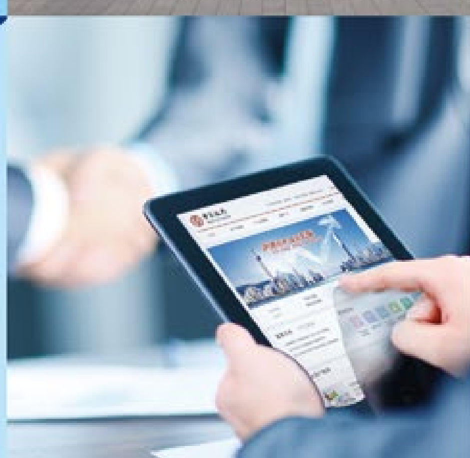
Bank of China Limited

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

Ordinary H-Share Stock Code: 3988

Offshore Preference Share Stock Code: 4601

Serving Society Delivering Excellence



2014 Annual Report

Bank of China Global Network

Bank of China is the most internationalised bank in China. After establishing the London Agency in 1929, which was the first overseas institution of Chinese financial institutions, the Bank gradually expanded its overseas network to major global financial centres including Tokyo, Singapore and New York. At present, the Bank provides a comprehensive range of financial services to customers across the Chinese mainland as well as 41 countries and regions.


CALGARY
VANCOUVER
MONTREAL
TORONTO
CHICAGO
NEW YORK
LOS ANGELES
GRAND CAYMAN
COLON
PANAMA
RIO DE JANEIRO
SAO PAULO
AUCKLAND





Introduction

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialised international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite many hardships and setbacks. After 1949, drawing on its long history as the state-designated specialised foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided vital support to the nation's foreign trade development and economic infrastructure by its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services. During China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalising on foreign funds and advanced technologies to boost economic development, and became the country's key foreign financing channel by building up its competitive advantages in foreign exchange business. In 1994, the Bank was transformed into a wholly state-owned commercial bank. In August 2004, Bank of China Limited was incorporated. The Bank was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A-Share and H-Share initial public offering and achieve a dual listing in both markets. In 2014, Bank of China was designated again as a Global Systemically Important Bank, becoming the sole financial institution from emerging economies to be designated as a Global Systemically Important Bank for four consecutive years.

As China's most internationalised and diversified bank, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland as well as 41 countries and regions. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOC International Holdings Limited, a wholly owned subsidiary, is the Bank's investment banking arm. Bank of China Group Insurance Company Limited and Bank of China Insurance Company Limited, both wholly owned subsidiaries, run the Bank's insurance business. Bank of China Group Investment Limited, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. Bank of China Investment Management Co., Ltd., a controlled subsidiary, operates the Bank's fund management business. BOC Aviation Pte. Ltd., a wholly owned subsidiary, is in charge of the Bank's aircraft leasing business.

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

Development Strategy

Core Values

Pursuing excellence

Integrity Performance Responsibility Innovation Harmony

Strategic Goal

Serving Society, Delivering Excellence

Overall Requirements of the Development Strategy

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

Contents

Definitions

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

The Bank/the Group	Bank of China Limited or its predecessors and, except where the context otherwise requires, all of the subsidiaries of Bank of China Limited
A Share	Domestic investment share(s) in the ordinary share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on SSE (Stock Code: 601988)
Articles of Association	The performing Articles of Association of the Bank
Basis Point	0.01 of a percentage point
BOC Aviation	BOC Aviation Pte. Ltd.
BOC Insurance	Bank of China Insurance Company Limited
BOCG Insurance	Bank of China Group Insurance Company Limited
BOCG Investment	Bank of China Group Investment Limited
BOCG Life	BOC Group Life Assurance Co., Ltd.
BOCHK	Bank of China (Hong Kong) Limited, an authorised financial institution incorporated under the laws of Hong Kong and a wholly-owned subsidiary of BOCHK (Holdings)
BOCHK (Holdings)	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong and the ordinary shares of which are listed on the Hong Kong Stock Exchange
BOCI	BOC International Holdings Limited
BOCIM	Bank of China Investment Management Co., Ltd.
BOCI China	BOC International (China) Limited
CBRC	China Banking Regulatory Commission
Central and Southern China	The area including, for the purpose of this report, the branches of Henan, Hubei, Hunan, Guangdong, Shenzhen, Guangxi and Hainan
Company Law	The Company Law of PRC
Convertible Bonds	Corporate bonds that are vested for conversion to the A-Share stock of the Bank
CSRC	China Securities Regulatory Commission
Domestic Preference Share	Domestic preference share(s) in the preference share capital of the Bank, with a nominal value of RMB100 each, which are traded on SSE (Stock Name (First Tranche): 中行優1, Stock Code (First Tranche): 360002)
Eastern China	The area including, for the purpose of this report, the branches of Shanghai, Jiangsu, Suzhou, Zhejiang, Ningbo, Anhui, Fujian, Jiangxi and Shandong
H Share	Overseas-listed foreign investment share(s) in the ordinary share capital of the Bank, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars (Stock Code: 3988)
HKEx	Hong Kong Exchanges and Clearing Limited
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Huijin	Central Huijin Investment Ltd.
Independent Director	Independent director under the listing rules of SSE and the Articles of Association, and independent non-executive director under the Hong Kong Listing Rules
MOF	Ministry of Finance, PRC
Northeastern China	The area including, for the purpose of this report, the branches of Heilongjiang, Jilin and Liaoning
Northern China	The area including, for the purpose of this report, the branches of Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia and the Head Office
Offshore Preference Share	Offshore preference share(s) in the preference share capital of the Bank, with a nominal value of RMB100 each, which are listed on the Hong Kong Stock Exchange and traded in US dollars (Stock Code: 4601)
PBOC	The People's Bank of China, PRC
PRC	The People's Republic of China
RMB	Renminbi, the lawful currency of PRC
SAFE	State Administration of Foreign Exchange, PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
SSE	The Shanghai Stock Exchange
Western China	The area including, for the purpose of this report, the branches of Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Tibet and Xinjiang

Important Notice

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

The 2014 Annual Report and Annual Results Announcement of the Bank have been reviewed and approved at the meeting of the Board of Directors of the Bank held on 25 March 2015. The number of directors who should attend the meeting is fourteen, with thirteen directors attended the meeting in person. Executive Director Mr. LI Zaohang did not attend the meeting because of other business affairs. Mr. LI Zaohang appointed the Chairman of the Board of Directors Mr. TIAN Guoli as his authorised proxy to attend and vote on his behalf at the meeting. All of the fourteen directors of the Bank exercised their voting rights at the meeting. Seven supervisors attended the meeting as non-voting attendees.

The 2014 financial statements prepared by the Bank in accordance with Chinese Accounting Standards ("CAS") and International Financial Reporting Standards ("IFRS") have been audited by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with Chinese and international auditing standards, respectively. Both auditors issued an unqualified opinion.

Chairman of the Board of Directors TIAN Guoli, President CHEN Siqing, Executive Vice President responsible for the Bank's finance and accounting ZHANG Jinliang and General Manager of the Accounting and Information Department ZHANG Jianyou warrant the authenticity, accuracy and completeness of the financial statements in this report.

The Board of Directors has recommended a final dividend of ordinary shares for 2014 of RMB0.19 per share (before tax), subject to the approval of the forthcoming Annual General Meeting scheduled on 17 June 2015. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

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

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

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

Honours and Awards

China Central Television
CCTV Finance 50 • Corporate Governance Index

Directors & Boards
Golden Prize of Round Table for Excellent Board of Directors

Yazhou Zhoukan
Corporate Governance Excellence Award

World Entrepreneur
50 Most Respectable Listed Companies in China

The Banker
Ranked 7th in Top 1,000 World Banks

Global Finance
Best Cross-border RMB Bank in China
Best Foreign Exchange Provider in China
Best Supply Chain Finance Provider in China
Best Trade Finance Bank in China

Trade Finance
Best Trade Bank in China

The Asian Banker
Best RMB Clearing Bank in Asia Pacific
Best Trade Finance Bank in China
Best Capital Management Project in China
Best Cash Management Bank in Hong Kong

Asiamoney
Best Financial Bond in China

Financial News
Best Trade Finance Bank of the Year
Internet-based Finance Innovative Bank of the Year

FORTUNE
Ranked 59th in "Global 500" (2014)

WPP Group
The BrandZ Top 100 Most Valuable Global Brands

Interbrand
2014 Best Chinese Brands

World Brand Lab
The World's 500 Most Influential Brands 2014

China Report
Financial Enterprise with Most Overseas Recognition (Asia Pacific)

China Securities Journal
Gold Bull Award — Top 100 Listed Companies

China Banking Association
Most Socially Responsible Financial Institution
Best People's Livelihood Financial Award in Social Responsibilities

China Next Generation Education Foundation
Top 10 Benevolent Enterprises

Southern Weekly
Top 100 Listed State-owned Enterprises by Corporate Social Responsibility

Xinhuanet.com
Outstanding Enterprise in Social Responsibilities
Best Employer in Social Responsibilities

Sina.com.cn
Most Socially Responsible Listed Enterprise

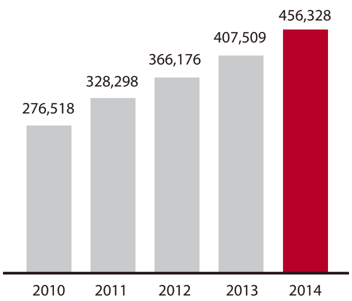
Universum
Top Ideal Employer for Chinese Business Students

ChinaHR.com
Best Employer in Financial Industry in the Opinion of Chinese University Students

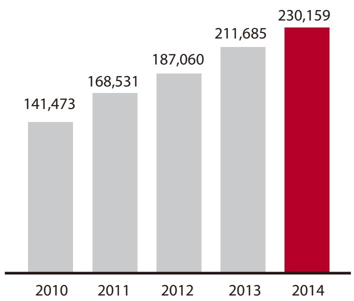
League of American Communications Professionals
Silver Award for 2013 Annual Report
Most Creative in Asia-pacific Region

Financial Highlights

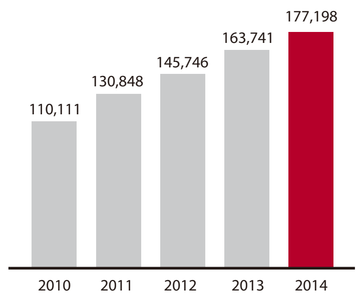
Operating income
RMB Million



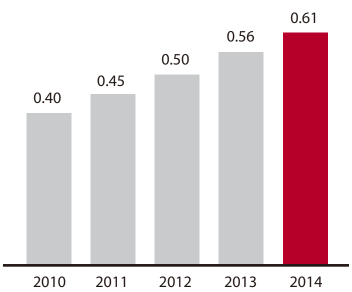
Operating profit
RMB Million



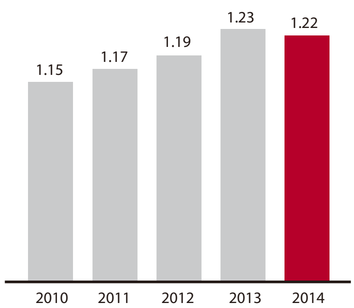
Profit for the year
RMB Million



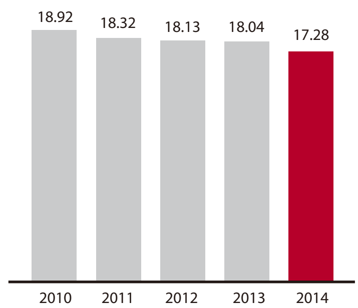
EPS (basic)
RMB



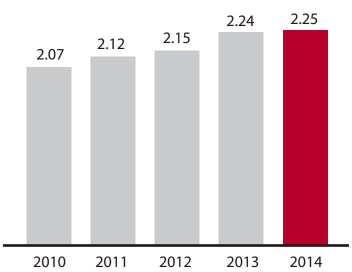
ROA
%



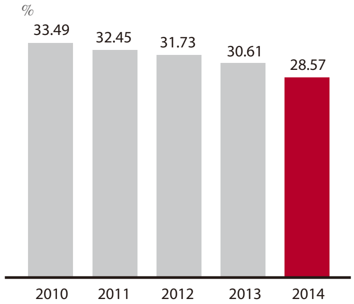
ROE
%



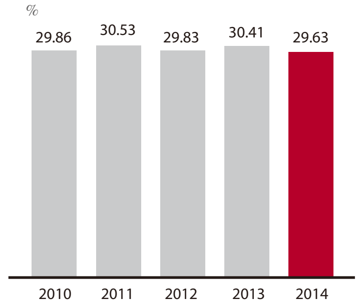
Net interest margin
%



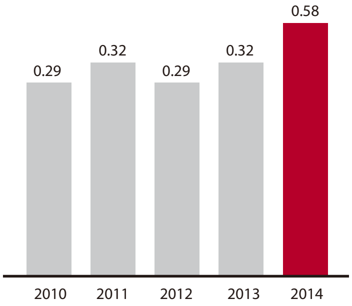
Cost to income (calculated under domestic regulations)
%



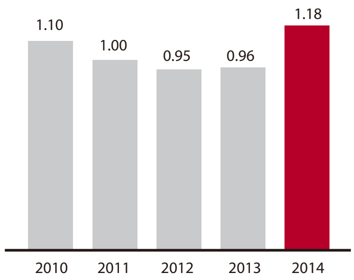
Non-interest income to operating income
%



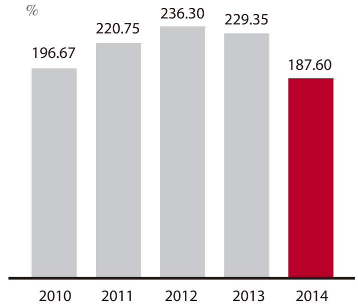
Credit cost
%



Non-performing loans to total loans
%



Allowance for loan impairment losses to non-performing loans
%



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

Unit: RMB million

	Note	2014	2013	2012	2011	2010
Results of operations						
Net interest income		**321,102**	283,585	256,964	228,064	193,962
Non-interest income	1	**135,226**	123,924	109,212	100,234	82,556
Operating income		**456,328**	407,509	366,176	328,298	276,518
Operating expenses		**(177,788)**	(172,314)	(159,729)	(140,412)	(122,052)
Impairment losses on assets		**(48,381)**	(23,510)	(19,387)	(19,355)	(12,993)
Operating profit		**230,159**	211,685	187,060	168,531	141,473
Profit before income tax		**231,478**	212,777	187,673	169,047	142,502
Profit for the year		**177,198**	163,741	145,746	130,848	110,111
Profit attributable to equity holders of the Bank		**169,595**	156,911	139,656	124,622	104,793
Total dividend		**N.A.**	54,755	48,851	43,268	40,756
Financial position						
Total assets		**15,251,382**	13,874,299	12,680,615	11,829,789	10,459,703
Loans, gross		**8,483,275**	7,607,791	6,864,696	6,342,814	5,660,621
Allowance for loan impairment losses		**(188,531)**	(168,049)	(154,656)	(139,676)	(122,856)
Investments	2	**2,710,375**	2,403,631	2,272,724	2,000,759	2,055,324
Total liabilities		**14,067,954**	12,912,822	11,819,073	11,072,652	9,782,441
Due to customers		**10,885,223**	10,097,786	9,173,995	8,817,961	7,733,537
Capital and reserves attributable to equity holders of the Bank		**1,140,859**	923,916	824,677	723,914	644,858
Share capital		**288,731**	279,365	279,147	279,147	279,147
Per share						
Basic earnings per share for profit attributable to equity holders of the Bank (RMB)		**0.61**	0.56	0.50	0.45	0.40
Dividend per share (before tax, RMB)		**0.19**	0.196	0.175	0.155	0.146
Net assets per share (RMB)	3	**3.70**	3.31	2.95	2.59	2.31
Key financial ratios						
Return on average total assets (%)	4	**1.22**	1.23	1.19	1.17	1.15
Return on average equity (%)	5	**17.28**	18.04	18.13	18.32	18.92
Net interest margin (%)	6	**2.25**	2.24	2.15	2.12	2.07
Non-interest income to operating income (%)	7	**29.63**	30.41	29.83	30.53	29.86
Cost to income ratio (calculated under domestic regulations, %)	8	**28.57**	30.61	31.73	32.45	33.49
Loan to deposit ratio (%)	9	**72.97**	72.52	71.99	68.77	71.72
Capital ratios	10					
Common equity tier 1 capital		**1,068,706**	925,037	N.A.	N.A.	N.A.
Additional tier 1 capital		**72,923**	698	N.A.	N.A.	N.A.
Tier 2 capital		**250,714**	262,768	N.A.	N.A.	N.A.
Common equity tier 1 capital adequacy ratio (%)		**10.61**	9.69	N.A.	N.A.	N.A.
Tier 1 capital adequacy ratio (%)		**11.35**	9.70	N.A.	N.A.	N.A.
Capital adequacy ratio (%)		**13.87**	12.46	13.63	12.98	12.60
Asset quality						
Identified impaired loans to total loans (%)	11	**1.18**	0.96	0.95	1.00	1.13
Non-performing loans to total loans (%)	12	**1.18**	0.96	0.95	1.00	1.10
Allowance for loan impairment losses to non-performing loans (%)	13	**187.60**	229.35	236.30	220.75	196.67
Credit cost (%)	14	**0.58**	0.32	0.29	0.32	0.29
Allowance for loan impairment losses to total loans (%)	15	**2.68**	2.62	2.62	2.56	2.45
Exchange rate						
USD/RMB year-end middle rate		**6.1190**	6.0969	6.2855	6.3009	6.6227
EUR/RMB year-end middle rate		**7.4556**	8.4189	8.3176	8.1625	8.8065
HKD/RMB year-end middle rate		**0.7889**	0.7862	0.8108	0.8107	0.8509

Notes:

1 Non-interest income = net fee and commission income + net trading gains/(losses) + net gains/(losses) on financial investments + other operating income.

2 Investments include financial investments available for sale, debt securities held to maturity, financial investments classified as loans and receivables, and financial assets at fair value through profit or loss.

3 Net assets per share = (capital and reserves attributable to equity holders of the Bank at year-end – other equity instruments) ÷ number of ordinary shares in issue at year-end.

4 Return on average total assets = profit for the year ÷ average total assets. Average total assets = (total assets at the beginning of the year + total assets at year-end) ÷ 2.

5 Return on average equity = profit attributable to equity holders of the Bank ÷ weighted average capital and reserves attributable to ordinary shareholders of the Bank. Calculation is based on *No. 9 Preparation and Reporting Rules of Information Disclosure of Public Offering Companies — Calculation and Disclosure of Return on Average Equity and Earnings per Share (Revised in 2010)* (CSRC Announcement [2010] No. 2) issued by the CSRC.

6 Net interest margin = net interest income ÷ average balance of interest-earning assets. Average balance is average daily balance derived from the Bank's management accounts (unaudited).

7 Non-interest income to operating income = non-interest income ÷ operating income.

8 Cost to income ratio is calculated in accordance with the *Measures of the Performance Evaluation of Financial Enterprises* (Cai Jin [2011] No. 50) formulated by the MOF.

9 Loan to deposit ratio = balance of loans ÷ balance of deposits. Calculation is based on relevant provisions of domestic regulatory authorities. Balance of deposits includes due to customers and due to financial institutions such as insurance companies and financial holding companies.

10 In accordance with *Capital Rules for Commercial Banks (Provisional)* (Y.J.H.L. [2012] No. 1) and related regulations, the capital ratios of 2014 are calculated under the advanced approaches, and the capital ratios of 2013 are calculated under the non-advanced approaches. The capital ratios of 2010-2012 were calculated in accordance with *Regulation Governing Capital Adequacy of Commercial Banks* (Y.J.H.L. [2004] No. 2) and related regulations. Therefore, the capital ratios of 2014 should not be compared directly with those of previous years in this regard.

11 Identified impaired loans to total loans = identified impaired loans at year-end ÷ total loans at year-end.

12 Non-performing loans to total loans = non-performing loans at year-end ÷ total loans at year-end.

13 Allowance for loan impairment losses to non-performing loans = allowance for loan impairment losses at year-end ÷ non-performing loans at year-end.

14 Credit cost = impairment losses on loans ÷ average balance of loans. Average balance of loans = (balance of loans at the beginning of the year + balance of loans at year-end) ÷ 2.

15 Allowance for loan impairment losses to total loans = allowance for loan impairment losses at year-end ÷ total loans at year-end. Calculation is based on data of the Bank's domestic institutions.

Corporate Information

Registered Name in Chinese
中國銀行股份有限公司（"中國銀行"）

Registered Name in English
BANK OF CHINA LIMITED ("Bank of China")

Legal Representative and Chairman
TIAN Guoli

Vice Chairman and President
CHEN Siqing

Secretary to the Board of Directors
FAN Yaosheng
Office Address:
No. 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: ir@bankofchina.com

Company Secretary
YEUNG Cheung Ying

Listing Affairs Representative
LUO Nan
Office Address:
No. 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: ir@bankofchina.com

Registered Address of Head Office
No. 1 Fuxingmen Nei Dajie, Beijing, China

Office Address
No. 1 Fuxingmen Nei Dajie, Beijing, China, 100818
Telephone: (86) 10-6659 6688
Facsimile: (86) 10-6601 6871
Website: http://www.boc.cn
E-mail: ir@bankofchina.com
Customer Service and Complaint Hotline:
(86) Area Code-95566

Place of Business in Hong Kong
Bank of China Tower, 1 Garden Road,
Central, Hong Kong

Selected Newspapers for Information Disclosure (A Share)
China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily

Website Designated by CSRC for Publication of the Annual Report
http://www.sse.com.cn

Website of HKEx for Publication of the Annual Report
http://www.hkexnews.hk

Place where Annual Report can be Obtained
No. 1 Fuxingmen Nei Dajie, Beijing, China

Domestic Legal Advisor
King & Wood Mallesons

Hong Kong Legal Advisor
Allen & Overy

Auditors
Domestic auditor
Ernst & Young Hua Ming LLP
Office Address:
Level 16, Ernst & Young Tower, Oriental Plaza,
No. 1 East Chang An Avenue,
Dongcheng District, Beijing, China
Certified Public Accountants who signed the auditor's report:
ZHANG Xiaodong and YANG Bo

International auditor
Ernst & Young
Office Address:
22/F, CITIC Tower, 1 Tim Mei Avenue,
Central, Hong Kong

Date of First Registration
31 October 1983

Authority of First Registration
State Administration of Industry and Commerce, PRC

Index of First Registration
http://www.saic.gov.cn

Corporate Business Licence Serial Number
100000000001349

Financial Institution Licence Serial Number
B0003H111000001

Tax Registration Certificate Number
Jingshuizhengzi 110102100001342

Organisation Code
10000134-2

Registered Capital
RMB279,147,223,195

Changes to Registration during the Reporting Period
None

Securities Information
A Share
Shanghai Stock Exchange
Stock Name: 中國銀行
Stock Code: 601988

H Share
The Stock Exchange of Hong Kong Limited
Stock Name: Bank of China
Stock Code: 3988

Domestic Preference Share (First Tranche)
Shanghai Stock Exchange
Stock Name: 中行優1
Stock Code: 360002

Offshore Preference Share
The Stock Exchange of Hong Kong Limited
Stock Name: BOC 2014 PREF
Stock Code: 4601

Joint Sponsors for Domestic Preference Shares
CITIC Securities Company Limited
Office Address:
North Tower, Excellence Times Plaza II,
No. 8 Zhongxinsan Road, Futian District, Shenzhen,
Guangdong Prov., China
Sponsor Representatives: MA Xiaolong, ZHU Jie

BOC International (China) Limited
Office Address:
39/F, BOC Building, 200 Mid. Yincheng Road,
Pudong New District, Shanghai, China
Sponsor Representatives: JIN Zheng, LIANG Binsheng

Continuous Supervision Period
From 8 December 2014 to 31 December 2015
(First Tranche)
From the commencement date of trading to 31 December 2016 (Second Tranche)

Message from the Chairman

In this vibrant and thriving spring season, I'm pleased to present our annual results for the past year to the shareholders of the Bank and the public. In 2014, the Group achieved a profit for the year of RMB177.2 billion, a year-on-year increase of 8.22%, according to International Financial Reporting Standards. It recorded a profit attributable to equity holders of the Bank of RMB169.6 billion, an increase of 8.08%. Earnings per share increased by RMB0.05 to RMB0.61. The Bank maintained its asset quality within the target range. The Board of Directors has proposed a dividend of RMB0.19 per ordinary share for 2014, pending approval by the Annual General Meeting to be held in June 2015.

In the past year, China has pursued more active opening up policies and conducted more energetic diplomatic activities. This has given the Bank space to grow and a broad platform for development. In turn, we have more consciously intertwined our own development with that of the nation. Closely following our strategic goal of "Serving Society, Delivering Excellence", we overcame difficulties and steadily pressed ahead with our work, achieving breakthrough in some fundamental areas of overall importance. We also pooled our collective strengths in addressing several major issues, thus promoting the Group to realise healthy, sustainable and rapid development.

Picking the right moment, we took the lead among peers to issue preference shares. We also replenished capital in other ways, such as issuing tier 2 capital bonds and encouraging the conversion of convertible bonds into shares. As a result, the Bank's capital adequacy ratio has increased by 1.36 percentage points, paving the way for long-term development. At present, the size of the Bank's tier 1 capital ranks 7th among 1,000 large banks around the world, 2 positions higher than in the previous year.

Following on the wheels of China's diplomatic advances, we saw overseas markets as another major arena for business development. The Bank proactively provided efficient, high quality financial services to support "Going Global" and "Bringing In" initiatives. As a result, our overseas business entered into the most rapid and remarkable period of development in the Bank's history. At the end of 2014, the Group's overseas assets had increased by 18.11% since the start of the year. Overseas assets accounted for 27.41% of the Group's total assets, up 1.65 percentage points. The profit before income tax realised by overseas institutions increased by 29.91% and made a contribution to the Group of 22.98%, up 3.60 percentage points compared to the prior year.

We pressed fully ahead with RMB internationalisation and continuously consolidated the market position of main business channels. In 2014, the Group fulfilled USD3.92 trillion of international settlement volumes and maintaining its leading global position. Cross-border RMB clearing business amounted to RMB240.8 trillion, a year-on-year increase of 86.6%, continuing to top our global peers. Having set up RMB clearing services in Hong Kong, Macau and Taiwan, the Bank now also serves as the RMB clearing bank in Frankfurt, Paris, Sydney and Kuala Lumpur, with its global RMB clearing network further improved. The Bank successfully issued the "Oceania Bond" in Sydney, the "Schengen Bond" in Luxembourg and the "Arc de Triomphe Bond" in Paris, and assisted the United Kingdom, Australia and Canada in issuing the RMB-denominated sovereign bonds, receiving a positive response from the market. It became qualified to conduct all "Shanghai-Hong Kong Stock Connect" business, acting as the exclusive settlement bank for the "Northbound Trading Link" and providing a cross-border fund settlement service for the "Southbound Trading Link". The Bank perfected the global structure of its bulk commodity business and developed its trading and financing platforms in Shanghai, Singapore and London.

We energetically developed IT and internet finance and accelerated the construction of future-focused financial services models. The Bank successfully rolled out its overseas information system integration and transformation project in Europe and Africa, taking a solid step towards the establishment of IT systems built on centralised planning, management and development. We also accelerated the development of new online financial services models and made meaningful explorations into expanding online comprehensive financial services for industrial chains, developing cross-border e-commerce, building online communities and innovating in online finances for micro and small-sized businesses. All of this yielded admirable results.

We continued to honour our social responsibilities within the broad tide of social development, taking the initiative to contribute to the nation and benefit the people's livelihood. We further perfected its service offer for micro, small and medium-sized enterprises in order to help them to overcome the "difficult and unaffordable financing" problem. We explored a cross-border matching mechanism for small and medium-sized enterprises and successfully held forums and matchmaking meetings for Chinese and foreign SMEs in Paris, Milan, Frankfurt and Chengdu, reaping positive results. In a smooth transition, we made 58 thousand external contractual employees into contract employees of the Bank, a move that was highly appreciated by the employees and their families and was thus recognised as a "Heart Warming Project". Earnestly maintaining ethnic solidarity, we stepped up support for Xinjiang and Tibet and dispatched our top managers to launch the "visiting people, benefiting livelihood, uniting hearts" programme.

In 2014, the Board of Directors of the Bank earnestly implemented state policies and regulatory requirements. It made great efforts to promote the building of the Bank's corporate governance system, further revised and perfected the Articles of Association and continued to improve the overall level of corporate governance. Working with commitment and diligence, the Board members conducted in-depth research and made scientific decisions regarding the Group's key development priorities, thus guiding the Group to healthy and sustainable growth. In accordance with the applicable laws and regulations and the Articles of Association, the Bank smoothly enacted changes to the Board's composition. Mr. CHEN Siqing was officially appointed as Vice Chairman, Executive Director and member of the Strategic Development Committee of the Board of Directors. Mr. WANG Wei and Mr. LIU Xianghui were newly appointed as directors of the Bank. Ms. LIU Lina and Mr. WANG Yongli ceased to serve as directors of the Bank.

The global economy continues to experience a lengthy and circuitous recovery. At the same time, Chinese economic growth has entered the "new normal". The operating environment for banks is undergoing immense and profound changes. Generally speaking, the timing and trends are acting to our overall advantage, even as the risks and challenges increase. Banks are still at an important stage of strategic opportunity. First, cross-border finance business has risen to greet the new "blue ocean". Implementation of the national "Belt and Road" initiative, the launch of the Asia-Pacific Free Trade Area and the rapid pace of RMB internationalisation have created a historic opportunity for Chinese banks to compete internationally and reshape the world's financial landscape. Second, new demand will arise out of economic transformation. New models of industrialisation, the information economy, urbanisation and modern agriculture are rapidly being established, and regional strategies such as coordinated development among Beijing, Tianjin and Hebei and the construction of the Yangtze River economic belt will be implemented swiftly. As such, considerable new financing demands will constantly emerge. Third, market-based reform brings about new dynamics. Interest rate and exchange rate liberalisation creates opportunities for commercial banks to push forward product innovation. The accelerated development of the direct financing market will also present enormous opportunities to non-licensed investment banking business, trading business, financial derivatives business and overall operations.

Faced with new situations and new tasks, we will continue to follow the development strategy of "Serving Society, Delivering Excellence". Adhering to the development trend of internationalisation, the Bank will more deliberately thread our own forward path within the national framework of opening up and deepening reforms. We will take proactive steps to embrace the "new normal" of economic growth and develop an accurate understanding of the new laws of banking development. We will plough deep the "blue ocean", push forward transformation to improve benefits, strengthen risk control to ensure quality and bolster the grassroots so as to reinforce the foundation of our business. Continuous efforts will be made to enhance the dedication, expertise and execution of the Bank's leadership and employees and create a fresh and vital enterprise culture. Striving to drive forward new development within the "new normal", the Bank will reward the trust and support of our shareholders and the public with outstanding performance.

TIAN Guoli
Chairman
25 March 2015

Message from the President

2014 was an extraordinary year filled with unprecedented opportunities and challenges. Dedicated to the strategic goal of "Serving Society, Delivering Excellence", the Bank persisted in the four wheels of business development, risk management, reform and innovation and team building to drive its development, thus achieving admirable operating results.

At the end of 2014, according to International Financial Reporting Standards, the Bank's total assets stood at RMB15.25 trillion, total liabilities amounted to RMB14.07 trillion and equity attributable to shareholders of the Bank was RMB1.14 trillion. This represented an increase of 9.93%, 8.95% and 23.48% respectively from the prior year-end. During the year, the Bank achieved a profit for the year of RMB177.2 billion, a year-on-year increase of 8.22%, and a profit attributable to equity holders of the Bank of RMB169.6 billion, a year-on-year increase of 8.08%. The Bank's capital adequacy ratio was 13.87%. The non-performing loan ratio was 1.18%, up 0.22 percentage point from the prior year-end. Asset quality was controlled within the target range.

In 2014, the Bank's profit continued to rise, mainly driven by the following factors. First, net interest income and non-interest income achieved rapid growth. The Bank realised a net interest income of RMB321.1 billion, a year-on-year increase of 13.23%. Non-interest income stood at RMB135.2 billion, a year-on-year increase of 9.12%. Net interest margin climbed by 1 basis point to 2.25%. Second, the cost of risk was effectively controlled. The Bank's credit cost was 0.58%, remaining at a relatively low level. Its various market risk limit indicators were under control. Third, operation efficiency was further improved. The Bank's cost to income ratio was at 28.57%, a year-on-year decrease of 2.04 percentage points. The development of the Bank's internationalised operations was remarkably rapid in 2014, and their contribution to the Group increased dramatically. Overseas institutions realised a profit before income tax of USD8.656 billion, a year-on-year increase of 29.91%. Their contribution to the Group's profit before income tax increased by 3.60 percentage points from the previous year to 22.98%.

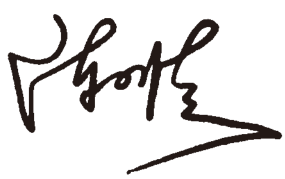
The Bank continued to serve the real economy and expanded business through the coordinated development of its domestic and overseas operations. In 2014, the Group's new RMB and foreign currency loans amounted to RMB875.5 billion. Loans were mainly granted to major strategic industries, vital fields that benefit the people's livelihood and key projects related to Chinese enterprises' "Going Global" efforts. The Bank actively supported "Going Global" companies by committing total loans of USD121.9 billion to such projects as at the end of the year. It successfully helped CDH Investment to acquire Nanfu Battery and Fosun to acquire Caixa Seguros. It formulated seven measures to support the development of small and micro-sized enterprises, extending RMB145.5 billion of new loans to such firms in 2014. The number of SME credit customers using "BOC Credit Factory" exceeded 60 thousand. The number of customers using the Bank's global cash management platform rose by 3,636, or 52.6%, and it became the cooperating bank on cash management for GE, LG Electronics, Ericsson, Airbus and other leading multinationals. The Group fulfilled USD3.92 trillion of international settlement volumes, maintaining its leading global position. It also completed RMB5.32 trillion of cross-border RMB settlement volumes, a year-on-year increase of 34%, maintaining leading market share. The Bank maintained the largest market share in spot/forward exchange of foreign currencies against RMB and proprietary gold trading on the Shanghai Gold Exchange. It became one of the first market makers for RMB against the British Pound, Euro, New Zealand Dollar and Singapore Dollar.

In 2014, the Bank properly responded to a complex situation and took multiple measures to prevent and control risks. It strengthened credit risk management, paid close attention to risk hazards triggered by economic deceleration, restructuring and the digestion of its previous stimulus package, enhanced study and judgment over the situation, and took timely measures to prevent risks. The Bank made earnest efforts to carry out risk control measures targeting local government financing vehicles, overcapacity industries and real estate, kept increment under strict control and pushed forward rectifications for credit enhancement. The Bank set up a specialised department for interbank businesses in line with new regulatory requirements. By adopting multiple measures, the Bank's domestic institutions resolved RMB71.6 billion of non-performing assets throughout the year. Various emerging risk events were properly handled in order to minimise the losses. The Bank enhanced its market risk management, kept a close eye on market-based interest rate and exchange rate reform, and dynamically adjusted the Group's market risk limit. It also reinforced its operational risk management, highlighted management responsibilities and checked risks in major fields, connections and positions, maintaining high-pressure momentum regarding case prevention. Internal control and compliance management were enhanced, and a new mechanism was established to help overseas institutions identify, evaluate and manage money laundering risks and improve compliance and risk control. Liquidity management was improved and key indicators such as the liquidity coverage ratio met regulatory requirement.

The Bank took several measures in the past year to consolidate its capital foundation with an eye on its future development. It successfully implement its capital replenishment plan, issued preference shares and tier 2 capital bonds in domestic and overseas markets and promoted the conversion of convertible bonds into shares. As a result, capital adequacy ratio was raised by 1.36 percentage points. The Bank was approved to implement the advanced approaches for capital management, becoming one of the first Chinese banks to implement the New Basel Capital Accord. It continued to deepen IT development and successfully rolled out its overseas information system integration and transformation project in Europe and Africa. Efforts were made to boost channel building and encourage outlets to improve their overall efficiency. The E-banking customers became more active. The migration ratio of financial transactions reached 70.71%, up 5.60 percentage points from the previous year. The Bank improved its global network structure and set up nine institutions including its New Zealand subsidiary. Pushing forward the construction of the E-finance Bank, it launched innovative online financial products such as Pension Financial Service, Wo Finance and Online Shipping Financial Services, and took proactive steps to popularised its smart E-Community and cross-border e-commerce settlement services. New trading volumes of online merchants exceeded RMB1.1 trillion.

2015 is a year full of reforms and expectations. As the Chinese economy enters the "new normal", banks face new opportunities to deepen transformation and innovative development, as well as new challenges to effective risk control and sustained growth. Faced with both opportunities and challenges, the Bank will continue to follow the strategic goal of "Serving Society, Delivering Excellence", adhere to the development trend towards internationalisation and accelerate the promotion of "three transformations". The first transformation is from "pursuing size" to "pursuing quality". The Bank will make capital constraints more influential to its operational management, comprehensively optimise its asset and liability structure and embrace a path of capital-saving development characterised by an appropriate balance between risk and reward. It will constantly improve the quality of growth and related benefits so as to realise intensified development. The second transformation is from "seeking comprehensiveness" to "seeking innovation". The Bank will further strengthen its competitive advantages, fully leveraging its internationalised network and diversified platforms to provide customers worldwide with integrated financial services. In particular, it will closely follow national strategies and make significant enhancements to its internationalised operations, striving to become the main financial artery for the "Belt and Road" and the preferred bank for free trade zone business. Efforts will be made to further consolidate its position as the main channel for RMB internationalisation business, continuously improve financial services for "Going Global" enterprises, and realise differentiated operations. The third transformation is from "aspiring to speed" to "aspiring to precision". The Bank will comprehensively improve management of capital, cost, process, risk, pricing, customer, talent, technology and operations so as to realise refined management. In particular, it will reinforce comprehensive risk management so as to realise full control over customer credit risk and to ensure credit assets quality and safety. Meanwhile, the Bank will pressed ahead solidly with the prevention and control of market risk, operational risk, liquidity risk and reputational risk, and keep the cost of risk under strict control, so as to ensure the sustainable and healthy development of various businesses.

On behalf of the management, I would like to avail myself of this opportunity to express heartfelt gratitude to the Bank's employees for your hard work, to all directors and supervisors for your guidance, and to the Bank's customers, investors and friends for your support. We will make steadfast efforts to forge ahead and general outstanding performance, unremittingly marching towards our strategic goal of "Serving Society, Delivering Excellence"!



CHEN Siqing
President
25 March 2015

Message from the Chairman of the Board of Supervisors

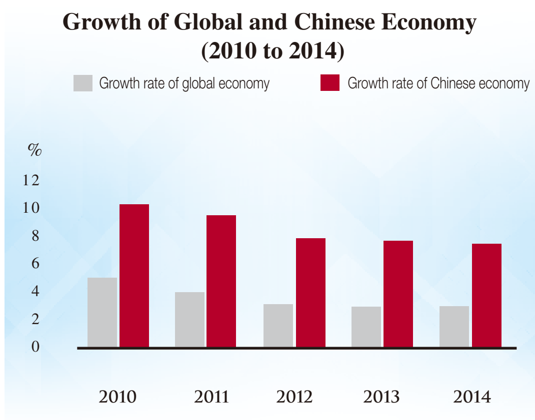
Message from the Chairman of the Board of Supervisors

During 2014, the Board of Supervisors earnestly performed its supervision duties, attaching great importance to the supervision of the Bank's duty performance, finances, risk management and internal control. It carried out its supervision duties in strict conformity with the provisions of laws, regulations and the Bank's Articles of Association and focused on its development strategies and central tasks. It also continuously enhanced its supervision efficiency and effectiveness to promote the sustainable growth of the Bank.

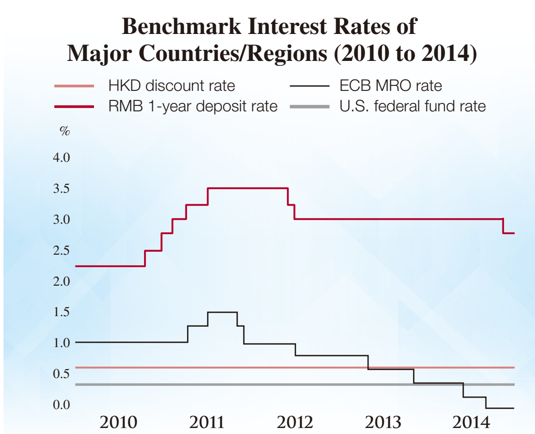
In 2014, the Board of Supervisors strengthened its capacities in line with regulatory requirements and earnestly supervised the Bank's day-to-day duty performance and objectively assessed the duty performance of directors and senior management members. It also enhanced financial supervision by carrying out communications on special topics including the preparation, review and disclosure of financial reports and by providing independent supervisory opinions. The Board of Supervisors bolstered risk and internal control supervision by tracking the progress and impact of major risk management and internal control initiatives. In addition, it carried out in-depth research into critical issues within the Bank's operation and management, aired its supervisory opinions in a timely manner and followed up on specific implementation steps in order to ensure increasingly more pertinent and effective supervision.

The Board of Supervisors is committed to maintaining sound corporate governance of the Bank. It actively communicated and effectively interacted with the Board of Directors and the senior management, so as to enhance the Bank's corporate governance. In this way, the work of the Board of Supervisors underpinned the Bank's strategic goal of "Serving Society, Delivering Excellence".

LI Jun
Chairman of the Board of Supervisors
25 March 2015



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



Source: Thomson Reuters EcoWin

Economic and Financial Environment

In 2014, global economies exhibited uneven recovery, and growth momentum remained dampened. Among major economies, the US economy showed strong growth impetus, whereas the Eurozone economy witnessed sluggish recovery, and Japanese economic performance was lackluster. Due to the phasing out of US quantitative easing (QE) and plummeting oil prices, economic growth slowed in some emerging economies.

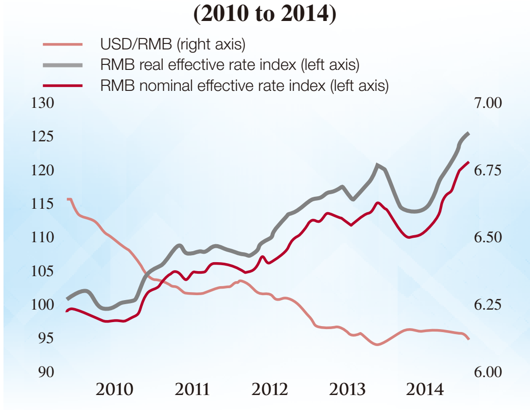
Global financial markets were severely shaken. Due to many factors including the slower-than-expected recovery of the global economy, US monetary policy adjustments and the Russian Ruble crisis, the associated risk of global financial markets expanded significantly. Bond yields of US 10-year treasury notes were driven down by hedging demand while the US dollar strengthened against the currencies of its major trade partners, appreciating 13.63% and 13.69% respectively against the Euro and Japanese Yen compared with the prior year-end. The stock markets of advanced economies trended upwards, while exhibiting market swings of increased frequency and magnitude.

The Chinese economy remained generally stable. Adhering to the general working guideline of making progress while maintaining stability, the Chinese Government comprehensively deepened reform. The Government maintained continuity and stability in its macroeconomic policies, adopted innovative macro-control approaches and techniques, and carried out anticipatory adjustment and fine-tuning in a targeted and forward-looking manner. China maintained economic growth within a reasonable range and realised positive changes from economic restructuring. In 2014, gross domestic product (GDP) grew by 7.4%, the consumer price index (CPI) increased by 2.0%, total retail sales of consumer goods (TRSCG) grew by 12.0%, total fixed asset investments (TFAI) rose by 15.7% and the volume of foreign trade grew by 3.4%.

Maintaining a prudent monetary policy, the Chinese Government utilised a diverse range of control tools and optimised its policy matrix. As a result, monetary credit increased at a reasonable pace and the financial markets operated in a stable manner. In 2014, broad money supply (M2) grew by 12.2%, 1.4 percentage points lower than the growth rate of the prior year. RMB loans by financial institutions increased by RMB9.78 trillion, RMB890.0 billion more than the growth of the prior year. Total scale of social financing stood at RMB16.46 trillion, a decrease of RMB859.8 billion compared with the prior year. The SSE composite index rose by 52.9%, and the floating market value of stocks on the Shanghai and Shenzhen stock exchanges went up by 58.1%. The scale of bond issuance continued to expand with a total of RMB11 trillion of RMB bonds issued, an increase of 22.3% compared with the prior year. The middle rate of RMB against USD depreciated by 0.36% compared with the prior year-end.

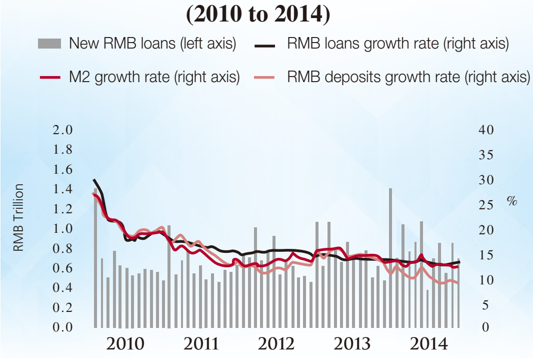
The China's banking sector has been sound and stable, and its reforms have progressed smoothly. Financial regulators focused on deepening reform, preventing risks and supporting the development of the real economy, in order to promote the sustainable development of commercial banks. Those reforms facilitated the entry of private capital into the financial system through a variety of channels, drove forward the liberalisation of interest rates and further widened the floating band of deposit rates, improved banks' corporate governance, further implemented the New Basel Capital Accord and introduced new capital replenishment instruments including preference shares and write-down tier-2 capital instruments. China's credit structure was actively adjusted in order to provide financial support for economic restructuring, transformation and upgrading. As such, more credit was weighted towards major projects, emerging industries, small and medium-sized enterprises (SMEs), as well as agriculture, farmers and rural areas. Chinese banks continued to improve their financial services, reduce their financing costs and enhance the efficiency of their use of funds, thus further improving their ability to serve the real economy. As at the end of 2014, the total assets of China's banking institutions grew by 13.9% compared with the prior year-end to RMB172.3 trillion, while total liabilities increased by 13.3% to RMB160 trillion. They realised a net profit of RMB1.55 trillion, an increase of 9.6% compared with the prior year; return on equity and return on assets were 17.59% and 1.23% respectively, a decrease of 1.58 and 0.04 percentage points

Movement of RMB Exchange Rate (2010 to 2014)



Source: Thomson Reuters EcoWin

Growth of Chinese Money Supply and Loans (2010 to 2014)



Source: Thomson Reuters EcoWin

respectively compared with the prior year; the balance of non-performing loans ("NPLs") rose by RMB250.5 billion compared with the prior year-end to RMB842.6 billion; the NPL ratio was 1.25%, up 0.25 percentage point compared with the prior year-end.

Outlook for 2015, the global economic growth is expected to accelerate. However, major uncertainties will emerge regarding the future direction of monetary policy in advanced economies and geopolitical conflicts. Some emerging economies will still be exposed to the risk of capital outflow and exchange rate depreciation. The Chinese Government will continue to push forward reform, put more emphasis on innovation-driven development, focus on improving the quality and performance of the economy, take steps to adapt to the "new normal" of economic development, maintain economic growth within a reasonable range and put "changing routes to economic growth and adjusting the structure of economic development" at the forefront of its approach. In addition, the Government will continue to adopt a proactive fiscal policy and a prudent monetary policy, improve financing and credit structures, further develop direct financing, promote the establishment of multi-layered capital markets, accelerate the reform of the interest rate liberalisation and RMB exchange rate formation regimes, and improve the efficiency of financial sector's ability to serve the real economy.

Income Statement Analysis

In 2014, the Group achieved a profit for the year of RMB177.198 billion, and a profit attributable to equity holders of the Bank of RMB169.595 billion, an increase of 8.22% and 8.08% respectively compared with the prior year. Return on average total assets (ROA) was 1.22%, a decrease of 0.01 percentage point compared with the prior year. Return on average equity (ROE) was 17.28%, a decrease of 0.76 percentage point compared with the prior year.

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

Unit: RMB million, except percentages

Items	2014	2013	Change	Change (%)
Net interest income	**321,102**	283,585	37,517	13.23%
Non-interest income	**135,226**	123,924	11,302	9.12%
Including: net fee and commission income	**91,240**	82,092	9,148	11.14%
Operating income	**456,328**	407,509	48,819	11.98%
Operating expenses	**(177,788)**	(172,314)	(5,474)	3.18%
Impairment losses on assets	**(48,381)**	(23,510)	(24,871)	105.79%
Operating profit	**230,159**	211,685	18,474	8.73%
Profit before income tax	**231,478**	212,777	18,701	8.79%
Income tax expense	**(54,280)**	(49,036)	(5,244)	10.69%
Profit for the year	**177,198**	163,741	13,457	8.22%
Profit attributable to equity holders of the Bank	**169,595**	156,911	12,684	8.08%

Net Interest Income and Net Interest Margin

In 2014, the Group earned a net interest income of RMB321.102 billion, an increase of RMB37.517 billion or 13.23% compared with the prior year. The average balances[1] and average interest rates of major interest-earning assets and interest-bearing liabilities of the Group, its domestic RMB businesses, and its domestic foreign currency businesses, as well as their year-on-year changes are summarised in the following table:

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

Unit: RMB million, except percentages

Items	2014 Average balance	2014 Average interest rate	2013 Average balance	2013 Average interest rate	Change Average balance	Change Average interest rate
Group						
Interest-earning assets						
Loans	**8,263,521**	**5.19%**	7,372,111	5.15%	891,410	4 Bps
Investments	**2,461,952**	**3.50%**	2,347,031	3.18%	114,921	32 Bps
Balances with central banks	**2,319,947**	**1.41%**	1,911,799	1.42%	408,148	(1) Bp
Due from and placements with banks and other financial institutions	**1,229,126**	**4.48%**	1,006,745	3.74%	222,381	74 Bps
Total	**14,274,546**	**4.22%**	12,637,686	4.11%	1,636,860	11 Bps
Interest-bearing liabilities						
Due to customers	**10,650,698**	**2.02%**	9,627,269	1.87%	1,023,429	15 Bps
Due to and placements from banks and other financial institutions and due to central banks	**2,516,830**	**2.24%**	2,026,499	2.29%	490,331	(5) Bps
Bonds issued	**260,750**	**3.88%**	217,858	3.92%	42,892	(4) Bps
Total	**13,428,278**	**2.10%**	11,871,626	1.98%	1,556,652	12 Bps
Net interest margin		**2.25%**		2.24%		1 Bp
Domestic RMB businesses						
Interest-earning assets						
Loans	**5,854,808**	**6.23%**	5,357,204	6.17%	497,604	6 Bps
Investments	**1,826,017**	**3.90%**	1,706,986	3.57%	119,031	33 Bps
Balances with central banks	**1,872,829**	**1.67%**	1,658,015	1.58%	214,814	9 Bps
Due from and placements with banks and other financial institutions	**969,597**	**4.94%**	719,175	4.31%	250,422	63 Bps
Total	**10,523,251**	**4.90%**	9,441,380	4.75%	1,081,871	15 Bps
Interest-bearing liabilities						
Due to customers	**7,981,630**	**2.30%**	7,383,988	2.16%	597,642	14 Bps
Due to and placements from banks and other financial institutions and due to central banks	**1,481,293**	**4.33%**	1,164,909	3.94%	316,384	39 Bps
Bonds issued	**174,776**	**4.59%**	170,914	4.43%	3,862	16 Bps
Total	**9,637,699**	**2.66%**	8,719,811	2.45%	917,888	21 Bps
Net interest margin		**2.46%**		2.49%		(3) Bps
Domestic foreign currency businesses				Unit: USD million, except percentages		
Interest-earning assets						
Loans	**91,084**	**2.70%**	87,474	2.11%	3,610	59 Bps
Investments	**27,940**	**1.52%**	27,730	1.42%	210	10 Bps
Due from and placements with banks and other financial institutions and balances with central banks	**60,453**	**1.05%**	48,913	1.03%	11,540	2 Bps
Total	**179,477**	**1.96%**	164,117	1.67%	15,360	29 Bps
Interest-bearing liabilities						
Due to customers	**81,127**	**1.20%**	79,562	0.80%	1,565	40 Bps
Due to and placements from banks and other financial institutions and due to central banks	**92,830**	**0.79%**	71,355	0.74%	21,475	5 Bps
Bonds issued	**412**	**5.34%**	100	8.00%	312	(266) Bps
Total	**174,369**	**0.99%**	151,017	0.78%	23,352	21 Bps
Net interest margin		**1.00%**		0.96%		4 Bps

Notes:

1 Investments include available for sale debt securities, held to maturity debt securities, debt securities classified as loans and receivables, trading debt securities, debt securities designated at fair value through profit or loss, investment trusts and asset management plans.

