the Group started to use the *Advanced Measurement Approach of Capital Management* for the measurement of capital adequacy ratio from the end of June 2014.

II. Credit Rating in the Last Three Years

	2014	2013	2012
Standard & Poor's	A-/A2/Stable	A-/--/Stable	A-/--/Stable
Moody's	A2/P-1/Stable	A3/P-2/Stable	A3/P-2/Stable
Fitch	A/F1/Stable	A/F1/Stable	A-/F1/Stable

Note: The rating format is "rating of long-term foreign currency deposit"/"rating of short-term foreign currency deposit"/"rating outlook".

Chairman's Statement

Nothing in the world remains constant. In an era of rapid transformation, we believe that the crucial factor to succeed among the China's commercial banks in the future is to create more values for customers through financial innovation. We achieved this from the thorough understanding the customers' demands and the high-expectation that we upheld in delivering our customer services. As a pioneer of China's financial reform and developer of financial innovation, BoCom has constantly and actively adapted to the economy "New Normal". By placing our customer at the first priority, we optimise the internal system, network, operation and service procedures to tailor for our customers' needs. This would be an essential step for us to excel under such rapid transformation and development.

Niu Ximing

Chairman



Proactive adaptation to the “New Normal” – Changes in speed, structure and momentum

During the first decade of the 21st Century, China's economy grew rapidly, leading to drastic increase in profit of China's commercial banks, with significant decrease in non-performing loans. This has favoured many China's commercial banks to be the top banks in the world.

In viewing the current situation, China has entered into a “New Normal” with the slowdown in economic growth, shifting of core economic drive and the means of growth. On one hand, we have been facing a drop in demand, increase in expectation on deflation and constant exposure to high risk under the long and crucial transformation. On the other hand, China's economy, as a whole is still growing at medium-to-high speed, where new industrialisation, computerisation and urbanisation are under rapid development. The implementation of “One Belt and One Road”, “Integration of Beijing-Tianjin-Hebei” and Yangtze River Economic Zone fosters new investment demand. Chinese enterprises' strategy of “go global” and the internationalisation of Renminbi also provide new market opportunities. In particular, the China's banking sector is facing pressures from narrowing interest spread of deposits and loans, change of social financing method and the relapse of the non-performing loans, but the China market also provides an opportunity for reform and transformation. Under such circumstances, we responded proactively to changes in speed, structure and momentum. We insisted on upholding the operation principle of “expansion with better efficiency” and take good advantage of the increment in credit assets and enhance the asset quality of the existing credit assets. Our main business goal is to promote deposit, stabilise profitability and control risks, in order to stimulate the operating vitality and market competitiveness and maintain deposits balance, for ensuring stable profit growth and asset quality.

– Changes in speed. The change in China's economic growth from high to medium-to-high speed indicates that the assets and profit of China's commercial banks growth is slowing down. As a bank with century-old history, we actively adapted to the economic “New Normal”, and upheld the principle of long-term stable business, to maintain sustainability and the sound development of all sectors of our businesses.

– Changes in structure. Optimisation and upgrading of economic structure require China's commercial banks to allocate assets accordingly as the external environment changes. The narrowed interest spread required us to control cost carefully. We maintained profitability of loans through pricing management and integrated financial service to strive for much higher income from intermediary business. We were glad to see that the Group's income structure has been continuously optimised, with fee and commission income for the year ended 31 December 2014 increased by 14.00% on a year-on-year basis. The customer structure has clearly improved, especially the number of corporate customers and middle-to-high end individual customers increased swiftly, attracting more high net worth customers. The strategy of international expansion and integration is implemented efficiently. The total profits of overseas branches and the Bank's subsidiaries accounted for 8.50% in the Group, representing a year-on-year increase of 0.55 percentage point.

– Changes in momentum. The China's economic development has charged from factor driven, investment driven to innovation driven. This challenges market responsiveness of commercial banks' head office. As a result, we reform the divisional structure to enhance the operational ability of the Head Office, in order to form the “two wheel drive” by profit centres of divisional structure and the branches. In the meanwhile, we reformed the operation model of grass-root institutions and further took advantages of linkage of domestic and overseas businesses, and the Group's cross-market

operations. We believe that this would gradually form a new operation mode of mutual collaboration and joint development between domestic and overseas business, between banks and non-banks, and between divisions and branches. In recent years, there were 6 divisions set up in Head Office, namely financial market, asset management, notes, precious metal, offshore and credit card centre. In 2014, these divisions, as a whole achieved a year-on-year increase of 23.44% in net operating income.

A wise man changes as time and circumstances change – it is the right time to deepen the reform

The Bank was founded because of China's financial reform. It grew under the financial open-up and innovation. The Bank always has the genes for reform and the drive for innovation. In such a critical period that China is facing drastic reform, we are always ready to raise internal control ability comprehensively through wide reform in corporate governance mechanism.

In 2014, we have made a small step in our journey towards reform. While carrying forward the reform of divisional structure and quasi-divisional structure, the Group positively conducts feasibility study on the reform to deepen and to improve the corporate governance mechanism.

We will take a bigger step in 2015. New steps have been taken on the way to explore the corporate governance mechanism that is suitable for Chinese corporation to improve performance linked remuneration mechanism, to establish systems that employees are accountable for risks, and to build a system of accountability.

The water appears to be wide when there is no tide and the sail is lifted with the downwind – transformation is taking shape

We understood that the traditional growth model of China's banking sector – “issuing loans, attracting deposits, and raising profits”, has ended. The transformation is irresistible. We will be backed up by China's economic growth, to align with the “go global” strategy of Chinese enterprises and internationalization of Renminbi, and constantly build up the best wealth management bank of China based on vast service network and solid customer base to support sustainable performance growth.

The “BoCom Strategy” is to become a first class listed global banking group, focusing on international expansion and specialising in wealth management, leading to BoCom's transformation. In the current and coming periods, BoCom will continue to expand its service globally by increasing the business license held, intensifying strategic collaboration and industrial characteristics; and to enhance the market status, profit contribution, and strengthen cross-border, cross-industry and cross-market operation ability and service capabilities.

The implementation of physical outlets, e-banking and relationship managers will be the foundation of the transformation. The upgrade and specialisation of physical outlets, innovation and intelligent e-banking and the increase in the number and capability of relationship managers, will make the Group's transformation much more vigorous and dynamic. In addition, we will take advantages of internet finance platform to build up an internet finance bank through innovative direct selling model. We aim to enable customers to perform comprehensive wealth management service via “one-click”, and improve both asset returns and profit contributions.

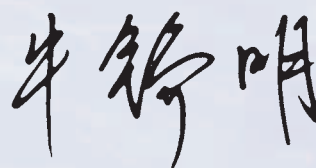
Effective risk control will be critical to safeguard the transformation. Banking industry is a high risk industry. Banks are primarily exposed to risks related to asset quality. A bank's success does not merely depend on how fast a bank expands, but also how long a bank survives. With the anticipation of future risks, we devoted a significant amount of resources on mitigating potential risks in the past two years. This boosts our confidence to go further and be more stable down the road of transformation.

Our ability of controlling cost is crucial to the transformation. The decline in revenue growth requires us to control cost to maintaining profitability. Therefore, we will further control the deposit cost and aim to "increase the amount and stabilise the price" in the deposit business. At the same time, we will control the labour cost by improving labour productivity, strictly control operating expenses by continuously adjusting outlets and reducing daily operating cost.

Improving services is our eternal pursuit throughout the transformation. We have been awarded many times in the China's banking sector and we will devote greater efforts to become the best bank in the field of financial services through further improvement in the service chain. We will optimise the business procedures and enhance the market responsiveness through improved services attitude and reduce complaint rate, and ultimately to win the market and the customers.

"A bird cannot soar into the sky using only one feather, and a horse cannot gallop using only one hoof." With strong support from all shareholders and a large number of customers, we will adhere to the spirit of enterprise, which is "hard work, responsible and innovative." We persist in serving the real economy, and intensify operating vitality and market competitiveness through deepening the reform and transformation, so as to draw a new blueprint of reform and create a mutual advantageous and win-win situation together with shareholders.

Chairman



President's Statement

In 2014, China has entered into a stage of deepening reform, where the development of macro-economy and banking sector came to the “New Normal”, and there is still a long way ahead of the transformation and development of the banking sector. Over the past year, the senior management and I have been united as one to release the endogenous power and to accelerate the transformation to enhance the innovation. As a result of great efforts of a hundred thousand employees, we were able to maintain the steady growth of the Bank. As at the year end of 2014, the Group's total assets increased by 5.16% from the beginning of the year to RMB6,268.299 billion; net profit for the year increased by 5.71% as compared with the prior year to RMB65.85 billion; the Group's impaired loan ratio rose 0.2 percentage point from the beginning of the year to 1.25%. With our service brand image being recognised by the public, the Group ranked the first among the banks in the China Retail Banking Satisfaction Study by *J.D. Power* in 2014, and 127 branch outlets were awarded “Top 1000” by the China Banking Association, which is the best record throughout our history.

Peng Chun
President



2014: Adaptation to the “New Normal” and achievement of new development

Over the past year, under the “New Normal” of the banking sector, the loan growth has slow down. With narrowing interest spreads of deposit and loan and the relapse of non-performing loans. By focusing on the theme of “innovative reform and transformative development,” as well as the aim to “promote deposit, stabilise profit and control risks”, the Group achieved solid profit growth and generally stable asset quality by being hard-working, and innovative. The business operation and management have the following characteristics:

Reform and innovation were in acceleration. In 2014, we started and actively prepared for pilot projects to deepen the reform. Transformation towards divisional structure has achieved initial success. Profit centre of divisional structure has a year-on-year increase of net operating income by 23.44%. It implemented bilateral accounting and profit sharing mechanism, further promoted process optimisation, and stimulated business vitality through policy innovation. The new generation of information system “531” project went online for pilot run in a domestic branch, laying a solid foundation for the overall improvement of service efficiency and customer experience.

Transformation and development were the new bright spot. Based on the development strategy to become “a first class listed global banking group focusing on international expansion and specialising in wealth management” (hereinafter referred to as “BoCom Strategy”), we pursue for transformation and development, resulting in positive change in income structure. In 2014, fee and commission income is RMB29.604 billion, representing a year-on-year increase of 14.00%.

– Business advantages of international expansion and integration were further strengthened. In 2014, the total assets of overseas banking institutions exceeded a hundred billion US dollars for the first time. The Bank was appointed as the clearing bank for Renminbi business in Seoul. A representative office also started business in Toronto. Our applications for establishing a subsidiary in Luxembourg and a tier-2 branch in Brisbane were approved. The amount of business synergy between domestic and overseas branches was USD50.740 billion, and the revenue from domestically linked overseas business was RMB6.078 billion, with a year-on-year increase exceeding 30%. The strength of integration is emerging. Profits of subsidiaries amounted to RMB3.451 billion, representing a year-on-year growth of 44.33%. With the acceleration in international expansion and integration, the Group’s cross-border, cross-industry and cross-market service capabilities were enhanced.

– Wealth management significantly improved in scale and effectiveness. The wealth management business, transaction business and innovative business have been growing and becoming stronger in recent years. In 2014, the on and off-balance-sheet wealth management scale denominated in RMB exceeded a trillion, generating over RMB3.5 billion income from intermediary business, with a year-on-year increase of 67.33%. The issuance capability and profitability of wealth management products is at the leading position in the market. The number of “Win To Fortune” high end customers increased by 6.67%, while number of BoCom fortune standard customers and OTO Fortune standard customers increased by 9.53% and 18.85% respectively. The assets under management by the Bank were more than RMB4 trillion, ranking the fourth in the banking industry. The Bank’s leading position as the largest pension custodian bank in China was further strengthened.

– The Bank aims to fully develop the trinity network of physical outlets, e-banking and relationship manager within three years for tier-2 branches. In 2014, the contribution of operating profit and deposits by each tier-2 branches have significantly increased. There are 345 community sub-branches approved by CBRC, and were under construction while another 66 sub-branches have successfully started business, showing the accelerated transformation and development of grass-root institutions. The diversion rate of e-banking services reached 83.13%. The proportion of the number of stand-alone self-service outlets to that of physical outlets has increased to 1.27:1, and the number of relationship managers of branches increased by 4.36% over the prior year, which indicated continuous enhancement of business development capabilities.

Liability foundation became more stable. In the year of 2014, the Group focused on adjusting and optimising liability structure, asset structure and capital allocation structure, with an effort to achieve the goal of “increase assets and profitability, increase non-interest income, increase assets quality, decrease loan-to-deposit ratio, decrease cost of debt, and decrease capital consumption,” alternatively named as “3-increase-3-decrease” goal. We strengthened the customer base via various channels and vigorously enhanced debt business development through settlement. We raised more low-cost core debts with payroll service, cash management and industrial value chain finance as starting point. Moreover, we actively decreased high-cost debts, resulting in sharp decrease in deposit volatility, which has laid the foundation for sustainable sound development in the future.

Asset quality was generally stable. We continued to improve the comprehensive risk management system focusing on “full coverage, whole process, responsibility clarification and risk management culture”. We also aimed to strengthen the risk control over key industries

such as local government financing platform, real estate industry, and over-capacity industry. In addition, we strengthen the management of post-loan and duration periods, and improve the group-wide risk management on those overlapping customers regarding on and off-balance-sheet items and full coverage businesses. We put special focus on enhancing credit quality and obtaining sufficient buffer and asset restructuring of credit business, aiming to mitigate risks and reducing expected losses. In 2014, we have reduced credit loans by RMB74.9 billion while strengthened credit loans of RMB52.3 billion, and restructured non-performing loans of RMB6.25 billion. Throughout the 2 years of proactive adjustment, our asset quality continued to strengthen, so that we are confident in coping with the more difficult risk management situations and keeping a high asset quality level in the industry.

2015: Reform to increase vitality and slow down the growth without weakening the momentum

With the adjustment of economic structure and the pushing of reform and development vertically and horizontally, the accumulated asset risks in China's banking sector in earlier stages begins to appear, and the trend of slow profit growth is inevitable. Especially, under the asymmetric interest reduction policy, we expect that the profit of China's banking sector will increase at a low rate. Surviving under such wave of reform, and reflecting upon the past, constant change is the only way out. As a century-old bank, we urgently need to deepen the reform to stimulate new energy and building core competitiveness through transformation and development. In 2015, we will carry out operation and management with focus on serving the real economy and focusing on “reform, transformation, quality and innovation”. Focusing on serving the real economy, our key words of operation and management in 2015 are “reform, transformation, risk and innovation”.

– Reform. “For reform, its inherent difficulty entails extraordinary courage.” As a financial reform pioneer in China, the Group has started to deepen comprehensive reform pilot work fully. By improving the corporate governance mechanism, establishing market-oriented salary examination mechanism and enhancing the establishment of profit making centre of divisional structure, we will breakthrough institutional barriers, cultivate competitive culture, motivate operation vitality, and improve market competitiveness, so as to render better service to the real economy and avoid systematic financial risks.

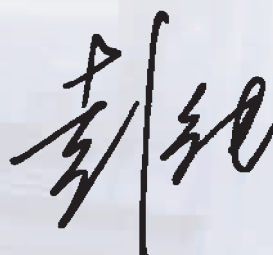
– Transformation. In 2015, we will accelerate the “BoCom Strategy” and strengthen domestic and overseas synergy, to fully enhance the Group’s cross-border, cross-industry and cross-market advantages. We will speed up the operation model transformation, and strengthen our cost control. We will also pay close attention to four key transformation promotion projects including overseas banking institutions, subsidiaries, tier-2 branches and grass-root institutions. Furthermore, we will accelerate the establishment of wealth management banks and consolidate customer and liabilities bases. Nevertheless, we will enhance profitability of transformation businesses such as financial markets, asset management and interbank business, and continue to advance the income structure transformation. Meanwhile, we will strive to explore a new field of Internet finance and open a new page for business transformation.

– Risk. We understand that China’s banking sector is currently undergoing a critical period regarding asset quality risk control. Therefore, the Group will further improve the comprehensive risk management system. We focus on strengthening risk control over key fields, such as the Group’s customer, carry out duration risk monitoring of post-loan, post-investment, post-sale and post-leasing period and soon. These move forward the defense of risk and compliance management. Meanwhile, we continue to improve internal control and implement preventive measures to minimise any expected loss and extracting benefits from risk business restructuring.

– Innovation. “531” Project (a new generation of information system) is the extraordinary project of the Group. The system innovation has upheld our business concept to transform from accounts to customers, from domestic to overseas, from banking to the group. It gives us the confidence to provide customers with an unprecedented financial experience. With the unremitting endeavours that we devoted in the past 5 years, we are proud to announce that the new system will be fully put into operation in 2015. We will try our best to facilitate a smooth transition between old and new systems, and to strengthen the completeness of the information. We will strengthen information integration and big data application, achieve customer data collection via various channels, central storage, real time updates and multi-application. We leverage on the technological innovation in order to improve the experience of our customer services, efficiency and the quality of work.

Surviving the 100 years’ stupendous changes, the Group adheres to the business principle of prudent operation. Taking the responsibility of developing century-old national financial brand and aiming at developing the Bank to become the best wealth management bank in China, we will make all efforts to create greater value for customers and strive to achieve balance between economic benefits, environmental benefits and social benefits, so that customers and the whole society are well-aware of the values and returns of “Century-old BoCom, your wealth management bank”.

President



Chairman of the Supervisory Committee

The value creation ability of a company comes from effective operation management and internal control. An effective operation management will guarantee a good result. Under an ineffective operation management, a bad result is unavoidable and a good result will only come by chance. Professional management and good internal control provide guarantee to the continuous growth of a company's value.

Song Shuguang

Chairman of the Supervisory Committee



MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

In 2014, the global economy was undergoing a slow and difficult while the external environment was complex and severe. The economic recovery in the U.S.A. accelerated, resulted in the gradual withdrawal of QE (“**Quantitative Easing**”). The risk of deflation in Eurozone intensified, which hindered the pace of economic recovery. The measure of “steady increase” in Japan was ineffective, leading to decrease in economic growth momentum. Differentiation appeared in emerging market economies, causing modest slowdown in the overall economic growth. The global economic landscape was affected by the continuous turmoil of global geopolitics. Supplies and demands of bulk commodities were subtly shifted, and the prices of crude oil and main raw materials were significantly dropped.

Facing the complex environment in both domestic and overseas markets, China adopted proactive fiscal policy and prudent monetary policy to enable the national economy to undergo an overall steady development trend while striving to perform better. The economic performance was within a reasonable range. Gross domestic product (“GDP”) in 2014 increased by 7.4% on a year-on-year basis to RMB63.6 trillion. The number of new hires in the labour market in urban regions reached 13.22 million, and the national consumer price index (“CPI”) increase by 2%. The industry structure continued to optimise; in which the proportion of services industry increased to 48.2%. The rate of growth of the tertiary industry was 8.1%, which is faster than the 7.3% increase of the secondary industry. The economic growth driven by manufacturing was shifted to be services industry driven. Labour-intensive industry, heavy industry, bulk raw materials industry continued to adjust, while new industries, new technologies and new formats emerged in large numbers, representing the obvious trend of the Chinese economy striding forward to medium to high end. However, under the “New Normal”, the economic growth slowed down. The growth rate of fixed assets investment significantly dropped in 2014, the export growth slowed down and the consumption growth rate also slightly reduced.

The monetary credit and social financing grew steadily. At the end of 2014, M2 increased by 12.2% year-on-year, total RMB-denominated lending balance increased by 13.6% year-on-year or RMB9.78 trillion from the beginning of the year, and the social financing for the whole year amounted to RMB16.46 trillion. The PBOC directionally reduced the deposit reserve ratio twice and asymmetrically reduced the deposit-reserve ratio, leading to the decrease in the cost of financing. The weighted average loan interest rate was 6.77%, representing a decrease of 0.42 percentage point from the beginning of the year. Monetary policy tools were supplemented and improved, and a variety of monetary policy tools, including open market operation, short-term liquidity operation and standing lending facility were comprehensively adopted. The foreign exchange management system reform deepened, and the floating range of RMB-USD spot exchange rate expanded to 2%.

II. BUSINESS REVIEW

The Group faced up with the complex economic and financial environment during the year of 2014 whereas the Group withstood multiple challenges such as the slowdown of economic growth and the acceleration of interest rate liberalisation and, the overall development trend was consistent with the expectation because the Group sought improvement in stability, drove and stimulated business activity by means of innovation, promoted transformation by deepening reform. Return on average assets (“**ROAA**”) and return on average equity (“**ROAE**”) was 1.08% and 14.79% respectively, representing a year-on-year decrease of 0.03 and 0.79 percentage point. The reduction range was significantly narrowed as compared with the prior year.

Stable quality of development and effectiveness. As at the end of the Reporting Period, the Group’s total assets increased by 5.16% from the beginning of the year to RMB6,268.299 billion, among which the total assets of overseas banking institutions exceeded hundred billion US dollars for the first time; the daily average balances of customer deposits amounted to RMB3,984.424 billion, representing a year-on-year increase of 5.84%; the customer deposit balances decreased by 3.08% from the beginning of year to RMB4,029.668 billion; the daily average balances of customer loans and receivables increased by 6.93% on a year-on-year basis to RMB3,400.175 billion; the customer loan balances (before provision, if not specially stated, same applies hereinafter) amounted to RMB3,431.735 billion, representing an increase of 5.06% from the beginning of the year.

Further optimised profit structure. During the Reporting Period, the net profit increased by 5.71% on a year-on-year basis to RMB65.850 billion, among which, net fee and commission income was RMB29.604 billion, representing a year-on-year increase of 14.00%; the proportion of fee and commission income over net operating income was 16.57%, increased by 0.84 percentage point on a year-on-year basis.

Strong execution of strategic transformation. International and integrated business advantage was continuously strengthened. Overseas banking entities and subsidiaries accounted for approximately 12.39% of the Group’s total assets, representing an increase of 1.61 percentage points from the beginning of the year, and accounted for approximately 8.50% of the Group’s net profit, representing a year-on-year increase of 0.55 percentage point. The reform of divisional structure and quasi-divisional structure was steadily promoted. Six of the profit making centres of divisional structure had a year-on-year increase of net operating income of 23.44%, Assets management business rapidly developed, the on and off-balance-sheet wealth management product scale denominated in Renminbi exceeded 1 trillion, ranking the leading position among peers with an effective enhancement.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Stable asset quality. The Group actively coped with adverse risk situation and made all efforts to stabilise assets quality, achieving the balance of the impaired loans of RMB43.017 billion, with the growth rate being slowed down. The Group focused on defusing risky loans and consolidating the collateral and asset restructuring of the credit business, mitigating risks in time. The Group reduced the loans without collaterals by RMB74.9 billion, and re-collateralised RMB52.3 billion of loans, and restructured non-performing loans of RMB6.25 billion; the impaired loans ratio was 1.25%, representing an increase of 0.20 percentage point from the beginning of the year. Although decreasing by 34.77 percentage points from the beginning of the year to 178.88%, the provision coverage ratio of impaired loans was still higher than the regulatory requirements.

Significantly enhanced capital strength. During the Reporting Period, the Group actively promoted the business structure adjustment and internal capital management control, and effectively enriched the capital strength by internal capital accumulation and external capital supplement. As approved by CBRC, the Group became one of the first batch of commercial banks implementing Advanced Measurement Approach at the Bank level and the Group level. As at the end of the Reporting Period, the capital adequacy ratio and Tier 1 capital adequacy ratio was 14.04% and 11.30%, respectively, representing an increase of 1.96 and 1.54 percentage points from the beginning of the year.

Continuously promoted the Bank's brand. In 2014, the Group continuously honored in *FORTUNE*'s "Top 500 Global Companies", and ranked No. 217 in terms of revenue, up by 26 ranks as compared with the prior year. The Group ranked No. 19 among the global top 1,000 banks in terms of Tier 1 capital rated by *The Banker*, up by 4 ranks as compared with the prior year and ranked top 20 among global banks for the first time. During the Reporting Period, 127 branch outlets of the Group were awarded "Top 1000" service model unit by the China Banking Association, representing a year-on-year increase of 39 branch outlets. The number of awarded branch outlet ranked second among the banking industry. The brand influence continuously expanded.

1. Corporate Banking Business



◀ As a flagship of Shanghai financial services, BoCom has actively participated in the establishment of the FTZ and provided cross-border services to domestic and overseas institution.

- In 2014, from the corporate banking business sector, the Group's profit before tax increased by 4.14% on a year-on-year basis to RMB56.214 billion; net fee and commission income increased by 8.42% on a year-on-year basis to RMB16.259 billion; "Win To Fortune" high end corporate customers increased by 6.67% on a year-on-year basis.
- As at the end of the Reporting Period, the Group's corporate deposit balance decreased by 4.84% from the beginning of the year to RMB2,666.271 billion; daily average balance of corporate deposits increased by 6.44% from the beginning of the year to RMB2,681.507 billion; corporate loan balance increased by 1.92% from the beginning of the year to RMB2,563.378 billion; daily average balance of corporate loan and receivables increased by 2.10% on a year-on-year basis to RMB2,500.848 billion.
- As at the end of the Reporting Period, the Group's corporate impaired loan balance increased by 34.92% from the beginning of the year to RMB34.040 billion; the impaired loans ratio increased by 0.33 percentage point from the beginning of the year to 1.33%.

The Group continued to promote transformation and the structure optimisation of the corporate banking, and built a new development model of synergistic development between key regional groups and the integrated management mechanism for key customers. The Group took the lead in carrying out reform of quasi-divisional structure of big customers among state-owned banks, promoted the construction of corporate wealth management system, effectively expanded the influence of brand "Win To Fortune", and strengthened business access and entire financing duration management to prevent and mitigate large risks. Moreover, the Group actively integrated into the RMB internationalisation, with a variety of Free Trade Zone ("FTZ") finance and custody finance creating a pioneer in Chinese-funded banking services. The Group followed the development trend of Internet finance and big data, achieving a rapid integration of system data and centralised management of business processes.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(1) Corporate and institutional business

Seizing major national strategic opportunities such as “One Belt and One Road”, “Integration of Beijing-Tianjin-Hebei”, New Countryside Construction and sustainable development in the Midwest and focusing on reforms in the nationwide major industries, such as education, health care, social security and the Bank intensified the support for construction of global and strategic major projects. The Bank promoted the “Win to Fortune Accompany You” activity, signed the comprehensive strategic cooperation agreement with leading enterprises in the industries like communications, agriculture, transportation and aviation, and deepened the cooperation with them. Moreover, the Bank improved the product portfolio package of “Financing + Settlement + Wealth Management”, established direct connection with provincial lottery system, pushed the innovation, implementation and popularisation of businesses such as centralised operation of cross-border Renminbi funds of multinational enterprises, smart vehicle financing system, Internet notes platform and customs integration guarantee. The government finance was rapidly advanced, and the non-tax agent business of central government ranked first in the annual assessment. Finance in FTZ developed steadily. The Bank successfully signed to be the first batch of banks to implement the centralised management project of foreign exchange funds of multinational corporations in FTZ, and completed the first aircraft leasing, ship leasing and commercial factoring business in FTZ.

(2) Medium, small and micro enterprises business

The Bank provided clustering special services for enterprises in professional circles, supply chain, and hi-tech parks, expanded the financial services for business circles, clarified popularisation and guidance of project system of business circles, and provided special financial services programme. The Bank promoted financial business of the supply chain of core enterprises such as hospitals, and provided financial services to medium, small and micro enterprises along the upstream and downstream of the supply chain. Technology finance was promoted through exploring the “investment linked loans” model, so as to develop a pilot programme for pilot model of technology finance services. Focusing on settlement volume, the Bank developed POS loans products to satisfy customers’ requirements of convenient financial services. The Bank explored the innovation of Internet and big data financing model, strengthened cooperation with third party companies such as China Unicom and China Telecom and achieved online operation of the entire business cycle, such as “Wo Yi Dai” business. As at the end of the Reporting Period, loan balance to MSMEs provided by domestic branches increased by 0.32% from the beginning of the year to RMB1,259.151 billion, the proportion of which reached 40.58%, representing a decrease of 2.27 percentage points from the beginning of the year.

(3) “One Branch Offering Nationwide Service” industrial value chain financial service

Paying close attention to financial demands from corporate customers in the supply, production and marketing field, the Bank continued to perfect the services functions in receivables collection, optimised the management services of life cycle of receivables collection, actively promoted the branding of “Express Receivable Collector” and “Express Bill Discounting”. The Bank continued to update the electronic channels, improved the business model of “One-branch-offering-nationwide-services”, and intensified customer cluster service experience and risk control ability. As at the end of the Reporting Period, there were nearly 1,200 core supply chain networks of domestic branches and more than 10,000 related companies. The Bank was awarded “Best Supply Chain Finance” by *CFO World* in 2014. The market popularity and brand reputation was continuously improved.

(4) Cash management business

The Bank continued to optimise the functions of key products such as global cash management, inter-bank capital management platform, notes pool, secondary accounts and corporate debit card. The Bank established green passage of after-sales service for key customers to improve client experience. The Bank was awarded “2014 Cash Management Bank with Competitiveness” by *China Business Journal* and “Best Service Provider, Cash Management, China-Rising Star” by “Triple A Transaction Banking Awards 2014” of *The Asset*. As at the end of the Reporting Period, corporate customers of e-channel cash management amounted to 17,400 and the cash management accounts amounted to 94,000.

(5) International settlement and trade finance

By utilising both domestic and overseas resources, the Bank gave great impetus to combined cross-border settlement and trade finance products to provide personalised, global investment and financing services with enterprises. During the Reporting Period, domestic branches’ international settlement volume increased year-on-year by 9.95% to RMB3,746.431 billion, and the amount of international trade finance was RMB183.080 billion. The Bank actively utilised international factoring to help small and medium-sized foreign trade enterprises to avoid the risks from exported exchange collections and provide financing facilities. During the Reporting Period, the volume of international factoring was RMB9.038 billion, among which the amount of the dual factoring business of Factors Chain International (“**FCI**”) reached RMB7.147 billion, representing a year-on-year increase of 42.61%. The Bank was awarded the “Best Trading Partner Bank” by the Finance Committee of China Banking Association for three consecutive years.

(6) Investment banking business

Closely following the policy changes of local government bonds, the Bank has successfully become the lead underwriter of a number of bond issuance projects for several local governments. The Bank actively explored overseas and cross-border bond markets, leading to large increase in issuance amount in overseas market. The Bank steadily pushed forward development of credit asset securitisation and successfully issued credit asset securitisation project of approximately RMB10.0 billion. Closely following the reform of mixed ownership and the guidelines of services model policy of public-private partnership (“PPP”), the Bank led the establishment of BoCOM mergers and acquisitions services union. Fee income from investment banking reached RMB7.643 billion during the Reporting Period, accounted for 23.22% of the Group’s total fee and commission income. The number of debt financing instruments (including local government debt) underwritten by domestic branches as lead underwriters during the year increased by 69.80% on a-year-on-year basis to 253, and the issuance amount of such instruments increased by 45.46% on a year-on-year basis to RMB451.524 billion. The Bank was awarded “Best Investment Banking Business Award” by *CFO World*, and “Most Innovative Bank and Investment Bank Award” and “Best Bond Underwriting Award” by the *Securities Times*.

(7) Asset custody business

Consolidating and exerting the advantages of custody business, the Bank expedited the innovative development of diversified of custody products. The Bank vigorously developed the pension market and kept on remaining a leading position in the industry. Expediting the building of overseas custody platform, the Bank constantly enriched the international custody product line, covering the Asia-Pacific market and extending to the global market. Strengthening the risk management and infrastructure construction, establishing and perfecting the advanced technology system of custody business connecting domestic and overseas banks and branches, customers and markets, the Bank vigorously guaranteed the safe operation of custody assets. The Bank became the first domestic QDLP (Qualified Domestic Limited Partnership) fund depository bank and the first domestic custody bank of sovereign wealth funds investing overseas. The Bank was awarded “Best Asset Custody Award” by *CFO World*. As at the end of the Reporting Period, assets under custody of the Bank increased by 47.85% from the beginning of the year to RMB4,160.098 billion.

2. Personal Banking Business



◀ BoCom provides a large variety of value-added services. Left between pictured the meeting between Nobel laureate Mr. Naipan and BoCom.

- In 2014, from personal banking business sector, the Group's profit before tax increased by 4.18% on a-year-on-year basis to RMB6.611 billion; net fee and commission income increased by 27.22% on a year-on-year basis to RMB11.713 billion; the total number of individual customers in domestic branches increased by 10% from the beginning of the year.
- As at the end of the Reporting Period, the balance of personal deposits of the Group increased by 0.51% from the beginning of the year to RMB1,357.902 billion, and the proportion of personal deposits increased by 1.20 percentage points from the beginning of the year to 33.69%. The daily average balance of personal deposits increased by 4.61% on a year-on-year basis to RMB1,302.917 billion. The balance of personal loans of the Group increased by 15.58% from the beginning of the year to RMB868.357 billion, and the proportion of personal loans increased by 2.31 percentage points from the beginning of the year to 25.31%. The daily average balance of personal loans increased by 22.82% on a year-on-year basis to RMB787.991 billion.
- As at the end of the Reporting Period, the balance of personal impaired loans of the Group decreased by 1.15% from the beginning of the year to RMB8.977 billion; the personal impaired loans ratio decreased by 0.18 percentage point from the beginning of the year to 1.03%.

In 2014, the Bank continuously strengthened product innovation, actively innovated marketing model and continuously improved services quality. The Bank aimed at developing the business development pattern of "bulk retail" which took wealth management as its main part and characterised by all-inclusive finance, consumer finance and Internet finance, so as to comprehensively promote the transformative development of the personal banking business.

(1) Personal deposit and loan

Revolving around settlement funds from payroll credit, wealth management and “Jia Yi Tong”, the Bank vigorously increased saving deposits and consolidated basic customer group. The Bank launched the innovative superior products “Tian Tian Li” series and OTO Payroll, which effectively increased the customers’ fund precipitation. Moreover, by launching branch based principle-guaranteed wealth management product “Wen Tian Li”, the Bank expanded the new funds resources with delicacy management. As at the end of the Reporting Period, the domestic branches’ saving deposit amounted to RMB1,191.191 billion, representing an increase of RMB2.582 billion from the beginning of the year.

The Bank spent efforts on promoting consumption loans, took advantage over upgrading and updating of BoCom E-loan product and got to the root of the payroll credit demand and the consumption and financing demands of mortgage customer group, which had the competitive edge of electronic streamlining. The Bank promoted the building of Community branch outlets and designed a “Community Loan” program to meet the diversified financing needs of community residents. The Bank implemented the national housing mortgage loan policy and imposed policies on mortgage finance services.

(2) Personal wealth management business

The Bank was the title sponsor of “2014 World Snooker Shanghai OTO Masters” and made full advantage of emerging media to carry out brand promotion. The Bank continued to promote the specialised services over cross-border finance, healthy lifestyle and private trust. It held almost a hundred customer roadshows, established more than 70 OTO Fortune cross-border financial service centres, carried out OTO Fortune traditional Chinese medicine healthy lifestyle activities and completed the first private family trust business, so as to satisfy the family wealth inheritance needs of high end private bank customers. The Bank was awarded “Golden Wealth Management – Best Wealth Management Brand” by Shanghai Securities News. As at the end of the Reporting Period, retail asset under management (“**AUM**”) by the Bank amounted to RMB2,152.145 billion, representing an increase of 13.08% from the beginning of the year. The number of BoCom fortune customers and OTO Fortune customers increased by 9.53% and 18.85%, respectively from the beginning of the year. The number of private banking customers increased by 16.63% from the beginning of the year. Private banking assets under management amounted to RMB291.0 billion, representing an increase of 24.39% from the beginning of the year.

(3) **Bank card business**

Credit card business

The Bank fully expanded the new brand campaign “Easy for More”, focusing on customer experiences by strengthening customer service. It optimised the assets-based business products and the acceptance channels and implemented the differentiated marketing strategy. Adopting innovative marketing mode, it continuously expanded its market scale by strengthening the brand influence of “Super Red Friday” and launching new campaign of “Weekly Swipe”. Keeping up with the development of mobile internet, the Bank built the new mobile service platform and established its own unique marketing service platform of “Man Tian Xing”, expanding the card issuing channels other than the way of face-to-face.

As at the end of the Reporting Period, the total amount of domestic credit cards in use (including quasi-credit cards) increased by 6.08 million from the beginning of the year to 36.28 million. The accumulated expenditure amounted to RMB1,150.444 billion, representing an increase of 45.40% from the prior year. Credit card overdraft balance amounted to RMB223.593 billion, representing an increase of 36.36% from the beginning of the year while the impairment over credit card overdraft was 1.68%, representing a decrease of 0.03 percentage point from the beginning of the year.

Debit card business

Based on “acquiring customer” and “promoting consumption”, the Bank constantly drove the stable development of the Pacific Bank Card business. The Bank continued to carry out Pacific Bank Card “Step up in Consumption” and “New Year, New SIM” competitions, planned to promote “Red Friday-Special Offers for Community” and “Overseas Shopping, Enjoy Discounts All Over the World” activities and organised marketing campaigns for visual card “Good Voice”, and excellent brand effects were formed for these products as a result, driving the growth of consumption via bank cards. The Bank actively carried out business innovation of the Gold Neighbour Card, cardless debit card, multi-currency debit card and IC card multi-application, and launched several innovative products for mobile payment such as separate IC card and Pacific Gold Wealth Card. As at the end of the reporting period, the number of domestic Pacific debit cards amounted to 98.40 million, representing an increase of 3.63 million from the beginning of the year. The accumulated spending was RMB775.7 billion, representing an increase of 13.51% from the prior year.

3. Treasury Business

- **In 2014, the Group's net interest income from the treasury business sector decreased by 0.74% on a year-on-year basis to RMB20.134 billion.**
- **In 2014, the Group's profit before tax from the treasury business sector increased by 13.55% on a year-on-year basis to RMB20.661 billion.**

In 2014, being flexible in response to series of challenges in the macro market, the Bank continued to strengthen its research and assessment over the macro environment domestically and abroad, dug up the in-depth value of monetary market, wealth and asset management and other businesses, enhanced product innovation and deepened interbank cooperation to drive the stable development of interbank and market business.

(1) Institutional financial service

Placing great effort in developing financial factor market, the Bank became one of the first batch of cross-border clearing banks for “Shanghai-Hong Kong Stock Connect”, one of the first batch of clearing banks to successfully connect with National Equities Exchange and Quotations (“**NEEQ**”) and one of the first batch of banks to start up agency settlement service for CNY Interest Rate Swap and iron ore and steam coal swap in Shanghai Clearing House. In the aspect of interbank collaboration, the Bank has made collaboration contract with 114 banks. The Bank has collaborated with 20,747 banking outlets, representing an increase of 5,064 from the beginning of the year. It has entered into comprehensive cooperation agreement or business agreement with 17 rural credit cooperatives at provincial level. In the aspect of collaboration with securities companies, the Bank has collaborated with 95 securities companies in terms of third-party depository business and achieved market coverage of 96%; it has collaborated with 73 securities companies in terms of financing and securities loans depository business and achieved market coverage of 82%; it has completed stock option system testing with 72 securities companies and achieved market coverage of 95%. In the aspect of the collaboration with futures trading companies, the futures funds amounted to RMB70.161 billion, of which the margin deposits of futures trading companies amounted to RMB31.979 billion. For the “BoCom Tong Ye” interbank off-balance sheet wealth management products, their accumulated sales amounted to RMB895.2 billion, and the Bank has collaborated with more than 200 financial institutions.

(2) Money market transactions

In 2014, on the basis of sound fund procurement to ensure the security of fund payment, the Bank made an effort to broaden channels for the use of funds and steadily increase the yield. During the Reporting Period, the total volume of Renminbi money market transactions by domestic branches was RMB13.08 trillion, among which RMB10.74 trillion was lent to financial institutions and RMB2.34 trillion was borrowed from financial institutions. The total volume of foreign currency money market transaction was USD176.1 billion.

(3) Trading book business

The Bank remained active in both trading and innovation in terms Renminbi bond transaction. During the Reporting Period, the transaction volume of domestic branches in respect of RMB-denominated bonds reached RMB1.73 trillion. The Bank continued to extend the scale of bond transaction, carried out interest rate swap netting transactions as an agency bank at Shanghai Clearing House, formally launched market-making transaction business for the transaction platform of qualified investors of non-financial institutions, and made great effort to develop bond transaction with foreign central banks. In terms of foreign exchange, confronted with the violently fluctuating exchange rate of Renminbi against US dollar, the Bank flexibly adjusted the trading strategy and correctly seized trading opportunities, improving the operating results of proprietary foreign exchange transactions; with correct grasp of the fluctuation pattern of domestic and overseas markets, it extended the development of proprietary business, and continuously enhanced the efficiency in the use of funds by use of diversified portfolios. During the Reporting Period, the domestic banking institutions have achieved USD661.5 billion in inter-bank market exchange foreign transactions.

(4) Banking book investments

The Bank actively seized the opportunity of bond market, strengthened its research on interest rate trend, and adjusted the pace of bond investment, so as to increase bond yield with the assumption of controllable risks and to maintain relatively high liquidity of portfolios. It increased its holdings of bonds in foreign currencies as appropriate, improving the overall profitability of foreign currency assets. During the Reporting Period, the Group's investment in securities amounted to RMB1,159.622 billion, representing an increase of 8.54% from the beginning of the year. The securities investment yield was 4.16%, representing a year-on-year increase of 30 basis points.

(5) Precious metal business

The Bank actively built the “BoCom Precious Metal” brand, and related product of “OTO Gold” was successfully registered as gold bar available for delivery at gold exchange agency. It was qualified as the first batch of trial market makers of gold inquiry business and silver market makers. It launched new trading businesses such as corporate gold agency, physical delivery for corporate customer and international board gold agency transaction. The Bank is among the first to carry out international board gold settlement, transaction and import businesses, and its kiloton depository located in Shanghai is the first and currently the only international board certified gold depository. During the Reporting Period, the domestic branches have achieved RMB98.965 billion in terms of volume for personal precious metal brokerage transactions, representing an increase of 15.09% from the prior year. The accumulated transaction volume of proprietary gold trading increased by 46.01% as compared with the prior year to 845.45 tonnes. As at the end of the Reporting Period, the Bank ranked the second among non-futures company members on precious metal contractual trading volume in Shanghai Futures Exchange, as well as the fifth on proprietary volume in Shanghai Gold Exchange, maintaining an active role in the market. During the Reporting Period, the Bank won several awards including the “The Largest 10 Golding Trading Enterprises in Shanghai Gold Exchange” and “Excellent Financial Member of Shanghai Gold Exchange”.

(6) Asset management business

The Bank was devoted to developing new products, new customers and new areas, resulting in constant growing influence of asset management business. The Bank launched the first active management net value product and the first personal structured wealth management product linked to CSI 300 Index, enriching the wealth management product line. It launched the “BoCom Tong Ye” interbank wealth management products, to improve its capabilities in serving interbank customers. It released the “Three Funds” series of wealth management products mainly targeted at city commercial banks, rural commercial banks and other interbank customers, gradually establishing its brand advantage.

The Bank accelerated the arrangement of Renminbi offshore asset management service, and set up asset management business sub-centre in Hong Kong, to provide Renminbi offshore asset management counselling and service and to drive asset management business both domestically and abroad, striving to become the world’s leading Renminbi asset manager. During the Reporting Period, the Bank launched 12,488 wealth management products and raised funds of RMB15,410.3 billion, representing an increase of 56.83% and 38.95% from the prior year, respectively. Competitiveness of wealth management products was improved significantly, and the Bank kept its leading position in the bank wealth management ranking of “CNBenefit”.

4. “Trinity” Network Construction



- **In 2014, the profit per capita of the Group increased year-on-year by 12.77% to RMB703.1 thousand. As at the end of the Reporting Period, the deposit per outlet (excluding community branch outlets) decreased by 4.09% from the beginning of the year to RMB1.453 billion.**
- **As at the end of the Reporting Period, the total amount of domestic banking branch outlets increased by 95 from the beginning of the year to 2,785, of which 98 were newly opened and 3 low-yield ones were closed down.**
- **As at the end of the Reporting Period, the ratio of self-service bank to branch outlet increased to 1.27:1; The diversion rate of e-channels increased by 4.80 percentage points from the beginning of the year to 83.13%.**
- **As at the end of the Reporting Period, the number of relationship managers in domestic branches increased year-on-year by 4.36% to 22,680.**

Adhering to “BoCom Strategy”, on the basis of classification management of branches and differentiated construction of branches, the Bank carried forward transformation promotion of tier-2 branches, construction of comprehensive outlets, improvement of branch network and pilot run of specialised outlets, and took the strategy of offering physical outlets with features of “making it bigger and more comprehensive or making it smaller and more specialised”; on the basis of e-banking innovation, the Bank accelerated innovation of E-channels and products such as mobile banking, WeChat banking, online banking and self-service banking; on the basis of relationship manager team construction, the Bank continued to increase the proportion of number and abilities of relationship managers, to further enhance the construction and development of “trinity” service channel which comprises of physical outlets, e-banking and relationship managers.

(1) **Physical outlets**

The Bank launched a comprehensive five-year improvement project of grass-root branch outlets, carried out specialised operation, in-site modification or relocation and adjustment of outlets in various ways, focused on integration of outlet functional layout, and continuously improved the outlet products comprehensiveness and business contribution. It carried forward classification construction of grass-root outlets in the following two aspects. On one hand, for “making it bigger and more comprehensive”, the Bank constantly carried forward the construction of comprehensive outlets. As at the end of the Reporting Period, the number of comprehensive outlets increased by 129 from the prior year to 396, where the number of comprehensive flagship outlets increased by 60 from the prior year. On the other hand, for “making it smaller and more specialised”, the Bank actively promoted pilot run of community branch outlets and continued to improve all-inclusive financial system. As at the end of the Reporting Period, 345 community sub-branches have been approved for construction, of which 66 branches were opened for business.

As at the end of the Reporting Period, the total number of domestic outlets increased by 95 from the beginning of the year to 2,785, of which 98 were newly opened and 3 were closed down due to their low yields. With the opening of 15 new branches in the year, the Bank’s network covered 230 cities at or above prefecture level, with the coverage ratio at prefecture and municipal-level cities up 4.49 percentage points from the beginning of the year to 68.86%. In particular, the coverage ratio in West China was up 5.35 percentage points from the beginning of the year to 42.75%.

(2) **E-banking**

The Bank set up the Internet financial business centre, to build features of consumer finance centring on merchant bank. As at the end of the Reporting Period, the number of e-banking transactions in domestic branches exceeded 2.27 billion with the transaction amount exceeding RMB112 trillion. The diversion rate of e-channels was up 4.80 percentage points from the beginning of the year to 83.13%. The Bank was rewarded the “2014 Best China Mobile Bank Award” by China Financial Certification Authority (“**CFCA**”), the “2014 Golden Goblet Prize for Outstanding Innovation in Electronic Finance”, the “2014 Great Wisdom Finance Award for Best Electronic Bank”, the “2014 China Internet Finance Innovation Award”, and etc.

Self-service banking. The Bank promoted the new generation of “Zi Zhu Tong”, realising connection with the “multi-channel service platform” of Unionpay, and it introduced the innovative function which allows customers to get the card back when the card was swallowed by cash self-service machine at all time. The number of self-service machine increased by 3,048 to more than 27,000 in total and the number of self-service bank increased by 1,029 to 13,700 in total in 2014. The ratio of self-service bank to branch outlet increased to 1.27:1. The transaction number of self-service banking increased by 1.47% as compared with the prior year to 688 million, while the transaction amount increased by

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

10.57% as compared with the prior year to RMB1.36 trillion. 319 Intelligent Teller Machines (ITM) have been promoted across the Bank.

Online banking. The Bank integrated the three versions of personal e-banking (SMS PIN code version, standard version and certificate version have merged into one), to optimise customer experience. The bank fully implemented the smart web shield, to improve transaction security. As at the end of the Reporting Period, corporate e-banking customers increased by 13.79% from the beginning of the year, and the number of corporate e-banking transactions increased by 54.33% as compared with the prior year to 321 million. Personal e-banking customers increased by 22.84% from the beginning of the year, and the number of personal e-banking transactions (excluding mobile banking transactions) increased by 67.06% as compared with the prior year to 1.131 billion.

Mobile banking. The Bank kept the advantage of mobile financial products and fully completed the construction of the second generation of mobile banking. The bank expanded social platform banking services by launching WeChat bank, Easy-forex bank and Alipay public account, to provide convenient service to customers. As at the end of Reporting Period, the number of mobile banking customers of the Bank increased by 56.5% from the beginning of the year. The transaction number of the mobile banking increased year-on-year by 99.17% to 125 million. The transaction amount of the mobile banking increased on a year-on-year basis by 28.69% as to RMB1.13 trillion.

E-commerce. The Bank launched different personalised service solutions for large corporate customers in railway cargo transportation and shipping industries, to effectively meet the specific needs of customers. As at the end of the Reporting Period, the number of e-payment merchants reached 23,000. The transaction number of e-payment increased year-on-year by 88.78% to 959 million, while the amount increasing by 203.61% to RMB293.257 billion.

(3) **Relationship manager**

The Bank continued the construction of relationship manager team, broadened the development room of relationship managers and enhanced the education and training of relationship managers, achieving the increase in both the number and abilities of relationship managers. As at the end of the Reporting Period, the number of relationship managers in domestic branches increased by 4.36% from the beginning of the year to 22,680 in total, among which, the number of the corporate relationship managers increased by 3.06% from the beginning of the year to 10,000 while retail relationship managers increased by 5.40% from the beginning of the year to 12,680. The number of employees with a Master's degree or above increased by 6.7% on a year-on-year basis to 2,311, while the number of employees with a Bachelor's degree or above increased by 12.8% on a year-on-year basis to 18,955.

Service improvement: eternal theme of transformative development of BoCom

The relationship between bank and service is as inseparable as that between time and space. Service is the foundation for the Bank's participation in market competition and comprehensive development, and the current and future core competence. The Bank highly values service improvement and takes it as the significant content and long-term strategy of transformation. In recent years, the Bank's service improvement efforts have made remarkable achievements:

- With significant decrease in volume of customer complaints, customer recognition was constantly improved.

Service level was improved by insisting on "customer-orientation", deeply understanding customers' needs, optimising business process and improving customer experience. The volume of customer complaints in 2013 decreased by 54% from 2012 to 4,153; while the volume of customer complaints in 2014 decreased by 11% from 2013 to 3,698.

- Customer satisfaction was rapidly increased and effects of service reputation were initially achieved.

"Customer satisfaction evaluation" was incorporated into the appraisal system of branch service improvement, to drive the branches to compete and constantly increase customer satisfaction level. The Bank ranked the No. 1 in 2014 China Retail Banking Satisfaction Study, and it has been the bank with the fastest improvement of customer satisfaction for two consecutive years.

- The Bank's interbank ranking was improved constantly and service brand influence was expanded.

In the selection of model units for civilised and standardised service in China's banking sector organised by the China Banking Association in 2014, the number of outlets of the Bank awarded "Top 1000" increased by 39 on a year-on-year basis to 127, the highest on record, and ranked the second. The Bank was awarded the "Most Competitive Brand in China's Financial Sector" and the "Best Service Innovation Enterprise in China's Financial Sector" by *Economy*.

- The Bank made efforts on consumer right protection, so as to facilitate service improvement.

The Bank actively carried out events such as "Popularisation of Financial Knowledge", "Service Month of Financial Knowledge" and "Publicity of Financial Knowledge", and consumer appraisal activity of China Consumers Association, to promote financial and consumer right protection knowledge and to fulfill social responsibilities.

5. Internationalisation and Universal Operation

(1) *Internationalisation strategy*



◀ BoCom was appointed as a clearing bank of Renminbi Business in Seoul.

- In 2014, net profits of Group's overseas banking entities increased by 29.36% on a year-on-year basis to RMB3.622 billion, accounted for 5.50% of the Group's net profits, which increased by 1.01 percentage points on a year-on-year basis.
- As at the end of the Reporting Period, the total assets of the Group's overseas banking entities increased by 18.79% from the beginning of the year to RMB617.552 billion, accounted for 9.85% of the Group's total assets, representing an increase of 1.13 percentage points from the beginning of the year.
- As at the end of the Reporting Period, the balance of the impaired loans balance in the Group's overseas banking entities increased by 24.05% from the beginning of the year to RMB196 million, and the impaired loan ratio increased by 0.01 percentage point from the beginning of the year to 0.07%.

In 2014, the Group continued to promote the internationalisation strategy which further improved the domestic and overseas integrated services, gradually improved overseas service network and pushed forward the rapid development of core businesses such as domestic and overseas synergy business, cross-border Renminbi business and offshore services. As a result, the cross-border financial service was enhanced in all aspects.

Overseas service network

In November 2014, the representative office was opened in Toronto. As at the end of the Reporting Period, the Group set up 12 branches or subsidiaries in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, London, Sydney, San Francisco and Taipei, with a representative office and total 54 overseas operating locations

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(excluding the representative office). In addition, subsidiary in Luxembourg and tier-2 branch in Brisbane are undergoing active preparation. The Bank established agency relationship with 1,658 banks in over 142 countries and regions. The Bank signed Renminbi settlement agreements with 119 banks in over 27 countries and regions, and set up 216 cross-border Renminbi inter-bank accounts as well as 72 foreign currency settlement accounts in 17 currencies with 56 overseas financial institutions in over 24 countries and regions.

Domestic and overseas synergy business

The Bank continuously enriched contents of domestic and overseas synergy business and actively built up the global financial service platform and global wealth management platform. The Bank also integrated resource advantages, such as domestic and overseas branches, offshore finance and subsidiaries, and were driven by two wheels, which were “Trade + Capital”, to provide quality financial services integrating domestic and overseas services such as cross-border trade settlement and financing, foreign financing, investment and merger and acquisition, domestic and overseas business consultation and so on. During the Reporting Period, the total transaction amount of the synergy business was USD50.740 billion and its accumulated revenue was RMB6.078 billion, representing a year-on-year increase of 30.04%.

Cross-border Renminbi transaction

Successfully being appointed as a clearing bank of Renminbi Business in Seoul, the Bank conducted its clearing business stably and orderly, with better comprehensive competence of overseas entities. As the first bank to use the funds under the China and South Korea currency swap agreement, the Bank successfully issued the first “China-Singapore” cross-border Renminbi loan to serve the development of real economy. The Bank released a financial service brand, “Rong Yuan Tong”, to provide a full series of cross-border Renminbi financial services in all aspects for customers. The Bank succeeded in first time capital transfer of FT accounts and businesses such as Renminbi-denominated overseas borrowing and Renminbi-denominated foreign debts within Shanghai FTZ, constantly pushing forward cross-border usage and innovation of Renminbi in FTZ. The Bank constantly simplified procedures of Renminbi business for purposes of free and convenient trade and investment. During the Reporting Period, the transaction amount of the cross-border Renminbi settlement by domestic and overseas banking institutions increased by 20.87% on a year-on-year basis to RMB1,099.737 billion.

Offshore financial services

Taking advantage of the offshore business, the Bank absorbed overseas low cost capitals and enhanced risk control in several ways, by means of intra-group business synergy and emphasis on trade financing and refinancing. The Bank reinforced the customer foundation and put great emphasis on the classification management and stratified services to customers, in order to raise the quantity and quality of customer clusters. As at the end of the Reporting Period, the total amount of offshore assets increased by 6.87% from the beginning of the year to USD12.718 billion. The total number of offshore customers increased by 31.55% from the beginning of the year. Both offshore trade financing and international settlement were the first in terms of volume among its peers.

(2) Universal operation



- In 2014, net profits attributable to the parent company from the subsidiaries (excluding Bank of Communications (UK) Co., Ltd.) amounted to RMB1.975 billion, representing a year-on-year decrease of 8.48%, the proportion of which to the net profit of the Group decreased by 0.46 percentage point to 3.00% on a year-on-year basis.
- As at the end of the Reporting Period, the total assets of the subsidiaries (excluding Bank of Communications (UK) Co., Ltd.) increased by 30.16% from the beginning of the year to RMB159.451 billion, the proportion of which to the total assets of the Group increased by 0.48 percentage point to 2.54% from the beginning of the year.
- During the Reporting Period, the total amount of social financing provided by the subsidiaries was RMB433.725 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Based on the business synergy model of “Sector + Segment + Subsidiary”, the Group upgraded the three major abilities of the subsidiaries, development, synergy and competitiveness, focusing on building three special features which were in business based on transaction volume, aviation and shipping finance and wealth management. In addition, the Group deepened strategic collaboration and sharpened the edge in the corresponding industries in order to enhance the market status and profit contribution, and strengthen cross-border, cross-industry and cross-market operating ability and service capabilities. Subsidiaries actively played the role of investing and financing channel and product innovation entity. They also fully blended with the Group’s products, and created a large number of returns to core business of the Group together with their own increased in profits and scales.

- BoCOM Leasing innovated and expanded the Renminbi and foreign currency financing channels. It has issued US dollar and Renminbi bonds and the first asset-backed securities in China’s financial leasing industry, and became the first non-bank financial institution succeeding in signing a contract regarding cross-border Renminbi-denominated overseas borrowing. BoCOM Leasing vigorously promoted the aviation leasing business with the fleet size of 76 aircraft, stably ranked the top three among domestic counterparties. As at the end of the Reporting Period, increase in asset balance and growth of net profit were ranked the top three in the industry, and total leasing asset balance amounted to RMB110.502 billion, representing an increase of 23.96% from the beginning of the year.
- BoCOM International Trust was granted licence for offshore wealth management trustee business, and established the first family wealth management trust. By developing securitisation business on credit assets, BoCOM International Trust became a trust company experienced in issuing both residential mortgage-backed security (RMBS) and collateralised debt obligation (CLO) products. As at the end of the Reporting Period, trust asset increased by 40.66% from the beginning of the year to RMB399.047 billion. The trust compensation rate and the ratio of impaired proprietary assets both remained zero. BoCOM International Trust continued to be awarded the “Outstanding Trust Company” by *Shanghai Securities News*, remained one of the nationwide top 10 trust companies.
- Business diversification strategy of BoCom Schroder has witnessed initial effective results. As at the end of the Reporting Period, BoCom Schroder’s AUM increased by 218% from the beginning of the year to RMB191.758 billion. Performance of parts of public equities stood out. For instant BoCom Alpha was ranked the top 5 among funds of the same kind, BoCom Theme and BoCom 180 Governance ETF were ranked top 1/10 among funds of the same kind. Domestic asset management subsidiaries positively blended into the Group’s wealth management strategy division to provide comprehensive asset management across primary and secondary markets. As at the end of the Reporting Period, the AUM reached RMB129.610 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- BoCommLife Insurance actively got involved in the Group's business system. Insurance policy "BoCom An Dai" which was developed together with the Group achieved sum assured of RMB7.429 billion, and the group accident insurance "BoCom Le Ye" for corporate customers achieved sum assured of RMB56.153 billion. As at the end of the Reporting Period, the realised original premium income increased by 96.43% on a year-on-year basis to RMB2.640 billion.
- With increasing market influence, BoCOM International Trust was awarded by Hexun as Best Chinese-Funded Investment Bank in Hong Kong and Best Brand Broker in Hong Kong, and by Zero2IPO Group as one of Top 10 Lead Managers for Overseas Listed Chinese Enterprises. Acknowledged by professional investment institutions and financial media, the research strength of BoCOM International Trust, in several industries such as strategy, consumption goods and necessities, was highly ranked by *Asia Money* in 2014.
- BoCOM Insurance's premium growth rate and net compensation rate were better than the market average. During the Reporting Period, BoCOM Insurance was ranked A by A.M.Best, an international authoritative insurer rating institution.
- Rural banks achieved a steady growth in their business, and actively supported the development of local economy. As at the end of the Reporting Period, total assets of the four rural banks decreased by 3.65% from the beginning of the year to RMB5.777 billion. During the Reporting Period, their net profits increased by 7.92% on a year-on-year basis to RMB109 million.

Divisional structure and quasi-divisional structure were reformed steadily, with early success achieved

Since the launching of divisional structure reform at the end of 2013, the Bank successively set up treasury business centre, precious metal business centre, offshore financial service centre, notes centre, asset management centre and credit card centre, and thus the reform was basically completed and 6 divisions were established. Additionally, in order to enhance specialisation and marketing of the emerging businesses, the Bank successively established 3 quasi-divisions including investment banking business centre, asset custody centre and private banking business centre. Over a year, the divisional structure reform was making great progress. Their abilities related to synergetic development of divisions and quasi-divisions and business innovation and basic management were constantly improved. The net operating income of profit centres under the 6-division structure increased by 23.44% on a year-on-year basis, and the development model, which was driven by two wheels, namely branches and divisions, was formed.

- The divisional structure was improved and the interest for each party was clarified.

In accordance with the development principle of “focus on operation with selective management, stronger front-office, and simpler middle and back-office”, divisions and quasi-divisions positioned their development, successively adjusted internal structure, strengthened risk compliance control, and allocated more expertise teams. The authorisation management was constantly improved to strengthen the independence of business operation. The Bank actively developed the resource allocation system where operating expenses were linked with income and salaries, wages and bonuses were linked with operating profits, and established responsibility clarification and development goals system. The Bank made more efforts to build up the internal competitive mechanism and tried out project responsibility clarification system and set forth the first responsibility clarification system, in order to fully stimulate business vitality.

- Earning capacity of divisions was enhanced constantly to stimulate business vitality and competitiveness.

The Bank was quite successful in establishing a transactional bank, with a year-on-year increase of 142% in external income from transactional business. The earning capacity of precious metal business continued to rise, and the trading volume of self-operated precious metal was ranked No. 2 in Shanghai Futures Exchange. The trading volume of notes business increased by 21% on a year-on-year basis to a new historic high. The operating income of credit card centre was ranked the top three. The lead managers of securities in investment banking business developed quickly, the underwritten amount increased by 45% on a year-on-year basis. The earning capacity of offshore business greatly enhanced, and the income of its intermediary business was doubled. As the wealth management reached a new stage, off-balance sheet wealth management reached a year-on-year increase of 67.33% in intermediary services. The Bank was in a leading position in pension management, international custody and wealth management custody in terms of scales.

In order to become a first class wealth management bank, the Bank pushed forward and consolidated the reform of divisional and quasi-divisional structures by strengthening assessment, incentive and restriction mechanisms and further improving the authorisation management so as to help different divisions make use of their own advantages to achieve more profits, better reputation and better characteristics for creating a more advantageous business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

III. FINANCIAL STATEMENTS ANALYSIS

1. Analysis on Major Income Statement Items

(1) Profit before tax

During the Reporting Period, the Group's profit before tax increased by RMB5.018 billion, equivalent to a 6.28% increase on a year-on-year basis, reaching RMB84.927 billion. Profit before tax was mainly derived from net interest income and net fee and commission income.

The table below illustrates selected items which contribute to the Group's profit before tax for the periods indicated:

	<i>(in millions of RMB)</i>	
	2014	2013
Net interest income	134,776	130,658
Net fee and commission income	29,604	25,968
Impairment losses on loans and advances to customers	(20,439)	(18,410)
Profit before tax	84,927	79,909

(2) Net interest income

During the Reporting Period, the Group's net interest income increased by RMB4.118 billion on a year-on-year basis to RMB134.776 billion. This accounted for 75.45% of the Group's net operating income and was a major component of the Group's income.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The table below shows the average daily balances, associated interest income and expenses, and annualised average yield or annualised average cost of the Group's interest-bearing assets and interest-bearing liabilities during the periods indicated:

(in millions of RMB unless otherwise stated)

	For the twelve months ended 31 December 2014			For the twelve months ended 31 December 2013		
	Average balance	Interest income/ (expense)	Annualised average yield/(cost) (%)	Average balance	Interest income/ (expense)	Annualised average yield/(cost) (%)
Assets						
Balances with central banks	838,772	13,074	1.56	798,207	12,581	1.58
Due from banks and other financial institutions	495,386	18,881	3.81	424,267	15,358	3.62
Loans and advances to customers and receivables	3,400,175	211,400	6.22	3,179,693	194,847	6.13
Include: Corporate loans and receivables	2,500,848	151,990	6.08	2,449,486	147,106	6.01
Individual loans	787,991	54,564	6.92	641,576	44,000	6.86
Discount bills	111,336	4,846	4.35	88,631	3,741	4.22
Investment securities	1,085,207	45,154	4.16	944,953	36,506	3.86
Total interest-bearing assets	5,720,454 ³	285,283 ³	4.99	5,193,648 ³	254,177 ³	4.89
Total non-interest-bearing assets	234,279			198,804		
TOTAL ASSETS	5,954,733³			5,392,452³		
Liabilities and Shareholders' Equity						
Due to customers	3,984,424	93,826	2.35	3,764,700	80,671	2.14
Include: Corporate deposits	2,681,507	62,274	2.32	2,519,241	54,233	2.15
Individual deposits	1,302,917	31,552	2.42	1,245,459	26,438	2.12
Due to banks and other financial institutions	1,304,396	54,341	4.17	1,110,862	44,028	3.96
Debt securities issued and others	143,510	5,566	3.88	102,133	3,935	3.85
Total interest-bearing liabilities	5,333,244 ³	150,507 ³	2.82	4,824,223 ³	123,519 ³	2.56
Shareholders' equity and non-interest bearing liabilities	621,489			568,229		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	5,954,733³			5,392,452³		
Net interest income		134,776			130,658	
Net interest spread¹			2.17³			2.33³
Net interest margin²			2.36³			2.52³
Net interest spread¹			2.23⁴			2.40⁴
Net interest margin²			2.42⁴			2.58⁴

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Notes:

1. This represents the difference between the annualised average yield on total average interest-bearing assets and the annualised average cost of total average interest-bearing liabilities.
2. This ratio represents the net interest income to total average interest-bearing assets.
3. This excludes the impact of wealth management products.
4. This excludes the impact of wealth management products and takes into account the tax exemption on the interest income from investments in government bonds.

During the Reporting Period, the Group's net interest income increased by 3.15% on a year-on-year basis. However, due to the gradual acceleration of interest rate liberalisation, the net interest spread and net interest margin has both decreased by 16 basis points, on a year-on-year basis to 2.17% and 2.36% respectively.

The table below illustrates the impact of changes in balances and interest rates on the Group's interest income and interest expense. The changes are based on the changes in average daily balance and interest rates on interest-bearing assets and interest-bearing liabilities.

(in millions of RMB)

	Comparison between 2014 and 2013		
	Increase/(decrease) due to		Net
	Balance	Interest rate	increase/(decrease)
Interest-bearing assets			
Balances with central banks	641	(148)	493
Due from banks and other financial institutions	2,575	948	3,523
Loans and advances to customers and receivables	13,516	3,037	16,553
Investment securities	5,414	3,234	8,648
Changes in interest income	22,146	7,071	29,217
Interest-bearing liabilities			
Due to customers	4,702	8,453	13,155
Due to banks and other financial institutions	7,664	2,649	10,313
Debt securities issued and others	1,593	38	1,631
Changes in interest expense	13,959	11,140	25,099
Changes in net interest income	8,187	(4,069)	4,118

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the Reporting Period, the Group's net interest income increased by RMB4.118 billion on a year-on-year basis, of which the increase of RMB8.187 billion was due to changes in the average balances of assets and liabilities, while the decrease of RMB4.069 billion was due to changes in the average rate of return and average cost ratio.

① **Interest income**

During the Reporting Period, the Group's gross interest income increased by RMB29.217 billion, equivalent to increase of 11.27% on a year-on-year basis to RMB288.509 billion.

A. Interest income from loans and advances to customers and receivables

Interest income from loans and advances to customers and receivables was accounted for the largest component of the Group's interest income. During the Reporting Period, interest income from loans and advances to customers and receivables increased by RMB16.553 billion, equivalent to increase of 8.50% on a year-on-year basis to RMB211.400 billion. This is largely due to the increase in the average balance of loans and advances to customers and receivables.

B. Interest income from investment securities

During the Reporting Period, interest income from investment securities increased by RMB8.648 billion, equivalent to an increase of 23.69% on a year-on-year basis to RMB45.154 billion. This was due to the Group's continuous improvement on the allocation of bond investment structure, which led to a year-on-year increase of 30 basis points on the average yield of investment securities.

C. Interest income from balances with central banks

The balances with central banks mainly included balances in statutory reserves and in excess reserves. During the Reporting Period, the average interest income balances with central banks increased by RMB493 million, equivalent to an increase of 3.92% on a year-on-year basis to RMB13.074 billion. The growth of the average interest income balances with central banks was primarily due to the year-on-year increase in average customer deposits by 5.08%.

D. Interest income from balances due from banks and other financial institutions

Total interest income from balances due from banks and other financial institutions increased by RMB3.523 billion, equivalent to an increase of 22.94% on a year-on-year basis to RMB18.881 billion. This was driven by the increase in the scale of the Group's interbank transactions, which was raised by 16.76% on a year-on-year basis.

② **Interest expense**

During the Reporting Period, the Group's interest expense increased by RMB25.099 billion, equivalent to an increase of 19.51% on a year-on-year basis to RMB153.733 billion.

A. Interest expense on balances due to customers

Customer deposits were the Group's main source of funding. During the Reporting Period, interest expense on customer deposits increased by RMB13.155 billion, equivalent to an increase of 16.31% on a year-on-year basis to RMB93.826 billion. Such component accounted for 61.03% of total interest expense. The increase in interest expense on customer deposits was mainly due to an increase in deposit scale and under the influence of interest rate liberalisation, which led to the year-on-year average cost ratio increased by 21 basis points.

B. Interest expense on balances due to banks and other financial institutions

During the Reporting Period, interest expense on balances due to banks and other financial institutions increased by RMB10.313 billion, equivalent to an increase of 23.42% on a year-on-year basis to RMB54.341 billion. This is mainly due to the year-on-year increase in average cost ratio by 21 basis points.

C. Interest expense on bond issuance and others

During the Reporting Period, the interest expense on bond issuance and other interest bearing liabilities increased by RMB1.631 billion, equivalent to an increase of 41.45% on a year-on-year basis to RMB5.566 billion. This is mainly due to a year-on-year increase in average balance of bond issuance by 40.51%.