2 Balances with central banks include the mandatory reserves, the surplus reserves and other deposits.

3 Due to and placements from banks and other financial institutions and due to central banks include due to and placements from banks and other financial institutions, due to central banks and other funds.

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

Unit: RMB million

Items	2014	2013	Change	Analysis of net interest income variances	
				Volume	Interest rate
Group					
Interest income					
Loans	**428,572**	379,570	49,002	45,908	3,094
Investments	**86,210**	74,651	11,559	3,654	7,905
Balances with central banks	**32,779**	27,094	5,685	5,796	(111)
Due from and placements with banks and other financial institutions	**55,119**	37,680	17,439	8,317	9,122
Total	**602,680**	518,995	83,685	63,675	20,010
Interest expense					
Due to customers	**215,019**	180,479	34,540	19,138	15,402
Due to and placements from banks and other financial institutions and due to central banks	**56,434**	46,396	10,038	11,229	(1,191)
Bonds issued	**10,125**	8,535	1,590	1,681	(91)
Total	**281,578**	235,410	46,168	32,048	14,120
Net interest income	**321,102**	283,585	37,517	31,627	5,890
Domestic RMB businesses					
Interest income					
Loans	**365,022**	330,732	34,290	30,702	3,588
Investments	**71,140**	61,004	10,136	4,249	5,887
Balances with central banks	**31,186**	26,145	5,041	3,394	1,647
Due from and placements with banks and other financial institutions	**47,939**	31,002	16,937	10,793	6,144
Total	**515,287**	448,883	66,404	49,138	17,266
Interest expense					
Due to customers	**183,674**	159,804	23,870	12,909	10,961
Due to and placements from banks and other financial institutions and due to central banks	**64,196**	45,951	18,245	12,466	5,779
Bonds issued	**8,019**	7,579	440	171	269
Total	**255,889**	213,334	42,555	25,546	17,009
Net interest income	**259,398**	235,549	23,849	23,592	257
Domestic foreign currency businesses				Unit: USD million	
Interest income					
Loans	**2,456**	1,846	610	76	534
Investments	**424**	395	29	3	26
Due from and placements with banks and other financial institutions and balances with central banks	**637**	506	131	119	12
Total	**3,517**	2,747	770	198	572
Interest expense					
Due to customers	**972**	637	335	13	322
Due to and placements from banks and other financial institutions and due to central banks	**732**	527	205	159	46
Bonds issued	**22**	8	14	25	(11)
Total	**1,726**	1,172	554	197	357
Net interest income	**1,791**	1,575	216	1	215

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

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

Unit: RMB million, except percentages

Items	2014		2013		Change	
	Average balance	Average interest rate	Average balance	Average interest rate	Average balance	Average interest rate
Domestic RMB businesses						
Loans						
Corporate loans	**3,752,063**	**6.51%**	3,440,054	6.46%	312,009	5 Bps
Personal loans	**1,986,408**	**5.71%**	1,779,163	5.66%	207,245	5 Bps
Trade bills	**116,337**	**6.27%**	137,987	5.74%	(21,650)	53 Bps
Total	**5,854,808**	**6.23%**	5,357,204	6.17%	497,604	6 Bps
Including:						
Medium and long term loans	**3,902,599**	**6.37%**	3,583,341	6.30%	319,258	7 Bps
Short term loans within 1 year and others	**1,952,209**	**5.97%**	1,773,863	5.92%	178,346	5 Bps
Due to customers						
Corporate demand deposits	**2,082,762**	**0.74%**	2,038,522	0.70%	44,240	4 Bps
Corporate time deposits	**2,133,567**	**3.54%**	1,867,923	3.37%	265,644	17 Bps
Personal demand deposits	**1,291,650**	**0.52%**	1,209,561	0.50%	82,089	2 Bps
Personal time deposits	**2,271,031**	**3.41%**	2,157,204	3.34%	113,827	7 Bps
Other	**202,620**	**4.24%**	110,778	4.18%	91,842	6 Bps
Total	**7,981,630**	**2.30%**	7,383,988	2.16%	597,642	14 Bps
Domestic foreign currency businesses				Unit: USD million, except percentages		
Loans	**91,084**	**2.70%**	87,474	2.11%	3,610	59 Bps
Due to customers						
Corporate demand deposits	**23,329**	**0.15%**	25,173	0.08%	(1,844)	7 Bps
Corporate time deposits	**26,082**	**2.96%**	21,082	2.10%	5,000	86 Bps
Personal demand deposits	**14,283**	**0.04%**	13,981	0.04%	302	–
Personal time deposits	**14,364**	**0.59%**	15,488	0.59%	(1,124)	–
Other	**3,069**	**2.44%**	3,838	2.01%	(769)	43 Bps
Total	**81,127**	**1.20%**	79,562	0.80%	1,565	40 Bps

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

In 2014, the Bank gave full play to its international competitive advantages and continued with the integrated development at home and abroad. The Group's net interest margin increased by 1 basis point to 2.25% compared with the prior year. Major factors that affected the Group's net interest margin include:

First, the Bank's assets and liabilities structure improved. In active response to changes in the external environment, the Bank took comprehensive measures to strengthen asset and liability management. It adjusted and optimised existing assets and liabilities and efficiently allocated their increments, resulting in continuous improvement to assets and liabilities structure. High-yield assets, such as loans and due from and placements with banks and other financial institutions, accounted for a larger share in the total interest-earning assets.

Second, the Bank embraced favorable opportunities to increase return level. In 2014, the average yield of the Bank's financial investments increased by 32 basis points to 3.50% compared with the prior year. The average yield of due from and placements with banks and other financial institutions grew by 74 basis points to 4.48% compared with the prior year. The yield of domestic foreign currency loans grew by 59 basis points to 2.70% compared with the prior year.

Third, the cost of RMB liabilities rose. Affected by factors such as the increase of market interest rates, the Bank's RMB funding cost rose to some extent compared with the prior year.

Non-interest Income

In 2014, the Group reported non-interest income of RMB135.226 billion, an increase of RMB11.302 billion or 9.12% compared with the prior year. Non-interest income represented 29.63% of operating income.

Net Fee and Commission Income

The Bank consciously fulfilled social responsibilities by actively providing more financial supports to small and micro-sized enterprises and the real economy. It also strengthened product innovation and standardised its fee charge policy and practice, achieving stable growth in net fee and commission income. In 2014, it reported a net fee and commission income of RMB91.240 billion, an increase of RMB9.148 billion or 11.14% compared with the prior year. This accounted for 19.99% of operating income. The Bank strengthened its advantages in bond underwriting by setting up a three-tier distribution system and constantly enhancing its bond underwriting and distribution capability. By leveraging favorable capital market trends, it proactively cooperated with fund companies to embark on research and development of new customised products, realising an increase of 13.83% in agency commission income. The Bank optimised its bank card product range by targeting key customer segments, including cross-border, consumer finance and internet, etc., thus achieving rapid growth in bank card issuance and transaction volumes and realising an increase of 24.58% in bank card fee income compared with the prior year. It continued to promote the business interaction between domestic and overseas operations, and strived to improve customer services, resulting in an increase of 21.20% in credit commitment fees income. In addition, the Bank seized the emerging custody business opportunities in asset securitisation and public placed funds of securities firms to improve its global custody service network and comprehensively upgrade its custody service capabilities. It reported an increase of 19.21% in fiduciary service fees income.

Unit: RMB million, except percentages

Items	2014	2013	Change	Change (%)
Group				
Agency commissions	**19,973**	17,546	2,427	13.83%
Bank card fees	**21,567**	17,312	4,255	24.58%
Settlement and clearing fees	**14,815**	15,196	(381)	(2.51%)
Credit commitment fees	**16,112**	13,294	2,818	21.20%
Consultancy and advisory fees	**8,835**	9,574	(739)	(7.72%)
Spread income from foreign exchange business	**7,610**	7,147	463	6.48%
Custodian and other fiduciary service fees	**3,426**	2,874	552	19.21%
Other	**6,200**	5,642	558	9.89%
Fee and commission income	**98,538**	88,585	9,953	11.24%
Fee and commission expense	**(7,298)**	(6,493)	(805)	12.40%
Net fee and commission income	**91,240**	82,092	9,148	11.14%
Domestic				
Agency commissions	**13,965**	12,497	1,468	11.75%
Bank card fees	**18,369**	14,216	4,153	29.21%
Settlement and clearing fees	**12,727**	13,256	(529)	(3.99%)
Credit commitment fees	**11,556**	9,011	2,545	28.24%
Consultancy and advisory fees	**8,704**	9,462	(758)	(8.01%)
Spread income from foreign exchange business	**6,864**	6,361	503	7.91%
Custodian and other fiduciary service fees	**3,113**	2,577	536	20.80%
Other	**4,611**	4,170	441	10.58%
Fee and commission income	**79,909**	71,550	8,359	11.68%
Fee and commission expense	**(2,701)**	(2,330)	(371)	15.92%
Net fee and commission income	**77,208**	69,220	7,988	11.54%

Other Non-interest Income

The Group realised other non-interest income of RMB43.986 billion, an increase of RMB2.154 billion or 5.15% compared with the prior year. This was mainly attributable to the increased returns on the Bank's foreign exchange derivatives, which were traded for the purposes of asset and liability management and financing, owing to changes in the interest rate environment. Meanwhile, tradable bond valuation increased compared with the prior year. Please refer to Notes V.3, 4 of the Consolidated Financial Statements for detailed information.

Operating Expenses

The Bank persisted in the principle of practice economy and thrift in its business operation, further optimised its expense allocation mechanism and promoted business transformation and electronic channel expansion. It allocated greater resources into key areas, business frontlines and overseas institutions, continuously improving its overall input-output efficiency. The Group recorded operating expenses of RMB177.788 billion, an increase of RMB5.474 billion or 3.18% compared with the prior year. The Group's cost to income ratio (calculated under domestic regulations) was 28.57%, decreasing by 2.04 percentage points year on year. Please refer to Notes V.5, 6 of the Consolidated Financial Statements for detailed information.

Unit: RMB million, except percentages

Items	2014	2013	Change	Change (%)
Staff costs	**77,889**	72,762	5,127	7.05%
General operating and administrative expenses	**39,284**	38,387	897	2.34%
Depreciation and amortisation	**13,214**	13,598	(384)	(2.82%)
Business tax and surcharges	**26,224**	23,965	2,259	9.43%
Insurance benefits and claims	**10,900**	10,061	839	8.34%
Other	**10,277**	13,541	(3,264)	(24.10%)
Total	**177,788**	172,314	5,474	3.18%

Impairment Losses on Assets

The Bank continued to strengthen its overall risk mitigation capability by further improving its comprehensive risk management system, enhancing risk prevention and control and continuously implementing a prudent risk provisioning policy. The Bank monitored changes in the economic and financial situation and regulatory requirements, adjusted and optimised its credit structure, and strengthened credit asset quality management so as to maintain relatively stable credit asset quality.

In 2014, the Group's impairment losses on loans and advances totalled RMB46.606 billion, an increase of RMB23.668 billion or 103.18% compared with the prior year. The credit cost was 0.58%. In particular, collectively-assessed impairment losses stood at RMB23.285 billion, an increase of RMB6.414 billion compared with the prior year, while individually-assessed impairment losses stood at RMB23.321 billion, an increase of RMB17.254 billion compared with the prior year. Please refer to the section "Risk Management — Credit Risk Management" and Note V.8 and Note VI.3 to the Consolidated Financial Statements for more information on loan quality and allowance for loan impairment losses.

Income Tax Expense

In 2014, the Group incurred income tax of RMB54.280 billion, an increase of RMB5.244 billion or 10.69% compared with the prior year. The increase was primarily attributable to the growth in operating profit. The Group's effective tax rate was 23.45%. Please refer to Note V.9 to the Consolidated Financial Statements for the reconciliation of the statutory income tax rate to the effective income tax rate.

Financial Position Analysis

As at the end of 2014, the Group's total assets amounted to RMB15,251.382 billion, an increase of RMB1,377.083 billion or 9.93% compared with the prior year-end. The Group's total liabilities amounted to RMB14,067.954 billion, an increase of RMB1,155.132 billion or 8.95% compared with the prior year-end.

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

Unit: RMB million, except percentages

Items	As at 31 December 2014		As at 31 December 2013	
	Amount	% of total	Amount	% of total
Assets				
Loans and advances to customers, net	**8,294,744**	**54.39%**	7,439,742	53.62%
Investments	**2,710,375**	**17.77%**	2,403,631	17.32%
Balances with central banks	**2,306,088**	**15.12%**	2,132,001	15.37%
Due from and placements with banks and other financial institutions	**1,130,211**	**7.41%**	1,133,133	8.17%
Other assets	**809,964**	**5.31%**	765,792	5.52%
Total assets	**15,251,382**	**100.00%**	13,874,299	100.00%
Liabilities				
Due to customers	**10,885,223**	**77.38%**	10,097,786	78.20%
Due to and placements from banks and other financial institutions and due to central banks	**2,353,848**	**16.73%**	2,091,828	16.20%
Other borrowed funds	**308,492**	**2.19%**	254,274	1.97%
Other liabilities	**520,391**	**3.70%**	468,934	3.63%
Total liabilities	**14,067,954**	**100.00%**	12,912,822	100.00%

Notes:

1 Investments include investment securities available for sale, debt securities held to maturity, financial investments classified as loans and receivables, and financial assets at fair value through profit or loss.

2 Other borrowed funds include bonds issued and other borrowings.

Loans and Advances to Customers

The Bank continuously optimised its credit structure to satisfy the needs of the real economy and maintained stable growth of its loan book. New loans were primarily directed to the key national strategic opportunities, key areas related to welfare initiatives and key projects under "Going Global" efforts. By implementing these efforts, the proportion of loans to the emerging strategic sectors, such as energy-conservation, environmental protection and information consumption, was increased, and the proportion of loans to overcapacity sectors was cut. The Bank's loans extended to domestic small and micro-sized enterprises scored a year-on-year increase in incremental amount and a higher growth rate than the Bank's overall loan growth rate. As at the end of 2014, the Group's loans and advances to customers amounted to RMB8,483.275 billion, an increase of RMB875.484 billion or 11.51% compared with the prior year-end. This included RMB loans of RMB6,339.052 billion, an increase of RMB597.598 billion or 10.41% from the prior year-end, and foreign currency loans of USD350.420 billion, an increase of USD44.308 billion or 14.47% from the prior year-end.

The Bank continuously improved its risk management system. It adopted a proactive and forward-looking approach to risk management, closely monitoring the macroeconomic environment and strengthening risk identification and control in key areas. As a result, the asset quality of the Bank remained relatively stable. As at the end of 2014, the balance of the Group's allowance for loan impairment losses amounted to RMB188.531 billion, an increase of RMB20.482 billion compared with the prior year-end. The ratio of allowance for loan impairment losses to non-performing loans was 187.60%. The balance of the Group's restructured loans amounted to RMB5.342 billion, a decrease of RMB2.764 billion compared with the prior year-end.

Investments

The Bank focused on market dynamics and adjusted the structure of its investment securities portfolio accordingly. The Bank increased the size of its investment in domestic RMB bonds and used innovative tools to diversify its portfolio management strategy. Furthermore, it optimised its foreign currency investment structure and effectively managed sovereign debt risks. The overall level of return from the Group's investment securities portfolio gradually increased.

As at the end of 2014, the Group held investments of RMB2,710.375 billion, an increase of RMB306.744 billion or 12.76% compared with the prior year-end. This included RMB investments of RMB2,128.968 billion, an increase of RMB297.328 billion or 16.23% from the prior year-end, and foreign currency investments of USD95.017 billion, an increase of USD1.200 billion or 1.28% from the prior year-end.

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

Unit: RMB million, except percentages

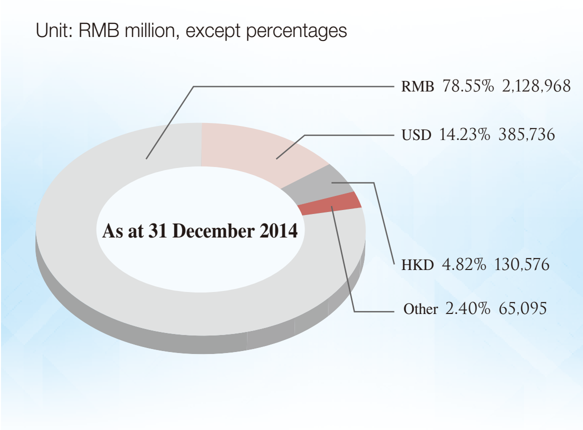
	As at 31 December 2014		As at 31 December 2013	
Items	Amount	% of total	Amount	% of total
Financial assets at fair value through profit or loss	**104,528**	**3.86%**	75,200	3.13%
Financial investments available for sale	**750,685**	**27.70%**	701,196	29.17%
Debt securities held to maturity	**1,424,463**	**52.55%**	1,210,531	50.36%
Financial investments classified as loans and receivables	**430,699**	**15.89%**	416,704	17.34%
Total	**2,710,375**	**100.00%**	2,403,631	100.00%

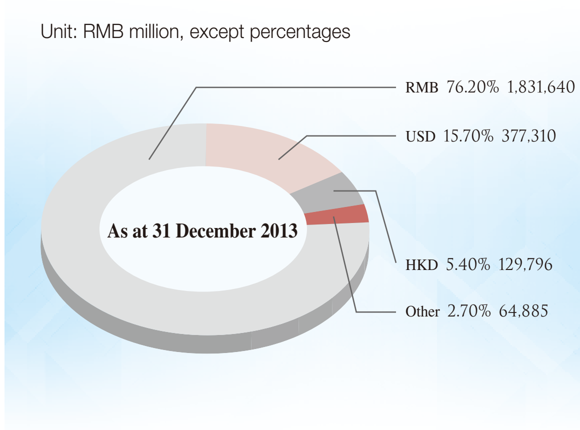
Investments by Issuer Type

Unit: RMB million, except percentages

Items	As at 31 December 2014 Amount	As at 31 December 2014 % of total	As at 31 December 2013 Amount	As at 31 December 2013 % of total
Debt securities				
Issuers in Chinese mainland				
Government	**892,754**	**32.94%**	775,366	32.26%
Public sectors and quasi-governments	**42,979**	**1.59%**	29,056	1.21%
Policy banks	**420,378**	**15.51%**	338,214	14.07%
Financial institutions	**207,606**	**7.66%**	140,582	5.85%
Corporate	**334,224**	**12.33%**	325,567	13.54%
China Orient Asset Management Corporation	**160,000**	**5.90%**	160,000	6.66%
Sub-total	**2,057,941**	**75.93%**	1,768,785	73.59%
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
Governments	**193,154**	**7.13%**	169,155	7.04%
Public sectors and quasi-governments	**45,617**	**1.68%**	55,442	2.31%
Financial institutions	**138,055**	**5.09%**	167,080	6.95%
Corporate	**60,708**	**2.24%**	48,222	2.00%
Sub-total	**437,534**	**16.14%**	439,899	18.30%
Equity securities	**56,646**	**2.09%**	43,465	1.81%
Other	**158,254**	**5.84%**	151,482	6.30%
Total	**2,710,375**	**100.00%**	2,403,631	100.00%

Investments by Currency





Top Ten Financial Bonds by Value Held by the Group

Unit: RMB million, except percentages

Bond Name	Par Value	Annual Rate	Maturity Date	Impairment
Bond issued by policy banks in 2014	7,470	5.44%	2019/04/08	–
Bond issued by policy banks in 2005	6,800	3.42%	2015/08/02	–
Bond issued by policy banks in 2010	6,070	Term deposit rate for 1 year +0.52%	2017/01/26	–
Bond issued by policy banks in 2006	5,000	Term deposit rate for 1 year +0.60%	2016/12/12	–
Bond issued by policy banks in 2011	4,910	3.55%	2016/12/06	–
Bond issued by policy banks in 2014	4,860	5.61%	2021/04/08	–
Bond issued by policy banks in 2010	4,750	Term deposit rate for 1 year +0.59%	2020/02/25	–
Bond issued by policy banks in 2009	4,660	Term deposit rate for 1 year +0.54%	2016/09/01	–
Bond issued by policy banks in 2011	4,400	3.83%	2018/11/24	–
Commercial bank tier 2 capital bond in 2014	3,800	5.98%	2029/08/18	–

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

Due to Customers

The Bank actively sought customers along the upstream and downstream of supply chains and industrial chains, and strived to expand traditional businesses such as salary payment agency and payment agency, through which the customer base was expanded and customer deposits grew steadily.

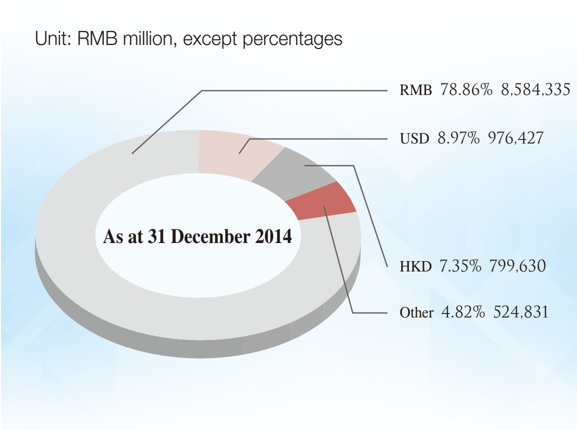
As at the end of 2014, the Group's due to customers amounted to RMB10,885.223 billion, an increase of RMB787.437 billion or 7.80% compared with the prior year-end. This included RMB deposits of RMB8,584.335 billion, an increase of RMB493.233 billion or 6.10% from the prior year-end, and foreign currency deposits of USD376.024 billion, an increase of USD46.892 billion or 14.25% from the prior year-end.

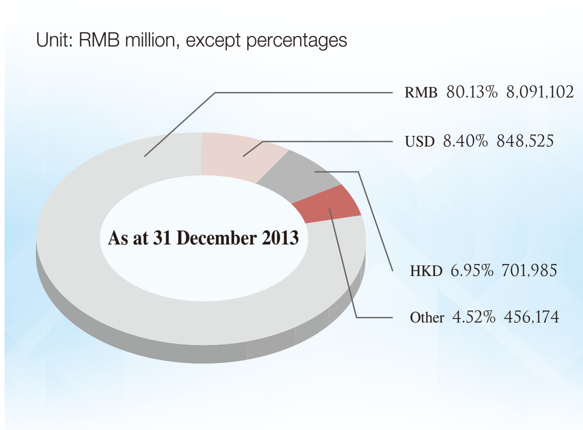
The principal components of due to customers of the Group and its domestic institutions are set out below:

Unit: RMB million, except percentages

Items	As at 31 December 2014		As at 31 December 2013	
	Amount	% of total	Amount	% of total
Group				
Corporate deposits				
Demand deposits	**2,663,173**	**24.46%**	2,635,353	26.10%
Time deposits	**3,013,812**	**27.69%**	2,655,911	26.30%
Structured deposits	**234,187**	**2.15%**	129,614	1.28%
Sub-total	**5,911,172**	**54.30%**	5,420,878	53.68%
Personal deposits				
Demand deposits	**1,847,870**	**16.98%**	1,835,753	18.18%
Time deposits	**2,709,995**	**24.90%**	2,517,922	24.93%
Structured deposits	**83,300**	**0.76%**	26,884	0.27%
Sub-total	**4,641,165**	**42.64%**	4,380,559	43.38%
Certificates of deposit	**278,576**	**2.56%**	238,264	2.36%
Other deposits	**54,310**	**0.50%**	58,085	0.58%
Total	**10,885,223**	**100.00%**	10,097,786	100.00%
Domestic				
Corporate deposits				
Demand deposits	**2,254,165**	**26.10%**	2,298,447	27.97%
Time deposits	**2,238,938**	**25.93%**	2,045,509	24.90%
Structured deposits	**204,590**	**2.37%**	119,554	1.46%
Sub-total	**4,697,693**	**54.40%**	4,463,510	54.33%
Personal deposits				
Demand deposits	**1,411,723**	**16.35%**	1,427,875	17.38%
Time deposits	**2,394,343**	**27.73%**	2,245,404	27.34%
Structured deposits	**80,884**	**0.94%**	23,874	0.29%
Sub-total	**3,886,950**	**45.02%**	3,697,153	45.01%
Other deposits	**49,956**	**0.58%**	54,181	0.66%
Total	**8,634,599**	**100.00%**	8,214,844	100.00%

Due to Customers by Currency





Equity

As at the end of 2014, the Group's total equity was RMB1,183.428 billion, an increase of RMB221.951 billion or 23.08% compared with the prior year-end. This change was primarily attributable to the following reasons: (1) In 2014, the Bank realised a profit for the year of RMB177.198 billion, of which profit attributable to equity holders of the Bank amounted to RMB169.595 billion. (2) As per the 2013 profit distribution plan approved at the Annual General Meeting, the Bank paid a cash dividend of RMB54.755 billion. (3) The Bank actively and prudently pushed forward the external capital financing, and successfully issued approximately USD6.5 billion preference shares aboard and RMB32.0 billion preference shares at home. (4) Part of A-Share Convertible Bonds of the Bank were converted into ordinary A shares. Please refer to the "Consolidated Statement of Changes in Equity" to the Consolidated Financial Statements for further details.

Off-balance Sheet Items

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

The Group entered into various derivative financial instruments relating to foreign currency exchange rates, interest rates, equity, credit, precious metals and other commodities for trading, hedging, asset and liability management and on behalf of customers. Please refer to Note V.16 to the Consolidated Financial Statements for the contractual/notional amounts and fair values of derivative instruments.

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

Cash Flow Analysis

As at the end of 2014, the balance of the Group's cash and cash equivalents was RMB1,148.151 billion, a decrease of RMB2.415 billion compared with the prior year-end.

In 2014, net cash flow from operating activities was an inflow of RMB126.918 billion, a decrease of RMB185.503 billion compared with the prior year. This was mainly attributable to a decrease of net increase in due to customers, an increase of net increase in loans and advances to customers, and a decrease of net changes in placements from banks and other financial institution compared with the prior year.

Net cash flow from investing activities was an outflow of RMB200.599 billion, an increase of RMB38.869 billion compared with the prior year. This was mainly attributable to an increase in net cash outflow of securities investments.

Net cash flow from financing activities was an inflow of RMB83.555 billion, compared to an outflow of RMB49.621 billion of the prior year. This was mainly attributable to an increase of proceeds from issuance of bonds and preference shares.

Segment Reporting by Geography

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

Unit: RMB million

Items	Chinese mainland		Hong Kong, Macau and Taiwan		Other countries		Elimination		Group	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Net interest income	**270,405**	245,298	**33,467**	27,407	**17,230**	10,880	**–**	–	**321,102**	283,585
Non-interest income	**98,969**	91,318	**33,102**	30,531	**4,161**	2,859	**(1,006)**	(784)	**135,226**	123,924
Including: net fee and commission income	**77,208**	69,220	**11,758**	10,563	**3,033**	3,035	**(759)**	(726)	**91,240**	82,092
Operating expenses	**(147,149)**	(144,523)	**(26,990)**	(24,693)	**(4,655)**	(3,886)	**1,006**	788	**(177,788)**	(172,314)
Impairment losses on assets	**(43,940)**	(20,562)	**(2,850)**	(1,895)	**(1,591)**	(1,053)	**–**	–	**(48,381)**	(23,510)
Profit before income tax	**178,285**	171,531	**38,048**	32,442	**15,145**	8,800	**–**	4	**231,478**	212,777
As at the year-end										
Assets	**12,071,129**	11,082,460	**2,715,651**	2,404,270	**1,843,435**	1,441,923	**(1,378,833)**	(1,054,354)	**15,251,382**	13,874,299
Liabilities	**11,125,104**	10,328,324	**2,521,863**	2,230,851	**1,799,659**	1,407,841	**(1,378,672)**	(1,054,194)	**14,067,954**	12,912,822

As at the end of 2014, total assets[2] of Chinese mainland amounted to RMB12,071.129 billion, an increase of RMB988.669 billion or 8.92% compared with the prior year-end, representing 72.59% of the Group's total assets. In 2014, this segment recorded a profit before income tax of RMB178.285 billion, an increase of RMB6.754 billion or 3.94% compared with the prior year, representing 77.02% of the Group's profit before income tax for the year.

Total assets of Hong Kong, Macau and Taiwan segment amounted to RMB2,715.651 billion, an increase of RMB311.381 billion or 12.95% compared with the prior year-end, representing 16.33% of the Group's total assets. In 2014, this segment recorded a profit before income tax of RMB38.048 billion, an increase of RMB5.606 billion or 17.28% compared with the prior year, representing 16.44% of the Group's profit before income tax for the year.

Total assets of the other countries segment amounted to RMB1,843.435 billion, an increase of RMB401.512 billion or 27.85% compared with the prior year-end, representing 11.08% of the Group's total assets. In 2014, this segment recorded a profit before income tax of RMB15.145 billion, an increase of RMB6.345 billion or 72.10% compared with the prior year, representing 6.54% of the Group's profit before income tax for the year.

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

Critical Accounting Estimates and Judgements

The Bank makes accounting estimates and judgments that affect the reported amounts of assets and liabilities of the next financial year. These estimates and judgments are continuously evaluated and are based on historical experience, expectations of future events that are believed to be reasonable under the circumstances and other factors. The management believes that the accounting estimates and judgments have properly reflected the Bank's operating environment. Please refer to Notes II and III to the Consolidated Financial Statements for more detailed information related to the Bank's accounting policies and accounting estimates.

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

Fair Value Measurement

Movement of Financial Instruments Measured at Fair Value

Unit: RMB million

Items	Opening balance	Closing balance	Change in the year	Impact on profit for the year
Financial assets at fair value through profit or loss				
Debt securities	62,852	82,285	19,433	3,849
Fund investments and other	1,278	2,211	933	
Loans	4,321	4,144	(177)	
Equity securities	6,749	15,888	9,139	
Investments securities available for sale				
Debt securities	665,758	712,138	46,380	(577)
Fund investments and other	8,821	11,999	3,178	
Equity securities	26,617	26,548	(69)	
Derivative financial assets	40,823	47,967	7,144	1,857
Derivative financial liabilities	(36,212)	(40,734)	(4,522)	
Placements from banks and other financial institutions at fair value	–	(5,776)	(5,776)	(34)
Due to customers at fair value	(156,498)	(317,487)	(160,989)	(3,521)
Short position in debt securities	(7,681)	(7,224)	457	(14)

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

Other Financial Information

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

Operating income for each line of business of the Group is set forth in the following table:

Unit: RMB million, except percentages

Items	2014		2013	
	Amount	% of total	Amount	% of total
Commercial banking business	**429,300**	**94.08%**	383,075	94.00%
Including: Corporate banking business	**209,912**	**46.00%**	196,615	48.25%
Personal banking business	**126,250**	**27.67%**	118,845	29.16%
Treasury operations	**93,138**	**20.41%**	67,615	16.59%
Investment banking and insurance	**18,231**	**4.00%**	16,992	4.17%
Others and elimination	**8,797**	**1.92%**	7,442	1.83%
Total	**456,328**	**100.00%**	407,509	100.00%

A detailed review of the Group's principal deposits and loans as at the end of 2014 is summarised in the following table:

Unit: RMB million

Items	As at 31 December 2014	As at 31 December 2013	As at 31 December 2012
Corporate deposits			
Domestic: RMB	**4,431,867**	4,179,257	3,755,626
Foreign currency	**265,826**	284,253	288,324
Hong Kong, Macau, Taiwan and overseas operations:			
RMB equivalent of other currencies	**1,213,479**	957,368	769,575
Subtotal	**5,911,172**	5,420,878	4,813,525
Personal deposits			
Domestic: RMB	**3,688,329**	3,508,797	3,234,301
Foreign currency	**198,621**	188,356	187,452
Hong Kong, Macau, Taiwan and overseas operations:			
RMB equivalent of other currencies	**754,215**	683,406	659,387
Subtotal	**4,641,165**	4,380,559	4,081,140
Corporate loans			
Domestic: RMB	**4,021,257**	3,688,976	3,452,004
Foreign currency	**500,208**	503,179	488,518
Hong Kong, Macau, Taiwan and overseas operations:			
RMB equivalent of other currencies	**1,524,131**	1,247,184	1,039,877
Subtotal	**6,045,596**	5,439,339	4,980,399
Personal loans			
Domestic: RMB	**2,082,757**	1,864,654	1,617,123
Foreign currency	**1,551**	1,371	1,037
Hong Kong, Macau, Taiwan and overseas operations:			
RMB equivalent of other currencies	**353,371**	302,427	266,137
Subtotal	**2,437,679**	2,168,452	1,884,297

Commercial Banking

Domestic Commercial Banking

In 2014, the Bank's domestic commercial banking recorded an operating income of RMB364.502 billion, an increase of RMB31.660 billion or 9.51% compared with the prior year. Details are set forth below:

Unit: RMB million, except percentages

	2014		2013	
Items	**Amount**	**% of total**	Amount	% of total
Corporate banking business	**192,006**	**52.68%**	177,787	53.41%
Personal banking business	**112,960**	**30.99%**	107,111	32.18%
Treasury operations	**58,524**	**16.05%**	47,079	14.15%
Others	**1,012**	**0.28%**	865	0.26%
Total	**364,502**	**100.00%**	332,842	100.00%

Corporate Banking

The Bank devoted great efforts to business transformation in corporate banking. It continued to promote product innovation, optimise its customer structure, expand the customer base, and enhance its diversified and integrated business, thus achieving a balanced and steady development of its corporate banking. In 2014, the Bank's domestic corporate banking business recorded an operating income of RMB192.006 billion, an increase of RMB14.219 billion or 8.00% compared with the prior year.

Corporate Deposits

The Bank accelerated the development of its corporate liability business and realised sustainable growth in corporate deposits. In addition, it strived to attract more administrative institutions customers by improving product and service systems for corporate customers engaged in supporting people's livelihood, public finance and social security, education and public health, etc., and reported a rapid growth in deposits from such institutions. The Bank also actively sought out customers along the upstream and downstream of supply chains and industrial chains in order to explore more potential customer deposits and increase the proportion of customer deposits to the Bank's deposit franchise. The Bank stepped up its cash management product marketing efforts, and fully leveraged opportunities arising from the rapid development of corporate direct financing to expand its deposit sources. In addition, the Bank enhanced corporate banking service levels and improved the service functions of its outlets, resulting in an increase in the average contribution of deposits per outlet.

As at the end of 2014, RMB corporate deposits in the Bank's domestic operations totalled RMB4,431.867 billion, an increase of RMB252.610 billion or 6.04% compared with the prior year-end. Foreign currency corporate deposits amounted to USD43.443 billion.

Corporate Loans

Adapting to the "new normal" of economic requirements, the Bank actively responded to the trend of interest rate market liberalisation and thus achieved an appropriate balance between risks and earnings. It actively adjusted its credit structure and raised efficiency of credit resource usage. It proactively prevented and controlled risks so as to improve its differentiated mechanism of credit management. The Bank continuously strengthened its credit support for the real economy and accelerated credit restructuring. Through direct financing, supply chain financing, online financing and other products, it provided greater credit support to strategically emerging industries, service industries, and modern agriculture, allocated more loans to central and western China, gave stronger credit support to medium, small and micro-sized enterprises and major on-going and renewed construction projects for upgrading of traditional industries. The Bank stepped up the transformation of its financial services to meet customers' needs. It reduced lending to industries characterised by high pollution, high energy consumption and overcapacity, and strictly controlled loans to real estate sector. In 2014, loans granted by the Bank to strategic emerging industries, the cultural sectors, and agriculture-related industries increased by 20%, 11.3% and 10% respectively. The proportion of loans to central and western China rose significantly and the percentage of domestic loans to overcapacity industries and local government financing vehicles ("LGFVs") continued to fall.

As at the end of 2014, the Bank's domestic RMB corporate loans totalled RMB4,021.257 billion, an increase of RMB332.281 billion or 9.01% compared with the prior year-end. Foreign currency corporate loans totalled USD81.747 billion.

Trade Finance and Settlement

Dedicated to its development goal of being best trade finance bank, the Bank continued to strengthen its market dominance by promoting business innovation, improving management mechanisms and driving forward the stable growth of its trade finance business while effectively managing and controlling risks. In 2014, the Group's international settlement volume reached USD3.92 trillion, an increase of 14.79% compared with the prior year. The Bank's domestic institutions retained a leading position among peers in providing international trade settlement, held the leading market share of overseas guarantee business and ranked first globally in two-factor export factoring business.

The Bank accelerated the development of its emerging strategic businesses. It actively expanded supply chain finance in key industries, bringing business volumes above RMB973.7 billion during 2014. The Bank stepped up the development of its commodity business unit (Singapore) and realised rapid growth in its commodity financing businesses in London and New York. It has set up a commodity business platform in Shanghai and signed a strategic cooperation agreement with the Shanghai International Energy Exchange to assist in launching crude oil futures. In addition, the Bank provided centralised cross-border fund management services for the headquarters of multinational enterprises, leading the market in terms of the number of customers for which the Bank served as the lead bank.

The Bank also vigorously promoted the development of its RMB internationalisation business. It implemented the RMB internationalisation strategy and endeavoured to be the main channel for cross-border RMB fund flows, a key promoter of RMB internationalisation, and a leader in RMB-related financial product and service innovation. In 2014, the cross-border RMB settlement volume of the Group reached RMB5.32 trillion, an increase of 34% compared with the prior year. Cross-border RMB settlement volume of the domestic institutions of the Bank totalled RMB2.55 trillion, maintaining its leading market share. In addition, the Bank actively promoted the use of RMB products in emerging business and offshore markets, continually improved its RMB global clearing services, took the lead in establishing the direct trading of RMB against New Zealand Dollar, Euro and Singapore Dollar and developed RMB offshore financial products in cooperation with major exchanges around the world. It continued to publish the *White Paper on RMB Internationalisation Business of Bank of China*, "BOC Cross-border RMB Index (CRI)" and "BOC Offshore RMB Index (ORI)", thus maintaining its position as the leading professional bank in RMB internationalisation business.

In 2014, the Bank received 20 awards granted by well-known local and international media titles and institutions, including "Best Trade Finance Bank", "Best Supply Chain Finance Bank" and "Best Cross-border RMB Business Bank", and ranked fifth among "Export and Import Factors of The Year" as rated by Factors Chain International (FCI), ahead of its Chinese peers.

Cash Management

Giving full play to the advantages arising from its internationalised operations, the Bank continuously expanded the functionality of its global cash management platform in order to provide efficient, convenient and secure global cash management services for its customers. Cash management business coverage extended to 41 countries and regions across Asia-Pacific, Europe, Africa and the Americas. The Bank made great efforts to attract global customers and maintain its leading market share, driving growth through services such as the centralised operation of foreign currency funds for the headquarters of multinational corporations, the centralised operation of cross-border RMB funds and the pilot operation of the China (Shanghai) Pilot Free Trade Zone. Moreover, it has strengthened product innovation, introducing products including "BOC-Multi-subaccount", "BOC Reserve Fund" and "Global SWIFT Host to Host Connection", in an effort to expand its customer base into administrative institutions, third-party payment institutions and large multinational corporations. The Bank successfully secured the cash management business of many large multinational corporations through competitive bids, with the global cash management group customer base increasing by over 50%. The Bank was recognised as "Best Domestic Cash Manager in China" by *Euromoney* for the third consecutive year.

Financial Institutions Business

The Bank continued to build its comprehensive financial services platform and strengthened overall cooperation with its global financial institution clients, maintaining the leading position in terms of financial institution customer coverage. Having established correspondent relationships with more than 1,600 financial institutions in 179 countries and regions, the Bank provided financial services for multinational institutions and enterprises in fields such as international settlement, bond financing, foreign exchange trading, custody and global cash management, supporting both Chinese "Going Global" enterprises and inbound foreign investors. Correspondent banks from over 100 countries and regions across 5 continents opened 1,290 cross-border RMB clearing accounts with the Bank, consolidating the Bank's leading position in the market. The Bank's custody service for Qualified Foreign Institutional Investors ("QFII") ranked among the top in terms of client base and business scale. The Bank stepped up cooperation with overseas non-bank financial institutions and signed memoranda of understanding regarding strategic cooperation with Deutsche Börse AG, London Stock Exchange Group, Luxembourg Stock Exchange, Euronext, ASX Limited, NZX Limited, Korea Exchange Inc., Japan Exchange Group, The Stock Exchange of Thailand and the Dubai Mercantile Exchange. The Bank played an active role in the Shanghai-Hong Kong Stock Connect, and became the exclusive settlement bank of Hong Kong Securities Clearing Company Ltd. (HKSCC) for its northbound trading, with BOCHK and the Shanghai Branch serving as settlement banks in Hong Kong and Chinese mainland respectively. The Bank also qualified as a cross-border settlement bank of China Securities Depository and Clearing Corporation Limited for its southbound trading, with BOCHK as the designated account opening bank in Hong Kong for settlement and the provider for relevant settlement and foreign exchange services.

As at the end of 2014, the Bank ranked first in terms of foreign currency deposits from financial institutions. The Bank also led its peers in terms of business volume of B-share clearing service. The inbound international settlement business volume directed to the Bank by its overseas correspondent banks also ranked first in the market. The market share of third-party custodian business continued to rise.

SME Finance

The Bank actively fulfilled its social responsibilities by supporting the development of SMEs. It strengthened financial support to medium, small and micro-sized enterprises through numerous measures and a range of service innovations. In 2014, the growth rate of loans to small and micro-sized enterprises in Chinese mainland exceeded the average growth rate of all domestic loans, and their incremental amount surpassed that of the prior year. Proactively leveraging its advantages as an international bank, the Bank launched its innovative "SME Cross-border Investment Matchmaking Service" across the world. This helped domestic SMEs to find solutions to their financing difficulties by accessing foreign funds and advanced technologies, thus serving as a guide for both Chinese "Going Global" SMEs and distinguished overseas SMEs entering China. The Bank held Sino-Italy, Sino-Germany and Sino-France SME cooperative forums to provide cross-border matchmaking services, winning widespread praise from domestic and overseas SMEs, governments and other sectors of society. The Bank made innovative upgrades to the "BOC Jie Li Tong Bao" product and streamlined the process of working capital loans to small and micro-sized enterprises, thus alleviating issues regarding loan renewal and reducing their financing costs. Furthermore, the Bank built up its internet-based financial services model for SMEs including "BOC Wang Luo Tong Bao", "Wo Finance", "Yi Da Tong" and "BOC Wang Rong Yi", with the aim of combining online and offline services. The Bank enhanced risk control and compliance management, improved its early-warning mechanisms on asset quality and continuously enhanced its capabilities in identifying and mitigating credit risk, thus maintaining SME loan quality at a stable and controllable level.

As at the end of 2014, the Bank's outstanding loans to small and micro-sized enterprises[3] amounted to RMB1,038.2 billion, an increase of RMB145.5 billion compared with the prior year-end. Borrowers under the "BOC Credit Factory" model exceeded 60,000, an increase of 9.65% compared with the prior year-end, and the balance of loans exceeded RMB350 billion, an increase of 17% compared with the prior year-end.

Pension Business

In an effort to support the development of social security, the Bank continuously increased its pension-related product offerings and optimised service systems to enhance customer satisfaction. It provided a series of pension-related financial services in the fields of corporate annuities, occupational annuities, social security related services, employee welfare

[3] Small and micro-sized enterprise loans statistical standards are executed in accordance with the *Guiding Opinions on Financial Services for Small and Micro-sized Enterprises in 2014* (Yinjianfa [2014] No. 7).

plans, and pension asset management agency. As at the end of 2014, the Bank's total number of individual pension accounts reached 3.0684 million, and assets under custody amounted to RMB99.552 billion, serving more than 9,500 clients. Newly opened individual pension accounts in 2014 reached 0.6369 million, with new assets under custody amounting to RMB26.604 billion, an increase of 26.19% and 36.47% respectively compared with the prior year-end.

Shanghai-Hong Kong Stock Connect

The Bank has effectively integrated high-quality business resources across the entire service network of the Group. It has vigorously supported the smooth running of the "Shanghai-Hong Kong Stock Connect Scheme" ("SH-HK Stock Connect"), offering more diverse investment options to cross-border investors in Chinese mainland and Hong Kong. This provides unique opportunities for the Bank to leverage cross-border interaction, to provide cross-border financial services and to promote related service brands. In October 2014, China Securities Depository and Clearing Corporation Limited approved the Bank's application to provide cross-border fund settlement for the "Southbound Link" and designated BOCHK as its account opening bank for fund settlement in Hong Kong, responsible for related settlement and exchange services. In November 2014, Hong Kong Securities Clearing Company Ltd. designated the Bank as the exclusive settlement bank for the "Northbound Link", and selected BOCHK and the Shanghai Branch of the Bank as the settlement bank in Hong Kong and Chinese mainland respectively.

The Bank has provided premier financial services for capital markets customers in Shanghai and Hong Kong exchanges by leveraging its competitive advantages in foreign exchange and cross-border RMB businesses. First, the Bank launched featured SH-HK Stock Connect services in close cooperation with four institutions in Chinese mainland and Hong Kong. Whole-process services were jointly provided by the Bank's domestic branches, BOCHK, BOCI and BOCI China. By combining their respective professional advantages, these entities have improved their resource and information sharing with the aim of providing SH-HK Stock Connect customers with an integrated financial services offering, featuring the most qualified service provider, the most professional investment advice, the most convenient service channel, the most cost-effective fee charges and the most comprehensive cross-border services. Second, the Bank provided supporting products and services to SH-HK Stock Connect customers based on its cross-border operations platform. Domestic customers can benefit from BOCHK and BOCI's research findings, while Hong Kong and overseas customers can benefit from domestic operation advantages in products and services of the Bank's domestic commercial banks and BOCI China. Third, the Bank fully leveraged its extensive experience in cross-border services, offered a diversified portfolio of cross-border financial service plans, and provided multi-dimensional wealth management and one-stop financial service for SH-HK Stock Connect customers.

On 17 November 2014, the landmark SH-HK Stock Connect programme was launched. The successful connection of the Shanghai and Hong Kong capital markets marked a new chapter in the opening up of Chinese capital markets and RMB internationalisation. On 18 November 2014, the Bank exclusively handled the first cross-border transfer and clearing of funds under the Northbound Link, and successfully handled its first cross-border transfer of risk control fund under the Southbound Link. Since the launch of SH-HK Stock Connect, the Bank's business processes have been running smoothly and effectively. As at the end of 2014, the Bank had cleared RMB73.7 billion of funds through SH-HK Stock Connect, accounting for about 93% of total fund clearing volume. BOCHK realised an average daily trading volume for Northbound Link customers of RMB49 million, with the average amount per transaction approximately double that of the Hong Kong stock trading, and conducted about RMB2.1 billion of fund exchanges through Southbound Link. The total trading volume of BOCI's Northbound Link customers stood at RMB4,269 million, while that of BOCI China's Southbound Link customers was HKD240 million. Through Southbound Link business, the customer assets of BOCI China have increased by RMB4,993 million.

Personal Banking

The Bank transformed its development model in response to market changes and fully utilised "big data" to consolidate its core advantages. It promoted a sales strategy of "online products coupled with offline operations", a service model primarily rooted in online channels and supplemented by offline channels, in order to continuously enhance its personal banking service capabilities. In 2014, the Bank's domestic personal banking business realised an operating income of RMB112.960 billion, an increase of RMB5.849 billion or 5.46% compared with the prior year.

Personal Deposits

The Bank continued to encourage innovation in personal account products. Based on the existing "Master Account" offering, it introduced account packages function such as personal account management, family account management, account transfers among kin, and loan repayment management so as to provide customers with tailored products and meet their fund requirements. The Bank strengthened collaboration between corporate and personal banking as well as product portfolio marketing, providing "Going Global" enterprises with comprehensive personal finance products and services. To further enhance its leading advantage in foreign exchange services, the Bank added the Brazilian Real, Vietnamese Dong, Cambodian Riel and Mongolian Tugrik to its personal two-way cash exchange service offerings, bringing the number of foreign currencies offered for cash exchange to 25. Personal foreign exchange sales and purchase services were available across all channels, including mobile banking and telephone banking.

As at the end of 2014, the Bank's domestic RMB personal deposits totalled RMB3,688.329 billion, an increase of RMB179.532 billion or 5.12% compared with the prior year-end. Personal foreign-currency deposits amounted to USD32.460 billion, an increase of USD1.566 billion or 5.07% compared with the prior year-end, and the Bank's market share remained top among its peers.

Personal Loans

The Bank continued to optimise its business structure of personal loans. It further consolidated the fundamental contribution of its residential mortgage loan business, enhanced housing-related financial services and actively fulfilled its social responsibilities by supporting small and micro-sized enterprises. It established tailored financing service models for different customer segments, such as customers targeted by shopping districts or industrial chains, or those commonly engaged in agriculture-related businesses. The Bank has served as the host bank of government-sponsored student loans for central government-administered colleges for ten consecutive years. The Bank continued to enhance its personal loan system and channel development, and actively developed its electronic channel for personal loans. By fully leveraging the Group's global presence, the Bank provided customers with services such as foreign currency loans for overseas study and cross-border credit rating certification.

As at the end of 2014, the total amount of the Bank's domestic RMB personal loans stood at RMB2,082.757 billion, an increase of RMB218.103 billion or 11.70% compared with the prior year-end. The Bank maintained a leading position in personal auto loans and sponsored student loans.

Wealth Management and Private Banking

The Bank has phased in its customer-centred "Relationship-Product-Channel" marketing collaboration mechanism and established a full-scale customer relationship management system. It has built up its customer manager team and enhanced its professional strengths and service capacities to increase customer satisfaction. The Bank has strengthened its ability to identify and expand business relationships with prime customers, enhanced its service offering for middle and high-end customers and thus steadily enlarged the middle and high-end customer base while achieving a globally integrated service. Adhering to its value investment philosophy, it continuously enhanced its specialised service capability in private banking, reinforced R&D for proprietary products and carried out a comprehensive financial assets management service. As the first bank in China to introduce QDII-oriented products for leveraged investment in preference shares listed in overseas market, the Bank facilitated Chinese private wealth in benefiting from global economic growth.

Leveraging the advantages arising from its internationalised operations, the Bank established customised domestic and overseas private trusts to meet customer needs for family wealth inheritance. The Bank set up "BOC exclusive loans", a platform that finances customers' personal consumption and business operation, in an effort to support the development of the real economy. Caring on the education of the next generation, it integrated top international education resources, worked together with customers to hold donation activities such as the "Spring Buds Programme", and promoted entrepreneurial spirit and awareness of social responsibility. Giving full play to the functions and advantages of its global network, the Bank provided personalised comprehensive financial services solutions and integrated cross-border services tailored to customers' demands. Taking advantage of its position as a bridge between Chinese mainland and Hong Kong, the Bank took the lead in initiating the Shanghai-Hong Kong Stock Connect programme, and maintained its leading position in cross-border business.

As at the end of 2014, the Bank had set up 6,809 wealth management centres, 280 prestigious wealth management centres and 34 private banking centres in Chinese mainland. The number of middle to high-end customers increased by more than 10% compared with the prior year-end. The Group had about 74,000 private banking customers and managed over RMB720 billion in customer financial assets.

In 2014, the Bank was recognised as the "Most Satisfactory Financial Service Provider for Studying Abroad" by *China Daily* and the "2014 Most Competitive Wealth Management Institution" by China Finance Billboard of HEXUN.COM.

Bank Card

The Bank strived to improve the comprehensive features of its credit card product system to serve the diversified rights and interests of cardholders. It introduced innovative products including BOC Great Wall Traveller's Credit Card, BOC Great Wall International Student Credit Card and BOC Great Wall Auto Credit Card, and upgraded its co-brand airline credit cards, aiming at the five key customer groups of middle and high-end customers, business travellers, cross-border customers, consumer finance and internet users. The Bank also promoted innovation in its consumer finance business by launching new products such as instalments for purchase, agricultural and educational purposes, so as to meet diversified demands for consumer purchases on credit. The Bank provided immediate and flexible payment services tailored to customer needs by pushing forward its mobile payment strategy, improving customised payment services and mobile internet service delivery platforms including WeChat and smartphone apps for customers, and by developing online payment, virtual payment and quick payment services. Therefore, customer experience was further enhanced. In addition, the Bank optimised online bank card application channels of online banking, mobile banking, WeChat and telephone banking as well as launching the market-leading smart mobile merchant acquiring product "BOC Acquiring MPOS" and overseas card online-acquiring products. In order to facilitate "happy travelling, happy purchasing and happy experience" for customers, the Bank introduced an online and offline integrated reward points service for personal credit card and private banking customers, and created an integrated global network of merchants providing discounted offers.