(3) Net fee and commission income

Net fee and commission income was a major component of the Group's net operating income. During the Reporting Period, the Group had continuously accelerated the transformation of its profit-making model and moved towards a business model with diversified revenue streams. The Group's net fee and commission income increased by RMB3.636 billion, equivalent to an increase of 14.00% on a year-on-year basis to RMB29.604 billion. Management service and bank card business were the main drivers of the Group's intermediary businesses.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The table below illustrates the major components of the Group's net fee and commission income for the periods indicated:

	<i>(in millions of RMB)</i>	
	2014	2013
Settlement service	2,480	2,312
Bank cards	10,424	8,916
Investment banking	7,643	7,700
Guarantee and commitment	3,588	3,460
Management service	6,417	5,146
Agency service	1,754	1,533
Others	608	338
Total fee and commission income	32,914	29,405
Less: Fee and commission expense	(3,310)	(3,437)
Net fee and commission income	29,604	25,968

Fee income from settlement service was RMB2.480 billion, which is similar as last year.

Fee income from bank card services increased by RMB1.508 billion, equivalent to an increase of 16.91% on a year-on-year basis to RMB10.424 billion. This is mainly due to the substantial increase in card issuance, spending volume as well as transaction volume at self-service facilities.

Fee income from investment banking services was RMB7.643 billion, which is similar as last year.

Fee income from guarantee and commitment services increased by RMB128 million, equivalent to an increase of 3.70% on a year-on-year basis to RMB3.588 billion. This increase was mainly due to the rapid development of the off-balance sheet business such as guarantee.

Fee income from management services increased by RMB1.271 billion or 24.70% on a year-on-year basis to RMB6.417 billion, mainly driven by the increase in the fee income from assets custody services and wealth management products.

Fee income from agency services increased by RMB221 million or 14.42% on a year-on-year basis to RMB1.754 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(4) **Operating costs**

The Group continuously enhanced cost management. During the Reporting Period, the Group's operating cost increased by RMB6.670 billion, equivalent to an increase of 14.09% on a year-on-year basis to RMB54.020 billion, while its cost-to-income ratio was 30.52%, representing a year-on-year increase of 0.84 percentage point.

(5) **Impairment losses on loans and advances to customers**

During the Reporting Period, the Group's impairment losses on loans and advances to customers increased by RMB2.029 billion, equivalent to an increase of 11.02% on a year-on-year basis to RMB20.439 billion. The increase in impairment loss comprised of (1) collective assessment increased by RMB1.905 billion on a year-on-year basis to RMB9.006 billion; and (2) individual assessment increased by RMB124 million on a year-on-year basis to RMB11.433 billion. During the Reporting Period, credit cost ratio increased by 0.04 percentage point on a year-on-year basis to 0.60%.

(6) **Income tax**

During the Reporting Period, the Group's income tax expense increased by RMB1.444 billion, equivalent to an increase of 8.28% on a year-on-year basis to RMB18.892 billion. The effective tax rate of 22.24% is lower than the statutory tax rate of 25%, which is mainly due to the tax exemption on interest income from national bonds and local government bonds held by the Group, as referred to the relevant tax provisions.

The table below illustrates the Group's current tax and deferred tax for the periods indicated:

	<i>(in millions of RMB)</i>	
	2014	2013
Current tax	19,560	20,846
Deferred tax	(668)	(3,398)

2. Analysis on Major Balance Sheet Items

(1) **Assets**

As at the end of the Reporting Period, the Group's total assets were RMB6,268.299 billion, representing an increase of RMB307.362 billion, equivalent to an increase of 5.16% from the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The table below illustrates the outstanding balances (after impairment allowances) of the principal components of the Group's total assets and their proportion to the total assets as at the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2014		31 December 2013	
	Balance	Proportion (%)	Balance	Proportion (%)
Loans and advances to customers	3,354,787	53.52	3,193,063	53.57
Investment securities	1,162,876	18.55	1,070,677	17.96
Cash and balances with central banks	938,055	14.97	896,556	15.04
Due from banks and other financial institutions	525,033	8.38	566,429	9.50
Total assets	6,268,299		5,960,937	

① **Loans and advances to customers**

During the Reporting Period, the Group reasonably controlled the amount, direction and pace of credit disbursements, which brought a balanced and steady growth in loans. As at the end of the Reporting Period, the Group's total loans and advances to customers were RMB3,431.735 billion, which represents an increase of RMB165.367 billion, or 5.06% from the beginning of the year, among which the increase in RMB loans from domestic branches amounted to RMB186.072 billion or 6.53% from the beginning of the year.

Loans concentration by industry

During the Reporting Period, the Group actively supported the upgrade of industrial structure as well as vigorously promoted the optimisation of its own business structure.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The table below illustrates the distribution of the Group's loans and advances to customers by industry as of the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2014		31 December 2013	
	Balance	Proportion (%)	Balance	Proportion (%)
Mining	98,886	2.88	92,180	2.82
Manufacturing				
– Petroleum and chemical	120,727	3.52	118,958	3.64
– Electronics	77,856	2.27	62,278	1.91
– Steel	38,760	1.13	41,342	1.27
– Machinery	110,486	3.22	115,893	3.55
– Textile and clothing	39,389	1.15	40,757	1.25
– Other manufacturing	237,455	6.92	251,127	7.69
Electricity, gas and water production and supply	132,234	3.85	132,942	4.07
Construction	107,521	3.13	106,004	3.25
Transportation, storage and postal service	388,980	11.33	386,822	11.84
Telecommunications, IT services and software	12,291	0.36	10,445	0.32
Wholesale and retail	333,003	9.70	391,772	11.99
Accommodation and catering	30,536	0.89	26,708	0.82
Financial services	45,693	1.33	32,593	1.00
Real estate	207,566	6.05	201,300	6.16
Services	233,905	6.82	206,910	6.33
Water conservancy, environmental and other public utilities	138,903	4.05	130,777	4.00
Education, science, culture and public health	59,833	1.74	49,174	1.51
Others	74,806	2.18	56,633	1.73
Discounted bills	74,548	2.17	60,443	1.85
Total corporate loans	2,563,378	74.69	2,515,058	77.00
Mortgage loans	529,871	15.44	458,356	14.03
Credit card overdraft	223,593	6.52	163,969	5.02
Medium-term and long-term personal business loans	67,253	1.96	58,548	1.79
Short-term personal business loans	14,365	0.42	24,539	0.75
Car loans	1,084	0.03	1,976	0.06
Others	32,191	0.94	43,922	1.35
Total personal loans	868,357	25.31	751,310	23.00
Gross amount of loans and advances to customers before impairment allowances	3,431,735	100.00	3,266,368	100.00

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at the end of the Reporting Period, the balances of the Group's corporate loans increased by RMB48.320 billion, equivalent an increase of 1.92% from the beginning of the year to RMB2,563.378 billion. The four most concentrated industries were manufacturing, transportation, storage and postal service and wholesale and retail business and services industries, which accounted for 61.66% of total corporate loans.

As at the end of the Reporting Period, the balances of the Group's personal loans increased by RMB117.047 billion or 15.58% from the beginning of the year to RMB868.357 billion. The proportion of personal loans as a percentage to total loans and advances to customers increased by 2.31 percentage points from the beginning of the year to 25.31%.

Loan concentration by borrowers

As at the end of the Reporting Period, the largest single borrower of the Group accounted for 1.50% of the Group's net capital, and the total loans of top 10 customers accounted for 11.46% of the Group's net capital, which were in compliance with the regulatory requirements.

The table below illustrates the loan balances to the top 10 single borrowers of the Group as at the dates indicated:

(in millions of RMB unless otherwise stated)

		31 December 2014	
Type of industry		Loan balances	Percentage of total loans and advances (%)
Customer A	Transportation, storage and postal service	8,782	0.26
Customer B	Others	7,593	0.22
Customer C	Transportation, storage and postal service	7,177	0.21
Customer D	Water conservancy, environmental and other public utilities	7,134	0.21
Customer E	Manufacturing	6,954	0.20
Customer F	Transportation, storage and postal service	6,663	0.19
Customer G	Transportation, storage and postal service	6,326	0.18
Customer H	Services	5,724	0.17
Customer I	Services	5,344	0.16
Customer J	Water conservancy, environmental and other public utilities	5,270	0.15
Total		66,967	1.95

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Loan concentration by geographical locations

The Group's credit customers are mainly located in the Yangtze River Delta, the Bohai Rim Economic Zone and the Pearl River Delta. As at the end of the Reporting Period, the proportion of loans and advances to customers in these three regions accounted for 32.16%, 21.06% and 7.46%, respectively. The loan balance increased by 2.88%, 8.30% and 2.47%, respectively from the beginning of the year.

Loan quality

As at the end of the Reporting Period, the impaired loans ratio was 1.25%, representing an increase of 0.20 percentage point from the beginning of the year. The provision coverage ratio of impaired loans decreased by 34.77 percentage points from the beginning of the year to 178.88%.

The table below illustrates certain information on the Group's impaired loans and loans overdue by more than 90 days as at the dates indicated:

(in millions of RMB unless otherwise stated)

	31 December 2014	31 December 2013
Impaired loans	43,017	34,310
Loans overdue by more than 90 days	44,614	31,814
Percentage of impaired loans to gross amount of loans and advances to customers (%)	1.25	1.05

Loan customer structure

As at the end of the Reporting Period, and according to the Bank's internal risk rating system, the loans and advances to corporate customers by domestic branches of class 1 to class 8 accounted for 91.19% of total loans and advances to corporate customers and decreased by 2.24 percentage points from the beginning of the year. Loans and advances to corporate customers of class 9 to class 12 accounted for 4.59% and increased by 0.88 percentage point from the beginning of the year. Loans and advances to corporate customers in default category accounted for 1.59% and increased by 0.58 percentage point from the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

② Investment securities

As at the end of the Reporting Period, the Group's net balance of investment securities increased by RMB92.199 billion or 8.61% from the beginning of the year to RMB1,162.876 billion. Return on investment securities reached a relatively satisfactory level of 4.16%, which is due to the Group benefiting from the reasonable allocation and continuous optimisation of the investment structure.

Distribution of the Group's investment securities

The table below illustrates the distribution of the Group's investment securities by financial asset classification for the purpose of holding and by type of issuers as of the dates indicated:

- By financial asset classification for the purpose of holding

(in millions of RMB unless otherwise stated)

	31 December 2014		31 December 2013	
	Balance	Proportion (%)	Balance	Proportion (%)
Financial assets at fair value through profit or loss	105,702	9.09	59,083	5.52
Investment securities – loans and receivables	211,588	18.20	119,726	11.18
Investment securities – available-for-sale	210,016	18.06	221,253	20.66
Investment securities – held-to-maturity	635,570	54.65	670,615	62.64
Total	1,162,876	100.00	1,070,677	100.00

- By type of issuers

(in millions of RMB unless otherwise stated)

	31 December 2014		31 December 2013	
	Balance	Proportion (%)	Balance	Proportion (%)
Governments and central banks	345,199	29.68	319,452	29.84
Public sector entities	20,119	1.73	18,363	1.72
Banks and other financial institutions	425,079	36.56	450,323	42.05
Corporate entities	372,479	32.03	282,539	26.39
Total	1,162,876	100.00	1,070,677	100.00

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at the end of 2014, financial bonds held by the Group amounted to RMB425.079 billion, which includes policy bank bonds of RMB299.879 billion, and banks and non-bank financial institutions bonds of RMB125.200 billion, accounted for 70.55% and 29.45% respectively.

Top 10 financial bonds held by the Group

(in millions of RMB unless otherwise stated)

Bond names	Face value	Annual interest rate (%)	Maturity date	Impairment allowance
2011 banks and non-bank financial institutions bond	5,000	5.50	26/10/2021	–
2014 policy bank bond	4,000	5.98	18/08/2029	–
2012 banks and non-bank financial institutions bond	3,800	4.70	29/06/2022	–
2012 policy bank bond	3,500	4.30	14/02/2017	–
2013 banks and non-bank financial institutions bond	3,200	4.95	17/06/2023	–
2012 policy bank bond	3,000	4.20	28/02/2017	–
2013 policy bank bond	3,000	3.89	10/01/2016	–
2013 policy bank bond	2,900	4.16	10/01/2018	–
2013 policy bank bond	2,800	4.10	26/02/2020	–
2014 banks and non-bank financial institutions bond	2,600	5.00	08/12/2015	–

(2) Liabilities

As at the end of the Reporting Period, the Group's total liabilities increased by RMB255.241 billion or 4.61% from the beginning of the year to RMB5,794.694 billion. Among this balance, customer deposits decreased by RMB128.165 billion from the beginning of the year, which accounted for 69.54% of total liabilities, and representing a decline of 5.52 percentage points from the beginning of the year. Balance due to banks and other financial institutions increased by RMB281.712 billion, equivalent to increase of 25.01% and accounted for 24.30% of total liabilities, which represents an increase of 3.96 percentage points from the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Customer deposits

Customer deposits were the Group's main source of capital. As at the end of the Reporting Period, the Group's customer deposits balance decreased by RMB128.165 billion or 3.08% from the beginning of the year to RMB4,029.668 billion. In terms of the Group's customer structure, the proportion of corporate customer deposit accounted for 66.17%, representing a decrease of 1.22 percentage points from the beginning of the year. The proportion of personal deposits was 33.69%, representing an increase of 1.20 percentage points from the beginning of the year. In terms of deposit tenure, the proportion of time deposits increased by 3.01 percentage points from the beginning of the year to 48.09%, while the proportion of demand deposits decreased by 3.03 percentage points from the beginning of the year to 51.77%.

The table below illustrates the Group's corporate and personal deposits as of the dates indicated:

	<i>(in millions of RMB)</i>	
	31 December 2014	31 December 2013
Corporate deposits	2,666,271	2,801,769
Include: Corporate demand deposits	1,395,657	1,382,914
Corporate time deposits	1,270,614	1,418,855
Personal deposits	1,357,902	1,350,956
Include: Personal demand deposits	542,124	491,353
Personal time deposits	815,778	859,603

3. Analysis on Major Cash Flow Items

As at the end of the Reporting Period, the Group's cash and cash equivalents increased by RMB70.232 billion from the beginning of the year to RMB313.626 billion.

The net cash inflows from operating activities decreased by RMB89.468 billion on a year-on-year basis to RMB49.715 billion, mainly due to the decrease in the cash inflows from customer deposits year-on-year.

The net cash outflows from investing activities decreased by RMB148.141 billion on a year-on-year basis to RMB23.351 billion, mainly due to the decrease in net cash outflows from investment securities.

The net cash inflows from operating activities increased by RMB37.641 billion on a year-on-year basis to RMB43.698 billion, mainly due to the increase in the cash inflow from the issuance of bonds and certificates of deposit.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4. Segment Analysis

(1) Operating results by geographical segments

The table below illustrates the profit before tax and net operating income from each of the Group's geographical segments for the periods indicated:

(in millions of RMB)

	2014		2013	
	Profit before tax	Net operating income ¹	Profit before tax	Net operating income ¹
Northern China	15,222	24,675	12,266	22,741
North Eastern China	3,343	8,431	3,416	7,267
Eastern China	25,334	63,595	20,203	58,140
Central and Southern China	12,441	27,324	15,090	29,171
Western China	7,284	14,424	8,908	15,510
Overseas	6,202	9,340	3,846	6,322
Head Office	15,101	30,837	16,180	25,919
Total²	84,927	178,626	79,909	165,070

Notes:

- Includes net interest income, net fee and commission income, dividend income, net gains/(losses) arising from trading activities, net gains/(losses) arising from de-recognition of investment securities, insurance business income, share of result of an associate and other operating income.
- Including profit attributable to non-controlling interest.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(2) Deposits and loans and advances by geographical segments

The table below illustrates the Group's deposits and loans and advances balances by geographical segments as at the dates indicated:

(in millions of RMB)

	31 December 2014		31 December 2013	
	Deposit balances	Loans and advances balances	Deposit balances	Loans and advances balances
Northern China	534,997	524,090	704,233	517,921
North Eastern China	235,562	177,888	272,889	166,065
Eastern China	1,543,041	1,235,779	1,592,514	1,217,836
Central and Southern China	950,701	638,822	878,557	597,291
Western China	469,019	348,089	445,875	315,507
Overseas	293,982	276,983	261,751	279,242
Head Office	2,366	230,084	2,014	172,506
Total	4,029,668	3,431,735	4,157,833	3,266,368

(3) Operating results by business segments

The Group's four main business segments are: 1) corporate banking, 2) personal banking, 3) treasury business and 4) other business. The corporate banking segment was the primary source of profit for the Group, accounting for 66.19% of the Group's net profit before tax.

The table below illustrates the Group's total income from external parties and profit before tax from each of the Group's segments for the periods indicated:

(in millions of RMB)

	Total income from external parties		Profit before tax
	2014	2013	2014
Corporate banking	153,204	179,890	56,214
Personal banking	105,312	85,905	6,611
Treasury business	70,392	26,946	20,661
Other businesses	6,761	4,400	1,441
Total	335,669	297,141	84,927

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

5. Capital Adequacy Ratio

As at the end of Reporting Period, the Group started to use Advanced Measurement Approach of Capital Management to calculate capital adequacy in accordance with the “*Administrative Measures for the Capital Management of Commercial Banks (Trial)*” issued by the CBRC, in which the both corporate and retail credit risk exposure were assessed by the basic internal rating-based approach. The market risk was assessed by internal model method, and the operational risk was assessed by standardised approach.

The table below sets forth the Group capital adequacy ratios calculated pursuant to the “*Administrative Measures for the Capital Management of Commercial Banks (Trial)*” and “*Administrative Measures for the Capital Adequacy Ratio of Commercial Banks*” issued by the CBRC, respectively. The Bank’s capital adequacy ratios have fulfilled the regulatory requirements.

(in millions of RMB unless otherwise stated)

31 December 2014

Pursuant to the “*Administrative Measures for the Capital Management of Commercial Banks (Trial)*” issued by the CBRC in calculation of relevant ratio^{Note:}

Item	The Group	The Bank
Net Core Tier 1 Capital	470,456	449,898
Net Tier 1 Capital	470,466	449,898
Net Capital	584,502	563,985
Core Tier 1 Capital Adequacy Ratio (%)	11.30	11.14
Tier 1 Capital Adequacy Ratio (%)	11.30	11.14
Capital Adequacy Ratio (%)	14.04	13.96

Pursuant to the “*Administrative Measures for the Capital Adequacy Ratio of Commercial Banks*” issued by the CBRC in calculation of relevant ratio

Item	The Group	The Bank
Core Capital Adequacy Ratio (%)	11.02	10.97
Capital Adequacy Ratio (%)	13.94	13.80

Notes:

- Pursuant to the “*Administrative Measures for the Capital Management of Commercial Banks (Trial)*”, the above calculation excluded BoCOM Insurance and BoCommLife Insurance.
- Upon the approval from regulatory authorities, the Group started to use the *Advanced Measurement Approach of Capital Management* for measurement of capital adequacy ratio from end of June 2014.

For further information on the Bank’s capital measurement, please refer to the 2014 Capital Adequacy Ratio Report of Bank of Communications Co., Ltd. at the website of SSE, the website of HKEx or the official website of the Bank.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

6. Leverage Ratio

The Group

(in millions of RMB unless otherwise stated)

Calculated in accordance with “*The Leverage Ratio Rules for Commercial Banks*”
which issued by CBRC (2011, No. 3)^{Notes}

Item	As at 31 December 2014
Tier 1 capital	472,816
Deduction of Tier 1 capital	2,350
Net Tier 1 capital	470,466
Balance of adjusted on-balance sheet assets	6,300,471
Balance of adjusted off-balance sheet items	1,418,426
Balance of adjusted on- and off-balance sheet assets	7,716,548
Leverage ratio (%)	6.10

Notes:

1. Leverage ratio is calculated based on the relevant regulatory requirement, net Tier 1 capital is consistent with the Group calculation of capital adequacy ratio.
2. Balance of adjusted on-balance assets includes derivatives and other on-balance assets shall be calculated according to the Current Exposure Method.
3. Unconditional revocable commitments on off-balance sheet and other off-balance sheet items shall be calculated applying the 10% credit conversion factor (CCF).
4. Balance of adjusted on- and off-balance sheet assets = Balance of adjusted on-balance sheet assets + Balance of adjusted off-balance sheet items – Deduction of Tier 1 capital.

7. Other Financial Information

The relevant information disclosed below is set out in accordance with the requirements of the CSRC.

(1) Fair value measurement related items

The Group established a market risk management system under the ultimate responsibility and leadership of the Board of Directors. It established an internal control framework based on fair value measurement, in order to satisfy the relevant internal control and information disclosure requirements. It also gradually and orderly improved the systematic management of its market risk, by connecting all the relevant front, middle and back office departments and encompassing fair value acquisition, measurement, monitoring and verification. The Group will continue to learn from the experience of its peers and international best practices to further optimise its internal control system in connection with fair value measurement. The Group primarily uses quoted market prices as the fair value of financial instruments that are traded in active markets. For financial instruments that are not actively trade in the market. It used valuation models and observable market parameters or comparison to third party quotes, which are reviewed by the relevant risk management departments.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The table below illustrates the fair value measurement related items of the Group in 2014:

(in millions of RMB)

Item	Opening balance	Gains/ (Losses) on changes in fair value for the year	Cumulative fair value gains/ (losses) recognised in equity	Impairment losses (accrued)/ reversed for the year	Closing balance
Financial assets					
1. Financial assets at fair value through profit or loss	59,083	1,089	-	-	105,702
2. Derivative financial assets	14,227	(3,571)	-	-	10,656
3. Available-for-sale financial assets	221,253	24	247	(24)	210,016
Total financial assets	294,563	(2,458)	247	(24)	326,374
Investment properties	194	5	-	-	7,276
Total	294,757	(2,453)	247	(24)	333,650
Total financial liabilities ^{Note}	(28,640)	6,516	-	-	(36,234)

Note: Including financial liabilities at fair value through profit or loss, derivative financial liabilities and debt securities issued.

(2) Guarantees and related commitments

(In millions of RMB)

	31 December 2014	31 December 2013
Financial guarantees and credit related commitments	1,534,527	1,550,719
Include: Loan commitments and credit related commitments	616,190	491,287
Acceptances	556,965	612,830
Letters of guarantee	310,500	376,222
Letters of credit	50,872	70,380
Operating Lease commitments	6,581	7,738
Capital expenditure commitments	9,287	3,034

(3) Assets pledged

The Bank's assets pledged are mainly collateral under repurchase and short selling agreements with banks and other financial institutions. Save as disclosed above, there are no other significant assets pledged to be disclosed during the Reporting Period.

IV. RISK MANAGEMENT

In 2014, facing the complex and austere risk situation, the Bank focuses on the risk management goals characterised by "full coverage, whole process, responsibility tracing and risk management culture." The Bank promoted further development of comprehensive risk management in a focused, routed, efficient and all-around manner to ensure stability of overall level of asset quality. All the risk achieved positive results.

1. Risk Appetite

The Board of Directors established "stability, balance, compliance and innovation" as the overall risk appetite of the Bank, and defined its risk tolerance from four dimensions of return, capital, quality and risk rating, and further set 23 detailed risk limit indicators in six risk areas concerning credit, market, operation, liquidity, interest rate, and country (economy) risk, in order to control the overall risk changes on a regular basis. To adapt and implement the business transformation and strengthen risk management requirements, the overdue asset ratio, non-standard assets ratio and highly-liquid asset ratio of quasi-credit and wealth management business were included in the risk tolerance system this year in order to strengthen the control towards the overall risk of credit business.

During the Reporting Period, the Bank determines to operate stably and lawfully through implementing the basic policies of risk management and strengthening the constraints on the risk compliance baseline. The Bank fully implemented the risk prevention and control responsibility, striving to maintain a dynamic balance between risk and return to achieve a balanced development among business scale, quality and profitability. In 2014, the implementation of the Bank's overall risk appetite was fair as all the indicators were controlled within the tolerance level, except the deterioration in loan provision rate and non-performing loan provisioning coverage ratio, all other risk limit indicators were controlled within limits.

As at the end of 2014, the Group's provision rate was 2.24% and non-performing loan provisioning coverage ratio was 178.88%, which were both below the targets set at the beginning of the year. The main reason was that the Bank was facing the asset quality pressures from economic downturn for the three period superimposed. The Bank therefore utilised the government policy on bulk disposal of non-performing loans, to increase amount written-off, actively expedited the disposal of non-performing loans, and utilised the provision for losses to improve non-performing loan structure. The Bank believes that realising the full risk exposure through increasing loans written-off; provision for impairment losses and accelerating of disposal of risky assets are in line with regulatory requirements for dynamic provisioning during the economic downturn. It is also effective to strengthen our asset quality and financial basis for reducing the impact from the economic restructuring to the Bank. The earlier we expose the risk and take measures, the more active and effective the operation and management will be.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Risk Management Framework

The Board of Directors has the ultimate responsibility and supreme decision-making authority for the Bank's risk managements monitors and controls the Bank-wide risk management matters through its delegation of the Risk Management Committee. The Bank's Senior Management established a "1+3+2" Risk Management Committee, which the Enterprise Risk Management Committee is dedicated to implementing the Board's risk management strategy and risk appetites, based on the principle of "going horizontal to the edges, going vertical to the bottom, and covering all aspects", to perfect the management system, to optimise the working system, to standardise the management policies, and to perform evaluations on the effectiveness of risk management function in an all-around way. Three sub-committees have been established under the Enterprise Risk Management Committee, namely the Credit Risk Management Committee, the Market and Liquidity Risk Management Committee, and the Operational Risk Management and Compliance (Anti Money-Laundering) Committee; two business review committees, namely the Credit/Non-credit Review Committee and the High-risk Assets Review Committee have also been established and performed their respective duties. Each tier-1 branch, overseas branch and subsidiary referenced to the aforementioned framework, according to the actual operation and management needs, correspondingly established simplified and practical risk management committees. The Bank ensured the full implementation of risk management procedures through the mechanism of "leadership and execution, supervision and reporting" between the Risk Management Committee and sub-committees, and among committees of the Head Office and branches, forming a unified and coordinated risk management system.

During the Reporting Period, the Bank further regulated the operation of each Risk Management Committee, strengthened decision-making and supervisory functions, discussed and examined more projects, promoted effective work deployment and implemented policies timely and precisely. In 2014, from the Head Office level, the Risk Management Committee and its sub-committees held 20 meetings, and more than 70 projects have been discussed and examined.

During the Reporting Period, the Bank focused on promoting business risk compliance constructions in small-scale middle offices, published specific opinions to standardise set-up of small-scale middle offices for business risk compliance, promoted 14 divisions, quasi-divisions and front offices of the Head Office to set up small-scale middle offices, and brought forward the business risk control. Moreover, the Bank established the risk management and constraint mechanism with assessment of internal management as a starting point, and deducted points during the performance assessment regarding irregular actions in operation and management, so as to tighten up risk management responsibility.

3. Risk Management Tool

The Bank valued great importance to the establishment and application of risk management tools, information systems and econometric models. During the Reporting Period, the Bank strengthened the ability to control credit risk by the big data searching technique, and enhanced monitoring of middle office over market risk, interest rate risk of banking book and liquidity risk, improved the role of risk management tool in business management, and strengthened real risk control over accounting risk, fraud risk and money laundering risk through information system so as to continuously improve the effectiveness of risk management.

The Bank innovated the way of data mining and information integration and enhanced the quality of risk control over assets. The Bank effectively integrated the great effect of big data on data mining and analysis with the Bank's traditional risk screening. Due to expanded business scope, scattered operation regions and innovated operation mode, the Bank actively changed its risk monitoring mode, got hold of explicit and implicit equity relationship, control relationship and related-party guarantee relationship in all respects, monitored information about enterprises' asset value, investing activities, cash flow and counter-parties from all directions in real-time, in order to achieve more accurate identification, positioning and warning of risks.

During the Reporting Period, the Bank's *Advanced Measurement Approach of Capital Management* had officially been approved by regulatory authorities, making the Bank one of the first batch of commercial banks implementing *Advanced Measurement Approach of Capital Management* at the Bank level and the Group level. This revealed that the risk measurement, risk management and capital management of the Bank had reached practice standards of international advanced banks. It was in a leading position domestically among all banks. The Bank had established a complete system for implementation of *Advanced Measurement Approach of Capital Management*, and obtained first-mover advantage in terms of policy procedure building, module developing and managing, data accumulation and specification, system design and implementation, business management and assessment application, independent verification and audit, professional training and many other areas. With the approval from regulatory authorities, the Bank can adopt primary internal rating-based approach for enterprise risk exposures, internal rating-based approach for retail risk exposures, internal model-based approach for market risks and standard approach for operation risks to measure capital requirements.

During the Reporting Period, the Group continued to optimise the econometric models and management systems which covered credit risk, market risk, operational risk and other risks. The Group consistently implemented monitoring and analysis of model operation, properly launched model optimisation, completed comprehensive and independent verification of credit and market risk econometric systems, consistently improving and upgrading the research and development of advanced methods, implemented stress tests, and extensively and deeply applied econometric results in customer access, quota management, risk monitoring and control as well as performance appraisal. The operation principle of "capital constraint business and the balance between risk and return" was further consolidated.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

4. Credit Risk Management

Credit risk is one of the major risks that Bank faces, mainly contributed by loan business, treasury business, international business, on-balance-sheet wealth management and direct investment business. The Bank adopted stringent requirements on the management focusing on investment guidance, investigation and reporting, business review and approval, fund distribution, duration management, overdue non-performing loans management and other aspects, so that the Bank managed to contain the credit risk within an acceptable range to strike a balance between risk and return.

The Bank actively promoted the building of centralised credit granting management framework centering on “One BoCom for One Customer”, so as to ensure the credit review covered traditional banking businesses as well as other transform and emerging business such as investment banking and wealth management. The Bank successfully completed the restructuring of retail loan business hierarchy, strengthened the front office retain loan sales’ professionalism and pro-activeness, and improved independence and effectiveness of credit granting review and approval, and post-lending risk management. The Bank strengthened the coordination of the Group’s risk management, forming a unified investment policy, accessing standards, management specification, risk response and action plans.

The Bank continued to refine and standardise credit investment to intensify support from the real economy. The Bank continued to maintain a high volume of credit disbursement, optimise the credit structure. The increased volume of main credit was mainly invested to fields in compliance with the characteristics of national economy and the transformation direction. The growth rates of loans in the aspect of safeguarding livelihood and upgrading consumption were higher than the average growth rate of all loans.

The Bank paid high attention to credit risks in key areas and continuously strengthened duration management. It implemented comprehensive investigation in key areas such as property, financing platform and guarantee chains (circles), determined potential risks, developed control and management measures and followed up the implementation. The Bank strengthened clustered risk management and control and implement one-to-one strategy for the Group’s key risk customers. It implemented the “grey name list” management, with appropriate risk management strategy and active follow-up in order to improve the risk management and mitigate potential risks.

Moreover, the Bank deepened the mitigation of potential risks in key branches, making remarkable achievements in reducing the volume of high risk loans and obtaining sufficient buffer and restructuring projects. The Bank comprehensively strengthened the management of reducing the volume of high risk loans and obtaining sufficient buffer. In the whole year, it reduced credit loans

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

of RMB74.9 billion and obtained credit loans of RMB52.3 billion. The special working group of the Head Office was directly responsible for mitigating risk customers of key branches, substantially reducing the balance to RMB11.7 billion of risk business of the aforementioned key branches in the whole year. The Bank increased the collateralisation ratio of the risk assets by adjusting and optimising the restructuring policy and strengthening the restructuring.

The Bank strengthened the disposal and termination of non-performing loans. Through utilising a variety of tactics, with key branches and significant projects as the focus, the Bank made efforts to strengthen the collection of non-performing loans by clarifying the key points and promoting work in all areas by drawing upon the experience gained on key points.

During the Reporting Period, the Bank anticipated the risk situation of credit assets in advance through stress tests. The Bank set the stress assumptions based on the decline growth rate of domestic GDP which are 7%, 6.75% and 6% respectively. The Bank carried out the stress tests in the beginning of 2014, which indicated that the non-performing loan ratios under three domestic GDP growth situations would exceed 1.5%, 2% and 3% respectively, and small enterprise loans, loans for corporate trade and credit card overdraft were seriously influenced. Therefore, in the year of 2014, the Bank further strengthened the restructuring of assets allocations and mitigation of risk loans, carried out aggregate volume management and control, reduced the volume of high risk loans and obtained sufficient buffer in the aspects of overcapacity industry and real estate, as well as steel trading and wholesale which consist of prominent risks, and effectively alleviate the pressure of the assets through a series of targeted risk management and control measures including strengthening the collection of non-performing loans, loss write-off and bulk disposal.

According to the regulatory requirements as stipulated in the “*Guidelines on Risk-Based Loan Classification*” issued by the CBRC and the level of risk, the Bank implemented a five-category system on credit assets that includes pass, special mention, sub-standard, doubtful and loss, of which, the latter three categories, namely sub-standard, doubtful and loss are regarded as non-performing loan categories, which is based on the judgement on the possibility of repayment on principle and interest in a timely manner. For corporate credit assets, the Bank has relied on the core regulatory definition as the basis and references its internal assessment and individual impairment to define detailed risk attributes and measurement standards of the five categories. The Bank also ensured that sufficient consideration is given to the various factors affecting the quality of credit assets and prudent practices are carried out in risk classification. For retail credit assets (including credit cards), the Bank has adopted a five-category system based on the aging of overdue status and type of guarantees provided.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at the end of 2014, the balance of non-performing loans of the Group was RMB43.017 billion/1.25%, increasing by RMB8.707 billion/0.20 percentage point from the beginning of the year. As at the end of 2014, the breakdown of the Group's five categories of loan classification stipulated by the Chinese banking regulatory authorities were as follows:

(in millions of RMB unless otherwise stated)

Categories	31 December 2014		31 December 2013		31 December 2012	
	Balance	Proportion	Balance	Proportion	Balance	Proportion
		(%)		(%)		(%)
Pass	3,296,815	96.07	3,173,011	97.14	2,851,980	96.76
Special mention	91,903	2.68	59,047	1.81	68,324	2.32
Total performing loan balance	3,388,718	98.75	3,232,058	98.95	2,920,304	99.08
Sub-standard	16,103	0.47	13,778	0.42	13,269	0.46
Doubtful	18,680	0.54	13,586	0.42	9,793	0.33
Loss	8,234	0.24	6,946	0.21	3,933	0.13
Total non-performing loan balance	43,017	1.25	34,310	1.05	26,995	0.92
Total	3,431,735	100.00	3,266,368	100.00	2,947,299	100.00

In 2014, the Bank's migration rate of special-mentioned loan was increased as compared with the prior two years, which was mainly resulted from the increase of downward non-performing customers, revealing the current asset quality objectively.

Loan migration rates (%)	2014	2013	2012
Pass	2.59	1.58	2.00
Special mention	24.43	23.18	7.99
Sub-standard	52.64	37.02	36.61
Doubtful	18.90	17.96	22.63

Note: Data calculated pursuant to the "Notice on the Distribution of the Regulatory Indicator and Calculation Formula for off Field Investigation" issued by the CBRC.

In 2015, influenced by the macro-economic downturn and the "Three Period Superimposed", the bank will be subject to severe risk management and control situation and continue to maintain the asset quality for the reason that the risks will spread from industrial chain with overcapacity to upstream and downstream industries, from eastern coastal China to central and western China, from small and micro enterprises to large and medium enterprises.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

5. Market Risk Management

The market risks exposed by the Bank primarily consist of interest rate risk and foreign exchange risk. Through establishing a market risk management system with clear duties and responsibilities, sound policies and procedures, comprehensive measurement system and timely monitoring and analysis, the Bank used quota management, risk hedging and a variety of methods to control the market risks within an acceptable range and maximised profit at the same time.

With regard to trading portfolios, the Bank conducted the Value at Risk (VaR) analysis, to measure and monitor potential position loss arising from changes in interest rates, exchange rates and other market prices. The Bank pro-actively implemented the market risk management strategy including using the historical simulation to calculate VaR of Renminbi and foreign currency trading portfolios (99% confidence interval, the holding period of 10 trading days), and monitoring the quota implementation of domestic and overseas branches every day. Regarding the interest rate risk of the banking book, the Bank conducted its monitoring activities via gap analysis and net interest income simulations. In addition, through stress testing, pricing management and asset allocations, the Bank strove to keep its risks under control.

Alerted by the recent default event such as the ultradian debt default event, in 2014, the Bank strengthened the investment and post-investment management of credit bonds and further improved counterparties' credit risk management. Although the two-way fluctuation of Renminbi exchange rate was widened in 2014, the Bank strictly implemented the foreign exchange exposure limit to ensure the foreign exchange risk was manageable and controllable. Details of interest rate risks and exchange rate risks of the Bank are set out in Notes 3.2.4 and 3.2.5 of the consolidated financial statements.

6. Liquidity Risk Management

The Bank's liquidity risk management is aimed at full identification, effective measurement, continuous monitoring and proper control of the liquidity risks of the entire bank and its products, business lines, business links and institutions at all levels, so as to ensure the Bank has sufficient funds to carry out normal operations and perform matured debts and other payment obligations, whether in normal business environment or under stress. During the Reporting Period, the Bank prudently implemented the *Administrative Rules on Liquidity Risk Management of Commercial Banks (Provisional)* issued by the CBRC and continued with consolidation and improvement of liquidity risk management, achieving effective balance among security, liquidity and profitability.

The Bank continuously improved the liquidity risk system. According to the Administrative Rules on Liquidity Risk Management issued by the CBRC, the Bank established the related system based on the following three levels and formed a systematic liquidity risk management system, ensuring its guiding nature at the macro level and operational nature at the micro level. Firstly, the Board of Directors introduced the Liquidity Risk Management Policy, laying the foundation for a well-established liquidity risk management system that was compatible with the Bank's business

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

scale, nature, complexity and risk status. Secondly, the Management evaluated and revised the Liquidity Risk Management Measures in response to the external regulatory requirements, internal structural set-up adjustment, the “one-click” settlement and the requirements for FTZ liquidity management. Thirdly, a series of specific measures were developed, including measures on liquidity risk management of classification and emergency plan of liquidity risk and Free Trade Accounting Unit, as well as provisional measures on management of liquidity risks of non-bank subsidiaries.

The Bank continued to strengthen the prospective analysis on macro-economic situation, monetary policy and market interest rate trend, and it carried out overall planning to improve the forecast of the positions of various businesses and communication effectiveness of temporary movement in funds in the daytime according to the anticipation of liquidity exposure, in combination with future business plans. It established and improved the liquidity management system, adjusted and optimised asset and liability structure and reinforced the monitoring, to smoothen the liquidity and actively improve profitability at the same time.

During the Reporting Period, the Bank took the following measures to proactively improve the liquidity risk management tools. The first thing was to improve the liquidity risk index system. It reviewed and formed the three-level liquidity risk index system which consists of the Board of Directors’ liquidity risk preferences, the Management’s liquidity risk index list, and the daily monitoring, early warning and limitation of risks. The second one was to use funds transfer pricing (“FTP”) tool to balance the liquidity and profitability of funds. The Bank strengthened market research and judgment and business analysis, and increased the frequency of FTP adjustment to make FTP more market-oriented. The third thing was to organise liquidity risk emergency exercise based on the liquidity risk emergency plan, to remain acute in emergency response.

During the Reporting Period, the Bank successfully completed the building of liquidity risk-related system and project as follows. The first thing was to put the Renminbi fund management system for the second generation of payment into use successfully. On the one hand, multi-point settlement was changed to one-point settlement, improving the Bank’s payment and settlement capabilities to a certain extent, which is conducive to increase customers’ payment efficiency. On the other hand, full use was made of various liquidity risk management system tools, to effectively prevent and mitigate the Bank’s liquidity risks. The second thing was to actively cooperate with and effectively carry forward the establishment of clearing bank of Renminbi Business in Seoul. After research, the Bank established the liquidity risk management system of clearing bank of Renminbi Business in Seoul, completed the modification of fund management system of the clearing bank and actively conducted the related business guidance and training, to effectively promote internationalisation of Renminbi on the basis of consolidating its own liquidity risk embankment.

7. Operational Risk Management

It is inevitable that the Bank bears operational risks, and it requires large-scale investments in order to carry on the effective management of operational risks. The Bank emphasises on reasonable control for the investment cost and opportunity cost of the operational risk management.

The Bank has established a set of unified management policy system for operational risk, which clarified operational risk management basis. It ensured and regulated the work process related to operational risks and the control of self-assessment, management of operational risk events and key risk indicators monitoring.

The Bank vigorously promoted the integration of operational risk management and business management. It continued to establish and improve the three-level assessment mechanism including the initial risk assessment over business cycles, and the self-assessment over key processes and re-assessment. It also involved identifying the weak controls and designed corresponding action plans to mitigate risks. The Bank enriched the key indicators of operation risk, forming a multi-level monitoring mechanism that covered the Head Office and branches and enhancing the capacity of warning risks such as external fraud. It improved the completeness of reporting and management of operational risk events, and continued to strengthen and follow up the implementation and rectification. With regard to issues occurred in operational risk events and in risk and control assessment, any problems reflected by changes in key risk indicators, or current important businesses, the Bank would continue to investigate the issue through typical cases analysis. The Bank aimed to identify any deficiencies in management, and proposed targeted rectification measures and pushed the optimisation of business procedures and management mechanism. The Bank assessed the Bank-wide outsourced risk management for the first time. It developed business continuity plan with regard to key business products all over the Bank and improved the Bank's ability of emergency management in response to business interruption. In virtue of system refinement, special inspections and optimisation procedures, the Bank effectively managed and controlled operational risks in key fields such as operation, personal finance, electronic bank, asset custody, wealth management and investment banking. The Bank developed management policy and basic methods to standardise the information technology risk management system.

The Bank continued to promote overseas institutions and subsidiaries including Hong Kong Branch, New York Branch, Bank of Communications (UK) Co., Ltd. and BoCOM International Trust to develop recovery and disposal plan in accordance with the requirements of local and the industry's regulatory authorities under the Group's plan framework, to effectively cope with various requirements of regulatory authorities in the course of cross-industry and cross-border operations, and improve the capacity for risk management and control of consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

8. Legal Compliance and Anti-money Laundering

The Bank strove to establish a sound legal compliance management system that runs smoothly, operates efficiently, manages across industries and borders, and provides a variety of methods and tools and high quality services in a highly compliant environment. The Bank also targeted to achieve a thorough management process of legal compliance including identification, prevention, monitoring, alert, settlement, resolution, inspection and supervision for legal and compliance risks, as well as to provide strong legal support and protection for the innovation, transformation and development of the Bank, making sure the compliance of the operation.

The Bank continued to improve the legal compliance management system and mechanism. It established a thorough process regarding compliance risk management and monitoring mechanism, which strengthened the compliance assessment and guidance regarding branches and subsidiaries home and abroad. The Bank standardised and intensified the whole Bank's seal management, and to foster the innovation of quasi-credit business, regulation interpretation, justice network examination and control, as well as experimental work on anti-money laundering. During the Reporting Period, the Bank was granted the honour of "Pioneer Enterprise of Nationwide Banks on Legal Risk Management" by the China Banking Association.

The Bank continued to strengthen the anti-money laundering management. It comprehensively searched and analysed the weak points of anti-money laundering and developed the Bank-wide improvement plan correspondingly. The Bank has launched experimental work on suspicious transactions and enhanced the anti-money laundering risk management on cross-border business. The Bank implemented special investigation on anti-terrorism and anti-money laundering risk, and strengthened the anti-terrorism financing risk prevention and promoted the construction of anti-money laundering mechanism in FTZ.

9. Reputational Risk

The Bank continued to improve the reputational risk management to effectively lower the risk of negative comments from stakeholders on the Bank caused by operational management, other behaviours and external events, and properly handled different types of reputational risk events.

The Bank continued to improve reputational risk management system and mechanism. The Bank would strengthen the recognition, warning, and assessment and monitoring of reputational risks. It aim to track and monitored the appearance and changes of the reputational risk factors in real time, promptly adjusted coping strategy and measures to make sure negative public opinions were actively responded and the reputational risk was under control.

10. Cross-industry, Cross-border and Country Risk Management

The Bank has established cross-industry, cross-border risk management system with "unified management, clarified responsibilities, complete system tools, IT support, risk quantification, and consolidation management". The Bank promoted subsidiaries and overseas banking entities, taking

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

into account both the Group's unified requirements and their respective regulatory requirements during risk management, in order to prevent additional risks during cross-industry and cross-border operations.

As at the end of December 2014, country (economy) risk exposure of the Group after risk transfer was RMB398.747 billion. The country (economy) risk exposure accounted for 6.36% of total assets of the Bank, among which 62.41% were located in Hong Kong region. The country (economy) risks were controllable.

The Bank strengthened the Group's risk interaction management, and obtained remarkable achievements in the Group's collaboration risk management. It actively promoted the bank-leasing company risk control collaboration to form a management mode in compliance with the characteristics of bank-leasing company interaction. The Bank strengthened the cross-industry, cross-border information sharing, organised overseas branches and subsidiaries to participate in the Group's key risk investigation, and implemented the Group's risk monitoring and collaboration, as well as disposal collaboration. The Bank set forth country risk management policy, and strengthened country risk quota management.

During the Reporting Period, the Group did not detect any insider trading that would damage the sustainable operation in respect of regulatory arbitrage, risk transfer, transactions without genuine purposes and non-market-based approaches.

V. OPERATIONS OF MAJOR SUBSIDIARIES

1. BoCOM Schroder

BoCOM Schroder was set up in August 2005 with a registered capital of RMB0.2 billion. It is jointly owned by the Bank, Schroder Investment Management Limited and China International Marine Containers (Group) Co., Ltd., accounting for 65%, 30% and 5%, respectively. The business scope includes the business of fund raising, fund sales, asset management, and other services approved by the CSRC.

At the end of 2014, BoCOM Schroder's total assets was RMB191.758 billion and realised an annual net profit of RMB155 million. The separately managed account maintained RMB75.234 billion daily on average throughout 2014.

As at the end of 2014, BoCOM Schroder had a total of 240 employees among which 26% are researchers and traders, 33% are marketing staff, 22% are operations staff, 6% are supervisory and risk control personnel, and 13% remained are support department staff. 95% of total employees held Bachelor's degree or higher academic degree. Additionally, BoCOM Schroder controls BOCOM Schroder Asset Management Company Limited and BOCOM Schroder Asset Management (Hong Kong) Company Limited which have 27 employees in total (excluding part-time employees). BoCOM Schroder implemented a perfect performance appraisal system combined with a scientifically sound remuneration system. The total amount of remuneration comprised of

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

basic salary, annual bonus and performance bonus which shall be determined based on their performance and contribution to the company. BoCOM Schroder has set up an education and training management system concentrated on business development. The training management system is provided to all staff of BoCOM Schroder. BoCOM Schroder had no left employee and retiree for whom BoCOM Schroder shall bear any expense.

2. BoCOM International Trust

BoCOM International was set up in October 2007 with a registered capital of RMB3.765 billion. 85% of shares are held by the Bank and 15% held by Hubei Province Finance Bureau. The business scope includes an array of trust services; investment and financing, mergers and acquisitions, corporate finance and financial advisory services as a founder of investment fund or fund management company; securities underwriting services entrusted by the State Council; intermediary services, consulting and credit investigation; generation custody business and safe deposit box service, interbank lending and borrowings, loans, leasing, investment based on existing assets; guarantee; interbank lending and borrowings; and other businesses approved by the CBRC.

At the end of 2014, the amount of fiduciary trust managed by BoCOM International Trust was RMB393.203 billion, while the amount of AUM reached RMB399.047 billion. The average volume of existing trust plans was RMB347.802 billion, and the annual net profit was RMB603 million.

As at the end of 2014, BoCOM International Trust had a total of 178 employees, of which 59.6% are front office staff and 98.3% of employees held Bachelor's degrees or higher academic degree. BoCOM International Trust implemented a performance appraisal and remuneration system which is fair for the staff and attractive to outsiders. In order to accelerate company development and enhance the human resource quality, BoCOM International Trust implemented and conducted the annual training plan. BoCOM International Trust established a perfect and scientific training system which is appropriate to all staff in all levels and beneficial for the company's development and employee individual career goals. Such training system promoted the company stronger through personnel development.

3. BoCOM Leasing

BoCOM Leasing was set up in December 2007 with a registered capital of RMB6 billion. The business scope includes finance leasing business (comprising general import and export business under finance lease, including but not limited to sale of vehicles and project machinery), accepting guaranteed deposit of the lessee, transfer of lease receivables to commercial banks, issuing financial bonds, interbank lending and borrowings, foreign exchange loan, disposal of residual value, business and financial consulting, and other businesses approved by the CBRC.

At the end of 2014, its total assets were RMB113.842 billion, total leasing balance was RMB110.502 billion, and net profit was RMB1.370 billion.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As at the end of 2014, BoCOM Leasing had a total of 169 employees, including 6 senior executives, 93 front office staff, and 70 back and middle office staff. 91% of total employees held Bachelor's degree or higher academic degree.

4. BoCOM Life Insurance

BoCOM Life Insurance was set up in January 2010 with a registered capital of RMB1.5 billion. 62.5% of shares are held by the Bank and 37.5% held by Commonwealth Bank of Australia. The business scope includes life insurance, health insurance, accidental injury insurance and reinsurance businesses (excluding statutory insurance) in the Shanghai administrative region and in the provinces, autonomous regions and municipalities where the branches were set up.

At the end of 2014, BoCOM Life Insurance's total assets were RMB8.085 billion and net assets were RMB1.453 billion and its annual net profit was RMB5.5359 million. Total premium income in 2014 was RMB2.640 billion and premium income from new businesses was RMB2.268 billion.

As at the end of 2014, BoCOM Life Insurance had a total of 919 employees, including 431 sales staff, 55 finance-related staff. 919 employees held college degree or higher academic degree, in which 560 employees held Bachelor's degree and 76 employees held a Master's degree or higher academic degree. In 2014, BoCOM Life Insurance, further concentrated on transformation development, made great efforts to optimise organisational structure and position system and to set up matching remuneration and performance system. BoCOM Life Insurance comprehensively fulfilled requirements of the Head Office and itself for "endeavour to intensify construction of leading groups at all levels and teams of leaders, relationship managers and professionals", and as required by development of cadre talents, constantly innovated and improved the education and training system, introduced new ideas, implemented key projects, and put forth effort to expand profundity and scope of training.

5. BoCOM International

BoCOM International was set up in May 2007 with a registered capital of HKD2 billion. It was set up under the business restructuring and integration program of BOCOM International Securities Limited. It has three subsidiaries in Hong Kong, namely BOCOM International (Asia) Limited, BOCOM International Securities Limited and BOCOM International Asset Management Limited. It also established wholly-owned Bank of Communications International (Shanghai) Equity Investment Management Limited in Shanghai. The business scope includes stock brokerage services, investment banking, asset management and various financial and agency businesses.

At the end of 2014, its total assets were HKD6.291 billion and its total revenue reached HKD785 million, with annual net profit of HKD23.68 million.

As at the end of 2014, BoCOM International had a total of 232 employees, of which 29% are back office employees and 71% are front and middle office employees. 41% of total employees held a bachelor degree and 47% held a Master's degree or higher academic degree. Total amount

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

of remuneration consists of basic salary and bonus. The amount of bonus is determined by the company performance in the current year, department performance and employee individual performance. In light of requirements of employee development and continuous learning, BoCOM International held employee training to promote business development and increase employees' skills.

6. BoCOM Insurance

As a wholly owned subsidiary of the Bank, BoCOM Insurance was set up in November 2000 with a registered capital of HKD0.4 billion. The business scope includes general insurance businesses as defined in the Insurance Companies Ordinance, Chapter 41 of the Laws of Hong Kong.

At the end of 2014, BoCOM Insurance's net profit amounted to HKD10.48 million for the year, and net assets and total insurance assets were HKD617 million and HKD520 million, respectively.

As at the end of 2014 BoCOM Insurance had a total of 41 employees, of which 63% are front-office employees. 51% of total employees held a bachelor degree or higher academic degree. The salary was paid once a month and the amount of bonus of determined by performance.

7. Dayi BoCOM Rural Bank

Dayi BoCOM Rural Bank was set up in September 2008 with a registered capital of RMB60 million and is 61% owned by the Bank. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, proxy settlement and vicarious cashing and other businesses approved by the CBRC.

At the end of 2014, its total assets were RMB943 million, total due to customers were RMB528 million, total loans amounted to RMB733 million and its annual net profit reached RMB9.32 million.

As at the end of 2014, Dayi BoCOM Rural Bank had a total of 48 employees of which 98% hold a college degree or higher academic degree. Employee benefits consist of basic salary and performance payment, with performance assessment at year end. The current training plan is conducted according to employee overall business performance and conducted each month as business development needed. All staffs shall attend the training plan. At present, Dayi BoCOM Rural Bank had no left employee and retiree for whom Dayi BoCOM Rural Bank shall bear any expense.

8. Anji BoCOM Rural Bank

Anji BoCOM Rural Bank was set up in April 2010 with a registered capital of RMB150 million and is 51% owned by the Bank. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, proxy settlement and vicarious cashing and other businesses approved by the CBRC.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

At the end of 2014, its total assets were RMB1.686 billion, total due to customers were RMB1.184 billion, total loans amounted to RMB1.236 billion and its annual net profit reached RMB20.54 million.

As at the end of 2014, Anji BoCOM Rural Bank had a total of 75 employees of which 97.33% hold a college degree or higher academic degree, and no one resigned or retired. Employee benefits consist of basic salary and performance payment, with performance assessment at year end. Anji BoCOM Rural Bank conducted education and training courses by itself or entrust BoCOM to conduct.

9. Xinjiang Shihezi BoCOM Rural Bank

Xinjiang Shihezi BoCOM Rural Bank was set up in May 2011 with a registered capital of RMB70 million (paid-in capital of RMB100 million) and is 70% owned by the Bank. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, proxy settlement and vicarious cashing and other businesses approved by the CBRC.

At the end of 2014, its total assets were RMB2.213 billion, total due to customers were RMB1.870 billion, total loans amounted to RMB1.500 billion and its annual net profit reached RMB71.95 million.

As at the end of 2014, Xinjiang Shihezi BoCOM Rural Bank held a total of 72 employees, mainly consisting of integrated counters, sales, technical staffs, financial staffs, administrative staffs and manager staffs. 68.05% of total employees held a bachelor degree or higher academic degree. No one resigned or retired. Remuneration policy uphold the three principles, including “We should determine post based responsibility and determine salary amount based on post”, “we should give priority to efficiency with consideration on fairness”, and “The remuneration policy should be beneficial for steady development and be an incentive for a long time.”

10. Qindao Laoshan BoCOM Rural Bank

Qindao Laoshan BoCOM Rural Bank was set up in September 2012 with a registered capital of RMB150 million and is 51% owned by the Bank. The business scope includes taking deposits from the general public, short, medium and long-term lending, domestic settlement, bill acceptance and discount, interbank lending and borrowings, credit cards, proxy settlement and vicarious cashing and other businesses approved by the CBRC.

At the end of 2014, its total assets were RMB0.935 billion, total due to customers were RMB0.663 billion, total loans amounted to RMB0.662 billion and its annual net profit reached RMB6.89 million.

As at the end of 2014, Qindao Laoshan BoCOM Rural Bank had a total of 48 employees of which 89.58% hold a college degree or higher academic degree, and no one has resigned or retired. Employee benefits consist of basic salary and performance payment, with performance assessment at year end. Training courses were conducted each month primarily by the Bank and partially by third parties according to the training plan formulated in the beginning of the year.

VI. STRATEGIC COOPERATION



◀ The 10-year Cooperation Exchange between BoCom and HSBC were jointly held in Beijing on 16 September 2014

In 2014, strategic cooperation between BoCom and HSBC came to the 10th year. In September 2014, 10-year Cooperation Exchange were jointly held by the two parties to celebrate achievements made by the two banks' cooperation in the past ten years and to summarise the experience in the successful cooperation, so that new energy and driving force could be consolidated and contributed to a more comprehensive and deeper strategic cooperation in the future. At present, the "go global" strategy of Chinese enterprises and the internationalization of RMB create a lot of opportunities for cooperation between the two banks. At a new starting point, the two banks further expand the scope and profundity and improve the effectiveness and efficiency of cooperation through close communication and coordination and positive exploration and innovation.

Communication among top management. During the Reporting Period, the two banks, under the framework of cooperative communication mechanism, held 8 informal top meeting of President/ Executive President, 1 summit conference and 3 Executive Chairman regular meetings where domestic and oversea economic and financial situations, cooperation achievements of two parties and future cooperation objectives and measures were fully discussed and consensus was achieved, which made the two banks' strategic cooperation much deeper.

Optimisation of cooperation mechanism. In 2014, the two banks, based on the actual demands, constantly enriched contents of strategic cooperation by further innovating cooperation mechanism, improving cooperating model and expanding the scope of cooperation.

- Establish staff exchange for cooperation projects. In order to push the cooperation in "1+1 global financial cooperation", the two banks intensified team communication and mutual trust, researched the establishment of staff exchange mechanism, promoted each other's understanding of customer preferences, product channels and risk control, and unearthed potential cooperation opportunities, and initiated the cooperation from top to bottom.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- Hold co-marketing activities regarding target customers. Regarding target customers of the “go global” strategy of Chinese enterprises, the two banks held co-marketing activities to promote complementary advantages and successful cooperation cases of two parties in respects such as channel, product and service, to advocate the brand of BoCom-HSBC “1+1” Cooperation, and to enhance customer recognition.
- Establish communication mechanism for financial regulatory policies. In recent years, deep-going changes in domestic regulatory circumstances are common challenges that operation and operation of banks face up. Given these, the two banks established the communication mechanism of regulatory policies, and in 2014, held the seminar for the first time to discuss differences between domestic and oversea regulatory policies and future tendency and to learn more from and refer more to each other.

Technical exchange and cooperation. In 2014, the two banks continuously push the technical experience exchange and sharing through projects in and communication out of the plan. In proficiency tanning for senior management, the two banks expanded the training for BoCom by HSBC to exchange between them, and strengthened communication and mutual trust between the two banks’ core teams. Throughout the year, the two banks conducted 67 exchange projects in and out of the plan, involving retail business cooperation model, business development and risk control in free trade zone, global cash management, operation management and procedure optimization, leasing business development and risk control, fund consignment and custody, etc.

Cooperation in key projects. In 2014, the two banks, adhering to “cooperation priority to each other”, enhanced cooperation in key fields, with great achievements made.

- “1+1 global financial cooperation” was pushed forward swiftly. The two banks, tightly grasping strategic opportunities brought by the “go global” strategy of Chinese enterprises, utilised complementary advantages in customers, network and capital to strengthen information sharing and mutual project referral and to enhance cooperation in trade finance, export buyer’s credit, domestic and overseas syndicated loans and overseas debt issuance of Chinese enterprises, at an amount of cooperation over RMB10 billion.
- Oversea cooperation areas were further expanded. Promoting such a cooperation mode that was successful in Hong Kong to UK, Germany, South Korea and Singapore, the two banks cooperated in fields such as debt issuance, syndicated loans, issuance of certificates of deposit, cross-border RMB settlement to obtain a win-win situation.
- The share of international settlement cooperation rose sharply. The two parties kept close cooperation in US dollar settlement and forfaiting, and the cooperation amount increased by 89% and 71% respectively in 2014 on a year-on-year basis.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- Cooperation of custody and consignment of fund had good momentum. Seizing development opportunities of new businesses such as QDII and RQFII, the two banks strengthened mutual customer recommendation, and the share of custody cooperation increased by 21% on a year-on-year basis. Meanwhile, BoCom succeeded in consignment of a fund newly issued by HSBC Jintrust, with a year-on-year increase of 38% in the consignment scale.

Looking in the future, in the trend that China's economy is blending in global economy, the two banks constantly looked for new profit conjunction points and cooperation growth points to achieve the goal of "1+1>2".

VII. OUTLOOK

Looking forward to 2015, the domestic and overseas economic situation remains complicated and uncertain, the global economy is characterised by "slow growth, unbalance and riskier", and China's economic growth has come to such a new normal where growth speed slows down, growth momentum changes and growth way changes. In 2015, the banking sector remains in a severe business environment where macro-economic growth slows down, interest rate liberalisation further speeds up, regulatory standards of the banking sector become increasingly stricter, the pressure on risk prevention and control is larger, and internet finance is emerging suddenly. Meanwhile, the transformation and upgrade of China's economy and further conduction of all reform measures direct the development of banking sector towards a new road, bringing new development opportunities. Development coexists with risks, and opportunities with challenges. Keeping a close eye on changes in economic situation, monetary policies, regulatory rules and market circumstances, the Group will be determined and confident to respond, take action and seek improvement with stability. Besides, the Group, driven by reform deepening and themed on transformation development, will seek new achievements in the new normal. To be specific, the key areas for the coming year are as follows:

Firstly, the Group shall adapt to the "New Normal" of economic development, grasp opportunities brought by national strategies, and constantly improve the service for the real economy. The Group shall seize opportunities brought by three national strategies, "One Belt and One Road", "Integration of Beijing-Tianjin-Hebei" and Yangtze River Economic Zone, make innovation in policies regarding regional credit development, assist in upgrade of industrial structure, and support state key projects and infrastructure construction. The Group shall maintain increase in aggregate amount of credit at an appropriate speed, and optimize the allocation model of credit resources. The Group shall greatly expand the quasi-credit innovation business to meet demands of real economy through several channels.

Secondly, the Group shall form a powerful development engine by pushing implementation of deep reform. The Group shall, by further deepening the reform of large commercial banks and carrying out performance remuneration mechanism, establish and improve development responsibility system of operating units at all level and improve risk accountability system. The Group shall take divisional structure reform as the breakout and core, to stimulate operating vitality and strengthen market competitiveness. The Group shall balance risks, gains and capital through shift of connotative operation model and growth pattern, and make efforts to achieved the development with low capital consumption and low cost growth.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Thirdly, the Group shall adhere to “BoCom Strategy” and enhance the cross-industry and cross market operating ability. Based on synergy between domestic and oversea branches, the Group shall comprehensively serve for the enterprises going global through good performance in businesses for both home and abroad, related to domestic and foreign currencies, on and off shore, and in free trade zone, according to requirements of “One BoCom for One Customer”. The Group shall, by exploring the new model of synergistic development between divisional structure and oversea branches, expand asset management, financial market and asset custody to foreign countries, so as to form a worldwide business operation coherent network. The Group shall arrange subsidiaries categorised as trust, asset management and investment banking as a whole, make good use of cross-border and cross-industry financing licences and exert the Group’s synergistic effect, to form mutual complementarity with banking services.

Fourthly, the Group shall comprehensively intensify risk control and stick to the bottom line of risk. The Group shall constantly improve the comprehensive risk control system with “full coverage, whole process, responsibility tracing and risk management culture” as the core, push forward the reform of risk governance system, improve and optimise functions of procedures of risk control module, and establish the asset risk control system with all non-credit and off-balance-sheet exposures covered. The Group shall constantly move forward in restructuring credits and reducing the volume of high risk loans and obtaining sufficient buffer and restructuring, control risks well in key fields, and spare no efforts to stabilize asset quality, so as to enhance the risk control ability.

Fifthly, the Group shall drive the product innovation and service improvement by technological advantages. The Group shall comprehensively enhance the ability of product innovation and customer service by pushing forward the construction of new generation core business system, exerting advantages of big data platform and seeking for customers’ demands and potentials. The Group shall unremittingly carry forward construction of “Trinity” and be devoted to innovation and intelligentisation of e-banking, function upgrading and specialization of physical outlets and elevation in the number and capability of relationship managers. The Group shall take advantage of internet finance platform to become complementary with traditional banking model in respects of customer development, product and innovation and to make a brand new financial ecological cycle.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

CAPITAL



SHARE

CHANGES



CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

I. CHANGES IN SHARE CAPITAL

As at 31 December 2014, the Bank had issued a total of 74,262,726,645 shares, including 39,250,864,015 A shares and 35,011,862,630 H shares, which account for 52.85% and 47.15%, respectively.

	1 January 2014		Changes(+/-) during the Reporting Period					31 December 2014	
	Number of shares (share)	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from the surplus reserve	Others	Sub-total	Number of shares (share)	Percentage (%)
I. Shares subject to sales restrictions	6,541,810,669	8.81	-	-	-	-	-	6,541,810,669	8.81
II. Shares not subject to sales restrictions	67,720,915,976	91.19	-	-	-	-	-	67,720,915,976	91.19
1. RMB ordinary shares	32,709,053,346	44.04	-	-	-	-	-	32,709,053,346	44.04
2. Domestically-listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas-listed foreign shares	35,011,862,630	47.15	-	-	-	-	-	35,011,862,630	47.15
III. Total	74,262,726,645	100.00	-	-	-	-	-	74,262,726,645	100.00

II. SECURITIES ISSUANCE AND LISTING

Securities issuance in the last three years up to the end of the Reporting Period: Pursuant to the resolution passed at the Extraordinary General Meeting held on 9 May 2012, the Bank has implemented the non-public issuance of 6,541,810,669 A shares and 5,835,310,438 H shares, with a per share issue price of RMB4.55 and HKD5.63 respectively. The Bank completed the registration and sales restriction procedure in respect of the issuance of above-mentioned A shares in Shanghai branch of China Securities Depository and Clearing Company Limited on 23 August 2012. All the A shares subscribed for under such non-public issuance are subject to a lock-up period of 36 months from the completion of the issuance, and are expected to be listed and commence dealing on 23 August 2015 (or be postponed to the first trading day thereafter in case of any public holidays or weekends).

For further details, please refer to the relevant announcements published by the Bank in China Securities Journal, Shanghai Securities News, Securities Times and on SSE website (www.sse.com.cn) on 25 August 2012 and 27 August 2012, as well as on the HKEx website (www.hkexnews.hk) on 24 August 2012 and 26 August 2012, respectively.

The Bank has no employee stock.

Details of the issue of the corporate bonds of the Bank are set out in Note 31 to the Consolidated Financial Statements.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

III. SHAREHOLDINGS OF SHAREHOLDERS

1. Number of shareholders

As at the end of the Reporting Period, the total number of shareholders of the Bank was 389,362, of which 348,527 were holders of A shares and 40,835 were holders of H shares. Subsequent to the end of the fifth trading day upon the date of publication of this Annual Report, the total number of the shareholders of the Bank was 427,682, of which 387,270 were holder of A shares and 40,412 were holders of H shares.

2. Shareholdings of the shareholders (According to the Bank's register of members maintained at its share registrar)

(1) Shareholdings of the top 10 shareholders

Name of shareholders	Number of shares held as at the end of the Reporting Period		Percentage (%)	Number of shares held subject to sales restrictions		Number of shares pledged or frozen ¹	Nature of shareholders
	Increase or decrease during the Reporting Period (share)	Number of shares held as at the end of the Reporting Period (share)		Number of shares held subject to sales restrictions (share)	Number of shares pledged or frozen ¹		
Ministry of Finance	-	19,702,693,828	26.53	2,530,340,780	Nil	State	
HKSCC Nominees Limited ²	15,915,281	14,917,284,241	20.09	-	Unknown	Foreign legal person	
HSBC ³	-	13,886,417,698	18.70	-	Nil	Foreign legal person	
SSF ⁴	-	3,283,069,006	4.42	1,877,513,451	Nil	State	
Capital Airports Holding Company	-	1,246,591,087	1.68	-	Unknown	State-owned legal person	
Shanghai Haiyan Investment Management Co., Ltd.	-	808,145,417	1.09	439,560,439	Unknown	State-owned legal person	
Ping An Life Insurance Company of China Ltd. - Traditional - High interest rate policy products	14,801,689	720,186,701	0.97	705,385,012	Unknown	Domestic non-state-owned legal person	
China FAW Group Corporation	-	663,941,711	0.89	439,560,439	Unknown	State-owned legal person	
Yunnan Hongta Group Co., Ltd.	-	658,467,013	0.89	219,780,219	Unknown	State-owned legal person	
Luneng Group Co., Ltd.	-	571,078,169	0.77	-	Unknown	State-owned legal person	

Notes:

- Unless otherwise stated, the Bank is not aware of any circumstances where shares held by the above shareholders have been pledged or frozen, or the existence of any connected relationship among the above shareholders, or whether they are parties acting in concert as defined in the *Measures for the Administration of the Takeover of Listed Companies*.
- The aggregate number of shares held by the nominee, HKSCC Nominees Limited, represents the total number of H shares of the Bank held by all institutional and individual investors who maintained an account with it as at 31 December 2014. (Same applies hereinafter)

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

3. According to the Bank's register of members, HSBC held 13,886,417,698 H shares of the Bank as at 31 December 2014. In addition, according to the disclosure of interests forms filed with the Hong Kong Stock Exchange by HSBC Holdings plc, HSBC beneficially held 14,135,636,613 H shares of the Bank as at 31 December 2014, representing 19.03% of the Bank's total share capital. Please refer to "Substantial shareholders and holders of interest or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the Hong Kong Securities and Futures Ordinance" for details of the H shares that deemed to be beneficially owned by HSBC. (Same applies hereinafter)
4. According to the information provided by SSF to the Bank, as at 31 December 2014, other than the shareholdings recorded in the register of members of the Bank, SSF held additional 7,027,777,777 H shares of the Bank, representing 9.46% of the Bank's total share capital, which had been registered under HKSCC Nominees Limited. As at 31 December 2014, SSF held a total of 10,310,846,783 A shares and H shares of the Bank, representing 13.88% of the Bank's total share capital. (Same applies hereinafter)

(2) Shareholdings of the top 10 shareholders not subject to sales restrictions

Name of shareholders	Number of shares held not subject to sales restrictions (share)	Class and number of shares	
		Class	Number (share)
Ministry of Finance	12,618,353,049	RMB ordinary shares	12,618,353,049
	4,553,999,999	Overseas-listed foreign shares	4,553,999,999
HKSCC Nominees Limited	14,917,284,241	Overseas-listed foreign shares	14,917,284,241
HSBC	13,886,417,698	Overseas-listed foreign shares	13,886,417,698
SSF	1,405,555,555	Overseas-listed foreign shares	1,405,555,555
Capital Airports Holding Company	1,246,591,087	RMB ordinary shares	1,246,591,087
Luneng Group Co., Ltd.	571,078,169	RMB ordinary shares	571,078,169
Yunnan Hongta Group Co., Ltd.	438,686,794	RMB ordinary shares	438,686,794
Shanghai Haiyan Investment Management Co., Ltd.	368,584,978	RMB ordinary shares	368,584,978
Aviation Industry Corporation of China	300,678,450	RMB ordinary shares	300,678,450
Daqing Petroleum Administration Bureau	294,936,165	RMB ordinary shares	294,936,165
Details of connected relationship or acting in concert among the above shareholders:	<p>(1) The Bank is not aware of the existence of any connected relationship among the above shareholders, or whether they are parties acting in concert as defined in the "Measures for the Administration of the Takeover of Listed Companies".</p> <p>(2) The Bank is not aware of the existence of any connected relationship between the top 10 shareholders not subject to sales restrictions and the top 10 shareholders, or whether they are parties acting in concert as defined in the "Measures for the Administration of the Takeover of Listed Companies".</p>		

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

(3) Shareholdings of shareholders subject to sales restrictions

Unit: Share

SN	Name of shareholders subject to sales restrictions	Number of shares held subject to sales restrictions ¹ (share)	Listing and trading situations of shares subject to sales restrictions		Lock-up period
			Listing and trading time ²	Number of listing and trading shares increased (share)	
1	Ministry of Finance	2,530,340,780	23 August 2015	–	36 months
2	SSF	1,877,513,451	23 August 2015	–	36 months
3	Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products	705,385,012	23 August 2015	–	36 months
4	China FAW Group Corporation	439,560,439	23 August 2015	–	36 months
5	Shanghai Haiyan Investment Management Co., Ltd.	439,560,439	23 August 2015	–	36 months
6	China National Tobacco Corporation – Zhejiang Branch	329,670,329	23 August 2015	–	36 months
7	Yunnan Hongta Group Co., Ltd.	219,780,219	23 August 2015	–	36 months
Details of connected relationship or acting in concert among the above shareholders:		The Bank is not aware of the existence of any connected relationship among the above shareholders, or whether they are parties acting in concert as defined in the “Measures for the Administration of the Takeover of Listed Companies”.			