The Bank has used its financial IC cards offering to vigorously expand debit card use across multiple industries, including corporate campuses, schools, communities, public transportation, commerce, personal identification, social security and hospitals. In carrying forward its Livelihood Financial Services system, the Bank participated in over 250 social security card initiatives spanning 30 provinces and municipalities directly under the Central Government. The Bank launched exclusive product service schemes for pensioners and doctors, including the issuance of Evergreen Cards and Great Wall Doctor Card. The Bank actively promoted the construction of an overseas debit card system, and encouraged overseas institutions to issue UnionPay standard dual-currency (RMB and local currency) debit cards and Visa and MasterCard single currency debit cards. Such debit card products have been issued by 15 overseas institutions.

As at the end of 2014, the issuance amount and transaction volumes of the bank cards of the Bank are set forth below:

Unit: million cards/RMB billion, except percentages

Items	As at 31 December 2014	As at 31 December 2013	Change (%)
Cumulative number of debit cards	**361.9304**	302.5888	19.61%
Cumulative number of effective credit cards	**47.8694**	41.8994	14.25%
Cumulative number of social security cards with financial functions	**60.6907**	42.1675	43.93%
	2014	2013	Change (%)
Transaction amount of debit cards	**2,124.041**	1,862.530	14.04%
Transaction amount of credit cards	**1,338.230**	1,020.215	31.17%
RMB card merchant acquiring transaction amount	**3,520.376**	3,189.640	10.37%
Foreign currency card merchant acquiring transaction amount	**28.431**	25.535	11.34%

Financial Markets Business

By closely tracking financial market dynamics and adapting to trends in interest rate and exchange rate liberalisation and RMB internationalisation, the Bank continued to streamline its business structure and actively participate in financial market innovation. By fully leveraging its professional advantages, the Bank comprehensively improved its capabilities in asset management, market financing, trading, custodian service, investment operations and risk control. The financial markets business of the Bank continued to develop in a sustainable, sound and steady manner.

Securities Investments

The Bank continued to capture market opportunities, stepping up its investments in RMB interest rate products and high-grade credit bonds when market interest rates increased. It properly managed the durations of its investments, thus significantly increasing investment returns. The Bank strengthened its credit risk analysis capability, balanced risk against return and properly managed its portfolio risk. In addition, the Bank actively followed market trends, steadily made allocation on asset securitisation products and diversified the types of investment products in its portfolio. The Bank tracked and responded to fluctuations in international bond markets and thus controlled interest rate risk while optimising the structure of foreign currency investments. The Bank focused on the unified operations and decision-making of its overseas institutions regarding bond investments, thus strengthening the centralised management of group-wide bond investment.

Business in the China (Shanghai) Pilot Free Trade Zone

The introduction of the China (Shanghai) Pilot Free Trade Zone (the "Shanghai FTZ") has created valuable opportunities for the Bank to grow its business and improve its management system. Following its strategic goal of "Serving Society, Delivering Excellence", the Bank is tasked with the responsibility of supporting reform, opening up and RMB internationalisation. As such, it has made great efforts to become the premier financial service provider, market rule maker, and all-round leader in the overseas and cross-border business of the Shanghai FTZ. Owing to the concerted efforts of related departments and branches, the Bank's business in the Shanghai FTZ has established an industry-leading position, with supporting business coordination and risk management mechanisms in place.

In 2014, the Bank cumulatively extended RMB8.293 billion in overseas loans in the Shanghai FTZ, established two-way fund pools for 27 customers (among which 17 had inward and outward fund transfers totalling RMB24.16 billion) and opened a total of 2,625 free trade accounts. The market shares of all of the Bank's financial products designed for the Shanghai FTZ were clearly dominant. Through free trade accounts, the Bank has launched the most diversified business in the banking industry, e.g. loans, trade finance, asset resale, settlement under current and direct investment accounts, currency exchange, time deposit and inter-bank placement. In addition, the Bank completed the first pioneering precious metal and bulk commodity derivatives transactions.

Leveraging the strong integration and cooperation of its domestic and overseas operations, the Bank granted a cross-border RMB loan of RMB5.1 billion to Shanghai International Port (Group) ("SIPG"). Headline News of this loan was covered prominently in *People's Daily* on 28 April 2014, drawing wide attention from the general public and encouraging other banks to follow. In the end, the Bank coordinated with other banks to extend loans of RMB10 billion to SIPG, effectively slashing its funding costs.

At the end of 2013, Dongfeng Motor Group ("Dongfeng Motor") set about acquiring PSA Peugeot Citroën (PSA). Capitalising on the Shanghai FTZ's preferential policies on cross-border M&A, the Bank provided Dongfeng Motor with a comprehensive financial services solution including syndicated loan, transaction settlement and bond financing, which allowed the FTZ-based subsidiary of Dongfeng Motor to act as the principal acquirer. This ensured that Dongfeng Motor could complete the registration of its subsidiary in the Shanghai FTZ, and obtain approval for investment and other relevant matters as scheduled. In March 2014, the Bank assisted Dongfeng Motor in finishing the share acquisition project, thereby building the Bank's brand as "the premier bank of Shanghai FTZ related business".

Trading

In response to market trends, the Bank continuously promoted product innovation and strived to consolidate its market-leading position in trading business. The Bank became one of the first market makers and completed the first trading transactions in direct deals of RMB against the British Pound (GBP), Euro (EUR), New Zealand Dollar (NZD) and Singapore Dollar (SGD). It launched cash exchange services of RMB against the Brazilian Real (BRL), Cambodian Riel (KHR) and Mongolian Tugrik (MNT). The Bank also introduced derivatives products in emerging market currencies, including the Indonesian Rupiah (IDR), Indian Rupee (INR), Malaysia Ringgit (MYR) and Thai Baht (THB), in order to meet customers' diversified hedging needs. Further, it intensified research and development and promotion of hedging products such as RMB forwards and options, so as to help customers effectively mitigate the impact of fluctuating RMB exchange rates. In addition, it supported the development of the China (Shanghai) Pilot Free Trade Zone, and became one of the first members of the International Board of Shanghai Gold Exchange, conducting its first transaction. It provided the first bulk commodity hedging service to be USD-denominated but settled in RMB. In addition, it conducted proprietary silver trading on the Shanghai Gold Exchange and developed two-way silver, platinum and palladium trading for personal customers. Furthermore, it actively participated in the establishment of RMB interest rate products, and in quotations for interbank negotiable certificates of deposits, exchange-traded bonds and bonds on the Beijing Financial Assets Exchange. In 2014, the Bank led its peers in market share of spot/forward trading of foreign currencies against RMB. The settlement volume of RMB bonds ranked second by market share, while proprietary gold trading volume on the Shanghai Gold Exchange ranked first by market share.

Investment Banking and Asset Management

The Bank continuously strengthened its core competitive edge by providing its clients with direct financing in Chinese mainland and cross-border financing services. It underwrote 301 bond financing instruments for non-financial enterprises with total issuing amount of RMB346.3 billion. In addition, it created a new financing channel for overseas non-financial enterprises by issuing onshore bond financing instrument. For example, it registered an RMB5 billion debt financing instrument (Panda Bonds) for Daimler AG in China's interbank bond market and completed two rounds of bond issuance totalling RMB2 billion. The Bank participated in the underwriting of offshore RMB and USD bonds for a number of medium and large-sized enterprises, and underwrote all of the offshore RMB sovereign bonds issued in 2014 by foreign governments or governmental institutions, such as HM Treasury. The Bank maintained its leading market share in offshore RMB bond underwriting among Chinese peers. To facilitate China's economic reform and industrial upgrading, the Bank provided professional financial advisory services to corporate clients regarding M&A, restructuring and various "Going Global" activity needs. Brand recognition of its investment banking business continued to rise. The Bank acted as the joint lead manager of the world's first "Tiger Emas Bond" issued by Malaysia's state-backed mortgage lender Cagamas Berhad, and was awarded "2014 Best Renminbi (off-shore) offering" by *FinanceAsia*.

In order to ensure a sound and stable business growth, the Bank continued to promote the integration of its asset management business and optimise its product R&D, management and risk control mechanisms. The Bank was able to enhance services and meet its diverse customer needs by introducing a greater variety of wealth management products ("WMPs") and driving forward innovation. For example, it launched structured WMPs and "BOC Foreign Asset Enrichment", an innovative foreign currency product series. The Bank continued its efforts to build e-banking service channels by improving the "Wealth Management Night Market" platform and launching a WeChat distribution channel, thus creating a user-friendly interface and improving customer experience. The Bank underwrote two direct financing vehicles of WMPs. In 2014, the Bank cumulatively issued 6,191 WMPs with an aggregate amount of RMB7,389.47 billion, an increase of 6.63% compared with the prior year. The Bank further expanded client industry coverage and discovered high-quality project resources by continuously innovating and optimising its portfolio of structured and diversified products. The Bank was awarded the "Golden Bull Asset Management Bank Award" by *China Securities Journal* and the CSJ Golden Bull Investment Consulting Website.

The Bank continued to promote its credit asset-backed securitisation business. It further adjusted the structure of its existing assets, enhanced its asset and capital management capabilities and pushed forward business model transformation. In 2014, the Bank successfully issued 2 credit asset-backed securities with total amount of RMB12.713 billion in the interbank market.

Custodian Services

The Bank deepened its cooperative relationships with custodian clients through continued product innovation, services improvements and system upgrades. In response to changes in capital markets, it continually optimised the structure of its custodian products for managed funds by exploring money market funds, index funds and online distributed funds. Seizing opportunities for innovation in the asset management industry, the Bank introduced custodian services for the deposit portfolios of insurance companies, publicly placed funds of securities companies, asset management plans of futures companies and asset securitisations. Fully leveraging the advantages arising from its cross-border integrated operations, the Bank enhanced its leading position in the cross-border custodian sector. Its RQFII business ranked first among Chinese banking peers. The Bank also developed its centralised operational capabilities by upgrading the Global Custody System (GCS) and improving the functionality of its core service modules. The Bank has set up the Shanghai custody business centre with integrated functions running as cross-border centre, operation centre and backup centre, serving the establishment and development of the China (Shanghai) Pilot Free Trade Zone. As at the end of 2014, the Group's total assets under custody amounted to approximately RMB6.4 trillion, maintaining its leading position in the industry. The Bank was awarded "2014 Best RQFII Custodian Bank" by *The Asset* in Hong Kong.

Village Bank

BOC Fullerton Community Banks are committed to providing modern financial services to farmers, small and micro-sized enterprises, individual merchants and the wage-earning class, thus promoting the construction of China's "New Countryside". In this way, they actively implement strategies on agriculture, farmers and rural areas, with the aim of "focusing on county area development, supporting farmers and small-sized enterprises, and growing together with communities". Adopting a "simple, convenient and fast" community banking model, they designed and introduced a series of attractive financing products, including "Amortising Loan for SMEs", "Revolving Loan", "Bullet Loan for SMEs" and a series of agricultural loans, which are based on the growth cycle and capital needs of targeted customers. They also provided financial support to small and micro-sized enterprises in rural areas and rural households with innovative mortgage products.

As at the end of 2014, 57 BOC Fullerton Community Banks and 33 sub-branches had been established in 10 provinces (including municipalities directly under the Central Government), the total number increasing by 7 and 17 respectively compared with the prior year-end. BOC Fullerton Community Banks became the largest domestic village bank network by asset and business scope. These banks served about 426,000 customers, an increase of 132% compared with the prior year-end. The total deposits of these banks stood at RMB10.098 billion, up 69.6% compared with the prior year-end. The balance of loans amounted to RMB10.110 billion, up 108.3% compared with the prior year-end. The NPL ratio and the provision coverage ratio were 0.87% and 331.3% respectively, and all financial indicators remained sound. These banks were awarded "Annual Outstanding Rural Bank" by the *Economic Observer*.

Overseas Commercial Banking

Seizing the market opportunities arising from RMB internationalisation and "Going Global" of Chinese enterprises in 2014, the Bank stepped up the integrated development of its domestic and overseas operations, thus making continued improvements in global service capabilities and market competitiveness.

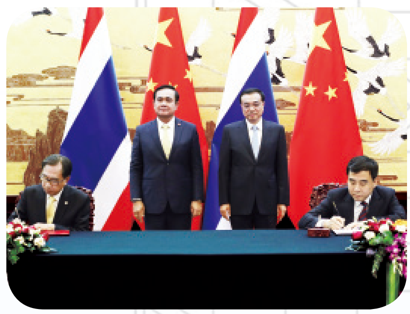
For corporate banking, the Bank adopted the "Blue Ocean" strategy for cross-border corporate banking and enhanced its service capability for cross-border and overseas business. It enhanced its globally integrated corporate banking services, accelerated the establishment and promotion of its "global customer manager" and "global unified credit" mechanisms, and extended its presence around the globe, thus growing overseas corporate banking with a decent momentum. The Bank reinforced its cooperation with "Fortune Global 500" and other key international corporations and actively supported Chinese "Going Global" enterprises and cross-border M&A projects. It provided cross-border financial support to Chinese enterprises' overseas M&A loan projects.

For trade finance, the Bank leveraged its domestic and overseas markets and resources, and enhanced the collaboration of its domestic and overseas business, promoting the prosperous development of its cross-border trade financing business. The major trade finance businesses of the Bank's overseas commercial banking, including international settlement and cross-border RMB business, posted a rapid growth of over 20%.

For clearing service, the Bank strived to ameliorate its global RMB clearing network and improve its capability in providing cross-border RMB clearing services. In 2014, the Bank saw a significant increase in cross-border RMB clearing volume. The value of its cross-border RMB clearing transactions totalled RMB240.8 trillion, up by 86.6% compared with the prior year, maintaining first place in global market. The PBOC recently designated the Bank as the local RMB clearing bank in Frankfurt, Paris and Sydney besides

Opening ceremony of Bank of China (New Zealand) Limited

The Bank signed the agreement regarding strategic cooperation with Deutsche Börse Group



The Bank signed the cooperative memorandum with The Stock Exchange of Thailand

The Bank attended the Italy-China Business Forum

The Bank launched RMB clearing bank services in Paris

The Bank launched RMB clearing bank services in Sydney

Hong Kong, Macau and Taiwan. By owning 6 out of the 12 authorised RMB clearing banks worldwide at the year-end, the Bank takes bigger stage in global offshore RMB market. BOCHK extended RMB clearing service time to provide 20.5 hours' same day value service, making the Bank the front-runner in this regard. Furthermore, the Bank has become the settlement bank of Singapore Exchange.

For financial markets business, the Bank adopted a differentiated authorisation mechanism for RMB clearing banks, thus promoting its offshore RMB trading business. It encouraged overseas institutions to participate in local market innovation. The Singapore Branch became one of the first RMB futures market makers on the Singapore Exchange. The Bank promoted the development of overseas offshore RMB market by issuing RMB bonds and diversifying RMB investable products for overseas local markets. Using the Medium Term Notes (MTN) programme as a platform, the Bank successively issued an RMB2.5 billion offshore RMB bond in London, an RMB3.0 billion "Lion City Bond" in Singapore, an RMB2.0 billion "Oceania Bond" in Sydney, an RMB1.5 billion "Schengen Bond" in Luxemburg, an RMB2.0 billion "Arc de Triomphe Bond" in Paris and an RMB2.0 billion "Formosa Bond" in Taiwan. All of them became the first or benchmark issuance in the local markets, and received enthusiastic market responses.

For custody business, the Bank actively explored overseas custody business opportunities in line with the trend of RMB internationalisation. Its New York branch developed a contractual settlement service which added value to its cross-border custodian services. The Singapore Branch and Seoul Branch played active roles in RQFII marketing, with the Bank's client base outnumbering most competitors. As at the end of 2014, the Bank's overseas assets under custody exceeded RMB1 trillion, ranking first among Chinese banks.

For bank card business, the Bank continuously improved the brand reputation of its exclusive global services. It fully upgraded the "Splendour Series" of cross-border marketing activities and adopted a brand-new marketing approach of "basic privilege + additional special offer + specific cards' cash rebate". As a result, the Bank was able to realise market-leading cross-border transaction volumes. Cross-border customers benefited from the waiver of both ATM cash withdrawal fees for International Student Cards and exchange fees for gold or above-level cards. Overseas credit card business accelerated, covering Singapore, Thailand, Australia, Canada, UK, Hong Kong, Macau and other countries or regions. In 2014, the Bank issued new products including Singapore BOC World MasterCards, Singapore UnionPay Dual-currency Travel Cards and BOC F1RST Credit Cards, and established online merchant acquiring in Malaysia.

As at the end of 2014, due to customers and loans of the Bank's overseas commercial banking amounted to USD362.139 billion and USD303.659 billion respectively, an increase of 18.03% and 20.87% compared with the prior year-end. In 2014, the Bank's overseas commercial banking achieved a profit before income tax of USD7.644 billion, an increase of 33.92% compared with the prior year, accounting for 20.29% of the Group's total profit. The Bank continued to lead domestic peers in international business in terms of business scale, profitability and market share.

BOCHK

In 2014, BOCHK continued to implement its strategy of sustainable growth. Its core businesses performed well and key financial indicators remained at solid levels. It continued to reinforce its franchise and enhance its competitiveness in the RMB business, while working closely with business units within the Group to further strengthen its customer base. It also enhanced product innovation and made good progress in the development of its cross-border cash pooling and Shanghai-Hong Kong Stock Connect related business. With an effective customer segmentation strategy, BOCHK further deepened its relationships with customers.

Maintaining competitive edge in core businesses and continuously optimising asset structure. Both deposits and loans grew steadily, with deposit growth outperforming the Hong Kong market. By fully capitalising on its competitive edge as the Group's Asia-Pacific Syndicated Loan Centre, BOCHK remained the top mandated arranger in the Hong Kong-Macau syndicated loan market. It also solidified its position as the market leader in new residential mortgage loans in Hong Kong. Concurrently, it continued to enrich its fund and insurance product offerings, contributing to satisfactory growth in related income. In the UnionPay card business, BOCHK maintained its leadership in Hong Kong in both merchant acquiring and card issuance businesses. It continued to optimise its asset structure and enhanced its capital management to further strengthen its business development.

Proactively enhancing its competitive edge in the RMB business. BOCHK refined its RMB clearing service and extended the operating hours to cover time zones in Europe, the Americas and Asia, offering the longest RMB clearing operating hours globally. By capturing opportunities from the RMB internationalisation, BOCHK was able to establish business relationships with sizable financial institutions such as overseas central banks. BOCHK was designated as a Primary Liquidity Provider for offshore RMB market in Hong Kong, which contributed to the healthy development of the Hong Kong offshore RMB centre.

Reinforcing product innovation to enhance customer experience. BOCHK was one of the first banks to provide services relating to Shanghai-Hong Kong Stock Connect. Under this scheme, it took the lead in the market to offer A-share margin services. In addition, it introduced RMB mortgage loan and RMB personal loan services to cater for the needs of personal customers in Hong Kong. It also joined hands with UnionPay International to launch a brand new premium credit card, the BOC CUP Dual Currency Diamond Card, to bring enhanced services to high-end customers.

Increasing collaboration within the Group to expand cross-border businesses. BOCHK worked closely with other institutions of the Group in the areas of RMB clearing, customer marketing and product offerings. Capitalising on business opportunities arising from the China (Shanghai) Pilot Free Trade Zone, BOCHK provided customers with cross-border cash pooling and cross-border RMB loan services. A regular cooperation mechanism was established with the Group's institutions in Guangdong, Hong Kong and Macau to enhance information exchange and business referrals. With support from the Group's operating network, BOCHK distributed fund products in Macau.

Deepening customer relationships and optimising business platforms and service channels. BOCHK leveraged on the Group's strong franchise to establish relationships with leading enterprises in major industries in Chinese mainland. It enriched the service of its Business Integrated Account to enhance its overall service capacity to SME customers. BOCHK implemented a refined customer segmentation strategy to cater for the diverse needs of personal customers. It strengthened its marketing efforts to continuously increase the brand awareness of "BOC Wealth Management". It also optimised its private banking platform and arranged a variety of exclusive activities for private banking customers. This led to encouraging growth in both the number of private banking customers and the value of assets under management. A brand new mobile application and the BOCHK Credit Card WeChat official account were launched to further enhance customer experience.

BOCHK was named the "Strongest Bank 2014 in Asia Pacific and Hong Kong" by *The Asian Banker* and was honoured for the seventh consecutive year with the "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business.

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

Diversified Business Platforms

Guided by the Group's overall strategy, the Bank gave full play to the advantages from its diversified business platforms. It focused on specialised business areas, deepened business collaboration and promoted cross-selling and product innovation, thus enhancing synergies across the Group and providing comprehensive and high quality financial services to customers.

Investment Banking Business

BOCI

The Bank is engaged in investment banking through BOCI. As at the end of 2014, BOCI had total assets of HKD100.059 billion, net assets of HKD13.205 billion, and realised an annual profit after tax of HKD2.37 billion. BOCI stepped up its internationalisation strategy and stably enhanced its global service capacity. It participated in multiple milestone projects in IPOs and M&As and successfully introduced the "Shanghai-Hong Kong Stock Connect" platform. BOCI is ranked top among Hong Kong-based Chinese investment banks in multiple business sectors, and outperformed its global peers by profitability.

BOCI continued to lead the market in equity financing and financial advisory. It successfully completed 14 IPOs, 6 secondary market financing deals and 6 financial advisory projects. BOCI ranked fourth in the Hong Kong IPO market in terms of amount underwritten. Furthermore, BOCI's bond issuance and underwriting business had another record year in 2014. BOCI successfully executed the issuance and underwriting of 62 bonds, a record high that amounted to USD53.8 billion, representing an increase of 59% compared with the prior year.

BOCI is one of the largest securities brokerage dealers in Hong Kong and has maintained a leading market share on the Hong Kong Stock Exchange. BOCI's private banking successfully expanded its offshore clientele in Southeast Asia, Europe, Middle East and India, etc., and provided a full range of private banking services for clients. BOCI's Financial Institutions Partnerships business continues to lead the market. BOCI-Prudential Asset Management Ltd., its asset management arm, increased its total assets under management by 12% compared with the prior year-end.

BOCI's private equity business grew steadily. The China Culture Industrial Investment Fund achieved strong performance, while the Bohai Industrial Investment Fund and China Infrastructure Partners L.P. also witnessed good returns. BOCI's global commodities business has further strengthened its global platform and substantially increased its trading volume and revenue. By obtaining "Active Clearing Membership" of the Chicago Mercantile Exchange (CME), BOCI became the first Chinese institution to provide customers with trading, clearing and settlement services for CME products.

BOCI was awarded the "Best China Bond House" by *IFR Asia*, the "2014 Best Chinese DCM House in Hong Kong" by *FinanceAsia*, the "Best Overall Offshore RMB Products/Services" by *AsiaMoney*, the "Best Small-cap Equity House", the "Best Dim Sum Bond House" and the "'Rising Star' — Best Private Bank Hong Kong" by *The Asset*, the "Top Fund Awards 2014 (Hong Kong) — Mutual Funds, Global Large-Cap Blend Equity, Best in Class" by *Bloomberg Business week (Chinese edition)*, and the "The Most Recognized Broker in Chinese mainland and Hong Kong" by *The Hong Kong Commercial Daily*.

BOCI China

The Bank is engaged in domestic securities-related businesses through BOCI China. As at the end of 2014, BOCI China had total assets of RMB36.672 billion and net assets of RMB7.981 billion. It realised a profit after tax of RMB948 million.

BOCI China accelerated the transformation of its investment banking, which drove the development of other businesses such as asset management and brokerage services. It implemented a strategic transition towards small and medium-sized enterprises and multi-channel and non-channel financing business. It achieved the rollout of the National Equities Exchange and Quotations (NEEQ) business, covered multi-level capital markets and received greater contributions from small and medium-sized clients. Progress was realised for structural improvements and transformation in the retail brokerage business, with branches further diversifying their marketing channels. The asset management business enhanced its product development and marketing capabilities to better serve institutional and individual clients. Assets under management increased by 164% to RMB331.1 billion. Proprietary trading benefited from improvements in BOCI China's investment and research capabilities, with returns for the year outperforming the CSI 300 Index and China Bond Total Value Index, key investment performance benchmarks and the market average. The institutional sales business also grew rapidly with 28 new QFII, RQFII and other institutional clients.

BOCI China made great efforts in product and service innovation, and was among the first to receive business qualifications for the Southbound Trading Link of Shanghai-Hong Kong Stock Connect. Its percentage of new accounts opening was higher than the market average. By establishing intelligently calibrated channels and promoting cooperation with intra-group institutions, BOCI China fostered efficient client transformation. BOCI China strived to push forward transformational development through business innovation. Revenue from margin trading, securities lending and other financing businesses maintained robust growth, and the asset securitisation business progressed in an orderly manner.

BOCI China was awarded the "Best Securities Firm for Underwriting Sponsor Business" by the *21st Century Business Herald*; the "Best Private Placement Bond Underwriter", "Best Financial Consultant", "Best Refinancing Project (Zhejiang Daily Media)" by *Securities Times*; the "Best Value Discovery Team" by *Shanghai Securities News*; the "Best Asset Management Securities Company", "Best Equity Asset Management Product (China Red Stable Value Fund)", "Best Annual Private Placement Fund (China Red Stable Value Fund)" by *Securities Times*; the "Excellent Asset Management Institution in China Bond Market" by China Central Depository & Clearing Co. Ltd; and the "Golden Bull Asset Management Award" by *China Securities Journal*.

BOCIM

The Bank is engaged in fund management business in Chinese mainland through BOCIM. As at the end of 2014, BOCIM's total assets stood at RMB1.325 billion, its net assets totalled RMB1.039 billion, and its profit after tax reached RMB379 million. Assets managed by BOCIM have increased greatly. As at the end of 2014, assets under management for publicly offered funds reached RMB160.9 billion, up 32% from the prior year-end. While its profits continued to grow, it maintained a sound internal control and risk management record, and greatly enhanced its brand image and market reputation. BOCIM's good investment performances and overall strengths won recognition from the industry, including the awards of "Top 10 Golden Bull Investment Managers", "Golden Fund • TOP Fund Managers", "Five-year Sustainable Return Star Fund", and "Morningstar Annual Fund Prizes", each for the second consecutive year. Several BOCIM funds also received specific recognition in the fund industry.

Insurance

BOCG Insurance

The Bank is engaged in insurance business in Hong Kong through BOCG Insurance. As at the end of 2014, BOCG Insurance reported total assets of HKD7.442 billion and net assets of HKD3.897 billion. It achieved gross written premiums of HKD1.843 billion and profits after tax of HKD104 million and has consistently remained at the forefront of the Hong Kong general insurance market.

BOCG Insurance not only actively developed high-quality business but also continued to improve its underwriting efficiency. Substantial growth was seen in the areas such as Hull, Marine Cargo, Aircraft, Pecuniary and Cash Loss insurance. In 2014, the proportion of high-quality insurance business grew rapidly, achieving HKD1.018 billion in gross premium income.

BOCG Insurance continuously enhanced its bancassurance business and consolidated its market position. It strengthened cooperation with major banks and brokers, made greater efforts to expand business with its key customer base and Chinese enterprises, and attracted insurance customers by promoting property and casualty insurance and incentive plans. By developing innovative products and designing diversified portfolios based on bancassurance, BOCG Insurance competed for target customers and endeavoured to meet various customer needs. BOCG Insurance successfully executed underwriting for public institutions, laying a solid foundation for further expansion into this customer segment.

BOCG Insurance actively expanded its reinsurance business. With the development strategy of "maintaining a solid position in Hong Kong while striving to expand its Asian and global presence", BOCG Insurance strengthened communication and cooperation with international peers as well as reinsurers, thus effectively expanding its reinsurance network and scale. In 2014, gross premium income from its reinsurance business amounted to HKD252 million, representing a 30.17% increase compared with the prior year.

BOCG Insurance vigorously explored innovative sales channels and fostered product innovation. It developed electronic sales channels, such as mobile and internet, in order to enhance overall customer experience. It also established business relationships with credit card companies and developed new sales models outside of the traditional "face-to-face" channels. Customers can apply directly online for BOCG Insurance products such as "e-Travel Comprehensive Insurance", "Express-e China — Accidental Emergency Medical Plan" and "Premier Home Comprehensive Insurance", etc. An online application platform for the "Contractors' All Risks Insurance Plan" is also available, which speeds up the underwriting process and improves customer experience. BOCG Insurance also launched optimised versions of the "BOC Medical", "Healthy Medical Comprehensive Protection" and "Premier Home Comprehensive Insurance" plans.

BOCG Life

The Bank engages its life insurance business in Hong Kong through BOCG Life. In 2014, BOCG Life strived for excellence in product innovation, multi-channel distribution development and service capabilities enhancement, all of which contributed to a gross premium income of HKD16.757 billion. BOCG Life secured the leading position in the Hong Kong RMB life insurance market.

BOCG Life strengthened its product innovation. It launched products including the Plenteous Life Coupon Plan which combines life protection and savings, the BestCare Critical Illness Plan with critical illness and life protection, and the Good Year Cash Coupon Insurance Plan which offers customers through the telemarketing channel with life protection and wealth management. BOCG Life also continued to develop its multi-channel distribution. The introduction of the new iPad Sales Kit to the Bank's sales team and the establishment of an incoming call sales model in the telemarketing channel improved customer communication and facilitated sales further. Moreover, continuous optimisation of the broker and tied agency channels enabled BOCG Life to serve different customer segments with a wider range of services.

BOCG Life was awarded the "Best Life Insurance Company 2014, Hong Kong" by *World Finance* and all three product awards in the category of the "RMB Business Outstanding Awards 2014 — Outstanding Insurance Business" by Metro Finance, Metro Finance Digital and *Hong Kong Wen Wei Po*.

BOC Insurance

The Bank is engaged in property insurance business in Chinese mainland through BOC Insurance. As at the end of 2014, BOC Insurance recorded total assets of RMB12.024 billion, while its net assets stood at RMB4.888 billion. In 2014, it realised premium income of RMB5.325 billion, and its profit after tax totalled RMB484 million.

BOC Insurance's e-channel business grew rapidly and the business scale of its direct marketing rose by 30% year-on-year. BOC Insurance stepped up its platform construction, launched the "free insurance when using BOC payment on the 12306 online railway booking system" programme and cooperated with the WeChat platform of BOC Beijing Branch to sell insurance card products. It pushed forward channel innovation, launching new insurance offerings via BOC Self-service Express, BOC online banking, mobile banking and PAD banking. BOC Self-service Express auto insurance was available for sale in 26 domestic tier-1 branches and branches directly controlled by the Head Office, realising over RMB100 million in premium income in the first year. BOC Insurance also progressed its overseas business in an orderly manner, creating an overseas insurance business segment via the Bank's "Global Service Platform for Corporate Banking Customers (GSP)" and signing cooperative agreements with China Property & Casualty Reinsurance Company and Aon-COFCO, in a bid to broaden cooperative channels for overseas projects. In addition, BOC Insurance successfully provided insurance services to Shuanghui Group, CNPC, China Datang Corporation and HNA Group, consequently rapidly expanding its customer base. Hefei Transitional Call Centre was officially put into operation, and phased achievements were made in the construction of operating centres.

Direct Investment & Leasing

BOCG Investment

The Bank is engaged in direct investment and investment management business through BOCG Investment. BOCG Investment's business scope includes private equity investment, fund investment and management, real estate investment and management, and non-performing asset investment. As at the end of 2014, it reported total assets of HKD90.702 billion and net assets of HKD51.533 billion, and recorded a profit after tax of HKD2.505 billion.

Leveraging its professional investment expertise, BOCG Investment promoted the development of its principal businesses and actively participated in projects influential in the market and beneficial to the Bank. It deployed its investment assets in a diversified way and continued to enhance its ability to provide value-added services and realise value creation. It invested USD300 million in Global Logistic Properties Limited and completed the funding of the Shanxi-Henan-Shandong Heavy Haul Railway project. BOCG Investment seized market opportunities to expedite the exit of mature projects and increase its overall profitability through continual development. Moreover, it accelerated business and product innovation, and kept a close watch on the trends of the merger and acquisition market development and mixed ownership reform in China. It also achieved the first mover advantages by actively participating in the development of the China (Shanghai) Pilot Free Trade Zone. It successfully issued a USD600 million senior note to strengthen its self-funding capability. BOCG Investment was awarded the "Best China Private Equity Investment Institution" and the "China PE/VC Institution Decade Achievement Award" by China Venture.

BOC Aviation

The Bank is engaged in aircraft leasing business through BOC Aviation. As at the end of 2014, BOC Aviation reported total assets of USD11.4 billion and net assets of USD2.1 billion, and recorded a profit after tax of USD309 million. It is one of the leading aircraft lessors in the world.

As part of its continued internationalisation, BOC Aviation set up subsidiaries in the UK (London) and China (Tianjin) to better expand its business and serve customers. Fully confident in the global aircraft leasing industry, BOC Aviation announced new orders with Airbus and Boeing for 125 aircraft, with scheduled delivery through 2021. As at the end of 2014, BOC Aviation's fleet comprised 230 owned aircraft and 20 managed aircraft, leased to 60 airlines in 31 countries and regions. The average age of its fleet was less than 4 years, one of the youngest in the industry.

BOC Aviation remains committed to maintaining a strong funding position in order to support its growth. In 2014, it increased the limit of its Euro Medium Term Note Programme from USD2.0 billion to USD5.0 billion to further increase the flexibility for future funding needs. In 2014, BOC Aviation raised nearly USD1.0 billion equivalent of bond financing, which included its first 10-year senior unsecured offshore RMB fixed rate notes and inaugural AUD senior unsecured notes, and continued to tap the USD market to diversify its investor base. BOC Aviation maintained its investment grade ratings of A- from Fitch and BBB from Standard & Poor's.

Service Channels

As China's most internationalised and diversified bank, the Bank provided comprehensive financial services to customers in Chinese mainland and 41 countries and regions. It has also established specialised and diversified service channels, constantly enhancing its smart functionality and advancing the coordinated development of its physical outlets and e-banking. The Bank spared no effort to improve the functionality and efficiency of each channel and endeavoured to create a unified customer experience based on cross-channel synergy. By integrating information technology and financial services, the Bank streamlined its banking services and ensured that "one-point access" would trigger "whole-process response" and thus satisfy customers' needs anytime and anywhere.

Outlet Development

The Bank consistently improved the management and operations of its banking outlets. It continued to optimise its domestic outlet network by moderately increasing the total number of outlets and reducing the number of low-output and low-efficiency outlets. It streamlined business, service and sales processes to improve customer service efficiency. The Bank diversified its product lines and increased the proportion of marketing personnel in the outlets with the aim of improving the outlets' overall marketing capacity. It modified the outlet performance evaluation and classification mechanism in order to incentivise outlet personnel to improve customer service and accelerate business development. As at the end of 2014, the domestic commercial banking network (including Head Office, tier-1 branches, tier-2 branches and outlets) comprised of 10,693 branches and outlets, domestic non-commercial banking institutions totalled 193, and institutions in Hong Kong, Macau, Taiwan and other countries and regions totalled 628.

The Bank initiated a programme to upgrade its outlets towards smarter functionality. It refined the internal division of operational functions within the outlets, upgraded the customer service support systems, and increased the number and types of self-service facilities. It also enhanced the functionality of these self-service facilities, which now allow customers to conveniently submit 13 of the Bank's most commonly used application forms. The outlet upgrade programme has laid a solid foundation for the optimisation of business processes and a comprehensive improvement in output and efficiency.

Unit: single item, except percentages

Items	As at 31 December 2014	As at 31 December 2013	Change (%)
ATM	**44,594**	40,600	9.84%
Self-service terminal	**26,689**	23,348	14.31%
Self-service bank	**13,527**	12,840	5.35%

E-Banking

The Bank expanded its e-channel customer base and continued to foster the electronic banking habits of its customers. Levels of activity and loyalty of e-channel customers have consistently increased, leading to a rapid growth in e-channel transaction amounts. The Bank's ability to use e-channels to support its overall customer service and business development was significantly strengthened. In 2014, the Bank's e-channel cumulative transaction amount reached RMB135.80 trillion, an increase of 23% compared with the prior year, and the substitution ratio of e-banking channels for outlet-based transactions reached 84.70%.

Unit: million customers, except percentages

Items	As at 31 December 2014	As at 31 December 2013	Change (%)
Number of corporate online banking customers	**2.5990**	2.2009	18.09%
Number of personal online banking customers	**112.4949**	101.0740	11.30%
Number of mobile banking customers	**64.6005**	52.1262	23.93%
Number of telephone banking customers	**95.8276**	88.8353	7.87%

Unit: RMB billion, except percentages

Items	2014	2013	Change (%)
Transaction amount of corporate online banking	**114,420.613**	95,185.239	20.21%
Transaction amount of personal online banking	**15,461.895**	11,457.384	34.95%
Transaction amount of mobile banking	**2,054.817**	367.539	459.07%
Transaction amount of self-service banking	**3,834.934**	3,358.018	14.20%

The Bank further developed and enhanced its e-banking channels, including online banking, mobile banking, telephone banking and WeChat banking, etc. The Bank also improved the overall e-channel customer experience. It redesigned all 23 categories of its corporate online banking functions and optimised the key functions of personal online banking and mobile banking, including logon and authentication, transfer and remittance, investment and wealth management, etc. It also made great efforts to simplify the operational process of its e-channels. All of these efforts aim to create a better service experience for customers. The Bank also developed innovative e-channel product offerings. It introduced a variety of new services to corporate customers, including public service fee payment and one-account express. It also introduced many new services to personal customers, such as smart master account and inter-bank cash concentration, etc. Its telephone banking provided a small-amount foreign exchange settlement service to personal customers. The service functions of the Bank's e-channels were thus significantly and

comprehensively improved. The Bank strengthened its strategic competence in mobile finance. In order to make complete coverage of mobile terminals for corporate customers, it launched corporate online banking for iPad and corporate mobile banking. To meet the needs of different personal customer segments, it developed a personal online banking client application for Windows PC and private online banking for iPad. To expand emerging service channels, it made seven upgrades to the WeChat banking system and added a variety of new functions under the three major product lines of We-finance, We-life and We-service. The Bank enhanced its cross-channel synergies. It allowed customers to make reservations for outlet services through different e-channels, including personal online banking, mobile banking, telephone banking and WeChat banking. It allowed customers to fill in application forms and open new accounts through WeChat banking. It also improved information sharing among different channels. The WeChat banking service added a portal for online customer service, allowing for interactive and precise marketing with the customers and the Bank's online customer service representatives. It also upgraded the customer service support system to improve marketing synergy between the customer service centre and the outlets. The Bank consolidated its cross-border and overseas service advantages and further expanded the coverage of its overseas e-channel services. Its overseas online banking service covered 31 countries, while its overseas telephone banking service covered 24 countries. The Bank's overseas online banking offering includes the newly launched local services customised for UK, Germany and Singapore users. Its corporate online banking service is tailored for multi-national corporations, providing superior global cash management services. Its overseas telephone banking launched a series of new services, including fund transfer and credit card repayment, etc.

The Bank promoted the development of its internet finance with the aim of becoming a market leader. It pushed forward online business innovation and transformation, built up a network service platform broadly based on openness and cooperation, and reshaped its business structure and procedures by means of inter-sector integration, all with the aim of providing universal, efficient, convenient and safe online financial services for customers. The Bank reinforced online payment innovation by initiating the "integrated regional customs e-guarantee" service in order to substantially improve customs clearance efficiency. It launched the new B2B "one-point access" inter-bank online payment service, thus reducing access cost and optimising customer experience. The release of mobile terminal NFC payment products continuously enhanced customer experience. The "BOC easy-trade cyber-tariff" service ranked first place for the eighth consecutive year, with a market share of 35.49%. The Bank innovated its online financing model, promoted the "Wang Luo Tong Bao" service, and provided quick and efficient online revolving credit facilities for small and micro-sized enterprises using "big data" analysis techniques, which reduced the financing costs of those enterprises. In 2014, the Bank granted RMB177.293 billion in loans to SME customers via "Wang Luo Tong Bao". It further improved the cross-border service system by providing payment and settlement services in local and foreign currencies for cross-border e-commerce customers, and by launching the one-stop "online finance for going abroad" service for cross-border personal customers. In addition, the Bank optimised its online wealth management business, built an open-ended online financial supermarket and developed the pilot "Pension Financial Service" personal wealth management service. The Bank piloted online integrated industry chain financial services and pioneered "online shipping financial services" for shipping logistics enterprises, offering online processing services with one application, one-year validity, revolving use, convenient payment and multi-currency support. It also launched the "online auto-vehicle financial service", building a new ecology for operations throughout the business chain, including car manufacturers, dealers, supervisors and financial service providers. Moreover, the Bank expanded the smart O2O service in E-Community, created an open-ended network service platform and improved the ecological environment for online community financial services. It also strengthened the combination of financial and non-financial services, achieved two-way connectivity of online and offline services, and provided all-round comprehensive services for customers covering digital property management, merchant partners and community life service.

The Bank's customer service centre provided seamlessly integrated services to customers worldwide. It continued to improve its centralised operations, refined management and standardised services. Across channels including phone, SMS, e-mail, fax, Weibo, online service, video service and WeChat banking, the Bank sought to provide its global customers with constantly accessible and interactive services featuring voice-to-voice, text-to-text and face-to-face interaction, thus improving the customer experience. In 2014, the Bank's customer service centre received 135 million calls and customer service representatives answered 36.3472 million calls. The call completion ratio reached 91.17% and the customer satisfaction ratio reached 98.24%, an increase of 2.92 and 0.24 percentage points respectively compared with the prior year.

Information Technology Development

The Bank regards information technology as a key growth engine and constantly invests in IT-driven financial innovation. It continually upgraded its IT systems and enhanced the customer experience in terms of functional integrity, operational convenience, experience consistency, information accuracy, response timeliness, risk management effectiveness, etc. In response to the growing influence and impact of mobile finance and internet finance, the Bank actively applied mobile internet, cloud computing and other new technologies and concepts to promote the development of its internet banking function. In addition, the Bank continued to optimise its IT infrastructure based on its "Three Centres in Two Cities" architecture, strengthened the development of IT risk management system and its globally integrated IT operation management system, and enhanced the safe operation level and globally centralised operational abilities of its IT systems.

The Bank strived to develop a globally integrated IT service capacity and steadily pushed forward the integration and transformation of its overseas IT systems. Since going live in 2013, IT systems in the Asia-Pacific region have run stably, significantly improving business support capabilities. In 2014, the Bank successfully completed the system's launch in Europe and Africa. Consequently, over two-thirds of the Bank's overseas institutions realised system transformation, version synchronisation, data centralisation and operational management integration. This enabled the Bank to provide better, more efficient and more diversified quality services to Chinese "Going Global" customers, build a vast international platform for consolidating and expanding the Bank's advantages in RMB internationalisation and improving multi-dimensional and multi-level match-making trading ability, thus strongly supporting the Bank's strategic objectives.

In 2014, in response to the "new normal" of China's economic and financial environment, the Bank adhered to risk appetite principles of "stability, rationality and prudence", actively aligned with situational changes, and strived to build a comprehensive risk management system characterised by professionalism, high efficiency and differentiation. It also steadily advanced organisational reform and procedural integration, further optimised its risk management governance structures, strengthened vertical management of its business lines and continually improved the Board of Directors management model of its subsidiaries. On 2 April 2014, the CBRC officially approved the Bank's implementation of advanced capital management approaches at both firm and group level (including BOCHK). Rising to the occasion, the Bank further promoted the application of the New Basel Capital Accord and continued to enhance its comprehensive risk management abilities. In addition, the Bank continued to optimise its risk quantification model, conducted model verification in an orderly manner, and improved risk quantification technology. It initiated the building of an integrated risk management platform and continued improving the bank's ability in risk data consolidation and reporting. The Bank strictly performed its duties as a G-SIB and adhered fully to domestic and international regulatory requirements. It strengthened cross-border and cross-industry consolidated risk management at the group level, identified, assessed and managed risks on a global basis, captured and seized development opportunities, and created value through specialised and effective risk management, thus implementing the development strategies of the Group.

Credit Risk Management

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

The Bank continuously adjusted and optimised its credit structure. With the aim of advancing strategy implementation and balancing risk, capital and return, the Bank stepped up the application of the New Basel Capital Accord and improved the management of its credit portfolios. In line with the government's macro-control measures and the direction of industrial policy, the Bank enacted guidelines for industrial lending and continued to push forward the building of an industrial policy system as an initiative to optimise its credit structure.

The Bank strengthened its credit asset quality management. It kept a close eye on changes in the economic situation and held firm to its bottom line of zero systemic and regional risk through management measures including post-lending management, collateral management, risk classification, material risk event handling and regular risk investigation. Overall, the Bank maintained relatively stable asset quality by enhancing the supervision of asset quality control in key regions, controlling loans to overcapacity industries, real estate, LGFVs, bulk commodity trading and other high-risk areas, strengthening the management of trade finance and other key products, and implementing a risk management accountability system for major customers.

In terms of corporate banking, the Bank further strengthened risk identification and control, proactively reduced and exited credit relationships in key fields, strictly controlled the gross outstanding amount and weighting of loans through limit management, and prevented and mitigated risk from overcapacity industries. It intensified the management of loans to LGFVs, strictly controlled the outstanding balances and prevented repayment concentration risk. In addition, the Bank implemented the government's macro-control policies and regulatory measures in the real estate sector to strengthen the risk management of real estate loans.

In terms of personal banking, the Bank enforced regulatory requirements on personal housing loans and continued to strictly implement differentiated policies for personal housing loans. It improved management policies for personal housing loans, personal business loans, and personal loans for overseas study and credit card loans. The Bank also improved the early warning and suspension mechanism for personal loans and strengthened risk control of key products and regions.

The Bank intensified country risk management and closely monitored the quality of its overseas credit assets. It enhanced rating management and limit control, refined related country risk management policies and monitoring systems, and further strengthened the management of potential high-risk countries and regions.

The Bank also stepped up the collection of NPLs. With an emphasis on efficiency, it enhanced the cash collection level of NPLs. The Bank made coordinated arrangements, steadily conducted relevant undertakings and adopted various measures to resolve NPLs. It carried out further research on disposal policies, earnestly implemented policies relating to non-performing asset write-offs, effectively wrote off such assets and remained accountable for the losses in compliance with laws and regulations.

The Bank measured and managed the quality of its credit assets based on the *Guidelines for Loan Credit Risk Classification* issued by the CBRC, which requires Chinese commercial banks to classify loans into the following five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified as substandard, doubtful and loss are recognised as NPLs. In order to further refine its credit asset risk management, the Bank used a 13-tier risk classification criterion for corporate loans to domestic companies, covering on-balance sheet and off-balance sheet credit assets. In addition, the Bank strengthened guidance for key industries and regions and dynamically adjusted its credit assets in timely response to major changes in risk status. It strengthened the management of loan terms, managed overdue loans by the name list system and made timely adjustments to risk classification results, so as to truly reflect asset quality. Moreover, the Bank improved the classification system and formulated corresponding measures based on the characteristics of SME customers, which further improved the quality and efficiency of risk classification. The *Guidelines for Loan Credit Risk Classification* is also applicable to the overseas operations of the Bank. However, the Bank classified credit assets in line with local applicable rules and requirements if they were stricter.

As at the end of 2014, the Group's NPLs totalled RMB100.494 billion, representing an increase of RMB27.223 billion compared with the prior year-end. The NPL ratio was 1.18%, up 0.22 percentage point compared with the prior year-end. The Group's allowance for impairment losses on loans and advances was RMB188.531 billion, representing an increase of RMB20.482 billion compared with the prior year-end. The coverage ratio of allowance for loan impairment losses to NPLs was 187.60%, down 41.75 percentage points from the prior year-end. The NPLs of domestic institutions totalled RMB97.057 billion, representing an increase of RMB26.692 billion compared with the prior year-end. Domestic institutions' NPL ratio was 1.47%, up 0.31 percentage point compared with the prior year-end. The Group's outstanding special-mention loans stood at RMB200.654 billion, an increase of RMB11.361 billion compared with the prior year-end, accounting for 2.37% of total loans and advances, down 0.12 percentage point from the prior year-end.

Five-category Loan Classification

Unit: RMB million, except percentages

Items	As at 31 December 2014 Amount	As at 31 December 2014 % of total	As at 31 December 2013 Amount	As at 31 December 2013 % of total
Group				
Pass	**8,182,127**	**96.45%**	7,345,227	96.55%
Special-mention	**200,654**	**2.37%**	189,293	2.49%
Substandard	**54,369**	**0.64%**	33,245	0.43%
Doubtful	**24,705**	**0.29%**	26,465	0.35%
Loss	**21,420**	**0.25%**	13,561	0.18%
Total	**8,483,275**	**100.00%**	7,607,791	100.00%
NPLs	**100,494**	**1.18%**	73,271	0.96%
Domestic				
Pass	**6,319,759**	**95.67%**	5,809,080	95.89%
Special-mention	**188,957**	**2.86%**	178,735	2.95%
Substandard	**52,925**	**0.80%**	31,479	0.52%
Doubtful	**22,991**	**0.35%**	25,496	0.42%
Loss	**21,141**	**0.32%**	13,390	0.22%
Total	**6,605,773**	**100.00%**	6,058,180	100.00%
NPLs	**97,057**	**1.47%**	70,365	1.16%

Migration Ratio

Unit:%

Items	2014	2013	2012
Pass	**1.92**	1.68	2.61
Special-mention	**9.89**	10.52	15.31
Substandard	**42.38**	31.09	44.55
Doubtful	**46.94**	8.86	8.48

In accordance with the International Accounting Standard No. 39 (IAS 39), loans and advances to customers are considered impaired, and allowances are made accordingly, if there is objective evidence of impairment resulting in a measurable decrease in estimated future cash flows from loans and advances. As at the end of 2014, the Group's identified impaired loans totalled RMB99.789 billion, an increase of RMB26.670 billion compared with the prior year-end. The impaired loans to total loans ratio was 1.18%, an increase of 0.22 percentage point compared with the prior year-end. For domestic institutions, impaired loans totalled RMB97.057 billion, representing an increase of RMB26.624 billion compared with the prior year-end. The impaired loans to total loans ratio was 1.47%, up 0.31 percentage point compared with the prior year-end. The Bank's operations in Hong Kong, Macau, Taiwan and other countries reported identified impaired loans of RMB2.732 billion and an impaired loans to total loans ratio of 0.15%, up RMB0.046 billion and down 0.02 percentage point compared with the prior year-end respectively.

Movement of Identified Impaired Loans

Unit: RMB million

Items	2014	2013	2012
Group			
Balance at the beginning of the year	**73,119**	65,455	63,306
Increase during the year	**60,197**	31,658	28,246
Decrease during the year	**(33,527)**	(23,994)	(26,097)
Balance at the end of the year	**99,789**	73,119	65,455
Domestic			
Balance at the beginning of the year	**70,433**	62,844	61,159
Increase during the year	**58,577**	30,325	26,387
Decrease during the year	**(31,953)**	(22,736)	(24,702)
Balance at the end of the year	**97,057**	70,433	62,844

Loans and Identified Impaired Loans by Currency

Unit: RMB million

Items	As at 31 December 2014		As at 31 December 2013		As at 31 December 2012	
	Total loans	**Impaired loans**	Total loans	Impaired loans	Total loans	Impaired loans
Group						
RMB	**6,339,052**	**86,914**	5,741,454	61,452	5,246,944	52,301
Foreign currency	**2,144,223**	**12,875**	1,866,337	11,667	1,617,752	13,154
Total	**8,483,275**	**99,789**	7,607,791	73,119	6,864,696	65,455
Domestic						
RMB	**6,104,014**	**86,205**	5,553,630	61,184	5,069,127	52,226
Foreign currency	**501,759**	**10,852**	504,550	9,249	489,555	10,618
Total	**6,605,773**	**97,057**	6,058,180	70,433	5,558,682	62,844

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

In 2014, the Group's impairment losses on loans and advances stood at RMB46.606 billion, an increase of RMB23.668 billion compared with the prior year. The credit cost was 0.58%, an increase of 0.26 percentage point compared with the prior year. In particular, domestic institutions registered impairment losses on loans and advances of RMB43.574 billion and the credit cost was 0.69%, an increase of RMB22.941 billion and 0.33 percentage point compared with the prior year respectively.

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

Unit: %

Indicator	Regulatory standard	**As at 31 December 2014**	As at 31 December 2013	As at 31 December 2012
Loan concentration ratio of the largest single borrower	≤10	**2.4**	2.1	2.6
Loan concentration ratio of the ten largest borrowers	≤50	**14.7**	14.2	16.9

Notes:

1 Loan concentration ratio of the largest single borrower = total outstanding loans to the largest single borrower ÷ net regulatory capital.

2 Loan concentration ratio of the ten largest borrowers = total outstanding loans to the top ten borrowers ÷ net regulatory capital.

Please refer to Notes V.17 and VI.3 to the Consolidated Financial Statements for detailed information regarding loan classification, the classification of identified impaired loans and allowance for loan impairment losses.

The following table shows the top ten individual borrowers as at 31 December 2014:

Unit: RMB million, except percentages

	Industry	Outstanding loans	% of total loans
Customer A	Manufacturing	33,331	0.39%
Customer B	Transportation, storage and postal services	27,629	0.33%
Customer C	Water, environment and public utility management	24,429	0.29%
Customer D	Manufacturing	22,499	0.27%
Customer E	Commerce and services	18,582	0.22%
Customer F	Transportation, storage and postal services	16,192	0.19%
Customer G	Commerce and services	15,934	0.19%
Customer H	Mining	15,645	0.18%
Customer I	Production and supply of electricity, heating, gas, and water	13,927	0.16%
Customer J	Transportation, storage and postal services	13,826	0.16%

Market Risk Management

The Bank continued to improve its market risk management system in order to ensure proper alignment with the increasingly liberalised interest and exchange rate regime. In addition to strengthening market risk management of the Group's diversified operations, the Bank selectively reinforced the management of its subsidiaries and made greater efforts to screen the risks of key businesses. The Bank carried forward a programme of integrating the front, middle and back offices of its financial market businesses and supported its overseas operations. It unified the Group's market risk measurement models and parameter-based assessment standards, thus further enhancing the Group's market risk quantification abilities. The Bank received supervisory approval to apply the advanced approach of measuring the regulatory capital of market risk, and undertook an in-depth analysis of capital utilisation efficiency to optimise resource allocation.

The Bank remained committed to managing the market risk of the Group's trading book in a more forward-looking and proactive manner. In line with changes in regulatory requirements, the Bank established a mechanism for the dynamic adjustment of limits, which enhanced the flexibility and responsiveness of risk appetite transmission. Where innovative opportunities arose through cross-border RMB business, the China (Shanghai) Free Trade Zone and Shanghai-Hong Kong Stock Connect, among others, the Bank delegated new business authorisations, developed management and control processes and designed risk limits and system implementation plans in a timely manner. Based on the overseas rollout of its integrated system, the Bank realised complete process-embedded management. For more details on market risk, please refer to Note VI.4 to the Consolidated Financial Statements.

The Bank stepped up centralised management of the Group's bond investment, improved the investment management capability of its overseas institutions, and took measures to ensure stable bond asset quality. It conducted quantitative assessment of changes in risk exposure of its bond investment portfolio using VaR, stress testing and sensitivity indicators, improved the early-warning mechanisms for credit risk and monitored changes in the credit status of issuers in a timely manner.

The Bank assessed the interest rate risk in its banking book mainly through analysis of interest rate re-pricing gaps, made timely adjustments to the structure of assets and liabilities based on changes in the market situation, and controlled the fluctuation of net interest income within an acceptable level. Assuming that the yield curves of all currencies were to shift up or down 25 basis points in parallel, the Group's banking book sensitivity analysis of net interest income on all currencies is as follows[4]:

Unit: RMB million

Items	As at 31 December 2014				As at 31 December 2013			
	RMB	USD	HKD	Other	RMB	USD	HKD	Other
Up 25 Bps	**(1,240)**	**(149)**	**86**	**132**	(878)	(194)	30	36
Down 25 Bps	**1,240**	**149**	**(86)**	**(132)**	878	194	(30)	(36)

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

4 This analysis is based on the approach prescribed by the CBRC, which includes all off-balance sheet positions. This is presented for illustrative purposes only, and is based on the Group's gap position as at the end of 2014 without taking into account any change in customer behavior, basis risks or any prepayment options on debt securities. The table has only shown the potential impact on the Group's net interest rates moving up or down 25 basis points. The analysis is based on the Group's audited financial information.

Liquidity Risk Management

The Bank continued to develop and improve the liquidity risk management system with the aim of effectively identifying, measuring, monitoring and controlling liquidity risk at the firm and the group level, including that of branches, subsidiaries and business lines, thus ensuring that liquidity demand is met in a timely manner and at a reasonable cost.

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

Seeking at all times to balance safety, liquidity, and profitability, and following regulatory requirements, the Bank developed an improved liquidity risk management system and upgraded its liquidity management function in a forward-looking and scientific manner. The Bank enhanced liquidity management at the group level and branch level. The Bank formulated sound liquidity risk management policies and contingency plans, periodically re-examined the liquidity risk limit and upgraded the early warning system for liquidity risk. It also strengthened management on high-quality liquidity assets, such as high-grade bonds investments, to balance risk and return. The Bank continued to improve its liquidity stress-testing scheme and conducted stress tests on a quarterly basis. The results showed that the Bank had adequate payment ability to address distressed scenarios.

As at the end of 2014, the Bank's liquidity was generally well-balanced and met regulatory requirements, as shown in the table below (liquidity ratios apply to the group; excess reserve ratio and inter-bank ratios apply to the Bank's domestic operations):

Unit: %

Major regulatory ratios		Regulatory Standard	**As at 31 December 2014**	As at 31 December 2013	As at 31 December 2012
Liquidity ratio	RMB	≥25	**49.9**	48.0	49.8
	Foreign currency	≥25	**59.9**	62.2	65.2
Excess reserve ratio	RMB	–	**2.3**	1.7	3.2
	Foreign currency	–	**14.6**	23.8	27.7
Inter-bank ratio	Inter-bank borrowings ratio	≤8	**0.3**	0.2	1.6
	Inter-bank loans ratio	≤8	**0.4**	2.3	2.6

Notes:

1 Liquidity ratio = current assets ÷ current liabilities. Liquidity ratio is calculated in accordance with the relevant provisions of PBOC and the CBRC.

2 RMB excess reserve ratio = (reserve in excess of the mandatory requirements + cash) ÷ (balance of deposits + remittance payables).

3 Foreign currency excess reserve ratio = (reserve in excess of the mandatory requirements + cash + due from banks and due from overseas branches and subsidiaries) ÷ balance of deposits.

4 Inter-bank borrowings ratio = total RMB inter-bank borrowings from other banks and financial institutions ÷ total RMB deposits.

5 Inter-bank loans ratio = total RMB inter-bank loans to other banks and financial institutions ÷ total RMB deposits.

Liquidity gap analysis is one of the methods used by the Bank to assess liquidity risk. Liquidity gap results are periodically calculated, monitored and used for sensitivity analysis and stress testing. As at the end of 2014, the Bank's liquidity gap situation was as follows (For detailed information on the liquidity position, please refer to Note VI.5 to the Consolidated Financial Statements):

Unit: RMB million

Items	As at 31 December 2014	As at 31 December 2013
Overdue/Undated	**2,042,886**	1,889,820
On demand	**(5,015,706)**	(4,563,640)
Up to 1 month	**(804,780)**	(552,967)
1–3 months (inclusive)	**(97,853)**	(140,238)
3–12 months (inclusive)	**230,541**	56,154
1–5 years (inclusive)	**1,696,225**	1,334,624
Over 5 years	**3,132,115**	2,937,724
Total	**1,183,428**	961,477

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

Reputational Risk Management

The Bank implemented the *Guidelines for Reputational Risk Management of Commercial Banks* issued by the CBRC, followed the Group's policy on reputational risk management and incorporated reputational risk into its comprehensive risk management function. It actively conducted identification, judgment, assessment and control over reputational risks, regularly arranged for the institutions of the Group to identify potential reputational risks, and took measures against emerging problems in order to mitigate risks. The Bank strengthened its monitoring of public sentiment by constructing a unified monitoring platform and paying close attention to microblogs, WeChat and other new media, so as to discover, report and deal with changes in public sentiment involving the Bank or the banking sector in a timely manner. It also improved its response procedures for reputational risk events and actively and properly dealt with emerging reputational risk events in order to protect its brand reputation. The Bank guided its branches to monitor, report, respond to and process online public opinion and improved its performance assessment system. In addition, it continued to organise training sessions on reputational risk, enhance employees' awareness of reputational risk and cultivate the Group's reputational risk management culture.

Internal Control and Operational Risk Management

Internal Control

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

The Bank continued to improve the "three lines of defence" mechanism for internal control. The first line of defence consists of departments, which are not part of the second or third lines of defence, of the Head Office, tier-1 branches, direct branches and tier-2 branches, and all banking outlets under tier-2 branches. They are the owners of and are accountable for local risks and controls, and undertake self-risk control functions during business operation including the formulation and implementation of policies, the reporting of control deficiencies and the organisation of rectification measures.

The internal control and risk management departments of the Bank's institutions at all levels form the second line of defence. They are responsible for overall planning, implementing, examining and assessing risk management and internal control. They are also responsible for identifying, measuring, monitoring and controlling risks. The Group's operational risk monitoring and analysis platform is used to realise regular and automated smart monitoring of major risks, helping the Bank to adopt appropriate and timely risk prevention and mitigation measures. To enhance business processes and systems, the Bank improved risk management and control measures and adjusted policies and regulations in a timely manner.

The third line of defence rests in the audit and inspection departments of the Bank. The audit department is responsible for performing internal audit of the Bank's internal control and risk management in respect of their adequacy and effectiveness. The inspection department is responsible for staff non-compliance sanction, investigation of cases, management accountability and party member supervision. In 2014, the audit department performed its internal audit duties effectively. It improved examination methods and management mechanisms, and strengthened remote technology application. It also watched closely the changes and trends in risks, and enhanced supervision and inspection of high-risk industries and institutions, as well as areas of key concern to regulators, to help prevent systemic and regional risks. In addition, it intensified its efforts in reviewing and assessing policies, mechanisms, processes, systems and related controls of key areas and businesses, and dynamically tracked the establishment and improvement of the Group's risk management and internal control mechanism, thus continuing to support the sound operation and healthy development of the Bank.

Continuing to improve the counter-fraud management system and its organisational framework, the Bank clarified the responsibility bodies for organisational leadership, policy making and enforcement, supervision and inspection, and accountability respectively. It adhered to the basic principles of fraud case accountability, including "inquiry of four accountable subjects into one case", "both institutional and business-line management accountability" and "management two levels higher than the branch/outlet accountable where serious fraud occurs". As a result, the Bank greatly enhanced its fraud case prevention and resolving capacity, effectively controlled potential fraud case risks and secured a full-scale performance of counter-fraud duties. Meanwhile, the Bank comprehensively strengthened day-to-day internal control management of tier-2 branches in a bid to enhance the risk prevention and control capability of sub-branches and outlets.

In addition, the Bank continued to implement the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, adhering to the primary goal of ensuring the effectiveness of its internal control over financial reporting and the accuracy of its financial information. It also constantly improved non-financial internal control. The Bank earnestly implemented the *Guidelines for Internal Control of Commercial Banks* by following the basic principles of "comprehensiveness, checks and balances, prudence and correspondence", so as to promote internal control governance and an organisational structure characterised by a reasonable division of work, well-defined responsibilities and clear reporting relationships.

The Bank established and implemented a systematic financial accounting policy system in conformity with the relevant accounting laws and regulations. Accordingly, the Bank's accounting basis was solidified and the level of standardisation and elaboration of its financial accounting management was continuously improved. The Bank further bolstered the management of accounting information quality and carried out departmental accounting at the individual branch, department and banking office levels so as to further enhance its internal accounting system. The Bank continuously strengthened its financial and accounting management in order to ensure the validity of its internal control over financial reporting. The financial statements of the Bank comply with the applicable accounting standards as well as related accounting regulations, and present fairly, in all material respects, the financial position of the Bank, its operational performance and cash flows.

The Bank paid close attention to fraud risk prevention and control, proactively identifying, assessing, controlling and mitigating risks. In 2014, the Bank succeeded in preventing 133 external cases involving RMB288 million.

Operational Risk Management

The Bank continuously improved the Group's operational risk management system. It promoted the application of operational risk management tools, using three major tools, namely Risk and Control Assessment ("RACA"), Key Risk Indicators ("KRI") and Loss Data Collection ("LDC"), to constantly identify, assess and monitor operational risk. The Bank reviewed the implementation of RACA, KRI and LDC so as to further improve their methodologies and means of implementation. In addition, the Bank conducted operational risk management assessment and capital measurement to further refine its operational management. It progressively improved its operational risk management information system to enhance its convenience of use. Various internal control and operational risk management reports were integrated so as to improve the reporting system. In addition, emergency drills were jointly carried out by the IT and business departments to improve the Group's business continuity management system.

Compliance Management

The Bank continuously improved its compliance risk management system, upgraded related management procedures and promoted the implementation of fundamental rules and regulations. It continually improved the organisational structure of its compliance risk management, intensified the compliance risk management functional role at the group level and allocated related resources on a rational basis. Business departments at various levels worked with the legal and compliance departments to actively monitor comprehensive compliance information, such as the latest regulatory requirements, inspections and evaluations, carry out overall assessments, focused research and hierarchical management regarding compliance risk, and circulate notices of the Group's overall compliance risk profile and material risk events. The prevention and control mechanism for compliance risk operated in an orderly manner. The Bank conducted all-round compliance risk control assessment at the group level and stepped up the development of the compliance risk management mechanisms of its overseas institutions, which promoted the overall level of compliance risk management throughout the Group.

The Bank further strengthened sanction compliance management and established a mechanism for sanction risk identification, assessment and dynamic adjustment. The Bank continued to enhance its capabilities in identifying suspicious transactions and continued to optimise and develop its monitoring model. As a result, it helped domestic institutions realise the centralised identification of suspicious transactions and achieved outstanding results in the fund monitoring of suspicious transactions involving terrorism. It devoted more resources to its anti-money laundering ("AML") IT system, upgraded the domestic AML system's functionality and completed the launch of the overseas AML system in Europe. To further reinforce AML training, the Bank developed a three-year plan to provide special AML compliance training for senior management members, AML professionals and basic-level staff. So far, the Bank has over 200 Certified Anti-Money Laundering Specialists among its employees.

The Bank enhanced the management of its connected transactions and internal transactions. Following external regulatory requirements, it revised its internal management rules on connected transactions. It updated databases of the Group's connected parties and solidified the basis for connected transactions management. It also optimised its connected transaction monitoring system and enhanced the quality and efficiency of its connected transaction management. The Bank improved its management system for internal transactions, refined the information collection mechanism for internal transactions, and produced group-wide analysis reports, thus ensuring those transactions were compliant with laws and regulations.

Capital Management

Guided by the latest capital regulations of the *Capital Rules for Commercial Banks (Provisional)*, the Bank adhered to the principle of enhancing Bank-wide capital constraints and continuously optimised its on-balance sheet and off-balance sheet asset structure. Specific measures were taken to reduce capital charges efficiently, including increasing capital allocation to capital-lite business, devoting great efforts to developing fee-based business, rationally controlling increases in off-balance sheet risk assets, strictly limiting the size of high-risk-weighted assets and requiring more guarantees and pledge risk mitigation during the credit process.

The Bank replenished capital in a proactive and prudent manner and made full use of its dual listing platforms to utilise a variety of supplementary capital financing channels. It successfully issued approximately USD6.5 billion preference shares in the overseas markets on 23 October 2014 and RMB32.0 billion preference shares in the domestic market on 21 November 2014, thus becoming the first domestic commercial bank to issue preference shares in both overseas and domestic markets. The Bank's issuance of preference shares in the overseas markets set a number of records, including the largest ever single issuance of additional tier 1 capital instrument in the overseas markets and the largest ever single issuance of USD fixed-income securities in accordance with Regulation S[5] worldwide. In addition, the Bank successfully issued RMB30.0 billion of tier 2 capital instruments in the domestic market on 8 August 2014 and USD3.0 billion of tier 2 capital instruments in the overseas markets on 13 November 2014. The recovery in domestic capital market prompted the large-scale conversion of Bank's A-Share Convertible Bonds to ordinary A shares, which effectively increased the Bank's core tier 1 capital. Such capital replenishment has laid a solid foundation for the Bank's future development. The Bank will continue to improve its capital management, promote the sustainable and sound development of all its businesses and continuously deliver favourable returns required by the shareholders.

5 Please refer to S chapter of the Securities Act of the U.S. of 1933 for detailed definition.

Capital Adequacy Ratios

On 2 April 2014, the CBRC formally approved the Bank's implementation of advanced capital management approaches. As at the end of 2014, the capital adequacy ratios separately calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and the *Regulation Governing Capital Adequacy of Commercial Banks* are listed below:

Capital Adequacy Ratios

Unit: RMB million, except percentages

Items	Group		Bank	
	As at 31 December 2014	As at 31 December 2013	**As at 31 December 2014**	As at 31 December 2013
Calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)*				
Net common equity tier 1 capital	**1,054,389**	912,948	**929,096**	802,861
Net tier 1 capital	**1,127,312**	913,646	**1,000,841**	802,861
Net capital	**1,378,026**	1,173,347	**1,234,879**	1,040,740
Common equity tier 1 capital adequacy ratio	**10.61%**	9.69%	**10.48%**	9.55%
Tier 1 capital adequacy ratio	**11.35%**	9.70%	**11.29%**	9.55%
Capital adequacy ratio	**13.87%**	12.46%	**13.93%**	12.38%
Calculated in accordance with the *Regulation Governing Capital Adequacy of Commercial Banks*				
Core capital adequacy ratio	**11.04%**	10.73%	**11.20%**	10.92%
Capital adequacy ratio	**14.38%**	13.47%	**14.45%**	13.43%

Note: In accordance with the *Capital Rules for Commercial Banks (Provisional)*, the capital adequacy ratios were calculated under the advanced approaches as at the end of 2014, while the capital adequacy ratios were calculated under the non-advanced approaches as at the end of 2013, therefore the capital ratios in those 2 years should not be compared directly.

Please refer to Notes VI.7 to the Consolidated Financial Statements for detailed information.

Leverage Ratio

The Bank calculated its leverage ratio in accordance with the *Leverage Ratio Rules for Commercial Banks* and *Capital Rules for Commercial Banks (Provisional)*. The details are as follows:

Unit: RMB million, except percentages

Items	**As at 31 December 2014**	As at 31 December 2013
Tier 1 capital	**1,141,629**	925,735
Tier 1 capital deductions	**14,317**	12,089
Net tier 1 capital	**1,127,312**	913,646
Adjusted on-balance sheet assets	**15,045,983**	13,777,980
Adjusted off-balance sheet items	**3,198,824**	2,721,875
Adjusted on-balance and off-balance sheet assets	**18,230,490**	16,487,766
Leverage ratio	**6.18%**	5.54%

Management Discussion and Analysis — Organisational Management, Human Resources Development and Management

Organisational Management

As at the end of 2014, the Bank had a total of 11,514 institutions worldwide, including 10,886 institutions in Chinese mainland and 628 institutions in Hong Kong, Macau, Taiwan and other countries. Its domestic commercial banking business had 10,693 institutions, including 37 tier-1 and direct branches, 314 tier-2 branches and 10,341 outlets.

Geographic Distribution of Organisations and Employees

Unit: RMB million/unit/person, except percentages

Items	Assets		Organisations		Employees	
	Total assets	% of total	Number	% of total	Number	% of total
Northern China	4,626,881	26.52%	1,786	15.51%	57,077	18.52%
Northeastern China	666,292	3.82%	955	8.29%	26,471	8.59%
Eastern China	3,720,170	21.33%	3,624	31.47%	93,541	30.36%
Central and Southern China	2,619,281	15.02%	2,808	24.39%	69,662	22.61%
Western China	1,250,840	7.17%	1,713	14.88%	37,778	12.26%
Hong Kong, Macau and Taiwan	2,715,651	15.57%	507	4.41%	19,185	6.23%
Other countries	1,843,435	10.57%	121	1.05%	4,414	1.43%
Elimination	(2,191,168)					
Total	15,251,382	100.00%	11,514	100.00%	308,128	100.00%

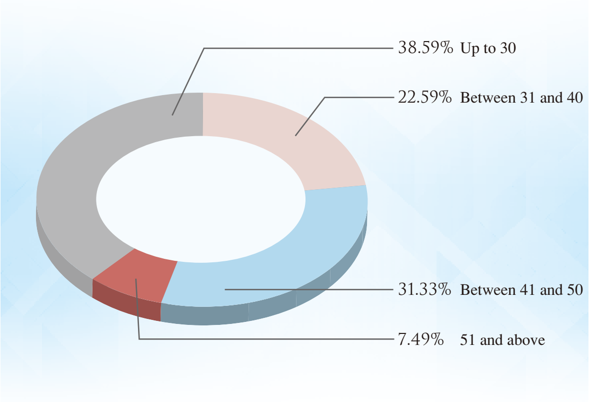
Note: The proportion of geographic assets was based on the data before intra-group elimination.

Human Resources Development and Management

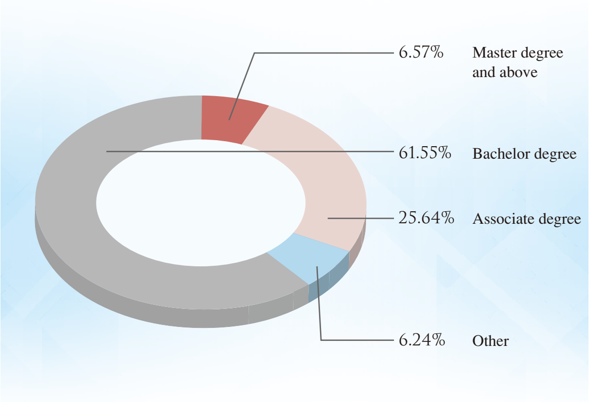
As at the end of 2014, the Bank had 308,128 employees. There were 284,529 employees in Chinese mainland, of which 278,826 worked in domestic commercial banking. The Bank had 23,599 employees in Hong Kong, Macau, Taiwan and other countries. As at the end of 2014, the Bank bore costs for a total of 6,183 retirees.

In 2014, in line with the Group's development strategy and priorities, and following the principle of serving its frontline operations, the Bank reformed its institutional structure, optimised its resource allocation and stepped up its employee training and development, thus providing strong support for business development and the implementation of the Group's strategies.

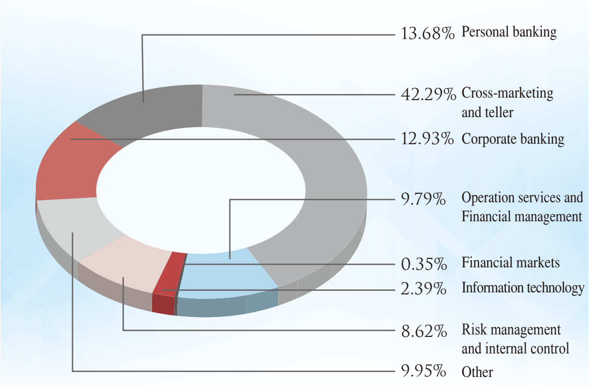
Composition of Staff in Domestic Commercial Banking Business by Age Group



Composition of Staff in Domestic Commercial Banking Business by Education Level



Composition of Staff in Domestic Commercial Banking Business by Job Function



To enhance market competiveness, the Bank pushed forward institutional reform and improved the organisational structure of the Head Office and institutions at all levels by making them leaner and more efficient. In particular, it reduced the number of management levels and departments and shortened management chains so as to enhance management efficiency.

While maintaining the total number of Group staff at a stable level, the Bank continued to optimise personnel allocation by devoting more human resources to IT system development, overseas and diversified business development, and frontline operations. It earnestly implemented relevant policies and measures regarding the allocation of greater resources to frontline operations, including expenses, job position, salary and training. Measures were formulated to encourage competent staff members to gain practical experience and make pioneering achievements in impoverished regions. In addition, the Bank actively fulfilled its social responsibilities by converting dispatched labourers to employees.

The Bank improved its remuneration and performance management system. In order to promote endogenous development and implement the Group's strategic plans, integrated evaluation and incentive plans were developed for institutions and employees. These plans jointly considered performance evaluation, the application of evaluation results, human resources expenses and remuneration allocation. A broad band remuneration system was formulated and implemented in the Head Office, with the aim of strengthening incentive and restraint mechanisms.

The Bank continued to improve and strengthen its personnel training and development. It strengthened the development of its training systems, improved the management of teachers, institutions and related expenses and promoted R&D in training programmes and courses, online training and case study development. Major training programmes were undertaken regarding RMB internationalisation, RMB interest rate liberalisation, online finance and business development in the Free Trade Zone, among other areas. In 2014, the domestic commercial banking institutions of the Bank held 76,099 training courses with 2,553,405 participants.

Management Discussion and Analysis — Outlook

The world economy is undergoing deep adjustment while China's economic development is entering the "new normal". The operational environment for banks has witnessed profound changes and the major economies continue to follow divergent development trends. Financial markets are experiencing broader fluctuations and bulk commodity prices continue to fall. Heightened contagion effects of geopolitical risk have made financial risks more complicated and market competition fiercer. As the Chinese Government accelerates the rollout of policy to stabilise growth, promote reform, adjust structure and improve people's livelihood, the Chinese economy is expected to maintain stable growth. Meanwhile, the Chinese economy's "new normal" will bring new opportunities to the banking sector. First, cross-border finance will embrace the new "blue ocean". Second, the transformation of China's economic structure will create new demands. Third, market-oriented financial reform will generate new driving force. Facing these opportunities and challenges, the Bank will give full play to its competitive advantages in internationalisation and diversification, step up business expansion and strengthen the collaboration of its domestic and overseas operations. It will provide customers with all-round integrated financial services, which facilitate the sound and sustainable development of its businesses and steadily enhance its market status.

Follow national strategies and enhance international operations. The Bank will improve top-level design, seize market opportunities and accelerate network expansion, striving to become the financial artery of the "Belt and Road" development strategy. It will accelerate the building of a global integrated payment and clearing system, and constantly consolidate its position as the main channel for RMB internationalisation. It will also pay close attention to the cross-border financial needs of major industries, high-quality private enterprises, financial institution customers and personal customers, and continue to promote financial services for "Going Global" enterprises. The Bank will continue to develop the China (Shanghai) Pilot Free Trade Zone ("FTZ") platform, making it more professional, convenient and universal, and will strive to be the first-choice bank for FTZ businesses. The Bank will also carry forward the integration of customer marketing, product innovation and outlet services, so as to fully support the implementation of the nation's major regional strategies. In 2015, the domestic RMB loans of the Bank are expected to increase by approximately 11%.

Deepen business transformation and improve operational effectiveness. The Bank will actively adapt to the interest rate liberalisation process, comprehensively intensify its efforts in liability management, diversify its marketing channels and expand fund sources. It will earnestly reinforce capital management and accelerate business structure adjustment with a view to conserving capital. It will also give stronger support to key fields and important projects characterised by high overall income, high capital efficiency and alignment with governing policies, thus vigorously expanding its personal loan business, asset securitisation business and SME business (especially small and micro-sized enterprise business). In this way, it will make good use of existing loans, reduce capital consumption and increase capital returns. The Bank will actively build a high-tech product system for its corporate banking business, execute effective segmented marketing in its personal banking business, promote the global integrated development of trading business, provide more standardised and specialised financial services and advance the development of its fee-based businesses. In addition, it will give play to its core businesses and consolidate its advantages in diversified operations.

Strictly guard against risks and control risk costs. Following the principle of substance over form, the Bank will strengthen risk management and refine management and control procedures over its full-volume business. It will fully carry out customer-centric comprehensive risk management and intensify efforts in risk identification, control and mitigation for key customers, operations, industries and fields. It will be more active in resolving NPLs and create new disposal methods via multiple channels. The Bank will also strengthen market risk management and improve the coordinated risk management of its non-traditional commercial banking and bond investment. Moreover, the Bank will strengthen liquidity monitoring and stress testing, optimise investment term structure and enhance liquidity risk management of its full-volume business. The Bank will raise all employees' awareness of the overall situation and their responsibilities and thus reinforce reputational risk management at the source.

Intensify internal control and compliance to prevent various fraud cases. The Bank will improve its internal control management mechanism, optimise internal control governance and organisational structure, and carry out problem rectification and accountability, so as to ensure effective fulfilment of fraud case prevention and control responsibilities. The Bank will comprehensively develop the internal control process and pay special attention to fields with frequent occurrence of fraud cases so as to avoid internal control negligence and control deficiencies. It will strengthen various aspects of basic personnel management and increase staff compliance and ethics training. It will conduct special inspections and rectifications and strictly implement its accountability mechanism in order to eliminate potential risk events. The Bank will further improve classification criteria and enhance assessment of money-laundering risks, so as to increase the effectiveness of anti-money laundering efforts.

Emphasise fundamental work to consolidate development foundations. The Bank will consistently strengthen training on basic-level personnel teams in order to improve their professional skills, compliance awareness, and services capabilities. It will further optimise technological governance, enhance professional decision-making mechanisms and continue to improve IT productivity. Taking a customer-centric approach, the Bank will coordinate management processes across all channels and products and further refine its operational management. It will continue to carry forward pilot projects at the outlet level to improve intelligence and enhance overall channel efficiency. In addition, the Bank will accelerate the development of the internet finance ecology, strengthen innovation in mobile payment, build cross-border matchmaking service platforms and enhance the competitiveness of its internet finance. By examining data quality control mechanisms across its processes, the Bank will continually improve data quality and use "big data" technology to guide business development.

Corporate Social Responsibilities

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1. Jiangsu Branch initiated the public welfare activity of helping children with congenital heart disease from poverty-stricken families
2. Tennis Association of the Bank organised staff to participate in and win the team match
3. Teenagers were invited to visit the Bank

Upholding the development strategy of "Serving Society, Delivering Excellence", the Bank comprehensively fulfilled its responsibilities as a state-owned large bank and a global corporate citizen, and dedicated itself to serving, repaying and contributing to the society. It actively organised and launched corporate social initiatives, making important contributions to post-disaster assistance, poverty alleviation, support to the development of education, science, culture and art, and the protection of the ecological environment.

Responsibility to the country

The Bank proactively served the nation's strategy and explored new approaches and models in an effort to enhance its ability to support the real economy. Credit resources were mainly allocated to key social and economic areas and weak points so as to facilitate the sound and steady development of the real economy. It also strengthened liquidity management and emergency response while maintaining stable asset quality. The Bank was the sole financial institution from emerging economies to be designated as a Global Systemically Important Bank for four consecutive years, thus acting as a stabilising force within the global financial industry.

Responsibility to shareholders

Placing a high value on shareholders' rights, the Bank continuously improved its corporate governance structure and risk management system, actively promoted the construction of its information disclosure system and launched diversified communication activities with investors, thus supporting the creation of long-term value for shareholders.

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4. BOCHK put into operation the first HKD/RMB cash deposit machine in Hong Kong
5. Macau Branch made donations to support the conservation work of the giant pandas in Macau
6. Henan Branch organised the "Financial Knowledge Accessible in Community" activity

Responsibility to customers

Relying on its global service network and diversified financial services platform, the Bank provided excellent, innovative and highly efficient globally integrated financial services for its customers. It seized opportunities arising from cross-border RMB business and built a globally integrated RMB payment clearing network. It accelerated the transformation and upgrading of its outlets, making them more intelligent, interactive and integrated with online channels. It also set up a service quality management system and unified core system for its outlets, thus optimising business and service processes and improving customer experience. The Bank pushed forward innovation in financial products and services that support the people's livelihood and accelerated the construction of a people-benefit financial services system. It constantly optimised regulations and procedures for customer data protection and complaint handling and improved its internal supervision mechanism. Moreover, the Bank strengthened customers' awareness of financial security through a sustained public information campaign, so as to jointly build a sound financial ecology.

Responsibility to employees

Pursuant to the latest *Labour Contract Law of the People's Republic of China*, the Bank converted all 58 thousand external contractual employees into contract employees. So far, it is the only state-owned enterprise to achieve full conversion. It allocated special subsidies for staff at grassroots outlets, subsidies to support equal pay for equal work and subsidies to improve remuneration competitiveness in domestic branches, thus further enhancing the remuneration level of its grassroots staff.

Staff were invited to participate in the democratic management of the Bank by means of letters and visits as well as communication between bank leaders and employees. Over 90% of branches convened the employee delegates' meetings. The Bank has conducted the employee satisfaction surveys for 12 consecutive years with satisfaction growing year on year.

Responsibility to the society

The Bank provided financial assistance for the earthquake stricken area of Ludian in Yunnan Province, areas of Hainan affected by the "Rammasun Typhoon", the area of Kaohsiung in Taiwan affected by a major gas explosion as well as other disaster areas. It donated to and supported the Africa visit of the Ebola medical group of the Third Military Medical University to Africa. It also supported the programme of "visiting people, benefiting livelihood, uniting hearts" in Xinjiang Autonomous Region, dispatching the work teams composed of over 50 members to be stationed in 17 villages across 12 prefectures. A special education fund was established for local middle and primary schools and student subsidies were granted to 78 impoverished college students. In addition, the Bank provided learning machines to 4,235 student families in 26 villages across 12 prefectures.

As at the end of 2014, the Bank had extended government-sponsored student loans for 15 consecutive years, providing total funding of RMB20 billion for 1.6 million financially underprivileged students. It has supported a poverty alleviation programmes in the Yongshou, Changwu, Chunhua and Xunyi counties of Xianyang, Shaanxi Province for 12 consecutive years. The Bank has sponsored the Tan Kah Kee Science Award and the Tan Kah Kee Young Scientist Award for 11 consecutive years, in order to honour the excellent young scientists who have achieved original scientific and technological achievements in China. The Bank promoted international cultural exchanges in strategic cooperation with the National Center for the Performing Arts for the sixth consecutive year. For three consecutive years, it has supported the Rainbow Bridge programme sponsored jointly by China Next Generation Education Foundation and Americans Promoting Study Abroad, supporting 156 outstanding but financially underprivileged Chinese and American students to take part in short-term cross-border cultural exchanges and study.

Responsibility to the environment

The Bank improved its environmentally credit policy, vigorously developed low-carbon finance and green credit and actively reinforced environmental and social risk assessment on its credit projects, thus putting green credit policy into practice. It enhanced the innovation in green financial services and launched a series of green credit products and carbon finance products. It also enriched its service modes and intensified construction of its electronic service platform so as to reduce its environmental footprint. Furthermore, the Bank carried out the electronic review and encouraged staff to hold meetings by video and telephone, resulting in a year-on-year decrease in per capita consumption of water, power and gas consumption year by year.

The Bank's fulfillment of its social responsibilities was widely recognised by the society. The Bank won many awards, including "Most Socially Responsible Financial Institution", "Best People's Livelihood Financial Award in Social Responsibilities" and "Special Contribution Outlet Award in Social Responsibilities" from the China Banking Association, "Outstanding Enterprise in Social Responsibilities" from Xinhuanet.com, "2014 Most Socially Responsible Enterprise" from China News Service, "Most Socially Responsible Listed Company" from Sina.com.cn, and "Top 100 Listed State-owned Enterprises by Corporate Social Responsibility" from *Southern Weekly*.

The full text of the Bank's 2014 Corporate Social Responsibility Report has been published on the websites of SSE, HKEx and the Bank.

Changes in Share Capital and Shareholdings of Shareholders

Ordinary Shares

Changes in Ordinary Share Capital

Unit: Share

	As at 1 January 2014		Increase/decrease during the reporting period					As at 31 December 2014	
	Number of shares	Percentage	Issuance of new shares	Bonus shares	Shares transferred from surplus reserve	Others	Sub-total	Number of shares	Percentage
I. Shares subject to selling restrictions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
II. Shares not subject to selling restrictions	**279,364,552,437**	**100.00%**	**–**	**–**	**–**	**9,366,595,563**	**9,366,595,563**	**288,731,148,000**	**100.00%**
1. RMB-denominated ordinary shares	195,742,276,042	70.07%	–	–	–	9,366,595,563	9,366,595,563	205,108,871,605	71.04%
2. Domestically listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas listed foreign shares	83,622,276,395	29.93%	–	–	–	–	–	83,622,276,395	28.96%
4. Others	–	–	–	–	–	–	–	–	–
III. Total Ordinary Shares	**279,364,552,437**	**100.00%**	**–**	**–**	**–**	**9,366,595,563**	**9,366,595,563**	**288,731,148,000**	**100.00%**

Notes:

1 As at 31 December 2014, the Bank had issued a total of 288,731,148,000 ordinary shares, including 205,108,871,605 A Shares and 83,622,276,395 H Shares.

2 As at 31 December 2014, none of the Bank's A Shares and H Shares were subject to selling restrictions.

3 During the reporting period, 9,366,595,563 ordinary shares were converted from the A-Share Convertible Bonds of the Bank.

Changes in Share Capital and Shareholdings of Shareholders

Number of Ordinary Shareholders and Shareholdings

Number of ordinary shareholders as at 31 December 2014: 1,065,843 (including 850,158 A-Share Holders and 215,685 H-Share Holders)

Number of ordinary shareholders as at the end of the fifth trading day before the disclosure of this Report: 1,389,749 (including 1,176,509 A-Share Holders and 213,240 H-Share Holders)

Top ten ordinary shareholders as at 31 December 2014:

Unit: Share

No.	Name of ordinary shareholder	Changes during the reporting period	Number of shares held as at the end of the reporting period	Percentage of total ordinary shares	Number of shares subject to selling restrictions	Number of shares pledged or frozen	Type of shareholder	Type of shares
1	Central Huijin Investment Ltd.	–	189,179,033,607	65.52%	–	None	State	A
2	HKSCC Nominees Limited	66,389,735	81,669,967,370	28.29%	–	Unknown	Foreign legal person	H
3	The Bank of Tokyo-Mitsubishi UFJ Ltd.	–	520,357,200	0.18%	–	Unknown	Foreign legal person	H
4	HKSCC Limited	246,518,310	246,518,310	0.09%	–	None	Foreign legal person	A
5	National Council for Social Security Fund — Portfolio No. 108	209,999,763	209,999,763	0.07%	–	None	Other	A
6	E Fund Management (Hongkong) Co., Limited — Client's Fund (ETF)	191,909,296	191,909,296	0.07%	–	None	Other	A
7	Industrial Trend Investment Hybrid Securities Investment Fund	113,154,976	113,154,976	0.04%	–	None	Other	A
8	Taikang Life Insurance Co., Ltd. — dividend — personal dividend — 019L — FH002SH	106,978,492	106,978,492	0.04%	–	None	Other	A
9	Shenhua Group Corporation Limited	–	99,999,900	0.03%	–	None	State-owned legal person	A
9	Aluminum Corporation of China	–	99,999,900	0.03%	–	None	State-owned legal person	A

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

HKSCC Nominees Limited acted as the nominee for all institutional and individual investors that maintain an account with it as at 31 December 2014. The aggregate number of H Shares held by HKSCC Nominees Limited included the shares held by National Council for Social Security Fund.

HKSCC Limited is the nominee holder who holds securities on behalf of others. The securities included the SSE securities acquired by Hong Kong and overseas investors through Shanghai-Hong Kong Stock Connect.

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

Substantial Shareholder Interests

The register maintained by the Bank pursuant to section 336 of the SFO recorded that, as at 31 December 2014, the following entities were substantial shareholders (as defined in the SFO) having the following interests in the Bank:

Name of shareholder	Capacity (types of interest)	Number of shares held/ Number of underlying shares (unit: share)	Type of shares	Percentage of total issued A-Share capital	Percentage of total issued H-Share capital	Percentage of total issued ordinary share capital
Central Huijin Investment Ltd.	Beneficial owner	188,553,352,005	A	91.93%	–	65.30%
National Council for Social Security Fund	Beneficial owner	7,518,157,041	H	–	8.99%	2.60%
BlackRock, Inc.	Interest of controlled corporations	5,924,055,391	H	–	7.08%	2.05%
JPMorgan Chase & Co.	Beneficial owner	1,422,402,689	H	–	1.70%	0.49%
		544,162,436(S)	H	–	0.65%	0.19%
	Investment Manager	827,645,447	H	–	0.99%	0.29%
	Trustee	36,000	H	–	0.00004%	0.00001%
	Custodian corporation/ approved lending agent	3,915,684,177(P)	H	–	4.68%	1.36%
	Total	6,165,768,313	H	–	7.37%	2.14%
		544,162,436(S)	H	–	0.65%	0.19%
		3,915,684,177(P)	H	–	4.68%	1.36%

Notes:

1 The above interest of Central Huijin Investment Ltd. reflects its latest disclosure of interest made pursuant to the SFO, which does not reflect the increase in its holding of the Bank's A Shares from 2011 to the end of the reporting period.

2 The percentages listed above were determined based on the total A-Share capital, total H-Share capital and total ordinary share capital of the Bank as at 31 December 2014, respectively.

3 BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2 Inc., which in turn holds the entire issued share capital of BlackRock Financial Management, Inc. Accordingly, BlackRock, Inc. and BlackRock Holdco 2 Inc. are deemed to have the same interests in the Bank as BlackRock Financial Management, Inc. under the SFO. BlackRock, Inc. holds a long position of 5,924,055,391 H Shares of the Bank through BlackRock Financial Management, Inc. and other corporations controlled by it. Among the aggregate long positions, 18,779,000 H Shares are held through derivatives.

4 JPMorgan Chase & Co. holds the entire issued share capital of JPMorgan Chase Bank, N.A. Accordingly, JPMorgan Chase & Co. is deemed to have the same interests in the Bank as JPMorgan Chase Bank, N.A. under the SFO. JPMorgan Chase & Co. holds a long position of 6,165,768,313 H Shares and a short position of 544,162,436 H Shares of the Bank through JPMorgan Chase Bank, N.A. and other corporations controlled by it. Among the aggregate interests in the long position of 6,165,768,313 H Shares, 3,915,684,177 H Shares are held in the lending pool and 524,943,986 H Shares are held through derivatives. Among the aggregate interests in the short position of 544,162,436 H Shares, 524,162,435 H Shares are held through derivatives.

5 "S" denotes short position, "P" denotes lending pool.

All the interests stated above represented long positions except where stated otherwise. Save as disclosed above, as at 31 December 2014, no other interests (including derivative interests) or short positions were recorded in the register maintained by the Bank under section 336 of the SFO.

Controlling Shareholder of the Bank

Central Huijin Investment Ltd.

Huijin is a state-owned investment company established under the Company Law. Established on 16 December 2003, Huijin has a registered capital of RMB828.209 billion and a paid-in capital of RMB828.209 billion. Its legal representative is Mr. DING Xuedong. Its organisation code is 71093296-1. Wholly owned by China Investment Corporation, Huijin makes equity investments in key state-owned financial institutions, as authorised by the State Council. To the extent of its capital contribution, Huijin exercises its rights and fulfils its obligations as an investor on behalf of the State, in accordance with applicable laws aimed at preserving and enhancing the value of state-owned financial assets. Huijin neither engages in other business activities nor intervenes in the daily operation of the key state-owned financial institutions of which it is the controlling shareholder.

As at 31 December 2013[6], the total assets, liabilities and equity of Huijin amounted to RMB2,650,373,613 thousand, RMB135,993,548.5 thousand and RMB2,514,380,064.5 thousand respectively. Huijin achieved a net profit of RMB450,150,738.8 thousand for 2013. The net cash flow from Huijin's operating activities, investment activities and financing activities was RMB41,743,761.4 thousand in 2013.

As at 31 December 2014, the basic information of companies directly held by Huijin is as follows:

No.	Company name	Proportion of the total capital held by Huijin
1	China Development Bank Corporation	47.63%
2	Industrial and Commercial Bank of China Limited ★☆	35.12%
3	Agricultural Bank of China Limited ★☆	40.28%
4	Bank of China Limited ★☆	65.52%
5	China Construction Bank Corporation ★☆	57.26%
6	China Everbright Group Ltd.	55.67%
7	China Everbright Bank Company Limited ★☆	41.24%
8	China Export & Credit Insurance Corporation	73.63%
9	China Reinsurance (Group) Corporation	84.91%
10	New China Life Insurance Company Limited ★☆	31.34%
11	China Jianyin Investment Limited	100.00%
12	China Galaxy Financial Holding Co., Ltd.	78.57%
13	Shenyin & Wanguo Securities Co., Ltd.	55.38%
14	China International Capital Corporation Limited	43.35%
15	China Securities Co., Ltd.	40.00%
16	China Investment Securities Co., Ltd.	100.00%
17	China Everbright Industry Group Limited	100.00%
18	Jiantou & Zhongxin Assets Management Limited	70.00%
19	Guotai Junan Investment Management Co., Ltd.	14.54%

Notes:

1 ★ denotes A share listed company and ☆ denotes H share listed company.

2 China Everbright (Group) Corporation was restructured into China Everbright Group Ltd. on 8 December 2014, in which Huijin holds 55.67% of the shares. The capital contribution of Huijin in China Everbright Group Ltd. comprises 9 billion shares it holds in China Everbright Bank Company Limited and its 100% equity interest in China Everbright Industry Group Limited. The relevant share (equity interest) transfer procedures are still in process.

3 Shenwan Hongyuan Group Co., Ltd., established as a result of the merger of Shenyin & Wanguo Securities Co., Ltd. and Hongyuan Securies Co., Ltd., was listed on the Shenzhen Stock Exchange on 26 January 2015. Huijin holds 25.03% of the shares of Shenwan Hongyuan Group Co., Ltd. China Jianyin Investment Limited also holds 32.89% of the shares of Shenwan Hongyuan Group Co., Ltd.

6 The 2014 consolidated financial statements of Huijin cannot be audited until the audited financial statements of all companies controlled or held by Huijin are available.

Please refer to the information on the website of China Investment Corporation (www.china-inv.cn) for the details of China Investment Corporation. China Investment Corporation was established in 2007, and please refer to the *Announcement on Matters related to the Incorporation of China Investment Corporation* published on 9 October 2007 by the Bank for relevant information.

As at 31 December 2014, no other legal-person shareholder held 10% or more voting shares of the Bank (excluding HKSCC Nominees Limited).

Preference Shares

Issuance and Listing of the Preference Shares

With the approvals of CBRC (Yinjianfu [2014] No. 563) and CSRC (Zhengjianxuke [2014] No. 938), the Bank made a non-public issuance of RMB39.94 billion (approximately USD6.5 billion) Offshore Preference Shares on 23 October 2014 in the offshore market. Such Offshore Preference Shares have been listed on the Hong Kong Stock Exchange since 24 October 2014.

With the approvals of CBRC (Yinjianfu [2014] No. 562) and CSRC (Zhengjianxuke [2014] No. 990), the Bank made a non-public issuance of RMB32 billion Domestic Preference Shares on 21 November 2014 in the domestic market. With the approval of SSE (Shangzhenghan [2014] No. 818), such Domestic Preference Shares have been traded on the Comprehensive Business Platform of SSE since 8 December 2014. The Bank made a non-public issuance of RMB28 billion Domestic Preference Shares on 13 March 2015 in the domestic market. Such Domestic Preference Shares will be traded on the Comprehensive Business Platform of SSE.

For the terms of issuance of the Offshore Preference Shares and Domestic Preference Shares, please refer to the Bank's announcements published on the websites of SSE, HKEx and the Bank.

Number of Preference Shareholders and Shareholdings

Number of preference shareholders as at 31 December 2014: 39 (including 38 Domestic Preference Shareholders and 1 Offshore Preference Shareholder).

Number of preference shareholders as at the end of the fifth trading day before the disclosure of this Report: 63 (including 62 Domestic Preference Shareholders and 1 Offshore Preference Shareholder).

Top ten preference shareholders as at 31 December 2014:

Unit: Share

No.	Name of preference shareholder	Changes during the reporting period	Number of shares held as at the end of the reporting period	Percentage of total preference shares	Number of shares pledged or frozen	Type of shareholder	Type of shares
1	Bank of New York Mellon Corporation	399,400,000	399,400,000	55.52%	unknown	Foreign legal person	Offshore Preference Shares
2	China National Tobacco Corporation	50,000,000	50,000,000	6.95%	none	State-owned legal person	Domestic Preference Shares
3	Zhongwei Real Estate Co., Ltd.	30,000,000	30,000,000	4.17%	none	State-owned legal person	Domestic Preference Shares
4	Yunnan Branch of China National Tobacco Corporation	22,000,000	22,000,000	3.06%	none	State-owned legal person	Domestic Preference Shares
5	China Shuangwei Investment Co., Ltd.	20,000,000	20,000,000	2.78%	none	State-owned legal person	Domestic Preference Shares
6	Ping An Life Insurance Company of China, Ltd. — proprietary fund	15,000,000	15,000,000	2.09%	none	Domestic non state-owned legal person	Domestic Preference Shares
7	China Life Insurance Company Limited — dividend — personal dividend — 005L — FH002SH	14,000,000	14,000,000	1.95%	none	other	Domestic Preference Shares
8	China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001SH	13,000,000	13,000,000	1.81%	none	other	Domestic Preference Shares
9	Bosera Fund — ICBC — Bosera — ICBC — Flexible Allocation No. 5 Specific Multi-customer Assets Management Plan	10,000,000	10,000,000	1.39%	none	other	Domestic Preference Shares
9	Hunan Branch of China National Tobacco Corporation	10,000,000	10,000,000	1.39%	none	State-owned legal person	Domestic Preference Shares

The Bank of New York Mellon Corporation acted as the custodian for all the offshore preference shareholders that maintain an account with Euroclear and Clearstream as at 31 December 2014, holding 100% of the 399,400,000 Offshore Preference Shares.

Yunnan Branch of China National Tobacco Corporation, China Shuangwei Investment Co., Ltd. and Hunan Branch of China National Tobacco Corporation are wholly owned subsidiaries of China National Tobacco Corporation. Zhongwei Real Estate Co., Ltd. is a subsidiary of China Shuangwei Investment Co., Ltd.

"China Life Insurance Company Limited — dividend — personal dividend — 005L — FH002SH" and "China Life Insurance Company Limited — traditional — ordinary insurance products — 005L — CT001SH" both belong to China Life Insurance Company Limited.

Save as disclosed above, the Bank is not aware of any connected relations or concerted action among the aforementioned shareholders.

Profit Distribution of the Preference Shares

During the reporting period, there was no dividend payment in respect of the preference shares. For the profit distribution policy of the preference shares, please refer to "Report of the Board of Directors — Formulation and Implementation of Cash Dividend Policy".

Other Information of the Preference Shares

During the reporting period, there was no redemption, conversion into ordinary shares or voting rights recovery in respect of the preference shares of the Bank.

Preference shares issued by the Bank contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; and preference shares issued are non-derivative instruments that will be settled in the entity's own equity instruments, but includes no contractual obligation for the entity to deliver a variable number of its own equity instruments. The Bank classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

The funds raised from the issuance of the Offshore Preference Shares and Domestic Preference Shares during the reporting period have been fully used to replenish the Bank's additional tier 1 capital and increase its capital adequacy ratio.

Convertible Bonds

Issuance and Changes to Convertible Bonds

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

During the reporting period, the changes to the Bank's Convertible Bonds are as follows:

Unit: RMB

Name of Convertible Bonds	Before the change	Increase/decrease				After the change
		Conversion	Redemption	Back-sell	Others	
Bank of China A-Share Convertible Bonds	39,386,767,000	24,540,517,000	–	–	–	14,846,250,000

Convertible Bondholders and Guarantors

Number of convertible bondholders as at 31 December 2014: 7,297

Guarantor of the Bank's Convertible Bonds: None

Top ten convertible bondholders as at 31 December 2014:

No.	Name of convertible bondholder	Amount of Convertible Bonds held as at the end of the reporting period (RMB)	Percentage of total unconverted Convertible Bonds
1	Guotai Junan Securities Co., Ltd.	733,688,000	4.94%
2	ICBC Credit Suisse Asset Management Co., Ltd. — ICBC — Industrial and Commercial Bank of China Limited	624,936,000	4.21%
3	E Fund Stable Value Bond Fund	531,161,000	3.58%
4	Industrial Convertible Bond Hybrid Securities Investment Fund	404,098,000	2.72%
5	GIC Private Limited	357,411,000	2.41%
6	Minsheng Royal Convertible Bond Selected Bond Fund	336,003,000	2.26%
7	Bosera Value Appreciation Securities Investment Fund	324,575,000	2.19%
8	CCB Principal Convertible Bond Enhanced Bond Fund	321,223,000	2.16%
9	GuoYuan Securities Co., Ltd.	300,001,000	2.02%
10	GF Stable Growth Securities Investment Fund	260,000,000	1.75%

Accumulated Conversion of Convertible Bonds

Amount of conversion during the reporting period (RMB)	24,540,517,000
Number of converted shares during the reporting period (share)	9,366,595,563
Accumulated converted shares (share)	9,583,985,269
Proportion of accumulated converted shares to total shares before conversion	3.53%
Amount of unconverted Convertible Bonds (RMB)	14,846,250,000
Proportion of unconverted Convertible Bonds to total issued Convertible Bonds	37.12%

Previous Adjustments of Conversion Price

Effective date of adjusted conversion price	Adjusted conversion price	Disclosure date	Reasons for adjustments	Media of disclosure
4 June 2010	RMB3.88 per share	31 May 2010	2009 profit distribution	*China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily* and the websites of SSE, HKEx and the Bank
16 November 2010	RMB3.78 per share	11 November 2010	A Share Rights Issue	
16 December 2010	RMB3.74 per share	13 December 2010	H Share Rights Issue	
10 June 2011	RMB3.59 per share	3 June 2011	2010 profit distribution	
13 June 2012	RMB3.44 per share	6 June 2012	2011 profit distribution	
29 March 2013	RMB2.99 per share	27 March 2013	Downward adjustment approved by the shareholders' meeting	
18 June 2013	RMB2.82 per share	6 June 2013	2012 profit distribution	
27 June 2014	RMB2.62 per share	19 June 2014	2013 profit distribution	
Conversion price at the end of the reporting period: RMB2.62 per share				

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

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

Dagong Global Credit Rating Co., Ltd. has evaluated the Bank's Convertible Bonds and provided an updated credit rating report (Da Gong Bao SD [2014] No. 105) that reaffirmed an AAA credit rating on the Bank's Convertible Bonds. Dagong Global Credit Rating Co., Ltd believes that the Bank is able to provide significantly strong support to the repayment of its Convertible Bonds issued in 2010.