Notes:

- As at 31 December 2014, the number of shares held subject to sales restrictions is the same as that at the beginning of period.
- If such date is a holiday or non-working day, it will be postponed to the next business day.

(4) Details of strategic investors or general legal persons becoming top 10 shareholders for issuing new shares:

During the non-public issuance of A shares and H shares of the Bank in 2012, Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products became the top 10 shareholders of the Bank by subscribing 705,385,012 A shares of the Bank. As at 23 August 2012, the register and lock-up procedures of such shares have been completed, which subject to a lock-up period of 36 months, and are expected to be listed and traded on 23 August 2015 (or be postponed to the first trading day thereafter in case of any public holidays or weekends). The Bank has not agreed the end date of shareholding with Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products.

3. Controlling shareholders/actual controllers

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

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

4. Shareholders (legal person) holding 10% or more of the issued share capital of the Bank (excluding HKSCC Nominees Limited)

Name of shareholders (legal person)	Person in charge or legal representative	Date of establishment	Organisation code/ Business registration No.	Registered capital	Main responsibilities or management activities
Ministry of Finance	Lou Jiwei	October 1949	00001318-6	N/A	Division of the State Council, in charge of national financial revenue and expenditure as well as fiscal and taxation policy.
HSBC	Stuart Gulliver	1865	00173611-000-01-12-7	N/A ^{Note}	Primarily provide local and international banking services, and related financial services in the Asia-Pacific region.
SSF	Xie Xuren	August 2000	71780082-2	RMB 8 million	Ministry-level institution directly under the State Council, and an independent legal entity responsible for managing and operating national social security fund.

Note: As at 31 December 2014, HSBC issued ordinary share capital of HKD96.0525 billion, divided into 38.4210 billion ordinary shares. The issued preference share capital of USD4.703 billion comprises 1.05 billion cumulative redeemable preference shares, 3.253 billion non-cumulative irredeemable preference shares and 0.4 billion cumulative irredeemable preference shares.

5. Substantial shareholders and holders of interests or short positions required to be disclosed under Divisions 2 and 3 of Part XV of the “Hong Kong Securities and Futures Ordinance”

As at 31 December 2014, to the knowledge of the Directors, Supervisors and Chief Executive of the Bank, the substantial shareholders and other persons (other than the Directors, Supervisors and Chief Executive of the Bank) who had interests or short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept pursuant to Section 336 of the Hong Kong Securities and Future Ordinance (the “SFO”) were as follows:

Name of substantial shareholders	Capacity	Number of A shares (share)	Nature of interest ¹	Approximate percentage of total issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance	Beneficial owner	15,148,693,829 ²	Long position	38.59	20.40
SSF	Beneficial owner	1,877,513,451	Long position	4.78	2.53

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Name of substantial shareholders	Capacity	Number of H shares (share)	Nature of interest ¹	Approximate percentage of total issued H shares (%)	Approximate percentage of total issued shares (%)
SSF	Beneficial owner	8,433,333,332	Long position	24.09	11.36
Ministry of Finance	Beneficial owner	4,553,999,999 ²	Long position	13.01	6.13
HSBC	Beneficial owner	14,135,636,613	Long position	40.37	19.03
	Interest of controlled corporations	2,674,232 ³	Long position	0.01	0.004
	Total:	14,138,310,845		40.38	19.04
HSBC Finance (Netherlands)	Interest of controlled corporations	14,138,310,845 ⁴	Long position	40.38	19.04
HSBC Bank plc	Beneficial owner	9,012,000	Long position	0.03	0.01
	Interest of controlled corporations	63,250 ⁵	Long position	0.0002	0.0001
	Total	9,075,250		0.03	0.01
HSBC Holdings plc	Interest of controlled corporations	14,147,386,095 ⁶	Long position	40.41	19.05

Note:

- Long positions held other than through equity derivatives.
- To the knowledge of the Bank, as at 31 December 2014, the Ministry of Finance held 4,553,999,999 H shares and 15,148,693,829 A shares of the Bank, representing 6.13% and 20.40% of the total share capital of the Bank, respectively.
- HSBC holds 62.14% equity interest in Hang Seng Bank Limited. Pursuant to the SFO, HSBC is deemed to be interested in the Bank's H shares held by Hang Seng Bank Limited.
Hang Seng Bank Limited is deemed to be interested in the 2,674,232 H shares held by its wholly-owned subsidiaries. Such amount of H shares represent the aggregate of the 2,581,887 H shares directly held by Hang Seng Bank Trustee International Limited and 92,345 H shares directly held by Hang Seng Bank (Trustee) Limited.
- HSBC is wholly owned by HSBC Asia Holdings BV, and HSBC Asia Holdings BV is, in turn wholly owned by HSBC Asia Holdings (UK) Limited which is wholly owned by HSBC Holdings BV. Furthermore, HSBC Holdings BV is wholly owned by HSBC Finance (Netherlands). Pursuant to the SFO, each of HSBC Asia Holdings BV, HSBC Asia Holdings (UK) Limited, HSBC Holdings BV and HSBC Finance (Netherlands) is deemed to be interested in the 14,138,310,845 H shares held by HSBC.
- HSBC Trustee (C.I.) Limited holds 63,250 H shares. HSBC Trustee (C.I.) Limited is wholly owned by HSBC Private Bank (C.I.) Limited, which is wholly owned by HSBC Private Banking Holdings (Suisse) SA. Furthermore, HSBC Private Banking Holdings (Suisse) SA is wholly owned by HSBC Europe (Netherlands) BV, which is in turn owned as to 94.90% by HSBC Bank plc. Pursuant to the SFO, each of HSBC Private Bank (C.I.) Limited, HSBC Private Banking Holdings (Suisse) SA, HSBC Europe (Netherlands) BV and HSBC Bank plc is deemed to be interested in the 63,250 H shares held by HSBC Trustee (C.I.) Limited.
- Both HSBC Finance (Netherlands) and HSBC Bank plc are wholly owned by HSBC Holdings plc. Pursuant to Notes 3, 4, 5, and the SFO, HSBC Holdings plc is deemed to be interested in the 14,138,310,845 H shares held by HSBC and the 9,075,250 H shares held by HSBC Bank plc.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Save as disclosed above, as at 31 December 2014, no person (excluding the Directors, Supervisors and Chief Executive of the Bank) or corporation was recorded in the register required to be kept under Section 336 of the SFO as holding any interests or short positions in the shares or underlying shares of the Bank that would fall to be disclosed to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT

I. PROFILE OF DIRECTORS¹

As at 31 December 2014, the Bank's directors are as below:

Name	Position	Name	Position
Niu Ximing	Chairman of the Board of Directors and Executive Director	Ma Qiang	Non-executive Director
Peng Chun	Vice Chairman of the Board of Directors, Executive Director and President	Lei Jun	Non-executive Director
Qian Wenhui	Executive Director and Executive Vice Present	Zhang Yuxia	Non-executive Director
Yu Yali	Executive Director, Executive Vice Present and Chief Financial Officer	Peter Hugh Nolan	Independent Non-executive Director
Hu Huating	Non-executive Director	Chen Zhiwu	Independent Non-executive Director
Wang Taiyin	Non-executive Director	Choi Yiu Kwan	Independent Non-executive Director
Liu Changshun	Non-executive Director	Yu Yongshun	Independent Non-executive Director
Peter Wong Tung Shun	Non-executive Director	Li Jian	Independent Non-executive Director
Anita Fung Yuen Mei	Non-executive Director	Liu Li	Independent Non-executive Director

Note: On 10 February 2015, Mr. Qian Wenhui resigned as Executive Director due to re-designation of work; on 30 January 2015, Ms. Anita Fung Yuen Mei resigned as Non-executive Director due to personal work.



Mr. Niu Ximing, age 58, Chairman and Executive Director. Mr. Niu has been the Chairman of the Board of Directors and Executive Director of the Bank since October 2013. From May 2013 to October 2013, Mr. Niu was the Chairman of the Board of Directors, Executive Director and President of the Bank. Mr. Niu was the Vice Chairman, Executive Director and President of the Bank from December 2009 to May 2013. Mr. Niu previously held several positions in Industrial and Commercial Bank of China (“**ICBC**”) from July 1986 to December 2009, including Deputy General Manager and General Manager of ICBC’s Xining Branch in Qinghai Province, Deputy Director, Director and General Manager of the Public Transportation Credit Department of ICBC, General Manager of ICBC’s Beijing Branch, Assistant to the President of ICBC and General Manager of ICBC’s Beijing Branch, Executive Vice President of ICBC and Executive Director and Executive Vice President of ICBC. Mr. Niu worked at the PBOC from September 1983 to July 1986 and served as Vice Director of the Industrial and Commercial Credit Department of the PBOC’s Qinghai Branch from December 1984 to July 1986. Mr. Niu obtained his Bachelor’s degree in Finance from Central University of Finance and Economics in 1983 and his Master’s degree in Economics from Harbin Institute of Technology in 1997. He also received special government allowances issued by the State Council starting in 1999.

¹ The term of office of the Board of Directors will expire on the date of the 2015 Annual General Meeting (independent non-executive directors cannot serve more than 6 years).

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Mr. Peng Chun, age 53, Vice Chairman, Executive Director and President. He has been the Vice Chairman and Executive Director of the Bank since November 2013. He has been the President of the Bank since October 2013. Mr. Peng previously served as Deputy General Manager of China Investment Corporation, and concurrently served as Executive Director and General Manager of Central Huijin Investment Ltd from April 2010 to September 2013. Mr. Peng served in several positions in the Bank, including Executive Director and Executive Vice President from August 2005 to April 2010, Executive Vice President from September 2004 to August 2005, Director and Assistant to the President of the Bank from June 2004 to September 2004, Assistant to the President of the Bank from September 2001 to June 2004, Deputy Manager and Manager of Urumqi Branch, General Manager of Nanning Branch and General Manager of Guangzhou Branch from 1994 to 2001. Mr. Peng obtained his Master's degree in Economics from PBC School of Finance in 1986.



Mr. Qian Wenhui, age 53, Executive Director and Executive Vice President. He has been an Executive Director and Executive Vice President of the Bank since August 2007. Mr. Qian served as Executive Vice President of the Bank from October 2004 to August 2007 (and concurrently served as General Manager of Shanghai Branch from July 2005 to November 2006). Before joining the Bank, Mr. Qian worked at China Construction Bank (“CCB”) and served as Director of the General Office of the Asset and Liability Committee of CCB and the Deputy General Manager of CCB's Shanghai Branch; Director of the General Office of the Asset and Liability Committee of CCB and Director of the System Reform Office; General Manager of the Asset and Liability Management Department; General Manager of the Asset and Liability Management Department and Director of the Restructuring Office. Mr. Qian obtained his MBA degree from Shanghai University of Finance and Economics in 1998.



Ms. Yu Yali, age 57, Executive Director, Executive Vice President and Chief Financial Officer. Ms Yu has been an Executive Director, Executive Vice President and Chief Financial Officer of the Bank since August 2012. Ms. Yu served as Vice President and Chief Financial Officer of the Bank from August 2007 to August 2012. Ms. Yu also served as Chief Financial Officer of the Bank from August 2004 to August 2007. Ms. Yu was the General Manager of the Finance and Accounting Department and Financial Budget Department of the Bank from December 1999 to August 2004. Ms. Yu has previously served in numerous positions, including Head of Finance and Accounting Division and Deputy General Manager of the Bank's Zhengzhou Branch and Deputy General Manager of Finance and Accounting Department of the Head Office from February 1993 to December 1999. Ms. Yu obtained her MBA degree from Fudan University in 2006.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



Mr. Hu Huating, age 57, Non-executive Director. He has served as a Non-executive Director of the Bank since September 2004. Mr. Hu served in several positions within the Ministry of Finance from December 1978 to September 2004, including Director of the Bureau for Retired Officials Affairs, Deputy Director of the Economic Construction Department, Assistant Inspector of the Infrastructure Department, Head of the Comprehensive Division and the Second Investment Division, Head of the Second Division of Comprehensive Planning Supplementary Budget Management Department, Deputy Head of the Special Division of Agricultural Taxation Department, Deputy Head of the Central Division of the Supplementary Budget Management Department, Deputy Head of the Wages and Commodity Prices, Division of the Comprehensive Planning Department and Secretary of the General Office. Mr. Hu obtained his Master's degree in Investment Economics from Dongbei University of Finance and Economics in 1998.



Mr. Wang Taiyin, age 50, Non-executive Director. Mr. Wang has been a Non-executive Director since August 2013. Mr. Wang previously held various positions from August 1986 to May 2013 such as Associate Officer and Second Officer of the Technical Expert Division of Human Resource Department and the Grass-root Level Service Department of the Ministry of Finance, First Officer of the Grass-root Level Service Division of Personnel and Education Department, First Officer of the Representative Agency of the Personnel and Education Department (during which served as the governor's assistant of the Municipal Government in Chaoyang County, Liaoning Province from October 1995 to October 1996), Deputy Head and Inspector, Secretary of the Personnel Development Department (enjoy benefit package as Division Chief), Head of the Representative Agency of the Personnel Development Department and Associate Inspector of the Personnel Development Department. Mr. Wang graduated from Zhongnan University of Economics and Law and majored in Political Science in 1986.



Mr. Liu Changshun, age 56, Non-executive Director. Mr. Liu has been a Non-executive Director since September 2014. He previously served as Officer of General Office, Deputy Head of Comprehensive Division, Commissioner Assistant, Deputy Commissioner and Commissioner in Jilin Province Commissioner Office of the Ministry of Finance from January 1995 to June 2014; Official, Deputy Director and Officer in Chinese Enterprise Division, Ministry of Finance of Jilin Province from April 1987 to January 1995; Associate Officer and Second Officer of the Finance Department of Ermi Copper Mine in Tonghua, Jilin Province from October 1977 and April 1987. Mr. Liu obtained his Master's degree in Management from Business Management School of Jilin University in 2002.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Mr. Peter Wong Tung Shun, age 63, Non-executive Director. Mr. Wong has been Non-executive Director of the Bank since August 2005. Mr. Wong currently holds the positions as the Executive Vice President and Chief Executive Officer of HSBC, the Bank's substantial shareholder, as well as the Chief Operation Officer of the HSBC Group, member of the Group's Management Committee, Chairman and Non-executive Director of HSBC Bank (China) Company Limited and, Chairman and Non-executive Director of HSBC Bank (Malaysia) Company Limited. He also serves as Non-executive Director for Hang Seng Bank Limited as well as independent Non-executive Director of Cathay Pacific Airways Limited. Mr. Wong was the Chairman of The Hong Kong Association of Banks in 2001, 2004, 2006 and 2009. His official duties in mainland China include economic consultant for the Governor in the International Consultation Conference on the Future Economic Development of Guangdong Province 2013, member of the 12th Chinese People's Political Consultative Conference ("CPPCC"), Standing Committee and member of the 11th CPPCC in Hubei Province, International Economics Consultant for the Mayor of Chongqing, Vice Chairman, Council Member of the China Banking Association Council, and Council Member of the Red Cross Society of China. He has been a Visiting Professor at Central University of Finance and Economics since June 2011. Before joining HSBC in April 2005, Mr. Wong worked for Citibank and Standard Chartered Bank. Mr. Wong obtained his Master's degree in Marketing and Finance and in Computer Science from Indiana University in the U.S. in 1976 and 1979 respectively.



Ms. Anita Fung Yuen Mei, age 54, Non-executive Director. Ms. Fung has served as a Non-executive Director of the Bank since November 2010. She currently holds the position as the Group General Manager of HSBC Holdings Plc, Chief Executive Officer of HSBC Hong Kong, Chairman and Director of HSBC Global Asset Management (Hong Kong) Limited, Non-executive Director of HSBC (China) Limited and Director of HSBC Markets (Asia) Limited, etc. Ms. Fung served as Group General Manager of HSBC Holdings Plc and Head of HSBC Global Banking and Capital Markets for Asia-Pacific from January 2010 to September 2011; Group General Manager of HSBC Holdings Plc, Treasurer and Head of Global Capital Markets for Asia-Pacific from May 2008 to January 2010. She previously held various positions including Head of HSBC Bond Market, Head of Asian Fixed Income Trading, Head of Asian Pacific Trading, Joint-Head and Treasurer of Global Capital Markets for Asia-Pacific from September 1996 to April 2008. Ms. Fung obtained her Master's degree in Applied Finance from Macquarie University in Australia in 1995.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



Mr. Ma Qiang, age 56, Non-executive Director. Mr. Ma has been a Non-executive Director of the Bank since September 2011. Mr. Ma holds the position of Director of the Equity Management Department (Industrial Investment Department) of National Council for Social Security Fund since December 2010. Mr. Ma previously served as Deputy Chief, Member of the Party Leadership Group, Deputy Chief and Deputy Secretary of the Party Leadership Group (bureau level) of the Tianjin Finance Bureau (the Tianjin Local Tax Bureau) from July 2001 to December 2010. Mr. Ma graduated from Online College of Hunan University in 2004 with major in Finance.



Mr. Lei Jun, age 45, Non-executive Director. Mr. Lei has been a Non-executive Director of the Bank since August 2008. Mr. Lei is holding the position of General Manager of the Capital Operation Department of Beijing Capital Airport Holding Company since June 2005. He also holds the positions as the Chairman of Goldstate Securities Co., Ltd. and Non-executive Director of Capital Airport Real Estate Group Co., Ltd. He previously served as General Manager of the Mergers and Acquisitions Department in Goldstate Securities Co., Ltd from January 2005 to June 2005; General Supervisor of the Management and Innovation Division in Shanghai Baosteel Group from October 2003 to January 2005 and Division Deputy General Manager in Fortune Trust from June 1998 to October 2003. Mr. Lei obtained his MBA from the University of Hong Kong in 2000.



Ms. Zhang Yuxia, age 59, Non-executive Director. She has been the Non-executive Director of the Bank since August 2013. Ms. Zhang is holding the position of Chief Accountant of the China National Tobacco Corporation since December 2009. Ms. Zhang previously served as the Director of Financial Management and Supervision (Internal Audit) Department of the State Tobacco Monopoly Administration from July 1998 to December 2009. Ms. Zhang also served as the Deputy Manager (at a level equal to the Deputy Head) of Institution Service Agency of the Ministry of Finance from July 1996 to July 1998 and served as Associate Officer, Second Officer, Deputy Director and Director of the Second National Industrial Division of Industrial and Transportation Finance Department of the Ministry of Finance from February 1982 to July 1996. Ms. Zhang, Senior Accountant and CICPA, obtained her Bachelor's degree in Accounting of the Department of Industrial Management from Tianjin University of Finance and Economics in 1982.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Mr. Peter Hugh Nolan, age 66, recipient of the Commander of the Most Excellent Order of the British Empire, Independent Non-executive Director. Mr. Nolan has been an Independent Non-executive Director of the Bank since November 2010. Since 2012, Mr. Nolan has been Director and Professor of Centre of Chinese Development and Studies, at Cambridge University. Mr. Nolan was a professor in Judge Business School at Cambridge University from 1997 to 2012 and was a lecturer in the Faculty of Economics and Political Science at Cambridge University from 1979 to 1997. Mr. Nolan obtained his Doctoral degree in Economics from University of London in 1981.



Mr. Chen Zhiwu, age 52, Independent Non-executive Director. Mr. Chen has been an Independent Non-executive Director of the Bank since November 2010. Mr. Chen has been a professor of Finance at School of Management of Yale University since July 1999. He also serves as the Independent Non-executive Director of Petro China Corp, Lord Abbett China Asset Management Co., Ltd. and Noah Wealth Management, visiting Professor at Tsinghua University, Cheung Kong Chair Professor and Chief Adviser of Permal Group. Mr. Chen was an Assistant Professor and Associate Professor of Business and Finance at Ohio State University from July 1995 to July 1999. Mr. Chen obtained his Doctoral degree in Finance and Economics from Yale University in 1990.



Mr. Choi Yiu Kwan, age 60, Independent Non-executive Director and holder of the Silver Bauhinia Star award by the Hong Kong SAR Government in 2010. He has been an Independent Non-executive Director of the Bank since September 2011, and he concurrently serves as an Independent Non-executive Director of the Industrial and Commercial Bank of China (Asia) Limited. Mr. Choi joined the Hong Kong Monetary Authority in 1993 and held different positions including the Head of the Banking Policy Department, the Head of Administration, the Assistant Executive Director (Banking Supervision), the Deputy Chief Executive (Monetary Policy and Reserves Management) and the Deputy Chief Executive (Banking Supervision) until retirement in January 2010. Mr. Choi held various positions in the Office of the Commissioner of Banking of the Hong Kong Government between 1974 and 1993, responsible for supervising the Banking industry. Mr. Choi obtained a Higher Certificate in Accounting from the Hong Kong Polytechnic University and he is a Fellow Member of both the Hong Kong Institute of Bankers and the Treasury Markets Association.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



Mr. Yu Yongshun, age 64, Independent Non-executive Director. Mr. Yu has been serving as Independent Non-executive Director of the Bank since August 2013 and currently holds the positions as the Chairman of the Supervisory Committee of Huaxin Trust and Independent Director of Cinda Securities Co., Ltd. and Shengjing Bank Co., Ltd. Mr. Yu served as the General Manager of Internal Audit Department and the Chief Audit Executive of CCB from April 1999 to December 2010. Mr. Yu held various positions of the Deputy General Manager of Financial Planning Department, General Manager of Real Estate Credit Department, General Manager of Xinjiang Uygur Autonomous Region Branch and General Manager of the Second Division of Business Department of CCB from October 1990 to April 1999. Mr. Yu graduated from Liaoning Institute of Finance and Economics (currently known as Dongbei University of Finance and Economics) and majored in Infrastructure Financing in 1977 and graduated from Monetary Banking from the Department of Finance and Trade Economics of Graduate School of Chinese Academy of Social Sciences in 1998. Mr. Yu receives special government allowances issued by the State Council.



Ms. Li Jian, age 61, Non-executive Director. Ms Li has been a Non-executive Director since October 2014, currently serving as Doctoral Supervisor of Finance School and Supervisor of Post-doctoral Research Station in Central University of Finance and Economics. Ms. Li has been teaching in Central University of Finance and Economics since 1983, temporarily transferred to the Development Research Centre of the State Council as an advisor and researcher from 1986 to 1987. Currently, Ms. Li also holds positions such as Deputy Head of the Finance Education Steering Committee of the Ministry of Education, Member of China Society for Finance and Banking, Member of China International Finance Society, and Independent Non-executive Director of Bank of Beijing Co., Ltd., Minmetals Securities Co., Ltd., China Life Asset Management Company Limited and Dongxing Securities Co., Ltd. Ms Li obtained her Doctoral degree in Economics from Xi'an Jiaotong University in 1997, major in Research on Financial Theories and Policies.



Mr. Liu Li, age 59, Independent Non-executive Director. Mr. Liu has been the Independent Non-executive Director since September 2014, currently holding positions such as Finance Professor in Guanghua School of Management of Peking University and Deputy Head and Doctoral Supervisor in Finance and Securities Research Center of Peking University. Mr. Liu has been teaching in Guanghua School of Management (formerly known as Economic Management Department of School of Economics) of Peking University since January 1986. He has been teaching in Beijing University of Iron and Steel Technology from September 1984 to December 1985. Currently, Mr. Liu also holds positions such as Member of Beijing Society for Finance and Banking and Independent Director of China Machinery Engineering Corporation, Langfang Development Co., Ltd. and China Oil HBP Science & Technology Co., Ltd. Mr. Liu obtained his Master's degree in Physics from Peking University in 1984 and MBA from Catholic University of Louvain in Belgium in 1989.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

II. PROFILE OF SUPERVISORS¹

As at 31 December 2014, the Bank's supervisors are as below:

Name	Position	Name	Position
Song Shuguang	Chairman of the Supervisory Committee	Gao Zhongyuan	Supervisor
Lu Jiahui	External Supervisor	Yan Hong	Supervisor
Tang Xinyu	External Supervisor	Chen Qing	Employee Representative Supervisor
Teng Tieqi	Supervisor	Shuai Shi	Employee Representative Supervisor
Gu Huizhong	Supervisor	Du Yarong	Employee Representative Supervisor
Dong Wenhua	Supervisor	Fan Jun	Employee Representative Supervisor
Li Jin	Supervisor		

Mr. Song Shuguang, age 53, the Chairman of the Supervisory Committee. Mr. Song has been the Chairman of the Supervisory Committee of the Bank since June 2014. Mr. Song served in China Taiping Insurance Group (formerly known as China Insurance Group) for the period from 2000 to 2014, during which, he served as the Vice Chairman and General Manager of China Taiping Insurance Group Ltd. (China Taiping Insurance (HK) Company Limited) from August 2008 to March 2014, as Vice Chairman of China Taiping Insurance Holdings Company Limited (CTIH, listed in Hong Kong) from November 2008, and as Vice Chairman and President of CTIH from April 2013 to March 2014, as Chairman of Taiping Life Insurance Co., Ltd. from November 2004 to November 2008 and from March 2010 to November 2011. Mr. Song served in State Planning Commission of the People's Republic of China from August 1985 to September 1993; in People's Insurance Company of China from October 1993 to October 1998, and as Chief Head of Finance and Accounting Department of China Insurance Regulatory Commission from November 1998 to April 2000. Mr. Song obtained his Master's degree in Economics in 1985 from Jilin University.



¹ The term of office of the Supervisors Committee will expire on the date of the 2015 Annual General Meeting.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



Mr. Lu Jiahui, age 61, External Supervisor. Mr. Lu has been the External Supervisor of the Bank since June 2013. Mr. Lu held several positions for National Audit Office of the People's Republic of China, including Special Commissioner and Auditor (Director General Level) of Guangzhou Office from July 2011 to April 2013; Special Commissioner of Shanghai Office from February 2009 to July 2011; Deputy Special Commissioner and Special Commissioner of Wuhan Office from September 2003 to February 2009; Deputy Director of the Audit Department from April 2002 to September 2003; and Deputy Special Commissioner of Guangzhou Office from July 2000 to April 2002. Mr. Lu, Senior Accountant and CICPA, graduated as on-the-job graduate from Zhongnan University of Economics and Law in 2000 and majored in Finance and Investment.



Ms. Tang Xinyu, age 61, External Supervisor. Ms. Tang has been the External Supervisor of the Bank since June 2014. Ms. Tang served as the President of Enterprise Annuity Council of Bank of China from January 2011 to July 2013; as Chairman of Bank of China International Securities Limited from February 2007 to January 2011; as General Manager of Head office Human Resource Department of Bank of China from October 2004 to September 2006; as Deputy Party Secretary and Commissioner of Discipline Inspection and Deputy General Manager of Bank of China Beijing Branch from February 2003 to October 2004; as Deputy General Manager of General Internal Audit Office and General Manager of Internal Audit Department of Bank of China from January 1998 to February 2003; as Senior Manager and Assistant General Manager successively of Economic Research Department of Hong Kong and Macau Management Office of Bank of China, Zhejiang Industrial Bank, Hong Kong Branch and Bank of China, Hong Kong Branch from May 1988 to January 1998; and as Vice Researcher and Deputy Director (1986) of Information Division of International Financial Research Institute of Bank of China from 1981 to May 1988. Ms. Tang graduated from Western Language Department of Peking University, majored in English in 1977 and obtained her MBA degree from Chinese University of Hong Kong in 1996.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Mr. Teng Tieqi, age 57, Supervisor. Mr. Teng has been the Supervisor of the Bank since June 2013 and is also the Deputy Director and Chief Accountant of China FAW Group Corporation. Mr. Teng held several positions in China FAW Group Corporation, including Deputy General Manager since August 2000, Director and Head of Finance Department from November 1998 to August 2000; Assistant to the General Manager from February 1994 to November 1998. During the Period, he served as the First Deputy Manager of FAW — Daewoo Automobile Engine Co., Ltd., Vice Director of FAW Car project office in Yantai, Head of Planning and Finance Department of China FAW Group Corporation. Mr. Teng was the Assistant Director of the International Economics and Trade Department of FAW from September 1991 to February 1994. Mr. Teng currently holds the position of Chairman of FAW Capital Holdings Ltd. and FAW Asset Management Ltd., Director of FAW Car Co., Ltd. and FAW-Volkswagen Automotive Co., Ltd., Supervisor of Guotai Junan Securities Co., Ltd. and Guosen Securities Co., Ltd., the Secretary of the Board of Directors of China FAW Group Corporation. Mr. Teng obtained his Master's degree in Mechanical Manufacturing from Jilin University of Technology's Department of Mechanical Engineering in 1985 and is a senior engineer of researcher level.



Mr. Gu Huizhong, age 58, Supervisor. Mr. Gu has been a Supervisor of the Bank since August 2010. Mr. Gu holds the position of the Deputy General Manager and Chief Accountant in the Aviation Industry Corporation of China since August 2008. Mr. Gu was the Deputy General Manager of China Aviation Industry Corporation First Group from June 1999 to August 2008, during which he concurrently served as Chief Accountant starting in February 2005. He also served as Deputy Director of the Finance Department of Technology and Industry Committee for National Defence from July 1998 to December 1998. Mr. Gu obtained his Master's degree in International Finance from the Peking University of Aeronautics and Astronautics in 2000 and his EMBA from Cheung Kong Graduate School of Business in 2008.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



Mr. Dong Wenhua, age 51, Supervisor. Mr. Dong has been a Supervisor since June 2013. Mr. Dong currently serves as the Chief Accountant of Luneng Group Co., Ltd. He previously served as Director of Financial Assets Department of State Grid Energy Development Co., Ltd. from October 2010 to January 2012; Director of Power Management Unit of Luneng Group Co., Ltd. from January 2010 to October 2010; Deputy General Manager and General Manager of Luneng Group Co., Ltd. from February 2009 to October 2010; Deputy General Manager and Chief Accountant of Luneng Group Co., Ltd. from January 2004 to February 2009; Director of Supervision and Auditing Department of Luneng Group Co., Ltd. from February 2003 to January 2004. Mr. Dong currently holds various positions including Executive Director and Legal Representative of Luneng Qufu Investment and Development Co., Ltd., Executive Director, Legal Representative and General Manager of State Grid (Shanghai) Smart Grid Investment and Development Centre and Shanghai Shen Power Investment Co., Ltd., Executive Director and Legal Representative of Fujian Xiamen Electric Investment Development Co., Ltd., Executive Director and General Manager of Luneng Group Co., Ltd. Mr. Dong, Senior Accountant, graduated from Fudan University with major in Accounting and post graduated from the Central Party School with major in Economics.



Mr. Li Jin, age 48, Supervisor. Mr. Li has been a Supervisor of the Bank since August 2007 and has been serving as the Deputy General Manager of Huaneng Capital Service Co., Ltd. since September 2006. Mr. Li was the President of Alltrust Insurance Company of China Limited from January 2005 to September 2006, Deputy General Manager and General Manager of China Huaneng Finance Corporation Ltd. from December 2000 to January 2005. Mr. Li obtained his Master's degree in Monetary Banking from the Financial Research Institution of the PBOC in 1989.



Mr. Gao Zhongyuan, age 51, Supervisor. Mr. Gao has been a Supervisor of the Bank since June 2013. Mr. Gao currently holds the position of Deputy General Manager of Sinopec Finance Co., Ltd. Mr. Gao previously held several positions in Sinopec Finance Co., Ltd, including Director of its Lanzhou Office from March 2001 to March 2003, Director of the Internal Audit Control Division from November 2001 to March 2003; Deputy Director of the Internal Audit Control Division from December 1998 to November 2001. Mr. Gao served as Deputy Director of Productive Department in the Head Office of Sinopec from July 1997 to December 1998; Deputy Director of Operational Division of Huaxia Audit Corporation of the China Sinopec from May 1996 to July 1997. Mr. Gao has been serving as Deputy General Manager of Sinopec Finance Co., Ltd since March 2003. Mr. Gao, Senior Accountant (Professor-Level), graduated from Zhongnan University of Economics and Law with EMBA degree.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Mr. Yan Hong, age 48, Supervisor. Mr. Yan has been a Supervisor of the Bank since August 2008. Mr. Yan has been serving as the Chief Accountant of Daqing Oilfield Limited Company and Daqing Petroleum Administration Bureau since March 2008. Mr. Yan was the Deputy Chief Accountant, Head of Finance and Asset Management Department and the Chief Accountant of Daqing Oilfield Limited Company from March 2002 to March 2008 and the Deputy Head and Head of Finance and Assets Management Department in Daqing Oilfield Limited Company from May 2000 to March 2002. He previously served as the Deputy Chief Accountant in Daqing Oilfield Limited Liability Company's oil rig construction subsidiary from January 1999 to May 2000. Mr. Yan graduated from Shanghai University of Finance and Economics with MBA degree in 2003 and from China Europe International Business School with MBA degree in 2008.



Ms. Chen Qing, age 54, Employee Representative Supervisor. Ms. Chen has been an Employee Representative Supervisor of the Bank since November 2004. Ms. Chen has served as the Head of the General Office for the Bank's Supervisory Committee since March 2005. From November 2004, Ms. Chen was appointed as the Supervisor (Deputy Director General-level) of the Bank. Ms. Chen was the Supervisor for the key state-owned financial institution — Agricultural Bank of China, Division Chief Level, from August 2003 to October 2004; the Supervisor of Bank of China serving at Division Chief Level, and then as the Deputy Division Head, Division Head from July 2000 to August 2003. Ms. Chen served as Deputy Division Head of Finance Department of National Audit Office of the People's Republic of China from February 1997 to July 2000. Ms. Chen is a senior auditor and obtained her Bachelor's degree in Economics from Renmin University of China in 1984 and a MBA degree from Shanghai University of Finance in 2009.



Mr. Shuai Shi, age 46, Employee Representative Supervisor. Mr. Shuai has been an Employee Representative Supervisor of the Bank since August 2008 and has been serving as the General Manager of the Employee Work Department of the Bank since December 2007. He is also the Deputy Director of the Labour Union (since January 2008) and the Deputy Secretary of Party Committee. Mr. Shuai served as the Deputy General Manager of the Bank's Huhhot Branch from July 2006 to December 2007 and the Senior Manager of Private Banking Department in the Shanghai Branch from January 2001 to July 2006 (during which he was the Assistant to the Head of Finance Office within the Provincial Government of the Inner Mongolia Autonomous Region from February 2004 to February 2006). Mr. Shuai obtained his Master's degree in Economic Management from School of Economic Management of the Party School of the CPPCC in July 2010 and he is also a senior political worker.



DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



Mr. Du Yarong, age 51, Employee Representative Supervisor. Mr. Du has been an Employee Representative Supervisor of the Bank since August 2010. Mr. Du has been serving as Deputy Commissioner of Discipline Inspection and Head (General Manager) of Bureau of Supervision (anti-fraud department) of the Bank since January 2015. He has served as the Head of the Office of Discipline Investigation and Supervision of the Bank from November 2009 to January 2015. He was the Deputy General Manager in the Bank's Zhejiang Branch from January 2009 to November 2009 and served as the Deputy General Manager in the Bank's Hangzhou Branch from October 2004 to January 2009. Mr. Du was the Head of the General Office in the Bank's Hangzhou Branch from April 2004 to October 2004 and was the General Manager in the Xiaoshan Sub-branch of the Hangzhou Branch from May 2001 to April 2004. He was the Deputy Head of the Internal Audit Control Division at the Bank's Head Office from April 2003 to March 2004. Mr. Du also served as Managerial Staff (Division Chief Level), Deputy Head and Head of the Party Committee Office of the Hangzhou Branch from October 1997 to May 2001. Mr. Du graduated from Hangzhou Normal University in 1986.



Mr. Fan Jun, age 56, Employee Representative Supervisor. Mr. Fan has been an Employee Representative Supervisor of the Bank since June 2013. He has been serving as the General Manager of Audit Department of the Bank since April 2005. Mr. Fan previously served as the General Manager of the Internal Audit Control Division of the Bank from September 2004 to April 2005. Mr. Fan held several positions in the Bank, including the General Manager of Guangzhou Branch from September 2001 to September 2004; General Manager of Urumqi Branch from January 1998 to September 2001; Deputy General Manager of Urumqi Branch from December 1996 to January 1998 and Deputy Director and Director of International Business Department in Urumqi Branch from June 1994 to December 1996. Mr. Fan served as Researcher (Deputy Director Level) and Deputy Director of Comprehensive Analysis Department of National Party Policy in Xinjiang Uyghur Autonomous Region from April 1992 to June 1994. Mr. Fan, Senior Economist, obtained his Master's degree in Economics and Politics from the Department of Economics of Sichuan University.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

III. PROFILE OF SENIOR MANAGEMENT

As at 31 December 2014, the Bank's senior managers are as below:

Name	Position	Name	Position
Peng Chun	President	Zhu Hexin	Executive Vice President
Qian Wenhui	Executive Vice President	Yang Dongping	Chief Risk Officer
Yu Yali	Executive Vice Present and Chief Financial Officer	Du Jianglong	Secretary of the Board of Directors
Shou Meisheng	Executive Vice President and Commissioner of Discipline Inspection	Lv Benxian	Director of Corporate Development
Hou Weidong	Executive Vice President and Chief Information Officer	Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant

Note: On 10 February 2015, Mr. Qian Wenhui resigned as Executive Vice President due to re-designation of work. On 25 March 2015, Mr. Zhu Hexin resigned as Executive Vice President due to re-designation of work.

Mr. Peng Chun¹ (Please refer to details in "Profile of Directors")

Mr. Qian Wenhui (Please refer to details in "Profile of Directors")

Ms. Yu Yali² (Please refer to details in "Profile of Directors")

Mr. Shou Meisheng, age 58, Executive Vice President³, the Commissioner of Discipline Inspection and President of the Labour Union. Mr. Shou was the General Manager of Human Resource Department of the Bank from May 2005 to December 2007; General Manager of International Banking Department of the Bank from June 1998 to May 2005 and General Manager of Dalian Branch of the Bank from January 2002 to March 2004. Mr. Shou obtained his Doctoral degree in Economics from Dongbei University of Finance and Economics in 2006.



Mr. Hou Weidong, age 55, Executive Vice President and Chief Information Officer⁴. Mr. Hou previously held the position of Chief Information Officer from August 2004 to December 2010; the General Manager of the Information Technology Department of the Bank from November 2002 to August 2004 and the Deputy General Manager of Computer Department of the Bank from April 2002 to November 2002. Before joining the Bank, he served as Deputy General Manager of Technology Security Department and General Manager of Data Centre in ICBC from November 1998 to April 2002. Mr. Hou obtained his Doctoral degree in Economics from Peking University in 2003.



1 Mr. Peng Chun's term of office as President is three years started from October 2013.

2 Ms. Yu Yali's term of office as Executive Vice President and Chief Financial Officer is three years started from June 2013.

3 The term of office is three years started from September 2012.

4 The term of office is three years started from October 2013.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)



Mr. Zhu Hexin, age 47, Executive Vice President¹. Mr. Zhu has been the Director of Corporate Development and Vice President of the Beijing Administrative Department, the Director of Corporate Development and President of the Beijing Administrative Department, Senior Manager and President of the Beijing Administrative of the Bank, Executive Vice President of the Bank and President of the Beijing Administrative Department from February 2010 to December 2014. He also served as General Manager of Corporate Development from July 2010 to October 2011 and General Manager of Beijing Branch from November 2011 to December 2014. His previous positions included the General Manager of Jiangsu Branch from January 2009 to January 2010; the General Manager of Nanjing Branch from November 2006 to January 2009 and the General Manager of Suzhou Branch from November 2001 to November 2006. Mr. Zhu obtained his Bachelor's degree in Engineering from Shanghai University of Finance and Economics in 1991.



Mr. Yang Dongping, age 58, the Chief Risk Officer². Mr. Yang served as Deputy General Manager and General Manager of Hong Kong Branch from September 2003 to September 2007. He also held several positions in Wuhan Branch, including Deputy Manager of Securities Business Department, Associate Director and Director of Credit and Load Division, Deputy General Manager and General Manager, General Manager of International Business Division, from May 1989 to September 2003. Mr. Yang obtained his Master's degree in International Finance from Wuhan University in 1998.



Mr. Du Jianglong, age 44, the Secretary of the Board of Directors³ and Director of the Office of the Board of Directors. He worked in the Department of Trade Finance, Department of National Debt Financing and Department of Finance of the Ministry of Finance from July 1997 to July 2009. While working in these departments, he held various positions of Deputy Head of Division I in the Department of Finance, Secretary of the Department of Finance (Division Chief Level), Head of Division I in the Department of Finance and Deputy Director-General of the Department of Finance. During the period, he also took the positions of Supervisor of The Export-Import Bank of China and Agricultural Development Bank of China. Mr. Du obtained his Master's degree in Economics from the Research Institute for Fiscal Science of Ministry of Finance in 1997 and his Master's degree in Economics from University of Manchester in 2003.

1 The term of office is three years started from April 2013.

2 The term of office is three years started from June 2013.

3 The term of office is three years started from August 2012.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Mr. Lv Benxian, age 48, Director of Corporate Development¹, President of the Beijing Administrative Department and General Manager of the Corporate Business Department. Mr. Lv served as the Director of Corporate Development and Vice President of Beijing Administrative Department, the Director of Corporate Development and Vice President of Beijing Administrative Department and General Manager of the Corporate Business Department from October 2012 to December 2014. He served as the General Manager of Shanghai Branch from March 2010 to December 2012. His previous positions include General Manager of Shenzhen Branch from February 2007 to March 2010, General Manager of Wuhan Branch from December 2003 to February 2007, Deputy General Manager and General Manager of Harbin Branch from August 2000 to December 2003. Mr. Lv obtained his EMBA degree from Dongbei University of Finance and Economics in 2005.



Mr. Ng Siu On, age 61, the HSBC-BoCom Strategic Cooperation Consultant². Mr. Ng joined HSBC in 1978 and held various positions including Regional Director of HSBC HK in New Territories, Network-Assistant to the Executive Vice President and the General Manager of Toronto Branch in Canada of HSBC, Deputy General Manager of Chinese business headquarters, Branch Director of Chinese business head quarters, Senior Manager of Commercial Banking, Director of Medium-sized Enterprises, Head of Corporates for HSBC's commercial banking business in Hong Kong and Special Consultant for HSBC's Asia-Pacific CEO on Greater China business from June 1989 to March 2013. Mr. Ng currently holds the positions as the member of the Boy's & Girl's Clubs Association of Hong Kong and Honoured Consultant of Hong Kong Institute of Bankers. Mr. Ng obtained his MBA degree from the Chinese University of Hong Kong in 1984.



1 The term of office is three years started from September 2012.

2 The term of office is three years started from March 2013.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors

As considered and approval at the 2013 Annual General Meeting of the Bank, Mr. Liu Changshun was elected as Non-executive Director of the Bank and Mr. Liu Li and Ms. Li Jian as Independent Non-executive Directors of the Bank. The qualifications of Mr. Liu Changshun, Mr. Liu Li and Ms. Li Jian as Directors have been approved by CBRC on 30 September 2014, 28 September 2014 and 27 October 2014 respectively.

On 29 April 2014, Mr. Wang Weiqiang and Mr. Liu Tinghuan tendered his resignation as Independent Non-executive Directors due to other work arrangement. The resignation took effect from the date of appointment of Mr. Liu Li and Ms. Li Jian as Independent Non-executive Directors. Due to other work arrangement, Ms. Du Yumei ceased to act as Non-executive Director of the Bank after the Mr. Liu Changshun's appointment as Non-executive Director was formally effective.

2. Changes in Supervisors

With the approval of 2013 Annual General Meeting of the Bank, Mr. Song Shuguang was elected as Chairman of Supervisory Committee of the Bank, and Ms. Tang Xinyu was elected as External Supervisor of the Bank.

Mr. Hua Qingshan resigned as Chairman of Supervisory Committee of the Bank due to the reason of age, which was effective from 25 June 2014. Mr. Jiang Yunbao resigned as External Supervisor of the Bank due to the reason of age, which was effective on 30 April 2014.

V. Changes in Information of Directors and Supervisors

During the Reporting Period, changes in information of Directors and Supervisors are set out as below:

Mr. Lei Jun, Non-executive Director of the Bank, was appointed as the Non-executive Director of Capital Airport Real Estate Group Co., Ltd.

Mr. Yu Yongshun, Independent Non-executive Director of the Bank, was appointed as the Independent Non-executive Director of Shengjing Bank Co., Ltd.

Mr. Liu Li, Independent Non-executive Director of the Bank, ceased to be the Independent Non-executive Director of the Bank of Metallurgical Corporation of China Ltd.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

VI. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

1. Details of emoluments

Name	Position	Gender	Age	Total taxable emoluments received during the Reporting Period (in RMB 0'000)			Emoluments received from corporate shareholder or not
				Emoluments	Other benefits	Total	
Niu Ximing	Executive Director and Chairman	Male	58	83.48	22.37	105.85	-
Peng Chun	Executive Director, Vice Chairman and President	Male	53	78.39	22.37	100.76	-
Qian Wenhui	Executive Director and Executive Vice President	Male	53	74.04	18.79	92.83	-
Yu Yali	Executive Director, Executive Vice President and Chief Financial Officer	Female	57	74.04	18.79	92.83	-
Hu Huating	Non-executive Director	Male	57	69.68	16.77	86.45	-
Wang Taiyin	Non-executive Director	Male	50	69.68	16.77	86.45	-
Liu Changshun	Non-executive Director	Male	56	34.84	8.25	43.09	-
Peter Wong Tung Shun	Non-executive Director	Male	63	0	0	0	Yes
Anita Fung Yuen Mei	Non-executive Director	Female	54	0	0	0	Yes
Ma Qiang	Non-executive Director	Male	56	0	0	0	Yes
Lei Jun	Non-executive Director	Male	45	0	0	0	Yes
Zhang Yuxia	Non-executive Director	Female	59	0	0	0	Yes
Peter Hugh Nolan	Independent Non-executive Director	Male	66	25.00	0	25.00	-
Chen Zhiwu	Independent Non-executive Director	Male	52	25.00	0	25.00	-
Choi Yiu Kwan	Independent Non-executive Director	Male	60	25.00	0	25.00	-
Yu Yongshun	Independent Non-executive Director	Male	64	0	0	0	-
Li Jian	Independent Non-executive Director	Female	61	6.25	0	6.25	-
Liu Li	Independent Non-executive Director	Male	59	6.25	0	6.25	-
Song Shuguang	Chairman of the Supervisory Committee	Male	53	57.49	22.26	79.75	-
Lu Jiahui	External Supervisor	Male	61	0	0	0	-
Tang Xinyu	External Supervisor	Female	61	0	0	0	-
Teng Tieqi	Supervisor	Male	57	0	0	0	Yes
Gu Huizhong	Supervisor	Male	58	0	0	0	Yes
Dong Wenhua	Supervisor	Male	51	0	0	0	Yes
Li Jin	Supervisor	Male	48	0	0	0	Yes
Gao Zhongyuan	Supervisor	Male	51	0	0	0	Yes
Yan Hong	Supervisor	Male	48	0	0	0	Yes
Chen Qing	Employee Representative Supervisor	Female	54	56.99	13.16	70.15	-
Shuai Shi	Employee Representative Supervisor	Male	46	55.03	13.16	68.19	-
Du Yarong	Employee Representative Supervisor	Male	51	54.62	13.16	67.78	-
Fan Jun	Employee Representative Supervisor	Male	56	57.72	13.16	70.88	-

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Name	Position	Gender	Age	Total taxable emoluments received during the Reporting Period (in RMB 0'000)			Emoluments received from corporate shareholder
				Emoluments	Other benefits	Total	or not
Shou Meisheng	Executive Vice President and Commissioner of Discipline Inspection	Male	58	74.04	18.79	92.83	–
Hou Weidong	Executive Vice President and Chief Information Officer	Male	55	74.04	18.79	92.83	–
Zhu Hexin	Executive Vice President	Male	47	72.94	17.16	90.10	–
Yang Dongping	Chief Risk Officer	Male	58	70.04	17.33	87.37	–
Du Jianglong	Secretary of the Board of Directors	Male	44	69.68	16.75	86.43	–
Lv Benxian	Director of Corporate Development	Male	48	69.68	16.77	86.45	–
Ng Siu On	HSBC-BoCom Strategic Cooperation Consultant	Male	61	0	0	0	Yes

Directors and Supervisors resigned/retired

Wang Weiqiang	Former Independent Non-executive Director	Male	67	0	0	0	–
Liu Tinghuan	Former Independent Non-executive Director	Male	72	0	0	0	–
Du Yuemei	Former Non-executive Director	Female	60	52.26	12.45	64.71	–
Hua Qingshan	Former Chairman of the Supervisory Committee	Male	62	38.32	10.87	49.19	–
Jiang Yunbao	Former External Supervisor	Male	73	0	0	0	–

Note:

- The 2014 final compensation packages for Directors, Supervisors and Senior Management of the Bank have not been finalised pursuant to the requirements of the relevant PRC authorities. The final compensation will be disclosed in a separate announcement when determined. The reform plan of remuneration of centrally-administered stated-owned enterprises' responsible person shall be implemented in 2015.
- The Independent Non-executive Directors' emolument are fees paid to perform their director's duties.
- On 25 June 2014, Mr. Hua Qingshan resigned as the Chairman of the Supervisory Committee of the Bank and the data in the table was his emoluments as the Chairman of Supervisory Committee during the Reporting Period. On 30 September 2014, Ms. Du Yuemei ceased to act as Non-executive Director of the Bank and the data in the table was her emoluments as Non-executive Director of the Bank during the Reporting Period.
- Employee Representative Supervisors of the Bank received emoluments as employees of the Bank, and did not receive any supervisor's fees from the Bank as the Employee Representative Supervisors.
- As at the end of Reporting Period, Directors, Supervisors and Senior Management (excluding those who were resigned or retired) received compensation in total of RMB15.8852 million.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

2. Remuneration Decision-making Process and the Deciding Factors

The remuneration decision-making process for the Bank's Directors, Supervisors and Senior Management:

According to the corporate governance procedure, the remuneration plan for Directors and Senior Management is drafted by Personnel and Remuneration Committee and is submitted to the Board for review and consideration, and in which, the Directors' remuneration is required to submit to the General Meeting for the approval. Supervisors' remuneration plan is submitted by Remuneration Committee, which is nominated by the Supervisory Committee. After the approval by Supervisory Committee, such plan is submitted to the General Meeting for its consideration and approval.

The remuneration of Bank's Directors, Supervisors and Senior Management decisive criteria:

It is in accordance with the relevant requirements of the government authorities and the Bank's assessment guidelines on the annual performance-based remuneration for the Senior Management.

VII. SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Class of shares	Number of shares held at the beginning of the year (share)	Increase (or decrease) in shareholdings ¹ during the Reporting Period (share ¹)	Number of shares held as at the end of the Reporting Period (share)	Reason for changes
Niu Ximing	Chairman and Executive Director	A share	0	210,000(L)	210,000(L)	Purchased from secondary market
Peng Chun	Vice Chairman, Executive Director and President	A share	0	150,000(L)	150,000(L)	Purchased from secondary market
Song Shuguang	Chairman of the Supervisory Committee	A share	0	130,000(L)	130,000(L)	Purchased from secondary market
Qian Wenhui ²	Executive Director and Executive Vice President	A share	0	80,000(L)	80,000(L)	Purchased from secondary market
Yu Yali	Executive Director, Executive Vice Present and Chief Financial Officer	A share	0	80,000(L)	80,000(L)	Purchased from secondary market
Hu Huating	Non-executive Director	A share	0	80,000(L)	80,000(L)	Purchased from secondary market
Wang Taiyin	Non-executive Director	A share	0	80,000(L)	80,000(L)	Purchased from secondary market

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Name	Position	Class of shares	Number of shares held at the beginning of the year (share)	Increase (or decrease) in shareholdings ¹ during the Reporting Period (share ¹)	Number of shares held as at the end of the Reporting Period (share)	Reason for changes
Liu Changshun	Non-executive Director	A share	0	50,000(L)	50,000(L)	Purchased from secondary market
Shou Meisheng	Executive Vice President and Commissioner of Discipline Inspection	A share	0	79,100(L)	79,100(L)	Purchased from secondary market
Hou Weidong	Executive Vice President and Chief Information Officer	A share	0	80,000(L)	80,000(L)	Purchased from secondary market
Zhu Hexin ³	Executive Vice President	A share	0	80,000(L)	80,000(L)	Purchased from secondary market
Yang Dongping	Chief Risk Officer	A share	94,820(L)	105,180(L)	200,000(L)	Purchased from secondary market
Du Jianglong	Secretary of the Board of Directors	A share	0	80,000(L)	80,000(L)	Purchased from secondary market
Lv Benxian	Director of Corporate Development	A share	0	80,000(L)	80,000(L)	Purchased from secondary market
Chen Qing	Employee Representative Supervisor	A share	0	40,000(L)	40,000(L)	Purchased from secondary market
Shuai Shi	Employee Representative Supervisor	A share	0	40,600(L)	40,600(L)	Purchased from secondary market
Du Yarong	Employee Representative Supervisor	A share	0	60,000(L)	60,000(L)	Purchased from secondary market
Fan Jun	Employee Representative Supervisor	A share	0	40,000(L)	40,000(L)	Purchased from secondary market
Du Yuemei ⁴	Former Non-executive Director	A share	0	88,000(L)	88,000(L)	Purchased from secondary market

- Note: 1. L stands for long positions
2. Mr. Qian Wenhui ceased to act as Executive Director and Executive Vice president of the Bank from February 2015 due to re-designation of work.
3. Mr. Zhu Hexin ceased to act as Executive Vice President due to re-designation of work from 25 March 2015.
4. Ms. Du Yuemei ceased to act as Non-executive Director of the Bank from 30 September 2014.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Save as disclosed above, as at 31 December 2014, none of the Bank's Directors, Supervisors or Chief Executive had or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register as kept pursuant to section 352 of the SFO, or which were required, pursuant to "Model Code" to be notified to the Bank and the Hong Kong Stock Exchange.

VIII. HUMAN RESOURCE MANAGEMENT

1. Basic Information of Employees

For the year ended 2014, the Bank had a total of 93,658 domestic and overseas employees, of which 91,641 employees were based domestically and 2,017 were local employees in overseas branches. The number of employees of the Bank's major subsidiaries was 2,028.

	Head Office	Northern China	Eastern China	Central and Southern China	China	Western China	North Eastern China Overseas
Number of employees	2,985 ^{Note}	11,665	39,872	17,815	9,915	9,389	2,017
Number of outlets	1	372	1,079	606	369	358	54

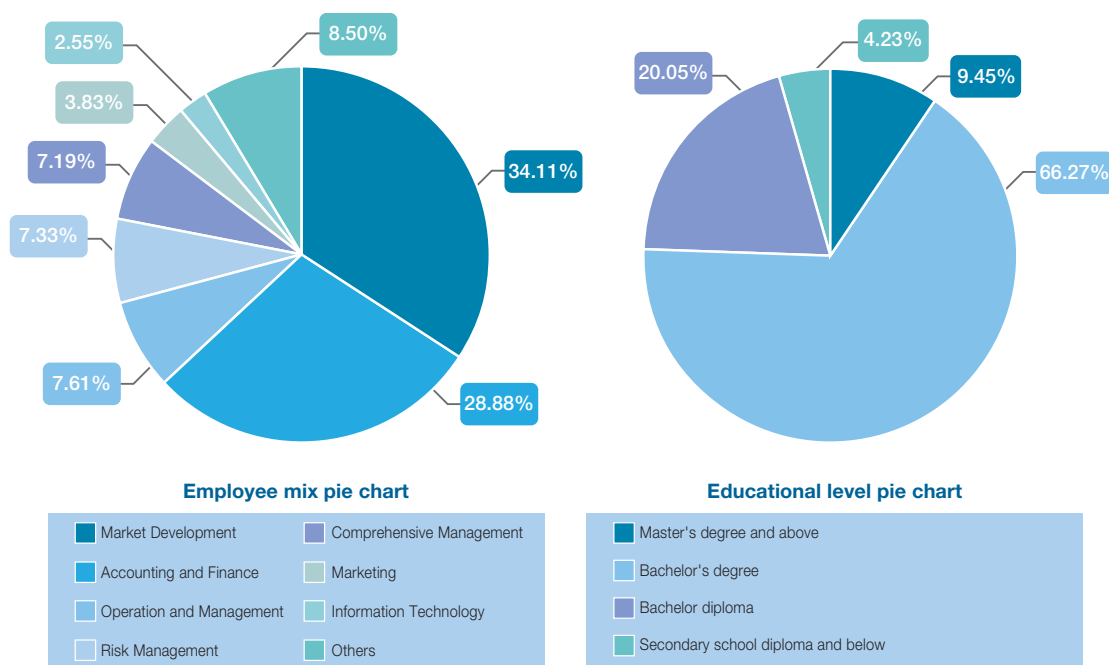
Note: The number of employees in head office excludes employees in the Pacific Credit Card Center.

The average age of the Bank's domestic employees was 35, with 41,650 employees under or at the age of 30, accounting for 45.45% of total domestic employees; 24,870 employees were between the age of 31 and 40 inclusively, accounting for 27.14% of total domestic employees; 17,891 employees were between the age of 41 and 50 inclusively, accounting for 19.52% of total domestic employees, and 6,116 employees above or at the age of 51, accounting for 6.67% of total domestic employees.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

Among the domestic employees, 8,660 employees possess postgraduate or higher academic degrees, accounting for 9.45% of total domestic employees; 60,733 employees possess undergraduate degrees, accounting for 66.27% of total domestic employees; 18,371 employees possess college diploma, accounting for 20.05% of total domestic employees, and 3,877 employees possess secondary vocational school certificate or lower qualifications, accounting for 4.23% of total domestic employees.

For the year of 2014, a total of 2,724 retired employees were covered by the Bank's pension scheme.



2. Remuneration policy

The Bank constantly improves its remuneration management to optimise the remuneration resources allocation model, emphasises on being performance oriented, strengthens the effect on self-discipline and performance incentive. In 2014, the Bank further improved the policy on deferred salaries payment based on performance for key personnel, which utilised the check and balance from remuneration over corporate governance and risk control, and led to the steady operation and sustainable development. The Bank also cares about its employees' welfare and continuously improves supplementary benefits system, including the enterprise annuity and supplemental medical insurance in addition to the basic social insurance.

The remuneration of Directors who receive remuneration from the Bank shall be determined in accordance with the Articles of Association of the Bank and applicable regulations after taking into consideration of their performance and the result of the annual evaluation.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HUMAN RESOURCE MANAGEMENT (CONTINUED)

3. Performance Management

The Bank continuously seeks to optimise its performance management framework, further improves performance evaluation processes for operating team management and employees at each level, including Divisions of Head Office, domestic and overseas branches and management of institutions directly controlled by Head Office. The Bank emphasised on the communication over its strategy linked to the employees' responsibilities and focused on key performance indicators. Greater emphasis was placed on performance evaluation and performance management was highly relied on as a guidance.

4. Training Management

The Bank, with the view to reform and develop the whole Bank, determine and design employees' education and training, with focus on both training management and planning and key training project implementation. It continuously trains employees in a large scale for the purpose of great enhancement of employees' quality, and actively carries forward reform and innovation of employees' education and training with focus on coordination, pertinence and effectiveness.

5. Employee Pension Scheme

Details of the Bank's employee pension scheme are set out in Note 30 to the Consolidated Financial Statements.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors hereby presents its report and the audited Consolidated Financial Statements of the Group for the fiscal year ended 31 December 2014.

I. PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of banking and related financial services. Details of the Group's operating results by business segments for the year are set out in Note 45 to the Consolidated Financial Statements.

II. SUMMARY OF FINANCIAL INFORMATION

Summary of the operating performance, assets and liabilities for the five years ended 31 December 2014 is set out in the section headed "Financial Highlights of the Annual Report".

III. RESULTS AND PROFIT DISTRIBUTION

1. The operating performance of the Group during the year is set out in Page 163 of the consolidated statement of profit or loss and other comprehensive income.
2. Details on distributable reserves of the Group are set out in Note 32 to the Consolidated Financial Statements.
3. The proposal or plan of the profit distribution and conversion of capital reserve to share capital in the last three years.

(in millions of RMB unless otherwise stated)

Year of dividend distribution	Number of bonus shares for every 10 shares (share)	Cash dividends per 10 shares (before tax, RMB)	Number of conversion for every 10 shares (share)	Amount of cash dividends (before tax)	Net profit	
					distributable to shareholders of listed companies in the consolidated statements for the year of dividend distribution	Proportion in net profit distributable to shareholders of listed companies in the consolidated statements (%)
2014	-	2.70	-	20,051	65,850	30.45
2013	-	2.60	-	19,308	62,295	30.99
2012	-	2.40	-	17,823	58,369	30.54

Note: The profit distribution plan for the year of 2014 shall be subject to the consideration and approval of the shareholders at the General Meeting of the Bank. There is no proposal or plan of the Bank regarding conversion of capital reserve to share capital in the last three years.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

4. The formulation, implementation or adjustment of the cash dividend policy

The proposal in relation to the amendments to the Articles of Association of the Bank was approved at the 2012 Annual General Meeting of the Bank held on 25 June 2013. The amended Articles of Association clearly stated that the Bank may distribute dividends in cash or shares. The Board of Directors and the shareholders' general meeting shall fully consider to the opinions of the Independent Directors, the Supervisory Committee and the public investors, through communicating and exchanging views with public investors from a variety of channels, and accept supervisions from the Independent Directors, the Supervisory Committee and public investors on the profit distribution of the Bank. The profit distribution of the Bank should focus on the reasonable return for investors, and the profit distribution policy should maintain its continuity and stability; except in special circumstances, the Bank shall distribute dividends mainly in the form of cash if it records profit in the year and the accumulated undistributed profit is also positive, and the total profit distributed in the form of cash dividends for the last three years shall not be less than 30% of the average annual distributable profit of the Bank for the last three years. For further details, please refer to Article 242 of the Articles of Association. (The Articles of Association has been published on the official website of the Bank at www.bankcomm.com, the website of SSE at www.sse.com.cn and the website of HKEx at www.hkexnews.hk).

The profit distribution policy of the Bank is in compliance with the requirements of the Articles of Association as well as the approval procedures. It fully protects the legitimate rights and interests of medium and small investors, has been commented by Independent Directors and has clear standards on dividends distribution and dividends distribution ratio. The conditions and procedures of the adjustment and modification on the profit distribution policy are in compliance with relevant requirements and transparent.

IV. CAPITAL RESERVE

Details on the movement of capital reserve of the Group during the Reporting Period are set out in the Consolidated Statement of Changes in Equity on Page 166.

V. CHARITABLE DONATIONS

Charitable donations made by the Group during the year of 2014 amounted to RMB31.6953 million¹ (2013: RMB30.8277 million).

VI. FIXED ASSETS

Changes in the Group's fixed assets during the year are set out in Note 22 to the Consolidated Financial Statements.

Note 1: Including the personal donation amount by staff of the Bank, same as hereinafter.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

VII. PUBLIC FLOAT

During 2014 and for the period up to the latest practicable date prior to the publication of this Annual Report, the Bank has fulfilled the minimum public float requirement in compliance with the *Hong Kong Listing Rule*, based on the information that is publicly available to and within the knowledge of the Directors.

VIII. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

None of the Directors or Supervisors of the Bank has entered into any service contract with the Bank or any of its subsidiaries which would entail compensation if terminated within one year (other than statutory compensation).

IX. INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

During the Reporting Period, neither the Bank nor any of its subsidiaries has entered into any significant contract, in which any of the Directors or Supervisors has any material direct or indirect interest, nor were there any such contract subsisting during or as at the end of the Reporting Period.

X. MANAGEMENT CONTRACT

During the Reporting Period, the Bank neither entered into nor had any subsisting contract for the provision of management services of the whole or any part of the Bank's business.

XI. CONFLICTING INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS OF THE BANK

During the Reporting Period, none of the Directors or Supervisors of the Bank had any interest in any business that competes or is likely to compete, whether directly or indirectly, with the Bank's business.

XII. REMUNERATION POLICY FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Pursuant to the statutory requirement, the Bank has clearly formulated the remuneration policy for Directors, Supervisors and Senior Management, and has continuously improved it. The performance-based annual remuneration for Directors, Supervisors and Senior Management shall be in line with the assessment mainly focus on three dimensions of economic benefit, development and quality. Payment of part of the performance-based annual remuneration of the Bank's Chairman of the Board of Directors, President, Chairman of the Board of Supervisors and other members of Senior Management of the Bank shall be deferred and paid in three years, and the proportion payable each year shall be one-third of the total amount. The deferred remuneration payment is recorded in the Bank's accounts.

XIII. RELATIONSHIP AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial relationship, business relationship, family relationship or any other significant relationship subject to disclosure among Directors, Supervisors and Senior Management of the Bank.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

XIV. PURCHASE, SALE OR REDEMPTION OF SHARES OF THE BANK

During the Reporting Period, neither the Bank nor any of its subsidiaries purchased, sold or redeemed any shares of the Bank.

XV. PRE-EMPTIVE RIGHTS AND SHARE OPTION ARRANGEMENTS

There are no provisions regarding pre-emptive rights of the shareholders under the Bank's Articles of Association and the relevant laws and regulations of the People's Republic of China and currently the Bank does not have any arrangements with respect to the share options.

XVI. RIGHTS OF DIRECTORS AND SUPERVISORS TO SUBSCRIBE SHARES OR DEBENTURES

As at 31 December 2014, the Bank has not granted to its Directors or Supervisors any rights to subscribe the shares or debentures of the Bank or any of its subsidiaries, nor have any such rights to subscribe for the above mentioned shares or debentures been exercised by them. The Bank and its subsidiaries also has not entered into any agreement or arrangement which was to enable the Directors or Supervisors to acquire benefits by means of the acquisition of shares or debentures of the Bank or any other relevant companies.

XVII. MAJOR CUSTOMERS

During the Reporting Period, the total interest income and other operating income from the five largest customers of the Group accounted for less than 30% of the Group's total interest income and other operating income. None of the Bank's Directors, their associates or shareholders (which, to the knowledge of the Directors, owns more than 5% of the Bank's issued share capital), has any beneficial interest in the Bank's five largest customers.

XVIII. CONTINUING CONNECTED TRANSACTIONS

1. The Inter-bank Transactions Master Agreement

The Bank and its subsidiaries have regularly engaged in various transactions in the normal course of banking business with HSBC and its subsidiaries and associates (the "HSBC Group"), including but not limited to purchases of bonds, sales and purchases of money market instruments, foreign currency transactions, swap and option transactions. To regulate the continuing transactions mentioned above, the Bank has entered into the continuing connected transaction agreement with HSBC in 2005, which was subsequently renewed in 2008.

On 30 June 2011, the Bank further renewed and entered into an interbank transactions master agreement (the "Interbank Transactions Master Agreement") with HSBC for a term of three years, commencing from 1 June 2011 to 31 May 2014, and set the relevant caps for the continuing connected transactions contemplated thereunder for the two years ending 31 December 2013, and the period from 1 June 2011 to 31 December 2011 and from 1 January 2014 to 31 May 2014, respectively.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

The continuing connected transactions contemplated under the Interbank Transactions Master Agreement mainly include bond transactions, monetary market transactions, foreign currency transactions and swap and option transactions.

There is no fixed price or rate for the transactions under the Interbank Transactions Master Agreement. However, the parties agreed to apply the prevailing market prices or rates normally used by independent counterparties to the particular type of transactions under the Interbank Transactions Master Agreement.

HSBC is a substantial shareholder of the Bank, therefore HSBC, together with its subsidiaries and associates are all connected persons of the Bank. Pursuant to the *Hong Kong Listing Rules*, the transactions contemplated under the Interbank Transactions Master Agreement are only subject to reporting, annual review and announcement requirements, and are exempted from the independent shareholders' approval requirement.

During the period from 1 January 2014 to 31 May 2014, the continuing connected transactions under the Interbank Transactions Master Agreement have not exceeded their respective caps:

- (1) Each of the realised gains or losses and unrealised gains or losses (as appropriate) arising from the non-exempt continuing connected transactions has not exceeded RMB2.182 billion.
- (2) The fair value of the foreign currency transactions, swap and option transactions with the HSBC Group (whether recorded as assets or liabilities) has not exceeded RMB4.641 billion.

For further details of the above transactions, please refer to the announcement of the Company dated 4 July 2011.

2. The Renewed Inter-bank Transactions Master Agreement

Since the Inter-bank Transactions Master Agreement expired on 31 May 2014, the Bank further renewed the interbank transactions master agreement on 29 April 2014 with HSBC for a term of three years, commencing from 1 June 2014 to 31 May 2017, and set the annual caps for the continuing connected transactions contemplated thereunder for the two years ending 31 December 2016, and the period from 1 June 2014 to 31 December 2014 and from 1 January 2017 to 31 May 2017, respectively.

The continuing connected transactions contemplated under the Interbank Transactions Master Agreement mainly include interbank loan and borrowing transactions, bond transactions, monetary market transactions, foreign currency transactions and swap and option transactions.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

As for the pricing of each of the intended transactions under the Interbank Transactions Master Agreement, the parties agreed to apply the fixed prices or rates specified in the provisions of application laws and regulations and the regulations or notices issued by regulatory authorities (if any), or to apply the market prices or rates normally used by the independent parties in the transaction of the same type in case of no fixed prices or rates.