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

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

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

Redemption of the Convertible Bonds

Upon satisfaction for the first time of conditional redemption provisions of the Convertible Bonds according to the *Prospectus of Bank of China Limited on Public Offering of A-Share Convertible Corporate Bonds,* and with the approval of CBRC, the Bank redeemed all of the Convertible Bonds registered after the close of the market on 6 March 2015 (the redemption record date). The Convertible Bonds redeemed amounted to RMB25,822,000, representing 0.06% of the total Convertible Bonds (RMB40 billion) issued by the Bank. Accumulatively 15,240,628,510 A Shares were converted from the Convertible Bonds, representing 5.61% of the total issued ordinary shares of the Bank (271,545,137,605 shares) before the commencement of conversion of the Convertible Bonds (1 December 2010). The Convertible Bonds were delisted from SSE as of 13 March 2015.

For details of the redemption of the Convertible Bonds, please refer to the Bank's announcements published on the websites of SSE, HKEx and the Bank.

Issuance of Other Securities

During the reporting period, the Bank successively issued RMB30 billion and USD3 billion tier 2 capital bonds in the domestic national interbank bond market and the offshore market respectively. All the funds raised have been used to replenish the capital and increase the level of capital adequacy of the Bank.

Please refer to Note V.30 to the Consolidated Financial Statements for details of the bonds issued by the Bank.

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

Directors, Supervisors and Senior Management Members

Basic Information

Incumbent Directors, Supervisors and Senior Management Members

Name	Year of birth	Gender	Position	Term of office
TIAN Guoli	1960	Male	Chairman	From May 2013 to the date of the Annual General Meeting in 2016
CHEN Siqing	1960	Male	Vice Chairman and President	From April 2014 to the date of the Annual General Meeting in 2017
LI Zaohang	1955	Male	Executive Director and Executive Vice President	From August 2004 to the date of the Annual General Meeting in 2016
SUN Zhijun	1955	Female	Non-executive Director	From October 2010 to the date of the Annual General Meeting in 2016
ZHANG Xiangdong	1957	Male	Non-executive Director	From July 2011 to the date of the Annual General Meeting in 2017
ZHANG Qi	1972	Male	Non-executive Director	From July 2011 to the date of the Annual General Meeting in 2017
WANG Yong	1962	Male	Non-executive Director	From July 2013 to the date of the Annual General Meeting in 2016
WANG Wei	1957	Male	Non-executive Director	From September 2014 to the date of the Annual General Meeting in 2017
LIU Xianghui	1954	Male	Non-executive Director	From October 2014 to the date of the Annual General Meeting in 2017
CHOW Man Yiu, Paul	1946	Male	Independent Director	From October 2010 to the date of the Annual General Meeting in 2016
Jackson TAI	1950	Male	Independent Director	From March 2011 to the date of the Annual General Meeting in 2017
Nout WELLINK	1943	Male	Independent Director	From October 2012 to the date of the Annual General Meeting in 2015
LU Zhengfei	1963	Male	Independent Director	From July 2013 to the date of the Annual General Meeting in 2016
LEUNG Cheuk Yan	1951	Male	Independent Director	From September 2013 to the date of the Annual General Meeting in 2016
LI Jun	1956	Male	Chairman of the Board of Supervisors	From March 2010 to the date of the Annual General Meeting in 2016
WANG Xueqiang	1957	Male	Shareholder Supervisor	From August 2004 to the date of the Annual General Meeting in 2016
LIU Wanming	1958	Male	Shareholder Supervisor	From August 2004 to the date of the Annual General Meeting in 2016
DENG Zhiying	1959	Male	Employee Supervisor	From August 2010 to the date of 2016 Employee Delegates' Meeting
LIU Xiaozhong	1956	Male	Employee Supervisor	From August 2012 to the date of 2015 Employee Delegates' Meeting
XIANG Xi	1971	Female	Employee Supervisor	From August 2012 to the date of 2015 Employee Delegates' Meeting
MEI Xingbao	1949	Male	External Supervisor	From May 2011 to the date of the Annual General Meeting in 2017
ZHANG Lin	1956	Female	Secretary of Party Discipline Committee	From August 2004
ZHU Shumin	1960	Male	Executive Vice President	From August 2010
ZHANG Jinliang	1969	Male	Executive Vice President	From July 2014
REN Deqi	1963	Male	Executive Vice President	From July 2014
CHIM Wai Kin	1960	Male	Chief Credit Officer	From March 2007
XIAO Wei	1960	Male	Chief Audit Officer	From November 2014
FAN Yaosheng	1968	Male	Secretary to the Board of Directors	From September 2012

Note: During the reporting period, no director, supervisor or senior management member held any share or convertible bond of the Bank.

Former Directors, Supervisors and Senior Management Members

Name	Year of birth	Gender	Position held before leaving the post	Term of office
LI Lihui	1952	Male	Vice Chairman and President	From August 2004 to January 2014
WANG Yongli	1964	Male	Executive Director and Executive Vice President	From February 2012 to April 2014
LIU Lina	1955	Female	Non-executive Director	From October 2010 to September 2014
BAO Guoming	1951	Female	External Supervisor	From May 2011 to December 2014
YUE Yi	1956	Male	Executive Vice President	From August 2010 to March 2015
LIU Yanfen	1953	Female	Chief Audit Officer	From December 2011 to November 2014

Note: No former director, supervisor or senior management member held any share or convertible bond of the Bank during their terms of office.

Remuneration of Directors, Supervisors and Senior Management Members Paid in 2014

In accordance with the government regulations, since 1 January 2015, the Bank will remunerate Chairman of the Board of Directors, the President, Chairman of the Board of Supervisors, executive directors, Secretary of Party Discipline Committee and executive vice presidents pursuant to the newly released rules on remuneration reform for central enterprises. The 2014 total remuneration for the Chairman of the Board of Directors, Chairman of the Board of Supervisors, executive directors and senior management members is still subject to the former rules and has not been finalised in accordance with the government regulations. The Bank will make announcement for further disclosure in due course.

Incumbent Directors, Supervisors and Senior Management Members

Unit: RMB ten thousand

Name	Fees	Remuneration paid	Contribution by the employer to compulsory insurances, housing allowances, etc.	Total remuneration before tax	Whether receive remuneration from controlling shareholder
TIAN Guoli	–	84.30	33.78	118.08	No
CHEN Siqing	–	75.10	33.22	108.32	No
LI Zaohang	–	72.80	36.14	108.94	No
SUN Zhijun	–	–	–	–	Yes
ZHANG Xiangdong	–	–	–	–	Yes
ZHANG Qi	–	–	–	–	Yes
WANG Yong	–	–	–	–	Yes
WANG Wei	–	–	–	–	Yes
LIU Xianghui	–	–	–	–	Yes
CHOW Man Yiu, Paul	45.00	–	–	45.00	No
Jackson TAI	40.00	–	–	40.00	No
Nout WELLINK	50.00	–	–	50.00	No
LU Zhengfei	50.00	–	–	50.00	No
LEUNG Cheuk Yan	40.00	–	–	40.00	No
LI Jun	–	73.76	35.90	109.66	No
WANG Xueqiang	–	65.71	33.17	98.88	No
LIU Wanming	–	61.01	31.66	92.67	No
DENG Zhiying	5.00	–	–	5.00	No
LIU Xiaozhong	5.00	–	–	5.00	No
XIANG Xi	5.00	–	–	5.00	No
MEI Xingbao	18.00	–	–	18.00	No
ZHANG Lin	–	70.94	35.16	106.10	No
ZHU Shumin	–	71.10	33.48	104.58	No
ZHANG Jinliang	–	35.55	15.54	51.09	No
REN Deqi	–	35.55	15.24	50.79	No
CHIM Wai Kin	–	522.88	51.60	574.48	No
XIAO Wei	–	12.30	3.10	15.40	No
FAN Yaosheng	–	66.68	30.92	97.60	No

Former Directors, Supervisors and Senior Management Members

Unit: RMB ten thousand

Name	Fees	Remuneration paid	Contribution by the employer to compulsory insurances, housing allowances, etc.	Total remuneration before tax	Whether receive remuneration from controlling shareholder
LI Lihui	–	6.32	3.57	9.89	No
WANG Yongli	–	24.04	10.37	34.41	No
LIU Lina	–	–	–	–	Yes
BAO Guoming	25.93	–	–	25.93	No
YUE Yi	–	71.10	34.18	105.28	No
LIU Yanfen	–	66.92	35.19	102.11	No

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

Notes:

1 Independent directors receive remuneration in accordance with the Resolution of the 2007 Annual General Meeting. External supervisors receive remuneration in accordance with the Resolution of the 2009 Annual General Meeting. Remuneration for shareholder supervisors is in accordance with the relevant remuneration scheme of the Bank and approved by the shareholders' meeting.

2 Non-executive Directors Ms. SUN Zhijun, Ms. LIU Lina, Mr. ZHANG Xiangdong, Mr. ZHANG Qi, Mr. WANG Yong, Mr. WANG Wei and Mr. LIU Xianghui were not remunerated by the Bank in 2014.

3 Mr. CHIM Wai Kin, recruited by the Bank in the market, was paid on the basis of the agreed remuneration.

4 The above persons' remuneration is calculated on the basis of their actual time working as the directors, supervisors or senior management members of the Bank in 2014. Employee supervisors' remuneration above is paid for their service as supervisors of the Bank in 2014.

5 The historical contribution of corporate pension made by the Bank for the benefit of relevant persons which totalled RMB104.5 thousand was not included in the above table.

The Bank incurred RMB21.7221 million in remuneration to its directors, supervisors and senior management members' services in 2014.

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

From 1 January 2014 to 31 December 2014, Non-executive Director Mr. ZHANG Xiangdong served as Director of the Bank of China Equity Investment Management Division of Banking Institutions Department I, Huijin. Save as disclosed above, in 2014, none of the Bank's directors, supervisors or senior management members held any position in the shareholding companies of the Bank.

Directors

1		
2	3	
4	5	6
7	8	9

1 TIAN Guoli
Chairman

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

2 CHEN Siqing
Vice Chairman and President

Vice Chairman of the Board of Directors since April 2014 and President of the Bank since February 2014. Mr. CHEN joined the Bank in 1990 and served as Executive Vice President of the Bank from June 2008 to February 2014. Mr. CHEN held various positions in the Bank from June 2000 to May 2008, including Assistant General Manager, Vice General Manager of the Fujian Branch, General Manager of the Risk Management Department of the Head Office and General Manager of the Guangdong Branch. Mr. CHEN previously worked in the Hunan Branch of the Bank before he was dispatched to the Hong Kong Branch of China and South Sea Bank Ltd. as Assistant General Manager. Since December 2011, Mr. CHEN has been serving as a Non-executive Director of BOCHK (Holdings) and Chairman of the Board of Directors of BOC Aviation. Currently, Mr. CHEN also serves as Chairman of the Board of Directors of China Culture Industrial Investment Fund Co., Ltd. Mr. CHEN graduated from Hubei Institute of Finance and Economics in 1982. He obtained an MBA from Murdoch University, Australia in 1999. He is a Certified Public Accountant.

3 LI Zaohang
Executive Director and Executive Vice President

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

4 SUN Zhijun
Non-executive Director

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

5 ZHANG Xiangdong
Non-executive Director

Non-executive Director of the Bank since July 2011. Mr. ZHANG served as a non-executive director of China Construction Bank Corporation from November 2004 to June 2010, and served as Chairman of the Risk Management Committee under its Board of Directors from April 2005 to June 2010. From August 2001 to November 2004, Mr. ZHANG worked as Vice President of PBOC's Haikou Central Sub-branch and concurrently served in the SAFE as Deputy Director General of Hainan Province Branch and Deputy Director General and Inspector of the General Affairs Department. Mr. ZHANG served as a member of the Stock Offering Approval Committee of CSRC from September 1999 to September 2001. He served as a member of China International Economic and Trade Arbitration Commission from January 2004 to December 2008. Mr. ZHANG graduated from Renmin University of China with a Bachelor's degree in law in 1986. He completed his post-graduate studies in international economic law at Renmin University of China in 1988, and was awarded a Master's degree in Law in 1990. Mr. ZHANG holds the professional title of senior economist and is qualified to practice law in China.

6 ZHANG Qi

Non-executive Director

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

7 WANG Yong

Non-executive Director

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

8 WANG Wei

Non-executive Director

Non-executive Director of the Bank since September 2014. Mr. WANG served as Director General of Tariff Department of the Ministry of Finance and concurrently as Director General of the Centre for Tariff Policy Research of the Ministry of Finance from November 2004 to August 2014. Mr. WANG served as the Deputy Director General of Tariff Department of the Ministry of Finance from January 2004 to November 2004. From November 1994 to January 2004, Mr. WANG successively served as Researcher as well as Deputy Director and Director of the Office of the Tariff Rules Commission of the State Council, Director of the Department for Tax System and Tax Rules of the Ministry of Finance and Deputy Director General of the Department for Tax Affairs of the Ministry of Finance. Mr. WANG graduated from Beijing Iron and Steel Institute and China Agricultural University in March 1982, August 1988, and June 2002, with the Bachelor's degree, Master's degree and Doctorate respectively.

9 LIU Xianghui

Non-executive Director

Non-executive Director of the Bank since October 2014. Mr. LIU served as the external supervisor of China Cinda Asset Management Corporation Limited from June 2013 to June 2014. He served as the non-executive director of China Cinda Asset Management Company from June 2010 to June 2013, and non-executive director of China Construction Bank Corporation from September 2004 to June 2010. From September 1978 to May 1994, he held various positions at the State Economic Commission and the State Planning Commission and he worked for half a year at the United States Environmental Protection Agency in 1993. From May 1994 to September 2004, he worked consecutively as the division chief of the Industry and Transportation Group, assistant inspector (deputy director-general level) and inspector (director-general level) of the Economic and Trade Group under the Office of Central Leading Group on the Financial and Economic Affairs. Mr. LIU graduated from Liaoning University in August 1978, and studied the senior courses of national economic planning at the Central College of Planning and Statistics of Poland from October 1989 to February 1990. He also studied modern economic management at Beijing Economic Correspondence University from April 1985 to April 1986. Mr. LIU is a senior Economist.





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10 CHOW Man Yiu, Paul

Independent Director

Independent Director of the Bank since October 2010. Mr. CHOW was an executive director and Chief Executive of Hong Kong Exchanges and Clearing Limited from April 2003 to January 2010. Hong Kong Exchanges and Clearing Limited is listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. CHOW currently serves as the Chairman of Hong Kong Cyberport Management Company Limited and an independent non-executive director of China Mobile Limited and an independent non-executive director of Julius Baer Group Ltd. and Bank Julius Baer Co. Ltd. Mr. CHOW also serves as a member of Asian Advisory Committee of AustralianSuper Pty. Ltd. Mr. CHOW served as the Chief Executive, Asia Pacific Region (ex-Japan) of HSBC Asset Management (Hong Kong) Limited from 1997 to 2003. From 1992 to 1997 and 2003 to January 2010, Mr. CHOW was a member of the Standing Committee on Company Law Reform of the Government of the Hong Kong Special Administrative Region ("HKSAR Government"). Mr. CHOW also served as Director of the World Federation of Exchanges from 2003 to January 2010 and became Chairman of its Working Committee in 2007 and 2008 and then its Vice-chairman in 2009. From 2001 to 2007, he was a member of the Advisory Committee of the Hong Kong Securities and Futures Commission. Mr. CHOW graduated from the University of Hong Kong with a Bachelor's degree in Science (Engineering) in 1970. He obtained a Diploma in Management Studies and an MBA in 1979 and 1982, respectively, from the University of Hong Kong. He also obtained a Diploma in Finance (Distinction) from the Chinese University of Hong Kong in 1987, and was conferred the Doctor of Social Science, honoris causa by the Open University of Hong Kong in 2010. He was awarded the title of Justice of the Peace, the Silver Bauhinia Star and the Gold Bauhinia Star by the HKSAR Government in 2003, 2005 and 2010, respectively. Mr. CHOW is a Distinguished Fellow of the Hong Kong Computer Society, an Honorary University Fellow of the University of Hong Kong, an Honorary Fellow of the Hong Kong University of Science and Technology, a Fellow of the Hong Kong Institute of Chartered Secretaries, a Fellow of the Institute of Chartered Secretaries and Administrators, an Honorary Fellow of Hong Kong Securities and Investment Institute and a Certified General Accountant (Honorary) of the Canadian Certified General Accountants Association of Hong Kong.

11 Jackson TAI

Independent Director

Independent Director of the Bank since March 2011. Mr. TAI has over 40 years of experience in the banking industry. He held various key positions in DBS Group Holdings Limited (“DBS Group”) and DBS Bank Limited (“DBS Bank”) including Vice Chairman and Chief Executive Officer of DBS Group and DBS Bank from 2002 to 2007, President and Chief Operating Officer of DBS Group and DBS Bank from 2001 to 2002, and Chief Financial Officer of DBS Bank from 1999 to 2001. He was also Director of DBS Bank (China) Limited from 2007 to 2008. Prior to that, he was with J.P. Morgan & Co. Incorporated from 1974 to 1999. He was Managing Director in the Investment Banking Division and held senior management positions in New York, Tokyo and San Francisco. He currently serves as a director of a number of companies listed in New York and Singapore, including Director of Eli Lilly and Company since 2013, Director of Royal Philips NV since 2011, and Director of MasterCard Incorporated since 2008. Mr. TAI is a director of privately-held VaporStream since 2012, and is also a director of privately held Russell Reynolds Associates since 2013. Previously, Mr. TAI was a director of Singapore Airlines from 2011 to 2014, NYSE Euronext from 2010 to 2013, ING Group NV from 2008 to 2010, and CapitaLand from 2001 to 2010. Mr. TAI is also currently a member of the Asia-Pacific Advisory Board of Harvard Business School, trustee of Rensselaer Polytechnic Institute, director of the Metropolitan Opera in New York, and a member of the Committee of 100. Mr. TAI graduated from Rensselaer Polytechnic Institute with a Bachelor of Science degree in 1972, and from Harvard University with a Masters of Business Administration degree in 1974.

12 Nout WELLINK

Independent Director

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

13 LU Zhengfei

Independent Director

Independent Director of the Bank since July 2013. Mr. LU Zhengfei currently serves as the distinguished professor of Cheung Kong Scholar of the Accounting Department of Guanghua School of Management, Peking University. He served as the head of the Accounting Department of the School of Business, Nanjing University between 1994 and 1999, and the head of the Accounting Department of Guanghua School of Management, Peking University between 2001 and 2007, and Associate Dean of Guanghua School of Management, Peking University between 2007 and 2014. Mr. LU also currently serves as a consulting expert of the China Accounting Standards Committee of the Ministry of Finance, an executive director of the Accounting Society of China and Deputy Director of Financial Management Committee, an editorial board member of *Accounting Research* and *Audit Research*, and a member of the Disciplinary Committee of the Chinese Institute of Certified Public Accountants. In 2001, he was elected as a member of "The Hundred People Project of Beijing New Century Social Science Theoretical Talent". In 2005, he was elected to the "New Century Excellent Talent Support Plan" of the Ministry of Education, PRC. In 2013, he was elected to the "Renowned Expert Training Project" (first batch) of the Ministry of Finance. In 2014, he was elected as distinguished professor of Cheung Kong Scholar of the Ministry of Education, PRC. He currently serves as an independent non-executive director or an independent supervisor of a number of companies listed on the Hong Kong Stock Exchange, including: Independent Non-executive Director of Sinotrans Ltd. since September 2004, Independent Non-executive Director of Sino Biopharmaceutical Ltd. since November 2005, Independent Non-executive Director of China National Materials Co., Ltd. since December 2009, and Independent Supervisor of PICC Property and Casualty Co., Ltd. ("PICC P&C") since January 2011. He was an independent non-executive director of PICC P&C from February 2004 to December 2010. Mr. LU graduated from Renmin University of China in 1988 with a Master's degree in Economics (Accounting), and received his Doctor's degree in Economics (Management) from Nanjing University in 1996.

14 LEUNG Cheuk Yan

Independent Director

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

Supervisors

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1 LI Jun

Chairman of the Board of Supervisors

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

2 WANG Xueqiang

Shareholder Supervisor

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

3 LIU Wanming

Shareholder Supervisor

Shareholder Supervisor of the Bank since August 2004. Mr. LIU concurrently served as Deputy General Manager of the Board of Supervisors Office since April 2005 and serves as Deputy General Manager of the Audit Department of the Head Office of the Bank since January 2014. From November 2001 to August 2004, Mr. LIU was designated by the State Council to serve as Director Supervisor and a Deputy Director General Supervisor at Bank of Communications and the Bank. From August 1984 to November 2001, he worked with the National Audit Office, Agricultural Development Bank of China and the Central Financial Working Commission. Mr. LIU received a Bachelor's degree in Economics from Jiangxi University of Finance and Economics in 1984.

4 DENG Zhiying

Employee Supervisor

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

5 LIU Xiaozhong

Employee Supervisor

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

6 XIANG Xi

Employee Supervisor

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

7 MEI Xingbao

External Supervisor

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

Senior Management Members

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1 CHEN Siqing

Vice Chairman and President

Please refer to the section "Directors".

2 LI Zaohang

Executive Director and Executive Vice President

Please refer to the section "Directors".

3 ZHANG Lin

Secretary of Party Discipline Committee

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

4 ZHU Shumin

Executive Vice President

Executive Vice President of the Bank since August 2010. Mr. ZHU joined the Bank in 1988 and served as Global Head of Personal Banking Business of the Bank from May 2009 to July 2010. From July 2003 to May 2009, Mr. ZHU served as General Manager of the Jiangsu Branch of the Bank. From November 2000 to July 2003, Mr. ZHU served as Deputy General Manager of the Jiangsu Branch and General Manager of the Suzhou Branch of the Bank. Mr. ZHU previously held various positions in the Suzhou Branch, the Taizhou Branch and the Yangzhou Branch of Jiangsu. Mr. ZHU has been serving as a Non-executive Director of BOCHK (Holdings) since May 2014. He received an MBA from Fudan University in 2008.

5 ZHANG Jinliang

Executive Vice President

Executive Vice President of the Bank since July 2014. Mr. ZHANG joined the Bank in 1997 and served as General Manager of the Beijing Branch of the Bank from November 2009 to December 2014. He worked in the Financing and Accounting Department of the Head Office for many years. From February 2007 to November 2009, Mr. ZHANG served as General Manager of Financial Management Department of the Head Office. From October 2003 to February 2007, Mr. ZHANG served as Deputy General Manager of the Financing and Accounting Department of the Head Office, and also served as General Manager of the IT Blueprint Implementation Office from March 2005 to February 2007. He obtained his Doctorate in Economics from Xiamen University in September 1997. He is a Certified Public Accountant.

6 REN Deqi

Executive Vice President

Executive Vice President of the Bank since July 2014. Mr. REN joined the Bank in May 2014. He worked in China Construction Bank ("CCB") for many years, and held various positions. From October 2013 to May 2014, Mr. REN served as General Manager of Risk Management Department of CCB. From August 2003 to October 2013, Mr. REN successively served as Deputy General Manager of Credit Approval Department, General Manager of Risk Control Department, General Manager of Credit Management Department, and General Manager of the Hubei Branch of CCB. He obtained a Master's Degree in Engineering from Tsinghua University in July 1988.



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7 CHIM Wai Kin
Chief Credit Officer

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

8 XIAO Wei
Chief Audit Officer

Chief Audit Officer of the Bank since November 2014. Mr. XIAO joined the Bank in 1994, and served as General Manager of Financial Management Department of the Bank from November 2009 to November 2014. Mr. XIAO served as Deputy General Manager of the Beijing Branch of the Bank from May 2004 to November 2009, and also concurrently served as Chief Financial Officer of the Beijing Branch of the Bank from January 2007 to November 2009. He successively served as the Assistant General Manager and the Deputy General Manager of the Asset-and-Liability Management Department of the Bank from December 1999 to May 2004, and also served as temporary Deputy General Manager of the Beijing Branch of the Bank from November 2002 to May 2004. Mr. XIAO obtained a Doctorate's Degree in Economics from Renmin University of China in July 1994. Mr. XIAO has qualification of Senior Accountant.

9 FAN Yaosheng
Secretary to the Board of Directors

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

Changes in Directors, Supervisors and Senior Management Members

Changes in the Bank's directors were as follows:

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

Mr. CHEN Siqing began to serve as Vice Chairman of the Board of Directors, Executive Director and member of the Strategic Development Committee of the Bank as of 4 April 2014.

Mr. WANG Yongli ceased to serve as Executive Director and member of the Risk Policy Committee of the Bank as of 16 April 2014.

Ms. LIU Lina ceased to serve as Non-executive Director and member of the Strategic Development Committee and the Risk Policy Committee of the Bank as of 28 September 2014.

Mr. WANG Wei began to serve as Non-executive Director and member of the Strategic Development Committee and the Risk Policy Committee of the Bank as of 28 September 2014.

Mr. LIU Xianghui began to serve as Non-executive Director and member of the Strategic Development Committee and the Risk Policy Committee of the Bank as of 16 October 2014.

Changes in the Bank's supervisors were as follows:

Ms. BAO Guoming ceased to serve as External Supervisor of the Bank as of 31 December 2014.

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

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

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

Mr. WANG Yongli ceased to serve as Executive Vice President of the Bank as of 16 April 2014.

Mr. ZHANG Jinliang began to serve as Executive Vice President of the Bank as of 31 July 2014.

Mr. REN Deqi began to serve as Executive Vice President of the Bank as of 31 July 2014.

Ms. LIU Yanfen ceased to serve as Chief Audit Officer of the Bank as of 28 November 2014.

Mr. XIAO Wei began to serve as Chief Audit Officer of the Bank as of 28 November 2014.

Mr. YUE Yi ceased to serve as Executive Vice President of the Bank as of 6 March 2015.

The Board of Directors of the Bank considered and approved the appointment of Mr. GAO Yingxin as Executive Vice President of the Bank on 11 March 2015. The qualification of Mr. GAO Yingxin as Executive Vice President of the Bank is subject to the approval by CBRC.

The Board of Directors of the Bank considered and approved the appointment of Mr. GENG Wei as Secretary to the Board of Directors of the Bank on 11 March 2015. The qualification of Mr. GENG Wei as Secretary to the Board of Directors of the Bank is subject to the approval by CBRC.

Mr. FAN Yaosheng tendered his resignation as Secretary to the Board of Directors of the Bank on 11 March 2015. Such resignation will become effective from the date of commencement of Mr. GENG Wei's term of office as Secretary to the Board of Directors of the Bank.

Corporate Governance

Overview of the Corporate Governance

The Bank strictly follows the rules and regulations governing capital markets and relevant industries, closely tracks changes and trends in overseas and domestic regulations, and continuously enhances its corporate governance capabilities.

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

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

The Bank continues to enhance its corporate governance in a forward-looking and exploratory manner. In terms of group-level governance, the Board of Directors pays close attention to the internal controls and risk management of the Group, constantly improves the Group's overall risk management capabilities and enhances the Group's level of compliance. In addition, the Bank keeps abreast of the latest theory and practice in domestic and international corporate governance. Constantly pursuing higher standards, the Bank carries out its corporate governance with reference to the advanced practices of Global Systemically Important Financial Institutions.

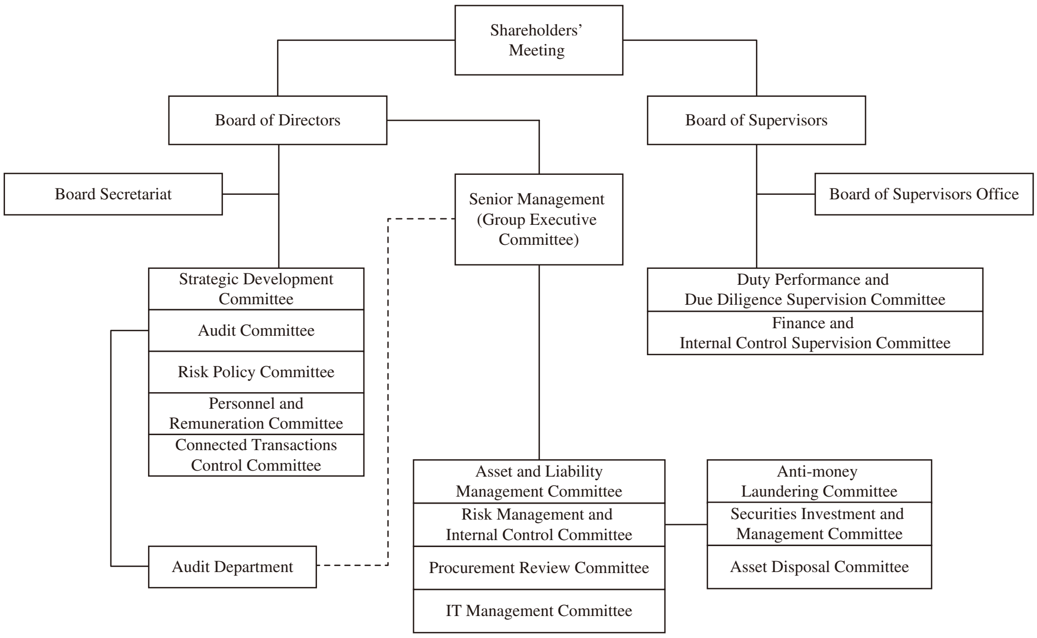
In 2014, the Bank revised its Articles of Association based on the *State Council Guidance on the Pilot Scheme of Preference Shares*, the *Administrative Guidelines on the Pilot Scheme of Preference Shares* by CSRC, other regulations and the Bank's own needs for a preference share issue. It also improved the *Scheme on the Authorisation to the Board of Directors Granted by the Shareholders' Meeting of Bank of China Limited* to be implemented upon approval by the shareholders' meeting. It also promoted the implementation of the *Guidance on Corporate Governance of Commercial Banks* of CBRC, actively analysing corporate governance across the Group and improving its practice with a view to making its corporate governance system more comprehensive and rational.

In 2014, the Bank completed corporate governance procedures including change of the Vice Chairman and the President, the appointment of non-executive directors and adjustments to the membership of several special committees of the Board of Directors. The Bank further explored innovative approaches of communication between directors and the senior management, giving directors advance notice and report on specific major issues to be reviewed by the Board of Directors. The Bank improved and standardised its mechanisms for considering the Board's resolutions and submitting documents to the Board of Directors, actively organised training sessions and surveys for directors, and thus enhanced its decision-making efficiency.

In 2014, the Bank's corporate governance performance continued to be recognised by the capital markets and the wider public. The Bank received, among others, the "Golden Prize of Round Table for Excellent Board of Directors" and "Most Innovative Board Secretary Award" from *Directors & Boards*, the "Corporate Governance Excellence Award" from Hong Kong *Yazhou Zhoukan* and "Excellent Board of Directors Award" from Dongshiju.com. In addition, the Bank was selected again as a constituent of the "CCTV Finance 50 • Corporate Governance Index".

Corporate Governance Framework

The Bank's corporate governance framework is shown below:



Corporate Governance Compliance

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

During the reporting period, the Bank strictly observed the *Corporate Governance Code* (the "*Code*") as set out in Appendix 14 to the Hong Kong Listing Rules. The Bank has complied with all provisions of the *Code* and has substantially complied with most of the recommended best practices set out in the *Code*.

Amendments to the Articles of Association

The 2013 Annual General Meeting considered and approved a proposal to amend the Articles of Association. In accordance with the *State Council Guidance on the Pilot Scheme of Preference Shares*, the *Administrative Guidelines on the Pilot Scheme of Preference Shares* of CSRC and other regulations, the amendment set out the relevant provisions to specify the rights and obligations of the holders of preference shares. This mainly relates to the definition of preference shares, restrictions on voting rights and recovery of voting rights, priority in receiving profits distribution, priority in receiving the remaining assets and so on. In addition, with regard to the creation of preference shares alongside existing ordinary shares, all expressions involving shares or shareholders in the Articles of Association have been reviewed and their meanings further specified. Further clarifications were proposed to be made that only ordinary shares and preference shares that have recovered their voting rights will be counted when determining shareholding percentages for the purposes of convening an extraordinary general meeting, convening and presiding a general meeting, proposing an interim proposal to a shareholders' meeting and with regard to the identification of the controlling shareholder. This amendment to the Articles of Association was approved by CBRC on 14 August 2014.

Shareholders and Shareholders' Rights

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

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

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

Shareholders' Right to Propose Resolutions at Shareholders' Meetings

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

Shareholders' Right to Present Enquiries

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

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

Shareholders' Meeting

Functions and Powers of Shareholders' Meeting

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

Convening of Shareholders' Meeting

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

On 12 June 2014, the Bank held its 2013 Annual General Meeting in Beijing and Hong Kong by way of video conference. Online voting for A-Share Holders was available. This meeting considered and approved 16 proposals including the 2013 work report of the Board of Directors, 2013 work report of the Board of Supervisors, 2013 annual financial statements, the profit distribution for 2013, the 2014 annual budget for fixed assets investment, the proposal regarding the appointment of Ernst & Young Hua Ming as the Bank's external auditor for 2014, the proposal regarding the *Capital Management Plan of Bank of China for 2013–2016*, the proposal regarding the election of directors of the Bank, the proposal regarding the re-election of external supervisors of the Bank, the remuneration plan for the Chairman of the Board of Directors, executive directors, Chairman of the Board of Supervisors and shareholder supervisors of 2012, the proposal regarding the amendments to the Articles of Association of the Bank, the proposal regarding the general mandate to issue new shares, the proposal regarding the non-public issuance of domestic preference shares of the Bank, the proposal regarding the non-public issuance of offshore preference shares of the Bank, the proposal regarding the formulation of the *Shareholder Return Plan for 2014 to 2016* and the proposal regarding dilution of current returns and remedial measures upon the issuance of preference shares. The meeting also heard the 2013 report on connected transactions and 2013 duty report of independent directors. Special resolutions comprised the proposal regarding amendments to the Articles of Association of the Bank, the proposal regarding the general mandate to issue new shares, the proposal regarding the non-public issuance of domestic preference shares of the Bank and the proposal regarding the non-public issuance of offshore preference shares of the Bank.

On 4 August 2014, the Bank held its 2014 Second Extraordinary General Meeting in Beijing. This meeting considered and approved the proposal on the election of Mr. WANG Wei as Non-executive Director of the Bank and the remuneration distribution plan for Chairman of the Board of Directors, executive directors, the Chairman of the Board of Supervisors and shareholder supervisors of 2013.

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

The Bank published announcements on the resolutions and legal opinions of the aforementioned shareholders' meetings on 25 March 2014, 12 June 2014 and 4 August 2014 respectively, pursuant to regulatory requirements. Please refer to the websites of SSE, HKEx and the Bank.

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

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

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

The 2013 Annual General Meeting considered and approved relevant proposals regarding the issuance of preference shares. The relevant approval procedures have been completed with regulatory authorities and the issuance of offshore and domestic preference shares were completed.

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

The relevant approval procedures for the directors elected by the resolutions approved at the 2014 First Extraordinary General Meeting, the 2013 Annual General Meeting and the 2014 Second Extraordinary General Meeting have been completed, and the relevant directors have taken their office.

As approved by the 2013 Annual General Meeting, the Bank has completed the appointment of Ernst & Young Hua Ming as its external auditor for 2014.

Board of Directors

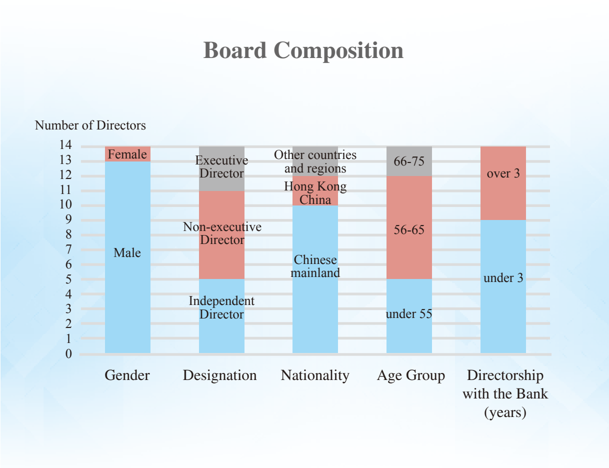
Functions and Powers of the Board of Directors

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

Composition of the Board of Directors

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

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



Convening of the Board Meetings

In 2014, the Bank convened nine on-site meetings of the Board of Directors on 28 January, 26 March, 24 April, 13 May, 12 June, 30 June, 19 August, 30 October and 18 December, respectively. At these meetings, the Board of Directors reviewed and approved 60 proposals related to the Bank's regular reports, the nomination of candidates for directorships, changes in composition of special committees under the Board of Directors, the issuance of preference shares, the 2013 corporate social responsibility report, the 2013 internal control self-assessment report, business plan and financial budget for 2015, among others. It also heard 12 reports related to the Bank's consolidated management, CBRC's approval of the Bank's plans to implement advanced capital management approaches and other matters.

In 2014, the Bank convened twelve meetings of the Board of Directors via written resolutions. At these meetings, the Board of Directors approved the proposals related to the *Announcement regarding the Enforcement of Undertakings by Shareholders of Bank of China Limited* and the *Announcement regarding the Surveillance Credit Rating Results on the Convertible Bonds*, among others.

Guidance over Internal Control by the Board of Directors and the Audit Committee

The Board of Directors attached great importance to the Group's effective long-acting internal control system and continues to promote its construction. It regularly heard and reviewed senior management reports concerning operational management, risk management, fraud case management and internal control system building and assessment, and earnestly assumed its responsibility of consulting and fulfilling sound and effective internal control.

The Audit Committee of the Board of Directors closely monitored the changing economic and financial environment at home and abroad, as well as the overall conditions of the Group's internal control, including the establishment and operation of its internal control systems for financial and non-financial reports. In addition, the committee heard and reviewed, on a regular and ad hoc basis, internal audit reports and assessment opinions on internal control, the progress of internal control improvements and remediation suggested by external auditors, as well as the overall situation regarding the prevention, control and redress of fraud cases and risk events. The committee guided and urged senior management to continuously improve the Bank's internal control systems and conducted special research into interbank business.

During the reporting period, the Bank performed self-assessment on internal control in line with the *Basic Standard for Enterprise Internal Control* and its supporting guidelines. No material deficiencies were identified in the internal control systems of the Bank, including both financial and non-financial reports. Ernst & Young Hua Ming LLP, as the Bank's external auditor for internal control, audited the effectiveness of the Bank's internal controls over financial reporting and issued a standard unqualified opinion. *The 2014 Internal Control Assessment Report of Bank of China Limited* and the *Auditor's Report on Internal Control* issued by Ernst & Young Hua Ming LLP have been published on the websites of SSE, HKEx and the Bank.

Duty Performance of Directors

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

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

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

Directors	Shareholders' Meeting	Board of Directors	Special Committees of the Board of Directors: Strategic Development Committee	Audit Committee	Risk Policy Committee	Personnel and Remuneration Committee	Connected Transactions Control Committee
Incumbent Directors							
TIAN Guoli	2/3	19/21	10/10	–	–	–	–
CHEN Siqing	3/3	13/13	8/8	–	–	–	–
LI Zaohang	2/3	19/21	–	–	–	–	3/3
SUN Zhijun	3/3	21/21	10/10	6/6	–	–	–
ZHANG Xiangdong	3/3	21/21	10/10	–	–	6/6	–
ZHANG Qi	3/3	21/21	10/10	–	–	6/6	–
WANG Yong	3/3	21/21	10/10	6/6	–	–	–
WANG Wei	0/0	2/2	3/3	–	2/2	–	–
LIU Xianghui	0/0	2/2	3/3	–	2/2	–	–
CHOW Man Yiu, Paul	3/3	21/21	–	6/6	5/5	6/6	3/3
Jackson TAI	3/3	21/21	10/10	6/6	5/5	–	3/3
Nout WELLINK	3/3	21/21	10/10	6/6	5/5	–	–
LU Zhengfei	3/3	21/21	–	6/6	–	6/6	3/3
LEUNG Cheuk Yan	3/3	21/21	–	6/6	–	6/6	3/3
Former Directors							
LI Lihui	0/0	0/0	–	–	–	–	–
WANG Yongli	1/1	8/8	–	–	1/1	–	–
LIU Lina	3/3	19/19	7/7	–	3/3	–	–

Note:

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

2 Mr. TIAN Guoli was not able to attend the meetings of the Board of Directors in person on 26 March 2014 and 30 June 2014 due to other important business engagements. He authorised another director to attend and vote at the meeting as his proxy.

3 Mr. LI Zaohang was not able to attend the meetings of the Board of Directors in person on 12 June 2014 and 18 December 2014 due to other important business engagements. He authorised another director to attend and vote at the meeting as his proxy.

Training and Expertise Enhancement of Directors

In 2014, the Board of Directors paid significant attention to enhancing directors' expertise, with a special focus on arranging relevant training. All directors of the Bank fully observed Rule A6.5 of the *Code* as well as PRC regulatory requirements, actively participating in specialised training including sessions on Chinese macroeconomic and financial conditions, internet finance, innovative development in banking and anti-money laundry. The Bank also gave special presentations and trainings to the newly-appointed directors in 2014 regarding its business operations and directors' responsibilities. The Bank's directors have also taken it upon themselves to enhance their professional skills in various ways, including writing and publishing professional articles, attending forums and seminars and giving public lectures, and conducting on-site research exercises at the Bank's domestic and overseas branches.

Directors' Liability Insurance

The Bank renewed its directors' liability insurance in 2014 to provide protection against claims arising from the lawful discharge of duties by the directors, thus encouraging the directors to fully perform their duties.

Independence and Duty Performance of Independent Directors

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

In 2014, the Bank's independent directors attended meetings of the Board of Directors, reviewed proposals, participated in discussions and offered their professional opinions independently, objectively and diligently, in accordance with the Articles of Association, the *Procedural Rules for Board of Directors of Bank of China Limited* and the *Work Rules of Independent Directors of Bank of China Limited*. Please refer to the section "Directors' Attendance of the Shareholders' Meeting, Meetings of the Board of Directors and Special Committees" for the attendance of independent directors at meetings.

In 2014, independent directors put forward constructive recommendations on the Bank's financial budget, asset quality management, consolidated management, capital replenishment, etc. These recommendations were adopted and diligently implemented by the Bank.

In 2014, the independent directors did not raise any objection to the resolutions of the Board of Directors or its special committees.

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

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

The guarantee business is one of the Bank's ordinary business activities. It has been approved by PBOC and CBRC and does not fall within the scope of guarantees as defined in the *Circular on Regulating Guarantee Businesses of Listed Companies*. The Bank has formulated specific management measures, operational processes and approval procedures in light of the risks of the guarantee business and carried out this business accordingly. The Bank's guarantee business principally comprises letters of guarantee. As at 31 December 2014, the outstanding amount of letters of guarantee issued by the Bank was RMB1,148.535 billion.

Responsibility Statement of Directors on Financial Reports

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

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

Special Committees of the Board of Directors

Strategic Development Committee

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

The committee is mainly responsible for reviewing the strategic development plans presented by the senior management, assessing the factors that may affect the strategies of the Bank and their implementation, and advising the Board with regard to strategy adjustments; reviewing the annual budget, strategic capital allocation (policies on capital structure, capital adequacy ratio and risk-reward trade-off), objectives of asset-liability management, IT development and other special strategic development plans of the Bank, and advising the Board accordingly; coordinating strategies on the overall development of various financial businesses and the development of domestic and overseas institutions, and deciding on the setup, cancellation and increase or decrease of capital of domestic and overseas institutions within its scope of authorisation; designing and formulating key investment and financing plans as well as merger and acquisition plans of the Bank; and reviewing the substantial internal reorganisation and adjustment plans of the Bank, and advising the Board accordingly.

The Strategic Development Committee held six on-site meetings and four meetings by written resolution in 2014. At these meetings, it mainly approved the proposal on profit distribution for 2013, the proposal regarding the issuance of preference shares of the Bank, the proposal on early redemption of convertible bonds of the Bank, among others. In response to changes in international and domestic economic and financial situations, the Strategic Development Committee stepped up its analysis of the operating environment, paid constant attention to opportunities and challenges arising from interest and exchange rate liberalisation, deposit insurance scheme and other major policies on the Bank, and put forward many important comments and recommendations regarding the implementation of the Bank's strategic development plans and the improvement of its capital management and strategic risk management, thus providing strong support to the scientific decision-making of the Board of Directors.

Audit Committee

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

The committee is mainly responsible for reviewing financial reports and other significant accounting policies and regulations formulated by the senior management; reviewing the external auditors' audit opinion, annual audit plan and recommendations for management; approving the annual internal audit priorities, the annual internal audit plan and budget; appraising the duty performance and work quality of the external auditors and internal audit and monitoring their independence; recommending the engagement, reappointment, replacement and audit fee of the external auditors; recommending the appointment and dismissal and appraising the performance of the Chief Audit Officer; overseeing the Bank's internal control function, reviewing significant deficiencies in internal control design and execution by the senior management and investigating fraud cases; reviewing the employee reporting system and urging the Bank to conduct fair investigations and take appropriate measures regarding matters reported by the employees.

The Audit Committee held six meetings in 2014. It mainly reviewed the Bank's quarterly, interim and annual financial reports, the annual internal control assessment report, the three-year internal audit development plan, working priorities for 2015 and the proposal requesting the Annual General Meeting to approve the appointment and audit fee of the external auditor for 2015. It also reviewed and approved the 2014 work plan and financial budget for internal audit. In addition, it heard the report on the staged work of the internal audit function in 2013 and 2014, report on internal control progress in 2014, report on data quality, IT data security and fraud cases, report on the internal control audit progress of external auditors and report on the audit plan and independence compliance of external auditors in 2015.

Moreover, in response to changes in domestic and foreign economic trends, the Audit Committee paid close attention to the Bank's achievements in business performance improvement and cost-effectiveness control and put forward many important opinions and suggestions regarding the improvement of the corporate governance mechanism and internal control measures.

According to the *Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, prior to the start of audit field work by the auditors, the Audit Committee confirmed with the auditors the details of the 2014 audit plan, including areas of focus for auditing the 2014 Annual Report, risk assessment and identification methods, the application of accounting standards, tests of internal control and fraud related procedures, and the allocation of human resources. In particular, the committee reminded the auditors to report any differences of judgment between the auditors and the senior management during the audit, as well as the process and results of reconciling such differences.

The Audit Committee heard and reviewed reports from the senior management concerning the Bank's business performance and major financial data. The committee also requested that the senior management submit the annual financial statements to the auditors in a timely manner, so as to ensure sufficient time for the annual audit. During the audit, the committee maintained independent communications with the auditors and arranged independent communications between the auditors and the independent directors. At its first meeting of 2015, the Audit Committee reviewed and approved the Bank's 2014 financial statements and submitted them to the Board of Directors for approval.

In accordance with the *Policies of Selection*, *Rotation and Dismissal for External Auditors of Bank of China Limited*, the external auditors made a summary audit report and submitted a report on their independence compliance to the committee. The Bank's senior management appraised the external auditors' work. Based on this appraisal, the Audit Committee conducted its own assessment on the auditors' performance, effectiveness and independence compliance in 2014. It discussed re-engagement matters, and decided to reappoint Ernst & Young Hua Ming LLP as the Bank's domestic auditor and internal control auditor for 2015, and to reappoint Ernst & Young as the Bank's international auditor for 2015. Such proposals have been submitted to the Board of Directors for approval.

Risk Policy Committee

The Risk Policy Committee of the Bank comprises five members, including Non-executive Directors Mr. WANG Wei, Mr. LIU Xianghui, Independent Directors Mr. CHOW Man Yiu, Paul, Mr. Jackson TAI and Mr. Nout WELLINK. Independent Director Mr. Nout WELLINK serves as the Chairman of the committee.

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

The Risk Policy Committee held five meetings in 2014, at which it mainly reviewed and approved the liquidity risk management policy, contingency plan, stress test scenario setting, procedures and results, country risk limits and market risk limits. The committee also regularly reviewed the Group risk reports and so on.

In addition, the committee paid constant attention to critical risk issues, such as the Bank's loans to certain industries, in response to changes in overseas and domestic economic and financial conditions and adjustments of the government's macro policies. The committee members offered important opinions and recommendations regarding the improvement of the Bank's risk governance mechanism and the effective prevention and control of risks, including credit risk, market risk, operational risk, legal and compliance risk, liquidity risk and so on.

Personnel and Remuneration Committee

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

The committee is mainly responsible for assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementation; reviewing the structure, size and composition of the Board of Directors on an annual basis, and making suggestions to the Board regarding the scale and composition of the Board of Directors; studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Board committees and senior management, and making recommendations to the Board of Directors; identifying individuals suitably qualified to become directors and making recommendations to the Board of Directors on the selection of individuals nominated for directorships; performing preliminary review of the candidates for the members of the senior management and the

Chairman of the Board committees, selecting and nominating candidates for different Board committees, and reporting to the Board of Directors for approval; reviewing and monitoring the remuneration and incentive policies of the Bank; considering and examining the remuneration plan of directors, supervisors and senior management members, and making recommendations to the Board of Directors; and setting the performance appraisal standards for the senior management of the Bank, evaluating the performance of the directors, and members of the senior management, and making recommendations to the Board of Directors.

The Personnel and Remuneration Committee held five on-site meetings and one meeting by written resolution in 2014. At these meetings, the committee mainly approved proposals on the performance evaluation and remuneration distribution plan for the Chairman, executive directors and senior management members for 2013, the implementation plan for performance evaluation of the Chairman, the President, the Chairman of the Board of Supervisors and other senior management members in 2014, proposal for nomination of Mr. CHEN Siqing as the President, executive director, Vice Chairman and member of the Strategic Development Committee of the Board of Directors of the Bank, proposals for the nomination of Mr. ZHANG Jinliang, Mr. REN Deqi as the Vice Presidents, appointment of non-executive directors and Chief Audit Officer, proposal on adjustment of members of the committees of the Board of Directors, proposal on re-appointment of the company secretary of the Bank and proposal on *Performance Evaluation Procedure of Bank of China Limited for the Chairman, the President and Other Senior Management Members (2014)*. The committee also reviewed the remuneration distribution plan for the Chairman of the Board of Supervisors and shareholder supervisors in 2013. The committee put forward important opinions and recommendations on further improving the Bank's performance evaluation management in line with regulatory requirements.

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

Connected Transactions Control Committee

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

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

The Connected Transactions Control Committee held three meetings in 2014, at which it mainly reviewed and approved the report on connected transactions in 2013 of the Bank, report on *the Measures of Bank of China Limited for Administration of Connected*

Transactions (2014), report on requesting the confirmation of connected party list of the Bank and meeting schedule of the Connected Transactions Control Committee in 2015. It also reviewed the special report on fund occupied by controlling shareholders and other related parties in 2013, statement of the Bank's connected transactions in 2013, report on latest amendments to connected transaction rules and report on the *Implementation Rules for the Management of Connected Transactions of Bank of China Limited (2014)*. During the reporting period, the Connected Transactions Control Committee paid constant attention to the development of connected transaction monitoring system and transactions of key connected customers and committee members put forward constructive suggestions on information disclosure and data analysis concerning connected transactions.

Board of Supervisors

Functions and Powers of the Board of Supervisors

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

Composition of the Board of Supervisors

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

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

Duty Performance of the Board of Supervisors

In 2014, the Board of Supervisors and its special committees earnestly performed their supervisory responsibilities and reviewed relevant proposals through detailed discussion. The Board of Supervisors held five on-site meetings, two meetings via written resolutions and made related resolutions. The Duty Performance and Due Diligence Supervision Committee held one meeting, while the Finance and Internal Control Supervision Committee held four meetings. For the performance of, and supervisory opinions from the Board of Supervisors during the reporting period, please refer to the section "Report of the Board of Supervisors".

Senior Management

Functions and Powers of the Senior Management

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

Duty Performance of the Senior Management

In 2014, the senior management of the Bank managed the Bank's operations in accordance with the powers bestowed upon them by the Articles of Association and the authorisations of the Board of Directors, and carried out the Bank's strategy based on the annual performance objectives approved by the Board of Directors. Following the strategic goal of "Serving Society, Delivering Excellence", the senior management advanced the Bank's work in all aspects including business growth, risk management, reform and innovation and team building in a down-to-earth manner, and thus continuously enhanced the Bank's performance.

During the reporting period, the senior management of the Bank held 15 regular meetings, at which it discussed and decided upon a series of significant matters, including the Group's business development, asset and liability management, risk management, IT system development, compliance management, product innovation, human resources and performance management. It also convened 99 special meetings to arrange for matters relating to corporate banking, personal banking, financial markets, risk management and internal control, overseas development and integrated operations.

In March 2015, in response to operational management needs, the senior management established the IT Management Committee, which is responsible for formulating the IT development strategy and the long and medium-term development plans and deliberating and determining major IT issues. The senior management of the Bank presides over the Asset and Liability Management Committee, the Risk Management and Internal Control Committee (which governs the Anti-Money Laundering Committee, the Securities Investment and Management Committee and the Asset Disposal Committee), the Procurement Review Committee and the IT Management Committee. During the reporting period, all of the committees diligently fulfilled their duties and responsibilities as per the powers specified in their committee charters and the rights delegated by the Group Executive Committee, and strived to push forward the sound development of various operations of the Bank.

Securities Transactions by Directors and Supervisors

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

Appointment of External Auditors

According to the relevant requirements of MOF on the tenure of service of an external auditor engaged by a financial institution and upon the approval of the 2012 Annual General Meeting, the Bank engaged Ernst & Young Hua Ming LLP as its domestic auditor and internal control auditor and engaged Ernst & Young as its international auditor for 2013. Upon approval by the 2013 Annual General Meeting, Ernst & Young Hua Ming LLP was reappointed as the Bank's domestic auditor and internal control auditor for 2014 and Ernst & Young was reappointed as the Bank's international auditor for 2014.

Fees paid to Ernst & Young and its member firms for financial statements audit of the Group, including those of the Bank's overseas subsidiaries and branches, were RMB199 million for the year ended 31 December 2014, of which the fees for internal control audit paid to Ernst & Young Hua Ming LLP totalled RMB15 million.

Ernst & Young and its member firms were not engaged in other significant non-auditing services with the Bank in 2014. The Bank paid RMB17.2575 million for non-auditing services to Ernst & Young and its member firms in the year.

Ernst & Young Hua Ming LLP and Ernst & Young have provided audit services to the Bank for two years. Mr. ZHANG Xiaodong and Mr. YANG Bo are the certificated public accountants who signed the auditor's report on the Bank's financial statements prepared in accordance with CAS for the year ended 31 December 2014.

At the forthcoming 2014 Annual General Meeting, the Board of Directors will tender a resolution for review and approval regarding the proposal on engaging Ernst & Young Hua Ming LLP as the Bank's domestic auditor and internal control auditor for 2015, providing audit services on its financial statements and internal control pursuant to CAS; and engaging Ernst & Young as the Bank's international auditor for 2015, providing financial statements audit services pursuant to IFRS.

Investor Relations and Information Disclosure

In 2014, following the 2013 annual results and 2014 interim results announcements, the Bank successfully organised non-deal roadshows in which the senior management explained the Bank's strategies and operating performance to investors from different countries and regions including the Chinese mainland, Hong Kong, Europe and North America. In addition, the Bank also held 2014 interim results presentation in SSE trading hall to enhance communication with domestic market. The senior management listened earnestly to market concerns and feedback. Such activities were thus warmly welcomed by investors. In 2014, the Bank strengthened market communication effort and proactively enhanced its investor relations activities by participating in influential investor conferences and reaching investors in emerging markets. It expanded its investor coverage base and earnestly communicated with investors and analysts to highlight the Bank's differentiated competitive advantages. During the reporting period, the Bank's senior management and representatives of major departments held and attended 150 meetings with domestic and overseas institutional investors and analysts, thus enhancing the investment community's understanding of the Bank's investment value. The Bank's investment ratings were upgraded by major investment banks, its share prices were performed well and its shareholder structure was further optimised. The Bank continuously improved the effectiveness of its existing communication channels including upgrading its investor relations webpage, providing more timely responses via the telephone hotline and email, and increasing interaction with investors over the online platform run by SSE, to timely reply investors' questions and ensure that investors received comprehensive information. The Bank also attempted to deliver information over new media channels (such as Microblogs and WeChat) to enrich the investor communication channels. In 2014, the Bank answered nearly 440 enquires on its telephone hotline, replied to about 100 investors' questions received in its IR e-mail inbox and the e-interaction online platform run by SSE.

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

In 2014, the Bank prepared and disclosed its regular and provisional reports in strict adherence to the principles of truthfulness, accuracy, completeness, timeliness and fairness. It continuously enhanced the pertinence, effectiveness and transparency of information disclosure in order to guarantee investors' access to relevant information. The Bank, guided by its strategic goal of "Serving Society, Delivering Excellence", actively explored and endeavoured in initiative information disclosure to provide more comprehensive information to investors. The Bank pioneered numerous market-leading best practices, ensuring that the investors in the Chinese mainland and Hong Kong are provided equal opportunity to access relevant information.

The Bank further improved the efficiency and quality of its information disclosure working mechanisms. It closely tracked changes in the laws and regulatory rules, and revised the *Information Disclosure Management Measures of Bank of China Limited* accordingly. The Bank formulated and implemented the *Regular Report Work Management Measures of Bank of China Limited* to further strengthen the work procedures and quality control of its regular reports. During the reporting period, no material disclosure error in the Bank's regular reports was found. The Bank strictly carried out the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited* and other relevant regulatory rules. It completed the registration of the insiders, kept the memorandum on the progresses of significant events on record, and launched self-inspections to strictly prohibit the inside trading. The Bank further reinforced the principal responsibility system and information correspondent mechanism at the Group level and organised online training for information correspondents, so as to foster a strong compliance culture of information disclosure. The Bank earnestly studied and actively coordinated the information disclosure affairs in several financing projects during the reporting period, making innovative disclosure arrangements and thus setting successful examples for the market. The Bank paid close attention to relevant regulatory rules and requirements, revised the information disclosure work procedures and developed case studies to improve the initiation, planning and long-term perspective of its management work, and thus enhanced its information disclosure management ability and compliance level.

In 2014, the Bank once again received wide recognition for its investor relations and information disclosure performance. The Bank was awarded the highly prestigious "Jinding Award" in the 10th China Capital Market Annual Conference by *Securities Daily*. The Bank was recognised as one of the "Companies with the Best Return on Shareholders" and "the Best Board Secretary on Investor Relations" by *Chinese Securities Journal*. The Bank also ranked among the "Top 100 Hong Kong listed companies 2014" awarded jointly by Tencent, Finet Group Limited and *Hong Kong Economic Journal*. The Bank received an "A" score in the first annual appraisal and assessment of information disclosure held by SSE. The 2013 annual report of the Bank was awarded "Silver Award" and "Most Creative in Asia Pacific Region" in the League of American Communications Professionals annual report competition, being among the "Top 100 Annual Report in Asia Pacific". It also won "Silver Winner" in cover photo/design and written text category and "Honors" in the chairman's letter and financial letter category by Annual Report Competition.

Report of the Board of Directors

The Board of Directors is pleased to present its report together with the audited Consolidated Financial Statements of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2014.

Principal Activities

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

Major Customers

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

Results and Profit Distribution

The results of the Group for 2014 are set out in the Consolidated Financial Statements. The Board of Directors has recommended a final dividend of ordinary shares for 2014 of RMB0.19 per share (before tax), subject to the approval of the forthcoming Annual General Meeting scheduled on 17 June 2015. If approved, the 2014 final dividend of ordinary shares of the Bank will be denominated and declared in RMB and paid in RMB or Hong Kong dollars. For such conversion, RMB will be converted into Hong Kong dollars based on the average exchange rate as announced by PBOC prevailing one week before 17 June 2015 (inclusive), being the date of the Bank's Annual General Meeting. The A-Share dividend distribution date is expected to be 3 July 2015 and the H-Share dividend distribution date is expected to be 29 July 2015 in accordance with relevant regulatory requirements and business rules. No capitalisation of the capital reserve to share capital is proposed in this profit distribution.

At the 2013 Annual General Meeting held on 12 June 2014, a final dividend for 2013 of RMB0.196 per share (before tax) was approved for payment. The A-Share and H-Share dividend was distributed to the shareholders separately in June and July 2014 in accordance with relevant regulations. The distribution plan was accomplished and the actual distributed amount was RMB54.755 billion (before tax). No interim dividend was paid for the period ended on 30 June 2014 by the Bank. The Bank did not propose any capitalisation of the capital reserve to share capital in 2014.

During the reporting period, there was no dividend payment in respect of the preference shares of the Bank.

Cash Dividend Payout for Ordinary Shares and Capitalisation of the Capital Reserve to Share Capital for the Past Three Years

Year of dividend distribution	Dividend per share (before tax) (Unit: RMB)	Total dividend (before tax) (Unit: RMB million)	Profit attributable to equity holders of the Bank (Unit: RMB million)	Payout ratio	Capitalisation of the capital reserve to share capital
2013	0.196	54,755	156,911	35%	Nil
2012	0.175	48,851	139,656	35%	Nil
2011	0.155	43,268	124,622	35%	Nil

Formulation and Implementation of Cash Dividend Policy

Ordinary Shares

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

In 2013, the Bank amended the Articles of Association related to the cash dividend. This amendment clarified the Bank's profit distribution principles, policy and adjustment procedures, the consideration process of the profit distribution plan and other matters. The amendment stated that the Bank shall adopt cash dividend as the priority form of profit distribution. Except under special circumstances, the Bank shall adopt cash as the form of dividend distribution where there is profit in that year and the accumulated undistributed profit is positive, and that the cash distribution of the dividend shall not be less than 10% of the profit after tax attributable to the ordinary shareholders of the Bank. The amendment also stated that the Bank shall offer online voting to shareholders when considering amendments to profit distribution policy and profit distribution plan.

In 2014, the Bank formulated the *Shareholder Return Plan for 2014 to 2016* to specify the basic principles, shareholder return plan and decision-making and supervisory mechanisms regarding the formulation, implementation and amendment of the shareholder return of the Bank.

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

The dividend distribution plan of ordinary shares of the Bank has been approved by the shareholders' meeting. In 2014, the Bank distributed dividends of ordinary shares for 2013 in strict compliance with the Articles of Association, its dividend distribution policy and the shareholders' meeting resolution on profit distribution.

Preference Shares

The preference shareholders of the Bank receive dividend at the specified dividend rate prior to the ordinary shareholders. The Bank shall pay the dividend to the preference shareholders in cash. The Bank shall not distribute dividend of ordinary shares before all the dividend of preference shares has been paid.

Dividend of the Bank's preference shares will be distributed on an annual basis. The first dividend period begins on the date of issuance of the preference shares. Once the preference shareholders have received dividend at the specified dividend rate, they shall not be entitled to participate in the distribution of the remaining profits of the Bank together with the ordinary shareholders.

The preference share dividend is non-cumulative. If any preference share dividend for any dividend period is not paid in full, such remaining amount of dividend shall not be carried forward to the following dividend year. The Bank shall be entitled to cancel the payment of any dividend of the preference shares, and such cancellation shall not constitute a default. The Bank may at its discretion use the funds arising from the cancellation of such dividend payment to repay other indebtedness due and payable.

Dividend payments are independent from the Bank's credit rating, nor do they vary with the credit rating.

Closure of Register of H-Share Holders

The H-Share register of members of the Bank will be closed from Monday, 29 June to Thursday, 2 July 2015 (both days inclusive) for the purpose of determining the list of shareholders entitled to the final dividend of ordinary shares. For such entitlements, H-Share Holders of the Bank who have not registered the related transfer documents are required to lodge them, together with the relevant share certificates, with the H-Share Registrar of the Bank, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 26 June 2015. The ex-dividend date of the Bank's H Shares will be on Thursday, 25 June 2015.

Donations

Charitable and other donations made by the Group during the reporting period amounted to approximately RMB66.2856 million.

Share Capital

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

Reserves

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

Distributable Reserves

Please refer to Note V.38 to the Consolidated Financial Statements for details of distributable reserves of the Bank.

Fixed Assets

Please refer to Note V.21 to the Consolidated Financial Statements for details of the fixed assets of the Bank.

Financial Summary

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

Connected Transactions

Under the Hong Kong Listing Rules, transactions between the Bank and its connected persons (as defined under the Hong Kong Listing Rules) constitute connected transactions to the Bank. Such transactions are monitored and administered by the Bank in accordance with the Hong Kong Listing Rules. In 2014, the Bank has engaged in a number of connected transactions with its connected persons in the ordinary and usual course of its business. Such transactions are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements according to the Hong Kong Listing Rules.

Directors' Interests in Competing Businesses

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

Remuneration of Directors, Supervisors and Senior Management Members

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

Directors' and Supervisors' Service Contracts

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

Directors' and Supervisors' Interests in Contracts of Significance

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

Directors' and Supervisors' Rights to Acquire Shares

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

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

To the best knowledge of the Bank, as at 31 December 2014, none of the directors or supervisors of the Bank or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers* as set out in Appendix 10 of the Hong Kong Listing Rules.

Financial, Business and Family Relations among Directors

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

Substantial Shareholder Interests

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

Management Contracts

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

Share Appreciation Rights Plan and Share Option Scheme

Please refer to Note V.34 to the Consolidated Financial Statements for details of the share appreciation rights plan and share option scheme of the Group.

Purchase, Sale or Redemption of the Bank's Securities

As at 31 December 2014, approximately 7.22 million shares of the Bank were held as treasury shares.

Please refer to the Notes to the Consolidated Financial Statements for details of purchase, sale or redemption of the Bank's securities by the Bank and its subsidiaries.

Pre-emptive Rights

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

Use of Raised Funds

All proceeds raised from initial public offerings, issuances of subordinated bonds and Convertible Bonds, rights issue of A Shares and H Shares, issuance of tier 2 capital bonds and issuances of Offshore Preference Shares and Domestic Preference Shares have been used to replenish the Bank's capital and increase the level of capital adequacy.

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

Tax and Tax Relief

Shareholders of ordinary shares are taxed in accordance with the following tax regulations and the amendments thereof from time to time. They shall enjoy possible tax relief according to the actual situation. Shareholders should seek professional advice from their tax and legal advisors. The following cited laws, regulations and stipulations are all relevant provisions issued before 31 December 2014.

A-Share Holders

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

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

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

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

H-Share Holders

In accordance with the relevant PRC tax regulations, the dividend received by overseas resident individual shareholders from stocks issued by domestic non-foreign investment enterprises in Hong Kong is subject to the payment of individual income tax, which shall be withheld by the withholding agents. However, overseas resident individual shareholders of stocks issued by domestic non-foreign investment enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries in which they are residents and China, or to the tax arrangements between the Chinese mainland and Hong Kong and Macau. Accordingly, the Bank withholds 10% of the dividend to be distributed to the individual H-Share Holders as individual income tax unless otherwise specified by the relevant tax regulations and tax agreements.

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

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

The tax and tax relief of Shanghai-Hong Kong Stock Connect shall comply with the *Notice on the Relevant Taxation Policy regarding the Pilot Programme that Links the Stock Markets in Shanghai and Hong Kong* issued jointly by MOF, State Administration of Taxation of PRC and CSRC.

Auditors

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

On behalf of the Board of Directors
TIAN Guoli
Chairman
25 March 2015

Report of the Board of Supervisors

Meetings of the Board of Supervisors

In 2014, the Bank convened five on-site meetings of the Board of Supervisors on 28 January, 26 March, 24 April, 19 August and 30 October, respectively, and two meetings of the Board of Supervisors via written resolutions. At these meetings, the Board of Supervisors reviewed and approved 18 proposals on the Bank's periodic reports, 2013 profit distribution plan, 2013 internal control self-assessment report, 2013 work report of the Board of Supervisors, 2014 work plan of the Board of Supervisors, evaluation opinions on the duty performance of directors and senior management members for 2013, and nomination of candidates for external supervisors of the Bank, and so on.

The attendance rate of each supervisor of the meetings of the Board of Supervisors in 2014 is given below:

Supervisor	Number of meetings attended in person/Number of meetings convened during term of office
Incumbent Supervisors	
LI Jun	7/7
WANG Xueqiang	7/7
LIU Wanming	6/7
DENG Zhiying	7/7
LIU Xiaozhong	7/7
XIANG Xi	6/7
MEI Xingbao	6/7
Former Supervisor	
BAO Guoming	6/7

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

In 2014, the Duty Performance and Due Diligence Supervision Committee of the Board of Supervisors held one meeting, at which it reviewed and approved the proposal on evaluation opinions on the duty performance of directors and senior management members for 2013, as well as other proposals. The Finance and Internal Control Supervision Committee of the Board of Supervisors held four meetings, at which it reviewed and approved the Bank's periodic reports, 2013 profit distribution plan, 2013 internal control self-assessment report and other proposals.

Performance of Supervision and Inspection by the Board of Supervisors

In 2014, focusing on the Bank's central tasks, the Board of Supervisors earnestly conducted supervision of duty performance, finances, risk management and internal controls in line with the provisions of the Company Law, relevant regulatory requirements and the Articles of Association. The Board of Supervisors continuously enhanced the efficiency and effectiveness of its supervision of the Bank's corporate governance, strategy implementation, operational management, risk management and internal controls in alignment with prevailing economic growth trends, thus effectively safeguarding the interests of shareholders and the Bank.

Carry out supervision and evaluation on the duty performance of directors and senior management members. In line with regulatory requirements, the Board of Supervisors attended meetings of the Board of Directors and its special committees as well as the senior management as non-voting attendees, so as to stay abreast of the duty performance of directors and senior management members and the decision-making and implementation of major issues regarding the development strategies and operational management of the Bank. It produced a comprehensive monthly analysis and evaluation on duty performance and major tasks with reference to the priorities of the Bank and the speeches and responses of directors and senior management members, minutes, supervisory circulars as well as internal and external auditor's reports and approached relevant parties on issues deserving special attention. In addition to carrying out day-to-day supervision, the Board of Supervisors formulated the annual evaluation plan for duty performance and diligently organised annual duty performance interviews with directors and senior management members. It also exchanged views on major and problematic issues, put forward suggestions, objectively and fairly evaluated the duty performance of the Board of Directors, the senior management and their members, and developed opinions to support the annual evaluation of duty performance, so as to urge directors and senior management members to perform their duties with diligence.

Strengthen supervision on finance, internal control and risks, promote legal and compliant operations and safeguard the risk bottom line. The Board of Supervisors collected and summarised financial, risk and internal control information by attending meetings of the Board of Directors and its special committees. It tracked progress of major tasks and performed in-depth research and analysis in order to further improve its effectiveness regarding of supervision on finance, risks and internal control.

First, it enhanced day-to-day supervision of finance, internal controls and risks. It dynamically tracked the implementation progress of the 2014 business plan and the financial budget as well as the monthly financial and risk data of the Bank. It regularly summarised and analysed supervisory opinions, significant issues found in internal and external audits and their remediation progress, followed up on the compliance with the CARPALs, and continuously tracked the implementation progress and effect of results risk and internal control work. Strictly adhering to the bottom line of zero systemic and regional risks, it paid close attention to industrial and regional credit risk, anti-money laundering management and other key issues, strengthened communications with departments and approached relevant parties in a timely manner.

Second, it supervised the preparation and audit of financial reports. It met regularly with the Accounting and Information Department, the Financial Management Department, the Credit Management Department, the Audit Department and relevant business departments and external auditors regarding specific topics. It heard four reports on the preparation and audit of financial reports, made appropriate proposals on strengthening the risk management of the Bank's trade finance business, risk investigation and controls over key industries, regions and areas, receiving positive responses from the relevant departments.

Third, it reinforced the supervision of rectifications made in response to issues raised by the regulators. It carefully reviewed the rectification reports submitted to the regulators following onsite regulatory inspections, including those international development strategies, duty performance of internal audit and the liability business of the Bank, in order to ensure that directives from the regulators were well implemented.

Conduct special surveys on major issues and contribute to delivering excellence. The Board of Supervisors continued to conduct special surveys as an important means of performing its duties. To support the strategic goal of "Serving Society, Delivering Excellence" with a focus on substantive business development and operational management against the backdrop of China's "new normal" economic conditions, the survey team of the Board of Supervisors conducted field surveys in many branches and subsidiaries, addressing such topics as credit collateral management, credit risk management, efforts to support "Going Global" enterprises and online banking. It heard explanations from outlets and staff at various levels regarding overall conditions, existing problems and suggestions, which were, collated for subsequent discussion. To ensure effective supervision across the Bank, it performed in-depth analysis of potential problems with regard to risk management, internal control and restrictions on business development. In addition, it exchanged opinions with relevant departments and branches regarding major problems identified by its surveys and followed up with relevant corrective actions, resulting in more favourable subsequent survey feedback. Supervisors fully leveraged their respective areas of expertise. They led surveys and actively offered advice and suggestions to the meetings of the Board of Directors and the senior management, greatly supporting the Bank's efforts to deliver excellence.

Improve incentive and restraint mechanism to strengthen self-building. The Board of Supervisors made its first evaluation of the duty performance of supervisors in line with regulatory requirements and improved the related incentive and restraint mechanism for duty performance of supervisors. It also adjusted the terms of office for supervisors and completed the re-election of two external supervisors. Training programs on AML were conducted using a case study approach to enhance the qualifications and capabilities of the supervisors. The Board of Supervisors Office earnestly played a significant role in assisting and supporting and made greater achievements.

The work of the Board of Supervisors was well recognised and supported by the Board of Directors and the senior management in 2014. The Board of Supervisors fully realised its role as an effective check and balance within the Bank's structure, which further enhanced the Bank's corporate governance capacity.

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

Significant Events

Material Litigation, Arbitration and Issues of Media Interest

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

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

Purchase and Sale of Assets, and Merger and Acquisition

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

Implementation of Stock Incentive Plan during the Reporting Period

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

Significant Connected Transactions

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

Major Contracts and the Enforcement thereof

Material Custody, Sub-contracts and Leases

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

Material Guarantee Business

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

Other Major Contracts

During the reporting period, the Bank had no other major contract that was required to be disclosed.

Misappropriation of Funds by Controlling Shareholder and Other Related Parties

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

Undertakings

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

Disciplinary Actions Imposed on the Bank, its Directors, Supervisors, Senior Management Members and Shareholders Holding 5% or More Voting Shares of the Bank

During the reporting period, neither the Bank nor any of its directors, supervisors, senior management members or shareholders holding 5% or more voting shares of the Bank were subject to investigation, administrative punishment or censure by CSRC or were publicly reprimanded by any stock exchange. No other regulatory administration has imposed any penalty on the Bank that had a material impact on the Bank's operation.

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

Investment Securities

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

No.	Type of securities	Securities code	Securities name	Initial investment cost (unit: RMB)	Securities held at period beginning	Securities held at period end	Carrying value at period end (unit: RMB)	Proportion of the total investment securities at period end	Gains during the reporting period (unit: RMB)
1	Stock	601318	Ping An of China	794,590,916	19,010,570	18,471,091	1,358,407,834	6.99%	21,388,586
2	Stock	600741	HASCO	723,146,413	56,158,916	71,050,066	1,082,665,593	5.57%	837,456
3	Stock	600009	SIA	728,157,362	4,029,964	50,630,581	977,846,774	5.03%	9,064,672
4	Stock	000333	Midea Group	766,280,769	3,315,230	35,860,883	968,643,524	4.98%	8,859,672
5	Stock	600900	CYPC	578,726,341	88,056,023	91,517,263	961,227,829	4.95%	1,430,196
6	Stock	000651	GREE	731,325,328	8,675,887	24,759,255	904,699,673	4.65%	18,027,249
7	Stock	000002	VANKE-A	545,448,039	23,552,539	61,032,856	835,097,890	4.30%	11,568,177
8	Convertible Bond	113002	工行轉債	559,040,831	–	5,210,520	766,737,277	3.94%	1,547,205
9	Stock	601006	Da-qin Railway	526,599,064	21,060,568	69,940,235	733,910,642	3.77%	16,039,427
10	Stock	600660	Fuyao Glass	507,193,749	402,300	52,998,200	633,342,599	3.26%	1,889,003
Other investment securities held at period end				8,868,446,630	–	–	10,218,925,152	52.56%	1,822,773,235
Gains/(losses) of investment securities sold during the reporting period				–	–	–	–	–	1,790,832,476
Total				**15,328,955,442**	**–**	**–**	**19,441,504,787**	**100.00%**	**3,704,257,354**

Notes:

1 The table lists the top ten investment securities held by the Group in descending order according to their carrying value at period end.

2 Investment securities listed in this table include stocks, warrants, convertible bonds and open-ended and close-ended funds, which are classified under financial assets at fair value through profit or loss.

3 "Other investment securities held at period end" refers to investment securities other than the top ten investment securities listed above held by the Group by the end of the reporting period.

4 The units of measures are "share" for stocks and "issue" for convertible bonds.

Stocks of Other Listed Companies Held by the Group

Securities code	Securities name	Initial investment cost (unit: RMB)	Securities held at period beginning (unit: share)	Proportion of total capital of the invested company at period beginning	Securities held at period end (unit: share)	Proportion of total capital of the invested company at period end	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase/(decrease) of equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
549 HK	QIFENG FIBER	54,536,224	94,841,726	10.95%	94,841,726	10.95%	41,076,530	–	14,141,101	Available for sale equity investment	Joint-stock reform
2008 HK	PHOENIX TV	307,474,986	412,000,000	8.30%	412,000,000	8.30%	793,065,392	–	(120,259,916)	Available for sale equity investment	Joint-stock reform
Total		**362,011,210**	**–**	**–**	**–**	**–**	**834,141,922**	**–**	**(106,118,815)**		

Notes:

1 The table lists stocks of other listed companies in which the Group had a shareholding of 5% or above, which are classified as long-term equity investments or available for sale equity investments.

2 "Gains during the reporting period" refers to dividend income.

Equity Investments in Unlisted Financial Companies Held by the Group

Company name	Initial investment cost (unit: RMB)	Equity held at period beginning (unit: share)	Proportion of total capital of the invested company at period beginning	Equity held at period end (unit: share)	Proportion of total capital of the invested company at period end	Carrying value at period end (unit: RMB)	Gains during the reporting period (unit: RMB)	Increase of the equity during the reporting period (unit: RMB)	Accounting classification	Source of shares
China Bond Insurance Co., Ltd.	989,697,139	–	14%	–	14%	1,296,575,348	–	132,000,000	Available for sale equity investment	Investment
JCC Financial Company Limited	94,599,271	–	13%	–	13%	285,068,962	37,834,451	–	Investment in associates and joint ventures	Investment
The Debt Management Company Limited	13,096	1,660	11%	1,660	11%	13,096	–	–	Available for sale equity investment	Investment
Hunan Valin Iron & Steel Group Finance Co., Ltd.	128,350,581	–	10%	–	10%	169,911,641	10,096,797	–	Investment in associates and joint ventures	Investment
Total	**1,212,660,087**	**–**	**–**	**–**	**–**	**1,751,569,047**	**47,931,248**	**132,000,000**		

Notes:

1 Financial companies include securities firms, commercial banks, insurance companies, futures companies, trust companies, among others.

2 The table presents equity investments in unlisted financial companies in which the Group held a proportion of 5% or more of the total shares.

3 Carrying value is value after the reduction of impairment allowance.

4 "Gains during the reporting period" refers to dividend income, investment income of associates and joint ventures.

Trading of Stocks of Other Listed Companies during the Reporting Period

	Shares held at period beginning (unit: share)	Shares purchased during the reporting period (unit: share)	Shares sold during the reporting period (unit: share)	Shares held at period end (unit: share)	Amount of funds used (unit: RMB)	Gains during the reporting period (unit: RMB)
Trading of stocks of other listed companies	1,750,027,064	2,896,650,654	1,179,173,639	3,467,504,079	13,963,943,435	5,072,475,615

Independent Auditors' Report

Building a better working world

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

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

We have audited the consolidated financial statements of Bank of China Limited (the "Bank") and its subsidiaries (together, the "Group") set out on pages 136 to 320, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial positions 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 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Ernst & Young
Certified Public Accountants

Hong Kong,
25 March 2015

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CONTENTS (Continued)

Consolidated Income Statement

For the year ended 31 December 2014 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2014	2013
Interest income	V.1	**602,680**	518,995
Interest expense	V.1	**(281,578)**	(235,410)
Net interest income		**321,102**	283,585
Fee and commission income	V.2	**98,538**	88,585
Fee and commission expense	V.2	**(7,298)**	(6,493)
Net fee and commission income		**91,240**	82,092
Net trading gains	V.3	**11,099**	7,183
Net gains on financial investments		**1,795**	594
Other operating income	V.4	**31,092**	34,055
Operating income		**456,328**	407,509
Operating expenses	V.5	**(177,788)**	(172,314)
Impairment losses on assets	V.8	**(48,381)**	(23,510)
Operating profit		**230,159**	211,685
Share of results of associates and joint ventures	V.20	**1,319**	1,092
Profit before income tax		**231,478**	212,777
Income tax expense	V.9	**(54,280)**	(49,036)
Profit for the year		**177,198**	163,741
Attributable to:			
Equity holders of the Bank		**169,595**	156,911
Non-controlling interests		**7,603**	6,830
		177,198	163,741
Earnings per share for profit attributable to equity holders of the Bank during the year (Expressed in RMB per ordinary share)	V.10		
— Basic		**0.61**	0.56
— Diluted		**0.58**	0.54

For details of the dividends paid or proposed, please refer to Note V.38.3.

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2014	2013
Profit for the year		**177,198**	163,741
Other comprehensive income	V.11		
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains on defined benefit plans		**(233)**	121
Other		**5**	–
Subtotal		**(228)**	121
Items that may be reclassified subsequently to profit or loss			
Fair value gains/(losses) on available for sale financial assets		**8,430**	(7,041)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		**256**	(35)
Exchange differences from the translation of foreign operations		**(2,759)**	(5,160)
Other		**471**	300
Subtotal		**6,398**	(11,936)
Other comprehensive income for the year, net of tax		**6,170**	(11,815)
Total comprehensive income for the year		**183,368**	151,926
Total comprehensive income attributable to:			
Equity holders of the Bank		**175,165**	147,503
Non-controlling interests		**8,203**	4,423
		183,368	151,926

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

Consolidated Statement of Financial Position

As at 31 December 2014 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December	
		2014	2013 (Restated)*
ASSETS			
Cash and due from banks and other financial institutions	V.12	**813,054**	702,584
Balances with central banks	V.13	**2,306,088**	2,132,001
Placements with and loans to banks and other financial institutions	V.14	**402,280**	512,888
Government certificates of indebtedness for bank notes issued	V.27	**76,517**	82,069
Precious metals		**194,531**	193,208
Financial assets at fair value through profit or loss	V.15	**104,528**	75,200
Derivative financial assets	V.16	**47,967**	40,823
Loans and advances to customers, net	V.17	**8,294,744**	7,439,742
Financial investments	V.18	**2,605,847**	2,328,431
— available for sale		**750,685**	701,196
— held to maturity		**1,424,463**	1,210,531
— loans and receivables		**430,699**	416,704
Investment in associates and joint ventures	V.20	**14,379**	13,368
Property and equipment	V.21	**172,197**	158,968
Investment properties	V.22	**18,653**	20,271
Deferred income tax assets	V.35	**25,043**	22,928
Other assets	V.23	**175,554**	151,818
Total assets		**15,251,382**	13,874,299

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

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

Consolidated Statement of Financial Position (Continued)

As at 31 December 2014 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2014	2013 (Restated)*
LIABILITIES			
Due to banks and other financial institutions	V.25	**1,780,247**	1,551,624
Due to central banks	V.26	**348,271**	200,939
Bank notes in circulation	V.27	**76,607**	82,212
Placements from banks and other financial institutions	V.28	**225,330**	339,265
Derivative financial liabilities	V.16	**40,734**	36,212
Due to customers	V.29	**10,885,223**	10,097,786
— at amortised cost		**10,567,736**	9,941,288
— at fair value		**317,487**	156,498
Bonds issued	V.30	**278,045**	224,704
Other borrowings	V.31	**30,447**	29,570
Current tax liabilities	V.32	**41,636**	40,031
Retirement benefit obligations	V.33	**4,566**	4,815
Deferred income tax liabilities	V.35	**4,287**	3,385
Other liabilities	V.36	**352,561**	302,279
Total liabilities		**14,067,954**	12,912,822
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.37.1	**288,731**	279,365
Other equity instruments	V.37.4	**71,745**	–
Capital reserve	V.37.2	**130,797**	115,369
Treasury shares	V.37.3	**(25)**	(28)
Other comprehensive income	V.11	**(13,671)**	(19,241)
Statutory reserves	V.38.1	**96,105**	80,225
General and regulatory reserves	V.38.2	**159,341**	144,450
Undistributed profits		**407,836**	323,776
		1,140,859	923,916
Non-controlling interests	V.39	**42,569**	37,561
Total equity		**1,183,428**	961,477
Total equity and liabilities		**15,251,382**	13,874,299

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

Approved and authorised for issue by the Board of Directors on 25 March 2015.

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

田国立

TIAN Guoli
Director

陈四清

CHEN Siqing
Director

Statement of Financial Position

As at 31 December 2014 (Amount in millions of Renminbi, unless otherwise stated)

		As at 31 December	
	Note	**2014**	2013 (Restated)*
ASSETS			
Cash and due from banks and other financial institutions	V.12	**731,409**	646,671
Balances with central banks	V.13	**2,211,837**	2,015,175
Placements with and loans to banks and other financial institutions	V.14	**405,101**	510,355
Government certificates of indebtedness for bank notes issued	V.27	**4,908**	4,086
Precious metals		**191,625**	189,162
Financial assets at fair value through profit or loss	V.15	**44,035**	33,314
Derivative financial assets	V.16	**26,433**	22,971
Loans and advances to customers, net	V.17	**7,377,812**	6,628,759
Financial investments	V.18	**2,225,804**	1,954,266
— available for sale		**445,465**	356,620
— held to maturity		**1,355,313**	1,188,878
— loans and receivables		**425,026**	408,768
Investment in subsidiaries	V.19	**94,705**	89,226
Investment in associates and joint ventures	V.20	**56**	57
Property and equipment	V.21	**85,772**	83,961
Investment properties	V.22	**2,036**	1,923
Deferred income tax assets	V.35	**26,277**	23,687
Other assets	V.23	**109,547**	96,010
Total assets		**13,537,357**	12,299,623

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

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

Statement of Financial Position (Continued)

As at 31 December 2014 (Amount in millions of Renminbi, unless otherwise stated)

	Note	As at 31 December 2014	2013 (Restated)*
LIABILITIES			
Due to banks and other financial institutions	V.25	**1,814,414**	1,500,816
Due to central banks	V.26	**299,656**	164,561
Bank notes in circulation	V.27	**4,999**	4,229
Placements from banks and other financial institutions	V.28	**233,987**	362,034
Derivative financial liabilities	V.16	**29,127**	23,530
Due to customers	V.29	**9,565,329**	8,947,521
— at amortised cost		**9,279,854**	8,804,012
— at fair value		**285,475**	143,509
Bonds issued	V.30	**233,383**	191,483
Current tax liabilities	V.32	**38,222**	36,773
Retirement benefit obligations	V.33	**4,566**	4,815
Deferred income tax liabilities	V.35	**121**	142
Other liabilities	V.36	**243,402**	197,759
Total liabilities		**12,467,206**	11,433,663
EQUITY			
Capital and reserves attributable to equity holders of the Bank			
Share capital	V.37.1	**288,731**	279,365
Other equity instruments	V.37.4	**71,745**	–
Capital reserve	V.37.2	**129,404**	113,976
Other comprehensive income	V.11	**(346)**	(6,472)
Statutory reserves	V.38.1	**93,868**	78,219
General and regulatory reserves	V.38.2	**152,633**	138,425
Undistributed profits		**334,116**	262,447
Total equity		**1,070,151**	865,960
Total equity and liabilities		**13,537,357**	12,299,623

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

Approved and authorised for issue by the Board of Directors on 25 March 2015.

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

TIAN Guoli
Director

CHEN Siqing
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Attributable to equity holders of the Bank								Non-controlling interests	Total
		Share capital	Other equity Instruments	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares		
As at 1 January 2014 (Restated)*		279,365	–	115,369	(19,241)	80,225	144,450	323,776	(28)	37,561	961,477
Total comprehensive income	V.11	–	–	–	5,570	–	–	169,595	–	8,203	183,368
Conversion of convertible bonds	V.37.1	9,366	–	17,974	–	–	–	–	–	–	27,340
Capital injection by other equity instruments holders	V.37.4	–	71,745	–	–	–	–	–	–	–	71,745
Appropriation to statutory reserves	V.38.1	–	–	–	–	15,888	–	(15,888)	–	–	–
Appropriation to general and regulatory reserves	V.38.2	–	–	–	–	–	14,897	(14,897)	–	–	–
Dividends	V.38.3	–	–	–	–	–	–	(54,755)	–	(3,234)	(57,989)
Net change in treasury shares	V.37.3	–	–	–	–	–	–	–	3	–	3
Ordinary shares injection by non-controlling shareholders		–	–	–	–	–	–	–	–	39	39
Equity component of convertible bonds		–	–	(2,546)	–	–	–	–	–	–	(2,546)
Other		–	–	–	–	(8)	(6)	5	–	–	(9)
As at 31 December 2014		288,731	71,745	130,797	(13,671)	96,105	159,341	407,836	(25)	42,569	1,183,428

	Note	Attributable to equity holders of the Bank (Restated)*							Non-controlling interests	Total
		Share capital	Capital reserve	Other comprehensive income	Statutory reserves	General and regulatory reserves	Undistributed profits	Treasury shares		
As at 1 January 2013		279,147	114,984	(9,833)	65,362	131,909	243,123	(15)	36,865	861,542
Total comprehensive income	V.11	–	–	(9,408)	–	–	156,911	–	4,423	151,926
Conversion of convertible bonds		218	449	–	–	–	–	–	–	667
Appropriation to statutory reserves	V.38.1	–	–	–	14,863	–	(14,863)	–	–	–
Appropriation to general and regulatory reserves	V.38.2	–	–	–	–	12,545	(12,545)	–	–	–
Dividends	V.38.3	–	–	–	–	–	(48,851)	–	(3,908)	(52,759)
Net change in treasury shares	V.37.3	–	–	–	–	–	–	(13)	–	(13)
Ordinary shares injection by non-controlling shareholders		–	–	–	–	–	–	–	181	181
Equity component of convertible bonds		–	(64)	–	–	–	–	–	–	(64)
Other		–	–	–	–	(4)	1	–	–	(3)
As at 31 December 2013		279,365	115,369	(19,241)	80,225	144,450	323,776	(28)	37,561	961,477

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2014 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December	
		2014	2013 (Restated)*
Cash flows from operating activities			
Profit before income tax		**231,478**	212,777
Adjustments:			
Impairment losses on assets		**48,381**	23,510
Depreciation of property and equipment		**12,775**	13,008
Amortisation of intangible assets and other assets		**2,788**	2,682
Net gains on disposal of property and equipment, intangible assets and other long-term assets		**(199)**	(477)
Net gains on disposal of investment in subsidiaries, associates and joint ventures		**(684)**	(419)
Share of results of associates and joint ventures		**(1,319)**	(1,092)
Interest income arising from financial investments		**(83,847)**	(72,627)
Dividends arising from investment securities		**(458)**	(472)
Net gains on de-recognition of financial investments		**(1,795)**	(594)
Interest expense arising from bonds issued		**10,125**	8,535
Accreted interest on impaired loans		**(879)**	(500)
Net changes in operating assets and liabilities:			
Net increase in balances with central banks		**(121,015)**	(141,041)
Net (increase)/decrease in due from, placements with and loans to banks and other financial institutions		**(77,077)**	1,023
Net increase in precious metals		**(1,814)**	(42,671)
Net increase in financial assets at fair value through profit or loss		**(22,668)**	(4,896)
Net increase in loans and advances to customers		**(901,980)**	(751,836)
Net (increase)/decrease in other assets		**(9,102)**	50,137
Net increase/(decrease) in due to banks and other financial institutions		**228,623**	(1,568)
Net increase in due to central banks		**147,332**	70,917
Net (decrease)/increase in placements from banks and other financial institutions		**(113,935)**	26,261
Net increase in due to customers		**787,437**	936,045
Net increase/(decrease) in other borrowings		**877**	(4,475)
Net increase in other liabilities		**51,070**	34,552
Cash inflow from operating activities		**184,114**	356,779
Income tax paid		**(57,196)**	(44,358)
Net cash inflow from operating activities		**126,918**	312,421

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

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

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2014 (Amount in millions of Renminbi, unless otherwise stated)

	Note	Year ended 31 December 2014	2013 (Restated)*
Cash flows from investing activities			
Proceeds from disposal of property and equipment, intangible assets and other long-term assets		**9,624**	5,969
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		**1,078**	788
Dividends received		**851**	590
Interest income received from financial investments		**78,472**	68,582
Proceeds from disposal/maturity of financial investments		**910,115**	1,170,358
Increase in investment in subsidiaries, associates and joint ventures		**(260)**	(569)
Purchase of property and equipment, intangible assets and other long-term assets		**(35,108)**	(34,771)
Purchase of financial investments		**(1,165,371)**	(1,372,677)
Net cash outflow from investing activities		**(200,599)**	(161,730)
Cash flows from financing activities			
Proceeds from issuance of bonds		**173,256**	76,127
Proceeds from issuance of preference shares		**71,745**	–
Repayments of debts issued		**(94,603)**	(65,385)
Cash payments for interest on bonds issued		**(8,896)**	(7,772)
Dividend payments to equity holders of the Bank		**(54,755)**	(48,851)
Dividend payments to non-controlling interests		**(3,234)**	(3,908)
Other net cash flows from financing activities		**42**	168
Net cash inflow/(outflow) from financing activities		**83,555**	(49,621)
Effect of exchange rate changes on cash and cash equivalents		**(12,289)**	(22,787)
Net (decrease)/increase in cash and cash equivalents		**(2,415)**	78,283
Cash and cash equivalents at beginning of year		**1,150,566**	1,072,283
Cash and cash equivalents at end of year	V.41	**1,148,151**	1,150,566

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

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

I GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

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

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

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

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

The parent company is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"), which owned 65.52% of the ordinary shares of the Bank as at 31 December 2014 (31 December 2013: 67.72%).

These consolidated financial statements have been approved by the Board of Directors on 25 March 2015.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

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

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

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

1.1 Standards, amendments and interpretations effective in 2014

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

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

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

The Group adopted the IAS 36 Amendments — *Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets* in 2014. It restricts the requirement to disclose the recoverable amount of an asset or cash-generating unit ("CGU") to periods in which an impairment loss has been recognised or reversed.

The Group adopted the IAS 39 Amendments — *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting* in 2014. It provides an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.1 Standards, amendments and interpretations effective in 2014 (Continued)

The Group adopted the IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments — *Investment Entities* in 2014. The amendments provide the entities which qualified as investment entities an exception to the consolidation requirements in IFRS 10 and require investment entities to measure particular subsidiaries at fair value through profit or loss, rather than consolidate them. The amendments also set out disclosure requirements for investment entities.

The Group adopted the IFRIC Interpretation 21 — *Levies* in 2014. The interpretation sets out the accounting for an obligation to pay a levy that is applicable to all levies other than income tax. The interpretation clarifies that an entity recognises an obligation event for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability is recognised before the specified minimum threshold is reached.

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

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2014

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2014 (Continued)

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

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

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

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

1 Basis of preparation (Continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2014 (Continued)

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

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

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

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

2 Consolidation

2.1 Subsidiaries

Subsidiaries are all entities (including corporates, divided parts of associates and joint ventures, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.1 Subsidiaries (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. If there is any indication that goodwill is impaired, recoverable amount is estimated and the difference between carrying amount and recoverable amount is recognised as an impairment charge. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries. The Group assesses at each financial reporting date whether there is objective evidence that investment in subsidiaries is impaired. An impairment loss is recognised for the amount by which the investment in subsidiaries' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the investment in subsidiaries' fair value less costs to sell and value in use.

2.2 Associates and joint ventures

Associates are all entities over which the Group has significant influence but no control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Joint ventures exist where the Group has a contractual arrangement with one or more parties to undertake economic activities which are subject to joint control.

Investments in associates and joint ventures are initially recognised at cost and are accounted for using the equity method of accounting. The Group's "Investment in associates and joint ventures" includes goodwill.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interests in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

2 Consolidation (Continued)

2.2 Associates and joint ventures (Continued)

The Group assesses at each financial reporting date whether there is objective evidence that investments in associates and joint ventures are impaired. Impairment losses are recognised for the amounts by which the investments in associates and joint ventures' carrying amounts exceed its recoverable amounts. The recoverable amounts are the higher of investments in associates and joint ventures' fair value less costs to sell and value in use.

2.3 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to the income statement.

3 Foreign currency translation

3.1 Functional and presentation currency

The functional currency of the operations in the Chinese mainland is the Renminbi ("RMB"). Items included in the financial statements of each of the Group's operations in Hong Kong, Macau, Taiwan and other countries and regions are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The presentation currency of the Group is RMB.

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or the exchange rates that approximate the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3 Foreign currency translation (Continued)

3.2 Transactions and balances (Continued)

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the income statement.

The results and financial positions of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each income statement are translated at exchange rates at the date of the transactions, or a rate that approximates the exchange rates of the date of the transaction; and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of deposit taken and other currency instruments designated as hedges of such investments are taken to other comprehensive income. When a foreign entity is disposed, these exchange differences are recognised in the income statement. The effect of exchange rate changes on cash and cash equivalent is presented individually in the statement of cash flows.

4 Financial instruments

4.1 Classification

The Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held to maturity investments, loans and receivables and available for sale investments.

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

The Group determines the classification of its financial assets and financial liabilities at initial recognition.

(1) Financial assets and financial liabilities at fair value through profit or loss

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

(1) Financial assets and financial liabilities at fair value through profit or loss (Continued)

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

A financial asset or financial liability is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or

- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or

- The financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

(2) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and that do not meet the definition of loans and receivables nor are designated at fair value through profit or loss or as available for sale.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.1 Classification (Continued)

(3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;

- those that the Group upon initial recognition designates as available for sale; or

- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

(4) Available for sale investments

Available for sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

(5) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss.

4.2 Initial recognition

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

For all financial assets and financial liabilities not carried at fair value through profit or loss, financial assets are initially recognised at fair value together with transaction costs and financial liabilities are initially recognised at fair value net of transaction costs. Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

4.3 Subsequent measurement

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss are subsequently carried at fair value. Financial assets classified as loans and receivables and held to maturity and other financial liabilities are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets and financial liabilities at fair value through profit or loss category are included in the income statement in the period in which they arise. Dividends on equity instruments of this category are also recognised in the income statement when the Group's right to receive payments is established.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.3 Subsequent measurement (Continued)

Gains and losses arising from changes in the fair value of available for sale assets are recognised in "Other comprehensive income", until the financial asset is de-recognised or impaired. At this time the cumulative gain or loss previously recognised in "Other comprehensive income" is reclassified from equity to the income statement. Interest on available for sale debt instruments calculated using the effective interest method as well as dividends on equity instruments of this category when the Group's right to receive such payments is established are recognised in the income statement.

4.4 Determination of fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

4.5 De-recognition of financial instruments

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired, or when the Group has transferred substantially all risks and rewards of ownership, or when the Group neither transfers nor retains substantially all risks or rewards of ownership of the financial asset but has not retained control of the financial asset.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in equity through other comprehensive income is recognised in the income statement.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter into bankruptcy or other financial re-organisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets in the group;
- 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;
- a significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of equity instrument below its initial cost by 50% or more; or fair value below cost for one year or longer. An impairment is also indicated by a decline in fair value of 20% or more below initial cost for six consecutive months or longer or where fair value is below initial cost by 30% or more over a short period of time (i.e., one month); or
- other objective evidence indicating impairment of the financial asset.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

(1) Assets carried at amortised cost

Impairment loss for financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The original effective interest rate is computed at initial recognition. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. For financial assets with variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

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

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

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

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed. Subsequent recoveries of amounts previously written off are recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.6 Impairment of financial assets (Continued)

(1) Assets carried at amortised cost (Continued)

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognised in the income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

(2) Assets classified as available for sale

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss recognised in "Other comprehensive income" is reclassified from equity to the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

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

With respect to equity instruments, impairment losses recognised in the income statement are not subsequently reversed through the income statement. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss is not reversed.

4.7 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. Credit risk valuation adjustments are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group respectively. They are dependent on expected future values of exposures for each counterparty and default probabilities, etc. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit or loss on the date of transaction.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. For derivatives not designated or qualified as hedging instruments, including those intended to provide effective economic hedges of specific interest rate and foreign exchange risks, but do not qualify for hedge accounting, changes in the fair value of these derivatives are recognised in "Net trading gains" in the income statement.

The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(1) Fair value hedge

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect income statement.

The changes in fair value of hedging instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is included as ineffectiveness in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. If the hedged item is de-recognised, the unamortised carrying value adjustment is recognised immediately in the income statement.

(2) Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction that could ultimately affect income statement.

The effective portion of changes in the fair value of hedging instruments that are designated and qualify as cash flow hedges is recognised in "Other comprehensive income". The ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the same periods when the hedged item affects the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.7 Derivative financial instruments and hedge accounting (Continued)

(2) Cash flow hedge (Continued)

When a hedging instrument expires or is sold, or the hedge designation is revoked or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss on the hedging instrument existing in equity at that time remains in equity and is reclassified to the income statement when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in equity is immediately transferred to the income statement.

(3) Net investment hedge

Net investment hedge is a hedge of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly in other comprehensive income; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of as part of the gain or loss on the disposal.

4.8 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the hybrid (combined) instrument vary in a way similar to a stand-alone derivative.

The Group separates embedded derivatives from the host contract and accounts for these as derivatives, if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

These embedded derivatives separated from the host contract are measured at fair value with changes in fair value recognised in the income statement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

4 Financial instruments (Continued)

4.9 Convertible bonds

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in "Equity" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to Share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under "Capital reserve".

4.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

5 Precious metals and precious metals swaps

Precious metals comprise gold, silver and other precious metals. The Group retains all risks and rewards of ownership related to precious metals deposited with the Group as precious metals deposits, including the right to freely pledge or transfer, and it records the precious metals received as an asset. A liability to return the amount of precious metals deposited is also recognised. Precious metals that are not related to the Group's precious metals market making and trading activities are initially measured at acquisition cost and subsequently measured at lower of cost and net realisable value. Precious metals that are related to the Group's market making and trading activities are initially recognised at fair value and subsequent changes in fair value included in "Net trading gains" are recognised in the income statement.

Consistent with the substance of the transaction, if the precious metals swaps are for financing purpose, they are accounted for as precious metals subject to collateral agreements. Precious metals collateralised are not de-recognised and the related counterparty liability is recorded in "Placements from banks and other financial institutions". If precious metal swaps are for trading purpose, they are accounted for as derivatives transactions.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

6 Repurchase agreements, agreements to re-sell and securities lending

Securities and bills sold subject to repurchase agreements ("Repos") continue to be recognised, and are recorded as "Financial investments". The corresponding obligation is included in "Placements from banks and other financial institutions" and "Due to central banks". Securities and bills purchased under agreements to re-sell ("Reverse repos") are not recognised. The receivables are recorded as "Placements with and loans to banks and other financial institutions" or "Balances with central banks", as appropriate.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the income statement over the life of the agreements using the effective interest method.

Securities lending transactions are generally secured, with collateral taking the form of securities or cash. Securities lent to counterparties by the Group are recorded in the consolidated financial statements. Securities borrowed from counterparties by the Group are not recognised in the consolidated financial statements of the Group. Cash collateral received or advanced is recognised as a liability or an asset in the consolidated financial statements.