HSBC is a substantial shareholder of the Bank, therefore HSBC, together with its subsidiaries and associates are all connected persons of the Bank. Pursuant to Rule 14A.87(1) and Rule 14A.90 of the *Hong Kong Listing Rules*, the interbank loan and borrowing transactions contemplated under the Interbank Transactions Master Agreement are exempted from the reporting, annual review announcement and independent shareholders' approval requirements. Pursuant to the *Hong Kong Listing Rules*, the other transactions contemplated under the Interbank Transactions Master Agreement are only subject to reporting, annual review and announcement requirements, and are exempted from the independent shareholders' approval requirement.

During the period from 1 June 2014 to 31 December 2014, the continuing connected transactions under the Interbank Transactions Master Agreement have not exceeded their respective caps:

- (1) Each of the realised gains or losses and unrealised gains or losses (as appropriate) arising from the non-exempt continuing connected transactions has not exceeded RMB4.606 billion.
- (2) The fair value of the foreign currency transactions, swap and option transactions with the HSBC Group (whether recorded as assets or liabilities) has not exceeded RMB8.167 billion.

For further details of the above transactions, please refer to the announcement of the Company dated 29 April 2014.

3. The Independent Non-executive Directors' Annual Review of the Non-exempt Continuing Connected Transactions

Upon careful review of the continuing connected transactions in 2014, each of the Independent Non-executive Directors of the Bank considers that the continuing connected transactions entered into by the Group were:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal or more favourable commercial terms; and
- (3) in accordance with the Interbank Transactions Master Agreement and on terms that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

4. The Auditors' Annual Review of the Non-exempt Continuing Connected Transactions
The auditors have issued a letter to the Board of Directors in respect of the continuing connected transactions in 2014 confirming that:
 - (1) the non-exempt continuing connected transactions were approved by the Board of Directors;
 - (2) the non-exempt continuing connected transactions were in accordance with the pricing policies of the Bank;
 - (3) the non-exempt continuing connected transactions were conducted in accordance with the terms of the Interbank Transactions Master Agreement; and
 - (4) The actual transaction amount of the non-exempt continuing connected transactions in 2014 had not exceeded their respective caps.

5. During the Reporting Period, the balance of transactions between the Bank and HSBC Group are as follows:
 - (1) As at 31 December 2014, the aggregate balance of deposits placed in and loans made to the HSBC Group by the Bank amounted to RMB55 million, and the interest income arising from these deposits and loans was approximately RMB3 million in 2014.
 - (2) As at 31 December 2014, the aggregate balance of deposits placed in and loans made to the Bank by the HSBC Group amounted to RMB12,262 million, and the interest expense arising from these deposits and loans was approximately RMB380 million in 2014.

Pursuant to Rule 14A.87(1) and Rule 14A.90 of the *Hong Kong Listing Rules*, the interbank loan and borrowing transactions contemplated under the Renewed Interbank Transactions Master Agreement are exempted from the reporting, announcement, annual review and independent shareholders' approval requirements.

The Bank has confirmed that the specific agreements under the continuing connected transactions for the year ended 31 December 2014 mentioned above were entered into and executed in accordance with the pricing principles pertaining thereto.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in Note 44 to the Consolidated Financial Statements that constitutes the connected transaction or continuing connected transaction that need to be disclosed under the Hong Kong Listing Rules. Regarding to the connected transaction and continuing connected transactions, the Bank has complied with the disclosure requirements as specified in Chapter 14A of the *Hong Kong Listing Rules*.

XIX. ISSUANCE OF SHARES AND DEBT SECURITIES

For the issuance of debt securities by the Bank, please refer to the Note 31 to the Consolidated Financial Statements. Except those disclosed above and in this Annual Report, during the Reporting Period, neither the Bank nor any of its subsidiaries had otherwise issued, repurchased or granted convertible debt securities, options, warrants or other similar rights.

XX. TAXATION

As stipulated in the *Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H Share Holders Who are Overseas Non-resident Enterprises by Chinese Resident Enterprises (Guo Shui Han [2008] No. 897)* published by the State Administration of Taxation, when Chinese residents enterprises distribute annual dividends for the year 2008 and years thereafter to their H-share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%. Non-resident enterprises may apply for tax refund in accordance with relevant provisions including taxation agreement (arrangement) after receiving dividends.

In accordance with *the Notice on Issues relating to Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045* published by the State Administration of Taxation, when foreign individuals holding H shares obtained dividend and/or bonus shares from the non-foreign invested companies incorporated in PRC that issue H shares, the individual income tax is usually withheld at a uniform rate of 10%. The specific rate applied to foreign individuals may be different according to his/her residential status and the tax treaties signed between the country of his/her residence and the People's Republic of China.

Shareholders should consult their tax advisers regarding tax consequences of owning and disposing of the H shares of the Bank.

By order of the Board of Directors
Mr. Niu Ximing
Chairman

26 March 2015, Shenzhen, PRC

REPORT OF THE SUPERVISORY COMMITTEE

In 2014, in accordance with the requirements of the *Company Law*, *Guidelines on Corporate Governance of Commercial Banks*, *Guidelines to Commercial Banks' Supervisory Committee*, and *the Bank's Articles of Association* etc., the Bank aimed at safeguarding legal interests of commercial bank, its shareholders, employees, creditors and other stakeholders. The Bank's Supervisory Committee focused on supervising the discharge of duties, financial activities, internal control and risk management by the Board of Directors and senior management. The detailed report is as follows.

I. MAIN RESPONSIBILITIES OF THE SUPERVISORY COMMITTEE

During the Reporting Period, the Supervisory Committee fulfilled its supervisory responsibilities through initiating Supervisory Committee meetings, discharge of duties review, attendance of Annual General Meetings, Board of Directors' meetings and Special Committees' meetings, participating in annual working conference as well as work reporting meeting by business segments and lines, on-site inspections and investigations, off-site analysis of business data and review of internal and external investigation reports, and periodic review of financial information such as periodic reports. The Supervisory Committee has performed its duties in an effective and diligent manner and has comprehensively carried out its supervisory duties.

1. Supervising the discharge of duties, emphasising the leading role of the Board of Directors and senior management

During the Reporting Period, the Supervisory Committee interviewed 26 Directors and Senior Management members, evaluated the 26 Directors and Supervisors on discharging of duties to the Board of Directors, discussed with some department heads, and reviewed the annual discharge of duty reports for directors and senior management, to form its opinion on the annual discharge of duties by the Board of Directors, senior management and the Special Committees of Board of Directors by making reference to the results of its daily supervision. It then completed its assessment opinion on the annual discharge of duties by individual directors and senior management through summarising the results of annual discharge of duty interviews.

— It was recommended that the Board of Directors should follow the domestic and international economic and financial situation, keep strategic focus, and guide and evaluate medium and long-term development strategy, to strive to “take the lead” and more importantly to “sustain development”, so as to turn the motivation of innovation and reform into the ability to sustain profitability. The Board of Directors was recommended to continuously improve the overall risk management system, pay special attention to potential risks, to strengthen the guiding function of risk appetite and risk tolerance, and to increase the predictability and effectiveness of risk management. It was also recommended to deepen the joint-shareholding reform, improve payment examination mechanism and increase human resource allocation efficiency, in order to improve the core competitiveness.

REPORT OF THE SUPERVISORY COMMITTEE (CONTINUED)

— It was recommended that senior management adapt to the “New Normal”, enhance the crisis awareness, strengthen analysis and research on industry competitors, and compare with its own development as well as its peers in the market. Senior management was recommended to accelerate transformation by improving the quality and ability to serve the real economy, reinforcing the customer base and expediting the construction of internet finance, continuing to deepen the reform by further rationalising the segment of work management, strengthening direct marketing function of divisions and making full preparations for implementation of customer-oriented comprehensive asset and liability management system (“531” system), and to fully implement risk prevention and control by actively promoting mitigation of non-performing loans, improving risk compliance construction in small-scale middle offices, enhancing risk management and control over large-scale enterprises and maintaining a strong and tough attitude toward risk case prevention and control.

2. Focusing on internal control, to ensure secure and steady operation of the Bank

Under the “New Normal”, the Supervisory Committee was devoted to making its work more forward-looking, to reveal risks in a timely manner, and focused on providing global and targeted suggestions, to promote sound operation of the Bank.

- (1) Investigation and research on credit asset management. As for the fact of relatively high proportion of non-performing loans, fast growth of overdue loans and low provision coverage of impaired loans, the Supervisory Committee suggested to focus on the asset quality of tier-2 branches which were approved by the Board of Directors in recent four years, determine annual control target of non-performing loans in an objective way, grant authority to the persons entitled to approve in a reasonable way, enhance the examination before, when and after granting loans and the third-party management of loans, determine responsibilities in a timely manner and maintained the stability of the asset quality.
- (2) Investigation and research on quasi-credit business. Since quasi-credit business has been gradually expanded in recent years and its complexity may easily cause risk events, the Supervisory Committee suggested to focus on the proportion of quasi-credit business in government financing business, the shift from credit to quasi-credit assets, to prevent significant risks from not being effectively mitigated, to link the economic capital calculation and asset quality of quasi-credit business to the appraisal of branches and to avoid over-emphasis on development while neglecting risks.

REPORT OF THE SUPERVISORY COMMITTEE (CONTINUED)

- (3) Research on centralised procurement. For issues found in special audit of centralised procurement, it was proposed to separate the evaluation expert management from utilisation and to establish a mutually independent management mechanism. Given that the head quarter is not in Beijing and the branches increased gradually, it was suggested that at least 2 suppliers should be chosen to reduce the cost of travel, and a centralised procurement mechanism for the business travel services of the Group. The prior announcement system of single-source procurement projects was established to improve the transparency of the centralised procurement.
- (4) Investigate credit card management. Credit card was one of the key businesses of the Bank. It was recommended to strengthen the examination of the applicants, the reasonable setting of system parameters, improving system monitoring and effectively identifying abnormal transactions, so as to avoid reputational risk and economic loss.

3. Monitor finance to ensure true and fair disclosure of information

The Supervisory Committee carefully reviewed financial information such as regular report and profit distribution plan and received reports from operation management, periodic report preparation and external audit and reporting. Through the comparative analysis with supervisory index, annual operation index assigned by the Board of Directors and inter-bank and historical data, the Supervisory Committee paid attention to asset quality, profitability and sustainable development, and proposed relevant suggestions, so as to ensure the true and fair of the information disclosed.

4. Unblock information, further exploit supervision efficiency

(1) Strengthen the external communication. The Supervisory Committee strengthened the communication with regulatory bodies, grasp the regulatory development and regulatory suggestions to the Group. Moreover, it attended seminars held by China Investment Corporation, Association of Chinese Listed Companies and Association of Shanghai Listed Companies, so as to strengthen communications with Supervisory Committees of the industry, share work experience, broaden the view to improve the quality and effectiveness of the supervision.

(2) Strengthen the internal communication within the Group. The Supervisory Committee established regular contact and information reporting mechanism with audit, risk management, compliance and supervision departments. It also clarified information reporting contents and frequency of the subsidiaries and promptly understood operation situation and risks of the subsidiaries in terms of consolidated balance sheet of the Group.

5. Hold meetings of the Supervisory Committee, and exploit the role of discussion platform

In 2014, the Supervisory Committee held four meetings on 28 and 30 March, 29 April, 21 August and 29 October respectively. During the meetings of the Supervisory Committee, 21 resolutions were considered and approved, including the “2013 Report of the Supervisory Committee”, a report presented during the Annual General Meeting. With regard to the monitoring of discharge of duties, the Supervisory Committee considered and approved the “Opinion of the Supervisory Committee on the Discharge of Duty by the Board of Directors and Senior Management in 2013” and “2013 Report of Self-evaluation on Duties Performed by the Supervisory Committee and

REPORT OF THE SUPERVISORY COMMITTEE (CONTINUED)

its Members”. With regard to the monitoring of revenue and expenditures, 6 resolutions were considered and approved, including the “2013 Annual Report”, “2013 Management Accounts” and “2013 Profit Distribution Plan”, etc. With regard to the improvement of the Supervisory Committee, Supervisors considered and approved 7 proposals, including the “2014 Work Plan of the Supervisory Committee” and “the Resolution for the Adjustment of Members of Special Committee of Supervisory Committee”. The Supervisory Committee received reports from Senior Management about three businesses, including off-balance sheet business management and risk control, non-performing loan management and operation risk management. In combination of work practice of themselves, supervisors proposed comments and suggestions from different aspects. The meetings of Supervisory Committee became an important platform to exploit the role of effective monitoring.

During the Reporting Period, all supervisors, faithfully and diligently protect shareholders’ interests in compliance with laws and regulations, with the percentage of attendance in person of 83% (see the table below for details).

Supervisory Committee Member	Attendance at the Supervisory Committee meetings by Supervisory Committee members	
	Attendance in person	Attendance in person (%)
Song Shuguang	4/4	100
Hua Qingshan	2/2	100
Jiang Yunbao	2/2	100
Lu Jiahui	3/4	75
Tang Xinyu	2/2	100
Teng Tieqi	1/4	25
Gu Huizhong	2/4	50
Dong Wenhua	4/4	100
Li Jin	4/4	100
Gao Zhongyuan	3/4	75
Yan Hong	4/4	100
Chen Qing	4/4	100
Shuai Shi	2/4	50
Du Yarong	3/4	75
Fan Jun	4/4	100
Average attendance in person percentage		83

Note:

1. Mr. Song Shuguang and Ms. Tang Xinyu have been the Bank’s supervisor since 25 June 2014.
2. Mr. Hua Qingshan and Mr. Jiang Yunbao retired as supervisors respectively on 25 June 2014 and 30 April 2014.

REPORT OF THE SUPERVISORY COMMITTEE (CONTINUED)

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE ON RELEVANT MATTERS

1. Truthfulness of the Financial Statements

The financial statements truly and fairly present the financial position and financial performance of the Bank.

2. Use of Proceeds

The Bank issued Tier-2 Capital Bonds in domestic interbank bond market and overseas market respectively in August and October 2014. The issuing scale amounted to RMB28 billion by domestic branches, and USD1.2 billion and EUR0.5 billion overseas respectively. The above proceeds less issue expenses are used to supplement Tier-2 Capital for a purpose of a higher capital adequacy ratio, which is consistent with the Bank's promise.

3. Acquisition and Disposal of Assets

The Supervisory Committee is not aware of any acquisition or disposal of assets by the Bank which may harm the interest of the shareholder or which may cause impairment to the Bank's assets.

4. Related Party Transactions

During the Reporting Period, the Supervisory Committee was not aware of any related party transactions entered into by the Bank that would damage the interest of the Bank or its shareholders.

5. The Auditor's Report

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have issued unqualified audit's reports on the Group's financial position and financial performance for the year ended 31 December 2014 and the Supervisory Committee has no objection to the reports.

6. The Execution of the Resolutions of the Shareholders' General Meetings

The Supervisory Committee has no objection to the proposals submitted to the Shareholders' General Meetings and considered that the Board of Directors well performed the resolutions of the Shareholders' General Meetings.

7. Implementation of Information Disclosure

During the Reporting Period, the Bank proactively invited the supervision by the public. The Supervisory Committee did not identify false records, misleading statements or material omissions.

8. Internal Control System

During the Reporting Period, the Bank attached significant importance to the development of its internal control system, with continuous enhancement made to perfect its internal control systems and management ability. The Supervisory Committee has no objection to the "Internal Control Self-Appraisal Report for 2014" of the Bank.

REPORT OF THE SUPERVISORY COMMITTEE (CONTINUED)

9. The Performance of Social Responsibility

During the Reporting Period, the Bank vigorously performed its corporate social responsibility. The Supervisory Committee has no objection to the “Corporate Social Responsibility Report for 2014” of the Bank.

10. Compliance with Applicable Laws

During the Reporting Period, the Bank undertook its business pursuant to applicable laws and its decision-making process was in compliance with relevant laws, regulations and the Bank’s Articles of Association. The Board of Directors and Senior Management were diligent, hard-working, proactive, prudent and practical and no instances of any breach of laws or regulations which would damage the interests of the Bank and shareholders have been identified. The Supervisory Committee evaluated the discharge of duties performed by Directors and Senior Management for the year of 2014, in accordance with the *Guidelines of Corporate Governance of Commercial Bank* and *Guidelines of Supervisory Committee of Commercial Bank*, issued by the CBRC, and the Supervision of the Supervisory Committee over Senior Management and members of the Board of Directors issued by the Bank. As at the end of 2014, there were 25 incumbent Directors and Senior Management at the Bank. Their evaluation is divided into three categories, namely “competent”, “basically competent” and “not competent”. The Supervisory Committee evaluated 20 Directors and Senior Management as competent, 2 Directors as basically competent, while 3 Directors were not evaluated because they were appointed no less than 6 months ago.

The Bank, in line with the overall requirements of “stabilising growth, promoting reform, adjusting structure and benefiting people’s livelihood”, carried forward deepening reform and innovation and transformative development, optimised systems and mechanisms, and improved financial services, in order to achieve the Bank’s strategic goals. Additionally, the Bank continued to intensify risk control in all respects, with focus on external audit supervision and rectification proposed by the Supervisory Committee. However, the Bank is required to further promote its brand and market competency by special services, to make good arrangements for “531” system to go on-line for the purpose of enhancing the technological support to business development, and to improve systems and mechanisms such as employment, remuneration and assessment for the purpose of more vigorous operation, and to fulfil risk control responsibility for the purpose of stable operation. The Bank, determined and confident, moves forward against difficulties, and makes great efforts to become a first class listed banking group featured by wealth management.

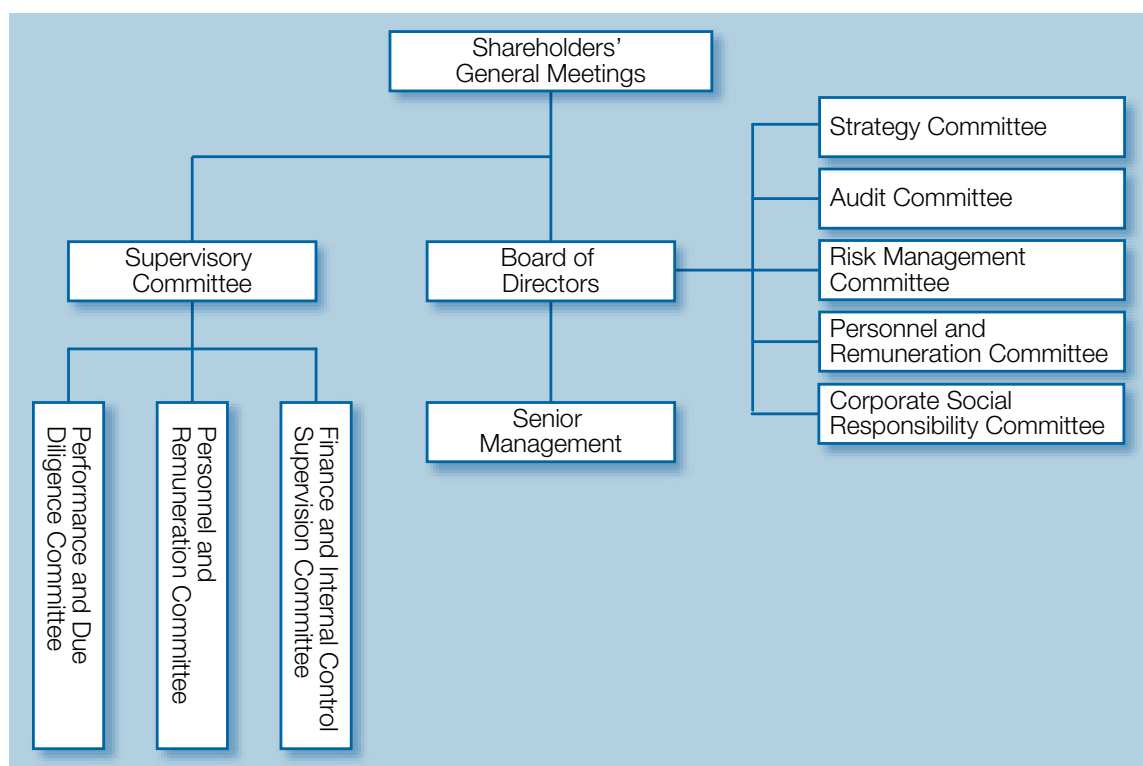
CORPORATE GOVERNANCE REPORT

Sound corporate governance is the institutional guarantee for sustainable development and the key for prudent operation of a commercial bank. Targeting at becoming the “Best Bank in Corporate Governance”, the Bank always adheres to the key initiative of enhancing the standardisation and efficiency of its corporate governance in order to promote reform and development. The Bank is also committed to improving its modern corporate governance mechanism comprising the Shareholders’ General Meeting, the Board of Directors, the Supervisory Committee and Senior Management with clearly defined roles, authorities and responsibilities, mutual coordination and efficient operation, so as to protect the legitimate rights and interests of shareholders and other stakeholders.

The corporate governance of the Bank strictly abides by the *Company Law*, the *Securities Law* and the requirements stipulated by the China Securities Regulatory Commission. For the year ended 31 December 2014, the Board of Directors confirmed that the Bank has fully complied with the principles and code provisions under the *Corporate Governance Code* as set out in Appendix 14 of *Hong Kong Listing Rules*, and had followed most of the recommended best practices contained in the *Corporate Governance Code*.

I. CORPORATE GOVERNANCE STRUCTURE

The Bank has established a corporate governance structure comprising the Shareholders’ General Meetings, Board of Directors, Supervisory Committee and Senior Management, with clearly defined authorities and responsibilities, effective check and balance, and coordinated and independent operation.



Note: The chart shows the corporate governance structure of the Bank as at the end of the Reporting Period.

II. ESTABLISHMENT OF CORPORATE GOVERNANCE

During the Reporting Period, the Bank's Board of Directors and Strategic Committee of the Board of Directors have actively fulfilled the responsibility of corporate governance, cautiously examined and evaluated the execution of corporate governance and continuously pushed forward the establishment of the corporate governance mechanism. During the Reporting Period, the Bank has amended *Guidance of Strategic Committee*, *Guidance of Audit Committee*, *Guidance of Risk management*, *Guidance of Remuneration Committee* and *Guidance of Social Responsibility Committee*. They have also enhanced the roles and responsibilities of the committees of the Board of Directors and effectively improved the corporate governance.

III. SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

As at 31 December 2014, the total issued share capital of the Bank was 74,262,726,645 shares, consisting of 52.85% A shares and 47.15% H shares. There is no controlling shareholder of the Bank. The largest shareholder, the Ministry of Finance, and the second largest shareholder, HSBC, held 26.53% and 19.03% of the equity interest in the Bank respectively. The Bank is independent from all shareholders in terms of its business, employees, assets, institutions and finance, and possesses the capacity of independent and complete autonomy over its business and operations. The Bank is a listed company in its entirety. Therefore, horizontal competition or connected transactions arising from partial restructuring and other causes do not exist.

Pursuant to the Articles of Association, shareholders have the right to obtain relevant information, including the Articles of Association, status of the share capital, records of the Shareholders' General Meeting, resolutions of meetings of the Board of Directors, and resolutions of meetings of the Supervisory Committee. Shareholders can also put forward enquiries to the Board of Directors using the contact information set out on page 3 under the "CONTACT DETAILS" section in this Annual Report.

The Shareholders' General Meeting is the highest authority of the Bank. Shareholders individually or jointly holding more than 10% of the voting shares of the Bank have the right to request in written form to convene an Extraordinary General Meeting. Shareholders individually or jointly holding more than 3% of the voting shares of the Bank have the right to put forward in written form proposals to the Shareholders' General Meeting. The Bank adopts various methods for voting, including onsite voting and online voting, to facilitate shareholders' participation and ensure that shareholders can exercise their rights. Each matter which is independent in itself will be put forward to the Shareholders' General Meeting as a separate proposal and voted on by way of polling.

During the Reporting Period, the Bank held one Annual General Meeting and one Extraordinary General Meeting. All resolutions passed at Shareholders' General Meetings have been fully executed. The resolution announcements for all Shareholders' General Meetings have been disclosed on the websites of SSE, HKEx and the Bank, and published in *China Securities Journal*, *Shanghai Securities News* and *Securities Times*.

CORPORATE GOVERNANCE REPORT (CONTINUED)

On 12 March 2014, the Bank held the 2014 First Extraordinary General Meeting in Shanghai, at which the “Proposal in respect of the Issuance of Eligible Tier-2 Capital Bonds with Write-down Features” was considered and approved.

On 25 June 2014, the Bank held the 2013 Annual General Meeting in Shanghai, at which proposals including “Work Report of the Board of Directors for 2013”, “Report of the Supervisory Committee for 2013”, “Financial Accounts Report for 2013”, “Profit Distribution Plan for 2013”, “Resolution in relation to the appointment of auditors for the year of 2014”, “2014 fixed assets investments plan of Bank of Communications Co., Ltd.”, “2013 remuneration plan for directors of Bank of Communications Co., Ltd.”, “2013 remuneration plan for supervisors of Bank of Communications Co., Ltd.”, “Proposal in respect of the appointment of Ms. Li Jian as an Independent Non-executive Director of Bank of Communication Co., Ltd.”, “Proposal in respect of the appointment of Mr. Song Shuguang as a Supervisor of Bank of Communication Co., Ltd.”, “Proposal in respect of the appointment of Ms. Tang Xinyu as an external Supervisor of Bank of Communication Co., Ltd.”, “Proposal in respect of the appointment of Mr. Liu Changshun as a Non-executive Director of Bank of Communication Co., Ltd.”, “Proposal in respect of the appointment of Mr. Liu Li as an Non-executive Director of Bank of Communication Co., Ltd.” were considered and approved.

Summary of Shareholders’ General Meetings

Session	Date	Proposal	Resolution	Website Designated for Publishing Resolution
2014 First Extraordinary General Meeting	12 March 2014	Proposal in respect of the Issuance of Eligible Tier-2 Capital Bonds with Write-down Features	Passed	Disclosed on the official website of the Bank at www.bankcomm.com , SSE website at www.sse.com.cn and HKEx HKExnews website at www.hkexnews.hk
2013 Annual General Meeting	25 June 2014	13 proposals including “Work Report of the Board of Directors for 2013”	Passed	Disclosed on the official website of the Bank at www.bankcomm.com , SSE website at www.sse.com.cn and HKEx HKExnews website at www.hkexnews.hk

CORPORATE GOVERNANCE REPORT (CONTINUED)

Attendance of members of the Board of Directors at Shareholders' General Meetings during the Reporting Period is set out as follows:

	Attendance	Attendance Percentage (%)
Executive Directors		
Niu Ximing	2/2	100
Peng Chun	2/2	100
Qian Wenhui	2/2	100
Yu Yali	2/2	100
Non-executive Directors		
Hu Huating	2/2	100
Wang Taiyin	2/2	100
Liu Changshun	–	–
Peter Wong Tung Shun	0/2	0
Anita Fung Yuen Mei	0/2	0
Ma Qiang	0/2	0
Lei Jun	0/2	0
Zhang Yuxia	1/2	50
Independent Non-executive Director		
Peter Hugh Nolan	0/2	0
Chen Zhiwu	0/2	0
Choi Yiu Kwan	2/2	100
Yu Yongshun	2/2	100
Li Jian	–	–
Liu Li	–	–
Directors resigned/retired		
Du Yuemei	2/2	100
Wang Weiqiang	1/2	50
Liu Tinghuan	0/2	0

Notes:

- Please refer to the "Directors, Supervisors, Senior Management and Human Resource Management" section in this Annual Report for details on changes in Directors (same applies hereinafter).
- Mr. Liu Changshun was appointed as Non-executive Director on 30 September 2014. During his tenure in 2014, the Bank did not convene any Shareholders' General Meeting.
- Ms. Li Jian was appointed as Independent Non-executive Director on 27 October 2014. During her tenure in 2014, the Bank did not convene any Shareholders' General Meeting.
- Mr. Liu Li was appointed as Independent Non-executive Director on 28 September 2014. During his tenure in 2014, the Bank did not convene any Shareholders' General Meeting.
- On 10 February 2015, Mr. Qian Wenhui resigned as Executive Director due to re-designation of work. On 30 January 2015, Ms. Anita Fung Yuen Mei resigned as Non-executive Director due to personal work arrangement.

IV. BOARD OF DIRECTORS AND SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS

1. Composition of the Board of Directors

The Bank understands and recognises the importance of diversity of members of the Board of Directors, which the Bank regards as a vital supporting factor for improving the corporate governance and achieving the sustainable development of the Bank. Hence, the Bank has adopted the “Policy on Diversity of Members of the Board of Directors of the Bank”, according to which the Bank shall set the membership composition of the Board of Director by considering the issue of diversity of members of the Board of Directors from factors including gender, age, nationality, academic background, professional qualification, industry expertise. During the process of selecting and appointing members of the Board of Directors, adequate consideration should be given to diversity, and a comprehensive assessment of the capabilities, skills, experience and background of the candidates is required to make an objective evaluation of their potential contributions to the Bank, so as to ensure that the Board of Directors can benefit from various perspectives and opinions in discharging its duties, and that the best membership composition of the Board of Directors that is compatible with the development strategy of the Bank is in place.

As at 31 December 2014, the Board of Directors comprised of 18 members, including four Executive Directors, namely Mr. Niu Ximing, Mr. Peng Chun, Mr. Qian Wenhui, and Ms. Yu Yali; eight Non-executive Directors, namely Mr. Hu Huating, Mr. Wang Taiyin, Mr. Liu Changshun, Mr. Peter Wong Tung Shun, Ms. Anita Fung Yuen Mei, Mr. Ma Qiang, Mr. Lei Jun and Ms. Zhang Yuxia; and six Independent Non-executive Directors, namely Mr. Peter Hugh Nolan, Mr. Chen Zhiwu, Mr. Choi Yiu Kwan, Mr. Yu Yongshun, Ms. Li Jian and Mr. Liu Li. The number of Independent Non-executive Directors of the Bank accounted for one-third of the total number of Directors, which met the relevant regulatory requirements. Please refer to the “Directors, Supervisors, Senior Management and Human Resource Management” section in this Annual Report for the changes of the members of the Board of Directors and their biographical details, as well as the term of office of the Non-executive Directors.

Mr. Niu Ximing is the Chairman of the Board of Directors. Mr. Peng Chun is the Vice Chairman of the Board of Directors and President of the Bank. The roles and responsibilities of the Chairman and President are mutually independent and clearly defined.

2. Responsibilities of the Board of Directors

The Board of Directors is the strategic decision-making body of the Bank and responsible to the Shareholders' General Meeting. Moreover, it exercises its powers and performs its duties within the terms of reference as stipulated under the laws, regulations and the Articles of Association, and as authorised by the Shareholders' General Meetings so as to protect the legitimate interests of the Bank and its shareholders. Its main responsibilities include convening and reporting to Shareholders' General Meetings, executing resolutions of Shareholders' General Meetings, determining the Bank's business plans and investment proposals, receives reports from the President and monitors the performance of Senior Management.

In 2014, with the support of shareholders, the Board of Directors maintained the steady operation and healthy development of the Bank by uniting and leading Senior Management, adhering to the overall strategy of making progress while maintaining stability and promoting reform and innovation of the operation and management system. In 2014, the Board of Directors carried out the following major tasks: firstly, its significantly enhanced the international and integrated business advantages and wealth management benefits by adopting the "BoCom Strategy" to guide transformation development; secondly, it furthered the reform of operation mechanism of the Board of Directors and strengthened the periodic assessment and implementation supervision of strategic decision-making; thirdly, it promoted reform and innovation as well as transformation and development of the operation model by rendering financial services focusing on supporting the real economy; fourthly, it furthered the establishment of the comprehensive risk control mechanism and assume the ultimate responsibility for the Bank's risk management and control; fifthly, it innovated the tools for supplementing capital resources to safeguard reform and innovation as well as transformation and development with sufficient capital; sixthly, it obtained significant achievements in market value management and information disclosure by paying high attention to changes in the capital market and stock price of the Company; seventhly, it fulfilled the social responsibility of an outstanding corporate citizen to maximise the benefits of stakeholders including shareholders and customers.

3. Meetings of the Board of Directors

The Bank has developed the "Rules of Procedures of the Board of Directors" to strictly regulate matters including the requirements for convening and giving notice for a meeting, and the procedures, agenda and records of the meeting. During the Reporting Period, the Board of Directors held seven meetings (including five on-site meetings and two meetings via circulation of written resolutions), and considered and passed 61 resolutions and reports, including the annual work report of the Board of Directors, work report of the President, financial accounts report, profit distribution plan and proposal for election of the Board of Directors. The five special committees under the Board of Directors held 22 meetings during the Reporting Period, and considered and passed 78 resolutions and reports. All the above meetings were held in compliance with the requirements of the Articles of Association, the *Rules of Procedures of the Board of Directors* and provisions of the *Corporate Governance Code*.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Attendance of Directors of the Bank at meetings of the Board of Directors during the Reporting Period is set out as follows:

	Attendance at Meetings	Attendance Percentage (%)	Attendance at Meetings in Person	Attendance in Person Percentage (%)
Executive Directors				
Niu Ximing	7/7	100.00	7/7	100.00
Peng Chun	7/7	100.00	6/7	85.71
Qian Wenhui	7/7	100.00	7/7	100.00
Yu Yali	7/7	100.00	7/7	100.00
Non-executive Directors				
Hu Huating	7/7	100.00	7/7	100.00
Wang Taiyin	7/7	100.00	7/7	100.00
Liu Changshun	1/1	100.00	1/1	100.00
Peter Wong Tung Shun	7/7	100.00	3/7	42.86
Anita Fung Yuen Mei	7/7	100.00	4/7	57.14
Ma Qiang	7/7	100.00	7/7	100.00
Lei Jun	7/7	100.00	6/7	85.71
Zhang Yuxia	7/7	100.00	7/7	100.00
Independent Non-executive Directors				
Peter Hugh Nolan	7/7	100.00	7/7	100.00
Chen Zhiwu	7/7	100.00	6/7	85.71
Choi Yiu Kwan	7/7	100.00	7/7	100.00
Yu Yongshun	7/7	100.00	7/7	100.00
Li Jian	1/1	100.00	1/1	100.00
Liu Li	1/1	100.00	1/1	100.00
Directors resigned/retired				
Du Yuemei	6/6	100.00	5/6	83.33
Wang Weiqiang	7/7	100.00	4/6	66.67
Liu Tinghuan	6/6	100.00	5/6	83.33
Average Attendance/ Attendance in Person Percentage		100.00		88.89

Notes:

1. Mr. Liu Changshun was appointed as a non-executive director on 30 September 2014. During his tenure in 2014, the Bank convened one meeting of the Board of Directors.
2. Ms. Li Jian was appointed as an independent non-executive director on 27 October 2014. During her tenure in 2014, the Bank convened one meeting of the Board of Directors.
3. Mr. Liu Li was appointed as an independent non-executive director on 28 September 2014. During his tenure in 2014, the Bank convened one meeting of the Board of Directors.
4. On 10 February 2015, Mr. Qian Wenhui resigned as Executive Director due to re-designation of work. On 30 January 2015, Ms. Anita Fung Yuen Mei resigned as Non-executive Director due to personal work arrangement.

4. Special Committees under the Board of Directors

The Board of Directors has set up five special committees, namely the Strategy Committee, the Audit Committee, the Risk Management Committee, the Personnel and Remuneration Committee and the Social Responsibility Committee. The discharge of duties by the respective special committees during the Reporting Period is summarised as follows:

1. Strategy Committee. The Strategy Committee is primarily responsible for formulating the operation and management objectives and long-term development strategies of the Company, supervising and inspecting the implementation of the annual business plan and investment plan, inspecting and assessing the implementation of the corporate governance system, and making recommendations to the Board of Directors for developing and improving the corporate governance policies and system.

As at the end of 2014, the Strategy Committee comprised eight members including Mr. Niu Ximing, Mr. Peng Chun, Mr. Qian Wenhui, Ms. Yu Yali, Mr. Peter Wong Tung Shun, Mr. Ma Qiang, Ms. Zhang Yuxia and Mr. Choi Yiu Kwan, with Mr. Niu Ximing serving as chairman. During the Reporting Period, the Strategy Committee held five meetings, considered and passed 19 resolutions and reports including the issuance of eligible Tier-2 capital bonds with write-down features, Internal Assessment Report on Capital Adequacy for 2014-2016, establishment of subsidiary in Luxembourg and participating in the restructuring of Hainan Bank, and presented its recommendations to the Board of Directors.

2. Audit Committee. The Audit Committee is mainly responsible for proposing the appointment, change or removal of the Bank's auditors, monitoring the Bank's internal audit system and its implementation, acting as the communication channel between the Bank's internal and external auditors, reviewing the Bank's financial information and its disclosure, examining the Bank's accounting policies, financial position and financial reporting procedures, and monitoring the implementation of the Bank's internal control.

As at the end of 2014, the Audit Committee of the Board of Directors comprised seven members, including Mr. Yu Yongshun, Mr. Wang Taiyin, Mr. Liu Changshun, Ms. Zhang Yuxia, Mr. Choi Yiu Kwan, Ms. Li Jian and Mr. Liu Li, with Independent Non-executive Director Mr. Yu Yongshun serving as the chairman. During the Reporting Period, the Audit Committee held five meetings, and considered and passed 23 resolutions and reports, including financial accounts report, profit distribution plan, annual report and results announcement, appointment of auditors for 2014, and fixed asset investment plan for 2014, and presented its recommendations to the Board of Directors.

CORPORATE GOVERNANCE REPORT (CONTINUED)

3. Risk Management Committee. The Risk Management Committee is mainly responsible for monitoring and evaluating the risk management and control of the Bank in areas including credit, market, operation and compliance, performing periodic assessment on the Bank's risk management and risk tolerance and its risk management capabilities, reviewing significant fixed asset investments, asset disposals, asset pledges or external guarantees, reviewing significant related party transactions, and making recommendations to the Board of Directors on improving the Bank's risk management and internal control.

As at the end of 2014, the Risk Management Committee comprised seven members, including Ms. Li Jian, Mr. Hu Huating, Mr. Ma Qiang, Mr. Lei Jun, Mr. Peter Hugh Nolan, Mr. Chen Zhiwu and Mr. Yu Yongshun, with Independent Non-executive Director Ms. Li Jian, serving as chairman. During the Reporting Period, the Risk Management Committee held four meetings, considered and passed 16 resolutions and reports, including the liquidity risk management policy, country risk management policy, information technology risk management policy, and presented its recommendations to the Board of Directors.

4. Personnel and Remuneration Committee. The Personnel and Remuneration Committee is primarily responsible for formulating the remuneration and incentive plans for Directors and Senior Management according to the strategic plan and operational targets approved by the Board of Directors, presenting its proposals on remuneration plans to the Board of Directors and monitoring the implementation of such plans, developing the criteria and procedures for election and appointment of Directors and Senior Management and performing initial assessments, as well as approving and amending the policy on diversity of members of the Board of Directors and assessing its implementation. The Personnel and Remuneration Committee performs the functions of both a nomination Committee and a remuneration Committee to optimise the Bank's corporate governance structure and improve the efficiency of the Bank's operation.

As at the end of 2014, the Personnel and Remuneration Committee comprised five members, including Mr. Liu Li, Mr. Wang Taiyin, Ms. Anita Fung Yuen Mei, Mr. Peter Hugh Nolan and Mr. Chen Zhiwu, with Independent Non-executive Director Mr. Liu Li, serving as chairman. During the Reporting Period, the Personnel and Remuneration Committee held five meetings, and considered and passed 10 resolutions, including the nomination of Ms. Li Jian as an Independent Non-executive Director and the nomination of Mr. Liu Li as an Independent Non-executive Director, and presented its recommendations to the Board of Directors.

5. Social Responsibility Committee. The Social Responsibility Committee is primarily responsible for conducting research and formulating the Bank's social responsibility strategy and policy, monitoring, inspecting and evaluating the fulfilment of social responsibility by the Bank, approving external donations according to the authorisation of the Board of Directors, as well as reviewing the strategy, policy and goals on protecting the rights of the Bank's consumers.

CORPORATE GOVERNANCE REPORT (CONTINUED)

As at the year end of 2014, the Social Responsibility Committee comprised five members, including Mr. Peng Chun, Mr. Qian Wenhui, Mr. Hu Huating, Mr. Liu Changshun and Mr. Lei Jun, with Mr. Peng Chun, Vice Chairman serving as chairman. During the Reporting Period, the Social Responsibility Committee held three meetings and considered 6 proposals, including the corporate social responsibility report and “Green Credit Policy”, and presented its recommendations to the Board of Directors.

During the Reporting Period, all the above meetings of the special committees of the Board of Directors were held in compliance with the requirements of relevant laws, regulations, the Articles of Association and rules of work of the committees. The summary of attendance of members at the meetings (including written opinions) is set out as follows:

	Strategy Committee	Audit Committee	Risk Management Committee	Personnel and Remuneration Committee	Social Responsibility Committee
Niu Ximing	5/5				
Peng Chun	5/5				3/3
Qian Wenhui	5/5				3/3
Yu Yali	5/5				
Hu Huating			2/2		3/3
Wang Taiyin		2/2		5/5	
Liu Changshun		1/1			
Peter Wong Tung Shun	5/5				
Anita Fung Yuen Mei				5/5	
Ma Qiang	2/2		4/4		2/2
Lei Jun			4/4		1/1
Zhang Yuxia	2/2	5/5			
Peter Hugh Nolan			4/4	2/2	
Chen Zhiwu			4/4	2/2	2/2
Choi Yiu Kwan	2/2	5/5		3/3	
Li Jian		1/1	1/1		
Liu Li		1/1			
Yu Yongshun		5/5	2/2	3/3	
Du Yuemei		4/4			1/1
Wang Weiqiang			3/3		
Liu Tinghuan		4/4		5/5	

5. Independent Non-Executive Directors

As at the end of the Reporting Period, the Bank had 6 Independent Non-executive Directors, and their appointment qualifications are in compliance with the domestic regulatory regulations, as well as Rule 3.10(1) and (2) of the Hong Kong Listing Rules. The independence of the Bank's Independent Non-executive Directors is effectively safeguarded as they do not have any business or financial interests in the Bank or its subsidiaries and they have not assumed any executive positions in the Bank. In addition, the Bank has received annual independence confirmation letters from all Independent Non-executive Directors and considers that each of the Independent Non-executive Directors is independent.

During the Reporting Period, the time that each Independent Non-executive Directors devoted to the work of the Bank was in compliance with the requirements of the "Working Practice of Independent Directors" of the Bank. Currently, three of the Special Committees under the Board, namely the Audit Committee, the Risk Management Committee and the Personnel and Remuneration Committee, are all chaired by Independent Non-executive Directors. These Independent Non-executive Directors actively participated in discussions during meetings of the Board of Directors, thereby promoting objectivity in the decision-making process of the Board of Directors. The Board of Directors attaches great importance to the comments or suggestions of Independent Non-executive Directors, and requires Senior Management to assign specific persons to study them. In addition to attending meetings, each Independent Non-executive Director communicates with Senior Management regularly through various channels including on-site research and discussion sessions. During the Reporting Period, the Independent Non-executive Directors gave independent opinions on significant matters which arose during the Reporting Period, including connected transactions, nomination of Directors and appointment of Senior Management, and fully commented the resolutions of the Board of Directors and other committees. During the Reporting Period, except that Independent Non-executive Director Mr. Choi Yiu Kwan abstained from voting on the "Resolution on Participating in Restructuring of Hainan Bank", other Independent Non-executive Directors had no objections to any resolution.

6. Participation in Training and Research by Directors during the Report Period

During the Reporting Period, the Board of Directors actively organised all the Directors to attend different training sessions, provided opportunities for the directors to participate in continuous career development plans. The Bank also provided timely information on commercial banks, regulations and capital market through weekly newsletter and monthly director's handbook. During the Reporting Period, the Bank has organised existing directors to participate in training for directors of listed companies and new directors' briefing on fulfilling directors' responsibilities guidance and the Bank's operations and performance. Some of the directors have participated in grass-root research, the main research projects include:

1. Non-executive Directors Mr. Ma Qiang and Mr. Lei Jun, Independent Non-executive Directors Mr. Peter Hugh Nolan, Mr. Choi Yiu Kwan and Mr. Yu Yongshun conducted research on the operation and management of subsidiaries.

CORPORATE GOVERNANCE REPORT (CONTINUED)

2. Non-executive Director Ms. Du Yuemei, Independent Non-executive Directors Mr. Choi Yiu Kwan and Mr. Yu Yongshun conducted research on the progress of establishment of the “new generation information system of BoCom”.
3. Non-executive Directors Mr. Wang Taiyin and Ms. Du Yuemei conducted research on the operation and management of branches.
4. Independent Non-executive Directors Mr. Peter Hugh Nolan, Mr. Choi Yiu Kwan and Mr. Liu Li conducted research on the risk management of rural banks.
5. Non-executive Directors Mr. Hu Huating, Mr Wang Taiyin and Mr. Liu Changshun conducted research on the progress of reform of the divisional structure.

7. Responsibility of the Board of Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements to give a true and fair view of the Group’s business condition, operating results and cash flows in each accounting period. In preparing for the financial statements for the year ended 31 December 2014, the Group has selected and consistently applied appropriate accounting policies and has made reasonable and prudent accounting judgements and estimates. The Directors have acknowledged their responsibility for the preparation of financial statements and the auditor’s statement of reporting responsibility for their report is set out in the Auditor’s Report on page 161 of the Annual Report.

8. Specific Notification and Independent Opinion by the Independent Non-Executive Directors on External Guarantees Provided by the Bank

The Independent Non-executive Directors of the Bank consider that the provision of external guarantees is in the ordinary course of the Bank’s business as approved by the banking regulatory authorities in China. The Bank has developed prudent risk management and monitoring policies, including stringent requirements on the standard of credit standing of the guarantees, as well as operational and credit approval procedures, so as to effectively control the risks of its external guarantee business.

V. SUPERVISORY COMMITTEE AND SPECIAL COMMITTEES UNDER THE SUPERVISORY COMMITTEE

Supervisory Committee is the Bank’s supervisory body and responsible to the Annual General Meeting. Its main responsibilities include but not limited to supervising operational behaviours of Directors and Senior Management and reviewing financials and profit distribution of the Bank.

The Supervisory Committee defines their responsibilities as “to establish a good corporate governance, to focus on financial supervision, to emphasise on fulfilling responsibility supervision, based on regulatory compliance and directed by overall risk management and internal control supervision.” All the supervisors have fulfilled their duties diligently by ensuring compliance with regulations, being fair and objective and following scientific principles.

CORPORATE GOVERNANCE REPORT (CONTINUED)

There are 13 members on the Supervisory Committee, including the Chairman, 2 External Supervisors, 6 Shareholder Representative Supervisors, and 4 Employee Representative Supervisors. Mr. Song Shuguang serves as the Chairman of the Supervisory Committee. The 2 External Supervisors were the responsible personnel of a peer bank and national audit institutions respectively. The 6 Shareholder Representative Supervisors are senior management of state-owned companies such as AVIC, FAW Group, Luneng Group, Huaneng Group, Sinopec and PetroChina. The 4 Employee Representative Supervisors are the responsible personnel from Board of Directors Office, employee union, internal audit, inspection department. The Supervisory Committee has three Special Committees: The Performance and Due Diligence Supervision Committee, has 4 members including the Chairman of the Supervisory Committee, being the Chairman of the Performance and Due Diligence Supervision Committee, 2 External Supervisors and 1 Employee Representative Supervisor. They are responsible for the supervision of the performance of the Board of Directors and Senior Management and its members. The Personnel and Remuneration Committee has 5 members, with the External Supervisor as the Chairman, 1 External Supervisor, 1 Shareholder Representative Supervisors, and 2 Employee Representative Supervisors. They are responsible for setting Supervisor's election and appointment procedures and standards, assessment of the qualification of the elected and appointed Supervisors, the remuneration of the supervisors and the evaluation of their annual performance. The Finance and Internal Control Supervision Committee, has 7 members, including the Chairman being the External Supervisor, 1 External Supervisor, 3 Shareholder Representative Supervisors and 2 Employee Representative Supervisors. They are responsible for the supervision of financial management, internal controls and risk management of the Bank.

The Supervisory Committee agreed on the matters under supervision during the Reporting Period.

VI. SENIOR MANAGEMENT

The Bank's Senior Management comprises the President, Executive Vice President, Chief Financial Officer, Chief Information Officer, Chief Risk Officer, Corporate Business Director and BoCom-HSBC Strategic Cooperation Consultant. The Bank adheres to a system under which the President, as the ultimate responsible officer, reports to the Board of Directors. All functional departments, branch offices and other Senior Management report to President. The President has the authority to conduct the Bank's business operations in compliance with the relevant laws and regulations, the Articles of Association and authorisation from the Board of Directors, with primary responsibilities including but not limited to managing day-to-day business operations, implementing the resolutions of Shareholders' General Meetings and meetings of Board of Directors, drafting annual business plans and investment strategy plans, and implementing such plans upon approval by Shareholders' General Meeting or meetings of the Board of Directors.

During the Reporting Period, Senior Management conducted business operations within the scope authorised by the Articles of Association and the Board of Directors, and achieved the business targets determined by the Board of Directors as required. The Board of Directors was satisfied with the work of Senior Management for the year 2014.

VII. INTERNAL CONTROL

1. Statement of the Board of Directors on Internal Control Responsibility

Establishing, improving and effectively implementing internal control of the Bank pursuant to the provisions of the “Guidelines on Internal Control for Commercial Banks” issued by the CBRC, “The Basic Standard for Enterprise Internal Control” jointly issued by the Ministry of Finance and four other ministries and commissions and relevant guidelines, as well as other regulatory requirements on internal control, assessing its effectiveness and disclosing the internal control assessment report truthfully are the responsibility of the Board of Director. The Supervisory Committee supervises the establishment and implementation of internal control by the Board of Directors, and Senior Management is responsible for organising and leading the day-to-day operation of internal control within the enterprise. The Board of Directors has set up the Audit Committee and Risk Management Committee to perform the corresponding internal control functions, and Senior Management has set up the Internal Control Management Committee to take charge of work including coordination of planning, formulation of basic polices, organisation of implementation, review and assessment of the internal control system.

The Bank’s internal control aims to ensure compliance of the Bank’s business activities with the provisions of national laws and the Bank’s internal regulations and rules, truthfulness and completeness of information in the financial reports, effectiveness of the risk management system and safety of assets; improve operation efficiency and effectiveness, and facilitate the achievement of operation objectives and development strategies ultimately. During the Reporting Period, the Board of Directors reviewed the internal control systems of the Bank and its subsidiaries, and found them stable and effective.

2. Basis for Establishment of Internal Control for Financial Reporting

With a focus on its internal control objectives, the Bank has established a stringent internal control system for financial reporting pursuant to the *Guidelines on Internal Control for Commercial Banks* issued by the CBRC and the *Basic Standard for Enterprise Internal Control* jointly issued by the Ministry of Finance and four other ministries and commissions and relevant guidelines, as well as other regulatory requirements on internal control.

3. Establishment of Internal Control

In 2014, as the external business environment was increasingly complicated, the Bank furthered its reform, pushed forward transformation development, persisted in stable operation, and remained devoted to improvement of its internal control system and management capabilities. Firstly, it strengthened the establishment of its internal control system. The Bank set up the Internal Control Management Committee to take charge of work including coordination of planning, formulation of basic polices, organisation of implementation, review and assessment of the internal control system; designing the overall internal control plan for the whole bank, setting up four target missions, namely to plan the overall internal control framework, to determine internal control management procedures, to ensure effective operation of internal control, and to step up application of assessment results. It also put forward eight tasks, namely to establish the

CORPORATE GOVERNANCE REPORT (CONTINUED)

system of rules and regulations on internal control, to optimise the framework and functions of internal control, to set up internal control objectives, to improve internal control measures, and to strengthen implementation, review, test, rectify, correct, evaluate, report and assess internal control, so as to form two internal operation mechanisms of self-control and self-correction. Secondly, it furthered reform the management system. The Bank constantly improved systems related to divisions including capital management, market, precious metal, offshore and bills centre, and those related to quasi-divisions including investment banking, custody and private banking; accelerated transformation development of branches managed by provinces with work focus changing from layout improvement to enhancement of quality and efficiency, and set up the Retail Credit Business Department and Retail Credit Management Department in tier-1 provincial branches to realise separation of front, middle and back offices regarding retail credit business. Thirdly, it continued to enhance comprehensive risk management. Upon approval by CBRC, the Bank formally carried out and constantly optimised the *Advanced Measurement Approach of Capital Management*, established and improved the authorisation management method by further detailing the authorisation scope, procedures, department functions and emphasising authorisation management responsibilities, and continuously carried forward establishment of risk compliance in small-scale middle offices by incorporating risk control into business procedures. Fourthly, it enhanced credit business management. The Bank stepped up risk control in key fields including clustered customers, financing for bulk commodity trade, existing steel trade and joint guarantee and joint credit, and conducted trial implementation of approving and authorising comprehensive financing for clients in some branches. Fifthly, it continuously improved management of new business including quasi-credit business. The Bank set up management measures, operation guidelines and business procedures for quasi-credit business to strengthen risk management for quasi-credit business, and strengthened management of existing forward purchases by classified management. Sixthly, it enhanced the supervision, examination, evaluation and assessment of internal control. The audit authorities of the Head Office and regional audit authorities conducted regular internal audits on 28 tier-1 branches and branches directly under the Head Office, 95 tier-2 branches and 7 oversea branches; and other departments in the Head Office conducted special bank-wide examination on safe operation and security, service charges, illegal loans and illegal fund raising. Based on the findings of supervision and examination, the Bank assessed the internal control of tier-1 branches with compliance and internal control incorporated into the annual comprehensive performance assessment for tier-1 branches and departments of the Head Office as separate assessment items. During the Reporting Period, the National Audit Office audited the Bank, which actively provided full support during the audit. The Bank will disclose the confirmed audit results in time.

4. Assessment Report on Internal Control and Audit Report on Internal Control

The Bank disclosed the assessment report on internal control and audit report on internal control along with the Annual Report. The Board of Directors conducted assessment on the effectiveness of internal control of the Bank as at 31 December 2014 (base date) in accordance with the *Guidelines on Internal Control for Commercial Banks*, *The Basic Standard for Enterprise Internal Control*, and relevant guidelines, as well as other regulatory requirements on internal

CORPORATE GOVERNANCE REPORT (CONTINUED)

control. Based on the identification of material deficiencies in the Bank's internal control, there were no material deficiencies in internal control over financial reporting as at the base date of the assessment report on internal control, and the Bank maintained effective internal control over financial reporting in all material respects, and there were no material deficiencies in internal control over non-financial reporting. Individual items requiring improvement have no substantial effects on the integrity and effectiveness of the Bank's internal control system and the reliability of the Bank's financial reporting. The Bank has identified and taken positive improvement and control measures. No events affecting the assessment conclusion of the effectiveness of internal control took place from the base date of the assessment report on internal control to the date when the assessment report on internal control was issued.

PricewaterhouseCoopers Zhong Tian LLP engaged by the Bank had audited the effectiveness of internal control related to the Bank's financial reporting and considered that the Bank maintained effective internal control over financial reporting in all material respects in accordance with *The Basic Standard for Enterprise Internal Control* and related requirements.

In 2014, the Bank maintained the overall stability and effectiveness of its internal control system. In 2015, the Bank will continue to operate prudently in compliance with laws and regulations maintain a reasonable growth in deposits and profits stability in asset quality, and continue to enhance the standards of internal control.

VIII. ACCOUNTABILITY FOR MATERIAL MISTAKES IN INFORMATION DISCLOSURE IN THE ANNUAL REPORT

The Bank is devoted to enhancing the quality of its annual report and improving the disclosure of information in the annual report. Through establishing the disclosure system for annual report and formulating and implementing rules including the *Administrative Measures for Information Disclosure*, *Administrative Measures for Reporting Material Information*, *Administrative Measures for Maintaining Confidentiality of Inside Information by Insiders* and *Administrative Measures for Reporting Material Information of Subsidiaries* the Bank has determined the internal control points for reporting, preparation and verification of information, clarifying the responsibilities of various positions and implementing accountability for mistakes in order to effectively prevent material mistakes in information disclosure. During the Reporting Period, there were no material mistakes in information disclosure in the annual report of the Bank.

IX. MANAGEMENT OF INSIDE INFORMATION

The Bank places great emphasis on the management of inside information and insiders with inside information and adopts necessary measures to prevent insider dealing. The Bank strictly enforces rules and regulations including the *Administration Measures for Insider Registration* and *Administrative Measures for Maintaining Confidentiality of Inside Information by Insiders*, effectively implementing the confidentiality management of inside information and registration of insiders. The Bank strictly controls the scope of insiders, especially at the time of results announcement or occurrence of material events, and conducts timely registration at sensitive periods. During the Reporting Period, there was no reveal regarding inside information.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Information on the Administration Measures for Insider Registration of the Bank is set out on the official website of the Bank at www.bankcomm.com, the SSE website at www.sse.com.cn and HKEX HKExnews website at www.hkexnews.hk.

X. SECURITIES TRANSACTIONS BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank requires that the Directors, Supervisors and Senior Management of the Bank should strictly adhere to the *Rules on the Administration of Shares held by Directors, Supervisors and Senior Management of Listed Companies and the Changes of Such Shares* issued by the CSRC and the Model Code. Meanwhile, the Bank has also adopted the Model Code as the code for securities transactions by its Directors, Supervisors and Senior Management. After specific enquiries, all the Directors, Supervisors and Senior Management of the Bank had complied with the above rules in the Reporting Period.

XI. AUDITOR'S REMUNERATION

The Group's financial statements for the year ended 31 December 2014 prepared in accordance with China Accounting Standards have been audited by PricewaterhouseCoopers Zhong Tian LLP, and those prepared in accordance with IFRSs have been audited by PricewaterhouseCoopers, with total audit fee of approximately RMB27.28 million. PricewaterhouseCoopers Zhong Tian LLP also provides the Bank with internal control audit service at an audit fee of RMB2.23 million.

During the Reporting Period, the non-audit services provided by PwC and its member firms to the Group mainly included assurance services for the report on corporate social responsibilities, translation services and professional services for bond issue projects. The Bank paid fees of approximately RMB5.7 million in total for such non-audit services. The Audit Committee was satisfied that such services had not impaired the independence of PwC.

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have provided the Group with audit service for one year.

XII. ESTABLISHMENT AND IMPLEMENTATION OF ASSESSMENT MECHANISM AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The performance assessment of the Bank's Senior Management is conducted in accordance with relevant national requirements and the Bank's assessment method for annual business performance of Senior Management.

During the Reporting Period, the Bank did not implement any share incentive scheme.

XIII. INVESTOR RELATIONS (IR)

In 2014, the Bank adopted innovative market value management measures for stepped up the promotion of achievements in reform and transformation, further expanded the communication methods and channels with investors, in order to perform sound market value management persistently.

– The Bank took the lead in implementing collective shareholding by middle management and Senior Management. In 2014, the Bank's Senior Management and core teams at middle level completed two rounds shareholding with self-owned capital, which was unprecedented in capital value management of listed banks. This demonstrated the resolution and confidence of the Bank's management in pushing forward reform and innovative transformation, and was fully affirmed and highly appraised by regulatory authorities and various investors.

– The Bank actively participated in the results briefing of listed banks held by SSE. In September 2014, at the interim results briefing of listed banks held by SSE, the Bank shared its experience with over 200 analysts and journalists in areas including opportunities and challenges in the development of the banking sector, and the Bank's development strategies and operation results, and measures for and achievements in furthering reform and transformation development.

– The Bank communicated with investors through various methods. In 2014, through press conferences for results announcement, Shareholder's General Meeting, road shows, reception of investors for on-site visits, participation in investors' forum and holding discussion sessions with analysts, Senior Management of the Bank communicated and exchanged views on topics including macro-economic situation, development trend of the banking sector, and the Bank's operation results and future development targets with nearly 200 attendees from domestic and foreign journalists and 1,000 attendees from securities analysts and investors, and promoted the investment value of the Bank.

– The Bank maintained platforms for investor communication. The Bank continued to provide timely responses to enquiries including the Bank's development strategies, reform and transformation through "SSE e-interaction", promptly delivered important information about the Bank's operation and management to the market through its WeChat banking and IR webpages, and provided explanation on issues of concern among various investors through hotlines and emails.

XIV. ARTICLES OF ASSOCIATION

For the year ended 31 December 2014, there were no changes to the Articles of Association of the Bank.

CORPORATE SOCIAL RESPONSIBILITIES

Based on the strong belief in “harmony and integrity, the constant pursuit of excellence and the commitment to growing hand in hand with the society”, the Bank proactively performs its corporate social responsibilities and strives to achieve synchronous economic, environmental and social benefits.

I. ENHANCEMENT ON RESPONSIBILITY MANAGEMENT

The Bank is the first among domestic listed companies to establish the Corporate Social Responsibility Committee under the Board of Directors. During the Reporting Period, the composition of the committee was adjusted, and Mr. Liu Changshun and Mr. Lei Jun were appointed as members. The committee composition has great representativeness as it comprises a mix of five members, including both Executive Directors and Non-executive Directors. Six major tasks have been carried out by the committee during the Reporting Period, namely, reinforcement of social responsibilities management; implementation of “Green Credit” policy; safeguarding the legitimate rights of the stakeholders; improvement of internal promotion and external communication of social responsibility activities; standardisation and improvement of donation management, and further development of the Corporate Social Responsibility Committee.

During the Reporting Period, pursuant to the *Guidance on Corporate Social Responsibility*, the Bank defined the measures and functions of different units for the implementation of corporate social responsibilities, and took concrete actions in five key areas, including “improvement of corporate governance, serving real economy, promotion of “Green Credit” policy, achievement of mutual benefits, and clarification of responsibility” in line with the predetermined measures outlined in the “Key Improvements on Corporate Social Responsibility for 2014”.

Huge emphasis has been put by the Bank concerning the communication with stakeholders. The Bank continued to identify, set the targets and took action concerning the key issues on corporate social responsibilities during the Reporting Period based on the expectations and requirements of the eight major stakeholders identified. The Bank’s efforts in social responsibilities are well-recognised by the stakeholders, media and professional institutes.

Social contribution value per share in the past three years

	<i>(in RMB)</i>		
	2012	2013	2014
Social contribution value per share	3.16	3.28	3.73

Note: The “social contribution value per share” (SCVPS) is calculated according to the relevant provisions in the *Notice on Strengthening Listed Companies’ Social Responsibility and the Guidelines on Listed Companies’ Environmental Information Disclosure* issued by Shanghai Stock Exchange on 14 May 2008 and after taking into consideration of the characteristics of the banking industry. $SCVPS = \text{earnings per share} + (\text{tax revenues paid to the state} + \text{salaries paid to employees} + \text{loan interest paid to creditors} + \text{donations to social welfare})/\text{share capital as at the end of the Reporting Period}$.

CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

II. SUPPORT TO REAL ECONOMY

During the Reporting Period, the Bank has been making great efforts in achieving the targets of stabilising growth, promoting reforms, adjusting structure and benefiting people's livelihood with a focus on serving the real economy. The Bank's support to small and micro enterprises, agriculture-related enterprises, the science, education, culture and public health sectors, affordable housing projects and other financial sectors which are beneficial to people's livelihood. These are important works for the fulfilment of corporate social responsibilities. During the Reporting Period, the balance of loans made to central and western China, and agriculture-related enterprises continued to increase at a faster pace than the average growth rate of the total loan balance.

(in billions of RMB)

	2012	2013	2014
Total loan balance	2,947.299	3,266.368	3,431.735
Central and western China	752.150	844.064	921.145
Medium, small and micro enterprises	1,112.793	1,255.160	1,259.151
Agriculture-related enterprises	478.308	540.785	560.207

Note: Central and western China includes Shanxi Province, Anhui Province, Jiangxi Province, Henan Province, Hunan Province, Hubei Province, Guangxi Autonomous Region, Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region, Xinjiang Uyghur Autonomous Region and Inner Mongolia Autonomous Region.

III. IMPROVEMENT OF PEOPLE'S LIVELIHOOD

During the Reporting Period, the Bank granted credit to individual customers to meet their reasonable financing demands, with an aim of promoting consumption, supporting the healthcare industry, facilitating payments and improving the living conditions of people. During the Reporting Period, the balance of loans made to individuals, the science, education, culture and public health sectors and affordable housing projects grew at a faster pace than the average growth rate of the total loan balance.

(in billions of RMB)

	2012	2013	2014
Loans to affordable housing projects	29.254	33.260	35.225
Loans to the science, education, culture and public health sectors	37,596	49,174	59.833
Loans to individuals	601.522	751.310	868.357

CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

IV. GREEN CREDIT

During the Reporting Period, the Bank comes to the seventh year of implementation of the “Green Credit” policy. The management system further improved and the proportion of “green” customers and the loan outstanding balance continued to grow steadily. In addition, loans made to enterprises in low-carbon economy, energy-saving and environmental protection fields continued to grow, while loans made to sectors characterised by “heavy pollution, high energy consumption and over-capacity” were effectively suppressed.

(in billions of RMB, unless otherwise stated)

	2012	2013	2014
The proportion of “green” customers (%)	99.46	99.56	99.58
The proportion of loan balance made to “green” customers (%)	99.80	99.80	99.78
The proportion of loan balance made to sectors characterised by “heavy pollution, high energy consumption and over-capacity” (%)	2.95	2.52	2.15
Loan balance made to energy-saving and emission-reduction sectors	144.028	165.836	152.431

Note: “Loan balance made to energy-saving and emission-reduction sectors” refers to the balance of loans made to the first class “green” customers according to the Bank’s policy, which underlies low-carbon economy, environmental protection and comprehensive resource utilisation. Description of the proportion of loans to sectors characterised by “heavily polluting, highly energy consuming and over-capacity”: the figure in 2014 refers to the loan balance made to the six sectors (namely steel, cement, plate glass, coal chemical, polysilicon and wind power equipment) outlined in the *Notice on Several Opinions on Inhibiting Over Capacity and Redundant Construction of Some Sectors and Guiding the Sound Development of the Industries (Guo Fa (2009) No. 38)* in previous years, plus the total loan balance made to electrolytic aluminium and shipping sectors subject to inclusion according to the credit limit management measures of the Bank, to the total loans granted by all domestic branches.

V. GREEN SERVICE

The Bank is dedicated to the development of an e-banking model with strong emphasis on effective environmental protection, in order to provide more efficient, low-cost, and convenient financial products and services and build a “green finance” era for customers. During the Reporting Period, the number of e-banking customers of the Bank continued to expand rapidly, which together with the significant increase in channel diversion rate of e-banking services, helped to protect the environment by reducing CO2 emission of nearly 6,500 tonnes, representing a year-on-year growth of 30.2%.

	2012	2013	2014
Channel diversion rate of e-banking services (%)	73.17	78.33	83.13

CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

VI. GREEN OPERATION

The Bank is dedicated to becoming an environmentally friendly enterprise through promoting the norm of green operation. During the Reporting Period, the Bank introduced a new generation of unified on-line work platform, mobile work platform, new intranet and video conference system with a complete coverage across the Bank, and continued to upgrade the electronic equipment in the office in order to reduce a significant amount of energy consumption and expenditures. The Bank also continued to control the energy and resource consumption within its premises through the utilisation of energy saving products, technical transformation and management optimisation. By making great efforts to promote video and telephone conferences, the Bank not only provided a more convenient way of communications among its branches, but also significantly reduced the frequency of business trips and alleviated the environmental impact caused by its operation. Furthermore, suppliers of the Bank are encouraged to follow the green procurement standards and construct energy efficient buildings in order to show their commitment to environmental protection.

VII. CUSTOMER SERVICE

To achieve the idea of “building the best service bank in China”, the Bank optimised its service management measures and continued to enhance customer experience, resulting in rising customer satisfaction with significantly less complaints and growing influence on the service standards of the industry. It ranked first in the China Retail Banking Satisfaction Study conducted by J.D. Power, and ranked second in terms of number of branch outlets receiving awards in the 2014 “Top 1000” model unit assessment organised by the China Banking Association.

	2012	2013	2014
Customer Satisfaction Index	694	787	808
Number of product innovation projects	97	101	105
The successful rate of UnionPay card inter-bank transaction (%)	99.982	99.997	99.982
Number of domestic branch outlets	2,701	2,690	2,785
Number of branch outlets awarded the title of “Top 1000”	88	–	127

Note: “Customer Satisfaction Index” is sourced from China Retail Banking Satisfaction Study by J.D. Power. The “Top 1000” model unit assessment is organised by the China Banking Association once every two years. The domestic branch outlets include 66 all-inclusive outlets with organisation registration number.

CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

VIII. CARING FOR EMPLOYEES

As at the end of the Reporting Period, the Bank had a total of 91,641 domestic employees, of which about 53.4% were female employees, while overseas local employees amounted to 2,017, of which approximately 50.2% were female employees.

	2012	2013	2014
Total number of employees	96,331	99,919	93,658
Number of female employees serving as medium-to-top management	2,277	2,360	2,419
Number of ethnic minority employees	2,914	3,205	3,240

During the Reporting Period, the number of jobs offered by the Bank amounted to 16,000, of which 3,340 positions were opened to fresh graduates, and the Bank was named China Best Employer Award again.

The Bank provided competitive packages to employees with reference to cost efficiency, regional variance and industry average, to share with them the fruits of reform and development enjoyed by the Bank. The Bank also put continuous efforts in enhancing employee capabilities, through optimisation of promotion system to ensure a smooth career development path, and provide continuous comprehensive training programs for employees at various levels, segments and positions. By all these, the Bank successfully improved the quality of employees to a large extent.

The first BoCom Happiness Index launched during the year showed an overall happiness index of 65.67. The Bank has built a mobile employee health management platform, integrating five functions, including mobile health consultation, mobile fitness campaign, mobile health one-key dialling, mobile health counselling and mobile health points mall by utilising mobile Internet technology. The Bank also continued to promote the caring projects, the mutual aid committee and the mental health consultation program known as “Inner Peace towards Further Development” for its employees.

CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

IX. DEVOTION TO PUBLIC WELFARE

Dedicated to public charity, the Bank made numerous donations for disaster recovery, disabled persons support and poverty alleviation during the Reporting Period. The Bank will keep executing the existing projects such as “Gateway to Tomorrow – academic grant for disabled teenagers” as well as new projects such as district-targeted support in Tianzhu and “petty cash donation box” projects. Devoted to disaster recovery and reconstruction, the Bank opened up the “green finance” service channel for disaster relief and actively organised donations of money and materials. District-targeted support projects in various forms were carried out to promote local economic development, through supporting infrastructure construction, elevating development potentials and helping people in need. Employees of the Bank also proactively participated in various volunteering activities such as care for the elderly and children, supporting and helping the poor, promoting financial literacy and environmental protection.

(in 10,000 RMB)

Total donations for 2014: RMB3,169.53				
	Disaster recovery	Disabled persons support	Poverty alleviation	Others
	738.63	800	1,016.33	614.57
Including: Donations by units	661.62	800	724.08	122

2014 Donation Breakdown of the Bank

“Gateway to Tomorrow” – academic grant for disabled students	Donations to 25 provinces and cities, including Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region, Liaoning Province, Jilin Province, Heilongjiang Province, Jiangsu Province, Anhui Province, Jiangxi Province, Fujian Province, Shandong Province, Henan Province, Hubei Province, Hunan Province, Guangxi Province, Hainan Province, Chongqing, Sichuan Province, Yunnan Province, Guizhou Province, Shaanxi Province, Ningxia Hui Autonomous Region, Gansu Province, Qinghai Province and Xinjiang Uyghur Autonomous Region.
“Gateway to Tomorrow” – facilitators’ allowance in special education	Donations to 8 provinces and cities, including Hebei Province, Inner Mongolia Autonomous Region, Fujian Province, Henan Province, Hunan Province, Sichuan Province, Beijing and Shanghai.
“Gateway to Tomorrow” – award to distinguished disabled students and facilitators in special education	Donations across the country.

CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

Petty cash donation box	Donations across the country excluding Tibet Autonomous Region.
Poverty alleviation	Tianzhu in Gansu Province, Chicheng in Hebei Province, Wuxiang/Yuxian/Lingchuan of Shanxi Province, Guyang/Jungar Banner in Inner Mongolia Autonomous Region, Xifeng in Liaoning Province, Jingyu/Antu in Jilin Province, Shangzhi/Hua'nán in Heilongjiang Province, Ganyu/Jiangyin in Jiangsu Province, Chunan/Ninghai in Zhejiang Province, Ninghua/Xianyou in Fujian Province, Ruichang/Ji'an in Jiangxi Province, Nanzhao in Henan Province, Tongcheng in Hubei Province, Wuhua/Fengkai in Guangdong Province, Bama in Guangxi Autonomous Region, Tongnan in Chongqing, Ebian/Yanbian in Sichuan Province, Weixi/Chuxiong/Yuanjiang/Dali in Yunnan Province, Yanchi in Ningxia Hui Autonomous Region and Aksu/Yili/Yumin in Xinjiang Uyrghur Autonomous Region.
Disaster recovery	Donations to Ludian in Yunnan Province, Kaohsiung in Taiwan, Hainan Province, etc.

Note: The donation coverage excluded areas with contributions less than RMB50,000.

X. OUTLOOK

Major tasks underlying the Bank's 2015 corporate social responsibilities

Clarification of responsibility	<ul style="list-style-type: none"> • Refine the "Guidance on Corporate Social Responsibility", improve the management standards and foster the establishment of responsibility systems in various aspects; • Optimise the governance and operation mechanisms, further improve capital management and market value management, and enhance risk management capabilities; • Enhance training and internal communications regarding corporate social responsibilities to disseminate the concept of social responsibilities across the Bank; • Actively participate in external communications and appraisals and enhance the promotion of social responsibilities to boost the image of corporate citizenship; • Facilitate communications with and feedback from stakeholders.
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CORPORATE SOCIAL RESPONSIBILITIES (CONTINUED)

<p>Support to real economy</p>	<ul style="list-style-type: none"> • Follow out the national macro-economic policy with focus on serving the real economy, continue to carry forward the optimisation of credit structure and facilitate the upgrading of industrial structure; • Support national key projects and infrastructure construction in accordance with the strategy which coordinates the development in the three new economic support belts (the Silk Road Economic Belt, the 21st Century Maritime Silk Road and the Yangtze River Economic Belt) and the four major regions (Eastern China, Western China, Central China and Northeast China); • Exploit new opportunities, which is brought about by the “Go Global” strategy of Chinese enterprises and the internationalisation of RMB, to vigorously expand overseas operation and strengthen business synergy between domestic and overseas branches; • Support key sectors such as small and micro enterprises, agriculture, farmers and rural areas, and household consumption.
<p>Promotion of “Green Credit” policy</p>	<ul style="list-style-type: none"> • Continue to push forward the green credit policy by analysing and assessing the achievements and potentials for improvement of the policy, adopt innovative green finance operation, and actively support ecological construction; • Promote e-banking, strengthen the implementation of Internet finance, and provide customers with all-round green services through continuous product innovation; • Continue to follow the green operation and procurement policy and encourage all stakeholders to support in protecting the environment; • Organise volunteers to participate in environmental protection endeavours and cultivate environmental awareness across the Bank.
<p>Achievement of social harmony and mutual benefits</p>	<ul style="list-style-type: none"> • Ensure and put forward the implementation of the consumer rights protection policy and continue to improve service quality in striving to be the best bank for customer service in the financial sector; • Build an efficient and highly capable expert team, and continue to promote measures of caring for employees, in order to boost the employees’ happiness index; • Continue to support public charity with higher degree of involvement and wider scope of participation, and explore innovative ideas for charity events.

For further information about the fulfilment of corporate social responsibilities by the Bank, please refer to the “2014 Corporate Social Responsibility Report of Bank of Communications Co., Ltd.” at the Bank’s website.

SIGNIFICANT EVENTS

I. MATERIAL LITIGATION AND ARBITRATION AND ISSUES QUESTIONED BY THE MEDIA GENERALLY

During the Reporting Period, the Bank had not been involved in any material litigation and arbitration, or issues questioned by the media generally.

As at 31 December 2014, the Bank had been involved in certain outstanding litigations as defendant or third party with an amount of approximately RMB1.725 billion. After consultations with the legal advisers, the Bank is of the view that these litigations will not have any material effect on the financial position of the Group.

II. RELATED PARTY TRANSACTIONS

During the Reporting Period, all the transactions between the Bank and its related parties were ordinary operating capital flows at arms-length. No significant related party transaction occurred during the Reporting Period.

As at the end of the Reporting Period, details of continuing related party transactions of the Bank are disclosed in Note 44 to the Consolidated Financial Statements set out in this Annual Report. No outstanding loan balance of Directors, Supervisors and Senior Management of the Bank as at 31 December 2014.

III. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

1. Material Trust, Sub-contract and Lease

During the Reporting Period, the Bank has not held in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of assets of other corporations, and no other corporation has held in trust to a material extent or entered into any material sub-contract or lease arrangement in respect of the Bank's assets.

2. Material Guarantees

The provision of guarantees is one of the off-balance-sheet businesses carried out by the Bank in its ordinary and usual course of business. During the Reporting Period, the Bank did not provide any material guarantees that need to be disclosed except for the financial guarantee services within the business scope as approved by the regulatory authority.

3. Other Material Contracts

During the Reporting Period, the Bank had not entered into any other material contracts.

IV. IMPLEMENTATION OF UNDERTAKINGS

In the process of the non-public issuance of A shares and H shares of the Bank in 2012, the subscribers of the A shares undertook not to transfer such A shares within 36 months from the date of completion of the issuance. The subscribers included the Ministry of Finance, the SSF, Ping An Life Insurance Company of China Ltd. – Traditional – High interest rate policy products, China FAW Group Corporation, Shanghai Haiyan Investment Management Co., Ltd., China National Tobacco Corporation – Zhejiang Branch and Yunnan Hongta Group Co., Ltd. As at 31 December 2014, the subscribers had performed their undertakings.

Background of undertaking	Type of undertaking	Undertaking party	Content of undertaking	Time and period of undertaking	Deadline for performance or not	Timely and strict performance or not
Relating to refinancing	Restricted sale	Seven subscribers	The A shares subscribed are not to be transferred within 36 months from the date of completion of the issuance	The A shares subscribed are not to be transferred within 36 months. I.e. they will be listed and circulated on 23 August 2015 ^{Note}	Yes	Yes

Note: If such date is a public holiday or non-working day, it will be postponed to the next trading day.

V. OVERVIEW OF SHARE INCENTIVE PLAN

As part of the incentive scheme, the Bank has granted to members of Senior Management share appreciation rights in 2005 and 2006, respectively. The issue of share appreciation rights did not involve any issue of new shares or dilution of the shareholdings of the existing shareholders. As at 31 December 2014, the unexercised amount of the above share appreciation rights has not changed. Details of the share appreciation rights are set out in Note 13 to the Consolidated Financial Statements.

VI. DISCIPLINARY ACTIONS AGAINST THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, SHAREHOLDERS WITH MORE THAN 5% SHAREHOLDINGS, ACTUAL CONTROLLERS AND ACQUIRERS

During the Reporting Period, neither the Bank, nor any of its Directors, Supervisors, Senior Management, shareholders with more than 5% shareholdings, actual controllers or acquirers was subject to any investigation, administrative penalty, circulation of criticism by CSRC or public reprimand by the stock exchanges.

VII. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

Pursuant to the *Measures for Financial Enterprises to Select and Employ Accounting Firms by Bidding (for Trial Implementation)* issued by Ministry of Finance, the period of continuous employment of the Deloitte exceeded the maximum limits in 2013, therefore the Bank did not continue to appoint Deloitte Touche Tohmatsu and Deloitte Huayong CPA LLP as the auditors for the year of 2014.

SIGNIFICANT EVENTS (CONTINUED)

With the approval at the 2013 Annual General Meeting, the Bank has appointed PricewaterhouseCoopers Zhong Tian LLP to perform the audit of the financial statements prepared by the Bank in accordance with CAS and to provide other related professional services, and appoint PricewaterhouseCoopers to perform the audit of the financial statements prepared by the Bank in accordance with IFRS and to provide other related professional services. The term of appointment starts upon the approval on the date of the Bank's 2013 Annual General Meeting, and ceases at the end of day of 2014 Annual General Meeting. Save as disclosed above, the Bank had not changed its auditor in the last three years.

Change of accounting firm or not:	Yes	
	Formerly appointed	Currently appointed
Name of domestic accounting firm	Deloitte Huayong CPA LLP	PricewaterhouseCoopers Zhong Tian LLP
Remuneration of domestic accounting firm ¹	RMB24,620,000 (2013)	RMB20,880,000 (2014)
Audit period ²	9 years	1 year
Name of overseas accounting firm	Deloitte Touche Tohmatsu	PricewaterhouseCoopers
Remuneration of overseas accounting firm ¹	RMB6,850,000 (2013)	RMB6,400,000 (2014)
Audit period ²	3 years	1 year

Note:

1. The remuneration of accounting firm excludes the internal control audit fee and non-audit services fee.
2. The term of audit refers to the period in which the audit institution provides audit service for the Bank continuously.

VIII. OTHER SIGNIFICANT EVENTS

1. Holdings of Equity Interest in Other Listed Companies

(Unless otherwise stated, in RMB)

Stock code	Stock short name	Initial investment amount	Percentage of equity interest in the company (%)	Book value as at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
600068	GEZHOUBA	64,843,200.00	0.52	221,121,000.00	37,219,783.50	183,901,216.50	Financial investments – available-for-sale	Foreclosed assets
02196	FOSUN PHARMA	125,334,379.74	-	118,381,500.00	2,374,310.40	3,566,208.55	Financial investments – available-for-sale	Equity investment
V	Visa Inc.	6,066,233.02	-	37,324,761.60	-	5,740,212.96	Financial investments – available-for-sale	Equity investment
00579	BEIJING JINGNENG CLEAN ENERGY	10,842,820.81	0.19	10,793,700.70	-	(957,280.67)	Financial investments – available-for-sale	Equity investment
01666	TONG REN TANG	3,533,467.49	0.04	2,845,139.86	-	(432,021.59)	Financial investments – available-for-sale	Equity investment
000709	HEBEI IRON&STEEL GROUP	4,095,211.20	0.01	2,767,339.20	-	867,859.20	Financial investments – available-for-sale	Foreclosed assets
00552	CHINA COMMUNICATION SERVICES	2,716,865.13	0.04	2,570,138.46	-	(132,771.19)	Financial investments – available-for-sale	Equity investment
02823	X ISHARES A50 CHINA	1,303,301.27	-	2,047,906.52	-	750,509.46	Financial investments – available-for-sale	Equity investment
06837	HAITONG SEC.	1,220,180.12	0.01	1,997,734.39	-	783,081.93	Financial investments – available-for-sale	Equity investment
02318	PINGAN	1,620,361.56	0.02	1,982,288.44	2,413,262.56	356,973.00	Financial investments – available-for-sale	Equity investment
00006	POWER ASSETS	1,429,794.01	-	1,957,659.79	-	171,143.41	Financial investments – available-for-sale	Equity investment
00874	BAIYUNSHAN PHARMACEUTICAL	1,187,967.53	0.03	1,183,936.10	12,181.87	1,350.29	Financial investments – available-for-sale	Equity investment
	Others	85,189,563.04		68,620,289.54	(1,317,247.92)	13,544,474.26		
	Total	309,383,344.92		473,593,394.60	40,702,290.41	208,160,956.11		

SIGNIFICANT EVENTS (CONTINUED)

2. Holdings of Equity Interest in Unlisted Financial Institutions

(In RMB unless otherwise stated)

Name of institution	Initial investment amount	Number of shares held (shares)	Percentage of equity interest in the company (%)	Book value as at the end of the Reporting Period	Gains/(losses) during the Reporting Period	Changes in owners' equity during the Reporting Period	Accounting items	Source of shares
Bank of Tibet Co., Ltd.	300,000,000.00	320,000,000	10.60	547,674,238.67	90,294,620.00	113,428,000.00	Investment in an associate	Equity investment
Jiangsu Changshu Rural Commercial Bank Co., Ltd.	489,500,000.00	152,010,505	10.00	489,500,000.00	19,001,313.12	-	Financial investments - available-for-sale	Equity investment
China Union Pay Co., Ltd.	146,250,000.00	112,500,000	3.90	146,250,000.00	5,062,500.00	-	Financial investments - available-for-sale	Equity investment
China National Aviation Fuel Group Finance Corporation	120,000,000.00	N/A	10.00	120,000,000.00	-	-	Financial investments - available-for-sale	Equity investment
Shaanxi Coal and Chemical Industry Group Finance Corporation	100,000,000.00	N/A	10.00	100,000,000.00	7,080,636.23	-	Financial investments - available-for-sale	Equity investment
Total	1,155,750,000.00			1,403,424,238.67	121,439,069.35	113,428,000,000.00		

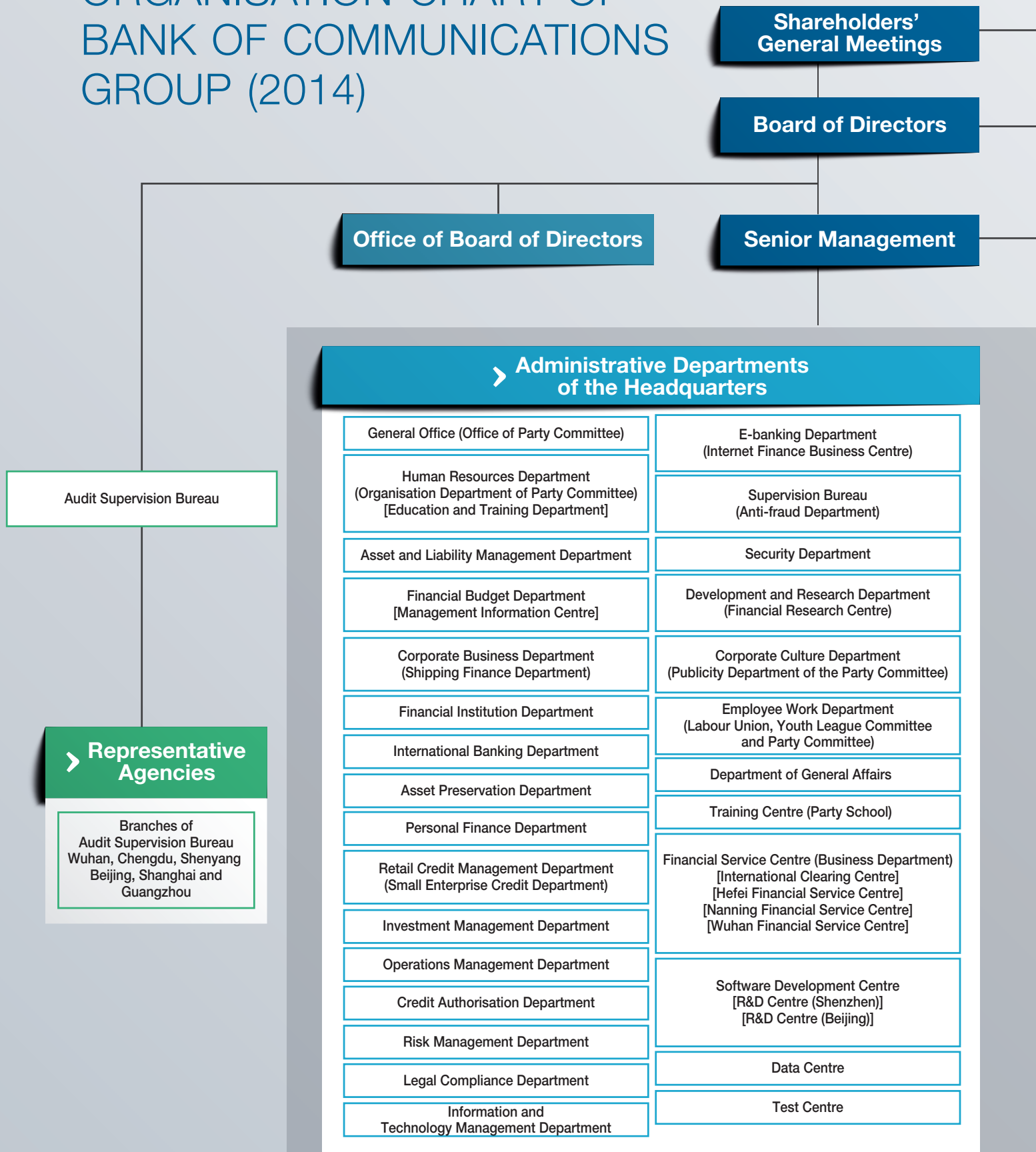
3. Purchases and Sales of Equity Interest of Other Listed Companies

(In RMB unless otherwise stated)

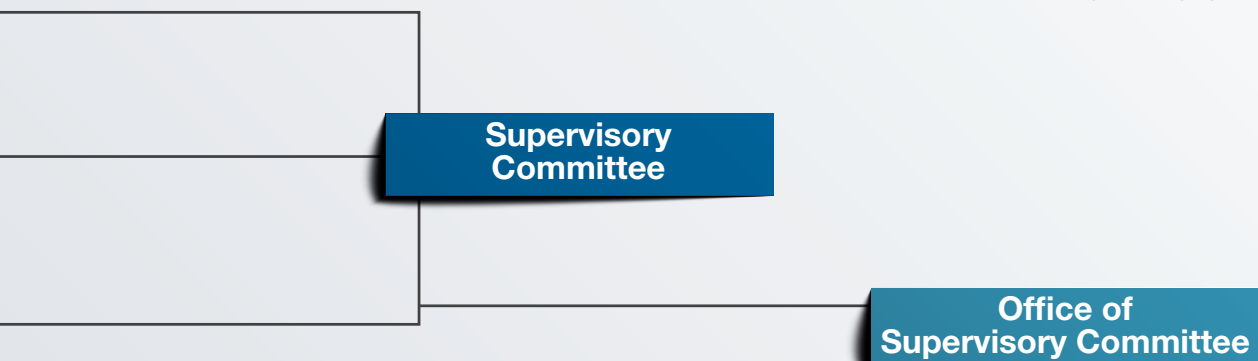
	Number of shares held at the beginning of the Reporting Period (shares)	Number of shares purchased/(sold) during the Reporting Period (shares)	Number of shares held at the end of the Reporting Period (shares)	Fund utilised	Gains
Purchase	48,200.00	15,575,300.00	15,623,500.00	166,313,433.94	-
Sales	84,863,208.00	(56,291,208.00)	28,572,000.00	-	413,148,535.76

Note: All changes in the number of shares held as shown in the table above are results of purchases and sales of shares of other listed companies by the subsidiaries of the Bank, except for disposal of shares obtained as collateral for loans in the course of business of the Bank.

ORGANISATION CHART OF BANK OF COMMUNICATIONS GROUP (2014)



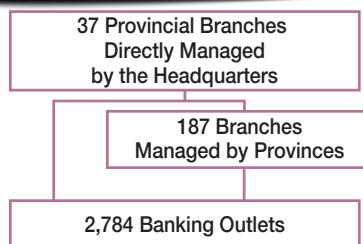
ORGANISATION CHART OF BANK OF COMMUNICATIONS GROUP (2014) (CONTINUED)



> Direct Business

Beijing Administrative Department (Group Customer Department)
Investment Banking Business Centre (Investment Banking Department)
Asset Custody Business Centre (Asset Custody Department)
Private Banking Business Centre (Private Banking Department)
Financial Market Business Centre
Asset Management Business Centre
Precious Metal Business Centre
Offshore Finance Business Centre
Bills Business Centre
Pacific Credit Card Centre (Consumer Finance Centre)

> Domestic Branches



> Overseas Branches, Subsidiaries

Hong Kong Branch
New York Branch
San Francisco Branch
Tokyo Branch
Singapore Branch
Seoul Branch
Frankfurt Branch
Macau Branch
Ho Chi Minh City Branch
Sydney Branch
Taipei Branch
BoCom (UK)
Toronto Representative Office

> Subsidiaries, Rural Banks

BOCOM International
BOCOM Insurance
BOCOM Schroder
BOCOM International Trust
BOCOM Leasing
BoCommLife Insurance
BoComm Service
Dayi Rural Bank
Anji Rural Bank
Shihezi Rural Bank
Laoshan Rural Bank

RANKING AND AWARDS



Fortune magazine

Fortune Global 500 (ranked 217)

The Banker

Global Bank Top 30 (ranked 19)

The Banker

Most Valuable Global Banking Brands 2014 (ranked 36)

China Enterprise Confederation

Top 500 Enterprises of China 2014 (ranked 36)

China Banking Association

Leading Figure of the Year in Social Responsibility Management in China's banking sector

China Banking Association

Financial Institution of the Year with the Strongest Sense of Social Responsibility in China

New Fortune

The Tenth Gold Board Secretary

National Business Daily

Listed Company with the Best Returns to Shareholders

Assessment of Top 1000 Model Units for civilised and standardised service in China's banking sector

Top 1000 Model Units (127 outlets)

J.D Power (customer satisfaction survey for China's retail banks)

Number 1 in customer satisfaction survey for China's retail banks

21st Century Business Herald

Golden-Shell Award – Best Innovation and development E-banking in 2014

Xinhuanet – Gold i Award

Most Popular E-Banking Award

Phoenix New Media

Best Bank for Enterprise Wealth Management of the Year



21st Century Business Herald

Best Wealth Management Banking Brand in 2014

Economic Observer

China Award for Excellence in Finance • Excellent Wealth Management Bank of the Year

Eastmoney Award (eastmoney.com)

Best Wealth Management Bank in 2014

China Times

Best Wealth Management Bank

Hexun

Most Competitive Wealth Management Institution in 2014

The Asset

Best in Financial Services in Corporate Market in Greater China

CFO World

Best Investment Banking Business Award

CFO World

Best Asset Custody Award

CFO World

Best Supply Chain Finance Award

Trade and Finance Committee of China Banking Association

Best Bank for Foreign Trade Enterprises

Trade Finance

Best Bank in Innovation of Trade and Finance Products

China Business Journal

International Banking with Excellent competitiveness in 2014

Securities Times

Outstanding Investment Bank in China in 2014





羅兵咸永道

TO THE SHAREHOLDERS OF BANK OF COMMUNICATIONS CO., LTD.

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

We have audited the consolidated financial statements of Bank of Communications Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") set out on pages 163 to 334, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs), and the disclosure requirements of Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

INDEPENDENT AUDITOR'S REPORT

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 financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

This report, including the opinion, has been prepared for and only for you, as a body, in accordance with the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 26 March 2015

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

Group

	Note	Year ended 31 December	
		2014	2013
Interest income		288,509	259,292
Interest expense		(153,733)	(128,634)
Net interest income	4	134,776	130,658
Fee and commission income	5	32,914	29,405
Fee and commission expense	6	(3,310)	(3,437)
Net fee and commission income		29,604	25,968
Dividend income	7	78	103
Net gains/(losses) arising from trading activities	8	6,246	(734)
Net gains arising from de-recognition of financial investments	21	197	159
Insurance business income		2,547	1,357
Other operating income	9	5,088	7,517
Impairment losses on loans and advances to customers	10	(20,439)	(18,410)
Insurance business expense		(2,528)	(1,173)
Other operating expense	11	(70,732)	(65,578)
Share of profit of an associate		90	42
Profit before tax		84,927	79,909
Income tax	14	(18,892)	(17,448)
Net profit for the year		66,035	62,461
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Available-for-sale financial assets			
Changes in fair value recorded in equity		5,649	(3,779)
Changes in fair value reclassified from equity to profit or loss		(148)	(176)
Translation difference on foreign operations		(205)	(903)
		5,296	(4,858)
<i>Item that will not be reclassified subsequently to profit or loss:</i>			
Actuarial (losses)/gains on pension benefits		(15)	27
Other comprehensive income/(loss) for the year	37	5,281	(4,831)
Comprehensive income for the year		71,316	57,630
Net profit attributable to:			
Shareholders of the Bank		65,850	62,295
Non-controlling interests		185	166
		66,035	62,461
Total comprehensive income attributable to:			
Shareholders of the Bank		70,689	57,466
Non-controlling interests		627	164
		71,316	57,630
Basic and diluted earnings per share for profit attributable to the shareholders of the Bank (in RMB)	15	0.89	0.84

The accompanying notes form a part of these consolidated financial statements.

For details of the dividends paid or proposed please refer to Note 34.

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated Statement of Financial Position

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

Group

	Notes	As at 31 December 2014	As at 31 December 2013
ASSETS			
Cash and balances with central banks	16	938,055	896,556
Due from banks and other financial institutions	17	525,033	566,429
Financial assets at fair value through profit or loss	18	116,358	73,310
Loans and advances to customers	20	3,354,787	3,193,063
Financial investments – loans and receivables	21	211,588	119,726
Financial investments – available-for-sale	21	210,016	221,253
Financial investments – held-to-maturity	21	635,570	670,615
Investment in an associate	39	547	344
Property and equipment	22	69,767	57,179
Deferred income tax assets	29	16,077	17,224
Other assets	23	190,501	145,238
Total assets		6,268,299	5,960,937
LIABILITIES			
Due to banks and other financial institutions	24	1,408,275	1,126,563
Financial liabilities at fair value through profit or loss	25	28,823	28,640
Due to customers	26	4,029,668	4,157,833
Certificates of deposits issued	27	38,601	24,619
Other liabilities	28	151,896	113,435
Current tax liabilities		7,852	6,107
Deferred income tax liabilities	29	32	18
Debt securities issued	31	129,547	82,238
Total liabilities		5,794,694	5,539,453
EQUITY			
Share capital	32	74,263	74,263
Capital surplus	32	113,496	113,383
Other reserves		211,471	164,585
Retained earnings		71,825	67,330
Equity attributable equity holders of the bank		471,055	419,561
Non-controlling interests		2,550	1,923
Total equity		473,605	421,484
Total equity and liabilities		6,268,299	5,960,937

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 March 2015 and signed on its behalf by:

Chairman of Board: Niu Ximing

Vice Governor and Chief Financial Officer: Yu Yali

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Statement of Financial Position

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

Bank

	Notes	As at 31 December 2014	As at 31 December 2013
ASSETS			
Cash and balances with central banks	16	937,399	895,884
Due from banks and other financial institutions	17	537,879	574,086
Financial assets at fair value through profit or loss	18	116,111	73,198
Loans and advances to customers	20	3,350,705	3,187,874
Financial investments – loans and receivables	21	206,761	117,059
Financial investments – available-for-sale	21	205,560	219,056
Financial investments – held-to-maturity	21	634,209	669,089
Investments in subsidiaries	39	13,735	13,735
Investment in an associate	40	547	344
Property and equipment	22	55,766	49,467
Deferred income tax assets	29	15,820	17,000
Other assets	23	75,577	54,241
Total assets		6,150,069	5,871,033
LIABILITIES			
Due to banks and other financial institutions	24	1,333,606	1,064,768
Financial liabilities at fair value through profit or loss	25	28,818	28,622
Due to customers	26	4,026,730	4,154,180
Certificates of deposits issued	27	38,601	24,619
Other liabilities	28	131,771	99,254
Current tax liabilities		7,637	5,748
Deferred income tax liabilities	29	16	8
Debt securities issued	31	118,841	79,200
Total liabilities		5,686,020	5,456,399
EQUITY			
Share capital	32	74,263	74,263
Capital surplus	32	113,525	113,412
Other reserves		208,728	162,807
Retained earnings	33	67,533	64,152
Total equity		464,049	414,634
Total equity and liabilities		6,150,069	5,871,033

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated Statement of Changes in Equity

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

	Other reserves											Total
	Share capital Note 32	Capital surplus Note 32	Statutory reserve Note 33	Discretionary reserve Note 33	Statutory general reserve Note 33	Revaluation reserve for available-for-sale financial assets Note 33	Translation reserve on foreign operations	Actuarial changes reserve	Retained earnings Note 33,34	Attributable to the shareholders of the Bank	Non-controlling interests	
Balance at 1 January 2014	74,263	113,383	30,999	78,510	62,757	(4,928)	(2,779)	26	67,330	419,561	1,923	421,484
Net profit for the year	-	-	-	-	-	-	-	-	65,850	65,850	185	66,035
Other comprehensive income	-	-	-	-	-	5,059	(205)	(15)	-	4,839	442	5,281
Total comprehensive income	-	-	-	-	-	5,059	(205)	(15)	65,850	70,689	627	71,316
Capital increase in an associate	-	113	-	-	-	-	-	-	-	113	-	113
Dividends paid	-	-	-	-	-	-	-	-	(19,308)	(19,308)	-	(19,308)
Transfer to reserves	-	-	6,523	26,732	8,792	-	-	-	(42,047)	-	-	-
Balance at 31 December 2014	74,263	113,496	37,522	105,242	71,549	131	(2,984)	11	71,825	471,055	2,550	473,605
Balance at 1 January 2013	74,263	113,383	24,790	58,157	34,309	(975)	(1,876)	(1)	77,868	379,918	1,529	381,447
Net profit for the year	-	-	-	-	-	-	-	-	62,295	62,295	166	62,461
Other comprehensive income	-	-	-	-	-	(3,953)	(903)	27	-	(4,829)	(2)	(4,831)
Total comprehensive income	-	-	-	-	-	(3,953)	(903)	27	62,295	57,466	164	57,630
Capital increase in subsidiaries	-	-	-	-	-	-	-	-	-	-	265	265
Dividends paid	-	-	-	-	-	-	-	-	(17,823)	(17,823)	(35)	(17,858)
Transfer to reserves	-	-	6,209	20,353	28,448	-	-	-	(55,010)	-	-	-
Balance at 31 December 2013	74,263	113,383	30,999	78,510	62,757	(4,928)	(2,779)	26	67,330	419,561	1,923	421,484

The accompanying notes form a part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated Statement of Cash Flows

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

	Year ended 31 December	
	2014	2013
Cash flows from operating activities:		
Profit before tax:	84,927	79,909
Adjustments for:		
Impairment allowances on loans and advances to customers	20,439	18,410
Provision for impairment losses on foreclosed assets	5	53
Unwind of discount on allowances during the year	(1,502)	(1,245)
Impairment of finance lease receivables	274	577
Provision for impairment of other receivables	200	32
Insurance contracts reserve	2,579	796
Impairment of financial investments	1,947	86
Reversal of outstanding litigation and unsettled obligation	(189)	(14)
Depreciation of property and equipment	5,018	4,364
Amortisation of rent and renovation	435	545
Share of profit of an associate	(90)	(42)
Net losses/(gains) from fair value hedges	6	(7)
Amortisation of land use rights	37	24
Amortisation of intangible assets	263	247
Interest income from financial investments	(41,631)	(35,186)
Net gains arising from de-recognition of financial investments	(197)	(159)
Net gains on disposal of property and equipment	(83)	(41)
Increase in revaluation of investment property	(5)	(18)
Interest expense on debt securities issued	4,819	3,431
Interest expense on certificates of deposits issued	748	334
Dividend income	(78)	(103)
Reversal of impairment allowances on repossessed assets	1	–
Operating cash flows before movements in operating assets and liabilities	77,923	71,993
Net increase in mandatory reserve deposits	(31,288)	(51,509)
Net decrease/(increase) in due from banks and other financial institutions	101,417	(101,871)
Net increase in financial assets at fair value through profit or loss	(43,048)	(21,128)
Net increase in loans and advances to customers	(180,659)	(330,412)
Net increase in other assets	(33,029)	(26,641)
Net increase in due to banks and other financial institutions	281,712	183,574
Net increase in financial liabilities at fair value through profit or loss	183	5,830
Net (decrease)/increase in due to customers	(128,165)	429,421
Net increase in other liabilities	22,750	1,789
Net increase in business tax payable	(266)	1
Income tax paid	(17,815)	(21,864)
Net cash from operating activities	49,715	139,183

CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Consolidated Statement of Cash Flows (Continued)

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

	Note	Year ended 31 December	
		2014	2013
Cash flows from investing activities:			
Purchase of financial investments		(507,836)	(422,563)
Disposal or redemption of financial investments		468,432	234,229
Dividends received		78	103
Interest received from financial investments		41,380	32,078
Acquisition of intangible assets and other assets		(8,066)	(1,027)
Disposal of intangible assets and other assets		269	46
Purchase and construction of property and equipment		(17,793)	(15,105)
Disposal of property and equipment		185	747
Net cash used in investing activities		(23,351)	(171,492)
Cash flows from financing activities:			
Proceeds from debt securities and certificates of deposits issued		131,543	42,818
Interest paid on debt securities and certificates of deposits issued		(4,686)	(3,635)
Dividends paid to shareholders of the Bank		(19,374)	(17,823)
Repayment the principals of debts securities and certificates of deposits issued		(63,785)	(15,533)
Capital contribution by non-controlling interests		-	265
Dividends paid to non-controlling interests		-	(35)
Net cash from financing activities		43,698	6,057
Effect of exchange rate changes on cash and cash equivalents		170	(1,952)
Net increase/(decrease) in cash and cash equivalents		70,232	(28,204)
Cash and cash equivalents at the beginning of the year		243,394	271,598
Cash and cash equivalents at the end of the year	38	313,626	243,394
Net cash flows from operating activities include:			
Interest received		240,843	219,826
Interest paid		(137,968)	(115,941)

The accompanying notes form a part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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

1 GENERAL

Bank of Communications Co., Ltd. (the “Bank”) is a commercial and retail bank providing banking services mainly in the People’s Republic of China (“PRC”). The Bank was reorganised as a joint stocks national commercial bank on 1 April 1987, in accordance with the approval notice (Guo Fa (1986) No. 81) issued by the State Council of the PRC and the approval notice (Yin Fa (1987) No. 40) issued by the People’s Bank of China (“PBOC”). Headquartered in Shanghai, the Bank operates 224 city-level and above branches in the Mainland China and 13 overseas institutions including branches in Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, San Francisco, Taipei, Bank of Communications (UK) Co., Ltd. and representative office of Toronto. The Bank’s A shares are listed on Shanghai Stock Exchange and its H shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Bank and its subsidiaries (collectively referred to as the “Group”) are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management, trustees, insurance, finance lease and other financial services.

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to the periods presented unless otherwise stated.

2.1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”) and disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Predecessor Hong Kong Companies Ordinance (Cap. 32). The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment property which are measured at fair value.

2.1.1 Application of new and revised IFRSs

(a) *New and revised IFRSs issued and applied*

In the current year, the Group has applied certain new, revised or amendments to IFRSs, which were applicable for the Group’s financial year beginning on 1 January 2014 and the relevant impact is set out below:

Amendments to IFRS 10 ‘Consolidated financial statements’, IFRS 12 ‘Disclosure of interest in other entities’ and IAS 27 ‘Separate financial statements’	Investment entities
Amendments to IAS 32, ‘Financial instruments: Presentation’	Offsetting financial assets and financial liabilities
Amendments to IAS 36, ‘Impairment of assets’	Recoverable amount disclosures for non-financial assets
Amendments to IAS 39, ‘Financial instruments: Recognition and measurement’	Novation of derivatives and continuation of hedge accounting
IFRIC 21	Levies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of presentation (Continued)

2.1.1 Application of new and revised IFRSs (Continued)

(a) *New and revised IFRSs issued and applied (Continued)*

Amendments to IFRS 10, IFRS 12 and IAS 27

By virtue of this amendment, mutual funds and other similar entities are exempted from consolidating most of their subsidiaries. Instead, their subsidiaries are measured at fair value through profit and loss. This amendment introduces exemptions for those entities which fulfill the definition of "Investment entities". The disclosure requirements in IFRS 12 'Disclosure of interest in other entities' are included.

Amendments to IAS 32

This amendment acts as a practice note to IAS 32, 'Financial instruments: Presentation'. It clarifies some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position.

Amendments to IAS 36

This amendment has made changes to the disclosures required by IAS 36, impairment of assets when recoverable amount is determined based on fair value less costs of disposal.

Amendments to IAS 39

This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a Central Counter Party meets specified criteria.

IFRIC 21

IFRIC 21 is the interpretation of IAS 37 (provisions, contingent liabilities and contingent assets). IAS 37 states the criteria of liability recognition which includes current liability occurring from past transaction of the entity (called liability affairs). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The adoption of these new standards and amendments does not have a significant impact on the operating results, comprehensive income, or financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of presentation (Continued)

2.1.1 Application of new and revised IFRSs (Continued)

(b) *New and revised IFRSs issued but not yet effective*

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

		Effective for annual period beginning on or after
Amendment to IAS 19 (as revised in 2011)	Employee Benefits – To Plans that Require Employees or Third Parties to Contribute Towards the Cost of Benefits	1 July 2014
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operation	1 January 2016
Amendments to IFRS 14	Regulatory deferral accounts	1 January 2016
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendments to IAS 27	Equity method in separate financial statements	1 January 2016
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IFRS 15	Revenue from Contracts with Customers	1 January 2017
Amendments to IFRS 9	Financial Instruments	1 January 2018

Amendment to IAS 19 (as revised in 2011):

The amendment to IAS 19 (as revised in 2011) – Employee Benefits will affect the defined benefit plans where employees or third parties are required to bear some of the cost of the plan. The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period. Entities with plans that require contributions that vary with service period will be required to recognize the benefit of those contributions over employees' working lives. The Group anticipates that the adoption of the amendment will not have a significant impact on the Group's consolidated financial statements.

Amendments to IFRSs: Annual Improvements to IFRSs 2010 – 2012 Cycle

The annual improvements to IFRSs 2010 – 2012 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. Amendments to IFRSs include the amendments to IFRS 2 – Share-Based Payment, the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 8 – Operating Segments, the amendments to IFRS 13 – Fair Value Measurement, the amendments to IAS 24 – Related Party Disclosures, the amendments to IAS 16 – Property, Plant and Equipment, and the amendments to IAS 38 – Intangible Assets. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of presentation (Continued)

2.1.1 Application of new and revised IFRSs (Continued)

(b) *New and revised IFRSs issued but not yet effective (Continued)*

Amendments to IFRSs: Annual Improvements to IFRSs 2011 – 2013 Cycle

The annual improvements to IFRSs 2011 – 2013 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 July 2014. Amendments to IFRSs include the amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards, the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 13 – Fair Value Measurement, and the amendments to IAS 40 – Investment Property. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 11

The amendments require an investor to apply the principles of business combination accounting when they acquire an interest in a joint operation that constitutes a 'business' (as defined in IFRS 3, Business combinations). Specifically, an investor will need to:

- measure identifiable assets and liabilities at fair value;
- expense acquisition-related costs;
- recognise deferred tax; and
- recognise the residual as goodwill.

All other principles of business combination accounting apply unless they conflict with IFRS 11.

The amendments are applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained.

IFRS 14

IFRS 14 Regulatory Deferral Accounts, describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with IFRS14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate-regulated goods or services.

IFRS 14 permits eligible first- time adopters of IFRS to continue their previous GAAP rate-regulated accounting policies, with limited changes. IFRS 14 requires separate presentation of regulatory deferral account balances in the balance sheet and of movements in those balances in the statement of comprehensive income. Disclosures are required to identify the nature of, and risk associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of presentation (Continued)

2.1.1 Application of new and revised IFRSs (Continued)

(b) *New and revised IFRSs issued but not yet effective (Continued)*

Amendments to IAS 16 and IAS 38

The amendments clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.

The amendment to IAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:

- where the intangible asset is expressed as a measure of revenue; or
- where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to IFRS 10 and IAS 28

The amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture.

A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.

Amendments to IAS 27

The amendments allow entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Amendments to IFRSs: Annual Improvements to IFRSs 2012 – 2014 Cycle

The Annual Improvements to IFRSs 2012 – 2014 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations regarding methods of disposal, the amendments to IFRS 7 – Financial Instruments: Disclosures regarding servicing contracts, the amendments to IAS 19 – Employee Benefits regarding discount rates, the amendments to IAS 34 Interim Financial Reporting regarding disclosure of information. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an earnings process to an asset-liability approach based on transfer of control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of presentation (Continued)

2.1.1 Application of new and revised IFRSs (Continued)

(b) *New and revised IFRSs issued but not yet effective (Continued)*

IFRS 15 (Continued)

IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition:

IFRIC13 Customer Loyalty Programmes, IFRIC15 Agreements for the Construction of Real Estate, IFRIC18 Transfers of Assets from Customers and SIC-31 Revenue— Barter Transactions Involving Advertising Services.

IFRS 9

IFRS 9 (2014), "Financial instruments" replaces the whole of IAS 39.

IFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivables this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS 39.

The Group is considering the impact of IFRS 9 on the consolidated financial statements

Except the above mentioned impact of IFRS 9, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation

2.2.1 *Subsidiary undertakings*

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses 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 listed above.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are not consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interests in the acquiree at the non-controlling interests' proportionate share of the acquiree's net assets.

The excess of the cost of an acquisition less the fair value of the Group's share of the net identifiable assets of acquired subsidiaries and associates at the date of acquisition is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2.2.2 *Transactions with non-controlling interests*

For acquisition of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive are reclassified to profit or loss.

2.2.3 *Structured entities*

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Examples of structured entities include investment funds, trusts, securitisation vehicles and asset backed financings. Involvement with consolidated and unconsolidated structured entities is disclosed in Note 41 and 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

2.2.4 Investment in an associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. 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 results and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

At each period end, the Group assesses whether there is an indication of possible impairment with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised only to the extent of interests in the associate that are not related to the Group.

2.3 Derivative financial instruments

Derivative financial instruments include, but not limited to, interest rate derivative and foreign exchange derivative. Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivatives embedded in non-derivative host contracts are treated as a separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Hedge accounting

The Group designates certain derivatives as hedging instruments for fair value hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting.

Any adjustment to the carrying amount of the hedged item for the designated risk for interest-bearing financial instruments is amortised to profit or loss, with amortisation commencing no later than when the hedged item ceases to be adjusted. The amortisation is based on a recalculated effective interest rate at the date amortisation commences such that the adjustment is fully amortised by maturity.

2.5 Financial assets

The Group's financial assets are initially measured at fair value and classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Financial investments comprise held-to-maturity investments, available-for-sale financial assets and debt securities classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognising the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Financial assets (Continued)

(a) Financial assets at fair value through profit or loss (Continued)

Financial assets at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognised in profit or loss.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative that are not either designated or classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in other comprehensive income accumulated in equity is reclassified to profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Interest income on available-for-sale debt instruments are calculated using the effective interest method and recognised in profit or loss.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

(e) De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Financial assets (Continued)

(f) **Asset securitisation**

As part of its operational activities, the Group securitises financial assets, generally through the sale of these assets to structured entities which then issue securities to investors. The Group holds part of the subordinated tranche notes, which are not transferrable before both the principals and interests of the senior tranche notes are repaid. The Group serves as the asset management supplier, providing services including loan collection for the investment pool, keeping accounting records related to the investment pool and issuing reports as the service agency. The assets under securitisation are used to repay the principals and interests of the senior tranche notes first after deducting related taxation and expenses, and the remaining assets under securitisation are repaid to the Group and other subordinated tranche notes investors. The Group derecognises the transferred assets in full or in part based on the extent of the risks and rewards retained.

The Group evaluates the extent to which it transfers the risks and rewards of ownership of the financial assets to the other party and determines whether it retains control while applying the accounting policy in respect of asset securitisation.

- The financial asset is derecognised when the Group transfers substantially all the risks and rewards of ownership of the financial asset.
- The financial asset is continued to recognise when the Group retains substantially all the risks and rewards of ownership of the financial asset.
- When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and does not retain control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.
- When the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and retains control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset. The Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

2.6 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Impairment of financial assets (Continued)

Objective evidence of impairment of financial assets could include the following observable events:

- (1) Significant financial difficulty of the issuer or obligor;
- (2) A breach of contract, such as a default or delinquency in interest or principal payments;
- (3) The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (4) It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (5) The disappearance of an active market for that financial asset because of financial difficulties;
- (6) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including: adverse changes in the payment status of borrowers in the group; and national or local economic conditions that correlate with defaults on the assets in the group;
- (7) Any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- (8) A significant or prolonged decline in the fair value of equity instrument investments; and
- (9) Other objective evidence indicating impairment of the financial asset.

(a) **Impairment of financial assets carried at amortised cost**

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

If financial assets carried at amortised cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognised as an impairment loss in profit or loss and is recorded through the use of an allowance account. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortised cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Impairment of financial assets (Continued)

(b) **Impairment of available-for-sale financial assets**

For available-for-sale equity instruments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In determining whether a decline in fair value has been significant or prolonged, the Group considers if the fair value of an available-for-sale equity instrument as at the balance sheet date is lower than 50% (including 50%) of its initial cost of investment or lower than its initial cost of investment for more than one year (including one year) together with other relevant considerations.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognised directly in other comprehensive income is reclassified to profit or loss.

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognised as other comprehensive income, while the amount of reversal of impairment loss on available-for-sale debt investments is recognised in profit or loss.

(c) **Impairment of financial assets measured at cost**

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognised as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognised.

2.7 Financial liabilities/Equity instruments

The Group classifies financial liabilities and equity instruments according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

All financial liabilities are initially measured at fair value and classified either as financial liabilities at fair value through profit or loss or other financial liabilities.

(a) **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss consist of financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition. A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial liabilities/Equity instruments (Continued)

(a) **Financial liabilities at fair value through profit or loss** (Continued)

A financial liability may be designated as at fair value through profit or loss upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognising the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any interest expenses related to the financial liabilities are recognised in profit or loss.

(b) **Other financial liabilities**

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with gain or losses arising from derecognition or amortisation recognised in profit or loss.

(c) **De-recognition of financial liabilities**

The Group derecognises a financial liability or part of it only when the underlying present obligation or part of it is discharged, cancelled or expired. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognises a financial liability or a part of it, it recognises the difference between the carrying amount of the financial liability derecognised and the consideration paid and payable (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

(d) **Determination of fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial liabilities/Equity instruments (Continued)

(d) **Determination of fair value** (Continued)

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.8 Interest income and expense

Interest income and expense are recognised in profit or loss for interest-bearing financial instruments using the effective interest method. If the difference between effective interest rate and contract interest rate is relatively small, then the contract interest rate can be used as well.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (including a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (but does not consider future credit losses). The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.9 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are over a period of time, fee and commission income are accrued over that period when the services are rendered. For other services, fee and commission income are recognised when the services are rendered.

2.10 Dividend income

Dividends are recognised when the right to receive the dividends is established.

2.11 Assets transferred under repurchase agreements

(a) **Financial assets sold under repurchase agreements**

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date at a fixed or determinable price are not derecognised in the statement of financial position. The proceeds from selling such assets are presented under "securities sold under repurchase agreements" in the statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Assets transferred under repurchase agreements (Continued)

(b) **Financial assets purchased under reverse repurchase agreements**

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognised in the statement of financial position. The cost of purchasing such assets is presented under “loans or securities purchased under reverse repurchase agreements” in the statement of financial position. The difference between the purchasing price and reselling price is recognised as interest income during the term of the agreement using the effective interest method.

2.12 Precious metals

Precious metals that are not related to the Group’s trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals that are related to the Group’s trading activities are initially and subsequently recognised at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the period in which they arise.

2.13 Property and equipment

The Group’s property and equipment mainly comprise land and buildings, equipment, construction in progress, transportation equipment and property improvement.

The assets purchased or constructed are initially measured at acquisition cost.

Subsequent expenditures incurred for the property and equipment are included in the cost of the property and equipment if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognised. Other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Land and buildings comprise primarily branch office premises and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of land and buildings, equipment, transportation equipment and property improvement are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Depreciation rate
Land and buildings	25 years – 50 years	3%	1.94% – 3.88%
Equipment	3 years – 11 years	3%	8.82% – 32.33%
Transportation equipment (excluding transportation equipment under operating leases)	4 years – 8 years	3%	12.13% – 24.25%
Property improvement	Over the shorter of the economic useful lives and remaining lease terms	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Property and equipment *(Continued)*

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a property and equipment when it is ready for intended use.

Equipment under operating leases where the Group is the lessor is aircraft or vessel. The estimated useful lives and depreciation rate of the aircraft or vessel are determined considering their conditions and the estimated residual values are determined by external appraiser using historical data on an item-by-item basis. The estimated lives range from 15 to 25 years.

2.14 Foreclosed assets

Foreclosed assets are initially recognised at fair value. At each reporting date, foreclosed assets are subsequently measured at lower of its carrying amount or fair value less cost of sale. When the fair value less cost of sale is lower than the foreclosed asset's carrying amount, an impairment loss is recognised in profit or loss.

When a foreclosed asset is disposed, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

2.15 Land use rights

Land use rights are classified as other assets and amortised using the straight-line method over the lease term.

2.16 Intangible assets

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost is amortised over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortised.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at the end of each reporting period, and makes adjustments when necessary.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Investment property

Investment property is a property held to earn rentals or for capital appreciation or both and initially measured at cost.

As there is an active property market in the location in which the Group's investment property is situated, and the Group can obtain the market price and other relevant information regarding the same or similar type of property from the property market so as to reasonably estimate the fair value of the investment property; therefore, the Group uses the fair value model for subsequent measurement of the investment property, with changes in the fair value included in profit or loss for the period in which they arise.

When an investment property is sold, transferred, retired or damaged, the Group recognises the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

2.18 Impairment of non-financial assets

At the end of the reporting period or whenever there is an indication that the non-financial assets are impaired, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

2.19 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) *The Group as lessor*

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognised as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognised as unearned finance income. Unearned finance income is recognised as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred. The net amount of financial lease receivables less unearned finance income is presented as other assets in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Leases (Continued)

(a) **The Group as lessor** (Continued)

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(b) **The Group as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

2.20 Cash and cash equivalents

Cash and cash equivalents are assets with a maturity of less than 3 months from the date of acquisition or highly liquid assets with an original maturity of less than three months, which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

2.21 Provisions

Provisions are recognised when the Group has a present obligation related to a contingency, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognised as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognised does not exceed the carrying amount of the provision.

2.22 Current and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) **Current income tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income taxes *(Continued)*

(b) Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax are also recognised in other comprehensive income.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Share capital

(a) Share capital

Share capital comprises ordinary shares issued.

(b) Share issue costs

External costs directly attributable to the issuance of new shares are shown in equity as a deduction from the proceeds.

(c) Dividends on ordinary shares

Dividends on ordinary shares are recognised in the period in which they are declared and approved by the Bank's shareholders.

2.24 Acceptances

Acceptances comprise the Group's commitments on payment for bills that are issued to customers. Acceptances are accounted for as financial guarantees and credit related commitments and are disclosed as contingent liabilities and commitments.

2.25 Employee benefits

(a) Staff benefit and retirement benefit obligations

In the reporting period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability. The Group participates in the employee social security systems, such as basic pensions, medical insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are charged to profit or loss in the period when they are incurred.

The Group pays supplementary retirement benefits to employees in Mainland China who retired before 31 December 2008. The Group accrues a liability based on actuarial techniques and recognises all actuarial gains and losses in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Employees in Mainland China who retired after 1 January 2009 participate in the defined contribution plan established (the "Annuity Plan") by the Group. The Group contributes a certain portion of the employees' gross salaries to the Annuity Plan. Related expenses are recognised in profit or loss when incurred.

The Group pays the welfare benefits for employees, who have not yet reached the statutory retirement age limit and are approved by the Group to voluntarily retire from their employment, from the internal retirement date to the statutory retirement age limit. These welfare benefits are recognised in profit or loss based on the discounted cash flow calculation over the implementation period. The Group reviews present value of the welfare benefits on each reporting date, with any changes recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Employee benefits (Continued)

(b) **Share-based compensation**

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are cash-settled share-based payments.

Cash-settled share-based payments are measured at the fair value of the liabilities incurred by the Group, which are determined based on the price of the share or other equity instruments. Until the liability is settled, the Group remeasures the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.

The value of share appreciation rights ("SARs") granted by the Group is determined by applying the Binomial Option Pricing Model.

2.26 Foreign currency translation

Renminbi ("RMB") is the currency of the primary economic environment in which the Bank and the Group's domestic subsidiaries operate. Therefore, the Bank and the Group's domestic subsidiaries choose RMB as their functional currency. The Bank and the Group's foreign subsidiary choose its functional currency on the basis of the primary economic environment in which it operates. The Group adopts RMB to prepare its financial statements.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions.

At the reporting date, foreign currency monetary items are translated into RMB using the spot exchange rates at the reporting date. Exchange differences arising from the differences between the spot exchange rates prevailing at the reporting date and those on initial recognition or at the previous reporting date are recognised in profit or loss for the period, except that (1) exchange differences related to hedging instruments for the purpose of hedging against foreign exchange risks are accounted for using hedge accounting; (2) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortised cost) of available-for-sale monetary items are recognised as other comprehensive income; and (3) exchange differences arising on a foreign currency monetary item that forms part of the Bank's net investment in a foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income.

On disposal of the Group's entire interest in a foreign operation, or upon a loss of control over a foreign operation due to disposal of certain interest in it or other reasons, the Group transfers the accumulated exchange differences arising on translation of financial statements of this foreign operation and foreign currency monetary items that form part of the net investment in such foreign operation attributable to the owners' equity of the Group and presented under shareholder's equity in the statement of financial position, to profit or loss in the period in which the disposal occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Foreign currency translation (Continued)

In case of a disposal or other reason that does not result in the Group losing control over a foreign operation, the proportionate share of accumulated exchange differences arising on translation of financial statements are re-attributed to non-controlling interests and are not recognised in profit and loss. For partial disposals of equity interests in foreign operations which are associates, the proportionate share of the accumulated exchange differences arising on translation of financial statements of foreign operations is reclassified to profit or loss.

2.27 Contingent liabilities and contingencies

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.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2.28 Insurance contracts

(a) **Insurance contracts classification**

Insurance contracts are those contracts under which the Group has accepted significant insurance risk, relative to an insured event or occurrence. The Group issues primarily life insurance contracts, which insure events associated with mortality over a long duration. The Group also issues non-life insurance contracts, which cover short-term casualty and health insurance risk. When necessary, the Group enters into reinsurance contracts to transfer insurance risks to reinsurer. A significant insurance risk test is performed at inception of the insurance contracts.

Some insurance contracts contain both an insurance component and a deposit component. The Group unbundles those components, if the insurance component and the deposit component are separately measurable. The unbundled insurance component is accounted for according to IFRS 4 — Insurance Contracts and the unbundled deposit component is accounted for as a financial liability under investment contract liabilities.

(b) **Insurance income recognition**

Premiums from long-term life insurance contracts are recognized as revenue when due from policyholders. Premiums related to short-term non-life insurance contracts are recognized when received at the inception of the policy, as unearned insurance premiums in the consolidated statement of financial position, and are amortized on a straight-line basis into the consolidated income statement over the term of the policy. When the Group has transferred insurance risk through reinsurance contracts, the Group calculates the amount of premium ceded and the reinsurers' share of expenses and recognizes them through the consolidated income statement in accordance with the terms of the reinsurance contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.28 Insurance contracts (Continued)

(c) **Insurance contract liabilities**

Insurance contract liabilities are measured based on a reasonable estimate of the amount of payments that the Group will be required to make to fulfil its obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows related to such contracts. A reasonable estimate of expected future net cash flows is determined based on information currently available as at the end of the reporting period. The Group has considered the impact of time value in the liability calculation for long-term life insurance.

The Group performs liability adequacy tests based on information currently available, as at the reporting date. Additional insurance contract liabilities should be recorded if any deficiency exists.

2.29 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

2.30 Fiduciary activities

In activities where the Group acts in a fiduciary capacity such as trustee, custodian or agent, the assets and income arising from the transaction together with the related undertakings to return the assets to customers are excluded from the Group's consolidated financial statements.

The Group conducts entrusted lending for the third-party lenders. The Group grants loans to borrowers, as trustee, according to the instruction of the third-party lenders who fund these loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and not providing funding for the corresponding entrusted funds, the entrusted loans are not recognised as assets and liabilities of the Group.

2.31 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the senior management team represented by the governor as its chief operating decision maker.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.31 Segment reporting (Continued)

An operating segment is a component of the Group with all of the following conditions are satisfied: (1) that component can earn revenues and incur expenses from ordinary activities; (2) the component's operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (3) discrete financial information for the component is available to the Group. If two or more operating segments have similar economic characteristics, and certain conditions are satisfied, they may be aggregated into a single operating segment.

Intra-segment income and expenses are eliminated. Income and expenses directly associated with each segment are considered in determining segment performance.

The Group has the following segments: Northern China, North Eastern China, Eastern China, Central and Southern China, Western China, Head Office, and Overseas.

2.32 Offset financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

2.33 Critical accounting estimates and judgments in applying accounting policies

The preparation of financial statements in conformity with IFRSs and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and of the Hong Kong Companies Ordinance require the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

(a) **Impairment losses on loans and advances**

The Group reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of profit or loss and other comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the group. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and book value. When loans and advances are collectively assessed for impairment, management uses estimates based on historical loss experience for assets with credit risk characteristics similar to those in the portfolio and objective evidence of impairment. Historical loss experience is adjusted on the basis of the relevant observable data that reflects current economic conditions. The methodology and assumptions used for estimating the amount and timing of future cash flows, the historical loss experience and the relevant observable data that reflects current economic conditions are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.33 Critical accounting estimates and judgments in applying accounting policies (Continued)

(b) Fair value of financial instruments

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

(c) Income taxes

The Group is subject to income tax in various jurisdictions; principally, in Mainland China and Hong Kong. Significant estimates are required in determining the provision for income tax. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated issues from tax audit based on estimates of whether additional taxes will be due. In particular, the deductibility of certain items in PRC is subject to tax authority's approval. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax and current tax liabilities and deferred income tax assets and liabilities in the period during which such a determination is made.

(d) Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than for specific circumstances defined in IAS 39 such as, selling or reclassifying an insignificant amount close to maturity, it will be required to reclassify the entire portfolio of assets as available-for-sale. The investments would then be measured at fair value, not at amortised cost.

(e) Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. The Group determines that an available-for-sale equity investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires management judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial condition and near-term business outlook of the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

Objective evidence of impairment for a debt investment exists when one or more events have occurred after the initial recognition of the available-for-sale debt investment that reduces the estimated future cash flows to be recoverable from the debt investment. The Group recognises an impairment loss for the debt investment when there is objective evidence that the debt investment is impaired.

(f) Consolidation of structured entities

During the evaluation, the Group considers many factors to assess whether it takes the role as the agent on the trustee, such as: the scope of asset manager's decision-making power, rights held by other parties, commission levels as management service provider, and any other arrangements (such as direct investment) which could affect the exposure to variable returns from its involvement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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3 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of a certain degree of risks or a portfolio of risks. Risk management is core to the financial business, and business risks are inevitable as a result. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and the latest best practice.

The Board of Directors sets out strategies and risk preference for overall risk management strategy and decides the risk tolerance level. The senior management establishes related risk management policies and procedures under the strategy approved by the Board of Directors, including policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. The Chief Risk Officer assumes the overall risk management responsibility on behalf of the senior management. The Risk Management Department at Head Office undertakes the overall risk management functions of the Group. The risk management division in each operation department at Head Office, the Risk Management Department of each domestic and overseas branch and subsidiary undertakes the specific risk management function. In addition, internal audit department is responsible for the independent review of risk management and the control environment.

The main types of financial risks of the Group are credit risk, liquidity risk and market risk which also includes foreign exchange risk, interest rate risk and other price risk.

3.1 Credit risk

The Group is exposed to credit risk, which is the risk that a customer or counterparty will be unable to or is unwilling to meet its obligations under a contract. Significant changes in the economy, credit quality of a particular industry segment in the Group's portfolio, could result in a loss amount different from the loss provision at the end of the reporting date. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally from loans and advances, financial investments, derivative instruments and due from banks and other financial institutions. There is also credit risk in off-balance sheet financing arrangements such as loan commitments, financial guarantees, acceptances and letters of credit. The majority of the Group's operation is located within Mainland China, where different regions in China have their own unique characteristics in economic development. For example, the economic development in the eastern provinces is better than that in the western provinces. The Risk Management Department at Head Office is responsible for the overall management of the Group's credit risk, and reports to the Bank's senior management and Board of Directors regularly. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a particular borrower. Such limits are monitored on a regular basis and subject to an annual review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers to meet interest and principal repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also controlled by obtaining collaterals and corporate and individual guarantees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment

(a) *Loans and advances to customers and off-balance sheet commitments*

In assessing credit risk of corporate and retail customers in respect of its on-balance sheet and off-balance sheet exposures, the Group considers three factors (i) the “probability of default” by debtors; (ii) the “exposure at default” to be recognised by the Group based on the current net exposure and the future potential development of debtors; (iii) the extent of loss from risk exposure in the event of default (the “loss given default”).

Probability of default is the probability of occurrence of default event in a given period of time in future.

Exposure at default represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses to be incurred. In general, this includes the utilised credit limit, interests receivable, the anticipated usage of unutilised credit facilities as well as the related expenses to be incurred.

Loss given default represents the percentage of amount of loss to be occurred in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure which typically varies by nature of counter party, type and seniority of claim and the availability of collaterals or other credit enhancements.

These credit risk measurements, which reflect expected loss (the expected loss model), are in accordance with the banking regulations and requirements of regulatory measures of the Basel Committee on Banking Supervision (the “Basel Committee”), and are applied in the daily operations of the Group.

The Group has implemented an internal rating system based on the requirements of the Basel New Capital Accord and the requirements of supervisory guidelines issued by China Banking Regulatory Commission (“CBRC”) on internal rating system. The Bank summarised a series of financial and other related factors to build the internal credit rating model for corporate customers, which is based on historical data collection, data statistics and data analysis on the characteristics of risks of the clients before the default occurs. Internal rating model applies the principle of regression to forecast the probability of default in the future 12 months, and then matches the probability of default with relevant rank of default risk which is used for determination of the borrower’s credit ranking within the internal rating system. In order to improve the model’s accuracy and stability, the Bank performs evaluation of the model at least every six months and monitors the results by performing back testing and comparing the results from model using the default data from customers. In practice, the monitoring and back testing has been performed quarterly.

The Group has issued credit commitments, guarantees and letters of credit. The primary purpose of these instruments is to ensure that funds are available to customers as required. These instruments represent irrevocable assurances that the Group will make payments in the events that a customer cannot meet its obligations to third parties. These instruments carry similar credit risk as loans, so the Group manages such credit risk together with loan portfolio.

The Group monitors the overdue status of its loans and advances to individual customers to manage credit risk. The Group analyses credit exposures by industry, geography and customer type. This information is monitored regularly by senior management.

In the internal rating system, the credit rating of domestic customers and businesses has been divided into 15 non-default grades and one default grade based on the probability of default. The grade of non-default customers and businesses are assessed based on the probability of default in the future 12 months. Customers and businesses that meet the Group’s definition of default are all classified within the default grade.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.1 Credit risk assessment *(Continued)*

(b) *Debt securities*

For debt securities and other bills, external ratings (such as Standard and Poor's) are used by the Group when available for managing the credit risk. The investment in those securities and bills is to have better credit quality assets while maintaining readily available funding sources.

(c) *Financial Investments – loans and receivables*

The Group established a risk evaluation system for financial investments in loans and receivables. The Group assesses the credit risk of counter parties, including consideration of credit rating and reputation of fund management companies, trust companies and securities companies. Also, credit limits have been imposed and monitored by the Group to ensure there is no concentration of credit risk for transactions with a particular entity.

(d) *Derivative instruments*

The Group maintains strict limits on net open derivative investment positions (i.e., the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (i.e., assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except when the Group requires margin deposits from counterparties. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Group concludes foreign exchange and interest rate contracts with other financial institutions and clients.

(e) *Due from banks and other financial institutions*

The Group manages the credit quality of due from and placements with banks and other financial institutions considering the size, financial position and the external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

3.1.2 Risk limit control and mitigation measures

The Group manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, company and groups, industry segments and geographical regions.

The Group structures the levels of credit risk it undertakes by placing limits in relation to one borrower, or groups of borrowers. Such risks are monitored on a regular basis and subject to annual or more frequent review, whenever necessary.

The exposure to any single borrower including banks and brokers is further restricted by sub-limits covering on-balance and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing their lending limits where appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.2 Risk limit control and mitigation measures (Continued)

Some other specific control and risk mitigation measures are outlined below:

(a) *Collateral*

The Group employs a range of policies and practices to mitigate credit risk. The most useful practice is to accept collaterals. The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral for loans and advances to customers are:

- Residential properties;
- Business assets such as premises, inventory and accounts receivable;
- Financial instruments such as debt securities and stocks.

The value of collaterals at the time of loan origination is determined by the Credit Authorisation Department and the amount of the loans granted is subject to loan-to-value ratio limits based on collateral types. The principal types of collateral for corporate loans and individual loans are as follows:

Collateral	Maximum loan-to-value ratio
Cash deposits with the Group	90%
PRC treasury bonds	90%
Financial institution bonds	90%
Publicly traded stocks	60%
Rights to collect fees or right of management	60%
Properties	70%
Land use rights	70%
Vehicles	50%

Long-term loans and advances to corporate and individual customers are generally secured; while revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Group will seek additional collaterals from the counterparties as soon as impairment indicators are noted for the relevant individual loans and advances.

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Collaterals held as security for financial assets other than loans and advances to customers are determined by the nature of the instrument. Debt securities, treasury bonds and PBOC bills are generally unsecured, with the exception of asset-backed securities, which are secured by portfolios of financial instruments.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.2 Risk limit control and mitigation measures *(Continued)*

(b) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as each transaction subject to the arrangement is affected by credit risk.

3.1.3 Impairment and provision policies

The internal rating system described in Note 3.1.1 focuses more on credit-quality mapping from the inception of lending activities. In contrast, impairment allowances recognised for financial reporting purposes are the losses that have been incurred at the end of the reporting date based on objective evidence of impairment (see Note 2.6).

The internal rating system assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions (e.g. equity ratio, profit margin);
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

The Group periodically identifies potential risks in the corporate loan assets based on its three-hierarchy risk identification method through the asset risk management system, and applies discounted cash flow model to assess the expected losses on loan-by-loan basis to identify impaired loan assets. With regard to the impaired loan assets, the Group develops customer-based action plan, appointed certain employee for further clearing, retrieval and disposal, and provides impairment allowance in accordance with the expected losses. With regard to the loan assets not impaired, the Group performs collective assessment based on its migration model.

The Group's policy requires the review of individual financial assets that have objective evidence of impairment at least quarterly or more regularly when individual circumstances require. Impairment allowances on individually assessed financial assets are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually impaired financial assets. The assessment normally encompasses collaterals held (including re-confirmation of its enforceability) and the anticipated cash flows from that individual asset.

Collectively assessed impairment allowances are provided for: losses that have been incurred but have not yet been identified, by using the available historical experience, judgment and statistical techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements Group

	As at 31 December 2014	As at 31 December 2013
Assets		
Balances with central banks	918,794	877,263
Due from banks and other financial institutions	525,033	566,429
Financial assets at fair value through profit or loss (debt securities and derivatives)	116,117	73,203
Loans and advances to customers		
– Loans to corporate entities	2,500,515	2,455,136
– Loans to individuals	854,272	737,927
Financial investments – loans and receivables	211,588	119,726
Financial investments – available-for-sale (debt securities)	207,003	219,104
Financial investments – held-to-maturity	635,570	670,615
Other financial assets	153,331	137,668
Total	6,122,223	5,857,071
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	918,337	1,059,432
Other credit related commitments	616,190	491,287
Total	1,534,527	1,550,719
Bank		
	As at 31 December 2014	As at 31 December 2013
Assets		
Balances with central banks	918,175	876,612
Due from banks and other financial institutions	537,879	574,086
Financial assets at fair value through profit or loss (debt securities and derivatives)	116,111	73,198
Loans and advances to customers		
– Loans to corporate entities	2,498,239	2,454,517
– Loans to individuals	852,466	733,357
Financial investments – loans and receivables	206,761	117,059
Financial investments – available-for-sale (debt securities)	204,506	218,010
Financial investments – held-to-maturity	634,209	669,089
Other financial assets	50,922	48,842
Total	6,019,268	5,764,770
Off-balance sheet exposures		
Guarantees, acceptances and letters of credit	917,693	1,059,189
Other credit related commitments	616,132	491,232
Total	1,533,825	1,550,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

The above table represents a worst case scenario of credit risk exposure to the Group as at 31 December 2014 and 2013, without taking account of any related collaterals or other credit enhancements. For on-balance sheet assets, the exposures above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 56% of the total on-balance sheet exposure is derived from loans and advances to customers (2013: 55%).