7 Property and equipment

The Group's fixed assets mainly comprise buildings, equipment and motor vehicles, aircraft and construction in progress. When the costs attributable to the land use rights cannot be reliably measured and separated from that of the building at inception, the costs are included in the cost of properties and buildings and recorded in "Property and equipment".

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Property and equipment are reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the income statement.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

7 Property and equipment (Continued)

7.1 Buildings, equipment and motor vehicles

Buildings comprise primarily branch and office premises. The estimated useful lives, depreciation rate and estimated residual value rate of buildings, equipment and motor vehicles are as follows:

Type of assets	Estimated useful lives	Estimated residual value rate	Annual depreciation rate
Buildings	15–50 years	3%	1.9%–6.5%
Equipment	3–15 years	3%	6.4%–32.4%
Motor vehicles	4–6 years	3%	16.1%–24.3%

7.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate varying from 0% to 15%.

7.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

8 Leases

8.1 Lease classification

Leases of assets where substantially all the risks and rewards of ownership have been transferred are classified as finance leases. Title may or may not eventually be transferred. All leases other than finance leases are classified as operating leases.

8.2 Finance leases

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in "Other liabilities". Finance charges are charged over the term of the lease using an interest rate which reflects a constant rate of return.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 Leases (Continued)

8.2 Finance leases (Continued)

The Group adopts the same depreciation policy for the finance leased assets as those for which it has title rights. If the Group can reasonably determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the asset to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

8.3 Operating leases

When the Group is the lessee under an operating lease, rental expenses are charged to "Operating expenses" in the income statement on a straight-line basis over the period of the lease.

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

9 Investment properties

Investment properties, principally consisting of office buildings, are held to generate rental income or earn capital gains or both and is not occupied by the Group. Investment properties are carried at fair value and changes in fair value are recorded in the income statement, representing the open market value and other related information determined periodically by independent appraisers.

10 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the income statement.

The value of intangible assets is reviewed for impairment at each financial reporting date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The recoverable amount of an intangible asset is the higher of the asset's fair value less costs to sell and value in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

11 Repossessed assets

Repossessed assets are initially recognised at fair value plus related costs when they are obtained as the compensation for the loans' principal and interest. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount.

12 Employee benefits

12.1 Defined contribution plans and Defined benefit plans

In accordance with the policies of relevant state and local governments, employees in Chinese mainland participate in various defined contribution retirement schemes administered by local Labour and Social Security Bureaus. Operations in Chinese mainland contribute to pension and insurance schemes administered by the local pension and insurance agencies using applicable contribution rates stipulated in the relevant local regulations. Upon retirement, the local Labour and Social Security Bureaus are responsible for the payment of the basic retirement benefits to the retired employees. In addition to these basic staff pension schemes, employees in Chinese mainland who retire after 1 January 2004 can also voluntarily participate in a defined contribution plan established by the Bank ("the Annuity Plan"). The Bank contributes to the Annuity Plan based on certain percentages of the employees' gross salaries.

All eligible employees in operations in Hong Kong, Macau, Taiwan and other countries and regions participate in local defined contribution schemes or defined benefit plans.

Contributions made by the Group to the retirement schemes described above are recognised as "Operating expenses" in the income statement as incurred. Forfeited contributions by those employees who leave the schemes prior to the full vesting of their contributions are used to reduce the existing level of contributions or retained in the retirement schemes in accordance with the requirements of the respective defined contribution plans.

The obligations related to the defined benefit plans are calculated by independent actuaries using the projected unit credit method at each financial reporting date. The actuarial gains or losses are recognised in "Other comprehensive income" immediately when they occur, the gains or losses arising from amendments to pension plans are charged or credited to the income statement immediately as "Operating expenses" when they occur.

12.2 Retirement benefit obligations

The Group pays supplemental retirement benefits to employees in Chinese mainland who retired prior to 31 December 2003 and early retirement benefits to those employees who accepted an early retirement arrangement.

Supplemental retirement benefits include supplemental pension payments and medical expense coverage.

Early retirement benefits have been paid to those employees who accept voluntary retirement before the normal retirement date, as approved by management. The related benefit payments are made from the date of early retirement to the normal retirement date.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

12 Employee benefits (Continued)

12.2 Retirement benefit obligations (Continued)

The liability related to the above supplemental retirement benefit obligations and early retirement obligations existing at each financial reporting date is calculated by independent actuaries using the projected unit credit method and is recorded as a liability under "Retirement benefit obligations" in the statement of financial position. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of supplemental retirement benefit are recognised in "Other comprehensive income" immediately when they occur. The actuarial gains or losses of early retirement benefit obligations and the gains or losses arising from amendments to retirement benefit obligations are charged or credited to the income statement immediately as "Operating expenses" when they occur.

12.3 Housing funds

Pursuant to local government regulations, all employees in Chinese mainland participate in various local housing funds administered by local governments. Operations in Chinese mainland contribute on a monthly basis to these funds based on certain percentages of the salaries of the employees. These payments are recognised as "Operating expenses" in the income statement as incurred.

12.4 Cash-settled share-based compensation

The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each financial reporting date with any changes in fair value recognised as "Operating expenses" in the income statement for the period and de-recognised when the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each financial reporting date, the Group revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, as "Operating expenses" in the income statement, with a corresponding adjustment to liability.

12.5 Bonus plans

The Group recognises a liability and an expense for bonuses, taking into consideration its business performance and profit attributable to the Bank's equity holders. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation.

13 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount initially recognised as a provision should be the best estimate of the expenditure required to settle the present obligation.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

14 Insurance contracts

14.1 Insurance contracts classification

The Group's insurance subsidiaries issue insurance contracts that transfer significant insurance risk. The Group perform a significant insurance risk test at the contract initial recognition date. Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. The Group issues non-life insurance contracts, which cover casualty and property insurance risk, and life insurance contracts, which insure events associated with human life (for example death, or survival) over a long duration.

The Group does not separately measure embedded derivatives that itself meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate).

14.2 Insurance contracts recognition and measurement

(1) Non-life insurance contracts

Premiums on non-life insurance contracts are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the financial reporting date is reported as the unearned premium liability in "Other liabilities". Claims and loss adjustment expenses are charged to the income statement as "Operating expenses" when incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the financial reporting date even if they have not yet been reported to the Group.

(2) Life insurance contracts

Premiums on life insurance contracts are recognised as revenue when they become payable by the contract holders. Benefits and claims are recorded as an expense when they are incurred. A liability for contractual benefits that are expected to be incurred in the future is recorded when premiums are recognised. For certain long-term insurance contracts (linked long-term insurance contracts) with embedded derivatives linking payments on the contract to units of an investment fund set up by the Group with the consideration received from the contract holders, the liability is adjusted for all changes in the fair value of the underlying assets, and includes a liability for contractual benefits that are expected to be incurred in the future which is recorded when the premiums are recognised.

14.3 Liability adequacy test

At each financial reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities (including unearned premium in the case of non-life insurance contracts). In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the income statement and reported as "Operating expenses", with a provision established for losses arising from the liability adequacy test.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

15 Treasury shares and preference shares

Where the Bank or other members of the Group purchase the Bank's ordinary shares, "Treasury shares" are recorded at the amount of consideration paid and deducted from total equity holders' equity until they are cancelled, sold or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in capital and reserves attributable to equity holders of the Bank.

Preference shares issued by the Group contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group; and preference shares issued are non-derivative instruments that will be settled in the Group's own equity instruments, but includes no contractual obligation for the Group to deliver a variable number of its own equity instruments. The Group classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognised as profit distribution at the time of declaration.

16 Contingent liabilities

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

17 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies to secure customer loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to the income statement. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

18 Fiduciary activities

The Group acts as a custodian, trustee or in other fiduciary capacities, that result in its holding or placing of assets on behalf of individuals, securities investment funds, social security funds, insurance companies, qualified foreign institutional investors, annuity schemes and other customers. These assets are not included in the statement of financial position of the Group, as they are not assets of the Group.

The Group also administers entrusted loans on behalf of third-party lenders. In this regard, the Group grants loans to borrowers, as an intermediary, at the direction of third-party lenders, who fund these loans. The Group has been contracted by these third-party lenders to manage the administration and collection of these loans on their behalf. The third-party lenders determine both the underwriting criteria for and all terms of the entrusted loans, including their purposes, amounts, interest rates, and repayment schedule. The Group charges a commission related to its activities in connection with the entrusted loans, but the risk of loss is borne by the third-party lenders. Entrusted loans are not recognised in the statement of financial position of the Group.

19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognised within "Interest income" and "Interest expense" in the income statement using the effective interest method. Interest income and expense for derivatives is recognised in "Net trading gains" in the income statement.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

20 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued over that period. For other services, fee and commission income are recognised when the transactions are completed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

21 Income taxes

Income taxes comprise current income tax and deferred income tax. Tax is recognised in the income statement except to the extent that it relates to items directly recognised in equity. In these cases, tax is also directly recognised in equity.

21.1 Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

21.2 Deferred income tax

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment allowances, revaluation of certain financial assets and financial liabilities including derivative contracts, revaluation of investment properties, depreciation of property and equipment, provisions for pension, retirement benefits and salary payable.

"Deferred income tax assets" are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognised to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/(tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognised, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

(Amount in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

22 Segment reporting

The Group reviews the internal reporting in order to assess performance and allocate resources. Segment information is presented on the same basis as the Group's management and internal reporting.

23 Comparative figures

In 2014, in accordance with the *Circular on Regulating the Interbank Business of Financial Institutions* (Yin Fa [2014] 127) jointly promulgated by People's Bank of China ("PBOC"), CBRC, China Securities Regulatory Commission ("CSRC"), China Insurance Regulatory Commission, and State Administration of Foreign Exchange, the Group has presented beneficial trust rights reverse repurchase transactions and financial asset beneficial rights transactions under "Financial investments — loans and receivables", and retrospectively restated the comparative figures as at 31 December 2013 and 1 January 2013 to maintain consistent presentation.

In 2014, Ministry of Finance of the PRC ("MOF") promulgated CAS No. 30 — *Financial Statements Presentation* Application Guidance (2014 Revision). Accordingly, the Group has presented the accumulated balance of other comprehensive income as a separate equity component. The Group has retrospectively restated the comparative figures as at 31 December 2013 and 1 January 2013 to maintain consistent presentation.

Items in the Group's consolidated statement of financial position as at 31 December 2013 and 1 January 2013 affected by the above issues, are as follows:

Group

	As at 31 December 2013		
	Before restatement	Impact of restatement	Restated
ASSETS			
Placements with and loans to banks and other financial institutions	660,049	(147,161)	512,888
Financial investments	2,181,270	147,161	2,328,431
Other asset items	11,032,980	–	11,032,980
Total assets	13,874,299	–	13,874,299
Total liabilities	12,912,822	–	12,912,822
EQUITY			
Capital reserve	116,121	(752)	115,369
Other comprehensive income	–	(19,241)	(19,241)
Undistributed profits	323,673	103	323,776
Reverse for fair value changes of available for sale securities	1,652	(1,652)	–
Exchange differences from the translation of foreign operations	(21,542)	21,542	–
Other equity items	541,573	–	541,573
Total equity	961,477	–	961,477
Total equity and liabilities	13,874,299	–	13,874,299

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

23 Comparative figures (Continued)

Group

	As at 1 January 2013		
	Before restatement	Impact of restatement	Restated
ASSETS			
Placements with and loans to banks and other financial institutions	447,299	(62,200)	385,099
Financial investments	2,138,934	62,200	2,201,134
Other asset items	10,094,382	–	10,094,382
Total assets	12,680,615	–	12,680,615
Total liabilities	11,819,073	–	11,819,073
EQUITY			
Capital reserve	115,451	(467)	114,984
Other comprehensive income	–	(9,833)	(9,833)
Undistributed profits	242,899	224	243,123
Reverse for fair value changes of available for sale securities	7,276	(7,276)	–
Exchange differences from the translation of foreign operations	(17,352)	17,352	–
Other equity items	513,268	–	513,268
Total equity	861,542	–	861,542
Total equity and liabilities	12,680,615	–	12,680,615

The items in the consolidated statement of cash flows and consolidated statement of changes in equity have also been reclassified accordingly. The reclassifications have no impact on the consolidated income statement or the consolidated statement of comprehensive income.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group has taken into consideration the impact of the economic environment on the industries and territories in which the Group operates when determining critical accounting estimates and judgements in applying accounting policies.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment allowances on loans and advances

The Group reviews its loans and advances to assess impairment on a periodic basis, unless known circumstances indicate that impairment may have occurred as of an interim date.

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements and assumptions when calculating loan impairment allowances related to loans and advances. These allowances, which reflect the difference between the carrying amount of a loan, or a portfolio of similar loans, and the present value of estimated future cash flows, are assessed individually, for significant loans, and collectively, all other loans that are not individually significant or for which impairment has not yet been identified by including the loan in a group of loans with similar credit risk characteristics.

The estimate of future cash flows is most significantly related to impaired loans for which the impairment loss is assessed individually. Factors affecting this estimate include, among other things, the granularity of financial information related to specific borrowers, the availability of meaningful information related to industry competitors and the relevance of sector trends to the future performance of individual borrowers. China continues to experience economic growth and these facts are not as well established as those in more developed markets. The effect of these factors requires significant judgement to be applied in the estimation of future cash flows. This is especially true in emerging sectors.

Significant judgement is also applied to the calculation of collectively assessed impairment allowances. The Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and advances before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The Group has considered the impact of the changes and uncertainty in the macro-economic environments in which the Group operates when assessing the methodology and assumptions used for loss estimates and made adjustments where appropriate.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

2 Fair value of derivatives and other financial instruments

The Group establishes fair value of financial instruments with reference to a quoted market price in an active market or, if there is no active market, using valuation techniques. These valuation techniques include the use of recent arm's length transactions, observable prices for similar instruments, discounted cash flow analysis using risk-adjusted interest rates, and commonly used market pricing models. Whenever possible these models use observable market inputs and data including, for example, interest rate yield curves, foreign currency rates and option volatilities. The results of using valuation techniques are calibrated against industry practice and observable current market transactions in the same or similar instruments.

The Group assesses assumptions and estimates used in valuation techniques including review of valuation model assumptions and characteristics, changes to model assumptions, the quality of market data, whether markets are active or inactive, other fair value adjustments not specifically captured by models and consistency of application of techniques between reporting periods as part of its normal review and approval processes. Valuation techniques are validated and periodically reviewed and, where appropriate, have been updated to reflect market conditions at the financial reporting date.

With respect to the PRC government obligations related to large-scale policy directed financing transactions, fair value is determined using the stated terms of the related instrument and with reference to terms determined by the PRC government in similar transactions engaged in or directed by the PRC government. In this regard, there are no other relevant market prices or yields reflecting arm's length transactions of a comparable size and tenor.

3 Impairment of available for sale investment securities and held to maturity investment securities

The Group follows the guidance of IAS 39 to determine when an available for sale or held to maturity investment security is impaired and when impairment on a debt security is reversed. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events, and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, technological innovations, credit ratings, delinquency rates, loss coverage ratios and counterparty risk.

4 Held to maturity securities

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity date as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

5 Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation and relevant disclosure in the consolidated financial statements.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

6 Employee retirement benefit obligations

As described in Note II.12.2 and Note V.33, the Bank has established liabilities in connection with benefits payable to certain retired and early retired employees. These liabilities are calculated using actuarial assumptions such as discount rates, pension benefit inflation rates, medical benefit inflation rates, and other factors. While management believes that its assumptions are appropriate, differences in actual experience or changes in assumptions may affect other comprehensive income, expenses and employee retirement benefit obligations.

7 Taxes

The Group is subject to income and business taxes in numerous jurisdictions, principally in Chinese mainland and Hong Kong. There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. The Group has made estimates for items of uncertainty and application of new tax legislation taking into account existing tax legislation and past practice, in particular, the treatment of supplementary PRC tax applied to results of overseas operations.

Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax, deferred income tax, and business tax in the period during which such a determination is made.

8 Impairment of non-financial assets

Non-financial assets are periodically reviewed for impairment and where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

When estimating the value in use of aircraft held by subsidiaries, the Group estimates expected future cash flows from the aircraft and uses a suitable discount rate to calculate present value. The Group obtains valuations of aircraft from independent appraisers for which the principal assumptions underlying aircraft value are based on current market transactions for similar aircraft in the same location and condition. The Group also uses the fair value of aircraft obtained from independent appraisers in its assessment of the recoverable amount of intangible assets and the goodwill arising from the purchase of the Group's aircraft leasing subsidiary.

IV TAXATION

The principal income and other taxes to which the Group is subject are listed below:

Taxes	Tax basis	Statutory rates
Chinese mainland		
Corporate income tax	Taxable income	25%
Business tax	Business income	5%
City construction and maintenance tax	Turnover tax paid	1%–7%
Education surcharges	Turnover tax paid	3%
Local education surcharges	Turnover tax paid	2%
Hong Kong		
Hong Kong profits tax	Assessable profits	16.5%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Year ended 31 December	
	2014	2013
Interest income		
Loans and advances to customers	**428,572**	379,570
Financial investments and financial assets at fair value through profit or loss (1)	**86,210**	74,651
Due from central banks	**32,779**	27,094
Due from, placements with and loans to banks and other financial institutions	**55,119**	37,680
Subtotal	**602,680**	518,995
Interest expense		
Due to customers	**(215,019)**	(180,479)
Due to and placements from banks and other financial institutions	**(55,428)**	(45,520)
Bonds issued and other	**(11,131)**	(9,411)
Subtotal	**(281,578)**	(235,410)
Net interest income (2)	**321,102**	283,585
Interest income accrued on impaired financial assets (included within interest income)	**947**	629

(1) Interest income on "Financial investments and financial assets at fair value through profit or loss" is principally derived from debt securities listed on China Domestic Interbank Bond Market and unlisted debt securities in Hong Kong, Macau, Taiwan and other countries and regions.

(2) Included within "Interest income" and "Interest expense" are RMB600,190 million (2013: RMB516,860 million) and RMB272,684 million (2013: RMB230,666 million) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

2 Net fee and commission income

	Year ended 31 December	
	2014	2013
Bank card fees	**21,567**	17,312
Agency commissions	**19,973**	17,546
Credit commitment fees	**16,112**	13,294
Settlement and clearing fees	**14,815**	15,196
Consultancy and advisory fees	**8,835**	9,574
Spread income from foreign exchange business	**7,610**	7,147
Custodian and other fiduciary service fees	**3,426**	2,874
Other	**6,200**	5,642
Fee and commission income	**98,538**	88,585
Fee and commission expense	**(7,298)**	(6,493)
Net fee and commission income	**91,240**	82,092

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 Net trading gains

	Year ended 31 December	
	2014	2013
Net gains from foreign exchange and foreign exchange products	**9,853**	5,984
Net gains/(losses) from interest rate products	**631**	(257)
Net gains from equity products	**119**	790
Net gains from commodity products	**496**	666
Total [(1)]	**11,099**	7,183

(1) Included in "Net trading gains" above for the year ended 31 December 2014 are losses of RMB4,386 million in relation to financial assets and financial liabilities designated at fair value through profit or loss (2013: losses of RMB1,099 million).

4 Other operating income

	Year ended 31 December	
	2014	2013
Insurance premiums [(1)]	**12,256**	12,445
Revenue from sale of precious metals products	**5,852**	10,307
Aircraft leasing income	**5,757**	4,977
Gains on disposal of property and equipment, intangible assets and other assets	**521**	535
Dividend income	**696**	543
Changes in fair value of investment properties (Note V.22)	**546**	662
Gains on disposal of subsidiaries, associates and joint ventures	**684**	419
Other	**4,780**	4,167
Total	**31,092**	34,055

(1) Details of insurance premium income are as follows:

	Year ended 31 December	
	2014	2013
Life insurance contracts		
Gross earned premiums	**13,836**	14,714
Less: gross written premiums ceded to reinsurers	**(7,199)**	(6,916)
Net insurance premium income	**6,637**	7,798
Non-life insurance contracts		
Gross earned premiums	**6,351**	5,418
Less: gross written premiums ceded to reinsurers	**(732)**	(771)
Net insurance premium income	**5,619**	4,647
Total	**12,256**	12,445

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 Operating expenses

	Year ended 31 December	
	2014	2013
Staff costs (Note V.6)	**77,889**	72,762
General operating and administrative expenses (1)	**39,284**	38,387
Business tax and surcharges	**26,224**	23,965
Depreciation and amortisation	**13,214**	13,598
Insurance benefits and claims		
— Life insurance contracts	**7,265**	7,380
— Non-life insurance contracts	**3,635**	2,681
Cost of sales of precious metals products	**5,455**	9,728
Other	**4,822**	3,813
Total	**177,788**	172,314

(1) Included in the "General operating and administrative expenses" is principal auditors' remuneration of RMB199 million for the year ended 31 December 2014 (2013: RMB185 million), of which RMB46 million was for Hong Kong, Macau, Taiwan and other countries and regions of the Group (2013: RMB36 million).

Included in the "General operating and administrative expenses" are operating lease expenses of RMB6,596 million and other premises and equipment related expenses (mainly comprised of property management and building maintenance expenses) of RMB11,453 million (2013: RMB6,108 million and RMB10,954 million, respectively).

6 Staff costs

	Year ended 31 December	
	2014	2013
Salary, bonus and subsidy	**53,857**	51,327
Staff welfare	**2,443**	2,293
Retirement benefits	**288**	181
Social insurance, including:		
Medical	**2,984**	2,604
Pension	**6,272**	5,608
Annuity	**1,862**	1,569
Unemployment	**447**	419
Injury at work	**157**	145
Maternity insurance	**201**	181
Housing funds	**4,978**	4,462
Labour union fee and staff education fee	**1,925**	1,882
Reimbursement for cancellation of labour contract	**20**	14
Other	**2,455**	2,077
Total	**77,889**	72,762

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments

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

For the year ended 31 December 2014

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
TIAN Guoli (4)	–(2)	843	74	264	1,181
LI Lihui (4) (5)	–(2)	63	16	20	99
CHEN Siqing (4) (6)	–(2)	751	99	233	1,083
LI Zaohang (4)	–(2)	728	124	237	1,089
WANG Yongli (4) (5)	–(2)	240	28	76	344
Non-executive directors					
SUN Zhijun (1)	–	–	–	–	–
ZHANG Xiangdong (1)	–	–	–	–	–
ZHANG Qi (1)	–	–	–	–	–
WANG Yong (1)	–	–	–	–	–
WANG Wei (1) (6)	–	–	–	–	–
LIU Xianghui (1) (6)	–	–	–	–	–
LIU Lina (1) (5)	–	–	–	–	–
Independent non-executive directors					
CHOW Man Yiu, Paul	450	–	–	–	450
Jackson TAI	400	–	–	–	400
Nout WELLINK	500	–	–	–	500
LU Zhengfei	500	–	–	–	500
LEUNG Cheuk Yan	400	–	–	–	400
Supervisors					
LI Jun (4)	–	738	120	239	1,097
WANG Xueqiang (4)	–	657	105	227	989
LIU Wanming (4)	–	610	101	216	927
DENG Zhiying	50(3)	–	–	–	50
LIU Xiaozhong	50(3)	–	–	–	50
XIANG Xi	50(3)	–	–	–	50
MEI Xingbao	180	–	–	–	180
BAO Guoming (5)	259	–	–	–	259
	2,839	4,630	667	1,512	9,648

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

For the year ended 31 December 2013

	Fees	Remuneration paid	Contributions to pension schemes	Benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
TIAN Guoli (4)	– (2)	557	47	173	777
LI Lihui (4)	– (2)	745	93	234	1,072
LI Zaohang (4)	– (2)	715	86	227	1,028
WANG Yongli (4)	– (2)	708	67	225	1,000
XIAO Gang (4)	– (2)	203	18	62	283
Non-executive directors					
SUN Zhijun (1)	–	–	–	–	–
LIU Lina (1)	–	–	–	–	–
ZHANG Xiangdong (1)	–	–	–	–	–
ZHANG Qi (1)	–	–	–	–	–
WANG Yong (1)	–	–	–	–	–
JIANG Yansong (1)	–	–	–	–	–
Independent non-executive directors					
CHOW Man Yiu, Paul	450	–	–	–	450
Jackson TAI	373	–	–	–	373
Nout WELLINK	396	–	–	–	396
LU Zhengfei	192	–	–	–	192
LEUNG Cheuk Yan	122	–	–	–	122
Anthony Francis NEOH	383	–	–	–	383
HUANG Shizhong	–	–	–	–	–
HUANG Danhan	278	–	–	–	278
Supervisors					
LI Jun (4)	–	724	91	229	1,044
WANG Xueqiang (4)	–	619	74	211	904
LIU Wanming (4)	–	596	72	203	871
DENG Zhiying	50(3)	–	–	–	50
LIU Xiaozhong	50(3)	–	–	–	50
XIANG Xi	50(3)	–	–	–	50
MEI Xingbao	180	–	–	–	180
BAO Guoming	259	–	–	–	259
	2,783	4,867	548	1,564	9,762

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

(1) For the years ended 31 December 2014 and 2013, these non-executive directors of the Bank were not remunerated by the Bank.

(2) For the years ended 31 December 2014 and 2013, these executive directors of the Bank did not receive any fees.

(3) Employee supervisors' above compensation is paid for serving as the supervisors of the Bank.

(4) The total compensation packages for executive directors and supervisors for the year ended 31 December 2014 including discretionary bonus have not yet been finalised in accordance with relevant regulations of the PRC authorities. The amount of the compensation not provided for is not expected to have any significant impact on the Group's and the Bank's 2014 financial statements. The final compensation for the year ended 31 December 2014 will be disclosed in a separate announcement when determined.

A portion of the discretionary bonus payments for executive directors and the chairman of the board of supervisors are deferred for a minimum of 3 years contingent upon the future performance in accordance with relevant regulations of the PRC authorities.

(5) LI Lihui ceased to be vice chairman, executive director and president of the Bank effective from 28 January 2014. WANG Yongli ceased to be executive director and vice president of the Bank effective from 16 April 2014. LIU Lina ceased to be non-executive directors effective from 28 September 2014. BAO Guoming ceased to be external supervisor effective from 31 December 2014.

(6) CHEN Siqing began to serve as president of the Bank from 13 February 2014, vice chairman and executive director effective from 4 April 2014. WANG Wei began to serve as non-executive director from 28 September 2014. LIU Xianghui began to serve as non-executive director from 16 October 2014.

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors whose emoluments are disclosed above.

The emoluments payable to the five individuals whose emoluments were the highest in the Group for the years ended 31 December 2014 and 2013 respectively are as follows:

	Year ended 31 December	
	2014	2013
Basic salaries and allowances	**14**	16
Discretionary bonuses	**70**	59
Contributions to pension schemes and other	**5**	4
	89	79

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 Directors', supervisors' and senior management's emoluments (Continued)

Five highest paid individuals (Continued)

Emoluments of the individuals were within the following bands:

	Year ended 31 December	
Amounts in RMB	**2014**	2013
11,000,001–12,000,000	**–**	1
12,500,001–13,000,000	**–**	2
13,000,001–14,000,000	**2**	–
14,000,001–20,000,000	**2**	1
28,000,001–28,500,000	**–**	1
28,500,001–30,500,000	**1**	–

The above five highest paid individuals' emoluments are based on best estimates of discretionary bonuses. Discretionary bonuses include portions of payments that are deferred to future periods.

During the years ended 31 December 2014 and 2013, the Group has not paid any emoluments to the directors, supervisors, or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

8 Impairment losses on assets

	Year ended 31 December	
	2014	2013
Loans and advances		
— Individually assessed	**23,321**	6,067
— Collectively assessed	**23,285**	16,871
Subtotal	**46,606**	22,938
Financial investments		
Available for sale		
— Debt securities	**(183)**	(239)
— Other available for sale financial assets	**760**	504
	577	265
Held to maturity	**(29)**	(47)
Subtotal	**548**	218
Other	**1,227**	354
Total (1)	**48,381**	23,510

(1) Details of new allowances and reversal of impairment losses on loans and advances and financial investments are disclosed in Notes V.17 and V.24, respectively.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9 Income tax expense

	Year ended 31 December	
	2014	2013
Current income tax		
— Chinese mainland income tax	**48,126**	42,884
— Hong Kong profits tax	**3,576**	3,601
— Macau, Taiwan and other countries and regions taxation	**4,285**	2,689
Adjustments in respect of current income tax of prior years	**2,872**	(504)
Subtotal	**58,859**	48,670
Deferred income tax (Note V.35)	**(4,579)**	366
Total	**54,280**	49,036

The principal tax rates applicable to the Group are set out in Note IV.

Provision for Chinese mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Bank and each of its subsidiaries established in the Chinese mainland, and supplementary PRC tax on overseas operations as determined in accordance with the relevant PRC income tax rules and regulations, as well as income tax withheld by the domestic entities in relation to the taxable income originating from Chinese mainland obtained by the overseas entities (Note III.7).

Taxation on profits of Hong Kong, Macau, Taiwan and other countries and regions has been calculated on the estimated assessable profits in accordance with local tax regulations at the rates of taxation prevailing in the countries or regions in which the Group operates.

The tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the basic Chinese mainland tax rate of the Bank as follows:

	Year ended 31 December	
	2014	2013
Profit before income tax	**231,478**	212,777
Tax calculated at the applicable statutory tax rate	**57,870**	53,194
Effect of different tax rates on Hong Kong, Macau, Taiwan and other countries and regions	**(3,561)**	(2,934)
Supplementary PRC tax on overseas income	**2,619**	2,612
Income not subject to tax (1)	**(7,973)**	(6,294)
Items not deductible for tax purposes (2)	**3,704**	2,507
Other	**1,621**	(49)
Income tax expense	**54,280**	49,036

(1) Income not subject to tax mainly comprises interest income from PRC Treasury bonds.

(2) Non-deductible items primarily include losses resulting from write-off of certain non-performing loans, and marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10 Earnings per share (basic and diluted)

Basic earnings per share

Basic earnings per share was computed by dividing the profit attributable to the equity holders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Year ended 31 December	
	2014	2013
Profit attributable to equity holders of the Bank	**169,595**	156,911
Weighted average number of ordinary shares in issue (in million shares)	**280,009**	279,156
Basic earnings per share (in RMB per share)	**0.61**	0.56

Weighted average number of ordinary shares in issue (in million shares)

	Year ended 31 December	
	2014	2013
Issued ordinary shares as at 1 January	**279,365**	279,147
Weighted average number of shares from conversion of convertible bonds	**655**	19
Weighted average number of treasury shares	**(11)**	(10)
Weighted average number of ordinary shares in issue	**280,009**	279,156

Diluted earnings per share

Diluted earnings per share was computed by dividing the adjusted profit attributable to the equity holders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank has convertible bonds as dilutive potential ordinary shares.

	Year ended 31 December	
	2014	2013
Profit attributable to equity holders of the Bank	**169,595**	156,911
Add: interest expense on convertible bonds, net of tax, outstanding as at 31 December	**1,120**	1,129
Profit used to determine diluted earnings per share	**170,715**	158,040
Adjusted weighted average number of ordinary shares in issue (in million shares)	**280,009**	279,156
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	**13,861**	13,575
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	**293,870**	292,731
Diluted earnings per share (in RMB per share)	**0.58**	0.54

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Other comprehensive income

Accrual amount of other comprehensive income:

	Year ended 31 December	
	2014	2013
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on defined benefit plans	**(234)**	160
Less: related income tax impact	**1**	(39)
	(233)	121
Other	**5**	–
Subtotal	**(228)**	121
Items that may be reclassified subsequently to profit or loss		
Fair value gains/(losses) on available for sale financial assets		
Amount recorded in equity	**12,334**	(10,037)
Less: related income tax impact	**(3,532)**	2,724
Amount transferred to the income statement	**(426)**	293
Less: related income tax impact	**54**	(21)
	8,430	(7,041)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	**276**	(40)
Less: related income tax impact	**(20)**	5
	256	(35)
Exchange differences from the translation of foreign operations	**(2,583)**	(5,483)
Less: net amount transferred to the income statement from other comprehensive income	**(176)**	323
	(2,759)	(5,160)
Other	**471**	300
Subtotal	**6,398**	(11,936)
Total	**6,170**	(11,815)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 Other comprehensive income (Continued)

Group

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value (losses)/gains on available for sale financial assets	Exchange differences from the translation of foreign operations	Other	Total
As at 1 January 2013	7,276	(17,352)	243	(9,833)
Changes in amount for the previous year	(5,624)	(4,190)	406	(9,408)
As at 1 January 2014	1,652	(21,542)	649	(19,241)
Changes in amount for the year	8,050	(2,851)	371	5,570
As at 31 December 2014	9,702	(24,393)	1,020	(13,671)

Bank

Other comprehensive income in the statement of financial position:

	Fair value (losses)/gains on available for sale financial assets	Exchange differences from the translation of foreign operations	Other	Total
As at 1 January 2013	1,098	(1,817)	(143)	(862)
Changes in amount for the previous year	(4,617)	(1,382)	389	(5,610)
As at 1 January 2014	(3,519)	(3,199)	246	(6,472)
Changes in amount for the year	8,097	(1,771)	(200)	6,126
As at 31 December 2014	4,578	(4,970)	46	(346)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 Cash and due from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Cash	**85,123**	82,339	**76,452**	73,819
Due from banks in Chinese mainland	**697,158**	597,620	**607,854**	531,417
Due from other financial institutions in Chinese mainland	**505**	746	**455**	725
Due from banks in Hong Kong, Macau, Taiwan and other countries and regions	**29,863**	21,674	**46,486**	40,688
Due from other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**405**	205	**162**	22
Total (1)	**813,054**	702,584	**731,409**	646,671

(1) Included in the Bank's due from banks and other financial institutions are balances with the Bank's subsidiaries (Note V.42.8).

13 Balances with central banks

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Mandatory reserves (1)	**1,727,805**	1,613,606	**1,715,653**	1,601,600
Surplus reserves (2)	**158,224**	98,318	**149,806**	91,794
Balance under reverse repo agreements (3)	**–**	100,000	**–**	100,000
Other deposits (4)	**420,059**	320,077	**346,378**	221,781
Total	**2,306,088**	2,132,001	**2,211,837**	2,015,175

(1) The Group places mandatory reserve funds with PBOC and the central banks of Hong Kong, Macau, Taiwan and other countries and regions where it has operations. As at 31 December 2014, mandatory reserve funds placed with PBOC were calculated at 20.0% (31 December 2013: 20.0%) and 5.0% (31 December 2013: 5.0%) of qualified RMB deposits and foreign currency deposits from customers of branches in Chinese mainland of the Bank respectively. The mandatory reserve funds placed with the central bank of domestic subsidiaries of the Group is determined by PBOC. The amount of mandatory reserve funds placed with the central banks of other jurisdictions is determined by local regulations.

(2) This mainly represented the surplus reserve funds placed with PBOC by branches in Chinese mainland of the Group.

(3) The Group accepts treasury bonds as collateral in connection with its reverse repo agreements with PBOC. The Group is not permitted to sell or re-pledge such collateral.

(4) This mainly represented balances, other than mandatory reserves and surplus reserves, placed with central banks by operations in Hong Kong, Macau, Taiwan and other countries and regions.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14 Placements with and loans to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Placements with and loans to:				
Banks in Chinese mainland	**130,015**	286,090	**106,841**	263,326
Other financial institutions in Chinese mainland	**182,046**	167,767	**180,880**	164,837
Banks in Hong Kong, Macau, Taiwan and other countries and regions (1)	**90,414**	59,154	**91,159**	54,037
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions (1)	**12**	72	**26,408**	28,350
Subtotal (2)	**402,487**	513,083	**405,288**	510,550
Allowance for impairment losses	**(207)**	(195)	**(187)**	(195)
Total	**402,280**	512,888	**405,101**	510,355
Impaired placements	**173**	195	**173**	195
Percentage of impaired placements to total placements with and loans to banks and other financial institutions	**0.04%**	0.04%	**0.04%**	0.04%

(1) Included in the Bank's placements with and loans to "Banks in Hong Kong, Macau, Taiwan and other countries and regions" and "Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions" are loans to the Bank's subsidiaries (Note V.42.8).

(2) "Placements with and loans to banks and other financial institutions" include balances arising from reverse repo agreements and collateralised financing agreements. These are presented by collateral type as follows:

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Debt securities				
— Governments	**30,932**	126,526	**30,779**	126,444
— Policy banks	**50,935**	108,047	**50,440**	107,638
— Financial institutions	**1,300**	1,279	**–**	–
Subtotal	**83,167**	235,852	**81,219**	234,082
Bills	**20,002**	22,196	**13,738**	22,196
Total	**103,169**	258,048	**94,957**	256,278

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Financial assets at fair value through profit or loss

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Trading financial assets				
Debt securities				
Issuers in Chinese mainland				
— Government	**2,104**	1,679	**313**	358
— Policy banks	**9,036**	5,474	**4,294**	3,325
— Financial institutions	**12,130**	3,283	**9,575**	3,088
— Corporate	**5,946**	1,994	**4,122**	1,180
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**13,260**	12,454	**–**	–
— Public sectors and quasi-governments	**365**	135	**–**	–
— Financial institutions	**2,868**	440	**–**	–
— Corporate	**3,636**	4,538	**–**	–
	49,345	29,997	**18,304**	7,951
Other				
Fund investments and other	**1,457**	758	**–**	–
Equity securities	**14,168**	5,315	**–**	–
Subtotal	**64,970**	36,070	**18,304**	7,951
Financial assets designated at fair value through profit or loss				
Debt securities				
Issuers in Chinese mainland				
— Government	**356**	218	**204**	169
— Policy banks	**1,444**	1,777	**1,444**	1,777
— Financial institutions	**2,295**	359	**1,650**	359
— Corporate	**7,345**	5,857	**5,615**	3,686
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**61**	267	**–**	–
— Financial institutions	**17,711**	20,530	**11,137**	13,573
— Corporate	**3,728**	3,847	**1,689**	1,642
	32,940	32,855	**21,739**	21,206
Other				
Fund investments	**754**	520	**–**	–
Loans (1)	**4,144**	4,321	**3,992**	4,157
Equity securities	**1,720**	1,434	**–**	–
Subtotal	**39,558**	39,130	**25,731**	25,363
Total (2)(3)	**104,528**	75,200	**44,035**	33,314

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15 Financial assets at fair value through profit or loss (Continued)

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Analysed as follows:				
Listed in Hong Kong	**24,120**	18,185	**9,261**	8,530
Listed outside Hong Kong (4)	**50,365**	32,311	**27,236**	17,945
Unlisted	**30,043**	24,704	**7,538**	6,839
Total	**104,528**	75,200	**44,035**	33,314

(1) There was no significant change during the years ended 31 December 2014 and 2013 and cumulatively, in the fair value of the loans that was attributable to changes in the credit risk of the loans.

(2) As at 31 December 2014, the Group and the Bank held bonds issued by MOF and bills issued by PBOC included in "Financial assets at fair value through profit or loss" with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Carrying value	**2,459**	1,897	**517**	527
Interest rate range	**1.95%–4.54%**	1.40%–4.25%	**2.98%–4.13%**	3.77%–4.25%

(3) As at 31 December 2014, included in the Group's "Financial assets at fair value through profit or loss" were certificates of deposit held of RMB6,615 million (31 December 2013: RMB420 million).

(4) Debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting

The Group enters into foreign currency exchange rate, interest rate, equity, credit or precious metals and other commodity related derivative financial instruments for trading, hedging, asset and liability management and on behalf of customers.

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

16.1 Derivative financial instruments

Group

	As at 31 December 2014			As at 31 December 2013		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps [(1)]	**2,784,008**	**32,106**	**(29,101)**	2,237,388	27,980	(23,926)
Currency options	**215,372**	**4,526**	**(849)**	163,613	683	(811)
Subtotal	**2,999,380**	**36,632**	**(29,950)**	2,401,001	28,663	(24,737)
Interest rate derivatives						
Interest rate swaps	**666,049**	**4,521**	**(4,730)**	571,624	6,837	(6,032)
Interest rate options	**31**	**–**	**–**	30	–	–
Interest rate futures	**3,503**	**3**	**(3)**	2,335	3	(1)
Subtotal	**669,583**	**4,524**	**(4,733)**	573,989	6,840	(6,033)
Equity derivatives	**14,573**	**627**	**(680)**	8,674	124	(152)
Commodity derivatives and others	**176,856**	**6,184**	**(5,371)**	134,023	5,196	(5,290)
Total	**3,860,392**	**47,967**	**(40,734)**	3,117,687	40,823	(36,212)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.1 Derivative financial instruments (Continued)

Bank

	As at 31 December 2014			As at 31 December 2013		
	Contractual/ notional amount	Fair value		Contractual/ notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps (1)	**2,142,078**	**17,827**	**(20,109)**	1,799,317	15,206	(14,688)
Currency options	**184,623**	**4,397**	**(4,246)**	128,479	589	(697)
Subtotal	**2,326,701**	**22,224**	**(24,355)**	1,927,796	15,795	(15,385)
Interest rate derivatives						
Interest rate swaps	**393,960**	**1,879**	**(2,508)**	321,875	2,868	(3,401)
Subtotal	**393,960**	**1,879**	**(2,508)**	321,875	2,868	(3,401)
Equity derivatives	**60**	**–**	**–**	80	1	–
Commodity derivatives and others	**129,039**	**2,330**	**(2,264)**	85,438	4,307	(4,744)
Total	**2,849,760**	**26,433**	**(29,127)**	2,335,189	22,971	(23,530)

(1) These exchange rate derivatives primarily include foreign exchange transactions with customers; foreign exchange transactions to manage foreign currency exchange risks arising from customers; and foreign currency exchange transactions entered into as part of the asset and liability management and funding requirements.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows (the Bank: Nil):

Group

	As at 31 December 2014			As at 31 December 2013		
	Contractual/ notional amount	Fair value Assets	Fair value Liabilities	Contractual/ notional amount	Fair value Assets	Fair value Liabilities
Derivatives designated as hedging instruments in fair value hedges						
Cross-currency interest rate swaps	**5,968**	**–**	**(466)**	2,261	–	(35)
Interest rate swaps	**60,534**	**1,800**	**(890)**	68,245	2,641	(886)
Subtotal (1)	**66,502**	**1,800**	**(1,356)**	70,506	2,641	(921)
Derivatives designated as hedging instruments in cash flow hedges						
Cross-currency interest rate swaps	**1,467**	**8**	**(30)**	2,972	58	(51)
Interest rate swaps	**–**	**–**	**–**	148	–	(1)
Subtotal (2)	**1,467**	**8**	**(30)**	3,120	58	(52)
Total	**67,969**	**1,808**	**(1,386)**	73,626	2,699	(973)

(1) Fair value hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against changes in fair value of bonds issued and debt securities available for sale arising from changes in foreign exchange rates and interest rates.

Gains or losses on fair value hedges are as follows:

	Year ended 31 December	
	2014	2013
Net gains/(losses) on		
— hedging instruments	**(1,701)**	616
— hedged items	**1,985**	(173)
Ineffectiveness recognised in Net trading gains	**284**	443

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 Derivative financial instruments and hedge accounting (Continued)

16.2 Hedge accounting (Continued)

(2) Cash flow hedges

The Group uses cross-currency interest rate swaps and interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rates and interest rate risks of debt securities held and placement transactions.

For the year ended 31 December 2014, a net gain from cash flow hedges of RMB64 million was recognised in "Other comprehensive income" (2013: net loss of RMB20 million), and there was no ineffectiveness for the year ended 31 December 2014 and 2013.

There were no transactions for which cash flow hedge accounting had to be ceased in the year ended 31 December 2014 or 2013 as a result of the highly probable cash flows no longer being expected to occur.

(3) Net investment hedges

The Group's consolidated statement of financial position is affected by exchange differences between the functional currencies of respective holding companies and functional currencies of their branches and subsidiaries. The Group hedges such exchange exposures only in limited circumstances. Hedging is undertaken using deposits taken in the same currencies as the functional currencies of related branches and subsidiaries which are accounted for as hedges of certain net investment in foreign operations.

For the year ended 31 December 2014, a net gain from the hedging instrument of RMB27 million was recognised in "Other comprehensive income" on net investment hedges (2013: net gain of RMB498 million), and there was no ineffectiveness in the years ended 31 December 2014 and 2013.

17 Loans and advances to customers, net

17.1 Analysis of loans and advances to customers

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Corporate loans and advances				
— Loans and advances	**5,820,128**	5,310,894	**5,180,495**	4,740,537
— Discounted bills	**225,468**	128,445	**220,527**	124,674
Subtotal	**6,045,596**	5,439,339	**5,401,022**	4,865,211
Personal loans				
— Mortgages	**1,694,275**	1,506,331	**1,495,266**	1,323,801
— Credit cards	**268,026**	222,141	**256,911**	212,165
— Other	**475,378**	439,980	**408,081**	391,483
Subtotal	**2,437,679**	2,168,452	**2,160,258**	1,927,449
Total loans and advances	**8,483,275**	7,607,791	**7,561,280**	6,792,660
Allowance for impairment losses				
Individually assessed	**(49,239)**	(39,202)	**(48,146)**	(38,479)
Collectively assessed	**(139,292)**	(128,847)	**(135,322)**	(125,422)
Total allowance for impairment losses	**(188,531)**	(168,049)	**(183,468)**	(163,901)
Loans and advances to customers, net	**8,294,744**	7,439,742	**7,377,812**	6,628,759

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers, net (Continued)

17.2 Analysis of loans and advances to customers by geographical area, industry, collateral type and analysis of overdue loans and advances to customers by collateral type is presented in Note VI.3.5.

17.3 Analysis of loans and advances to customers by collective and individual allowance assessments

Group

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2)			Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal		
As at 31 December 2014						
Total loans and advances	**8,383,486**	**29,113**	**70,676**	**99,789**	**8,483,275**	**1.18%**
Allowance for impairment losses	**(122,887)**	**(16,405)**	**(49,239)**	**(65,644)**	**(188,531)**	
Loans and advances to customers, net	**8,260,599**	**12,708**	**21,437**	**34,145**	**8,294,744**	
As at 31 December 2013						
Total loans and advances	7,534,672	21,142	51,977	73,119	7,607,791	0.96%
Allowance for impairment losses	(116,459)	(12,388)	(39,202)	(51,590)	(168,049)	
Loans and advances to customers, net	7,418,213	8,754	12,775	21,529	7,439,742	

Bank

	Loans and advances for which allowance is collectively assessed (1)	Identified impaired loans and advances (2)			Total	Identified impaired loans and advances as % of total loans and advances
		for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal		
As at 31 December 2014						
Total loans and advances	**7,463,640**	**28,805**	**68,835**	**97,640**	**7,561,280**	**1.29%**
Allowance for impairment losses	**(119,127)**	**(16,195)**	**(48,146)**	**(64,341)**	**(183,468)**	
Loans and advances to customers, net	**7,344,513**	**12,610**	**20,689**	**33,299**	**7,377,812**	
As at 31 December 2013						
Total loans and advances	6,721,536	20,927	50,197	71,124	6,792,660	1.05%
Allowance for impairment losses	(113,172)	(12,250)	(38,479)	(50,729)	(163,901)	
Loans and advances to customers, net	6,608,364	8,677	11,718	20,395	6,628,759	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers, net (Continued)

17.3 Analysis of loans and advances to customers by collective and individual allowance assessments (Continued)

(1) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.

(2) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:

- individually (including mainly significant corporate loans and advances over a certain amount which are impaired); or

- collectively (portfolios of individually insignificant homogenous loans which share similar credit risk characteristics, including insignificant corporate loans and advances and personal loans which are impaired).

17.4 Reconciliation of allowance for impairment losses on loans and advances to customers by individual and collective assessments

	Year ended 31 December					
	2014			2013		
	Individually assessed allowance	**Collectively assessed allowance**	**Total**	Individually assessed allowance	Collectively assessed allowance	Total
Group						
As at 1 January	**39,202**	**128,847**	**168,049**	38,537	116,119	154,656
Impairment losses for the year	**31,674**	**52,380**	**84,054**	15,098	48,652	63,750
Reversal	**(8,353)**	**(29,095)**	**(37,448)**	(9,031)	(31,781)	(40,812)
Written off and transfer out	**(13,493)**	**(12,238)**	**(25,731)**	(5,492)	(3,604)	(9,096)
Transfer in						
— Recovery of loans and advances written off	**660**	**94**	**754**	676	52	728
— Unwind of discount on allowance	**(390)**	**(489)**	**(879)**	(214)	(286)	(500)
— Exchange differences	**(61)**	**(207)**	**(268)**	(372)	(305)	(677)
As at 31 December	**49,239**	**139,292**	**188,531**	39,202	128,847	168,049
Bank						
As at 1 January	**38,479**	**125,422**	**163,901**	37,813	113,225	151,038
Impairment losses for the year	**30,655**	**51,178**	**81,833**	14,704	47,682	62,386
Reversal	**(7,964)**	**(28,718)**	**(36,682)**	(8,746)	(31,639)	(40,385)
Written off and transfer out	**(13,118)**	**(11,952)**	**(25,070)**	(5,203)	(3,369)	(8,572)
Transfer in						
— Recovery of loans and advances written off	**533**	**60**	**593**	474	25	499
— Unwind of discount on allowance	**(384)**	**(489)**	**(873)**	(210)	(286)	(496)
— Exchange differences	**(55)**	**(179)**	**(234)**	(353)	(216)	(569)
As at 31 December	**48,146**	**135,322**	**183,468**	38,479	125,422	163,901

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17 Loans and advances to customers, net (Continued)

17.5 Reconciliation of allowance account for impairment losses on loans and advances to customers by customer type

	Year ended 31 December					
	2014			2013		
	Corporate	Personal	Total	Corporate	Personal	Total
Group						
As at 1 January	**136,978**	**31,071**	**168,049**	128,295	26,361	154,656
Impairment losses for the year	**74,257**	**9,797**	**84,054**	57,198	6,552	63,750
Reversal	**(37,290)**	**(158)**	**(37,448)**	(40,758)	(54)	(40,812)
Written off and transfer out	**(21,120)**	**(4,611)**	**(25,731)**	(7,515)	(1,581)	(9,096)
Transfer in						
— Recovery of loans and advances written off	**685**	**69**	**754**	669	59	728
— Unwind of discount on allowance	**(587)**	**(292)**	**(879)**	(274)	(226)	(500)
— Exchange differences	**(241)**	**(27)**	**(268)**	(637)	(40)	(677)
As at 31 December	**152,682**	**35,849**	**188,531**	136,978	31,071	168,049
Bank						
As at 1 January	**133,423**	**30,478**	**163,901**	125,142	25,896	151,038
Impairment losses for the year	**72,627**	**9,206**	**81,833**	56,238	6,148	62,386
Reversal	**(36,573)**	**(109)**	**(36,682)**	(40,381)	(4)	(40,385)
Written off and transfer out	**(20,774)**	**(4,296)**	**(25,070)**	(7,227)	(1,345)	(8,572)
Transfer in						
— Recovery of loans and advances written off	**568**	**25**	**593**	475	24	499
— Unwind of discount on allowance	**(581)**	**(292)**	**(873)**	(270)	(226)	(496)
— Exchange differences	**(229)**	**(5)**	**(234)**	(554)	(15)	(569)
As at 31 December	**148,461**	**35,007**	**183,468**	133,423	30,478	163,901

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Financial investments available for sale				
Debt securities				
Issuers in Chinese mainland				
— Government	**81,134**	60,043	**69,610**	51,518
— Public sectors and quasi-governments	**12,470**	5,987	**12,268**	5,799
— Policy banks	**126,212**	81,117	**95,211**	41,682
— Financial institutions	**93,622**	72,259	**59,841**	30,841
— Corporate	**152,974**	142,680	**124,321**	114,805
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**85,522**	89,165	**41,202**	55,522
— Public sectors and quasi-governments	**17,065**	41,417	**1,156**	5,246
— Financial institutions	**106,078**	138,430	**34,387**	42,549
— Corporate	**37,061**	34,660	**4,779**	6,169
	712,138	665,758	**442,775**	354,131
Equity securities	**26,548**	26,617	**2,690**	2,489
Fund investments and other	**11,999**	8,821	**–**	–
Total investment securities available for sale (1)	**750,685**	701,196	**445,465**	356,620
Debt securities held to maturity				
Issuers in Chinese mainland				
— Government	**758,291**	663,930	**756,916**	663,478
— Public sectors and quasi-governments	**28,009**	20,569	**28,009**	20,569
— Policy banks	**278,686**	244,846	**259,927**	243,677
— Financial institutions	**68,254**	42,312	**65,101**	39,706
— Corporate	**147,379**	154,530	**142,152**	150,375
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Governments	**94,310**	67,269	**91,790**	64,344
— Public sectors and quasi-governments	**21,904**	4,262	**4,089**	4,156
— Financial institutions	**11,529**	7,791	**5,003**	1,814
— Corporate	**16,319**	5,268	**2,543**	1,002
	1,424,681	1,210,777	**1,355,530**	1,189,121
Allowance for impairment losses	**(218)**	(246)	**(217)**	(243)
Total debt securities held to maturity (2)	**1,424,463**	1,210,531	**1,355,313**	1,188,878

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Financial investments classified as loans and receivables				
Issuers in Chinese mainland				
— China Orient Bond [(3)]	**160,000**	160,000	**160,000**	160,000
— Special Purpose Treasury Bond [(4)]	**42,500**	42,500	**42,500**	42,500
— Financial institutions	**36,250**	27,371	**34,045**	21,780
— Certificate and Saving-type Treasury Bonds and other [(5)]	**31,561**	30,058	**29,799**	29,414
Issuers in Hong Kong, Macau, Taiwan and other countries and regions				
— Public sectors and quasi-governments	**6,323**	9,668	**4,617**	7,967
— Financial institutions	**2**	2	**2**	2
— Corporate	**17**	9	**17**	9
Subtotal of securities investments	**276,653**	269,608	**270,980**	261,672
Investment trusts, asset management plans and others [(6)]	**154,110**	147,161	**154,110**	147,161
Allowance for impairment losses	**(64)**	(65)	**(64)**	(65)
Total financial investments classified as loans and receivables	**430,699**	416,704	**425,026**	408,768
Total financial investments [(7)(8)]	**2,605,847**	2,328,431	**2,225,804**	1,954,266

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Analysed as follows:				
Investment securities available for sale				
Debt securities				
— Listed in Hong Kong	**34,704**	30,336	**10,978**	8,480
— Listed outside Hong Kong	**430,376**	312,912	**350,577**	215,013
— Unlisted	**247,058**	322,510	**81,220**	130,638
Equity, fund and other				
— Listed in Hong Kong	**4,573**	5,091	**–**	–
— Listed outside Hong Kong	**362**	306	**1**	1
— Unlisted	**33,612**	30,041	**2,689**	2,488
Debt securities held to maturity				
— Listed in Hong Kong	**16,368**	2,656	**9,619**	1,471
— Listed outside Hong Kong	**1,229,194**	978,604	**1,210,535**	966,897
— Unlisted	**178,901**	229,271	**135,159**	220,510
Financial investments classified as loans and receivables				
— Unlisted	**430,699**	416,704	**425,026**	408,768
Total	**2,605,847**	2,328,431	**2,225,804**	1,954,266
Listed in Hong Kong	**55,645**	38,083	**20,597**	9,951
Listed outside Hong Kong	**1,659,932**	1,291,822	**1,561,113**	1,181,911
Unlisted	**890,270**	998,526	**644,094**	762,404
Total	**2,605,847**	2,328,431	**2,225,804**	1,954,266

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

Group

	As at 31 December			
	2014		2013	
	Carrying value	Market value	Carrying value	Market value
Debt securities held to maturity				
— Listed in Hong Kong	16,368	16,612	2,656	2,699
— Listed outside Hong Kong	1,229,194	1,233,453	978,604	936,328

Bank

	As at 31 December			
	2014		2013	
	Carrying value	Market value	Carrying value	Market value
Debt securities held to maturity				
— Listed in Hong Kong	9,619	9,716	1,471	1,501
— Listed outside Hong Kong	1,210,535	1,214,618	966,897	924,573

(1) The Group's accumulated impairment charge on debt, equity securities and other available for sale held as at 31 December 2014 amounted to RMB1,924 million and RMB5,203 million, respectively (31 December 2013: RMB2,533 million and RMB4,480 million, respectively).