Management is confident in its ability to continuously control and sustain a minimal exposure to credit risk to the Group based on the following performance of its loans and advances portfolio:

- Mortgage loans, which represent the biggest portion in the individual portfolio, are backed by collaterals;
- 97.59% of the loans and advances portfolio are neither past due nor impaired (2013: 98.51%);
- The impaired loans to total loans and advances to customers are 1.25%. (2013: 1.05%).

3.1.5 Loans and advances to customers Group

	As at 31 December 2014		As at 31 December 2013	
	Loans and advances to customers	Due from banks and other financial institutions	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	3,349,165	525,033	3,217,747	566,417
Past due but not impaired	39,553	–	14,311	12
Individually impaired	43,017	–	34,310	–
Gross	3,431,735	525,033	3,266,368	566,429
Less: allowance for collectively assessed impairment losses	(58,908)	–	(57,123)	–
Less: allowance for individually assessed impairment losses	(18,040)	–	(16,182)	–
Net	3,354,787	525,033	3,193,063	566,429

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

Bank

	As at 31 December 2014		As at 31 December 2013	
	Loans and advances to customers	Due from banks and other financial institutions	Loans and advances to customers	Due from banks and other financial institutions
Neither past due nor impaired	3,345,063	537,879	3,212,499	574,074
Past due but not impaired	39,225	—	14,300	12
Individually impaired	42,885	—	34,201	—
Gross	3,427,173	537,879	3,261,000	574,086
Less: allowance for collectively assessed impairment losses	(58,662)	—	(57,015)	—
Less: allowance for individually assessed impairment losses	(17,806)	—	(16,111)	—
Net	3,350,705	537,879	3,187,874	574,086

As at 31 December 2014, the Group's total impairment allowances for loans and advances to customers are RMB76,948 million (31 December 2013: RMB 73,305 million) of which RMB18,040 million (31 December 2013: RMB 16,182 million) represents those for individually assessed impaired loans and the remaining amount of RMB 58,908 million (31 December 2013: RMB 57,123 million) represents those for collectively assessed impaired loans. Further information of the impairment allowances for loans and advances to customers is provided in Note 20.

As at 31 December 2014, the Group's total loans and advances to customers increased by 5.06% as a result of the continuous increase of market demand in Mainland China. When entering into a new market or new industry, the Group targets at large enterprises or other financial institutions with good credit ratings or customers with sufficient collaterals in order to minimise the potential risk of increased credit risk exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(a) *Loans and advances neither past due nor impaired*

The Group monitors the credit risk of loans and advances neither past due nor impaired of domestic branches by applying its internal 16 grading system to customers.

Group

Neither past due nor impaired	As at 31 December 2014				Total
	Grade 1-8	Grade 9-12	Grade 13-15	Unrated	
Mainland corporate loans and advances					
– Loans	1,936,894	75,490	5,901	1,628	2,019,913
– Discounted bills	30,165	786	1	42,235	73,187
– Trade finance	85,785	3,153	75	–	89,013
Mainland individual loans and advances	765,303	14,526	57	50,548	830,434
Total	2,818,147	93,955	6,034	94,411	3,012,547
Overseas branches, offshore center and subsidiaries					336,618

Bank

Neither past due nor impaired	As at 31 December 2014				Total
	Grade 1-8	Grade 9-12	Grade 13-15	Unrated	
Mainland corporate loans and advances					
– Loans	1,936,894	75,490	5,901	1,628	2,019,913
– Discounted bills	30,165	786	1	42,235	73,187
– Trade finance	85,785	3,153	75	–	89,013
Mainland individual loans and advances	765,303	14,526	57	50,548	830,434
Total	2,818,147	93,955	6,034	94,411	3,012,547
Overseas branches, offshore center and subsidiaries					332,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(a) Loans and advances neither past due nor impaired (Continued)

Group

Neither past due nor impaired	As at 31 December 2013				Total
	Grade 1-8	Grade 9-12	Grade 13-15	Unrated	
Mainland corporate loans and advances					
– Loans	1,869,733	131,835	4,168	–	2,005,736
– Discounted bills	25,222	2,522	29	27,413	55,186
– Trade finance	110,961	2,471	40	–	113,472
Mainland individual loans and advances	645,610	33,648	1,143	31,314	711,715
Total	2,651,526	170,476	5,380	58,727	2,886,109
Overseas branches, offshore center and subsidiaries					331,638

Bank

Neither past due nor impaired	As at 31 December 2013				Total
	Grade 1-8	Grade 9-12	Grade 13-15	Unrated	
Mainland corporate loans and advances					
– Loans	1,869,733	131,835	4,168	–	2,005,736
– Discounted bills	25,222	2,522	29	27,413	55,186
– Trade finance	110,961	2,471	40	–	113,472
Mainland individual loans and advances	645,610	33,648	1,143	31,314	711,715
Total	2,651,526	170,476	5,380	58,727	2,886,109
Overseas branches, offshore center and subsidiaries					326,390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(b) Loans and advances past due but not impaired

Gross amount of loans and advances by types of customers that are past due but not impaired are as follows:

Group

	As at 31 December 2014				Total	Fair value of collateral
	Past due up to 30 days	Past due 31 – 60 days	Past due 61 – 90 days	Past due over 90 days		
Corporate entities						
– Commercial loans	6,735	6,306	12,881	5,576	31,498	19,963
Individual						
– Mortgages	1,324	361	258	34	1,977	2,717
– Credit Cards	3,741	851	472	–	5,064	–
– Other	434	270	208	102	1,014	1,462
Total	12,234	7,788	13,819	5,712	39,553	24,142
Due from banks and other financial institutions	–	–	–	–	–	–

Bank

	As at 31 December 2014				Total	Fair value of collateral
	Past due up to 30 days	Past due 31 – 60 days	Past due 61 – 90 days	Past due over 90 days		
Corporate entities						
– Commercial loans	6,722	6,274	12,854	5,343	31,193	19,939
Individual						
– Mortgages	1,324	361	258	34	1,977	2,717
– Credit Cards	3,741	851	472	–	5,064	–
– Other	431	260	198	102	991	1,445
Total	12,218	7,746	13,782	5,479	39,225	24,111
Due from banks and other financial institutions	–	–	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(b) Loans and advances past due but not impaired (Continued)

Group

	As at 31 December 2013				Total	Fair value of collateral
	Past due up to 30 days	Past due 31 – 60 days	Past due 61 – 90 days	Past due over 90 days		
Corporate entities						
– Commercial loans	1,910	1,628	2,932	–	6,470	6,085
Individual						
– Mortgages	1,748	554	246	–	2,548	2,928
– Credit Cards	2,974	545	312	–	3,831	–
– Other	540	228	694	–	1,462	1,588
Total	7,172	2,955	4,184	–	14,311	10,601
Due from banks and other financial institutions	–	–	–	12	12	16

Bank

	As at 31 December 2013				Total	Fair value of collateral
	Past due up to 30 days	Past due 31 – 60 days	Past due 61 – 90 days	Past due over 90 days		
Corporate entities						
– Commercial loans	1,910	1,620	2,932	–	6,462	6,085
Individual						
– Mortgages	1,748	554	246	–	2,548	2,928
– Credit Cards	2,973	545	312	–	3,830	–
– Other	538	228	694	–	1,460	1,586
Total	7,169	2,947	4,184	–	14,300	10,599
Due from banks and other financial institutions	–	–	–	12	12	16

The fair value of collaterals was estimated by management based on the latest available external valuations, adjusted for the current market situation and management's experience in realisation of collaterals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(c) Loans and advances individually impaired

As at 31 December 2014, impaired loans and advances to customers before taking into consideration the collaterals held is RMB43,017 million (2013: RMB34,310 million).

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collaterals held by the Group as security, are as follows:

Group

	As at 31 December 2014	As at 31 December 2013
Corporate entities	34,040	25,229
Individual	8,977	9,081
Impaired loans	43,017	34,310
Fair value of collaterals		
– Corporate entities	9,998	7,115
– Individual	5,690	4,180
Impaired loans	15,688	11,295

Bank

	As at 31 December 2014	As at 31 December 2013
Corporate entities	34,007	25,217
Individual	8,878	8,984
Impaired loans	42,885	34,201
Fair value of collaterals		
– Corporate entities	9,993	7,111
– Individual	5,684	4,178
Impaired loans	15,677	11,289

No individually impaired due from banks and other financial institutions are held by the Group as at 31 December 2014 and 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(d) Loans and advances to customers analysed by security type

Group

	As at 31 December 2014	As at 31 December 2013
Unsecured loans	982,829	829,671
Guaranteed loans	826,994	879,144
Collateralised and other secured loans	1,621,912	1,557,553
– loans secured by collateral	1,288,485	1,183,666
– Pledged loans	333,427	373,887
Gross amount of loans and advances before allowance for impairment	3,431,735	3,266,368

Bank

	As at 31 December 2014	As at 31 December 2013
Unsecured loans	985,033	831,300
Guaranteed loans	824,820	874,876
Collateralised and other secured loans	1,617,320	1,554,824
– loans secured by collateral	1,287,547	1,183,075
– Pledged loans	329,773	371,749
Gross amount of loans and advances before allowance for impairment	3,427,173	3,261,000

(e) Geographical risk concentration for loans and advances to customers

Group

	As at 31 December 2014		As at 31 December 2013	
	RMB	%	RMB	%
North of China ⁽¹⁾	524,090	15.27	517,921	15.86
Northeast ⁽²⁾	177,888	5.18	166,065	5.08
East of China ⁽³⁾	1,465,863	42.72	1,390,342	42.57
South and middle of China ⁽⁴⁾	638,822	18.62	597,291	18.29
West of China ⁽⁵⁾	348,089	10.14	315,507	9.66
Overseas ⁽⁶⁾	276,983	8.07	279,242	8.54
Gross amount of loans and advances	3,431,735	100.00	3,266,368	100.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(e) Geographical risk concentration for loans and advances to customers (Continued)

Bank

	As at 31 December 2014		As at 31 December 2013	
		%		%
North of China ⁽¹⁾	524,090	15.29	517,921	15.88
Northeast ⁽²⁾	177,888	5.19	166,065	5.09
East of China ⁽³⁾	1,461,551	42.65	1,388,181	42.57
South and middle of China ⁽⁴⁾	638,822	18.64	596,287	18.29
West of China ⁽⁵⁾	345,856	10.09	313,497	9.61
Overseas ⁽⁶⁾	278,966	8.14	279,049	8.56
Gross amount of loans and advances	3,427,173	100.00	3,261,000	100.00

(1) Including Beijing, Tianjin, Hebei province, Shanxi province and Inner Mongolia;

(2) Including Liaoning province, Jilin province and Heilongjiang province;

(3) Including Shanghai, Jiangsu province, Zhejiang province, Anhui province, Fujian province, Jiangxi province and Shandong province;

(4) Including Henan province, Hunan province, Hubei province, Guangdong province, Guangxi province and Hainan province;

(5) Including Chongqing, Sichuan province, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Qinghai province, Xinjiang province and Ningxia province;

(6) Including Hong Kong, New York, Tokyo, Singapore, Seoul, Frankfurt, Macau, Ho Chi Minh City, Sydney, London, San Francisco and Taiwan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(f) Industry analysis

Group

	As at 31 December 2014		As at 31 December 2013	
		%		%
Corporate loans				
Mining	98,886	2.88	92,180	2.82
Manufacturing				
– Petroleum and chemical	120,727	3.52	118,958	3.64
– Electronics	77,856	2.27	62,278	1.91
– Steel	38,760	1.13	41,342	1.27
– Machinery	110,486	3.22	115,893	3.55
– Textile and clothing	39,389	1.15	40,757	1.25
– Other manufacturing	237,455	6.92	251,127	7.69
Electricity, gas and water production and supply	132,234	3.85	132,942	4.07
Construction	107,521	3.13	106,004	3.25
Transportation, storage and postal service	388,980	11.33	386,822	11.84
Telecommunication, IT service and software	12,291	0.36	10,445	0.32
Wholesale and retail	333,003	9.70	391,772	11.99
Accommodation and catering	30,536	0.89	26,708	0.82
Financial institutions	45,693	1.33	32,593	1.00
Real estate	207,566	6.05	201,300	6.16
Services	233,905	6.82	206,910	6.33
Water conservancy, environmental and other public services	138,903	4.05	130,777	4.00
Education	59,833	1.74	49,174	1.51
Others	74,806	2.18	56,633	1.73
Discounted bills	74,548	2.17	60,443	1.85
Total corporate loans	2,563,378	74.69	2,515,058	77.00
Individual loans				
Mortgage loans	529,871	15.44	458,356	14.03
Credit card advances	223,593	6.52	163,969	5.02
Medium-term and long-term working capital loans				
– Short-term working capital loans	67,253	1.96	58,548	1.79
– Short-term working capital loans	14,365	0.42	24,539	0.75
Car loans	1,084	0.03	1,976	0.06
Others	32,191	0.94	43,922	1.35
Total individual loans	868,357	25.31	751,310	23.00
Gross amount of loans and advances before allowance for impairment	3,431,735	100.00	3,266,368	100.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.5 Loans and advances to customers (Continued)

(f) Industry analysis (Continued)

Bank

	As at 31 December 2014		As at 31 December 2013	
		%		%
Corporate loans				
Mining	98,886	2.89	92,180	2.83
Manufacturing				
– Petroleum and chemical	120,727	3.52	118,956	3.65
– Electronics	77,815	2.27	62,273	1.91
– Steel	38,722	1.13	41,342	1.27
– Machinery	110,409	3.22	115,848	3.55
– Textile and clothing	39,384	1.15	40,729	1.25
– Other manufacturing	236,642	6.90	250,122	7.67
Electricity, gas and water production and supply	132,212	3.86	132,914	4.08
Construction	107,341	3.13	105,800	3.24
Transportation, storage and postal service	388,936	11.35	386,767	11.86
Telecommunication, IT service and software	12,291	0.36	10,445	0.32
Wholesale and retail	332,582	9.70	389,644	11.95
Accommodation and catering	30,506	0.89	26,685	0.82
Financial institutions	47,867	1.40	35,352	1.08
Real estate	207,181	6.05	200,781	6.16
Services	233,733	6.82	206,888	6.34
Water conservancy, environmental and other public services	138,819	4.05	130,747	4.01
Education	59,810	1.75	49,149	1.51
Others	72,307	2.11	57,293	1.75
Discounted bills	74,548	2.18	60,443	1.85
Total corporate loans	2,560,718	74.73	2,514,358	77.10
Individual loans				
Mortgage loans	529,871	15.46	458,258	14.05
Credit card advances	223,593	6.52	163,969	5.03
Medium-term and long-term working capital loans				
– Short-term working capital loans	67,252	1.96	58,539	1.80
– Short-term working capital loans	14,333	0.42	22,805	0.70
Car loans	1,084	0.03	1,974	0.06
Others	30,322	0.88	41,097	1.26
Total individual loans	866,455	25.27	746,642	22.90
Gross amount of loans and advances before allowance for impairment	3,427,173	100.00	3,261,000	100.00

The economic sector risk concentration analysis for loans and advances to customers is based on the type of industry of the borrowers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.6 Financial investments

The table below presents an analysis of financial investments, excluding derivatives, by independent rating agencies designation as at 31 December 2014 and 2013:

Group

	As at 31 December 2014				Total
	Financial investments – loans and receivables	Financial investments – available-for-sale (debt securities)	Financial investments – held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	
RMB securities					
AAA	21,075	40,881	139,222	61,312	262,490
AA- to AA+	7,619	6,054	9,524	16,074	39,271
A- to A+	–	222	250	220	692
Unrated ^(a)	183,992	105,072	484,917	16,801	790,782
Sub-total	212,686	152,229	633,913	94,407	1,093,235
Foreign currency securities					
AAA	–	3,985	85	3,362	7,432
AA- to AA+	–	14,378	598	2,320	17,296
A- to A+	–	12,521	692	1,715	14,928
BBB- to BBB+	–	2,257	51	–	2,308
Unrated ^(a)	908	21,633	231	3,657	26,429
Sub-total	908	54,774	1,657	11,054	68,393
Total	213,594	207,003	635,570	105,461	1,161,628

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.6 Financial investments (Continued)

Bank

	As at 31 December 2014				Total
	Financial investments – loans and receivables	Financial investments – available-for-sale (debt securities)	Financial investments – held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	
RMB securities					
AAA	21,075	38,799	138,522	61,312	259,708
AA- to AA+	7,619	6,012	9,372	16,074	39,077
A- to A+	–	222	250	220	692
Unrated ^(a)	179,061	105,072	484,922	16,801	785,856
Sub-total	207,755	150,105	633,066	94,407	1,085,333
Foreign currency securities					
AAA	–	3,862	85	3,362	7,309
AA- to AA+	–	14,311	592	2,320	17,223
A- to A+	–	12,495	430	1,715	14,640
BBB- to BBB+	–	2,236	–	–	2,236
Unrated ^(a)	908	21,497	36	3,657	26,098
Sub-total	908	54,401	1,143	11,054	67,506
Total	208,663	204,506	634,209	105,461	1,152,839

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.6 Financial investments (Continued) Group

	As at 31 December 2013				Total
	Financial investments – loans and receivables	Financial investments – available-for-sale (debt securities)	Financial investments – held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	
RMB securities					
AAA	801	17,428	130,414	6,047	154,690
AA- to AA+	450	3,083	8,138	764	12,435
A- to A+	–	693	–	–	693
Unrated ^(a)	118,475	150,114	531,009	44,350	843,948
Sub-total	119,726	171,318	669,561	51,161	1,011,766
Foreign currency securities					
AAA	–	2,276	124	1,703	4,103
AA- to AA+	–	9,934	263	2,874	13,071
A- to A+	–	13,073	94	1,023	14,190
BBB- to BBB+	–	1,229	–	61	1,290
Unrated ^(a)	–	21,274	573	2,154	24,001
Sub-total	–	47,786	1,054	7,815	56,655
Total	119,726	219,104	670,615	58,976	1,068,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.6 Financial investments (Continued)

Bank

	As at 31 December 2013				Total
	Financial investments – loans and receivables	Financial investments – available-for-sale (debt securities)	Financial investments – held-to-maturity	Financial assets at fair value through profit or loss (debt securities)	
RMB securities					
AAA	25	16,964	129,693	6,047	152,729
AA- to AA+	400	2,904	7,986	764	12,054
A- to A+	–	693	–	–	693
Unrated ^(a)	116,634	150,552	530,829	44,350	842,365
Sub-total	117,059	171,113	668,508	51,161	1,007,841
Foreign currency securities					
AAA	–	2,276	124	1,703	4,103
AA- to AA+	–	9,934	263	2,874	13,071
A- to A+	–	13,073	36	1,023	14,132
BBB- to BBB+	–	1,229	–	61	1,290
Unrated ^(a)	–	20,385	158	2,151	22,694
Sub-total	–	46,897	581	7,812	55,290
Total	117,059	218,010	669,089	58,973	1,063,131

(a) These mainly represent investments and trading securities issued by Ministry of Finance of the PRC (“MOF”), the PBOC and policy banks as well as investments in trustees and wealth management products which are not rated by independent agencies.

The investments as shown in the above table are neither past due nor impaired. The impaired financial assets have been set out below

Impaired financial investments

Provision for impairments of financial investments

Group

	31 December 2014	31 December 2013
Collectively assessed impairment	2,006	–
Individually assessed impairment	1,005	1,090

Bank

	31 December 2014	31 December 2013
Collectively assessed impairment	1,902	–
Individually assessed impairment	1,005	1,090

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.6 Financial investments (Continued)

Impaired financial investments (Continued)

As of December 31, 2014, the total gross amount of impaired financial investments amounted to RMB1,005 million (December 31, 2013: RMB1,090 million) which were all overdue. Individual assessment has been carried out by the Group and a provision of RMB1,005 million was made during the year (Year ended December 31, 2013: RMB1,090 million). No collateral was held by the Group against these financial investments.

3.1.7 Derivative instruments

The Group undertakes its transactions in foreign exchange and interest rate derivative contracts and others with other financial institutions and customers. Management has established limits for these contracts based on counterparties, industry sectors and countries. Actual credit exposures and limits are regularly monitored and controlled by management.

Credit risk weighted amounts

Group

	As at 31 December 2014	As at 31 December 2013
Derivatives		
– Exchange rate contracts	3,516	6,157
– Interest rate contracts and others	753	399
	4,269	6,556

Bank

	As at 31 December 2014	As at 31 December 2013
Derivatives		
– Exchange rate contracts	3,513	6,155
– Interest rate contracts and others	461	398
	3,974	6,553

The credit risk weighted amounts are the amounts calculated with reference to the guidelines issued by the CBRC and are dependent on, amongst other factors, the creditworthiness of the counterparty and the maturity characteristics of each type of contract.

The credit risk weighted amounts stated above have not taken the effects of netting arrangements into account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.8 Foreclosed assets Group and bank

	As at 31 December 2014	As at 31 December 2013
Commercial properties	55	55
Others	401	137
Total	456	192

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. The Group does not generally occupy foreclosed assets for its own business use. Foreclosed assets are classified as other assets in the statement of financial position.

3.1.9 Concentration risk analysis for financial assets with credit risk exposure

Geographical sectors

Group

	PRC	Hong Kong	Others	Total
As at 31 December 2014				
Financial assets				
Balances with central banks	863,485	18,912	36,397	918,794
Due from banks and other financial institutions	474,478	8,302	42,253	525,033
Financial assets at fair value through profit or loss (debt securities and derivatives)	101,945	10,119	4,053	116,117
Loans and advances to customers	3,079,519	189,096	86,172	3,354,787
Financial investments – loans and receivables	210,680	–	908	211,588
Financial investments – available-for-sale (debt securities)	165,691	10,111	31,201	207,003
Financial investments – held-to-maturity	633,903	88	1,579	635,570
Other financial assets	140,657	10,913	1,761	153,331
	5,670,358	247,541	204,324	6,122,223
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	903,594	9,939	4,804	918,337
Other credit related commitments	573,578	11,164	31,448	616,190
	1,477,172	21,103	36,252	1,534,527

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Credit risk *(Continued)*

3.1.9 Concentration risk analysis for financial assets with credit risk exposure *(Continued)*

Geographical sectors (Continued)

Bank

	PRC	Hong Kong	Others	Total
As at 31 December 2014				
Financial assets				
Balances with central banks	862,867	18,912	36,396	918,175
Due from banks and other financial institutions	484,802	6,967	46,110	537,879
Financial assets at fair value through profit or loss (debt securities and derivatives)	101,945	10,119	4,047	116,111
Loans and advances to customers	3,073,170	185,691	91,844	3,350,705
Financial investments – loans and receivables	205,853	–	908	206,761
Financial investments – available-for-sale (debt securities)	163,537	10,041	30,928	204,506
Financial investments – held-to-maturity	633,052	37	1,120	634,209
Other financial assets	42,079	7,440	1,403	50,922
	5,567,305	239,207	212,756	6,019,268
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	903,068	9,939	4,686	917,693
Other credit related commitments	573,578	11,164	31,390	616,132
	1,476,646	21,103	36,076	1,533,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.9 Concentration risk analysis for financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

Group

	PRC	Hong Kong	Others	Total
As at 31 December 2013				
Financial assets				
Balances with central banks	851,098	9,374	16,791	877,263
Due from banks and other financial institutions	512,050	44,225	10,154	566,429
Financial assets at fair value through profit or loss (debt securities and derivatives)	59,971	1,692	11,540	73,203
Loans and advances to customers	3,011,540	152,136	29,387	3,193,063
Financial investments – loans and receivables	119,726	–	–	119,726
Financial investments – available-for-sale (debt securities)	166,981	757	51,366	219,104
Financial investments – held-to-maturity	669,597	82	936	670,615
Other financial assets	118,398	18,860	410	137,668
	5,509,361	227,126	120,584	5,857,071
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	1,043,262	9,561	6,609	1,059,432
Other credit related commitments	460,177	9,454	21,656	491,287
	1,503,439	19,015	28,265	1,550,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Credit risk (Continued)

3.1.9 Concentration risk analysis for financial assets with credit risk exposure (Continued)

Geographical sectors (Continued)

Bank

	PRC	Hong Kong	Others	Total
As at 31 December 2013				
Financial assets				
Balances with central banks	850,447	9,374	16,791	876,612
Due from banks and other financial institutions	517,372	43,997	12,717	574,086
Financial assets at fair value through profit or loss (debt securities and derivatives)	59,971	1,690	11,537	73,198
Loans and advances to customers	3,006,627	151,817	29,430	3,187,874
Financial investments – loans and receivables	117,059	–	–	117,059
Financial investments – available-for-sale (debt securities)	166,298	530	51,182	218,010
Financial investments – held-to-maturity	668,544	24	521	669,089
Other financial assets	30,290	18,167	385	48,842
	5,416,608	225,599	122,563	5,764,770
Off-balance sheet exposures				
Guarantees, acceptances and letters of credit	1,043,046	9,561	6,582	1,059,189
Other credit related commitments	460,178	9,454	21,600	491,232
	1,503,224	19,015	28,182	1,550,421

3.2 Market risk

3.2.1 Overview

The Group takes on exposure to market risks, which is initiated by the fluctuation of the fair value of or future cash flow of financial instruments as a result of the changes of the market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market fluctuations and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. The Group separates exposures to market risk into either trading or banking portfolios.

In accordance with the requirements of the CBRC, the Group categorises its business into either the trading book or the banking book. The trading book consists of positions in financial instruments held either for trading intent or economic hedging for other elements of the trading book or the banking book. The banking book consists of the investments purchased by the Group with excess funds and other financial instruments that are not captured in trading book.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.1 Overview *(Continued)*

The Group established a management model of “large and small middle offices” for its market risk management, which is a centralised control framework led by Board of Directors, Supervisors and senior management. The asset liability management department takes the lead in the Bank’s market risk management, while business units such as financial markets department and domestic and overseas branches are the execution units of the Bank’s market risk management. The risk management department and the internal audit department are responsible for the independent verification of the market risk management system, as well as the internal audit of the Bank.

The Group monitors market risk separately in respect of trading portfolios and non-trading portfolios. With regard to the interest rate and exchange rate risks of trading book, the Group established an effective limit management system by implementing Value at Risk (VaR). Net interest income sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major tools used by the Group to monitor the market risk of its overall businesses. In addition, through adequate pricing management and asset allocation, the Group strived to maximise its rate of return while keeping its risks under control.

The Group continuously improved the management system of market risk in 2014. The Board of Directors continues its implementation of the “Stress Testing Plan of Market Risk for Trading Accounts of 2012”. The Group conducted the stress tests on historical scenarios and hypothetical scenarios in the consideration of the Group’s major market risk factors. The Group implemented the daily automatic collection system of trading data of overseas branches. The Group conducted the management of risk capital and VaR quota, and formulated the quota allocation plans.

As part of market risk management, the Group enters into interest rate swaps to match the interest rate risk associated with the structured deposits and fixed-rate long-term debt securities.

The major measurement techniques used to measure and control market risk are outlined below:

3.2.2 VaR

VaR refers to the maximum loss that an investment portfolio may incur at a given confidence level and holding period caused by the changes in market price factors such as interest rates and exchange rates etc. The Group adopted the historical simulation method to calculate daily VaR (99% confidence interval, the holding period of one day).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.2 VaR (Continued)

A summary of VaR by risk type of the Group's trading portfolios is as follows:

Items

	Year ended 31 December 2014			
	31 December	Average	Maximum	Minimum
	2014			
VaR of trading portfolios	181	189	300	107
– Interest rate risk	143	127	174	93
– Foreign exchange risk	135	144	269	36

Items

	Year ended 31 December 2013			
	31 December	Average	Maximum	Minimum
	2013			
VaR of trading portfolios	419	176	433	69
– Interest rate risk	97	33	102	12
– Foreign exchange risk	369	165	414	65

3.2.3 Sensitivity tests

Interest rate sensitivity test

The Group performs interest rate sensitivity analysis on net interest income and other comprehensive income for the Group by measuring the impact of a change in net interest income of financial assets and liabilities, not taking customer behavior and repayment option into consideration. On an assumption of a parallel shift of 100 basis points in RMB, USD and HKD interest rates, the Group calculates the change in net interest income and other comprehensive income for the year on a monthly basis.

The table below illustrates the impact to net interest income of coming year of the Group based on the structure of interest bearing assets and liabilities as at 31 December 2014 and 2013, caused by a parallel shift of 100 basis point of RMB, USD and HKD interest rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.3 Sensitivity tests (Continued)

Interest rate sensitivity test (Continued)

Group

	Expected change in net interest income	
	As at 31 December 2014	As at 31 December 2013
+100 basis points parallel shift in yield curves	14,521	12,600
-100 basis points parallel shift in yield curves	(14,521)	(12,600)

The table below illustrates the impact of other comprehensive income of the Group by the parallel shift of 100 basis point of RMB, USD and HKD interest rate structure.

Group

	Change of other comprehensive income	
	As at 31 December 2014	As at 31 December 2013
+100 basis points parallel shift in yield curves	(2,339)	(2,574)
-100 basis points parallel shift in yield curves	2,166	2,729

The results of the interest rate sensitivity tests set out in the table above is illustrative only and is based on simplified scenarios. The figures represent the projected impact to the net interest income and other comprehensive income caused by the projected movement of current interest risk structure yield curves. This effect, however, does not take into account actions that would be taken by the Group to mitigate the impact of interest rate changes. The projections above also assume that interest rates of all maturities excluding demand deposits move by the same amount and, therefore, do not reflect the potential impact on net interest income due to changes in certain rates while others remain unchanged. The projections make other simplifying assumptions as well, including that all positions to be held to maturity. There will be changes to the projection if positions are not held to maturity but it is not expected that the changes would be material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.3 Sensitivity tests (Continued)

Foreign exchange sensitivity test

The Group performs exchange rate sensitivity analysis on net profit and other comprehensive income for the Group by measuring the impact of a change in exchange rate on financial assets and liabilities denominated in different currencies. On an assumption of an appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5%, the Group calculates the change in net profit and other comprehensive income for the year on a monthly basis.

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rates against HKD and USD by 5% on the Group's net profit:

Group

	Expected change in net profit/(loss)	
	As at 31 December 2014	As at 31 December 2013
5% appreciation of RMB	(334)	(1,300)
5% depreciation of RMB	289	1,300

The table below illustrates the impact of an appreciation or depreciation of RMB spot and forward rate against HKD and USD by 5% on the Group's other comprehensive income:

Group

	Change of other comprehensive income	
	As at 31 December 2014	As at 31 December 2013
5% appreciation of RMB	(667)	(872)
5% depreciation of RMB	667	872

3.2.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the market value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Group operates its business predominantly in PRC under the interest rate scheme regulated by the PBOC. The normal practice of the PBOC is to let the interest rates of both interest-bearing assets and liabilities move in the same direction. The Group conducts most of its domestic businesses including loans and deposits as well as the majority of financial guarantees and credit commitments based upon the published PBOC basic interest rates. Consequently, the Group is less vulnerable to interest rate risk. However, there is no guarantee that the PBOC will continue this practice in the future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

The interest rate repricing risk for foreign currency denominated debt securities and the remaining part of the financial guarantees and credit commitments businesses which are not based upon these basic interest rates is not expected to be significant.

The interest rate for discounted bills is determined by reference to the PBOC/market re-discount interest rate. However, it is generally lower than the interest rate for a loan with the same maturity term.

The tables below summarise the Group's exposures to interest rate risks. The tables show the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Group

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2014							
Assets							
Cash and balances with central banks	909,943	-	-	-	-	28,112	938,055
Due from banks and other financial institutions	310,217	107,070	91,472	16,274	-	-	525,033
Financial assets at fair value through profit or loss	4,945	7,384	29,543	50,383	13,206	10,897	116,358
Loans and advances to customers	1,611,138	451,154	1,168,980	85,145	38,370	-	3,354,787
Financial investments – loans and receivables	16,893	21,626	68,430	74,349	30,290	-	211,588
Financial investments – available-for-sale	6,053	18,701	35,917	110,491	35,841	3,013	210,016
Financial investments – held-to-maturity	3,210	17,291	83,038	340,776	191,255	-	635,570
Other assets	25,525	46,047	61,626	11,594	739	131,361	276,892
Total assets	2,887,924	669,273	1,539,006	689,012	309,701	173,383	6,268,299
Liabilities							
Due to banks and other financial institutions	(433,196)	(311,077)	(354,341)	(279,971)	(29,690)	-	(1,408,275)
Financial liabilities at fair value through profit or loss	(3,559)	(2,491)	(8,096)	(4,603)	-	(10,074)	(28,823)
Due to customers	(2,417,869)	(514,857)	(626,933)	(464,685)	(855)	(4,469)	(4,029,668)
Other liabilities	(7,330)	(19,073)	(12,362)	(33,042)	(99,683)	(156,438)	(327,928)
Total liabilities	(2,861,954)	(847,498)	(1,001,732)	(782,301)	(130,228)	(170,981)	(5,794,694)
Total interest sensitivity gap	25,970	(178,225)	537,274	(93,289)	179,473	2,402	473,605

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2014							
Assets							
Cash and balances with central banks	909,324	-	-	-	-	28,075	937,399
Due from banks and other financial institutions	307,349	110,382	104,118	16,030	-	-	537,879
Financial assets at fair value through profit or loss	4,945	7,384	29,543	50,383	13,206	10,650	116,111
Loans and advances to customers	1,608,990	450,494	1,168,898	84,172	38,151	-	3,350,705
Financial investments – loans and receivables	15,142	21,626	67,623	72,905	29,465	-	206,761
Financial investments – available-for-sale	6,053	18,578	35,895	110,075	33,905	1,054	205,560
Financial investments – held-to-maturity	3,204	17,291	82,957	340,408	190,349	-	634,209
Investments in subsidiaries	-	-	-	-	-	13,735	13,735
Other assets	78	13,893	15,231	9,751	-	108,757	147,710
Total assets	2,855,085	639,648	1,504,265	683,724	305,076	162,271	6,150,069
Liabilities							
Due to banks and other financial institutions	(429,424)	(301,835)	(312,918)	(266,509)	(22,920)	-	(1,333,606)
Financial liabilities at fair value through profit or loss	(3,559)	(2,491)	(8,096)	(4,603)	-	(10,069)	(28,818)
Due to customers	(2,415,892)	(514,566)	(626,602)	(464,346)	(855)	(4,469)	(4,026,730)
Other liabilities	(5,829)	(17,846)	(12,193)	(25,390)	(96,278)	(139,330)	(296,866)
Total liabilities	(2,854,704)	(836,738)	(959,809)	(760,848)	(120,053)	(153,868)	(5,686,020)
Total interest sensitivity gap	381	(197,090)	544,456	(77,124)	185,023	8,403	464,049

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued) Group

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2013							
Assets							
Cash and balances with central banks	869,635	–	–	–	–	26,921	896,556
Due from banks and other financial institutions	362,669	74,321	123,348	6,079	–	12	566,429
Financial assets at fair value through profit or loss	4,741	9,546	19,590	18,029	7,070	14,334	73,310
Loans and advances to customers	1,323,106	518,140	1,279,260	54,175	18,382	–	3,193,063
Financial investments – loans and receivables	33,520	2,905	33,461	24,805	25,035	–	119,726
Financial investments – available-for-sale	31,625	48,577	65,567	49,455	23,880	2,149	221,253
Financial investments – held-to-maturity	21,166	38,897	95,828	320,660	194,064	–	670,615
Other assets	28,134	28,669	27,393	2,652	–	133,137	219,985
Total assets	2,674,596	721,055	1,644,447	475,855	268,431	176,553	5,960,937
Liabilities							
Due to banks and other financial institutions	(646,737)	(254,712)	(87,128)	(135,559)	(2,427)	–	(1,126,563)
Financial liabilities at fair value through profit or loss	(945)	(4,284)	(3,559)	(3,177)	–	(16,675)	(28,640)
Due to customers	(2,368,930)	(551,556)	(782,626)	(448,400)	–	(6,321)	(4,157,833)
Other liabilities	(396)	(6,531)	(19,768)	(34,567)	(48,677)	(116,478)	(226,417)
Total liabilities	(3,017,008)	(817,083)	(893,081)	(621,703)	(51,104)	(139,474)	(5,539,453)
Total interest sensitivity gap	(342,412)	(96,028)	751,366	(145,848)	217,327	37,079	421,484

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.4 Interest rate risk (Continued)

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
As at 31 December 2013							
Assets							
Cash and balances with central banks	868,985	–	–	–	–	26,899	895,884
Due from banks and other financial institutions	364,948	74,799	129,208	5,119	–	12	574,086
Financial assets at fair value through profit or loss	4,741	9,546	19,590	18,026	7,070	14,225	73,198
Loans and advances to customers	1,319,829	518,178	1,278,003	53,497	18,367	–	3,187,874
Financial investments – loans and receivables	33,000	2,905	32,885	24,099	24,170	–	117,059
Financial investments – available-for-sale	31,625	48,577	65,437	48,706	23,665	1,046	219,056
Financial investments – held-to-maturity	21,166	38,897	95,592	320,249	193,185	–	669,089
Investments in subsidiaries	–	–	–	–	–	13,735	13,735
Other assets	–	–	–	–	–	121,052	121,052
Total assets	2,644,294	692,902	1,620,715	469,696	266,457	176,969	5,871,033
Liabilities							
Due to banks and other financial institutions	(645,580)	(239,612)	(49,853)	(129,723)	–	–	(1,064,768)
Financial liabilities at fair value through profit or loss	(945)	(4,284)	(3,559)	(3,177)	–	(16,657)	(28,622)
Due to customers	(2,367,708)	(551,556)	(781,516)	(447,079)	–	(6,321)	(4,154,180)
Other liabilities	(120)	(6,515)	(19,519)	(34,228)	(45,621)	(102,826)	(208,829)
Total liabilities	(3,014,353)	(801,967)	(854,447)	(614,207)	(45,621)	(125,804)	(5,456,399)
Total interest sensitivity gap	(370,059)	(109,065)	766,268	(144,511)	220,836	51,165	414,634

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.5 Foreign exchange risk

The Group conducts the majority of its businesses in RMB, with certain foreign transactions in USD, HKD and other currencies. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and cash flows. The senior management sets limits on the level of exposure in exchange rate risk and monitoring the exposure regularly. As at 31 December 2014, the exchange rates for US dollar and HK dollar are 1 US dollar to RMB6.1190 (31 December 2013: 6.0969) and 1 HK dollar to RMB0.78887 (31 December 2013: 0.78623), respectively. The tables below summarise the Group's exposure to foreign exchange risk at the end of each year. The tables show the Group's total assets and liabilities in carrying amounts in RMB, are categorised by the original currency.

Group

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
As at 31 December 2014					
Assets					
Cash and balances with central banks	874,236	27,343	30,986	5,490	938,055
Due from banks and other financial institutions	446,206	72,684	1,039	5,104	525,033
Financial assets at fair value through profit or loss	97,937	11,577	6,443	401	116,358
Loans and advances to customers	2,985,531	256,215	103,005	10,036	3,354,787
Financial investments – loans and receivables	210,680	908	–	–	211,588
Financial investments – available-for-sale	154,959	27,444	18,747	8,866	210,016
Financial investments – held-to-maturity	633,913	490	183	984	635,570
Other assets	228,285	8,102	15,890	24,615	276,892
Total assets	5,631,747	404,763	176,293	55,496	6,268,299
Liabilities					
Due to banks and other financial institutions	(1,207,338)	(169,242)	(18,595)	(13,100)	(1,408,275)
Financial liabilities at fair value through profit or loss	(4,769)	(10,134)	(12,123)	(1,797)	(28,823)
Due to customers	(3,684,955)	(190,610)	(133,274)	(20,829)	(4,029,668)
Other liabilities	(275,038)	(31,136)	(8,200)	(13,554)	(327,928)
Total liabilities	(5,172,100)	(401,122)	(172,192)	(49,280)	(5,794,694)
Net position	459,647	3,641	4,101	6,216	473,605
Financial guarantees and credit related commitments	1,261,479	228,380	19,834	24,834	1,534,527

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.5 Foreign exchange risk (Continued)

Bank

	RMB	HKD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
As at 31 December 2014					
Assets					
Cash and balances with central banks	873,580	27,343	30,986	5,490	937,399
Due from banks and other financial institutions	456,118	75,896	764	5,101	537,879
Financial assets at fair value through profit or loss	97,896	11,572	6,297	346	116,111
Loans and advances to customers	2,983,465	255,377	102,183	9,680	3,350,705
Financial investments – loans and receivables	205,853	908	–	–	206,761
Financial investments – available-for-sale	151,090	27,260	18,344	8,866	205,560
Financial investments – held-to-maturity	633,066	159	–	984	634,209
Investments in subsidiaries	10,822	645	2,268	–	13,735
Other assets	109,847	7,914	5,505	24,444	147,710
Total assets	5,521,737	407,074	166,347	54,911	6,150,069
Liabilities					
Due to banks and other financial institutions	(1,149,279)	(153,531)	(17,744)	(13,052)	(1,333,606)
Financial liabilities at fair value through profit or loss	(4,769)	(10,130)	(12,123)	(1,796)	(28,818)
Due to customers	(3,682,117)	(190,609)	(133,175)	(20,829)	(4,026,730)
Other liabilities	(252,903)	(24,958)	(5,591)	(13,414)	(296,866)
Total liabilities	(5,089,068)	(379,228)	(168,633)	(49,091)	(5,686,020)
Net position	432,669	27,846	(2,286)	5,820	464,049
Financial guarantees and credit related commitments	1,260,901	228,275	19,825	24,824	1,533,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.5 Foreign exchange risk (Continued) Group

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
As at 31 December 2013					
Assets					
Cash and balances with central banks	862,639	18,516	10,036	5,365	896,556
Due from banks and other financial institutions	485,983	74,415	2,041	3,990	566,429
Financial assets at fair value through profit or loss	63,776	6,207	1,783	1,544	73,310
Loans and advances to customers	2,830,533	267,601	81,920	13,009	3,193,063
Financial investments – loans and receivables	119,726	–	–	–	119,726
Financial investments – available-for-sale	173,521	23,471	14,145	10,116	221,253
Financial investments – held-to-maturity	669,561	814	–	240	670,615
Other assets	200,755	7,710	10,418	1,102	219,985
Total assets	5,406,494	398,734	120,343	35,366	5,960,937
Liabilities					
Due to banks and other financial institutions	(986,866)	(114,274)	(19,652)	(5,771)	(1,126,563)
Financial liabilities at fair value through profit or loss	(2,667)	(18,381)	(6,066)	(1,526)	(28,640)
Due to customers	(3,827,025)	(173,792)	(125,967)	(31,049)	(4,157,833)
Other liabilities	(204,558)	(12,015)	(2,534)	(7,310)	(226,417)
Total liabilities	(5,021,116)	(318,462)	(154,219)	(45,656)	(5,539,453)
Net position	385,378	80,272	(33,876)	(10,290)	421,484
Financial guarantees and credit related commitments	1,282,925	223,701	17,900	26,193	1,550,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.2 Market risk (Continued)

3.2.5 Foreign exchange risk (Continued)

Bank

	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Total
As at 31 December 2013					
Assets					
Cash and balances with central banks	861,967	18,516	10,036	5,365	895,884
Due from banks and other financial institutions	491,387	76,835	1,874	3,990	574,086
Financial assets at fair value through profit or loss	63,776	6,207	1,673	1,542	73,198
Loans and advances to customers	2,825,472	268,778	80,140	13,484	3,187,874
Financial investments – loans and receivables	117,059	-	-	-	117,059
Financial investments – available-for-sale	172,159	23,253	13,528	10,116	219,056
Financial investments – held-to-maturity	668,508	341	-	240	669,089
Investments in subsidiaries	10,822	645	2,268	-	13,735
Other assets	110,598	7,686	1,883	885	121,052
Total assets	5,321,748	402,261	111,402	35,622	5,871,033
Liabilities					
Due to banks and other financial institutions	(926,021)	(114,387)	(18,589)	(5,771)	(1,064,768)
Financial liabilities at fair value through profit or loss	(2,665)	(18,381)	(6,066)	(1,510)	(28,622)
Due to customers	(3,822,533)	(173,971)	(126,627)	(31,049)	(4,154,180)
Other liabilities	(191,173)	(8,931)	(1,939)	(6,786)	(208,829)
Total liabilities	(4,942,392)	(315,670)	(153,221)	(45,116)	(5,456,399)
Net position	379,356	86,591	(41,819)	(9,494)	414,634
Financial guarantees and credit related commitments	1,282,813	223,654	17,825	26,129	1,550,421

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Market risk *(Continued)*

3.2.6 **Other price risk**

The Group is exposed to other price risk arising from financial assets such as equity investments and derivatives linked to commodity price. Some of the equity investments are arise from taking possession of foreclosed assets due to historical reasons and from the proprietary trading of the Group's subsidiaries which holds the qualification of securities dealing and brokerage as well. As for the proprietary trading exposure, the Group enforces strict management of the risk exposure limit and the balance is insignificant to the Group's financial assets. The Group considers the exposure to the other price risk to be insignificant.

3.3 Liquidity risk

3.3.1 **Overview**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and other current liquidity needs. The consequence may be the failure to meet obligations to repay depositors and fulfill loan commitments for lending. The Group's objective in liquidity management is to ensure the availability of adequate funding to meet the demands of fund deposit withdrawals and other liabilities as they fall due and to ensure that it is able to meet its obligations to fund loan originations and commitments and to take advantage of new investment opportunities.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, matured deposits, loan drawdowns, guarantees and from margin and other calls on cash settled derivatives. The Board of Directors set limits on the minimum proportion of funds to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover different levels of unexpected withdrawals. In addition, the Bank limits its loan to deposit ratio at below 75% as required by the PBOC and maintains its liquidity ratio at above 25% as required by the CBRC. As at 31 December 2014, 20% (31 December 2013: 20%) of the Bank's total RMB denominated customer deposits and 5% (31 December 2013: 5%) of the total foreign currency denominated customer deposits must be deposited with the PBOC.

3.3.2 **Liquidity risk management process**

The Group's liquidity risk management process, as monitored by the Assets and Liabilities Management Department for RMB business and foreign exchange business, includes:

- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilization functions are centralized by the Headquarters;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involved in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimize liquidity risks by proper matching of asset maturity structures and multi-level liquidity portfolios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.2 Liquidity risk management process (Continued)

The Group monitors and reports cash flow measurement and projections made for the next day, week and month separately, as these are key time periods for liquidity risk management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3 – 3.3.4).

Sources of funding are regularly reviewed by the Assets and Liabilities Management Department to maintain a wide diversification of fundings in terms of currency, geography, customer, product and maturity terms.

3.3.3 Non-derivative financial instruments cash flows

The table below presents the cash flows of the Group related to non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the end of the reporting date. The amounts disclosed in the tables are undiscounted contractual cash flows. The Group and the Bank's expected cash flows on these 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.

Group

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2014									
Liabilities									
Due to banks and other financial institutions	(227,812)	(204,786)	(319,220)	(390,504)	(295,424)	(37,872)	-	-	(1,475,618)
Non-derivative financial liabilities at fair value through profit or loss	-	(3,559)	(2,494)	(8,146)	(4,754)	-	-	-	(18,953)
Due to customers	(2,032,649)	(614,088)	(523,544)	(580,915)	(481,485)	(1,082)	-	-	(4,233,763)
Certificates of deposits issued	-	-	(5,847)	(17,688)	(12,341)	(3,157)	-	-	(39,033)
Debts securities issued	-	-	(309)	-	(32,576)	(125,836)	-	-	(158,721)
Other financial liabilities	(38,063)	(5,778)	(18,015)	(5,214)	(7,174)	(5,888)	-	-	(80,132)
Total liabilities (contractual maturity dates)	(2,298,524)	(828,211)	(869,429)	(1,002,467)	(833,754)	(173,835)	-	-	(6,006,220)
Assets									
Cash and balances with central banks	171,451	-	-	-	-	-	-	766,604	938,055
Due from banks and other financial institutions	114,748	196,081	108,250	93,991	16,860	-	-	-	529,930
Non-derivative financial assets at fair value through profit or loss	-	5,150	7,601	31,344	57,607	16,095	-	241	118,038
Loans and advances to customers	-	488,862	322,849	1,037,268	1,060,381	1,470,668	52,892	-	4,432,920
Financial investments – loans and receivables	-	17,134	21,871	69,200	75,333	35,590	-	-	219,128
Financial investments – available-for-sale	-	6,247	19,367	37,408	123,547	45,823	1,115	3,013	236,520
Financial investments – held-to-maturity	-	3,362	17,989	86,048	378,635	235,846	-	-	721,880
Other financial assets	33,676	3,970	5,408	20,403	89,503	15,112	1,107	547	169,726
Assets held for managing liquidity risk (contractual maturity dates)	319,875	720,806	503,335	1,375,662	1,801,866	1,819,134	55,114	770,405	7,366,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.3 Non-derivative financial instruments cash flows (Continued)

Bank

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2014									
Liabilities									
Due to banks and other financial institutions	(229,459)	(199,190)	(307,161)	(329,733)	(279,766)	(29,099)	-	-	(1,374,408)
Non-derivative financial liabilities at fair value through profit or loss	-	(3,559)	(2,494)	(8,146)	(4,754)	-	-	-	(18,953)
Due to customers	(2,031,651)	(613,109)	(523,253)	(580,584)	(481,146)	(1,082)	-	-	(4,230,825)
Certificates of deposits issued	-	(5,847)	(17,688)	(12,341)	(3,157)	-	-	-	(39,033)
Debts securities issued	-	-	(309)	-	(24,063)	(122,380)	-	-	(146,752)
Other financial liabilities	(38,063)	(5,541)	(17,795)	(4,329)	(53)	(1,844)	-	-	(67,625)
Total liabilities (contractual maturity dates)	(2,299,173)	(827,246)	(868,700)	(935,133)	(792,939)	(154,405)	-	-	(5,877,596)
Assets									
Cash and balances with central banks	171,352	-	-	-	-	-	-	766,047	937,399
Due from banks and other financial institutions	111,517	196,432	111,596	106,690	16,401	-	-	-	542,636
Non-derivative financial assets at fair value through profit or loss	-	5,150	7,601	31,344	57,607	16,095	-	-	117,797
Loans and advances to customers	-	484,443	321,876	1,036,113	1,060,475	1,472,487	52,848	-	4,428,242
Financial investments – loans and receivables	-	15,299	21,871	68,389	73,878	34,756	-	-	214,193
Financial investments – available-for-sale	-	6,247	19,244	37,387	123,087	43,461	1,029	1,054	231,509
Financial investments – held-to-maturity	-	3,356	17,989	85,966	378,300	234,665	-	-	720,276
Other financial assets	30,703	795	387	753	5,851	2,980	1,812	14,282	57,563
Assets held for managing liquidity risk (contractual maturity dates)	313,572	711,722	500,564	1,366,642	1,715,599	1,804,444	55,689	781,383	7,249,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.3 Non-derivative financial instruments cash flows (Continued)

Group

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2013									
Liabilities									
Due to banks and other financial institutions	(140,085)	(224,007)	(260,839)	(108,795)	(455,867)	(19,271)	-	-	(1,208,864)
Non-derivative financial liabilities at fair value through profit or loss	-	(236)	(2,120)	(4,388)	(5,520)	-	-	-	(12,264)
Due to customers	(1,878,048)	(568,646)	(559,381)	(810,418)	(562,796)	(10,015)	-	-	(4,389,304)
Certificates of deposits issued	-	(5,873)	(7,938)	(6,700)	(4,520)	-	-	-	(25,031)
Debts securities issued	-	-	(1,448)	(14,448)	(39,949)	(55,550)	-	-	(111,395)
Other financial liabilities	(29,016)	(39)	(73)	(2,411)	(4,979)	(3,798)	-	(939)	(41,255)
Total liabilities (contractual maturity dates)	(2,047,149)	(798,801)	(831,799)	(947,160)	(1,073,631)	(88,634)	-	(939)	(5,788,113)
Assets									
Cash and balances with central banks	161,445	-	-	-	-	-	-	735,316	896,761
Due from banks and other financial institutions	80,245	282,858	75,097	128,289	6,911	-	12	-	573,412
Non-derivative financial assets at fair value through profit or loss	-	1,957	7,679	20,014	29,114	9,980	-	107	68,851
Loans and advances to customers	-	335,840	362,960	1,074,503	1,045,129	1,300,701	45,447	-	4,164,580
Financial investments – loans and receivables	-	33,570	2,954	41,350	27,606	29,349	35	-	134,864
Financial investments – available-for-sale	-	7,466	18,318	48,119	130,975	49,853	1,238	2,149	258,118
Financial investments – held-to-maturity	-	9,973	23,882	99,038	422,293	238,039	-	-	793,225
Other financial assets	21,903	4,074	4,516	17,794	64,780	11,134	1,124	-	125,325
Assets held for managing liquidity risk (contractual maturity dates)	263,593	675,738	495,406	1,429,107	1,726,808	1,639,056	47,856	737,572	7,015,136

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.3 Non-derivative financial instruments cash flows (Continued)

Bank

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2013									
Liabilities									
Due to banks and other financial institutions	(143,654)	(218,680)	(245,495)	(70,480)	(448,699)	(16,535)	-	-	(1,143,543)
Non-derivative financial liabilities at fair value through profit or loss	-	(236)	(2,120)	(4,388)	(5,520)	-	-	-	(12,264)
Due to customers	(1,876,826)	(568,646)	(559,381)	(809,307)	(561,475)	(10,015)	-	-	(4,385,650)
Certificates of deposits issued	-	(5,873)	(7,938)	(6,700)	(4,520)	-	-	-	(25,031)
Debts securities issued	-	-	(1,391)	(14,391)	(39,493)	(52,000)	-	-	(107,275)
Other financial liabilities	(25,743)	(2)	(9)	(2,128)	(467)	(2,407)	-	-	(30,756)
Total liabilities (contractual maturity dates)	(2,046,223)	(793,437)	(816,334)	(907,394)	(1,060,174)	(80,957)	-	-	(5,704,519)
Assets									
Cash and balances with central banks	161,416	-	-	-	-	-	-	734,673	896,089
Due from banks and other financial institutions	78,748	286,632	75,564	134,138	5,691	-	12	-	580,785
Non-derivative financial assets at fair value through profit or loss	-	1,957	7,679	20,014	29,112	9,980	-	-	68,742
Loans and advances to customers	-	332,225	361,136	1,071,558	1,045,449	1,303,516	45,328	-	4,159,212
Financial investments – loans and receivables	-	33,050	2,954	40,775	26,900	29,484	35	-	133,198
Financial investments – available-for-sale	-	7,466	18,318	47,989	130,227	49,638	1,143	1,046	255,827
Financial investments – held-to-maturity	-	9,973	23,882	98,803	421,882	237,160	-	-	791,700
Other financial assets	18,783	-	-	-	-	-	982	-	19,765
Assets held for managing liquidity risk (contractual maturity dates)	258,947	671,303	489,533	1,413,277	1,659,261	1,629,778	47,500	735,719	6,905,318

Assets available to meet all of the liabilities include cash, balances with central banks, balances in the course of collection and settlement, due from banks and other financial institutions and loans and advances to customers. In the normal course of business, a proportion of loans and advances to customers contractually repayable within one year will be extended. In addition, certain debt securities have been pledged for liabilities. The Group would also be able to meet unexpected cash outflows by selling financial investments, using credit commitment provided by other financial institutions, early termination of lending to other financial institutions and reverse repurchase agreement and utilizing the mandatory reserve deposits upon the PBOC's approval.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative financial instruments cash flows

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) *Derivative settled on a net basis*

The Group's derivative financial instruments that will be settled on a net basis include:

- Foreign exchange derivative financial instruments: non-deliverable forward;
- Interest rate derivative financial instruments and others: interest rate swaps, forward rate agreements, over the counter interest rate options and others.

The table below analyses the Group's derivative financial instruments which will be settled on a net basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing
As at 31 December 2014						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange contracts	24	118	466	2	–	610
– Interest rate contracts and others	60	38	499	551	50	1,198
Total	84	156	965	553	50	1,808
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange contracts	(91)	(46)	(163)	(11)	–	(311)
– Interest rate contracts and others	(115)	(222)	(472)	(659)	(42)	(1,510)
Total	(206)	(268)	(635)	(670)	(42)	(1,821)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative financial instruments cash flows (Continued)

(a) Derivative settled on a net basis (Continued)

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing
As at 31 December 2014						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange contracts	24	118	466	2	–	610
– Interest rate contracts and others	60	38	499	551	50	1,198
Total	84	156	965	553	50	1,808
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange contracts	(91)	(46)	(163)	(11)	–	(311)
– Interest rate contracts and others	(115)	(219)	(472)	(658)	(42)	(1,506)
Total	(206)	(265)	(635)	(669)	(42)	(1,817)

Group

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing
As at 31 December 2013						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange contracts	27	4	318	9	–	358
– Interest rate contracts and others	110	111	445	338	24	1,028
Total	137	115	763	347	24	1,386
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange contracts	(8)	(1)	(237)	–	–	(246)
– Interest rate contracts and others	(129)	(120)	(445)	(739)	(52)	(1,485)
Total	(137)	(121)	(682)	(739)	(52)	(1,731)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative financial instruments cash flows (Continued)

(a) Derivative settled on a net basis (Continued)

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing
As at 31 December 2013						
Assets						
Derivative financial instruments held for trading						
– Foreign exchange contracts	27	4	318	9	–	358
– Interest rate contracts and others	110	111	443	333	24	1,021
Total	137	115	761	342	24	1,379
Liabilities						
Derivative financial instruments held for trading						
– Foreign exchange contracts	(8)	(1)	(237)	–	–	(246)
– Interest rate contracts and others	(129)	(118)	(443)	(730)	(52)	(1,472)
Total	(137)	(119)	(680)	(730)	(52)	(1,718)

(b) Derivative settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis include: foreign exchange derivative instruments: currency forward, currency swaps, cross currency interest rate swaps.

The table below analyses the Group's derivative financial instruments which will be settled on a gross basis under relevant maturity groupings based on the remaining contractual period as at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative financial instruments cash flows (Continued)

(b) Derivative settled on a gross basis (Continued)

Group

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing
31 December 2014						
Derivative financial instruments held for trading						
– Foreign exchange derivative contracts						
– Outflow	(275,950)	(259,683)	(455,864)	(89,023)	(3,530)	(1,084,050)
– Inflow	276,045	259,245	454,953	90,192	3,468	1,083,903

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing
31 December 2014						
Derivative financial instruments held for trading						
– Foreign exchange derivative contracts						
– Outflow	(275,791)	(259,652)	(455,747)	(89,005)	(3,530)	(1,083,725)
– Inflow	275,885	259,214	454,840	90,106	3,468	1,083,513

Group

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing
31 December 2013						
Derivative financial instruments held for trading						
– Foreign exchange derivative contracts						
– Outflow	(342,820)	(360,705)	(618,924)	(62,151)	–	(1,384,600)
– Inflow	342,074	360,242	618,594	62,156	–	1,383,066

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.4 Derivative financial instruments cash flows (Continued)

(b) Derivative settled on a gross basis (Continued)

Bank

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing
31 December 2013						
Derivative financial instruments held for trading						
– Foreign exchange derivative contracts						
– Outflow	(342,559)	(360,440)	(618,863)	(62,015)	–	(1,383,877)
– Inflow	341,818	359,985	618,534	62,022	–	1,382,359

3.3.5 Maturity analysis

The table below analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the end of reporting date to the contractual maturity date.

Group

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2014									
Assets									
Cash and balances with central banks	171,451	–	–	–	–	–	–	766,604	938,055
Due from banks and other financial institutions	114,721	195,496	107,070	91,472	16,274	–	–	–	525,033
Financial assets at fair value through profit or loss	–	7,152	9,344	32,947	51,477	15,197	–	241	116,358
Loans and advances to customers	–	474,734	296,288	942,297	743,231	845,345	52,892	–	3,354,787
Financial investments – loans and receivables	–	16,893	21,626	68,430	74,349	30,290	–	–	211,588
Financial investments – available-for-sale	–	6,030	18,701	35,917	109,399	35,841	1,115	3,013	210,016
Financial investments – held-to-maturity	–	3,210	17,291	83,038	340,780	191,251	–	–	635,570
Other assets	63,082	9,544	12,969	30,797	75,685	13,011	1,083	70,721	276,892
Total assets	349,254	713,059	483,289	1,284,898	1,411,195	1,130,935	55,090	840,579	6,268,299

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.5 Maturity analysis (Continued)

Group (Continued)

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
Liabilities									
Due to banks and other financial institutions	(231,717)	(201,479)	(311,077)	(354,341)	(279,971)	(29,690)	-	-	(1,408,275)
Financial liabilities at fair value through profit or loss	-	(5,792)	(3,910)	(10,621)	(6,280)	(2,220)	-	-	(28,823)
Due to customers	(1,934,662)	(584,485)	(498,306)	(552,911)	(458,274)	(1,030)	-	-	(4,029,668)
Other liabilities	(180,473)	(6,548)	(15,172)	(18,234)	(27,498)	(80,003)	-	-	(327,928)
Total liabilities	(2,346,852)	(798,304)	(828,465)	(936,107)	(772,023)	(112,943)	-	-	(5,794,694)
Net amount on liquidity gap	(1,997,598)	(85,245)	(345,176)	348,791	639,172	1,017,992	55,090	840,579	473,605

Group

	On Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Undated	Total
As at 31 December 2013									
Assets									
Cash and balances with central banks	161,240	-	-	-	-	-	-	735,316	896,556
Due from banks and other financial institutions	80,170	282,499	74,321	123,348	6,079	-	12	-	566,429
Financial assets at fair value through profit or loss	-	4,933	10,853	23,878	25,377	8,162	-	107	73,310
Loans and advances to customers	-	318,032	331,461	970,541	756,316	790,958	25,755	-	3,193,063
Financial investments – loans and receivables	-	33,520	2,905	33,461	24,805	25,035	-	-	119,726
Financial investments – available-for-sale	-	6,814	16,914	42,275	112,273	40,828	-	2,149	221,253
Financial investments – held-to-maturity	-	8,233	18,101	80,637	355,437	208,207	-	-	670,615
Other assets	41,136	8,407	10,649	19,078	65,167	15,209	470	59,869	219,985
Total assets	282,546	662,438	465,204	1,293,218	1,345,454	1,088,399	26,237	797,441	5,960,937
Liabilities									
Due to banks and other financial institutions	(140,011)	(220,872)	(254,577)	(99,768)	(396,326)	(15,009)	-	-	(1,126,563)
Financial liabilities at fair value through profit or loss	-	(3,950)	(5,826)	(11,006)	(7,503)	(355)	-	-	(28,640)
Due to customers	(1,877,544)	(560,725)	(550,802)	(775,771)	(382,991)	(10,000)	-	-	(4,157,833)
Other liabilities	(35,457)	(18,183)	(26,645)	(46,789)	(52,829)	(46,514)	-	-	(226,417)
Total liabilities	(2,053,012)	(803,730)	(837,850)	(933,334)	(839,649)	(71,878)	-	-	(5,539,453)
Net amount on liquidity gap	(1,770,466)	(141,292)	(372,646)	359,884	505,805	1,016,521	26,237	797,441	421,484

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.6 Off-balance sheet items

The table below lists the off-balance sheet items of the Group and the Bank according to their remaining period to the contractual maturity date. Financial guarantees are included at notional amounts and based on the earliest contractual maturity date. The future minimum lease payments under non-cancellable operating leases where the Group and the Bank are the lessee are also included.

Group

	Less than 1 year	1-5 years	Over 5 years	Total
As at 31 December 2014				
Loan commitments and credit related commitments	472,398	73,421	70,371	616,190
Guarantees, acceptances and letters of credit	758,339	109,775	50,223	918,337
Operating lease commitments	1,394	3,762	1,425	6,581
Capital expenditure commitments	8,080	1,207	-	9,287
Total	1,240,211	188,165	122,019	1,550,395
	Less than 1 year	1-5 years	Over 5 years	Total
As at 31 December 2013				
Loan commitments and credit related commitments	320,261	81,174	89,852	491,287
Guarantees, acceptances and letters of credit	919,317	103,054	37,061	1,059,432
Operating lease commitments	1,907	4,600	1,231	7,738
Capital expenditure commitments	2,314	717	3	3,034
Total	1,243,799	189,545	128,147	1,561,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.3 Liquidity risk (Continued)

3.3.6 Off-balance sheet items (Continued)

Bank

	Less than 1 year	1-5 years	Over 5 years	Total
As at 31 December 2014				
Loan commitments and credit related commitments	472,375	73,386	70,371	616,132
Guarantees, acceptances and letters of credit	757,694	109,775	50,224	917,693
Operating lease commitments	1,256	3,229	870	5,355
Capital expenditure commitments	8,073	1,198	–	9,271
Total	1,239,398	187,588	121,465	1,548,451

	Less than 1 year	1-5 years	Over 5 years	Total
As at 31 December 2013				
Loan commitments and credit related commitments	320,252	81,128	89,852	491,232
Guarantees, acceptances and letters of credit	919,101	103,027	37,061	1,059,189
Operating lease commitments	1,859	4,512	1,226	7,597
Capital expenditure commitments	2,314	715	3	3,032
Total	1,243,526	189,382	128,142	1,561,050

3.4 Fair values of financial assets and liabilities

(a) Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(a) Determination of fair value and valuation techniques *(Continued)*

The fair value of financial instruments with quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable.

If the key parameters used in valuation techniques for financial instruments (including debt securities and derivatives) are substantially observable and obtainable from active open market, the instruments are classified as level 2. The second hierarchy of financial instruments held by the Group includes over-the-counter derivatives, certificates of deposits without quotations from active market, precious metals and the second tier capital bonds and bond investments trading in inter-bank market. The fair value of CNY denominated bonds is determined based on the valuation result from the China Central Depository & Clearing Co., Ltd. while the fair value of the foreign currency denominated bonds is determined based on the valuation results published by Bloomberg. The fair value of foreign currency forwards, swaps and interest rate swaps, currency options is estimated by the discounted cash flow method and Black-scholes model; the fair value of precious metal contract is mainly determined in accordance with the closing prices of the Shanghai Gold Exchange. The main parameters used in discounted cash flow model include recent market prices, the relevant yield curve, exchange rates, early redemption rate and counterparty's credit spreads; main parameters used in Black-scholes model include the relevant yield curve, exchange rate, level of volatilities and counterparty's credit spreads etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

For loans and advances to customers and certain debt securities classified as financial investments – loans and receivables, the fair value is determined based on discounted cash flow model using unobservable discount rates that reflect credit risk and lack of liquidity. Accordingly, loans and advances to customers and the debt securities are classified as level 3.

For unlisted equities (private equity) held by the Group, the fair value of these financial instruments may be determined with reference to certain unobservable inputs, and therefore the instruments have been classified by the Group as level 3. Management determines the fair value of these financial instruments using a variety of techniques, including using valuation models that incorporate unobservable inputs such as discounts for lack of marketability. The Group has established internal control procedures to monitor the Group's exposure to such financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values where there are obvious variances from the carrying amounts, of those financial assets and liabilities that are not presented on the statement of financial position at their fair values.

Group

	As at 31 December 2014		As at 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	3,354,787	3,354,811	3,193,063	3,193,270
Financial investments				
– loans and receivables	211,588	213,189	119,726	119,134
– held-to-maturity	635,570	637,745	670,615	642,109
Financial liabilities				
Due to customers	(4,029,668)	(4,032,583)	(4,157,833)	(4,161,703)
Certificates of deposits issued	(38,601)	(38,620)	(24,619)	(24,639)
Debt securities issued	(122,136)	(123,963)	(82,238)	(79,051)

Bank

	As at 31 December 2014		As at 31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	3,350,705	3,350,727	3,187,874	3,188,081
Financial investments				
– loans and receivables	206,761	208,652	117,059	116,432
– held-to-maturity	634,209	636,153	669,089	640,621
Financial liabilities				
Due to customers	(4,026,730)	(4,029,645)	(4,154,180)	(4,158,049)
Certificates of deposits issued	(38,601)	(38,620)	(24,619)	(24,639)
Debt securities issued	(111,430)	(113,203)	(79,200)	(76,013)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

Fair value hierarchy of financial instruments not measured at fair value

Group

	Level 1	Level 2	Level 3	Total
As at 31 December 2014				
Financial Assets				
Loans and advances to customers	-	-	3,354,811	3,354,811
Financial investments				
– loans and receivables	-	29,675	183,514	213,189
– held-to-maturity	1,730	636,015	-	637,745
Financial Liabilities				
Due to customers	-	-	(4,032,583)	(4,032,583)
Certificates of deposits issued	-	-	(38,620)	(38,620)
Debt securities issued	-	(123,963)	-	(123,963)

Bank

	Level 1	Level 2	Level 3	Total
As at 31 December 2014				
Financial Assets				
Loans and advances to customers	-	-	3,350,727	3,350,727
Financial investments				
– loans and receivables	-	29,675	178,977	208,652
– held-to-maturity	1,300	634,853	-	636,153
Financial Liabilities				
Due to customers	-	-	(4,029,645)	(4,029,645)
Certificates of deposits issued	-	-	(38,620)	(38,620)
Debt securities issued	-	(113,203)	-	(113,203)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

Fair value hierarchy of financial instruments not measured at fair value (Continued)

Group

	Level 1	Level 2	Level 3	Total
As at 31 December 2013				
Financial Assets				
Loans and advances to customers	–	–	3,193,270	3,193,270
Financial investments				
– loans and receivables	–	25,267	93,867	119,134
– held-to-maturity	1,246	640,863	–	642,109
Financial Liabilities				
Due to customers	–	–	(4,161,703)	(4,161,703)
Certificates of deposits issued	(10,893)	(13,746)	–	(24,639)
Debt securities issued	–	(79,051)	–	(79,051)

Bank

	Level 1	Level 2	Level 3	Total
As at 31 December 2013				
Financial Assets				
Loans and advances to customers	–	–	3,188,081	3,188,081
Financial investments				
– loans and receivables	–	25,267	91,165	116,432
– held-to-maturity	859	639,762	–	640,621
Financial Liabilities				
Due to customers	–	–	(4,158,049)	(4,158,049)
Certificates of deposits issued	(10,893)	(13,746)	–	(24,639)
Debt securities issued	–	(76,013)	–	(76,013)

The carrying amounts and fair values of these financial assets and liabilities including due from/to banks and other financial institutions are approximately the same as the interest rates of most of these assets and liabilities are instantaneously adjusted in accordance to changes in interest rates set by the PBOC and other regulatory bodies.

(c) Financial assets and liabilities measured at fair value on a recurring basis

The table below summarises the information relating to the fair value hierarchy of the financial assets and financial liabilities measured at fair value on a recurring basis. The determination (in particular, the valuation techniques and inputs used) of the fair value of these financial assets and financial liabilities are disclosed in 3.4(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(c) **Financial assets and liabilities measured at fair value on a recurring basis** (Continued) **Group**

	Level 1	Level 2	Level 3	Total
As at 31 December 2014				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	6,624	12,028	–	18,652
– Public sector entities	244	2,132	–	2,376
– Banks and other financial institutions	3,020	25,742	–	28,762
– Corporate entities	230	55,441	–	55,671
Equity securities and fund investments ⁽¹⁾	241	–	–	241
Derivatives				
– Foreign exchange contracts	–	9,445	–	9,445
– Interest rate contracts and others	–	1,211	–	1,211
	10,359	105,999	–	116,358
Financial investments – available-for-sale				
Debt securities				
– Governments and central banks	13,961	22,998	–	36,959
– Public sector entities	–	3,655	–	3,655
– Banks and other financial institutions	10,143	111,756	–	121,899
– Corporate entities	1,492	42,998	–	44,490
Equity securities and fund investments ⁽¹⁾	1,957	–	1,056	3,013
	27,553	181,407	1,056	210,016
Total assets	37,912	287,406	1,056	326,374
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(5,347)	–	–	(5,347)
Certificates of deposits issued	–	(13,402)	–	(13,402)
Derivatives				
– Foreign exchange contracts	–	(8,550)	–	(8,550)
– Interest rate contracts and others	–	(1,524)	–	(1,524)
Debt securities issued	–	(7,411)	–	(7,411)
Total liabilities	(5,347)	(30,887)	–	(36,234)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(c) Financial assets and liabilities measured at fair value on a recurring basis (Continued)

Bank

	Level 1	Level 2	Level 3	Total
As at 31 December 2014				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	6,624	12,028	–	18,652
– Public sector entities	244	2,132	–	2,376
– Banks and other financial institutions	3,020	25,742	–	28,762
– Corporate entities	230	55,441	–	55,671
Equity securities and fund investments ⁽¹⁾	–	–	–	–
Derivatives				
– Foreign exchange contracts	–	9,440	–	9,440
– Interest rate contracts and others	–	1,210	–	1,210
	10,118	105,993	–	116,111
Financial investments – available-for-sale				
Debt securities				
– Governments and central banks	13,961	22,937	–	36,898
– Public sector entities	–	3,301	–	3,301
– Banks and other financial institutions	10,083	110,792	–	120,875
– Corporate entities	1,374	42,058	–	43,432
Equity securities and fund investments ⁽¹⁾	309	–	745	1,054
	25,727	179,088	745	205,560
Total assets	35,845	285,081	745	321,671
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading	(5,347)	–	–	(5,347)
Certificates of deposits issued	–	(13,402)	–	(13,402)
Derivatives				
– Foreign exchange contracts	–	(8,550)	–	(8,550)
– Interest rate contracts and others	–	(1,519)	–	(1,519)
Debt securities issued	–	(7,411)	–	(7,411)
Total liabilities	(5,347)	(30,882)	–	(36,229)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(c) Financial assets and liabilities measured at fair value on a recurring basis (Continued) Group

	Level 1	Level 2	Level 3	Total
As at 31 December 2013				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	1,832	5,135	–	6,967
– Public sector entities	–	2,250	–	2,250
– Banks and other financial institutions	3,307	11,127	–	14,434
– Corporate entities	132	35,193	–	35,325
Equity securities and fund investments ⁽¹⁾	107	–	–	107
Derivatives				
– Foreign exchange contracts	–	12,723	–	12,723
– Interest rate contracts and others	–	1,504	–	1,504
	5,378	67,932	–	73,310
Financial investments – available-for-sale				
Debt securities				
– Governments and central banks	2,352	27,455	–	29,807
– Public sector entities	375	1,275	–	1,650
– Banks and other financial institutions	20,016	110,780	–	130,796
– Corporate entities	1,380	55,471	–	56,851
Equity securities and fund investments ⁽¹⁾	1,080	–	1,069	2,149
	25,203	194,981	1,069	221,253
Total assets	30,581	262,913	1,069	294,563
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading				
Certificates of deposits issued	(1,164)	–	–	(1,164)
Derivatives	–	(10,801)	–	(10,801)
– Foreign exchange contracts	–	(14,261)	–	(14,261)
– Interest rate contracts and others	–	(2,414)	–	(2,414)
Total liabilities	(1,164)	(27,476)	–	(28,640)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(c) **Financial assets and liabilities measured at fair value on a recurring basis (Continued)** **Bank**

	Level 1	Level 2	Level 3	Total
As at 31 December 2013				
Financial assets at fair value through profit or loss				
Debt securities				
– Governments and central banks	1,832	5,135	–	6,967
– Public sector entities	–	2,250	–	2,250
– Banks and other financial institutions	3,305	11,129	–	14,434
– Corporate entities	132	35,190	–	35,322
Equity securities and fund investments ⁽¹⁾	–	–	–	–
Derivatives				
– Foreign exchange contracts	–	12,723	–	12,723
– Interest rate contracts and others	–	1,502	–	1,502
	5,269	67,929	–	73,198
Financial investments – available-for-sale				
Debt securities				
– Governments and central banks	2,326	27,348	–	29,674
– Public sector entities	375	1,275	–	1,650
– Banks and other financial institutions	19,974	110,618	–	130,592
– Corporate entities	1,215	54,879	–	56,094
Equity securities and fund investments ⁽¹⁾	300	–	746	1,046
	24,190	194,120	746	219,056
Total assets	29,459	262,049	746	292,254
Financial liabilities at fair value through profit or loss				
Short position of securities held for trading				
Certificates of deposits issued	(1,164)	–	–	(1,164)
Derivatives	–	(10,801)	–	(10,801)
– Foreign exchange contracts	–	(14,246)	–	(14,246)
– Interest rate contracts and others	–	(2,411)	–	(2,411)
Total liabilities	(1,164)	(27,458)	–	(28,622)

⁽¹⁾ Based on the nature, characteristics and risk, the Group discloses this type of investment separately.

There were no transfers between Level 1 and 2 during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.4 Fair values of financial assets and liabilities *(Continued)*

(c) **Financial assets and liabilities measured at fair value on a recurring basis** *(Continued)*

Reconciliation of level 3 items

Group

	Debt securities corporate entities	Equity investments unlisted	Total
Balance at 1 January 2014	-	1,069	1,069
Total gains or losses			
– Losses	-	(10)	(10)
– Other comprehensive income	-	(3)	(3)
Additions	-	-	-
Disposals	-	-	-
Balance at 31 December 2014	-	1,056	1,056
Total losses for consolidated financial assets/liabilities held at 31 December 2014	-	(10)	(10)

Bank

	Debt securities corporate entities	Equity investments unlisted	Total
Balance at 1 January 2014	-	746	746
Total gains or losses			
– Losses	-	2	2
– Other comprehensive income	-	(3)	(3)
Additions	-	-	-
Disposals	-	-	-
Balance at 31 December 2014	-	745	745
Total losses for consolidated financial assets/liabilities held at 31 December 2014	-	2	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.4 Fair values of financial assets and liabilities (Continued)

(c) Financial assets and liabilities measured at fair value on a recurring basis (Continued)

Reconciliation of level 3 items (Continued)

Group

	Debt securities corporate entities	Equity investments unlisted	Total
Balance at 1 January 2013	11	1,145	1,156
Total gains or losses			
– Losses	(11)	–	(11)
– Other comprehensive income	–	–	–
Additions	–	15	15
Disposals	–	(91)	(91)
Balance at 31 December 2013	–	1,069	1,069
Total losses for consolidated financial assets/liabilities held at 31 December 2013	(11)	–	(11)

Bank

	Debt securities corporate entities	Equity investments unlisted	Total
Balance at 1 January 2013	11	731	742
Total gains or losses			
– Losses	(11)	–	(11)
– Other comprehensive income	–	–	–
Additions	–	15	15
Disposals	–	–	–
Balance at 31 December 2013	–	746	746
Total losses for consolidated financial assets/liabilities held at 31 December 2013	(11)	–	(11)

Available for sale financial instruments with fair values determined based on unobservable inputs are primarily unlisted share securities. The fair value of these financial instruments is determined using market comparison method. This valuation method involves inputs from various unobservable assumptions such as price over book ratio and marketability discounts.

As at 31 December 2014, the carrying amounts of financial instruments with fair values determined based on unobservable inputs were insignificant, and the effect on the valuation results by using reasonable alternatives for the unobservable assumptions is considered to be insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.5 Capital management

The Group's objectives in managing "capital", which is a broader concept than the "equity" on the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operates;
- 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; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored quarterly by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBRC, for supervisory purposes. The required information is filed with the CBRC on a quarterly basis.

The CBRC requires each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 8%, and a tier 1 core capital ratio of above 4%. The Group's capital as monitored by its Planning and Finance Department is divided into two tiers.

- Core capital: share capital, capital surplus, statutory reserve, statutory general reserve, discretionary reserve, retained earnings and non-controlling interests; and
- Supplementary capital: revaluation reserve for available-for-sale financial assets, general allowance of impaired loans, qualified portion of subordinated debts.

Goodwill, unconsolidated equity investments in financial institutions, investments in non-financial entities and subordinated debts issued by other banks are deducted from core and supplementary capital to arrive at the total capital.

At the end of June 2014, upon the approval from regulator, the Group adopted the advanced capital management method for calculating capital adequacy ratio in accordance with the "Administrative Measures for the Capital of Commercial Banks (Provisional)" issued by the CBRC. As at 31 December 2014, the capital ratios calculated based the "Administrative Measures for the Capital of Commercial Banks (Provisional)" are as follows:

Item	As at 31 December 2014
Core Tier 1 Capital Ratio	11.30%
Tier 1 Capital Ratio	11.30%
Capital Ratio	14.04%
Core Tier 1 Capital	472,806
Core Tier 1 Capital deductions	(2,350)
Net Core Tier 1 Capital	470,456
Additional Tier 1 Capital	10
Net Tier 1 Capital	470,466
Tier 2 Capital	114,036
Net Capital	584,502
Risk-weighted assets	4,164,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

4 NET INTEREST INCOME

Group

	Year ended 31 December	
	2014	2013
Interest income		
Balances with central banks	13,074	12,581
Due from banks and other financial institutions	18,881	15,358
Loans and advances to customers	211,400	194,847
Debt investment	45,154	36,506
	288,509	259,292
Interest expense		
Due to banks and other financial institutions	(54,341)	(44,028)
Due to customers	(93,826)	(80,671)
Debts securities issued	(4,568)	(3,431)
Certificates of deposits issued	(998)	(504)
	(153,733)	(128,634)
Net interest income	134,776	130,658

For the year ended 31 December 2014, interest income of the Group includes RMB3,523 million (2013: RMB1,320 million) of interest income on financial investments at fair value through profit or loss.

For the year ended 31 December 2014, interest expense of the Group includes RMB167 million (2013: RMB170 million) of interest expense on certificates of deposits issued classified as financial liabilities designated at fair value through profit or loss.

For the year ended 31 December 2014, interest income of the Group includes RMB1,502 million (2013: RMB1,245 million) of interest income on impaired loans and receivables.

Group

	Year ended 31 December	
	2014	2013
Interest income on listed investments	11,845	10,215
Interest income on unlisted investments	33,309	26,291
	45,154	36,506

5 FEE AND COMMISSION INCOME

Group

	Year ended 31 December	
	2014	2013
Settlement service	2,480	2,312
Bank cards	10,424	8,916
Investment banking	7,643	7,700
Guarantee and commitment	3,588	3,460
Management service	6,417	5,146
Agent service	1,754	1,533
Others	608	338
	32,914	29,405

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

5 FEE AND COMMISSION INCOME *(Continued)*

Group

	Year ended 31 December	
	2014	2013
Fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	569	571
Fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	1,540	1,367

6 FEE AND COMMISSION EXPENSE

Group

	Year ended 31 December	
	2014	2013
Settlement and agent service	226	286
Bank cards	2,788	2,774
Others	296	377
	3,310	3,437

Group

	Year ended 31 December	
	2014	2013
Fee expense, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss	60	69

7 DIVIDEND INCOME

Group

	Year ended 31 December	
	2014	2013
Available-for-sale equity investments – unlisted	78	103

8 NET GAINS/(LOSSES) ARISING FROM TRADING ACTIVITIES

Group

	Year ended 31 December	
	2014	2013
Foreign exchange	4,462	(684)
Interest rate instruments and others	296	369
Trading securities	1,488	(419)
	6,246	(734)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

8 NET GAINS/(LOSSES) ARISING FROM TRADING ACTIVITIES *(Continued)*

Net gains/(losses) on foreign exchange includes gains or losses from the trading of spot and forward contracts, currency swaps, cross currency interest rate swaps, currency options and the translation of foreign currency monetary assets and liabilities into RMB.

Net gains/(losses) on interest rate instruments and others includes gains or losses from the trading and fair value changes of securities held for trading of interest rate swaps, interest rate options and other derivatives.

Net gains/(losses) arising from trading activities for the year ended 31 December 2014 include a loss of RMB85 million (the year ended 31 December 2013: a loss of RMB4 million) in relation to fair value change of financial liabilities designated at fair value through profit or loss.

9 OTHER OPERATING INCOME

Group

	Year ended 31 December	
	2014	2013
Profit on sales of property and equipment	122	72
Revaluation of investment property	5	18
Income from sales of franchised precious metal merchandise	1,773	5,755
Other miscellaneous income	3,188	1,672
	5,088	7,517

Other miscellaneous income includes income arising from miscellaneous banking services provided to the Group's customers and income earned from operating leases.

10 IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

Group

	Year ended 31 December	
	2014	2013
Loans and advances to customers (Note 20(b))		
– Collectively assessed losses provision	9,006	7,101
– Individually assessed losses provision	11,433	11,309
	20,439	18,410

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

11 OTHER OPERATING EXPENSE

Group

	Year ended 31 December	
	2014	2013
Staff costs (Note 12)	24,690	22,488
General and administrative expenses	15,184	13,463
Business tax and surcharges	12,822	11,949
Depreciation of property and equipment (Note 22)	5,018	4,364
Operating lease rental expenses	2,895	2,427
Supervision fee to regulators	241	277
Amortisation of intangible assets	263	247
Impairment of finance lease receivables	274	577
Impairment of financial investments ((1), Note 21)	1,947	86
Professional fees	28	30
Amortisation of land use rights	37	24
Reversal of provision for litigation	(189)	(11)
Impairment of other receivables	200	32
Others	7,322	9,625
	70,732	65,578

(1) Net impairment losses on financial investments Group

	Year ended 31 December	
	2014	2013
Loans and receivables (Note 21)	1,971	31
Available-for-sale (Note 21)	(24)	55
Total	1,947	86

12 STAFF COSTS

Group

	Year ended 31 December	
	2014	2013
Salaries and bonuses	17,182	15,004
Pension costs (Note 30)	3,127	2,066
Housing benefits and subsidies	99	461
Other social security and benefit costs	4,282	4,957
	24,690	22,488

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(a) Directors', supervisors' and senior management's emoluments before taxation

Group

(in thousands of RMB) Name	Year ended 31 December				2013 Total
	Emoluments	Remuneration	Other benefits	Total	
Executive directors					
Mr. Hu, Huaibang ⁽¹⁾	-	-	-	-	541
Mr. Niu, Ximing	-	835	224	1,059	1,252
Mr. Peng Chun	-	784	224	1,008	495
Mr. Qian, Wenhui	-	740	188	928	1,099
Ms. Yu, Yali	-	740	188	928	1,099
Non-executive directors					
Mr. Hu, Huating	-	697	168	865	1,026
Mr. Liu, Changshun ⁽¹⁾	-	348	83	431	-
Mr. Wang Taiyin	-	697	168	865	509
Mr. Peter, Wong Tung Shun	-	-	-	-	-
Ms. Anita Fung Yuen Mei	-	-	-	-	-
Mr. Ma, Qiang	-	-	-	-	-
Mr. Lei, Jun	-	-	-	-	-
Ms. Zhang Yuxia	-	-	-	-	-
Mr. Peter Hugh Nolan	250	-	-	250	250
Mr. Chen, Zhiwu	250	-	-	250	250
Mr. Choi, Yiu Kwan	250	-	-	250	250
Mr. Yu Yongshun	-	-	-	-	-
Ms. Li Jian ⁽¹⁾	63	-	-	63	-
Mr. Liu Li ⁽¹⁾	63	-	-	63	-
Mr. Wang, Weiqiang ⁽¹⁾	-	-	-	-	-
Ms. Du, Yuemei ⁽¹⁾	-	523	125	648	983
Mr. Liu Tinghuan ⁽¹⁾	-	-	-	-	-
Mr. Zhang, Jixiang ⁽¹⁾	-	-	-	-	513
Mr. Eric Li, Ka-cheung ⁽¹⁾	-	-	-	-	121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(a) Directors', supervisors' and senior management's emoluments before taxation (Continued)

Group

(in thousands of RMB) Name	Year ended 31 December				2013 Total
	Emoluments	Remuneration	Other benefits	Total	
Supervisors					
Mr. Hua, Qingshan ⁽¹⁾	-	383	109	492	1,167
Mr. Song, Shuguang ⁽¹⁾	-	575	223	798	-
Mr. Jiang, Yunbao	-	-	-	-	-
Mr. Lu Jiahui	-	-	-	-	-
Ms. Tang, Xinyu ⁽¹⁾	-	-	-	-	-
Mr. Teng Tieqi	-	-	-	-	-
Mr. Gu, Huizhong	-	-	-	-	-
Mr. Dong Wenhua	-	-	-	-	-
Mr. Li, Jin	-	-	-	-	-
Mr. Gao Zhongyuan	-	-	-	-	-
Ms. Liu, Sha ⁽¹⁾	-	-	-	-	1,059
Mr. Yan, Hong	-	-	-	-	-
Ms. Chen, Qing	-	570	132	702	1,380
Mr. Shuai, Shi	-	550	132	682	1,340
Mr. Du, Yarong	-	546	132	678	1,418
Mr. Fan Jun	-	577	132	709	1,361
Total	876	8,565	2,228	11,669	16,113

⁽¹⁾ The total compensation package for these directors and supervisors for the year ended 31 December 2014 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact to the Group's and the Bank's 2014 financial statements. The final compensation will be disclosed in a separate announcement when determined. The total final compensation for the year ended 31 December 2013 was disclosed in the Supplemental Announcement for the 2013 Annual Report issued on 29 April 2014.

The balances listed above only disclose the emoluments of directors, supervisors or senior management from the date of their appointment. Especially, Mr. Hu Huaibang resigned as Chairman and the Executive Director of the Bank in April 2013; Mr. Hua Qingshan resigned as Supervisor of the Bank in June 2014; Mr. Song Shuguang was appointed as Supervisor of the Bank in June 2014; Ms. Du Yuemei resigned as Non-executive Director of the Bank in September 2014, Mr. Liu Changshun was appointed as Non-executive Director of the Bank in September 2014; In June 2013, Mr. Zhang Jixiang, Mr. Eric Li, Ka-cheung resigned as Directors of the Bank. In the second half of 2014, Ms. Li Jian and Mr. Liu Li were appointed as Independent Non-executive Directors of the Bank, Mr. Wang Weiqiang and Mr. Liu Tinghuan resigned as Directors of the Bank; In June 2013, Ms. Liu Sha resigned as Supervisor of the Bank. In June 2014, Ms. Tang Xinyu was appointed as External Supervisor of the Bank, Mr. Jiang Yunbao resigned as External Supervisor of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
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13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(b) Five highest paid individuals

The five highest paid individuals in the Bank for the related years are as follows:

	Year ended 31 December	
	2014	2013
Salary	8	8
Discretionary bonuses	8	8
Employer's contribution to pension scheme and other benefits	1	–
Total	17	16

Emoluments of the above five highest paid individuals in the Bank are within the following bands:

	Number of employees as at 31 December	
	2014	2013
HK\$2,500,001 – HK\$3,000,000	–	–
HK\$3,000,001 – HK\$3,500,000	–	2
HK\$3,500,001 – HK\$4,000,000	2	–
HK\$4,000,001 – HK\$4,500,000	2	1
HK\$4,500,001 – HK\$5,000,000	–	2
HK\$5,000,001 – HK\$5,500,000	–	–
HK\$5,500,001 – HK\$6,000,000	–	–
HK\$6,000,001 – HK\$6,500,000	1	–
Total	5	5

During 2014 and 2013, no emolument was paid by the Bank to any of the directors, supervisors and the five highest paid individuals as an inducement to join or upon joining the Bank or as compensation for loss of office.

(c) Share-based compensation

On 18 November 2005, the Board of Directors resolved to grant certain cash settled SARs to several senior executives of the Bank under a long-term incentive plan. According to the resolution, the initial grant of SARs was targeted at senior executives of the Bank as at 23 June 2005. The exercise price of each SAR is HK\$2.50, which was the issue price of the H share at the time of its initial public offering. The amount of the initial grant of the SARs was 7.558 million shares. The SARs was valid for a period of ten years from 23 June 2005, with a two-year vesting period.

On 3 November 2006, the Board of Directors resolved to grant certain cash settled SARs to several senior executives of the Bank under its long-term incentive plan. According to the resolution, the grant of SARs was targeted at senior executives of the Bank as at 3 November 2006. The exercise price of each SAR is HK\$6.13, which was the closing price of the Group's H share on 3 November 2006. The amount of the grant of the SARs was 2.724 million shares. The SARs was valid for a period of ten years from 3 November 2006, with a two-year vesting period.

During 2014 and 2013, no SARs were exercised. Changes in fair value of these SARs (RMB6.22 million) were recognised in other operating expense but not included in the directors' emoluments disclosed above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

13 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(Continued)

(c) Share-based compensation (Continued)

Movements in the number of SARs outstanding are as follows:

Group and Bank

	Year ended 31 December	
	2014 Number of shares (In millions)	2013 Number of shares (In millions)
Outstanding at the beginning of the year	11	11
Granted in the year	–	–
Outstanding at the end of the year	11	11

The fair value of SARs using the Binomial Option Pricing model as at 31 December 2014 is RMB33.47 million (31 December 2013: RMB21.93 million) and is recorded in other liabilities.

14 INCOME TAX

Group

	Year ended 31 December	
	2014	2013
Current tax		
– PRC enterprise income tax	18,216	20,051
– Hong Kong profits tax	1,016	420
– Overseas taxation	328	375
	19,560	20,846
Deferred income tax (Note 29)	(668)	(3,398)
	18,892	17,448

The provision for enterprise income tax in PRC is calculated based on the statutory rate of 25% (2013: 25%) of the assessable income of the Bank and each of the subsidiaries established in PRC. Taxation arising in other jurisdictions (including Hong Kong) is calculated at the rates prevailing in the relevant jurisdictions.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Group at 25% (2013: 25%). The major reconciliation items are as follows:

	Year ended 31 December	
	2014	2013
Profit before tax	84,927	79,909
Tax calculated at a tax rate of 25%	21,232	19,977
Effect of different tax rates in other countries (or regions)	75	44
Tax effect arising from income not subject to tax ⁽¹⁾	(2,868)	(2,881)
Tax effect of expenses not deductible for tax purposes ⁽²⁾	453	308
Income tax expense	18,892	17,448

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
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14 INCOME TAX (Continued)

Group (Continued)

- ⁽¹⁾ The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.
- ⁽²⁾ The expenses that are not tax deductible mainly represent a portion of expenditure, such as entertainment expense etc., which exceed the tax deduction limits in accordance with PRC tax regulations.

15 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year. There were no potential ordinary shares outstanding during the year ended 31 December 2014 and 2013.

	Year ended 31 December	
	2014	2013
Net profit attributable to shareholders of the Bank	65,850	62,295
Number of ordinary shares in issue (expressed in millions)	74,263	74,263
Basic and diluted earnings per share (expressed in RMB per share)	0.89	0.84

16 CASH AND BALANCES WITH CENTRAL BANKS

Group

	As at 31 December 2014	As at 31 December 2013
Cash	19,261	19,293
Balances with central banks other than mandatory reserve deposits	152,190	141,947
Included in cash and cash equivalents (Note 38)	171,451	161,240
Mandatory reserve deposits	766,604	735,316
	938,055	896,556

Bank

	As at 31 December 2014	As at 31 December 2013
Cash	19,224	19,272
Balances with central banks other than mandatory reserve deposits	152,128	141,939
Included in cash and cash equivalents	171,352	161,211
Mandatory reserve deposits	766,047	734,673
	937,399	895,884

The Group is required to place mandatory reserves with PBOC and other overseas regulatory bodies. The mandatory reserves are calculated based on the eligible deposits from customers. Such mandatory reserves are not available for use by the Group in its day-to-day operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

16 CASH AND BALANCES WITH CENTRAL BANKS *(Continued)*

Bank *(Continued)*

	As at 31 December 2014	As at 31 December 2013
PBOC		
– Mandatory reserve rate for deposits denominated in RMB (%)	20.00	20.00
– Mandatory reserve rate for deposits denominated in foreign currencies (%)	5.00	5.00

17 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Group

	As at 31 December 2014	As at 31 December 2013
Due from banks and other financial institutions	174,261	97,415
Included in cash and cash equivalents (Note 38)	142,175	82,154
Securities purchased under reverse repurchase agreements	60,787	182,614
Loans purchased under reverse repurchase agreements	117,667	89,343
Placement with and loans to banks	107,570	125,701
Placement with and loans to other financial institutions	64,748	71,356
	525,033	566,429

Bank

	As at 31 December 2014	As at 31 December 2013
Due from banks and other financial institutions	169,738	93,868
Included in cash and cash equivalents	135,863	80,108
Securities purchased under reverse repurchase agreements	60,339	182,608
Loans purchased under reverse repurchase agreements	117,667	89,343
Placement with and loans to banks	107,570	128,265
Placement with and loans to other financial institutions	82,565	80,002
	537,879	574,086

As at 31 December 2014, the Group and the Bank's placement with certain wealth management products sponsored and not consolidated by the Group amounted to RMB41,500 million (31 December 2013: RMB50,150 million). These transactions were carried out at market prices and the Group and the Bank were not contractually obliged to make such arrangements. The maximum exposure to loss of those arrangements approximated the carrying amount of the placements. As at the approval date of these consolidated financial statements, the placements have matured and the amounts have been fully repaid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December 2014	As at 31 December 2013
Derivative financial instruments (Note 19)	10,656	14,227
Government bonds		
– Listed in Hong Kong	1,464	1,308
– Listed outside Hong Kong	12,137	1,548
– Unlisted	5,051	4,111
Other debt securities		
Listed in Hong Kong	922	1,840
– Listed outside Hong Kong	9,000	2,486
– Unlisted – corporate entities	54,129	34,753
– Unlisted – public sector	2,189	1,265
– Unlisted – banking sector	20,569	11,665
Equity securities and funds		
– Listed in Hong Kong	172	107
– Listed outside Hong Kong	69	–
	116,358	73,310

Bank

	As at 31 December 2014	As at 31 December 2013
Derivative financial instruments	10,650	14,225
Government bonds		
– Listed in Hong Kong	1,464	1,308
– Listed outside Hong Kong	12,137	1,548
– Unlisted	5,051	4,111
Other debt securities		
– Listed in Hong Kong	922	1,837
– Listed outside Hong Kong	9,000	2,486
– Unlisted – corporate entities	54,129	34,753
– Unlisted – public sector	2,189	1,265
– Unlisted – banking sector	20,569	11,665
	116,111	73,198

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Financial assets – financial assets at fair value through profit or loss are analysed by issuer as follows:

Group

	As at 31 December 2014	As at 31 December 2013
Financial assets – Financial assets at fair value through profit or loss		
– Governments and central banks	18,652	6,967
– Public sector entities	2,376	2,250
– Banks and other financial institutions	28,894	14,541
– Corporate entities	55,780	35,325
	105,702	59,083

Bank

	As at 31 December 2014	As at 31 December 2013
Financial assets – Financial assets at fair value through profit or loss		
– Governments and central banks	18,652	6,967
– Public sector entities	2,376	2,250
– Banks and other financial institutions	28,762	14,434
– Corporate entities	55,671	35,322
	105,461	58,973

The financial assets at fair value through profit or loss include financial assets held for trading and derivatives designated and effective as hedging instruments.

Majority of the Group's unlisted bonds are traded in China's inter-bank bond market.

As at 31 December 2014, trading securities of the Group and the Bank with fair value amounting to RMB8,535 million were pledged to third parties and stock exchanges under repurchase agreements and short-selling arrangements (31 December 2013: RMB5,694 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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19 DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative instruments are utilised by the Group for trading or hedging purposes:

Currency forwards are contracts between two parties to buy or sell certain currencies at a specified future date at a predetermined price. The party agreeing to buy the underlying currency in the future assumes a long position, and the party agreeing to sell the currency in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) on or before a set date or during a set period, a specific amount of a foreign currency at a predetermined price or to receive an interest payment based on a variable interest rate and pay a fixed interest rate or vice versa. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer (over the counter market).

The notional amounts of certain types of financial instruments provide a reference of the amounts 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 price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following tables.

Group

	Contractual/notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2014			
Foreign exchange contracts	1,123,840	9,445	(8,550)
Interest rate contracts and others	552,916	1,211	(1,524)
Total amount of derivative instruments recognised	1,676,756	10,656	(10,074)

Group

As at 31 December 2013	Contractual/notional amount	Fair values	
		Assets	Liabilities
Foreign exchange contracts	1,462,736	12,723	(14,261)
Interest rate contracts and others	587,446	1,504	(2,414)
Total amount of derivative instruments recognised	2,050,182	14,227	(16,675)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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19 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Bank

As at 31 December 2014	Contractual/notional amount	Fair values	
		Assets	Liabilities
Foreign exchange contracts	1,123,407	9,440	(8,550)
Interest rate contracts and others	551,456	1,210	(1,519)
Total amount of derivative instruments recognised	1,674,863	10,650	(10,069)

Bank

As at 31 December 2013	Contractual/notional amount	Fair values	
		Assets	Liabilities
Foreign exchange contracts	1,462,028	12,723	(14,246)
Interest rate contracts and others	587,235	1,502	(2,411)
Total amount of derivative instruments recognised	2,049,263	14,225	(16,657)

The tables above provide a breakdown of the contractual or notional amounts and the fair values of the Group's and the Bank's derivative financial instruments outstanding at year end. These instruments, comprising foreign exchange and interest rate derivatives allow the Group and the Bank and their customers to transfer, modify or reduce their foreign exchange and interest rate risks.

The Group and the Bank undertakes its transactions in foreign exchange and interest rates contracts with other financial institutions and customers. Management has established limits for these contracts based on counterparty types, industry sectors and countries. Related risks are regularly monitored and controlled by management.

Notional amounts of derivative financial instruments by original currency

Group

	As at 31 December 2014	As at 31 December 2013
RMB	805,306	1,075,990
US dollar	680,022	790,521
HK dollar	106,253	106,796
Others	85,175	76,875
Total	1,676,756	2,050,182

Bank

	As at 31 December 2014	As at 31 December 2013
RMB	805,306	1,075,990
US dollar	678,137	789,605
HK dollar	106,253	106,796
Others	85,167	76,872
Total	1,674,863	2,049,263

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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19 DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group and Bank as follows:

Group and Bank

	Contractual/notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2014			
Derivative financial instruments designated as hedging instruments in fair value hedges			
Interest rate swaps	11,220	8	(281)
Total	11,220	8	(281)

Group and Bank

	Contractual/notional amount	Fair values	
		Assets	Liabilities
As at 31 December 2013			
Derivative financial instruments designated as hedging instruments in fair value hedges-			
Interest rate swaps	7,124	21	(252)
Total	7,124	21	(252)

The Group uses interest rate swaps to minimise its exposure to fair value changes of its fixed-rate bond investments by swapping fixed-rate bond investments from fixed rates to floating rates. The interest rate swaps and the corresponding bond investments have the same terms and management of the Group consider that the interest rate swaps are highly effective hedging instruments.

The following table shows the profit and loss effects of the fair value hedges:

Group and Bank

	As at 31 December 2014	As at 31 December 2013
(Losses)/gains on hedging instruments	(30)	270
Gains/(losses) on hedged items attributable to the hedge risk	24	(263)
Net (losses)/gains from fair value hedges	(6)	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

20 LOANS AND ADVANCES TO CUSTOMERS

20.1 Loans and advances to customers

Group

	As at 31 December 2014	As at 31 December 2013
Loans and advances to customers	3,431,735	3,266,368
Less: allowance for collectively assessed impairment losses	(58,908)	(57,123)
Less: allowance for individually assessed impairment losses	(18,040)	(16,182)
	3,354,787	3,193,063

Bank

	As at 31 December 2014	As at 31 December 2013
Loans and advances to customers	3,427,173	3,261,000
Less: allowance for collectively assessed impairment losses	(58,662)	(57,015)
Less: allowance for individually assessed impairment losses	(17,806)	(16,111)
	3,350,705	3,187,874

20.2 Movements in allowance for losses on loans and advances

Group

	As at 31 December 2014		As at 31 December 2013	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at the beginning of the year	57,123	16,182	55,187	12,484
Net impairment allowances for loans charged to profit or loss (Note 10)	9,006	11,433	7,101	11,309
– Impairment allowances for loans	9,006	12,949	7,101	12,927
– Reversal of impairment allowances for loans	–	(1,516)	–	(1,618)
Recoveries of loans written-off in previous years	–	441	–	467
Unwind of discount on allowances during the year	–	(1,502)	–	(1,245)
Loans written off during the year as uncollectible	–	(15,811)	–	(11,810)
Other transfer (out)/in	(7,279)	7,279	(4,995)	4,995
Exchange difference	58	18	(170)	(18)
Balance at the end of the year	58,908	18,040	57,123	16,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

20.2 Movements in allowance for losses on loans and advances (Continued)

Bank

	As at 31 December 2014		As at 31 December 2013	
	Collectively assessed	Individually assessed	Collectively assessed	Individually assessed
Balance at the beginning of the year	57,015	16,111	55,141	12,434
Net impairment allowances for loans charged to profit or loss	8,875	11,264	7,039	11,276
– Impairment allowances for loans	8,875	12,780	7,039	12,894
– Reversal of impairment allowances for loans	–	(1,516)	–	(1,618)
Recoveries of loans written-off in previous years	–	441	–	467
Unwind of discount on allowances during the year	–	(1,493)	–	(1,235)
Loans written off during the year as uncollectible	–	(15,811)	–	(11,810)
Other transfer (out)/in	(7,279)	7,279	(4,995)	4,995
Exchange difference	51	15	(170)	(16)
Balance at the end of the year	58,662	17,806	57,015	16,111

Group

	As at 31 December 2014		As at 31 December 2013	
	Corporate	Individual	Corporate	Individual
Balance at the beginning of the year	59,922	13,383	58,868	8,803
Net impairment allowances for loans charged to profit or loss	14,488	5,951	11,316	7,094
– Impairment allowances for loans	15,942	6,013	12,506	7,522
– Reversal of impairment allowances for loans	(1,454)	(62)	(1,190)	(428)
Recoveries of loans written-off in previous years	205	236	336	131
Unwind of discount on allowances during the year	(1,203)	(299)	(1,035)	(210)
Loans written off during the year as uncollectible	(10,610)	(5,201)	(9,380)	(2,430)
Exchange difference	61	15	(183)	(5)
Balance at the end of the year	62,863	14,085	59,922	13,383

Bank

	As at 31 December 2014		As at 31 December 2013	
	Corporate	Individual	Corporate	Individual
Balance at the beginning of the year	59,841	13,285	58,838	8,737
Net impairment allowances for loans charged to profit or loss	14,188	5,951	11,265	7,050
– Impairment allowances for loans	15,642	6,013	12,455	7,478
– Reversal of impairment allowances for loans	(1,454)	(62)	(1,190)	(428)
Recoveries of loans written-off in previous years	205	236	336	131
Unwind of discount on allowances during the year	(1,199)	(294)	(1,035)	(200)
Loans written off during the year as uncollectible	(10,610)	(5,201)	(9,380)	(2,430)
Exchange difference	54	12	(183)	(3)
Balance at the end of the year	62,479	13,989	59,841	13,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

20.3 Analysis of loans and advances to customers by collective and individual assessments

Group

	Identified impaired loans			Identified impaired loans and advances as a percentage of total gross loans (%)
	Collectively assessed impairment allowance	Individually assessed impairment allowance	Subtotal	
31 December 2014				
Gross loans and advances	4,789	38,228	43,017	1.25
Allowance for impairment losses	(4,308)	(18,040)	(22,348)	
Net loans and advances to customers	481	20,188	20,669	
31 December 2013				
Gross loans and advances	4,249	30,061	34,310	1.05
Allowance for impairment losses	(2,833)	(15,819)	(18,652)	
Net loans and advances to customers	1,416	14,242	15,658	

Bank

	Identified impaired loans			Identified impaired loans and advances as a percentage of total gross loans (%)
	Collectively assessed impairment allowance	Individually assessed impairment allowance	Subtotal	
31 December 2014				
Gross loans and advances	4,789	38,096	42,885	1.25
Allowance for impairment losses	(4,308)	(17,806)	(22,114)	
Net loans and advances to customers	481	20,290	20,771	
31 December 2013				
Gross loans and advances	4,249	29,952	34,201	1.05
Allowance for impairment losses	(2,833)	(15,748)	(18,581)	
Net loans and advances to customers	1,416	14,204	15,620	

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21 FINANCIAL INVESTMENTS

Group

	As at 31 December 2014	As at 31 December 2013
Loans and receivables – at amortised cost		
– Unlisted	213,594	119,761
Impairment allowance	(2,006)	(35)
Loans and receivables (net)	211,588	119,726
Securities – available-for-sale debt securities – at fair value		
– Listed in Hong Kong	12,005	6,628
– Listed outside Hong Kong	59,930	45,281
– Unlisted	135,068	167,195
Debt securities	207,003	219,104
Equity securities and fund investments – at fair value		
– Listed in Hong Kong	104	44
– Listed outside Hong Kong	1,837	300
– Unlisted	1,072	1,805
Equity securities and fund investments	3,013	2,149
Securities – available-for-sale total	210,016	221,253
Include: Fair value of listed securities – available-for-sale	73,876	52,253
Securities – held-to-maturity debt securities – at amortised cost		
– Listed outside Hong Kong	294,720	257,378
– Unlisted	340,850	413,237
Held-to-maturity investments	635,570	670,615
Include: Fair value of listed held-to-maturity investments	294,720	251,082

As at 31 December 2014, listed financial investments of the Group at fair value of RMB30,064 million (31 December 2013: RMB160,416 million) were pledged to third parties under repurchase agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

21 FINANCIAL INVESTMENTS (Continued)

Bank

	As at 31 December 2014	As at 31 December 2013
Loans and receivables – at amortised cost		
– Unlisted	208,663	117,059
Impairment allowance	(1,902)	–
Loans and receivables (net)	206,761	117,059
Securities – available-for-sale debt securities – at fair value		
– Listed in Hong Kong	12,005	6,403
– Listed outside Hong Kong	59,569	45,156
– Unlisted	132,932	166,451
Debt securities	204,506	218,010
Equity securities and fund investments – at fair value		
– Listed outside Hong Kong	309	300
– Unlisted	745	746
Equity securities and fund investments	1,054	1,046
Securities – available-for-sale total	205,560	219,056
Include: Fair value of listed securities – available-for-sale	71,883	51,859
Securities – held-to-maturity debt securities – at amortised cost		
– Listed outside Hong Kong	294,537	256,968
– Unlisted	339,672	412,121
Held-to-maturity investments	634,209	669,089
Include: Fair value of listed held-to-maturity investments	294,537	250,695

As at 31 December 2014, listed financial investments of the Bank at fair value of RMB30,064 million (31 December 2013: RMB159,698 million) were pledged to third parties under repurchase agreements.

As at 31 December 2014, the Group does not hold any bonds issued by the PBOC (31 December 2013: Nil).

Net gains arising from de-recognition of financial investments comprise of:

Group

	Year ended 31 December	
	2014	2013
Net gains arising from de-recognition of available-for-sale	197	159

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

21 FINANCIAL INVESTMENTS (Continued)

The movements in allowance for impairment losses of financial investments are summarised as follows:

Group

	Loans and receivables	Available- for-sale	Held-to- maturity	Total
Allowance for impairment losses				
As at 1 January 2014	(35)	(1,248)	-	(1,283)
Provision for impairment	(1,995)	(12)	-	(2,007)
Reversal of impairment allowances	24	36	-	60
Transfer out ⁽¹⁾	-	131	-	131
Exchange differences	-	(22)	-	(22)
As at 31 December 2014	(2,006)	(1,115)	-	(3,121)

Bank

	Loans and receivables	Available- for-sale	Held-to- maturity	Total
Allowance for impairment losses				
As at 1 January 2014	-	(1,153)	-	(1,153)
Provision for impairment	(1,902)	-	-	(1,902)
Reversal of impairment allowances	-	36	-	36
Transfer out ⁽¹⁾	-	110	-	110
Exchange differences	-	(22)	-	(22)
As at 31 December 2014	(1,902)	(1,029)	-	(2,931)

Group

	Loans and receivables	Available- for-sale	Held-to- maturity	Total
Allowance for impairment losses				
As at 1 January 2013	(4)	(1,443)	-	(1,447)
Reversal	(31)	(55)	-	(86)
Transfer out ⁽¹⁾	-	208	-	208
Exchange differences	-	42	-	42
As at 31 December 2013	(35)	(1,248)	-	(1,283)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

21 FINANCIAL INVESTMENTS (Continued)

Bank

	Loans and receivables	Available- for-sale	Held-to- maturity	Total
Allowance for impairment losses				
As at 1 January 2013	–	(1,246)	–	(1,246)
Reversal	–	(10)	–	(10)
Transfer out ⁽¹⁾	–	63	–	63
Exchange differences	–	40	–	40
As at 31 December 2013	–	(1,153)	–	(1,153)

⁽¹⁾ Transfer out was resulted from the disposal or redemption of the impaired securities.

Financial investments are analysed by issuer as follows:

Group

	As at 31 December 2014	As at 31 December 2013
Loans and receivables		
– Governments and central banks	312	638
– Banks and other financial institutions	29,321	56,136
– Corporate entities	181,955	62,952
	211,588	119,726
Securities – available-for-sale		
– Governments and central banks	36,959	29,807
– Public sector entities	3,655	1,650
– Banks and other financial institutions	123,245	132,511
– Corporate entities	46,157	57,285
	210,016	221,253
Securities – held-to-maturity		
– Governments and central banks	289,276	282,040
– Public sector entities	14,088	14,463
– Banks and other financial institutions	243,619	247,135
– Corporate entities	88,587	126,977
	635,570	670,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

21 FINANCIAL INVESTMENTS (Continued)

Bank

	As at 31 December 2014	As at 31 December 2013
Loans and receivables		
– Governments and central banks	312	638
– Banks and other financial institutions	29,321	56,136
– Corporate entities	177,128	60,285
	206,761	117,059
Securities – available-for-sale		
– Governments and central banks	36,898	29,674
– Public sector entities	3,301	1,650
– Banks and other financial institutions	120,875	131,228
– Corporate entities	44,486	56,504
	205,560	219,056
Securities – held-to-maturity		
– Governments and central banks	289,276	282,040
– Public sector entities	14,037	14,463
– Banks and other financial institutions	242,905	246,414
– Corporate entities	87,991	126,172
	634,209	669,089

The certificates of deposits held and included in financial investments are analysed as follows:

Group and Bank

	As at 31 December 2014	As at 31 December 2013
Available-for-sale (at fair value)		
– unlisted	13,108	13,086

The maturity profile of certificates of deposits held by the remaining period as at year end to the contractual maturity dates are summarised as follows:

Group and Bank

	As at 31 December 2014	As at 31 December 2013
Within 3 months	4,353	1,440
3 months to 12 months	3,112	2,698
1 year to 5 years	5,643	8,948
	13,108	13,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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22 PROPERTY AND EQUIPMENT

Group

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2014	36,482	13,261	19,073	8,044	4,828	81,688
Additions	1,711	5,567	3,644	6,385	499	17,806
Disposals	(117)	(13)	(784)	(43)	(32)	(989)
Transfers in/(out)	4,773	(5,275)	-	-	502	-
As at 31 December 2014	42,849	13,540	21,933	14,386	5,797	98,505
Accumulated depreciation						
As at 1 January 2014	(9,084)	-	(12,919)	(738)	(1,768)	(24,509)
Charge for the year	(1,420)	-	(2,571)	(443)	(584)	(5,018)
Disposals	68	-	660	36	25	789
As at 31 December 2014	(10,436)	-	(14,830)	(1,145)	(2,327)	(28,738)
Net book value						
As at 31 December 2014	32,413	13,540	7,103	13,241	3,470	69,767

Group

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2013	33,550	7,714	17,337	4,270	4,222	67,093
Additions	1,595	7,464	3,472	3,816	506	16,853
Disposals	(270)	(154)	(1,736)	(42)	(56)	(2,258)
Transfers in/(out)	1,607	(1,763)	-	-	156	-
As at 31 December 2013	36,482	13,261	19,073	8,044	4,828	81,688
Accumulated depreciation						
As at 1 January 2013	(7,926)	-	(11,833)	(485)	(1,313)	(21,557)
Charge for the year	(1,249)	-	(2,370)	(282)	(463)	(4,364)
Disposals	91	-	1,284	29	8	1,412
As at 31 December 2013	(9,084)	-	(12,919)	(738)	(1,768)	(24,509)
Net book value						
As at 31 December 2013	27,398	13,261	6,154	7,306	3,060	57,179

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
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22 PROPERTY AND EQUIPMENT (Continued)

Bank

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2014	35,707	13,256	18,878	745	4,815	73,401
Additions	1,711	5,482	3,618	57	212	11,080
Disposals	(113)	(8)	(771)	(39)	(32)	(963)
Transfers in/(out)	4,773	(5,275)	-	-	502	-
As at 31 December 2014	42,078	13,455	21,725	763	5,497	83,518
Accumulated depreciation						
As at 1 January 2014	(8,920)	-	(12,782)	(469)	(1,763)	(23,934)
Charge for the year	(1,340)	-	(2,539)	(125)	(582)	(4,586)
Disposals	68	-	638	36	26	768
As at 31 December 2014	(10,192)	-	(14,683)	(558)	(2,319)	(27,752)
Net book value						
As at 31 December 2014	31,886	13,455	7,042	205	3,178	55,766

Bank

	Land and Buildings	Construction in Progress	Equipment	Transportation Equipment	Property Improvement	Total
Cost						
As at 1 January 2013	32,750	7,712	17,164	696	4,210	62,532
Additions	1,594	7,461	3,446	91	505	13,097
Disposals	(244)	(154)	(1,732)	(42)	(56)	(2,228)
Transfers in/(out)	1,607	(1,763)	-	-	156	-
As at 31 December 2013	35,707	13,256	18,878	745	4,815	73,401
Accumulated depreciation						
As at 1 January 2013	(7,781)	-	(11,717)	(421)	(1,310)	(21,229)
Charge for the year	(1,226)	-	(2,346)	(77)	(461)	(4,110)
Disposals	87	-	1,281	29	8	1,405
As at 31 December 2013	(8,920)	-	(12,782)	(469)	(1,763)	(23,934)
Net book value						
As at 31 December 2013	26,787	13,256	6,096	276	3,052	49,467

With exception to the Hong Kong branch and Hong Kong subsidiaries, all other land and buildings are located outside Hong Kong.

	As at 31 December 2014	As at 31 December 2013
Net book value of land and buildings of Hong Kong branch and subsidiaries	199	208

The Group recognised the leasehold land in Hong Kong branch and Hong Kong subsidiaries as finance lease and accounted for it as "land and buildings" and is depreciated over the shorter of the useful life of the buildings and the land's lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

22 PROPERTY AND EQUIPMENT *(Continued)*

As at 31 December 2014, property and equipment for which registration was not completed amounted to RMB222 million (2013: RMB872 million). However, this registration process does not affect the rights of the Bank to these assets.

The net book value of land and buildings is analysed based on the remaining lease terms as follows:

Group

	As at 31 December 2014	As at 31 December 2013
Held in Hong Kong		
on long-term lease (over 50 years)	142	173
on medium-term lease (10 – 50 years)	57	35
on short-term lease (less than 10 years)	–	–
	199	208
Held outside Hong Kong		
on long-term lease (over 50 years)	18	18
on medium-term lease (10 – 50 years)	30,109	25,645
on short-term lease (less than 10 years)	2,087	1,527
	32,214	27,190
	32,413	27,398

Bank

	As at 31 December 2014	As at 31 December 2013
Held in Hong Kong		
on long-term lease (over 50 years)	142	173
on medium-term lease (10 – 50 years)	57	12
on short-term lease (less than 10 years)	–	–
	199	185
Held outside Hong Kong		
on long-term lease (over 50 years)	18	18
on medium-term lease (10 – 50 years)	29,582	25,057
on short-term lease (less than 10 years)	2,087	1,527
	31,687	26,602
	31,886	26,787

As at 31 December 2014, the net book value of aircraft and vessel leased out by the Group under operating lease arrangements was RMB12,370 million (31 December 2013: RMB7,018 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS

Group

	As at 31 December 2014	As at 31 December 2013
Interest receivable	34,790	29,809
Settlement accounts	17,181	17,788
Other receivables	22,798	3,754
Less: impairment allowance ^(e)	(624)	(531)
Land use rights ^(a)	918	691
Leasehold improvement	625	619
Intangible assets ^(b)	789	770
Foreclosed assets	456	192
Rental deposits	194	236
Goodwill ^(f)	322	322
Investment properties ^(c)	7,276	194
Finance lease receivables ^(d)	100,810	88,254
Less: impairment allowance ^(e)	(1,680)	(1,406)
Others	6,646	4,546
	190,501	145,238

Bank

	As at 31 December 2014	As at 31 December 2013
Interest receivable	33,753	29,860
Settlement accounts	16,124	16,013
Other receivables	21,613	3,500
Less: impairment allowance ^(e)	(624)	(531)
Land use rights ^(a)	918	691
Leasehold improvement	609	614
Intangible assets ^(b)	762	736
Foreclosed assets	456	192
Rental deposits	192	233
Investment properties ^(c)	199	194
Others	1,575	2,739
	75,577	54,241

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

23 OTHER ASSETS (Continued)

- (a) The net book value of land use rights is analysed based on the remaining terms of the leases as follows:

Group and Bank

	As at 31 December 2014	As at 31 December 2013
Held outside Hong Kong		
on medium-term lease (10-50 years)	895	675
on short-term lease (less than 10 years)	23	16
	918	691

- (b) Intangible assets

Group

	Software
Cost	
As at 1 January 2014	2,109
Additions	364
Disposals	(595)
As at 31 December 2014	1,878
Accumulated amortisation	
As at 1 January 2014	(1,339)
Amortisation expense	(263)
Disposals	513
As at 31 December 2014	(1,089)
Carrying amounts	789

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS (Continued)

(b) Intangible assets (Continued)

Group

	Software
Cost	
As at 1 January 2013	1,867
Additions	243
Disposals	(1)
As at 31 December 2013	2,109
Accumulated amortisation	
As at 1 January 2013	(1,093)
Amortisation expense	(247)
Disposals	1
As at 31 December 2013	(1,339)
Carrying amounts	770

Bank

	Software
Cost	
As at 1 January 2014	2,034
Additions	357
Disposals	(595)
As at 31 December 2014	1,796
Accumulated amortisation	
As at 1 January 2014	(1,298)
Amortisation expense	(244)
Disposals	508
As at 31 December 2014	(1,034)
Carrying amounts	762

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

23 OTHER ASSETS (Continued)

(b) Intangible assets (Continued)

Bank

	Software
Cost	
As at 1 January 2013	1,812
Additions	223
Disposals	(1)
As at 31 December 2013	2,034
Accumulated amortisation	
As at 1 January 2013	(1,063)
Amortisation expense	(236)
Disposals	1
As at 31 December 2013	(1,298)
Carrying amounts	736

(c) Investment properties

Group

	As at 31 December 2014	As at 31 December 2013
Balance at the beginning of the year	194	182
Additions	7,077	–
Gains on property revaluation	9	18
Effect of foreign currency exchange difference	(4)	(6)
Balance at the end of the year	7,276	194

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS (Continued)

(c) Investment properties (Continued)

Bank

	As at 31 December 2014	As at 31 December 2013
Balance at the beginning of the year	194	182
Gains on property revaluation	9	18
Effect of foreign currency exchange difference	(4)	(6)
Balance at the end of the year	199	194

The Group's investment properties are located in active real estate markets. The external appraisers make reasonable estimation of fair value using market prices of the same or similar properties from the real estate market.

As at 31 December of 2014, fair value hierarchies of the investment properties of the Group are as follows:

	Level 1	Level 2	Level 3	Fair value as at 31 December 2014
Commercial property units located in Hong Kong	-	-	119	119
Commercial property units located outside Hong Kong	-	-	7,077	7,077

The valuation of these investment properties as at 31 December 2014 were performed by RHL Appraisal Limited and Beijing Zhuoxindahua Appraisal Co., Limited, independent qualified professional valuers not connected to the Group. Valuation methodologies include "Rental Income Approach" and "Direct Comparison Approach". The inputs to these models mainly include growth rate of rental, capitalization rate and unit price.

The net book value of investment properties is analysed based on the remaining terms of the leases as follows:

Group and Bank

	As at 31 December 2014	As at 31 December 2013
Held in Hong Kong		
on long-term lease (over 50 years)	7,134	55
on medium-term lease (10 – 50 years)	142	139
	7,276	194

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

23 OTHER ASSETS (Continued)

(d) Finance lease receivables

Group

	As at 31 December 2014	As at 31 December 2013
Minimum finance lease receivables		
Within 1 year (inclusive)	29,554	25,868
1 year to 5 years (inclusive)	71,521	64,779
Over 5 years	15,260	11,134
	116,335	101,781
Gross investment in finance leases	116,335	101,781
Unearned finance income	(15,525)	(13,527)
Net investment in finance leases	100,810	88,254
The net investment in finance leases is analysed as follows:		
Within 1 year (inclusive)	24,887	21,908
1 year to 5 years (inclusive)	63,029	56,198
Over 5 years	12,894	10,148
	100,810	88,254
The allowance for uncollectible finance lease receivable	(1,680)	(1,406)
Net finance lease receivables	99,130	86,848

(e) Impairment allowance

Group

	As at 1 January 2014	Amounts accrued	Reversal	Write-off	As at 31 December 2014
Other receivables	(531)	(200)	2	105	(624)
Finance lease receivables	(1,406)	(274)	-	-	(1,680)
Total	(1,937)	(474)	2	105	(2,304)

Bank

	As at 1 January 2014	Amounts accrued	Reversal	Write-off	As at 31 December 2014
Other receivables	(531)	(200)	2	105	(624)
Total	(531)	(200)	2	105	(624)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

23 OTHER ASSETS (Continued)

(e) Impairment allowance (Continued)

Group

	As at 1 January 2013	Amounts accrued	Reversal	Write-off	As at 31 December 2013
Other receivables	(539)	(32)	–	40	(531)
Finance lease receivables	(829)	(577)	–	–	(1,406)
Total	(1,368)	(609)	–	40	(1,937)

Bank

	As at 1 January 2013	Amounts accrued	Reversal	Write-off	As at 31 December 2013
Other receivables	(539)	(32)	–	40	(531)
Total	(539)	(32)	–	40	(531)

(f) Goodwill

Group

	As at 1 January 2014	Addition during the year	Decrease during the year	As at 31 December 2014	Impairment allowance
Bank of Communications International Trust Co., Ltd.	200	–	–	200	–
BoComm Life Insurance Company Limited	122	–	–	122	–
Total	322	–	–	322	–

At the end of the year, the Group performed impairment tests on goodwill based on financial forecasts approved by management of the subsidiaries and the share prices of those listed financial institutions in similar types.

As indicated by the impairment tests, goodwill arising from business combinations is not impaired and therefore, no impairment loss is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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24 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Group

	As at 31 December 2014	As at 31 December 2013
Loans from central banks	83,669	5,871
Deposits from other banks	360,497	248,541
Deposits from other financial institutions	661,540	507,567
Loans from banks and other financial institutions	212,996	209,216
Financial instruments sold under repurchase agreements	89,573	155,368
Total	1,408,275	1,126,563

Bank

	As at 31 December 2014	As at 31 December 2013
Loans from central banks	83,669	5,641
Deposits from other banks	361,189	249,518
Deposits from other financial institutions	663,088	510,158
Loans from banks and other financial institutions	137,616	144,757
Financial instruments sold under repurchase agreements	88,044	154,694
Total	1,333,606	1,064,768

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December 2014	As at 31 December 2013
Derivative financial instruments (Note 19)	10,074	16,675
Short position of securities held for trading	5,347	1,164
Certificates of deposits issued	13,402	10,801
Total	28,823	28,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
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25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Bank

	As at 31 December 2014	As at 31 December 2013
Derivative financial instruments (Note 19)	10,069	16,657
Short position of securities held for trading	5,347	1,164
Certificates of deposits issued	13,402	10,801
Total	28,818	28,622

Except for certificates of deposits issued which are designated as at fair value through profit or loss, the financial liabilities at fair value through profit or loss include financial liabilities held for trading and derivatives designated and effective as hedging instruments.

Financial liabilities designated as at fair value through profit or loss

Group and Bank

	As at 31 December 2014	As at 31 December 2013
Difference between carrying amount and maturity amount		
– Fair value	13,402	10,801
– Amount payable upon maturity	13,343	10,750
Total	59	51

For the years ended 31 December 2014 and 31 December 2013, there were no significant changes in the fair value of the Group's and the Bank's financial liabilities designated as at fair value through profit or loss that were attributable to the changes in credit risk.

26 DUE TO CUSTOMERS

Group

	As at 31 December 2014	As at 31 December 2013
Corporate demand deposits	1,395,657	1,382,914
Corporate time deposits	1,270,614	1,418,855
Individual demand deposits	542,124	491,353
Individual time deposits	815,778	859,603
Other deposits	5,495	5,108
	4,029,668	4,157,833
Including:		
Pledged deposits held as collateral	494,860	594,655

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

26 DUE TO CUSTOMERS (Continued)

Bank

	As at 31 December 2014	As at 31 December 2013
Corporate demand deposits	1,395,012	1,382,359
Corporate time deposits	1,269,766	1,418,198
Individual demand deposits	541,682	490,702
Individual time deposits	814,777	857,828
Other deposits	5,493	5,093
	4,026,730	4,154,180
Including:		
Pledged deposits held as collateral	494,454	594,308

27 CERTIFICATES OF DEPOSITS ISSUED

Certificates of deposits were issued by Head Office and branches of the Bank in Hong Kong, New York, Singapore, Frankfurt and Sydney.

28 OTHER LIABILITIES

Group

	As at 31 December 2014	As at 31 December 2013
Interest payable	70,892	59,812
Settlement accounts	39,293	17,178
Staff compensation payable	6,163	5,673
Business and other tax payable	3,338	3,604
Insurance contracts reserve	4,657	2,649
Deposits received for finance leases	7,488	6,288
Provision for outstanding litigations(a)	191	378
Provision for unsettled obligation(a)	88	89
Dividends payable	61	66
Others	19,725	17,698
Total	151,896	113,435

Bank

	As at 31 December 2014	As at 31 December 2013
Interest payable	70,257	59,364
Settlement accounts	37,924	16,847
Staff compensation payable	5,687	5,273
Business and other tax payable	3,148	3,421
Provision for outstanding litigations(a)	191	378
Provision for unsettled obligation(a)	88	89
Dividends payable	61	66
Others	14,415	13,816
Total	131,771	99,254

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
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28 OTHER LIABILITIES (Continued)

(a) The movements in the provision for outstanding litigations and unsettled obligation

Group and Bank

	As at 1 January 2014	Amounts accrued during the year	Amounts reversed during the year	Amounts paid during the year	As at 31 December 2014
Provision for outstanding litigations	378	67	(241)	(13)	191
Provision for unsettled obligation	89	–	(1)	–	88
	467	67	(242)	(13)	279

Group and Bank

	As at 1 January 2013	Amounts accrued during the year	Amounts reversed during the year	Amounts paid during the year	As at 31 December 2013
Provision for outstanding litigations	389	63	(74)	–	378
Provision for unsettled obligation	92	–	(3)	–	89
	481	63	(77)	–	467

29 DEFERRED INCOME TAX

Deferred income taxes for transactions in PRC are calculated on all temporary differences using an effective tax rate of 25% for the year ended 31 December 2014 (for the year ended 31 December 2013: 25%). Deferred income taxes for transactions in Hong Kong are calculated on all temporary differences using an effective tax rate of 16.5% (for the year ended 31 December 2013: 16.5%).

The movements in the deferred income tax account are as follows:

Group

	Year ended 31 December	
	2014	2013
Balance at the beginning of the year	17,206	12,496
Credit to profit or loss	668	3,398
Credit/(charge) to other comprehensive income		
– Change in fair value of available-for-sale financial assets – unhedged	(1,834)	1,321
– Actuarial changes on pension benefits	5	(9)
Balance at the end of the year	16,045	17,206

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

29 DEFERRED INCOME TAX (Continued)

Bank

	Year ended 31 December	
	2014	2013
Balance at the beginning of the year	16,992	12,434
Credit to profit or loss	465	3,249
Credit/(charge) to other comprehensive income		
– Change in fair value of available-for-sale financial assets – unhedged	(1,658)	1,318
– Actuarial changes on pension benefits	5	(9)
Balance at the end of the year	15,804	16,992

Deferred income tax assets and liabilities are attributable to the following items:

Group

	As at 31 December 2014	As at 31 December 2013
Deferred income tax liabilities		
Change in fair value of available-for-sale financial assets	(299)	(36)
Change in fair value of derivative instruments	(182)	–
Other temporary differences	(240)	(70)
	(721)	(106)
Deferred income tax assets		
Impairment allowances for loans	13,374	12,412
Impairment allowances for investments	756	310
Impairment allowances for other assets	205	232
Unpaid salaries and bonuses	1,150	942
Retirement supplementary pension payable	118	121
Outstanding litigations and unsettled obligation	70	117
Change in fair value of available-for-sale financial assets	192	1,763
Other temporary differences	901	1,415
	16,766	17,312
Net deferred income tax assets	16,045	17,206

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
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29 DEFERRED INCOME TAX (Continued)

Bank

	As at 31 December 2014	As at 31 December 2013
Deferred income tax liabilities		
Change in fair value of available-for-sale financial assets	(94)	(11)
Change in fair value of derivative instruments	(182)	–
Other temporary differences	(224)	(73)
	(500)	(84)
Deferred income tax assets		
Impairment allowances for loans	13,188	12,257
Impairment allowances for investments	738	292
Impairment allowances for other assets	205	237
Unpaid salaries and bonuses	1,118	877
Retirement supplementary pension payable	118	121
Outstanding litigations and unsettled obligation	70	117
Change in fair value of available-for-sale financial assets	191	1,766
Other temporary differences	676	1,409
	16,304	17,076
Net deferred income tax assets	15,804	16,992

The above net deferred income tax assets are disclosed separately on the statements of financial position based on different taxation authorities:

Group

	As at 31 December 2014	As at 31 December 2013
Deferred income tax assets	16,077	17,224
Deferred income tax liabilities	(32)	(18)

Bank

	As at 31 December 2014	As at 31 December 2013
Deferred income tax assets	15,820	17,000
Deferred income tax liabilities	(16)	(8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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29 DEFERRED INCOME TAX (Continued)

The deferred tax credit to profit or loss comprises the following temporary differences:

Group

	Year ended 31 December	
	2014	2013
Impairment allowances for loans:		
Additional impairment allowances for loans	(327)	3,338
Prior year written-off amounts which are approved to be deductible in current year	1,289	(279)
Sub-total	962	3,059
Impairment allowances for investments	446	(35)
Impairment allowances for other assets	(27)	(13)
Outstanding litigations and unsettled obligation	(47)	(4)
Unpaid salaries and bonuses	208	(274)
Retirement supplementary pension payable	(8)	(26)
Other temporary differences	(866)	691
	668	3,398

30 RETIREMENT BENEFIT OBLIGATIONS

The Group participates in various defined contribution retirement benefit plans organised by municipal and provincial governments in Mainland China under which it is required to make monthly contributions to these plans at rates ranging from 10% to 27% of the employees' basic salary for the period. The Group currently has no additional significant cost for the payment of retirement and other post-retirement benefits of employees other than the monthly contributions described above. The Group's contributions to these pension plans are charged to profit or loss and other comprehensive income in the period to which they relate.

The Group pays supplementary retirement benefits to employees in Mainland China, who retired before 31 December 2008. The Group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Such benefits, which are estimated by using key parameters such as inflation rate and mortality ratio, are discounted to their present values. The discount rate is the yield on government bonds at the end of reporting date, the maturity dates of which approximate to the terms of the Group's obligations. Actuarial gains and losses and changes in actuarial assumptions are recognised in other comprehensive income, and amendments to pension plan are recognised in profit or loss in the period of a plan amendment. The amounts recognised in the statement of financial position represent the present value of unfunded obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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30 RETIREMENT BENEFIT OBLIGATIONS (Continued)

Employees who retire after 1 January 2009 can voluntarily participate in an Annuity Plan. The Bank contributes to the Annuity Plan based on certain percentage of the employees' gross salary and recognised in profit or loss as incurred.

Retirement benefit obligations of the Group in locations other than Mainland China, which are immaterial to the Group, are made in accordance with the relevant local policies and regulations.

The amounts recognised in profit or loss is as follows:

Group

	Year ended 31 December	
	2014	2013
Expenses incurred for retirement benefit plans and unemployment insurance	2,424	1,601
Expenses (reversed)/incurred for supplementary retirement benefits	12	(66)
Expenses incurred for annuity plan	691	531
Total	3,127	2,066

	As at	
	31 December 2014	31 December 2013
Statement of financial position – obligations for pension benefits	472	483

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

Group

	Year ended 31 December	
	2014	2013
Components of defined benefit costs recognised in profit or loss	12	(66)
Components of defined benefit costs recognised in other comprehensive income	20	(36)
Total	32	(102)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

30 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

Movements in the unfunded obligations over the year are as follows:

	Year ended 31 December	
	2014	2013
Present value of unfunded obligations at the beginning of the year	483	623
Retirement benefits paid during the year	(43)	(38)
Net interest expense	23	26
Past service cost	(11)	(92)
Actuarial losses/(gains)	20	(36)
Present value of unfunded obligations at the end of the year	472	483

The supplementary retirement benefits plan exposes the Group to actuarial risks such as interest risk, longevity risk and inflation risk. A decrease in the government bond yield will increase the present value of unfunded obligations. The present value of unfunded obligations is calculated by reference to the best estimate of the mortality of plan participants. An increase in the life expectancy of the plan participants will increase the plan's liability. The present value of unfunded obligations is also measured by future payment standards, which are determined by inflation rate. Hence, an increase in inflation rate will increase the present value of the unfunded obligations.

The principle actuarial assumptions regarding interest risk and inflation risk used by the Group are discount rate and inflation rate, which were 3.82% and 2.04% respectively as at 31 December 2014. In the meantime, assumptions regarding future mortality rate are set based on published statistics by China Insurance Regulatory Commission. As at 31 December 2014, an average longevity of a pensioner after retirement at age 60 for male is average 22.20 years while a pensioner after retirement at age 55 for female is average 29.52 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

30 RETIREMENT BENEFIT OBLIGATIONS *(Continued)*

Significant actuarial assumptions for the determination of the unfunded obligation are discount rate, inflation rate and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- (1) If the discount rate is 100 basis points higher (lower), the defined benefit obligation would decrease by RMB36million (increase by RMB41 million).
- (2) If the expected inflation increases (decreases) by 1%, the defined benefit obligation would increase by RMB42 million (decrease by RMB37 million).
- (3) If the life expectancy increases (decreases) by one year for men and women, the defined benefit obligation would increase by RMB30 million (decrease by RMB30 million).

The sensitivity analysis presented above may not be representative of the actual change in the unfunded obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

In presenting the above sensitivity analysis, the present value of the unfunded obligation has been calculated at the end of the reporting period, which is the same as that applied in calculating the unfunded obligation liability recognised in the statement of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

The average duration of the supplementary retirement benefits plan at 31 December 2014 is 14.24 years (2013: 15.84 years).

The Group expects to make a contribution of RMB43 million (2013: RMB39 million) to the supplementary retirement benefits plan during the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

31 DEBT SECURITIES ISSUED

Details of the Group's and the Bank's subordinated debts and other debts issued

Amortized cost:

Group

		As at 31 December 2014	As at 31 December 2013
Fixed rate subordinated bond – 2026	(a)	26,000	26,000
Fixed rate subordinated bond – 2024	(b)	13,500	13,500
Fixed rate subordinated bond – 2022	(c)	16,000	16,000
Fixed rate subordinated bond – 2019	(b)	–	11,500
Tier 2 capital bond – 2026	(d)	3,690	–
Tier 2 capital bond – 2024	(e)	27,966	–
Tier 2 capital bond – 2024	(f)	7,274	–
Fixed rate bond – 2024	(g)	200	–
Fixed rate bond – 2023	(h)	3,055	3,038
Fixed rate bond – 2021	(i)	500	–
Fixed rate bond – 2021	(g)	700	–
Fixed rate bond – 2019	(i)	500	–
Fixed rate bond – 2019	(g)	900	–
Fixed rate bond – 2019	(k)	3,054	–
Fixed rate bond – 2018	(m)	10,000	10,000
Fixed rate bond – 2018	(n)	400	400
Fixed rate bond – 2017	(i)	1,000	–
Fixed rate bond – 2017	(o)	200	–
Fixed rate bond – 2017	(p)	3,800	–
Fixed rate bond – 2017	(q)	597	–
Fixed rate bond – 2016	(u)	1,500	–
Fixed rate bond – 2016	(n)	800	800
Fixed rate bond – 2016	(g)	200	–
Fixed rate bond – 2015	(v)	300	300
Fixed rate bond – 2014	(v)	–	700
		122,136	82,238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

31 DEBT SECURITIES ISSUED (Continued)

Fair value:

Group

		As at 31 December 2014	As at 31 December 2013
Fixed rate bond – 2021	(j)	415	–
Fixed rate bond – 2019	(l)	286	–
Fixed rate bond – 2017	(r)	4,311	–
Fixed rate bond – 2017	(s)	1,935	–
Fixed rate bond – 2017	(t)	464	–
		7,411	–

Amortized cost:

Bank

		As at 31 December 2014	As at 31 December 2013
Fixed rate subordinated bond – 2026	(a)	26,000	26,000
Fixed rate subordinated bond – 2024	(b)	13,500	13,500
Fixed rate subordinated bond – 2022	(c)	16,000	16,000
Fixed rate subordinated bond – 2019	(b)	–	11,500
Tier 2 capital bond – 2026	(d)	3,690	–
Tier 2 capital bond – 2024	(e)	27,966	–
Tier 2 capital bond – 2024	(f)	7,274	–
Fixed rate bond – 2024	(g)	200	–
Fixed rate bond – 2021	(i)	500	–
Fixed rate bond – 2021	(g)	700	–
Fixed rate bond – 2019	(i)	500	–
Fixed rate bond – 2019	(g)	900	–
Fixed rate bond – 2018	(m)	10,000	10,000
Fixed rate bond – 2018	(n)	400	400
Fixed rate bond – 2017	(i)	1,000	–
Fixed rate bond – 2016	(u)	1,500	–
Fixed rate bond – 2016	(n)	800	800
Fixed rate bond – 2016	(g)	200	–
Fixed rate bond – 2015	(v)	300	300
Fixed rate bond – 2014	(v)	–	700
		111,430	79,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

31 DEBT SECURITIES ISSUED (Continued)

Fair value:

Bank

		As at 31 December 2014	As at 31 December 2013
Fixed rate bond – 2021	(j)	415	-
Fixed rate bond – 2019	(l)	286	-
Fixed rate bond – 2017	(r)	4,311	-
Fixed rate bond – 2017	(s)	1,935	-
Fixed rate bond – 2017	(t)	464	-
		7,411	-

During the years ended 31 December 2014 and 2013, the Group did not default on principal, interest or redemption amounts with respect to its debt securities issued.

(a) On 21 October 2011, the Group issued subordinated bonds amounting to RMB26 billion in China's inter-bank bond market with a maturity of 15 years. The bonds bear a fixed coupon rate of 5.75% with interest payable annually (interests are accrued starting from the payment date, and interest accrual starts from 24th of October of each interest bearing year Redeemable by the issuer at the end of 10th year). The Group has an option to redeem these bonds at the face value partially or as a whole on 24 October 2021.

(b) The Group issued subordinated bonds amounting to RMB25 billion on 1 July 2009 in China's inter-bank bond market :

The first type of subordinated bonds amounted to RMB11.50 billion with a maturity of 10 years. The bonds bear a fixed coupon rate of 3.28% for the first five years and a fixed coupon rate of 6.28% for the remaining five years. The interest is payable annually (interests are accrued starting from the payment date, and interest accrual starts from 3rd of July of each interest bearing year. Redeemable by the issuer at the end of 5th year.) The Group has an option to redeem these bonds at the face value partially or as a whole on 3 July 2014. The bonds were redeemed on 3 July 2014.

The second type of subordinated bonds amounted to RMB13.50 with a maturity of 15 years. The bonds bear a fixed coupon rate of 4% for the first ten years and a fixed coupon rate of 7% for the remaining five years. The interest is payable annually (interests are accrued starting from the payment date, and interest accrual starts on 3rd of July of each interest bearing year. Redeemable by the issuer at the end of 10th year). The Group has an option to redeem these bonds at the face value partially or as a whole on 3 July 2019.

(c) The Group issued subordinated bonds amounting to RMB25 billion on 6 March 2007 in China's inter-bank bond market :

The first type of this subordinated bonds amounted to RMB16 billion with a maturity of 15 years. The bonds bear a fixed coupon rate of 4.13% for the first ten years and 7.13% for the remaining five years. The interest is payable annually (interests are accrued starting from the payment date, and interest accrual starts from 8th of March of each interest bearing year. Redeemable by the issuer at the end of 10th year). The Group has an option to redeem these bonds at the face value partially or as a whole on 8 March 2017.

The second type of the subordinated bonds amounted to RMB9 billion with a maturity of 10 years. The interest is accrued annually. The Group has an option to redeem the bonds at face value at the end of 5th year on 8 March 2012. On 8 March 2012, the Group exercised the redemption option and redeemed the principal amount of RMB9 billions of the subordinated bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

31 DEBT SECURITIES ISSUED *(Continued)*

- (d) On 3 October 2014, the Group issued EUR0.5 billion secondary capital bonds with a maturity of 12 years (Redeemable by the issuer at the end of 7th year. The Group has an option to redeem these bonds at the face value partially or as a whole on 3 October 2021). The bonds bear a fixed coupon rate of 3.625% with interest payable semi-annually on 3th of April and 3th of October. If the issuer does not exercise the redemption right at the end of 7th year, the interest rate will be adjusted based on swap value of 7-year Euro plus 300 basis points. If a non-viability event occurs, the issuer has the right (without any requirement for the consent of the bondholders), on giving notice to the bondholders and the agents, and subject as provided in the terms and conditions of the bonds, to irrevocably cancel the principal amount of the bonds (in whole but not in part) and cease payment of any accrued but unpaid interest under the bonds, in each case with effect from the next day following the non-viability event occurrence date. Once the bonds have been written-off, it shall cease to be payable and shall be cancelled permanently and will not be restored or become payable again (whether in whole or in part) in any circumstances, including where the relevant non-viability event ceases to continue.
- (e) On 18 August 2014, the Group issued RMB28 billion secondary capital bonds with a maturity of 10 years (Redeemable by the issuer at the end of 5th year, subject to terms and conditions. The Group has an option to redeem these bonds at the face value partially or as a whole on 19 August 2019, provided CBRC's permission is acquired in advance and the Group's capital structure fulfils the CBRC requirements on capital if the redemption is exercised). The bonds bear a fixed coupon rate of 5.8% with interest payable annually (interests are accrued starting from the payment date, and interest accrual starts from 19th of August of each interest bearing year). If a non-viability event occurs, the issuer has the right (without any requirement for the consent of the bondholders), on giving notice to the bondholders and the agents, and subject as provided in the terms and conditions of the bonds, to irrevocably cancel the principal amount of the bonds (in whole but not in part) and cease payment of any accrued but unpaid interest under the bonds, in each case with effect from the next day following the non-viability event occurrence date. Once the bonds have been written-off, it shall cease to be payable and shall be cancelled permanently and will not be restored or become payable again (whether in whole or in part) in any circumstances, including where the relevant non-viability event ceases to continue.
- (f) On 3 October 2014, the Group issued USD1.2 billion secondary capital bonds with a maturity of 10 years (Redeemable by the issuer at the end of 5th year, subject to terms and conditions. The Group has an option to redeem these bonds at the face value partially or as a whole on 3 October 2019). The bonds bear a fixed coupon rate of 4.50% with interest payable semi-annually on 3th of April and 3th of October. If the issuer does not exercise the redemption right at the end of 5th year, the interest rate will be adjusted based on swap value of 5-year US treasury bonds plus 285 basis points. If a non-viability event occurs, the issuer has the right (without any requirement for the consent of the bondholders), on giving notice to the bondholders and the agents, and subject as provided in the terms and conditions of the bonds, to irrevocably cancel the principal amount of the bonds (in whole but not in part) and cease payment of any accrued but unpaid interest under the bonds, in each case with effect from the next day following the non-viability event occurrence date. Once the bonds have been written-off, it shall cease to be payable and shall be cancelled permanently and will not be restored or become payable again (whether in whole or in part) in any circumstances, including where the relevant non-viability event ceases to continue.
- (g) Taipei Branch of the Bank issued RMB2 billion Medium Term Notes on 4 December 2014. This transaction comprised of RMB0.2 billion bonds (code: P14JHTP1A) with a maturity of 2 years, RMB0.9 billion bonds (code: P14JHTP1B) with a maturity of 5 years, RMB0.7 billion bonds (code: P14JHTP1C) with a maturity of 7 years and RMB0.2 billion bonds (code: P14JHTP1D) with a maturity of 10 years. The fixed coupon rates of the above bonds are 3.30%, 3.75%, 3.90% and 4.00%, respectively. The interests of all these bonds are payable semi-annually with principal due upon maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

31 DEBT SECURITIES ISSUED *(Continued)*

- (h) On 6 March 2013, Azure Orbit International Finance Limited, a subsidiary of the Group issued term notes amounting to USD0.5 billion with a maturity of 10 years. The bonds bear a fixed coupon rate of 3.75% with interest payable semi-annually. The issue price is 99.678% of the face value. The term notes are guaranteed by the Bank's Hong Kong Branch and were listed in the Hong Kong Stock Exchange on 7 March 2013. The notes are redeemable prior to the maturity date on 6 March 2023 under certain circumstances.
- (i) On 23 June 2014, the Bank's Hong Kong Branch issued Renminbi Formosa bonds amounting to RMB2 billion to Taiwan institutional investors, with interests payable semi-annually. This issuance comprising RMB1 billion bonds with a maturity of 3 years, RMB500 million bonds with a maturity of 5 years and RMB500 million bonds with a maturity of 7 years. The fixed coupon rates of the above bonds are 3.45%, 3.85% and 4.15%, respectively.
- (j) On 14 February 2014, the Bank's Hong Kong Branch issued HKD0.5 billion term notes with a maturity of 7 years through private placement. The term notes have a fixed coupon rate of 4.00% with interest payable semi-annually. Interests are accrued starting from 24 February 2014. As of 31 December 2014, the amortised cost was RMB391 million.
- (k) On 25 April 2014, Azure Orbit II International Finance Limited, a subsidiary of the Group issued fixed-rate bank notes amounting to USD0.5 billion with a maturity of 5 years. The notes bear a fixed coupon rate of 3.375% with interest payable semi-annually. The bank notes are guaranteed by the Bank's Macao Branch and the issue price is 99.941% of the face value. The notes were listed on the Hong Kong Stock Exchange on 28 April 2014.
- (l) On 2 April 2014, the Bank's Hong Kong Branch issued fixed-rate bonds amounting to HKD 0.35 billion through private placement. The bonds have a maturity of 5 years and bearing interest at a fixed coupon rate of 3.20%, payable quarterly.
- (m) The Group issued term bonds on 26 July 2013 in China's inter-bank bond market, amounting to RMB10 billion. The bonds have a maturity of 5 years and bear a fixed coupon rate of 4.37% with interest payable annually. (Interests are accrued starting from the payment date, and interest accrual starts from 29th of July of each interest bearing year).
- (n) The Bank's Hong Kong Branch issued term bonds amounting to RMB1.2 billion on 10 December 2013 in Taiwan, which comprises bonds of RMB800 million with a maturity of 3 years and bonds of RMB400 million with a maturity of 5 years. The fixed coupon rates of the bonds are 3.40% and 3.70%, respectively.
- (o) On 17 January 2014, Bank of Communications Financial Leasing Co., Ltd., a subsidiary of the Group, issued phase I RMB-denominated bonds of RMB0.2 billion with a maturity of 3 years. The term bonds will be matured on 17 January 2017 with a fixed coupon rate of 6.1% and the interest is payable annually.
- (p) On 16 July 2014, Bank of Communications Financial Leasing Co., Ltd., a subsidiary of the Group, issued phase II RMB-denominated bonds of RMB3.8 billion, with a maturity of 3 years. The fixed coupon rate is 5.2% with interest payable annually. The bonds will be matured on 17 July 2017.
- (q) On 16 September 2014, Bank of Communications Financial Leasing Co., Ltd., a subsidiary of the Group, issued the phase I RMB-denominated leasing assets backed securities of RMB1.012 billion. These asset-backed securities are classified as A, B and subordinated. The priority securities are subject to floating interest rates, with coupon rates set at prime rates plus basic spreads. The Class A securities amounted to RMB805 million, with a coupon rate of 5.2%, the Class B securities amounted to RMB90 million with a coupon rate of 6.4%, and the subordinated securities amounted to RMB117 million with zero coupon rate. The principals of these securities are repayable quarterly. As of 31 December 2014, the balance of these securities amounted to RMB597 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

31 DEBT SECURITIES ISSUED *(Continued)*

- (r) On 15 January 2014, the Bank's Hong Kong Branch issued medium-term bank notes amounting to USD0.7 billion with a maturity of 3 years. The notes were due on 15 January 2017, have a fixed coupon rate of 2.125% with interest payable semi-annually. The issued medium-term bank notes were listed on the Hong Kong Stock Exchange on 16 January 2014. As of 31 December 2014, the amortised cost amounted to RMB4.27 billion.
- (s) On 26 June 2014, the Bank's Hong Kong Branch issued bonds of SF0.3 billion with a coupon rate of 0.875%. The interest is payable annually and the principal is due on 26 June 2017. As of 31 December 2014, the amortised cost amounted to RMB1.849 billion.
- (t) On 24 July 2014, the Bank's Hong Kong Branch issued SGD 100 million term bonds with a maturity of 3 years. The term bonds will be matured on 24 July 2017 with a fixed coupon rate of 2.1%. As of 31 December 2014, the amortised cost amounted to RMB463 million.
- (u) On 21 March 2014, the Group issued RMB1.5 billion bank notes with a maturity of 2 years. The bank notes have a fixed coupon rate of 3.3% with interest payable semi-annually. The bonds were listed on the Hong Kong Stock Exchange on 21 March 2014 and will be matured on 20 March 2016.
- (v) The Group issued term bonds amounting to RMB1 billion on 8 March 2012 in Hong Kong. The term bonds comprising term bonds of RMB0.7 billion with a maturity of 2 years and term bonds of RMB0.3 billion with a maturity of 3 years. The bonds bear fixed coupon rates of 2.98% and 3.1% respectively.

32 SHARE CAPITAL AND CAPITAL SURPLUS

Group

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
As at 1 January 2014	74,263	74,263	113,383	187,646
As at 31 December 2014	74,263	74,263	113,496	187,759

Bank

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
As at 1 January 2014	74,263	74,263	113,412	187,675
As at 31 December 2014	74,263	74,263	113,525	187,788

Group

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
As at 1 January 2013	74,263	74,263	113,383	187,646
As at 31 December 2013	74,263	74,263	113,383	187,646

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

32 SHARE CAPITAL AND CAPITAL SURPLUS (Continued)

Bank

	Number of shares (in millions)	Ordinary shares of RMB1 each (RMB million)	Capital surplus (RMB million)	Total (RMB million)
As at 1 January 2013	74,263	74,263	113,412	187,675
As at 31 December 2013	74,263	74,263	113,412	187,675

The shareholding structure of the Bank's as at 30 December 2014 and 31 December 2013 are as follows :

	Number of shares (in millions)	Approximated percentage of the Bank's issued share capital %
RMB ordinary shares (A shares)	39,251	52.85
Overseas listed foreign shares (H shares)	35,012	47.15
Total number of shares	74,263	100.00

As at 31 December 2014 and 2013, the Group and the Bank's capital surplus are listed as follows:

Group

	As at 1 January 2014	Additions	Utilisation	As at 31 December 2014
Share premium	112,769	-	-	112,769
Property revaluation gain designated by MOF	472	-	-	472
Donation of non-cash assets	145	-	-	145
Acquisition of non-controlling interests	(29)	-	-	(29)
Capital increase in an associate	-	113	-	113
Others	26	-	-	26
Total	113,383	113	-	113,496

Bank

	As at 1 January 2014	Additions	Utilisation	As at 31 December 2014
Share premium	112,769	-	-	112,769
Property revaluation gain designated by MOF	472	-	-	472
Donation of non-cash assets	145	-	-	145
Capital increase in an associate	-	113	-	113
Others	26	-	-	26
Total	113,412	113	-	113,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

32 SHARE CAPITAL AND CAPITAL SURPLUS (Continued)

Group

	As at 1 January 2013	Additions	Utilisation	As at 31 December 2013
Share premium	112,769	–	–	112,769
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	145	–	–	145
Acquisition of non-controlling interests	(29)	–	–	(29)
Others	26	–	–	26
Total	113,383	–	–	113,383

Bank

	As at 1 January 2013	Additions	Utilisation	As at 31 December 2013
Share premium	112,769	–	–	112,769
Property revaluation gain designated by MOF	472	–	–	472
Donation of non-cash assets	145	–	–	145
Others	26	–	–	26
Total	113,412	–	–	113,412

33 RESERVES AND RETAINED EARNINGS

Pursuant to the relevant PRC regulations, the appropriation of profits to the statutory general reserve, the discretionary reserve and the distribution of dividends in each year are based on the recommendations of the Directors and are subject to the resolutions to be passed at the General Meeting.

Pursuant to the relevant PRC regulations, the bank is required to appropriate 10% of its net profit for the year (Note 34) to the undistributable statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Pursuant to the relevant PRC banking regulations, the Bank is required to transfer a certain amount of its net income to the statutory general reserve through its profit appropriation. It is determined based on the overall unidentified loss exposure; normally no lower than 1.5% of the ending balance of risk assets. The statutory general reserve is an integral part of shareholders' equity but not subject to dividend distribution. Such statutory general reserve is recognised in the statement of financial position upon approval by the shareholders at the Annual General Meeting. Regulatory reserve of the Hong Kong branch required by the Hong Kong Monetary Authority is also included in above statutory general reserve.

Since 1 July 2012, pursuant to "Administrative Measures for the Provisioning of Financial Enterprises" (Cai Jin [2012] No. 20), the Group made general reserve for the risk assets as defined by the policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

33 RESERVES AND RETAINED EARNINGS (Continued)

In accordance with the relevant PRC legislation, upon the approval by shareholders at the General Meeting, discretionary reserve can be appropriated following the appropriation of statutory reserve from the distributable profit of the Bank.

On 25 June 2014, the shareholders at the 2013 Annual General Meeting approved the following profit appropriation of 2013:

	Appropriation from distributable profit of 2013
Statutory reserve	6,017
Statutory general reserve	8,111
Discretionary reserve	26,732
	40,860

During the year ended 31 December 2014, the Group and the Bank transferred RMB8,792 million (2013: RMB 28,448 million) and RMB8,111 million (2013: RMB 27,326 million) to the General Reserve pursuant to the regulatory requirements in the PRC and overseas jurisdictions. Of this amount, RMB8,111 million (2013: RMB27,326 million) related to the appropriation proposed for the year ended 31 December 2013 which was approved in the Annual General Meeting held on 25 June 2014.

Revaluation reserve for available-for-sale financial assets

The movements of the revaluation reserve for available-for-sale financial assets of the Bank are set out below:

Bank

	Year ended 31 December	
	2014	2013
At beginning of the year	(5,000)	(1,049)
Changes in fair value recorded in equity	6,638	(5,112)
Changes in fair value reclassified from equity to profit or loss	(8)	(157)
Income tax relating to components of other comprehensive income	(1,658)	1,318
At end of the year	(28)	(5,000)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

33 RESERVES AND RETAINED EARNINGS (Continued)

Retained earnings

The movements of retained earnings of the Bank are set out below:

	Year ended 31 December	
	2014	2013
At beginning of the year	64,152	75,503
Profit for the year	63,924	60,168
Appropriation to statutory reserve	(6,392)	(6,017)
Appropriation to statutory general reserve	(8,111)	(20,353)
Appropriation to discretionary reserve	(26,732)	(27,326)
Dividends paid	(19,308)	(17,823)
At end of the year	67,533	64,152

34 DIVIDENDS

	Year ended 31 December	
	2014	2013
Dividends to shareholders of the Bank	19,308	17,823

Under PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- (1) Making up cumulative losses from prior years, if any;
- (2) Allocations to the non-distributable statutory reserve of 10% of the net profit of the Bank as determined under the relevant PRC accounting standards;
- (3) Allocations to statutory general reserve;
- (4) Allocations to the discretionary reserve upon approval by the Annual General Meeting. These funds form part of the shareholders' equity.

The cash dividends are recognised in the consolidated statement of financial position upon approval by the shareholders at the Annual General Meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

34 DIVIDENDS (Continued)

Pursuant to the proposal raised at the Board meeting on 27 March 2013 which was approved at the Annual General Meeting on 25 June 2013, the Bank appropriated RMB27,326 million to the statutory general reserve and RMB20,353 million to discretionary reserve. It was also resolved that a cash dividend of RMB0.24 (before tax) for each share, totalling RMB17,823 million, calculated based on the total number of shares outstanding of 74.263 billion shares (RMB1 per share) as at 31 December 2012, will be declared and paid to shareholders on 31 July 2013.

Pursuant to the proposal raised at the Board meeting on 30 March 2014 which was approved at Annual General Meeting on 25 June 2014, the Bank appropriated RMB8,111 million to the statutory general reserve and RMB26,732 million to discretionary reserve. It was also resolved that a cash dividend of RMB0.26 (before tax) for each share, totalling RMB19,308 million, calculated based on the total number of shares outstanding of 74.263 billion shares (RMB1 per share) as at 31 December 2013 will be declared and paid to shareholders on 31 July 2014.

On 26 March 2015, the Board of Directors of the Bank proposed to appropriate RMB2,960 million to the statutory general reserve and RMB34,522 million to discretionary reserve. A cash dividend of RMB0.27 (before tax) for each share, totalling RMB20,051 million, calculated based on the total number of shares outstanding of 74.263 billion shares (RMB1 per share) as at 31 December 2014 was also proposed. The proposal will be subject to the approval by the Shareholders' Meeting of the Bank.

35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit related commitments which the Group has committed to its customers:

Group

	As at 31 December 2014	As at 31 December 2013
Letters of guarantee	310,500	376,222
Letters of credit	50,872	70,380
Acceptances	556,965	612,830
Other commitments with an original maturity of		
– Under 1 year	449,462	288,860
– 1 year and over	166,728	202,427
	1,534,527	1,550,719

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
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35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Financial guarantees and credit related commitments *(Continued)*

Bank

	As at 31 December 2014	As at 31 December 2013
Letters of guarantee	310,500	376,195
Letters of credit	50,872	70,380
Acceptances	556,321	612,614
Other commitments with an original maturity of		
– Under 1 year	449,439	288,851
– 1 year and over	166,693	202,381
	1,533,825	1,550,421

Capital expenditure commitments

Group

	As at 31 December 2014	As at 31 December 2013
Authorised but not contracted for	173	154
Contracted but not provided for	9,114	2,880
	9,287	3,034

Bank

	As at 31 December 2014	As at 31 December 2013
Authorised but not contracted for	173	154
Contracted but not provided for	9,098	2,878
	9,271	3,032

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Operating lease commitments

Where the Group and the Bank is the lessee, the future minimum lease payments on buildings and equipment under non-cancellable operating leases are as follows:

Group

	As at 31 December 2014	As at 31 December 2013
Within 1 year	1,394	1,907
Beyond 1 year and not more than 2 years	1,248	1,523
Beyond 2 years and not more than 3 years	1,071	1,249
Beyond 3 years and not more than 5 years	1,443	1,828
More than 5 years	1,425	1,231
	6,581	7,738

Bank

	As at 31 December 2014	As at 31 December 2013
Within 1 year	1,256	1,859
Beyond 1 year and not more than 2 years	1,112	1,491
Beyond 2 years and not more than 3 years	936	1,228
Beyond 3 years and not more than 5 years	1,181	1,793
More than 5 years	870	1,226
	5,355	7,597

The Group acts as lessor in operating leases principally through aircrafts and vessel leasing undertaken by its subsidiaries. The future minimum lease receivables on certain aircrafts and vessel under non-cancellable operating leases are as follows:

Group

	As at 31 December 2014	As at 31 December 2013
Within 1 year	824	765
Beyond 1 year and not more than 2 years	827	765
Beyond 2 years and not more than 3 years	827	765
Beyond 3 years and not more than 5 years	1,602	1,503
More than 5 years	3,393	2,940
	7,473	6,738

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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35 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Commitments on security underwriting and bond acceptance

The Bank is entrusted by the MOF to underwrite certain Certificated Bonds and Savings Bonds. The investors of Certificated Bonds and Savings Bonds have early redemption right while the Bank has the obligation to buy back those Certificated Bonds and Savings Bonds. The redemption price is the principal value of the Certificated Bonds or Savings Bonds plus unpaid interest till redemption date. As at 31 December 2014, the principal value of the Treasury Bonds that the Bank had the obligation to buy back amounted to RMB58,443 million (31 December 2013: RMB42,361 million).

The original maturities of these bonds vary from 1 to 5 years.

The MOF will not provide funding for the early redemption of these Certificated Bonds and Savings Bonds on a back-to-back basis but will pay interest and principal at maturity.

As at 31 December 2014, there was no irrevocable commitment on security underwriting of the Group announced to the public (31 December 2013: Nil).

Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. Management of the Group believes, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group. Provision for litigation losses as advised by in-house or external legal professionals is disclosed in Note 28. The total outstanding claims against the Group (defendant) by a number of third parties at the end of the years are summarised as follows:

Group and Bank

	As at 31 December 2014	As at 31 December 2013
Outstanding claims	1,725	1,153
Provision for outstanding litigation (Note 28)	191	378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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36 COLLATERALS

Assets pledged are mainly collaterals under repurchase and short selling agreements with banks and other financial institutions.

Group

	Pledged Assets		Related Liabilities	
	As at	As at	As at	As at
	31 December	31 December	31 December	31 December
	2014	2013	2014	2013
Trading securities	9,818	5,694	9,849	4,806
Financial investments	78,648	161,602	76,805	151,726
	88,466	167,296	86,654	156,532

Group

	Pledged Assets		Related Liabilities	
	As at	As at	As at	As at
	31 December	31 December	31 December	31 December
	2014	2013	2014	2013
Trading securities	9,818	5,694	9,849	4,806
Financial investments	77,258	160,884	75,497	151,052
	87,076	166,578	85,346	155,858

The Group accepts collaterals under reverse repurchase agreements, which are permitted for sale or re-pledge. As at 31 December 2014, the fair value of such collaterals amounted to RMB1,022 million (31 December 2013: RMB1,870 million). All pledges are conducted under standard and normal business terms. As at 31 December 2014 and 2013, the Group did not sell or re-pledge any collaterals received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

37 OTHER COMPREHENSIVE INCOME/ (LOSSES) FOR THE YEAR

Group

	Years ended 31 December 2014		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive loss			
Financial investments – available-for-sale	7,334	(1,833)	5,501
Changes in fair value recorded in equity	7,531	(1,882)	5,649
Changes in fair value reclassified from equity to profit or loss	(197)	49	(148)
Translation difference on foreign operations	(205)	–	(205)
Actuarial losses on pension benefits	(20)	5	(15)
Other comprehensive income for the year	7,109	(1,828)	5,281

Group

	Years ended 31 December 2013		
	Before tax amount	Tax benefit (expense)	Net of tax amount
Other comprehensive loss			
Financial investments – available-for-sale	(5,276)	1,321	(3,955)
Changes in fair value recorded in equity	(5,048)	1,269	(3,779)
Changes in fair value reclassified from equity to profit or loss	(228)	52	(176)
Translation difference on foreign operations	(903)	–	(903)
Actuarial gains on pension benefits	36	(9)	27
Other comprehensive income for the year	(6,143)	1,312	(4,831)

38 NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Analysis of the balance of cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than or equal to 90 days used for the purpose of meeting short-term cash commitments:

	As at 31 December 2014	As at 31 December 2013
Cash and balances with central banks (Note 16)	171,451	161,240
Due from banks and other financial institutions (Note 17)	142,175	82,154
	313,626	243,394

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

39 PRINCIPAL SUBSIDIARIES

39.1 Details of the principal subsidiaries

Name of subsidiaries	Place of incorporation and operation	Date of incorporation	Issued and fully paid up share capital	Proportion of ownership interest and voting power held by the Group	Principal activities
BOCOM Finance Limited	Hong Kong	13 Mar 1979	HK\$90,000,000	100	Deposit and other financial services
Bank of Communications Trustee Limited	Hong Kong	13 Oct 1981	HK\$50,000,000	100	Trustee service
BOCOM International Holdings Company Limited (formerly known as BOCOM Securities Company Limited)	Hong Kong	3 Jun 1998	HK\$2,000,000,000	100	Securities dealing and brokerage
China BOCOM Insurance Company Limited (formerly known as China Communications Insurance Company Limited)	Hong Kong	1 Nov 2000	HK\$400,000,000	100	General insurance and reinsurance
Chiao Tung Developments Limited	Hong Kong	5 Feb 1985	HK\$50,000,000	100	Investment holding
Bank of Communications Schroder Fund Management Co., Ltd. ⁽¹⁾	PRC	4 Aug 2005	RMB200,000,000	65	Fund management
Bank of Communications International Trust Co., Ltd. ⁽¹⁾	PRC	18 Oct 2007	RMB3,765,000,000	85	Trust investment
Bank of Communications Financial Leasing Co., Ltd. ⁽¹⁾	PRC	20 Dec 2007	RMB6,000,000,000	100	Financial leasing
Dayi Bocom Xingmin Rural Bank Co.,Ltd. ⁽¹⁾	PRC	15 Aug 2008	RMB60,000,000	61	Commercial banking
BoComm Life Insurance Company Limited ⁽¹⁾	PRC	27 Jan 2010	RMB1,500,000,000	62.50	Life insurance
Anji Bocom Rural Bank Co.,Ltd. ⁽¹⁾	PRC	18 Mar 2010	RMB150,000,000	51	Commercial banking
Shihezi Bocom Rural Bank Company Limited ⁽¹⁾	PRC	5 May 2011	RMB70,000,000	70	Commercial banking
Bank of Communications (UK) Limited	UK	29 July 2011	USD100,000,000	100	Commercial banking
Qingdao Laoshan Bocom Rural Bank Company Limited ⁽¹⁾	PRC	16 Aug 2012	RMB150,000,000	51	Commercial banking

⁽¹⁾ These subsidiaries incorporated in PRC are all limited liability companies.

As at 31 December 2014, the amount of non-controlling interests of these subsidiaries is insignificant to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

39 PRINCIPAL SUBSIDIARIES *(Continued)*

39.2 Investment costs and balances with subsidiaries

	As at 31 December 2014	As at 31 December 2013
Investment cost	13,735	13,735
Due from banks and other financial institutions	18,336	11,861
Loans and advances to customers	8,260	5,714
Other assets	248	280
Due to banks and other financial institutions	(3,295)	(3,055)
Due to customers	(1,310)	(1,887)
Other liabilities	(217)	(294)
Total	35,757	26,354

39.3 Changes of principal subsidiaries

For the year ended 31 December 2014, there was no change to the Group's investments in principal subsidiaries and related controlling interests.

39.4 Auditors of subsidiaries

For the year ended 31 December 2014, PricewaterhouseCoppers was the auditor of all principal subsidiaries incorporated in Hong Kong. (For the year ended 31 December 2013: Deloitte Touche Tohmatsu)

For the year ended 31 December 2014, PricewaterhouseCoppers ZhongTian Certified Public Accountants LLP was the auditor of all principal subsidiaries incorporated in PRC. (For the year ended 31 December 2013: Deloitte Touche Tohmatsu HuaYong Certified Public Accountants LLP)

For the year ended 31 December 2014, Bank of Communications (UK) Limited was audited by PricewaterhouseCoopers LLP. (For the year ended 31 December 2013: Deloitte LLP)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

40 INVESTMENT IN AN ASSOCIATE

Group and Bank

	As at 31 December 2014	As at 31 December 2013
Investment cost	300	300
Share of post-acquisition income	247	44
Investment in an associate	547	344

The Group's investment in an associate represents the investment in Bank of Tibet Co., Ltd., which was registered in Tibet of the PRC and established on 30 December 2011. The registered capital of the entity is RMB3,018 million as at 31 December 2014, and the principal activities of the entity are commercial banking activities. The Group held 10.60% of equity interest in this associate as at 31 December 2014 (2013: 20%).

The Group's investment in Bank of Tibet Co., Ltd. represents voting rights of less than 20% in general meetings, however, the Group is entitled to nominate 3 directors out of 11 in associate's board of directors, hence the Group is able to exert significant influence on the investee.

Aggregate information of the associate of the Group:

	Year ended 31 December 2014	2013
Total assets at the year end	25,523	16,462
Total liabilities at the year end	21,275	14,742
Revenue for the year	528	385
Net profit for the year	451	210

41 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are primarily wealth management products. When assessing whether to consolidate structured entities, the Bank reviews all facts and circumstances to determine whether the Bank, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. For those wealth management products where the Group provides financial guarantee, the Group therefore has obligation to fund the losses, if any, in accordance with the guarantee agreements although the Group does not have any investment in those products. The Group concludes that these structured entities shall be consolidated.

As at 31 December 2014, the wealth management products managed and consolidated by the Group amounted to RMB576,923 million. The financial impact of any individual wealth management products on the Group's financial performance is not significant.

Interests held by other interest holders are included in due to customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

42 UNCONSOLIDATED STRUCTURED ENTITIES

The Group involves with structured entities through investments in structured entities or sponsors structured entities that provide specialised investment opportunities to investors. Structured entities generally finance the purchase of assets by issuing units of the products. The Group did not control those structured entities and therefore, these structured entities were not consolidated.

As at 31 December 2014, those structured entities sponsored by the Group mainly include funds, trusts, asset management products and wealth management products. The Group earned commission income by providing management services to the investors of those structured entities, which was not material to the Group. Meanwhile, the Group involved in certain structured entities sponsored by the Group or other institutions through investments.

The following table summarises the size of these structured entities sponsored by the Group, the carrying values recognised in the consolidated statement of financial position of the Group's interests in unconsolidated structured entities and the Group's maximum exposure to loss as at 31 December 2014:

	Interests					Maximum exposure to loss	Type of income
	Size	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables			
Funds	39,581	2	1,221	–	1,223	Commission income and investment income	
Trusts and asset management products	621,977	–	–	181,955	181,955	Commission income and investment income	
Wealth management products	457,031	–	–	–	–	Commission income	
Total	1,118,589	2	1,221	181,955	183,178		

The Group's interests in unconsolidated structured entities are recognised in financial investments – loans and receivables and financial investments – available-for-sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

43 TRANSFERS OF FINANCIAL ASSETS

43.1 Financial assets sold under repurchase agreements

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities, which the Group does not have the ability to use during the term of the arrangements, are not derecognised from the financial statements but regarded as “collateral” for the secured lending from these because the Group retains substantially all the risks and rewards of these securities. In addition, it recognises a financial liability for cash received. For all these arrangements, the counterparties have recourse not only to the transferred financial assets.

As at 31 December 2014 and 2013, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as “financial instruments sold under repurchase agreements” (see Note 24).

The following table provides a summary of carrying amounts related to the transferred financial assets that are not derecognised and the associated liabilities:

	Financial assets at fair value through profit or loss	Financial investments – available-for-sale	Financial investments – held-to-maturity
As at 31 December 2014			
Carrying amount of transferred assets	–	2,761	170
Carrying amount of associated liabilities	–	2,757	163
	Financial assets at fair value through profit or loss	Financial investments – available-for-sale	Financial investments – held-to-maturity
As at 31 December 2013			
Carrying amount of transferred assets	93	1,578	682
Carrying amount of associated liabilities	95	1,566	678

43.2 Asset securitisation

The Group enters into securitization transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

The Group may retain interests in the form of subordinated tranches which may give rise to the Group’s continuing involvement in the transferred assets. Those financial assets are recognized on the consolidated financial statement to the extent of the Group’s continuing involvement. The extent of the Group’s continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets.

As at 31 December 2014, loans with an original carrying amount of RMB3,034 million (31 December 2013: RMB3,034 million) have been securitized by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches. As at 31 December 2014, the carrying amount of assets the Group continues to recognise was RMB92 million (31 December 2013: 164 million). Arising from this continuing involvement, the Group has recognised continuing involvement assets and continuing involvement liabilities of RMB92 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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44 RELATED PARTY TRANSACTIONS

(a) Transactions with the MOF

As at 31 December 2014, the MOF holds 19,703 million (31 December 2013: 19,703 million) shares of the Bank which represents 26.53% (31 December 2013: 26.53%) of total share capital of the Bank. The Group enters into banking transactions with the MOF under normal course of business and they mainly include the purchase and redemption of financial investments issued by the MOF and the deposits from the MOF.

The volumes and outstanding balances of the related party transactions at the year end, and related income and expenses for the years are summarised as follows:

(1) Treasury bonds issued by the MOF

	Year ended at 31 December	
	2014	2013
Purchase during the year	142,411	158,074
Redemption during the year	(128,736)	(137,788)
Interest income	9,421	10,316
	As at	As at
	31 December 2014	31 December 2013
Outstanding balance of treasury bonds at the beginning of the year	273,357	253,502
Outstanding balance of treasury bonds at the end of the year	265,957	273,357
Maturity range of the bonds	9 months-50 years	1-50 years
Interest rate range of the bonds	2.38%-6.15%	1.43%-6.15%

(2) Deposits

	As at	As at
	31 December 2014	31 December 2013
Time Deposits	58,000	11,746
Maturity range of the deposits	3 months-6 months	3 months-6 months
Interest rate range of the deposits	2.85%-6.05%	2.86%-6.30%

(3) Interest expense

	Year ended at 31 December	
	2014	2013
Interest expense	1,935	1,315

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

44 RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with National Council for Social Security Fund

As at 31 December 2014, National Council for Social Security Fund holds 10,311 million (31 December 2013: 10,311 million) shares of the Bank which represents 13.88% (31 December 2013: 13.88%) of total share capital of the Bank. The Group enters into transactions with National Council for Social Security Fund under normal course of business and they mainly include deposits which are carried out under normal commercial terms and paid at market rates.

The volumes and outstanding balances at the year end, and related interest expenses for the years are summarised as follows:

Deposits

	Year ended at 31 December	
	2014	2013
Outstanding balance at the beginning of the year	58,600	42,100
Deposited during the year	11,867	31,106
Repaid during the year	(20,348)	(14,606)
Outstanding balance at the end of the year	50,119	58,600
Interest expense	2,545	2,182

(c) Transactions with The Hongkong and Shanghai Banking Corporation Limited ("HSBC")

As at 31 December 2014, HSBC holds 13,886 million (31 December 2013: 13,886 million) shares of the Bank which represents 18.70% (31 December 2013: 18.70%) of total share capital of the Bank. Transactions between the Group and HSBC are carried out under normal commercial terms and paid at market rates.

Details of transaction volumes and outstanding balances are summarised below:

(1) Due from HSBC

	Year ended at 31 December	
	2014	2013
Outstanding at the beginning of the year	478	2,865
Granted during the year	990,072	147,033
Repaid during the year	(990,495)	(149,420)
Outstanding at the end of the year	55	478
Interest income	3	10

(2) Due to HSBC

	Year ended at 31 December	
	2014	2013
Outstanding at the beginning of the year	25,162	16,769
Deposited during the year	32,085	34,722
Repaid during the year	(44,985)	(26,329)
Outstanding at the end of the year	12,262	25,162
Interest expense	380	244

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
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44 RELATED PARTY TRANSACTIONS (Continued)

(c) Transactions with The Hongkong and Shanghai Banking Corporation Limited (“HSBC”) (Continued)

(3) Financial investments issued by HSBC

	Year ended at 31 December	
	2014	2013
Interest income	40	42

	As at	As at
	31 December 2014	31 December 2013
Outstanding balance	1,056	1,326

(4) Derivative transactions

	As at	As at
	31 December 2014	31 December 2013
Notional amount of derivative transactions	145,286	106,650
Fair value of derivative transactions	(113)	(404)

(d) Transactions with directors and senior management

The Group enters into transactions with directors and senior management under the normal course of business and they mainly include loans and deposits, which are carried out under commercial terms and paid at market rates. The volumes during and outstanding balances at the year ended 31 December 2014 and 2013 are summarised as follows:

(1) Loans

	Year ended at 31 December	
	2014	2013
Outstanding at the beginning of the year	–	2
Granted during the year	–	1
Repayment during the year	–	(3)
Outstanding at the end of the year	–	–

No allowance for impairment has been recognised in respect of loans granted to directors and senior management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

44 RELATED PARTY TRANSACTIONS (Continued)

(d) Transactions with directors and senior management (Continued)

(2) Deposits

	Year ended at 31 December	
	2014	2013
Outstanding at the beginning of the year	6	9
Deposited during the year	5	4
Repaid during the year	(4)	(7)
Outstanding at the end of the year	7	6

(e) Transactions with associate

As at 31 December 2014, The Group holds 10.60% (31 December 2013: 20%) of total share capital of Bank of Tibet Co., Ltd. Transactions between the Group and Bank of Tibet Co., Ltd. are carried out under normal commercial terms and paid at market rates. Details of transaction volumes and outstanding balances are summarised below:

(1) Due to Bank of Tibet Co., Ltd.

	Year ended at 31 December	
	2014	2013
Outstanding at the beginning of the year	3,075	–
Deposited during the year	29,871	4,307
Repaid during the year	(30,575)	(1,232)
Outstanding at the end of the year	2,371	3,075
Interest expense	93	37

(f) Transactions with state-owned entities in PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned and/or controlled by the Government through its authorities, affiliates or other organizations (collectively the “state-owned entities”). During the year, the Group entered into extensive banking transactions with these state-owned entities including, but not limited to, lending and deposit taking, taking and placing of interbank balances, entrusted lending and the provision of intermediary services, the sale, purchase, underwriting and redemption of bonds issued by other state-owned entities, and the sale, purchase, and leasing of properties and other assets.

Management considers that transactions with state-owned entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and these state-owned entities are ultimately controlled or owned by the Government. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are state-owned entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

45 SEGMENTAL ANALYSIS

The Group's senior management reviewed the Group's operation by the particular economic areas in which the Group's branches and subsidiaries provide products or services. The Group's operating segments are decided upon location of the assets, as the Group's branches mainly serve local customers.

The reportable operating segments derive their revenue primarily from the commercial banking services provided to customers and investing activities, including deposits/loans, bills, trade finance, money market placements and takings and securities investments. The operating segments are:

- (1) Northern China – Including the following provinces: Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia;
- (2) North Eastern China – Including the following provinces: Liaoning, Jilin, Heilongjiang;
- (3) Eastern China – Including the following provinces: Shanghai (excluding Head Office), Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong;
- (4) Central and Southern China – Including the following provinces: Henan, Hunan, Hubei, Guangdong, Guangxi, Hainan;
- (5) Western China – Including the following provinces: Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang;
- (6) Head Office;
- (7) Overseas – Including overseas subsidiaries and the following branches: Hong Kong, New York, Singapore, Seoul, Tokyo, Frankfurt, Macau, Ho Chi Minh City, San Francisco, Sydney, London and Taipei.

There were no changes in the reportable segments during the year.

The revenue from external parties reported to the senior management is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

As the Group's major revenue is derived from interest and the senior management relies primarily on net interest income to assess the performance of the segment, the total interest income and expense for all reportable segments will be presented on a net basis.

The measure of segment profit or loss reviewed by the Group's senior management is profit before tax. Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the Group's cost of capital. There are no other material items of income or expense between the segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

45 SEGMENTAL ANALYSIS (Continued)

Operating segment information

Group

	As at 31 December 2014								Group Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	
Assets									
Cash and balances with central banks	5,934	4,004	20,623	13,072	6,891	843,237	44,294	-	938,055
Due from banks and other financial institutions	14,969	17,805	75,347	28,004	22,161	239,027	127,720	-	525,033
Financial assets at fair value through profit or loss	-	-	97	-	-	101,469	14,792	-	116,358
Loans and advances to customers	443,774	175,700	1,229,364	709,504	343,194	177,769	275,482	-	3,354,787
Financial investments									
– loans and receivables	87	50	5,706	3,120	43	202,582	-	-	211,588
Financial investments – available-for-sale	-	-	3,458	680	2	148,856	57,020	-	210,016
Financial investments – held-to-maturity	-	-	852	-	-	632,478	2,240	-	635,570
Investment in an associate	-	-	-	-	-	547	-	-	547
Other assets	637,632	183,720	1,040,117	877,706	346,201	590,406	123,520	(3,522,957)	276,345
Total assets	1,102,396	381,279	2,375,564	1,632,086	718,492	2,936,371	645,068	(3,522,957)	6,268,299
Liabilities									
Due to banks and other financial institutions	(388,850)	(36,893)	(427,465)	(160,003)	(39,544)	(198,666)	(156,854)	-	(1,408,275)
Financial liabilities at fair value through profit or loss	-	-	(21)	-	-	(6,774)	(22,028)	-	(28,823)
Due to customers	(534,997)	(235,562)	(1,543,041)	(950,701)	(469,019)	(2,366)	(293,982)	-	(4,029,668)
Certificates of deposits issued	-	-	-	-	-	(5,923)	(32,678)	-	(38,601)
Debts securities issued	-	-	(4,597)	-	-	(106,230)	(18,720)	-	(129,547)
Other liabilities	(76,899)	(45,776)	(227,754)	(70,220)	(88,050)	(3,012,121)	(161,917)	3,522,957	(159,780)
Total liabilities	(1,000,746)	(318,231)	(2,202,878)	(1,180,924)	(596,613)	(3,332,080)	(686,179)	3,522,957	(5,794,694)
Net on-balance sheet position	101,650	63,048	172,686	451,162	121,879	(395,709)	(41,111)	-	473,605
Acquisition cost of property and equipment and intangible assets	(2,360)	(809)	(2,885)	(2,585)	(1,544)	(2,093)	(13,269)	-	(25,905)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS (Continued)

Operating segment information (Continued)

Group

	As at 31 December 2014								Group Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	
Interest income ¹	78,801	23,225	149,343	74,819	37,242	92,089	14,854	(181,864)	288,509
Interest expense ²	(57,224)	(16,132)	(102,728)	(54,772)	(25,940)	(70,629)	(8,172)	181,864	(153,733)
Net interest income³	21,577	7,093	46,615	20,047	11,302	21,460	6,682	-	134,776
Fee and commission income	2,492	1,040	12,057	6,779	2,770	6,241	1,535	-	32,914
Fee and commission expense	(519)	(91)	(1,170)	(708)	(351)	(357)	(114)	-	(3,310)
Net fee and commission income	1,973	949	10,887	6,071	2,419	5,884	1,421	-	29,604
Dividend income	-	-	52	7	-	19	-	-	78
Net gains/(losses) arising from trading activities	509	57	1,511	418	255	2,874	622	-	6,246
Net gains/(losses) arising from de-recognition of financial investments	-	-	130	14	-	-	53	-	197
Insurance business income	-	-	2,510	-	-	-	37	-	2,547
Share of profit of an associate	-	-	-	-	-	90	-	-	90
Other operating income	616	332	1,890	767	448	510	525	-	5,088
Total operating revenue	24,675	8,431	63,595	27,324	14,424	30,837	9,340	-	178,626
Impairment losses on loans and advances to customers	(980)	(1,227)	(14,596)	(2,208)	(1,028)	-	(400)	-	(20,439)
Insurance business expense	-	-	(2,504)	-	-	-	(24)	-	(2,528)
Other operating expense	(8,473)	(3,861)	(21,161)	(12,675)	(6,112)	(15,736)	(2,714)	-	(70,732)
Profit before tax	15,222	3,343	25,334	12,441	7,284	15,101	6,202	-	84,927
Income tax	(3,653)	(802)	(6,080)	(2,986)	(1,748)	(2,135)	(1,488)	-	(18,892)
Net profit for the year	11,569	2,541	19,254	9,455	5,536	12,966	4,714	-	66,035

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

45 SEGMENTAL ANALYSIS (Continued)

Operating segment information (Continued)

Group

	As at 31 December 2014								Group Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	
Depreciation and amortisation	(468)	(425)	(2,233)	(873)	(343)	(914)	(497)	-	(5,753)
¹ Include									
External interest income	36,858	11,297	83,823	39,737	21,155	82,665	12,974	-	288,509
Inter-segment interest income	41,943	11,928	65,520	35,082	16,087	9,424	1,880	(181,864)	-
² Include									
External interest expense	(32,819)	(7,636)	(51,378)	(28,650)	(11,062)	(14,736)	(7,452)	-	(153,733)
Inter-segment interest expense	(24,405)	(8,495)	(51,350)	(26,122)	(14,879)	(55,893)	(720)	181,864	-
³ Include									
External net interest income	4,039	3,661	32,445	11,087	10,093	67,929	5,522	-	134,776
Inter-segment net interest income/(expense)	17,538	3,433	14,170	8,960	1,208	(46,469)	1,160	-	-

Group

	As at 31 December 2013								Group Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	
Assets									
Cash and balances with central banks	12,037	4,402	25,215	17,021	7,606	803,762	26,513	-	896,556
Due from banks and other financial institutions	11,693	12,148	75,995	26,922	16,899	359,778	62,994	-	566,429
Financial assets at fair value through profit or loss	-	-	2	-	-	60,846	12,462	-	73,310
Loans and advances to customers	506,224	162,116	1,181,417	584,398	308,983	172,499	277,426	-	3,193,063
Financial investments									
- loans and receivables	105	52	4,761	4,262	57	110,489	-	-	119,726
Financial investments									
- available-for-sale	9	-	1,234	594	16	173,290	46,110	-	221,253
Financial investments									
- held-to-maturity	-	-	903	150	-	668,218	1,344	-	670,615
Investment in an associate	-	-	-	-	-	344	-	-	344
Other assets	542,880	141,971	871,955	445,669	192,300	321,862	98,787	(2,395,783)	219,641
Total assets	1,072,948	320,689	2,161,482	1,079,016	525,861	2,671,088	525,636	(2,395,783)	5,960,937

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS (Continued)

Operating segment information (Continued)

Group

	As at 31 December 2013								Group Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	
Liabilities									
Due to banks and other financial institutions	(325,675)	(22,797)	(347,513)	(119,118)	(33,256)	(171,733)	(106,471)	-	(1,126,563)
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(11,514)	(17,126)	-	(28,640)
Due to customers	(704,233)	(272,889)	(1,592,514)	(878,557)	(445,875)	(2,014)	(261,751)	-	(4,157,833)
Certificates of deposits issued	-	-	-	-	-	(2,968)	(21,651)	-	(24,619)
Debts securities issued	-	-	-	-	-	(78,000)	(4,238)	-	(82,238)
Other liabilities	(43,512)	(24,960)	(197,104)	(66,635)	(38,961)	(2,040,388)	(103,783)	2,395,783	(119,560)
Total liabilities	(1,073,420)	(320,646)	(2,137,131)	(1,064,310)	(518,092)	(2,306,617)	(515,020)	2,395,783	(5,539,453)
Net on-balance sheet position									
	(472)	43	24,351	14,706	7,769	364,471	10,616	-	421,484
Acquisition cost of property and equipment and intangible assets									
	(1,690)	(1,004)	(4,218)	(4,647)	(1,241)	(1,756)	(3,303)	-	(17,859)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

45 SEGMENTAL ANALYSIS *(Continued)*

Operating segment information *(Continued)*

Group

	As at 31 December 2013								Group Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	
Interest income ¹	71,118	20,220	139,875	74,253	35,559	74,377	10,736	(166,846)	259,292
Interest expense ²	(53,017)	(14,239)	(95,824)	(52,413)	(22,940)	(51,805)	(5,242)	166,846	(128,634)
Net interest income³	18,101	5,981	44,051	21,840	12,619	22,572	5,494	-	130,658
Fee and commission income	3,422	899	10,613	6,142	2,370	4,534	1,425	-	29,405
Fee and commission expense	(638)	(100)	(1,323)	(701)	(302)	(268)	(105)	-	(3,437)
Net fee and commission income	2,784	799	9,290	5,441	2,068	4,266	1,320	-	25,968
Dividend income	-	1	41	3	-	44	14	-	103
Net gains/(losses) arising from trading activities	688	7	377	292	40	(1,234)	(904)	-	(734)
Net gains/(losses) arising from de-recognition of financial investments	-	58	34	2	-	(19)	84	-	159
Insurance business income	-	-	1,321	-	-	-	36	-	1,357
Share of profit of an associate	-	-	-	-	-	42	-	-	42
Other operating income	1,168	421	3,026	1,593	783	248	278	-	7,517
Total operating revenue	22,741	7,267	58,140	29,171	15,510	25,919	6,322	-	165,070
Impairment losses on loans and advances to customers	(1,132)	(350)	(14,379)	(1,786)	(531)	(1)	(231)	-	(18,410)
Insurance business expense	-	-	(1,150)	-	-	-	(23)	-	(1,173)
Other operating expense	(9,343)	(3,501)	(22,408)	(12,295)	(6,071)	(9,738)	(2,222)	-	(65,578)
Profit before tax	12,266	3,416	20,203	15,090	8,908	16,180	3,846	-	79,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS (Continued)

Operating segment information (Continued)

Group

	As at 31 December 2013								Group Total
	Northern China	North Eastern China	Eastern China	Central and Southern China	Western China	Head Office	Overseas	Eliminations	
Profit before tax	12,266	3,416	20,203	15,090	8,908	16,180	3,846	-	79,909
Income tax	(3,099)	(808)	(5,113)	(3,818)	(2,244)	(1,490)	(876)	-	(17,448)
Net profit for the year	9,167	2,608	15,090	11,272	6,664	14,690	2,970	-	62,461
Depreciation and amortisation	(667)	(356)	(1,876)	(845)	(528)	(830)	(78)	-	(5,180)
¹ Include									
External interest income	33,308	10,385	79,345	38,962	20,270	67,884	9,138	-	259,292
Inter-segment interest income	37,810	9,835	60,530	35,291	15,289	6,493	1,598	(166,846)	-
² Include									
External interest expense	(28,827)	(6,863)	(45,339)	(24,894)	(9,058)	(8,918)	(4,735)	-	(128,634)
Inter-segment interest expense	(24,190)	(7,376)	(50,485)	(27,519)	(13,882)	(42,887)	(507)	166,846	-
³ Include									
External net interest income	4,481	3,522	34,006	14,068	11,212	58,966	4,403	-	130,658
Inter-segment net interest income/(expense)	13,620	2,459	10,045	7,772	1,407	(36,394)	1,091	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

45 SEGMENTAL ANALYSIS *(Continued)*

Geographical information

	For the year ended 31 December 2014 Revenue	As at 31 December 2014 Non-current assets(a)	For the year ended 31 December 2013 Revenue	As at 31 December 2013 Non-current assets(a)
PRC	331,577	93,043	294,533	60,503
Other countries	4,092	160	2,608	120
Total	335,669	93,203	297,141	60,623

- (a) Non-current assets include property and equipment, land use rights, intangible assets, prepaid rental deposits, leasehold improvements, investment property and goodwill etc. It excludes financial assets, deferred income tax assets and rights arising under insurance contracts.

Business Information

The Group is engaged predominantly in banking and related financial activities. It comprises corporate banking, personal banking, treasury and other business. Corporate banking mainly comprises corporate loans, bills, trade finance, corporate deposits and remittance. Personal banking mainly comprises individual loans, individual deposits, credit card and remittance. Treasury mainly comprises money market placements and takings, financial investments, and securities sold under repurchase agreements. The "Others Business" segment mainly comprises items which cannot be categorised in the above business segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014
(All amounts expressed in millions of RMB unless otherwise stated)

45 SEGMENTAL ANALYSIS (Continued)

The group business information is summarised as follows:

Group

	For the year ended 31 December 2014				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
External net interest income	74,265	31,289	28,393	829	134,776
Internal net interest income/(expense)	2,399	5,860	(8,259)	-	-
Net interest income	76,664	37,149	20,134	829	134,776
Net fee and commission income	16,259	11,713	94	1,538	29,604
Dividend income	-	-	-	78	78
Net gains/(losses) arising from trading activities	2,385	(22)	3,931	(48)	6,246
Net gains arising from de-recognition of financial investments	-	-	197	-	197
Insurance business income	-	-	-	2,547	2,547
Other operating income	900	2,618	450	1,120	5,088
Impairment losses on loans and advances to customers	(9,006)	(11,433)	-	-	(20,439)
Insurance business expense	-	-	-	(2,528)	(2,528)
Other operating expense					
– depreciation and amortisation	(1,731)	(3,630)	(126)	(266)	(5,753)
– others	(29,257)	(29,784)	(4,019)	(1,919)	(64,979)
Share of profit of an associate	-	-	-	90	90
Profit before tax	56,214	6,611	20,661	1,441	84,927
Capital expenditure	7,794	16,343	569	1,199	25,905

	As at 31 December 2014				
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
Total assets	2,639,542	907,829	2,666,063	54,865	6,268,299
Total liabilities	(2,868,281)	(1,369,055)	(1,552,316)	(5,042)	(5,794,694)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 31 December 2014

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

45 SEGMENTAL ANALYSIS (Continued)

Group

	For the year ended 31 December 2013				Total
	Corporate Banking Business	Personal Banking Business	Treasury Business	Other Business	
External net interest income	74,011	25,332	30,695	620	130,658
Internal net interest income/(expense)	2,216	8,194	(10,410)	–	–
Net interest income	76,227	33,526	20,285	620	130,658
Net fee and commission income	14,996	9,207	198	1,567	25,968
Dividend income	–	–	–	103	103
Net gains/(losses) arising from trading activities	94	141	(1,001)	32	(734)
Net gains arising from de-recognition of financial investments	–	–	159	–	159
Insurance business income	–	–	–	1,357	1,357
Other operating income	700	6,097	185	535	7,517
Impairment losses on loans and advances to customers	(11,316)	(7,094)	–	–	(18,410)
Insurance business expense	–	–	–	(1,173)	(1,173)
Other operating expense					
– depreciation and amortisation	(1,594)	(2,766)	(86)	(734)	(5,180)
– others	(25,126)	(32,765)	(1,544)	(963)	(60,398)
Share of profit of an associate	–	–	–	42	42
Profit before tax	53,981	6,346	18,196	1,386	79,909
Capital expenditure	5,656	10,060	311	1,832	17,859

Group

	As at 31 December 2013				
Total assets	2,705,877	678,175	2,548,512	28,373	5,960,937
Total liabilities	(2,984,897)	(1,359,811)	(1,191,545)	(3,200)	(5,539,453)

There were no significant transactions with a single external customer that the Group mainly relying on.

46 NON-ADJUSTING EVENT AFTER REPORTING PERIOD

On 9 January 2015, the Bank's Hong Kong Branch issued bonds with total face value of USD750 million at a coupon rate 2.5%. The bonds will be matured on 16 January 2018 with interest payable semi-annually.

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION

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

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SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

1 LIQUIDITY RATIOS

The liquidity ratios that the Bank submitted to the Regulators are calculated in accordance with the formula promulgated by CBRC.

Group

	As at 31 December 2014	As at 31 December 2013
Liquidity ratios (%)	47.58	47.83

Bank

	As at 31 December 2014	As at 31 December 2013
Liquidity ratios (%)	47.17	47.62

2 CURRENCY CONCENTRATIONS

Group

	US dollar	HK dollar	Others	Total
As at 31 December 2014				
Spot assets	386,181	168,310	53,082	607,573
Spot liabilities	(406,428)	(173,146)	(51,168)	(630,742)
Forward purchases	529,812	69,780	34,761	634,353
Forward sales	(537,450)	(18,112)	(12,010)	(567,572)
Net option position	(289)	-	(80)	(369)
Net long/(short) position	(28,174)	46,832	24,585	43,243
Net structural position	14,183	8,242	2,229	24,654

Group

	US dollar	HK dollar	Others	Total
As at 31 December 2013				
Spot assets	453,607	113,078	38,698	605,383
Spot liabilities	(308,945)	(137,014)	(61,671)	(507,630)
Forward purchases	653,941	66,785	487,449	1,208,175
Forward sales	(644,686)	(9,736)	(492,431)	(1,146,853)
Net option position	(1,120)	7	(9)	(1,122)
Net long/(short) position	152,797	33,120	(27,964)	157,953
Net structural position	12,386	7,430	2,225	22,041

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

2 CURRENCY CONCENTRATIONS *(Continued)*

The net options position is calculated using the model user approach as set out by CBRC. The net structural position of the Group includes the structural positions of the Bank's overseas branches, banking subsidiaries and other subsidiaries substantially involved in foreign exchange. Structural assets and liabilities include:

- Investments in fixed assets and premises, net of depreciation charges;
- Capital and statutory reserve of overseas branches;
- Investments in overseas subsidiaries and related companies; and
- Loan capital.

3 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 loans and advances to customers, balances and placements with banks and other financial institutions, trade bills and certificates of deposits and financial investments.

Cross-border claims have been disclosed by different countries or geographical areas. 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 of any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2014				
Asia Pacific excluding Mainland China	86,581	39,030	217,176	342,787
– of which attributed to Hong Kong	31,379	33,366	197,057	261,802
North and South America	31,758	24,266	13,825	69,849
Africa	181	–	–	181
Europe	31,388	1,296	5,374	38,058
	149,908	64,592	236,375	450,875

	Bank and other financial institutions	Public sector entities	Others	Total
As at 31 December 2013				
Asia Pacific excluding Mainland China	71,194	28,801	193,370	293,365
– of which attributed to Hong Kong	43,300	25,573	171,346	240,219
North and South America	33,464	945	19,547	53,956
Africa	–	–	5	5
Europe	14,788	3,128	1,276	19,192
	119,446	32,874	214,198	366,518

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

4 OVERDUE AND RESCHEDULED ASSETS

4.1 Gross amount of overdue loans

Group

	As at 31 December 2014	As at 31 December 2013
Gross loans and advances to customers which have been overdue for:		
– within 3 months	36,633	14,313
– between 3 and 6 months	11,416	7,284
– between 6 and 12 months	17,230	9,888
– over 12 months	15,968	14,642
	81,247	46,127
Percentage:		
– within 3 months	1.07%	0.44%
– between 3 and 6 months	0.33%	0.22%
– between 6 and 12 months	0.50%	0.30%
– over 12 months	0.47%	0.45%
	2.37%	1.41%

Bank

	As at 31 December 2014	As at 31 December 2013
Gross loans and advances to customers which have been overdue for:		
– within 3 months	36,519	14,313
– between 3 and 6 months	11,190	7,284
– between 6 and 12 months	17,214	9,888
– over 12 months	15,864	14,642
	80,787	46,127
Percentage:		
– within 3 months	1.07%	0.44%
– between 3 and 6 months	0.33%	0.22%
– between 6 and 12 months	0.50%	0.30%
– over 12 months	0.46%	0.45%
	2.36%	1.41%

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

4 OVERDUE AND RESCHEDULED ASSETS (Continued)

4.1 Gross amount of overdue loans (Continued)

Group and Bank

	As at 31 December 2014	As at 31 December 2013
Gross amounts for due from banks and other financial institutions		
– within 3 months	–	–
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	–	12
	–	12
Percentage:		
– within 3 months	–	–
– between 3 and 6 months	–	–
– between 6 and 12 months	–	–
– over 12 months	–	0.01%
	–	0.01%

As at 31 December 2014 and 2013, balances of overdue trade bills which have been included in the gross overdue loans and advances to customers are:

Group and Bank

	As at 31 December 2014	As at 31 December 2013
– within 3 months	–	8
– between 3 and 6 months	–	–
– between 6 and 12 months	–	4
– over 12 months	–	30
	–	42

4.2 Overdue and rescheduled loans

Group and Bank

	As at 31 December 2014	As at 31 December 2013
Total rescheduled loans and advances to customers	6,809	2,255
Including: rescheduled loans and advances to customers overdue above 3 months	975	748
Percentage of rescheduled loans and advances to customers overdue above 3 months in total loans	0.03%	0.02%

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

5 SEGMENTAL INFORMATION OF LOANS

5.1 Impaired loans by geographical area

Group

	As at 31 December 2014		As at 31 December 2013	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
PRC domestic regions				
– Northern China	3,960	(1,331)	3,019	(1,443)
– North Eastern China	2,218	(1,179)	2,095	(803)
– Eastern China	29,855	(12,676)	23,781	(11,402)
– Central and Southern China	4,862	(1,977)	3,979	(1,691)
– Western China	1,831	(684)	1,183	(644)
	42,726	(17,847)	34,057	(15,983)
Hong Kong, Macau, Taipei and overseas regions	291	(193)	253	(199)
	43,017	(18,040)	34,310	(16,182)

Bank

	As at 31 December 2014		As at 31 December 2013	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
PRC domestic regions				
– Northern China	3,960	(1,331)	3,019	(1,443)
– North Eastern China	2,218	(1,179)	2,095	(803)
– Eastern China	29,824	(12,442)	23,767	(11,395)
– Central and Southern China	4,862	(1,977)	3,979	(1,691)
– Western China	1,825	(684)	1,183	(644)
	42,689	(17,613)	34,043	(15,976)
Hong Kong, Macau, Taipei and overseas regions	196	(193)	158	(135)
	42,885	(17,806)	34,201	(16,111)

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

5 SEGMENTAL INFORMATION OF LOANS (Continued)

5.2 Overdue loans and advances to customers by geographical area

Group

	As at 31 December 2014			As at 31 December 2013		
	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans
PRC domestic regions						
– Northern China	8,891	(1,287)	(1,111)	4,734	(1,409)	(58)
– North Eastern China	4,156	(1,159)	(462)	2,678	(740)	(26)
– Eastern China	54,635	(12,029)	(8,763)	30,072	(11,099)	(256)
– Central and Southern China	8,061	(1,300)	(703)	6,140	(1,637)	(62)
– Western China	4,895	(568)	(760)	2,060	(628)	(21)
	80,638	(16,343)	(11,799)	45,684	(15,513)	(423)
Hong Kong, Macau, Taipei and overseas regions	609	(407)	–	443	(196)	–
	81,247	(16,750)	(11,799)	46,127	(15,709)	(423)
Fair value of collaterals	38,193	Not applicable	Not applicable	4,734	Not applicable	Not applicable

Bank

	As at 31 December 2014			As at 31 December 2013		
	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans	Overdue loans	Allowances for individually assessed impaired loans	Allowances for collectively assessed impaired loans
PRC domestic regions						
– Northern China	8,891	(1,287)	(1,111)	4,734	(1,409)	(58)
– North Eastern China	4,156	(1,159)	(462)	2,678	(740)	(26)
– Eastern China	54,548	(12,009)	(8,763)	30,046	(11,099)	(256)
– Central and Southern China	8,061	(1,300)	(703)	6,140	(1,637)	(62)
– Western China	4,830	(568)	(760)	2,060	(628)	(21)
	80,486	(16,323)	(11,799)	45,658	(15,513)	(423)
Hong Kong, Macau, Taipei and overseas regions	301	(193)	–	349	(132)	–
	80,787	(16,516)	(11,799)	46,007	(15,645)	(423)
Fair value of collaterals	37,957	Not applicable	Not applicable	4,734	Not applicable	Not applicable

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

6 LOANS AND ADVANCES TO CUSTOMERS

6.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross)

<i>Group</i>	As at 31 December 2014			As at 31 December 2013		
		%	Amount covered by collaterals		%	Amount covered by collaterals
<i>Hong Kong</i>						
Corporate loans						
Manufacturing						
– Petroleum and chemical	–	–	–	–	–	–
– Electronics	1,488	0.78	167	874	0.49	14
– Textile and clothing	3,444	1.81	12	440	0.25	8
– Other manufacturing	11,949	6.29	318	2,542	1.44	431
Electricity, gas and water production and supply	2,218	1.17	43	1,090	0.62	–
Construction	13,353	7.03	2,392	10,569	5.98	663
Transportation, storage and postal service	9,743	5.13	5,826	12,267	6.94	6,670
Telecommunication, IT service and software	7	–	3	356	0.20	–
Wholesale and retail	86,684	45.64	9,487	81,597	46.15	8,870
Accommodation and catering	61	0.03	39	412	0.23	256
Financial institutions	20,780	10.94	4,249	21,747	12.30	4,613
Real estate	11,279	5.94	10,038	12,114	6.85	9,722
Services	–	–	–	–	–	–
Education	18	0.01	18	4	–	–
Others	9,801	5.16	649	12,592	7.13	1,439
Total corporate loans	170,825	89.93	33,241	156,604	88.58	32,686
Individual loans						
Mortgage loans	9,915	5.22	9,812	9,746	5.51	9,742
Short-term working capital loans	37	0.02	34	34	0.02	31
Credit card advances	112	0.06	–	121	0.07	–
Others	9,027	4.77	6,271	10,297	5.82	9,690
Total individual loans	19,091	10.07	16,117	20,198	11.42	19,463
Gross amount of loans and advances before allowance for impairment	189,916	100.00	49,358	176,802	100.00	52,149
<i>Outside Hong Kong</i>	3,241,819			3,089,566		

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

6.1 The risk concentration analysis for loans and advances to customers by industry sectors (gross) *(Continued)*

The risk concentration analysis for loans and advances to customers by industry sectors is based on the Group's internal classification system.

The ratio of collateral loans to the total loans of the Group is 47% as at 31 December 2014 (31 December 2013: 48%).

6.2 Allowance on loans and advances by loan usage

Group

	As at 31 December 2014		As at 31 December 2013	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
Corporates	34,040	(14,443)	25,229	(10,166)
Individuals	8,977	(3,597)	9,081	(6,016)
	43,017	(18,040)	34,310	(16,182)
Fair value of collateral	15,688	Not applicable	11,295	Not applicable

Bank

	As at 31 December 2014		As at 31 December 2013	
	Impaired loans	Allowances for individually assessed impaired loans	Impaired loans	Allowances for individually assessed impaired loans
Corporates	34,007	(14,224)	25,217	(10,160)
Individuals	8,878	(3,582)	8,984	(5,951)
	42,885	(17,806)	34,201	(16,111)
Fair value of collateral	15,677	Not applicable	11,289	Not applicable

Collaterals held against such loans mainly include cash deposits and mortgages over properties.

SUPPLEMENTARY UNAUDITED FINANCIAL INFORMATION (CONTINUED)

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

6 LOANS AND ADVANCES TO CUSTOMERS *(Continued)*

6.2 Allowance on loans and advances by loan usage *(Continued)*

The amount of new provisions charged to statement of profit or loss and other comprehensive income, and the amount of loans and advances written off during the years are disclosed below:

Group

	For the year ended 31 December 2014			For the year ended 31 December 2013		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporates	14,488	(10,610)	205	11,316	(9,380)	336
Individuals	5,951	(5,201)	236	7,094	(2,430)	131
	20,439	(15,811)	441	18,410	(11,810)	467

Bank

	For the year ended 31 December 2014			For the year ended 31 December 2013		
	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years	New provisions	Loans and advances written off as uncollectible	Recoveries of loans and advances written off in previous years
Corporates	14,188	(10,610)	205	11,265	(9,380)	336
Individuals	5,951	(5,201)	236	7,050	(2,430)	131
	20,139	(15,811)	441	18,315	(11,810)	467



YOUR WEALTH MANAGEMENT BANK

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