(2) In 2014, the Group reclassified certain debt securities with a total carrying value of RMB39,330 million from "Investment securities available for sale" to "Investment securities held to maturity" in response to a change in intention of management.

(3) The Bank transferred certain non-performing assets to China Orient Asset Management Corporation ("China Orient") in 1999 and 2000. On 1 July 2000, China Orient issued a ten-year bond ("Orient Bond") with a par value of RMB160,000 million and interest rate of 2.25% to the Bank as consideration. During the year ended 31 December 2010, the maturity of this bond was extended to 30 June 2020 with the other terms unchanged. MOF shall continue to provide funding support for the principal and interest of the Orient Bond held by the Bank pursuant to Caijin [2004] No. 87 *Notice of MOF Regarding Relevant Issues Relating to the Principal and Interest of Debt Securities of Financial Asset Management Companies Held by Bank of China and China Construction Bank*.

(4) On 18 August 1998, a Special Purpose Treasury Bond was issued by MOF with a par value of RMB42,500 million maturing on 18 August 2028. This bond was originally issued with an annual coupon rate of 7.20% and its coupon rate was restructured to 2.25% per annum from 1 December 2004.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18 Financial investments (Continued)

(5) The Group underwrites certain Treasury bonds issued by MOF and undertakes the role of a distributor of these Treasury bonds through its branch network earning commission income on bonds sold. The investors of these bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. The balance of these bonds held by the Group and the Bank as at 31 December 2014 amounted to RMB3,571 million (31 December 2013: RMB6,995 million).

(6) This represents the Group's investments in investment trusts and asset management plans which were managed by trust companies or securities companies. The underlying assets of these investment trusts and asset management plans mainly consist of beneficial rights in financial assets etc., of which other banks bear the payment obligations in the future.

(7) As at 31 December 2014, the Group and the Bank held bonds issued by MOF and bills issued by PBOC included in financial investments with the carrying value and the related interest rate range on such bonds and bills as follows:

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Carrying value	**697,973**	638,345	**685,074**	629,368
Interest rate range	**1.80%-5.31%**	0.66%-5.41%	**1.80%-5.31%**	0.66%-5.41%

(8) Included in the Group's financial investments were certificates of deposit held amounting to RMB86,944 million as at 31 December 2014 (31 December 2013: RMB81,032 million).

19 Investment in subsidiaries

The carrying amount by principal subsidiaries was as follows, and further details are disclosed in Note V.42.8.

	As at 31 December	
	2014	2013
BOC Hong Kong (Group) Limited	**36,915**	36,915
BOC Group Investment Limited	**29,633**	29,633
BOC Group Insurance Company Limited	**4,509**	4,509
BOC International Holdings Limited	**3,753**	3,753
BOC (UK) Limited	**3,223**	3,223
BOC Insurance Company Limited	**3,498**	1,998
Tai Fung Bank Limited	**82**	82
Other	**13,092**	9,113
Total [(1)]	**94,705**	89,226

(1) These directly held principal subsidiaries are unlisted companies. All holdings are in the ordinary share capital of the undertaking concerned, and the ability of the subsidiaries to transfer funds to the Group and the Bank is not restricted.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 Investment in associates and joint ventures

	Year ended 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
As at 1 January	**13,368**	12,382	**57**	55
Additions	**260**	331	**–**	–
Disposals	**(394)**	(369)	**–**	–
Share of results, net of tax	**1,319**	1,092	**(3)**	4
Dividends received	**(393)**	(117)	**–**	–
Exchange differences and others	**219**	49	**2**	(2)
As at 31 December	**14,379**	13,368	**56**	57

Investment in associates and joint ventures of the Group and the Bank comprise of ordinary shares of unlisted companies, the carrying amount by principal investees was as follows. Further details are disclosed in Note V.42.4.

	As at 31 December	
	2014	2013
Huaneng International Power Development Corporation	**6,733**	5,784
BOC International (China) Limited	**2,981**	2,850
CGN Phase I Private Equity Fund Company Limited	**1,060**	991
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	**761**	629
Hong Kong Bora Holdings Limited	**403**	538
Hubei Province Guarantee Group Co., Ltd.	**316**	315
JCC Financial Company Limited	**285**	260
Zhejiang Zheshang Investment Fund Limited Partnership	**259**	142
Guangdong Haomei Aluminum Company Limited	**238**	229
Silver Union Investments Limited	**183**	182
Other	**1,160**	1,448
Total	**14,379**	13,368

As at 31 December 2014, the ability of associates and joint ventures to transfer funds to the Group and the Bank is not restricted.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Property and equipment

Group

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January 2014	86,599	58,785	23,040	62,964	231,388
Additions	1,848	6,809	11,096	13,153	32,906
Transfer from/(to) investment properties (Note V.22)	1,287	–	(2)	–	1,285
Construction in progress transfer in/(out)	5,644	451	(7,998)	1,903	–
Disposals	(764)	(3,816)	(76)	(9,851)	(14,507)
Exchange differences	(291)	(13)	1	229	(74)
As at 31 December 2014	94,323	62,216	26,061	68,398	250,998
Accumulated depreciation					
As at 1 January 2014	(24,067)	(40,486)	–	(6,660)	(71,213)
Depreciation charge	(2,834)	(7,592)	–	(2,349)	(12,775)
Disposals	654	3,701	–	1,990	6,345
Transfer to investment properties (Note V.22)	21	–	–	–	21
Exchange differences	37	4	–	(24)	17
As at 31 December 2014	(26,189)	(44,373)	–	(7,043)	(77,605)
Allowance for impairment losses					
As at 1 January 2014	(757)	–	(245)	(205)	(1,207)
Impairment losses	–	–	–	(114)	(114)
Disposals	8	–	–	118	126
Exchange differences	–	–	–	(1)	(1)
As at 31 December 2014	(749)	–	(245)	(202)	(1,196)
Net book value					
As at 1 January 2014	61,775	18,299	22,795	56,099	158,968
As at 31 December 2014	67,385	17,843	25,816	61,153	172,197

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Property and equipment (Continued)

Group

	Year ended 31 December				
	Buildings	Equipment and motor vehicles	Construction in progress	Aircraft	Total
Cost					
As at 1 January 2013	82,142	54,120	23,744	53,586	213,592
Additions	508	6,043	9,890	12,976	29,417
Transfer from/(to) investment properties, net (Note V.22)	220	–	(2)	–	218
Construction in progress transfer in/(out)	5,246	495	(10,412)	4,671	–
Disposals	(645)	(1,677)	(178)	(6,661)	(9,161)
Exchange differences	(872)	(196)	(2)	(1,608)	(2,678)
As at 31 December 2013	86,599	58,785	23,040	62,964	231,388
Accumulated depreciation					
As at 1 January 2013	(22,268)	(33,883)	–	(5,931)	(62,082)
Depreciation charge	(2,589)	(8,327)	–	(2,092)	(13,008)
Disposals	586	1,589	–	1,184	3,359
Exchange differences	204	135	–	179	518
As at 31 December 2013	(24,067)	(40,486)	–	(6,660)	(71,213)
Allowance for impairment losses					
As at 1 January 2013	(765)	–	(252)	(169)	(1,186)
Impairment losses	–	–	–	(187)	(187)
Disposals	8	–	7	146	161
Exchange differences	–	–	–	5	5
As at 31 December 2013	(757)	–	(245)	(205)	(1,207)
Net book value					
As at 1 January 2013	59,109	20,237	23,492	47,486	150,324
As at 31 December 2013	61,775	18,299	22,795	56,099	158,968

As at 31 December 2014, the net book amount of aircraft owned by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, acquired under finance lease arrangements was RMB640 million (31 December 2013: RMB430 million).

As at 31 December 2014, the net book amount of aircraft leased out by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, under operating leases was RMB60,721 million (31 December 2013: RMB55,628 million).

As at 31 December 2014, the net book amount of aircraft owned by BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Group, that has been pledged for loan facilities was RMB46,602 million (31 December 2013: RMB46,634 million) (Note V.31).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Property and equipment (Continued)

Bank

	Year ended 31 December			
	Buildings	Equipment and motor vehicles	Construction in progress	Total
Cost				
As at 1 January 2014	69,726	52,862	19,056	141,644
Additions	324	6,302	5,003	11,629
Transfer from investment properties (Note V.22)	29	–	–	29
Construction in progress transfer in/(out)	4,919	200	(5,119)	–
Disposals	(701)	(3,253)	(74)	(4,028)
Exchange differences	(236)	(13)	(2)	(251)
As at 31 December 2014	74,061	56,098	18,864	149,023
Accumulated depreciation				
As at 1 January 2014	(20,389)	(36,292)	–	(56,681)
Depreciation charge	(2,446)	(6,927)	–	(9,373)
Disposals	590	3,158	–	3,748
Exchange differences	41	8	–	49
As at 31 December 2014	(22,204)	(40,053)	–	(62,257)
Allowance for impairment losses				
As at 1 January 2014	(757)	–	(245)	(1,002)
Impairment losses	–	–	–	–
Disposals	8	–	–	8
Exchange differences	–	–	–	–
As at 31 December 2014	(749)	–	(245)	(994)
Net book value				
As at 1 January 2014	48,580	16,570	18,811	83,961
As at 31 December 2014	51,108	16,045	18,619	85,772

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Property and equipment (Continued)

Bank

	Year ended 31 December			
	Buildings	Equipment and motor vehicles	Construction in progress	Total
Cost				
As at 1 January 2013	65,266	48,602	17,170	131,038
Additions	299	5,559	7,284	13,142
Transfer to investment properties, net (Note V.22)	(1)	–	–	(1)
Construction in progress transfer in/(out)	5,196	200	(5,396)	–
Disposals	(635)	(1,456)	(2)	(2,093)
Exchange differences	(399)	(43)	–	(442)
As at 31 December 2013	69,726	52,862	19,056	141,644
Accumulated depreciation				
As at 1 January 2013	(18,820)	(29,978)	–	(48,798)
Depreciation charge	(2,208)	(7,731)	–	(9,939)
Disposals	563	1,388	–	1,951
Exchange differences	76	29	–	105
As at 31 December 2013	(20,389)	(36,292)	–	(56,681)
Allowance for impairment losses				
As at 1 January 2013	(765)	–	(252)	(1,017)
Impairment losses	–	–	–	–
Disposals	8	–	7	15
Exchange differences	–	–	–	–
As at 31 December 2013	(757)	–	(245)	(1,002)
Net book value				
As at 1 January 2013	45,681	18,624	16,918	81,223
As at 31 December 2013	48,580	16,570	18,811	83,961

According to the relevant PRC laws and regulations, after conversion into a joint stock limited liability company, the Bank is required to re-register its property and equipment under the name of Bank of China Limited. As at 31 December 2014, the process of re-registration has not been completed. However, this registration process does not affect the rights of Bank of China Limited to these assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21 Property and equipment (Continued)

The carrying value of buildings is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Held in Hong Kong				
on long-term lease (over 50 years)	**3,840**	3,651	**–**	–
on medium-term lease (10–50 years)	**7,978**	6,873	**–**	–
on short-term lease (less than 10 years)	**3**	2	**–**	–
Subtotal	**11,821**	10,526	**–**	–
Held outside Hong Kong				
on long-term lease (over 50 years)	**2,004**	3,708	**1,423**	2,333
on medium-term lease (10–50 years)	**51,223**	45,897	**47,616**	44,847
on short-term lease (less than 10 years)	**2,337**	1,644	**2,069**	1,400
Subtotal	**55,564**	51,249	**51,108**	48,580
Total	**67,385**	61,775	**51,108**	48,580

22 Investment properties

	Year ended 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
As at 1 January	**20,271**	17,142	**1,923**	1,474
Additions	**533**	2,775	**–**	1
Transfer from/(to) property and equipment, net (Note V.21)	**(1,306)**	(218)	**(29)**	1
Disposals	**(1,461)**	(7)	**–**	–
Fair value changes (Note V.4)	**546**	662	**123**	241
Exchange differences	**70**	(83)	**19**	206
As at 31 December	**18,653**	20,271	**2,036**	1,923

The Group's investment properties are located in active real estate markets, and external appraisers make reasonable estimation of fair value using market prices of the same or similar properties and other related information from the real estate market.

Investment properties are mainly held by BOC Hong Kong (Holdings) Limited ("BOCHK (Holdings)") and BOC Group Investment Limited, subsidiaries of the Group. The carrying value of investment properties held by BOCHK (Holdings) and BOC Group Investment Limited as at 31 December 2014 amounted to RMB8,593 million and RMB8,000 million, respectively (31 December 2013: RMB8,648 million and RMB9,679 million). The valuation of these investment properties as at 31 December 2014 were principally performed by either Savills Valuation and Professional Services Limited or Knight Frank Petty Limited based on open market price and other related information.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22 Investment properties (Continued)

The carrying value of investment properties is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Held in Hong Kong				
on long-term lease (over 50 years)	**3,343**	2,809	**–**	–
on medium-term lease (10–50 years)	**5,911**	6,475	**–**	–
on short-term lease (less than 10 years)	**–**	–	**–**	–
Subtotal	**9,254**	9,284	**–**	–
Held outside Hong Kong				
on long-term lease (over 50 years)	**671**	2,124	**350**	340
on medium-term lease (10–50 years)	**7,672**	7,865	**1,304**	1,282
on short-term lease (less than 10 years)	**1,056**	998	**382**	301
Subtotal	**9,399**	10,987	**2,036**	1,923
Total	**18,653**	20,271	**2,036**	1,923

23 Other assets

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Interest receivable (1)	**76,814**	62,820	**69,832**	57,194
Accounts receivable and prepayments (2)	**72,220**	63,780	**20,271**	20,495
Intangible assets (3)	**4,654**	3,979	**4,400**	3,746
Land use rights (4)	**8,563**	8,840	**7,684**	8,101
Repossessed assets (5)	**2,289**	1,171	**2,069**	847
Goodwill (6)	**1,953**	1,982	**–**	–
Long-term deferred expense	**3,506**	3,882	**2,953**	3,284
Other	**5,555**	5,364	**2,338**	2,343
Total	**175,554**	151,818	**109,547**	96,010

(1) Interest receivable

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Financial investments and financial assets at fair value through profit or loss	**35,452**	29,868	**31,619**	26,566
Loans and advances to customers	**27,943**	24,047	**26,264**	22,660
Due from, placements with and loans to banks, other financial institutions and central banks	**13,419**	8,905	**11,949**	7,968
Total	**76,814**	62,820	**69,832**	57,194

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Other assets (Continued)

(1) Interest receivable (Continued)

The movements of interest receivable are as follows:

	Year ended 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
As at 1 January	**62,820**	54,188	**57,194**	49,288
Accrued during the year	**601,139**	518,446	**561,235**	484,237
Received during the year	**(587,145)**	(509,814)	**(548,597)**	(476,331)
As at 31 December	**76,814**	62,820	**69,832**	57,194

(2) Accounts receivable and prepayments

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Accounts receivable and prepayments	**74,641**	65,890	**22,633**	22,546
Impairment allowance	**(2,421)**	(2,110)	**(2,362)**	(2,051)
Net value	**72,220**	63,780	**20,271**	20,495

Accounts receivable and prepayments mainly include items in the process of clearing and settlement. The analysis of the aging of accounts receivable and prepayments is as follows:

Group

	As at 31 December			
	2014		2013	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**68,964**	**(336)**	59,340	(124)
From 1 year to 3 years	**1,094**	**(451)**	1,988	(401)
Over 3 years	**4,583**	**(1,634)**	4,562	(1,585)
Total	**74,641**	**(2,421)**	65,890	(2,110)

Bank

	As at 31 December			
	2014		2013	
	Balance	**Impairment allowance**	Balance	Impairment allowance
Within 1 year	**18,284**	**(311)**	18,377	(103)
From 1 year to 3 years	**972**	**(443)**	965	(400)
Over 3 years	**3,377**	**(1,608)**	3,204	(1,548)
Total	**22,633**	**(2,362)**	22,546	(2,051)

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Other assets (Continued)

(3) Intangible assets

	Year ended 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Cost				
As at 1 January	**7,872**	6,148	**7,226**	5,575
Additions	**1,670**	1,781	**1,574**	1,669
Disposals	**(64)**	(35)	**(55)**	(11)
Exchange differences	**1**	(22)	**(1)**	(7)
As at 31 December	**9,479**	7,872	**8,744**	7,226
Accumulated amortisation				
As at 1 January	**(3,893)**	(3,029)	**(3,480)**	(2,677)
Amortisation charge	**(966)**	(895)	**(899)**	(824)
Disposals	**35**	15	**35**	15
Exchange differences	**(1)**	16	**–**	6
As at 31 December	**(4,825)**	(3,893)	**(4,344)**	(3,480)
Allowance for impairment losses				
As at 1 January	**–**	–	**–**	–
Impairment losses	**–**	–	**–**	–
Disposals	**–**	–	**–**	–
Exchange differences	**–**	–	**–**	–
As at 31 December	**–**	–	**–**	–
Net book value				
As at 1 January	**3,979**	3,119	**3,746**	2,898
As at 31 December	**4,654**	3,979	**4,400**	3,746

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 Other assets (Continued)

(4) Land use rights

The carrying value of land use rights is analysed based on the remaining terms of the leases as follows:

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Held outside Hong Kong				
on long-term lease (over 50 years)	**230**	258	**200**	233
on medium-term lease (10–50 years)	**7,627**	7,927	**6,778**	7,213
on short-term lease (less than 10 years)	**706**	655	**706**	655
Total	**8,563**	8,840	**7,684**	8,101

(5) Repossessed assets

The Group and the Bank obtained repossessed assets by taking possession of collateral held as security. Such repossessed assets are as follows:

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Commercial properties	**1,306**	1,281	**882**	859
Residential properties	**159**	177	**101**	83
Other	**1,834**	842	**1,663**	669
	3,299	2,300	**2,646**	1,611
Allowance for impairment	**(1,010)**	(1,129)	**(577)**	(764)
Repossessed assets, net	**2,289**	1,171	**2,069**	847

The total book value of repossessed assets disposed of during the year ended 31 December 2014 amounted to RMB520 million (2013: RMB263 million). The Group plans to dispose of the repossessed assets held at 31 December 2014 by auction, bidding or transfer.

(6) Goodwill

Group

	Year ended 31 December	
	2014	2013
As at 1 January	**1,982**	1,796
Addition through acquisition of subsidiaries	**–**	238
Decrease resulting from disposal of subsidiaries	**(36)**	–
Exchange differences	**7**	(52)
As at 31 December	**1,953**	1,982

The goodwill mainly arose from the acquisition of BOC Aviation Pte. Ltd. in 2006 amounting to USD241 million (equivalent to RMB1,473 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Impairment allowance

Group

	As at 1 January 2014	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2014
Impairment allowance						
— Placements with and loans to banks and other financial institutions	195	86	(55)	(19)	–	207
— Loans and advances to customers [1]	168,049	84,054	(37,448)	(25,856)	(268)	188,531
— Financial investments						
— available for sale (Note V.18)	7,013	761	(184)	(496)	33	7,127
— held to maturity	246	–	(29)	–	1	218
— loans and receivables	65	–	–	–	(1)	64
— Property and equipment	1,207	114	–	(126)	1	1,196
— Repossessed assets	1,129	81	(94)	(107)	1	1,010
— Land use rights	22	–	–	(7)	–	15
— Accounts receivable and prepayments	2,110	756	(539)	93	1	2,421
— Other	328	882	(4)	–	–	1,206
Total	180,364	86,734	(38,353)	(26,518)	(232)	201,995

	As at 1 January 2013	Additions	Decrease: Reversal	Decrease: Write-off and transfer out	Exchange differences	As at 31 December 2013
Impairment allowance						
— Placements with and loans to banks and other financial institutions	203	18	(26)	–	–	195
— Loans and advances to customers [1]	154,656	63,750	(40,812)	(8,868)	(677)	168,049
— Financial investments						
— available for sale (Note V.18)	7,851	543	(278)	(832)	(271)	7,013
— held to maturity	306	1	(48)	–	(13)	246
— loans and receivables	65	–	–	–	–	65
— Property and equipment	1,186	187	–	(161)	(5)	1,207
— Repossessed assets	1,065	101	(20)	(11)	(6)	1,129
— Land use rights	22	–	–	–	–	22
— Accounts receivable and prepayments	2,076	921	(827)	(32)	(28)	2,110
— Other	357	7	(7)	(20)	(9)	328
Total	167,787	65,528	(42,018)	(9,924)	(1,009)	180,364

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24 Impairment allowance (Continued)

Bank

	As at 1 January 2014	Additions	Decrease		Exchange differences	As at 31 December 2014
			Reversal	Write-off and transfer out		
Impairment allowance						
— Placements with and loans to banks and other financial institutions	195	44	(30)	(22)	–	187
— Loans and advances to customers (1)	163,901	81,833	(36,682)	(25,350)	(234)	183,468
— Financial investments						
— available for sale (Note V.18)	2,537	1	(184)	(437)	12	1,929
— held to maturity	243	–	(28)	–	2	217
— loans and receivables	65	–	–	–	(1)	64
— Property and equipment	1,002	–	–	(8)	–	994
— Repossessed assets	764	13	(94)	(107)	1	577
— Land use rights	22	–	–	(7)	–	15
— Accounts receivable and prepayments	2,051	712	(527)	125	1	2,362
— Other	3	495	(4)	–	1	495
Total	170,783	83,098	(37,549)	(25,806)	(218)	190,308

	As at 1 January 2013	Additions	Decrease		Exchange differences	As at 31 December 2013
			Reversal	Write-off and transfer out		
Impairment allowance						
— Placements with and loans to banks and other financial institutions	203	18	(26)	–	–	195
— Loans and advances to customers (1)	151,038	62,386	(40,385)	(8,569)	(569)	163,901
— Financial investments						
— available for sale (Note V.18)	3,565	39	(278)	(699)	(90)	2,537
— held to maturity	299	1	(44)	–	(13)	243
— loans and receivables	65	–	–	–	–	65
— Property and equipment	1,017	–	–	(15)	–	1,002
— Repossessed assets	700	101	(20)	(11)	(6)	764
— Land use rights	22	–	–	–	–	22
— Accounts receivable and prepayments	1,993	879	(825)	29	(25)	2,051
— Other	7	3	(7)	–	–	3
Total	158,909	63,427	(41,585)	(9,265)	(703)	170,783

(1) Included within "Write-off and transfer out" on loans and advances to customers are amounts relating to loans and advances written-off, transferred out, recovery of loans and advances written-off and unwind of discount on allowance.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25 Due to banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Due to:				
Banks in Chinese mainland	**515,188**	485,457	**488,131**	447,967
Other financial institutions in Chinese mainland	**918,510**	763,074	**919,819**	763,567
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**261,237**	243,331	**309,229**	218,661
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**85,312**	59,762	**97,235**	70,621
Total (1)	**1,780,247**	1,551,624	**1,814,414**	1,500,816

(1) Included in the Bank's "Due to banks and other financial institutions" are balances with the Bank's subsidiaries (Note V.42.8).

26 Due to central banks

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Foreign exchange deposits	**142,443**	117,928	**142,443**	117,928
Other	**205,828**	83,011	**157,213**	46,633
Total	**348,271**	200,939	**299,656**	164,561

27 Government certificates of indebtedness for bank notes issued and bank notes in circulation

Bank of China (Hong Kong) Limited ("BOCHK") and Bank of China Macau Branch are note issuing banks for Hong Kong Dollar and Macau Pataca notes in Hong Kong and Macau, respectively. Under local regulations, these two entities are required to place deposits with the Hong Kong and Macau governments, respectively to secure the currency notes in circulation.

Bank notes in circulation represent the liabilities in respect of Hong Kong Dollar notes and Macau Pataca notes in circulation, issued respectively by BOCHK and Bank of China Macau Branch.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

28 Placements from banks and other financial institutions

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Placements from:				
Banks in Chinese mainland	**83,696**	93,444	**69,796**	83,766
Other financial institutions in Chinese mainland	**41,561**	11,254	**40,839**	10,754
Banks in Hong Kong, Macau, Taiwan and other countries and regions	**78,545**	208,988	**97,858**	237,450
Other financial institutions in Hong Kong, Macau, Taiwan and other countries and regions	**21,528**	25,579	**25,494**	30,064
Total (1)(2)	**225,330**	339,265	**233,987**	362,034

(1) Included in the Bank's "Placements from banks and other financial institutions" are balances with the Bank's subsidiaries (Note V.42.8).

(2) Included in "Placements from banks and other financial institutions" are amounts received from counterparties under repurchase agreements and collateral agreements as follows:

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Repurchase debt securities (i)	**37,061**	71,360	**32,376**	68,989

(i) Debt securities used as collateral under repurchase agreements were principally government bonds and were included in the amount disclosed under Note V.40.2.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

29 Due to customers

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
At amortised cost				
Demand deposits				
Corporate deposits	**2,663,173**	2,635,353	**2,376,758**	2,378,905
Personal deposits	**1,847,870**	1,835,753	**1,469,303**	1,474,907
Subtotal	**4,511,043**	4,471,106	**3,846,061**	3,853,812
Time deposits				
Corporate deposits	**3,013,812**	2,655,911	**2,623,427**	2,333,774
Personal deposits	**2,709,995**	2,517,922	**2,465,102**	2,309,127
Subtotal	**5,723,807**	5,173,833	**5,088,529**	4,642,901
Certificates of deposit	**278,576**	238,264	**294,131**	251,215
Other deposits (1)	**54,310**	58,085	**51,133**	56,084
Total due to customers at amortised cost	**10,567,736**	9,941,288	**9,279,854**	8,804,012
At fair value				
Structured deposits				
Corporate deposits	**234,187**	129,614	**204,591**	119,554
Personal deposits	**83,300**	26,884	**80,884**	23,955
Total due to customers at fair value (2)	**317,487**	156,498	**285,475**	143,509
Total due to customers (3)	**10,885,223**	10,097,786	**9,565,329**	8,947,521

(1) Included in other deposits are special purpose fundings, which represent long-term fundings provided in multiple currencies from foreign governments and/or entities in the form of export credit, foreign government and other subsidised credit. These special purpose fundings are normally used to finance projects with a special commercial purpose in PRC as determined by the foreign governments or entities and the Bank is obliged to repay these fundings when they fall due.

As at 31 December 2014, the remaining maturity of special purpose fundings ranges from 59 days to 33 years. The interest bearing special purpose fundings bear floating and fixed interest rates ranging from 0.15% to 7.92% (31 December 2013: 0.15% to 7.92%). These terms are consistent with those related development loans granted to customers.

(2) Due to customers measured at fair value are structured deposits designated at fair value through profit or loss at inception.

There were no significant changes in the Group's or the Bank's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's or the Bank's credit risk for the abovementioned structured deposits during the years ended 31 December 2014 and 2013.

(3) Due to customers included margin deposits for security received by the Group and the Bank as at 31 December 2014 of RMB450,746 million and RMB434,168 million, respectively (31 December 2013: RMB438,174 million and RMB422,385 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued

	Issue date	Maturity date	Annual interest rate	As at 31 December			
				Group		Bank	
				2014	2013	2014	2013
Subordinated bonds issued							
2005 RMB Debt Securities (1)							
Second Tranche (fixed rate)	18 February 2005	4 March 2020	5.18%	**9,000**	9,000	**9,000**	9,000
2009 RMB Debt Securities (2)							
First Tranche (fixed rate)	6 July 2009	8 July 2019	3.28%	**–**	14,000	**–**	14,000
	6 July 2009	8 July 2024	4.00%	**24,000**	24,000	**24,000**	24,000
First Tranche (floating rate)	6 July 2009	8 July 2019	Floating interest rate	**–**	2,000	**–**	2,000
2010 RMB Debt Securities (3)	9 March 2010	11 March 2025	4.68%	**24,930**	24,930	**24,930**	24,930
2010 US Dollar Subordinated notes issued by BOCHK	11 February 2010	11 February 2020	5.55%	**15,192**	15,276	**–**	–
2011 RMB Debt Securities (4)	17 May 2011	19 May 2026	5.30%	**32,000**	32,000	**32,000**	32,000
2012 RMB Debt Securities (5)	27 November 2012	29 November 2022	4.70%	**5,000**	5,000	**5,000**	5,000
	27 November 2012	29 November 2027	4.99%	**18,000**	18,000	**18,000**	18,000
Subtotal (6)				**128,122**	144,206	**112,930**	128,930
Tier two capital bonds							
2014 RMB Debt Securities (7)	8 August 2014	11 August 2024	5.80%	**29,968**	–	**29,968**	–
2014 US Dollar Debt Securities (8)	13 November 2014	13 November 2024	5.00%	**18,237**	–	**18,237**	–
Subtotal				**48,205**	–	**48,205**	–
Convertible bonds issued							
2010 RMB Convertible Bond (9)	2 June 2010	2 June 2016	Step-up interest rate	**14,917**	38,597	**14,917**	38,597
Other bonds issued							
1994 US Dollar Debt Securities	10 March 1994	15 March 2014	8.25%	**–**	135	**–**	135
2011 US Dollar Debt Securities issued by BOCHK	8 November 2011	8 November 2016	3.75%	**4,421**	4,444	**–**	–
2012 RMB Debt Securities issued in Hong Kong (10)	23 July 2012	23 July 2015	3.10%	**758**	753	**1,000**	1,000
Other (11)				**79,626**	31,619	**54,335**	17,871
Subtotal				**84,805**	36,951	**55,335**	19,006

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

	Issue date	Maturity date	Annual interest rate	As at 31 December Group 2014	Group 2013	Bank 2014	Bank 2013
Interbank negotiable certificates of deposit							
2013 RMB NCD 001 (12)	12 December 2013	13 March 2014	–	**–**	4,950	**–**	4,950
2014 RMB NCD 002 (13)	11 June 2014	12 June 2015	4.75%	**1,000**	–	**1,000**	–
2014 RMB NCD 005 (14)	31 October 2014	3 February 2015	–	**996**	–	**996**	–
Subtotal				**1,996**	4,950	**1,996**	4,950
Total bonds issued (15)				**278,045**	224,704	**233,383**	191,483

(1) The fixed rate portion of the second tranche of the subordinated bonds issued on 18 February 2005 has a maturity of 15 years, with a fixed coupon rate of 5.18%, paid annually. The Bank has the option to redeem all or part of the bonds at face value on 4 March 2015. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

(2) The subordinated bonds issued on 6 July 2009 comprise two fixed rate portions and one floating rate portion.

The first portion of fixed rate bonds has a maturity of 10 years, with a fixed coupon rate of 3.28%, paid annually. On 8 July 2014 the Bank has redeemed all of the bonds at face value.

The second portion of fixed rate bonds has a maturity of 15 years, with a fixed coupon rate of 4.00%, paid annually. The Bank has the option to early redeem all of the bonds at face value on 8 July 2019. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

The floating rate bonds has a maturity of 10 years, with a floating rate based on the specified 1-year deposit interest rate published by PBOC, paid annually. On 8 July 2014 the Bank has redeemed all of the bonds at face value.

(3) The subordinated bonds issued on 9 March 2010 have a maturity of 15 years, with a fixed coupon rate of 4.68%, paid annually. The Bank has the option to redeem all of the bonds at face value on 11 March 2020. If the Bank does not exercise this option, the coupon rate of the bonds for the third 5-year period shall be the original coupon rate plus 3.00%, and shall remain fixed until the maturity date.

(4) The subordinated bonds issued on 17 May 2011, have a maturity of 15 years, with a fixed coupon rate of 5.30%, paid annually. The Bank is entitled to redeem all the subordinated bonds on the tenth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 5.30%.

(5) Two subordinated bonds issued on 27 November 2012 in the domestic interbank bond markets. The first subordinated bond has a maturity of 10 years, with a fixed coupon rate of 4.70%, payable annually. The Bank is entitled to redeem these bonds on the fifth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.70%. The second subordinated bond has a maturity of 15 years, with a fixed coupon rate of 4.99%, payable annually. The Bank is entitled to redeem all these bonds on the tenth anniversary. If the Bank does not exercise this option, the coupon rate of the bonds for the remaining 5-year period shall remain fixed at 4.99%.

(6) Subordinated bonds are subordinated to all other claims on the assets of the Group, except those of the equity holders.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

(7) Pursuant to the approval by CBRC and PBOC, the Bank issued tier 2 capital bonds in an amount of RMB30 billion in the domestic interbank bond market on 8 August 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.80%. The Bank is entitled to redeem the bonds at the end of the fifth year.

(8) Pursuant to the approval by CBRC, PBOC and the National Development and Reform Commission, the Bank issued tier 2 capital bonds in an amount of USD3 billion in offshore markets on 13 November 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 5.00%.

(9) Pursuant to the approval by relevant PRC authorities, on 2 June 2010, the Bank issued A-share convertible bonds with a total principal amount of RMB40 billion. The convertible bonds have a maturity term of six years from 2 June 2010 to 2 June 2016, and bear a fixed interest rate of 0.50% for the first year, with an annual increase of 0.30% through the remaining term. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 106% of par value, including interest for the sixth year.

During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. This right may be exercised only once in any year. Subject to the Board approval, the Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.

The conversion price of the convertible bonds will be adjusted, subject to terms and formulae provided for in the bond contracts, to adjust for the dilutive effects of distributions of cash dividends and specified increases in share capital. During the term of the convertible bonds, if the closing price of the A Shares in 15 trading days out of any 30 consecutive trading days is lower than 80% of the prevailing conversion price of the convertible bonds, the Board may also propose downward adjustments to the conversion price for the Shareholders' approval. During the period from the date of issuance to 31 December 2014, the conversion price was adjusted from RMB4.02 per share to RMB2.62 per share, as a result of paid cash dividends distribution, rights issue of A Share and H Share and downward adjustment approved by the shareholders.

Interest paid by the Bank related to the convertible bonds was RMB552 million for the year ended 31 December 2014 (2013: RMB440 million).

The movements of liability component of convertible bonds are as follows:

Group and Bank

	Year ended 31 December	
	2014	2013
As at 1 January	**38,597**	38,199
Accretion	**915**	996
Amounts converted to shares (i)	**(24,595)**	(598)
As at 31 December	**14,917**	38,597

(i) Convertible bonds with a principal amount of RMB24,540,517,000 (2013: RMB612,561,000) were converted into 9,366,595,563 share (2013: 217,209,172 share) ordinary A shares during the year ended 31 December 2014 as verified by PricewaterhouseCoopers Zhong Tian LLP (Verification Report PwC ZT YZ (2015) No.165), refer to Note V.37.1.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 Bonds issued (Continued)

(10) With the approval of the National Development and Reform Commission and PBOC, the Bank issued RMB Bonds listed on the Stock Exchange of Hong Kong Limited on 23 July 2012, with an aggregate principal amount of RMB1 billion and an original maturity of 3 years at a rate of 3.10% per annum.

(11) Others mainly comprised of commercial papers issued by the Bank's overseas institutions, which due dates ranging from 2015 to 2024.

(12) The RMB interbank negotiable certificates of deposit issued on 12 December 2013 in the domestic interbank market, have a maturity term of three months. The RMB interbank negotiable certificates of deposit are issued at discount with an aggregate amount of RMB5 billion and face value of RMB100.

(13) The RMB interbank negotiable certificates of deposit issued on 11 June 2014 in the domestic interbank market, have a maturity term of 1 year. The RMB interbank negotiable certificates of deposit are issued with an aggregate amount of RMB1 billion and face value of RMB100 at a rate of 4.75% per annum.

(14) The RMB interbank negotiable certificates of deposit issued on 31 October 2014 in the domestic interbank market, have a maturity term of three months. The RMB interbank negotiable certificates of deposit are issued at discount with an aggregate amount of RMB1 billion and face value of RMB100.

(15) During the years ended 31 December 2014 and 2013, the Group did not default on any principal, interest or redemption amounts with respect to its bonds issued.

31 Other borrowings

These other borrowings relate to the financing of the aircraft leasing business of BOC Aviation Pte. Ltd., a wholly owned subsidiary of the Bank. These other borrowings are secured by its aircraft (Note V.21).

As at 31 December 2014, these other borrowings had a maturity ranging from 15 days to 12 years and bore floating and fixed interest rates ranging from 0.23% to 2.74% (31 December 2013: 0.51% to 2.78%).

During the years ended 31 December 2014 and 2013, the Group did not default on any principal, interest or redemption amounts with respect to its other borrowings.

32 Current tax liabilities

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Corporate Income Tax	**34,858**	33,625	**31,703**	30,575
Business Tax	**6,176**	5,924	**5,989**	5,789
City Construction and Maintenance Tax	**430**	396	**426**	392
Education Surcharges	**306**	288	**304**	285
Value-added Tax and other	**(134)**	(202)	**(200)**	(268)
Total	**41,636**	40,031	**38,222**	36,773

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 Retirement benefit obligations

As at 31 December 2014, the actuarial liabilities existing in relation to the retirement benefit obligations for employees who retired prior to 31 December 2003 and the early retirement obligations for employees who early retired were RMB2,575 million (31 December 2013: RMB2,429 million) and RMB1,991 million (31 December 2013: RMB2,386 million) respectively, using the projected unit credit method.

The movements of the net liabilities recognised in the statements of financial position are as follows:

Group and Bank

	Year ended 31 December	
	2014	2013
As at 1 January	**4,815**	5,642
Interest cost	**201**	181
Net actuarial loss/(gain) recognised in the year	**317**	(164)
Benefits paid	**(767)**	(844)
As at 31 December	**4,566**	4,815

Primary assumptions used:

Group and Bank

	As at 31 December	
	2014	2013
Discount rate		
— Normal retiree	**3.64%**	4.56%
— Early retiree	**3.41%**	4.50%
Pension benefit inflation rate		
— Normal retiree	**6.0%–4.0%**	5.0%–4.0%
— Early retiree	**8.0%–4.0%**	8.0%–4.0%
Medical benefit inflation rate	**8.0%**	8.0%
Retiring age		
— Male	**60**	60
— Female	**50/55**	50/55

Assumptions regarding future mortality experience are based on the China Life Insurance Mortality Table (published historical statistics in China).

As at 31 December 2014 and 2013, there was no significant change in employee retirement benefit obligations that was attributable to changes in actuarial assumptions.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34 Share appreciation rights plan

In November 2005, the Bank's Board of Directors and equity holders approved and adopted a Share Appreciation Rights Plan under which eligible participants including directors, supervisors, management and other personnel designated by the Board, will be granted share appreciation rights, up to 25% of which will be exercisable each year beginning on the third anniversary date from the date of grant. The share appreciation rights will be valid for seven years from the date of grant. Eligible participants will be entitled to receive an amount equal to the difference, if any, between the average closing market price of the Bank's H shares in the ten days prior to the date of grant and the average closing market price of the Bank's H shares in the 12 months prior to the date of exercise as adjusted for any change in the Bank's equity. The plan provides cash-settled share-based payment only and accordingly, no shares will be issued under the share appreciation rights plan.

No share appreciation rights were granted since the inception of the plan.

35 Deferred income taxes

35.1 Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes are related to the same fiscal authority. The table below includes the deferred income tax assets and liabilities of the Group and the Bank after offsetting qualifying amounts and related temporary differences.

Group

	As at 31 December			
	2014		2013	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	**93,289**	**25,043**	86,518	22,928
Deferred income tax liabilities	**(23,574)**	**(4,287)**	(17,487)	(3,385)
Net	**69,715**	**20,756**	69,031	19,543

Bank

	As at 31 December			
	2014		2013	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	**104,257**	**26,277**	93,963	23,687
Deferred income tax liabilities	**(589)**	**(121)**	(628)	(142)
Net	**103,668**	**26,156**	93,335	23,545

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items:

Group

	As at 31 December			
	2014		2013	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**116,577**	**29,242**	91,594	22,961
Pension, retirement benefits and salary payable	**20,305**	**5,076**	21,162	5,290
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**18,981**	**4,745**	18,293	4,573
Fair value changes of available for sale investment securities credited to equity	**202**	**53**	9,168	2,110
Other temporary differences	**4,252**	**1,007**	4,049	918
Subtotal	**160,317**	**40,123**	144,266	35,852
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(22,709)**	**(5,677)**	(20,998)	(5,250)
Fair value changes of available for sale investment securities charged to equity	**(9,879)**	**(2,262)**	(3,197)	(821)
Depreciation of property and equipment	**(11,880)**	**(2,041)**	(9,944)	(1,690)
Revaluation of property and investment properties	**(10,824)**	**(2,109)**	(10,848)	(2,192)
Other temporary differences	**(35,310)**	**(7,278)**	(30,248)	(6,356)
Subtotal	**(90,602)**	**(19,367)**	(75,235)	(16,309)
Net	**69,715**	**20,756**	69,031	19,543

As at 31 December 2014, deferred tax liabilities relating to temporary differences of RMB53,296 million associated with the Group's investments in subsidiaries have not been recognised (31 December 2013: RMB46,109 million). Refer to Note II.21.2.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.2 Deferred income tax assets/liabilities and related temporary differences, before offsetting qualifying amounts, are attributable to the following items (Continued):

Bank

	As at 31 December			
	2014		2013	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets				
Asset impairment allowances	**112,842**	**28,483**	88,384	22,335
Pension, retirement benefits and salary payable	**20,286**	**5,072**	21,162	5,290
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**18,981**	**4,745**	18,293	4,573
Fair value changes of available for sale investment securities credited to equity	**172**	**39**	6,680	1,664
Other temporary differences	**1,733**	**416**	1,265	319
Subtotal	**154,014**	**38,755**	135,784	34,181
Deferred income tax liabilities				
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(22,709)**	**(5,677)**	(20,990)	(5,248)
Fair value changes of available for sale investment securities charged to equity	**(6,227)**	**(1,566)**	(1,899)	(493)
Other temporary differences	**(21,410)**	**(5,356)**	(19,560)	(4,895)
Subtotal	**(50,346)**	**(12,599)**	(42,449)	(10,636)
Net	**103,668**	**26,156**	93,335	23,545

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 Deferred income taxes (Continued)

35.3 The movements of the deferred income tax account are as follows:

	Year ended 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
As at 1 January	**19,543**	17,454	**23,545**	21,898
Credited/(charged) to the income statement (Note V.9)	**4,579**	(366)	**5,316**	170
Credited/(charged) to equity	**(3,497)**	2,669	**(2,697)**	1,502
Other	**131**	(214)	**(8)**	(25)
As at 31 December	**20,756**	19,543	**26,156**	23,545

35.4 The deferred income tax charge in the income statement comprises the following temporary differences:

	Year ended 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Asset impairment allowances	**6,281**	622	**6,148**	515
Fair value changes of financial instruments at fair value through profit or loss and derivative financial instruments	**(255)**	(248)	**(257)**	(238)
Pension, retirement benefits and salary payable	**(215)**	162	**(219)**	162
Other temporary differences	**(1,232)**	(902)	**(356)**	(269)
Total	**4,579**	(366)	**5,316**	170

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Items in the process of clearance and settlement	**35,029**	27,653	**25,852**	16,257
Interest payable (1)	**163,228**	132,052	**160,819**	129,872
Insurance liabilities				
— Life insurance contracts	**58,218**	52,390	**–**	–
— Non-life insurance contracts	**8,275**	7,202	**–**	–
Salary and welfare payables (2)	**26,158**	24,929	**23,453**	22,895
Provision (3)	**2,616**	2,139	**2,332**	1,859
Short position in debt securities	**7,224**	7,681	**–**	–
Placements from banks and other financial institutions at fair value (4)	**5,776**	–	**5,776**	–
Deferred Income	**8,104**	8,342	**8,050**	8,139
Other (5)	**37,933**	39,891	**17,120**	18,737
Total	**352,561**	302,279	**243,402**	197,759

(1) Interest payable

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Due to customers	**141,708**	118,035	**138,242**	115,654
Due to and placements from banks and other financial institutions	**15,441**	9,553	**16,984**	10,159
Bonds issued and other	**6,079**	4,464	**5,593**	4,059
Total	**163,228**	132,052	**160,819**	129,872

The movements of interest payable are as follows:

	Year ended 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
As at 1 January	**132,052**	107,486	**129,872**	105,450
Accrued during the year	**281,578**	235,410	**271,102**	226,235
Paid during the year	**(250,402)**	(210,844)	**(240,155)**	(201,813)
As at 31 December	**163,228**	132,052	**160,819**	129,872

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(2) Salary and welfare payables

Group

	As at 1 January 2014	Accrual	Payment	As at 31 December 2014
Salary, bonus and subsidy	**21,666**	**53,857**	**(53,376)**	**22,147**
Staff welfare	**–**	**2,443**	**(2,443)**	**–**
Social insurance, including:				
Medical	**614**	**2,984**	**(2,901)**	**697**
Pension	**114**	**6,272**	**(6,252)**	**134**
Annuity	**1**	**1,862**	**(1,839)**	**24**
Unemployment	**4**	**447**	**(444)**	**7**
Injury at work	**1**	**157**	**(157)**	**1**
Maternity insurance	**2**	**201**	**(201)**	**2**
Housing funds	**33**	**4,978**	**(4,981)**	**30**
Labour union fee and staff education fee	**2,315**	**1,925**	**(1,375)**	**2,865**
Reimbursement for cancellation of labour contract	**12**	**20**	**(20)**	**12**
Other	**167**	**2,455**	**(2,383)**	**239**
Total (i)	**24,929**	**77,601**	**(76,372)**	**26,158**

	As at 1 January 2013	Accrual	Payment	As at 31 December 2013
Salary, bonus and subsidy	20,203	51,327	(49,864)	21,666
Staff welfare	–	2,293	(2,293)	–
Social insurance, including:				
Medical	557	2,604	(2,547)	614
Pension	83	5,608	(5,577)	114
Annuity	282	1,569	(1,850)	1
Unemployment	4	419	(419)	4
Injury at work	1	145	(145)	1
Maternity insurance	2	181	(181)	2
Housing funds	25	4,462	(4,454)	33
Labour union fee and staff education fee	1,889	1,882	(1,456)	2,315
Reimbursement for cancellation of labour contract	24	14	(26)	12
Other	121	2,077	(2,031)	167
Total (i)	23,191	72,581	(70,843)	24,929

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(2) Salary and welfare payables (Continued)

Bank

	As at 1 January 2014	Accrual	Payment	As at 31 December 2014
Salary, bonus and subsidy	19,676	44,780	(44,915)	19,541
Staff welfare	–	2,219	(2,219)	–
Social insurance, including:				
Medical	612	2,972	(2,889)	695
Pension	111	6,244	(6,225)	130
Annuity	1	1,861	(1,838)	24
Unemployment	4	444	(442)	6
Injury at work	1	156	(156)	1
Maternity insurance	2	200	(200)	2
Housing funds	32	4,960	(4,966)	26
Labour union fee and staff education fee	2,303	1,898	(1,351)	2,850
Reimbursement for cancellation of labour contract	12	17	(20)	9
Other	141	1,068	(1,040)	169
Total (i)	22,895	66,819	(66,261)	23,453

	As at 1 January 2013	Accrual	Payment	As at 31 December 2013
Salary, bonus and subsidy	18,254	43,495	(42,073)	19,676
Staff welfare	–	2,090	(2,090)	–
Social insurance, including:				
Medical	556	2,595	(2,539)	612
Pension	80	5,587	(5,556)	111
Annuity	282	1,569	(1,850)	1
Unemployment	4	417	(417)	4
Injury at work	1	145	(145)	1
Maternity insurance	2	180	(180)	2
Housing funds	23	4,448	(4,439)	32
Labour union fee and staff education fee	1,883	1,855	(1,435)	2,303
Reimbursement for cancellation of labour contract	24	10	(22)	12
Other	103	918	(880)	141
Total (i)	21,212	63,309	(61,626)	22,895

(i) There was no overdue payment for staff salary and welfare payables as at 31 December 2014 and 2013.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 Other liabilities (Continued)

(3) Provision

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Allowance for litigation losses (Note V.40.1)	**606**	738	**604**	731
Other	**2,010**	1,401	**1,728**	1,128
Total	**2,616**	2,139	**2,332**	1,859

The movements of the provision were as follows:

	Year ended 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
As at 1 January	**2,139**	2,091	**1,859**	1,777
Provision for the year, net	**624**	151	**612**	155
Utilised during the year	**(147)**	(103)	**(139)**	(73)
As at 31 December	**2,616**	2,139	**2,332**	1,859

(4) Placements from banks and other financial institutions at fair value

Certain financial liabilities related to placements from banks and other financial institutions have been matched with derivatives as part of a documented risk management strategy to mitigate market risk. By designating these financial liabilities at fair value through profit or loss, the movement in their fair values is recorded in the income statement. As at 31 December 2014, the fair value of the financial liabilities related to placements from banks and other financial institutions was approximately the same as the amount that the Group would be contractually required to pay to the holders. There were no significant changes in the Group's credit risk and therefore the amounts of changes in fair value of the abovementioned placements from banks and other financial institutions that were attributable to changes in credit risk were considered not significant during the year ended 31 December 2014 and the year ended 31 December 2013.

(5) Other

Other includes finance lease payments which are principally related to aircraft held by BOC Aviation Pte. Ltd. under finance lease.

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Within 1 year (inclusive)	**68**	52	**–**	–
1 year to 2 years (inclusive)	**69**	52	**–**	–
2 years to 3 years (inclusive)	**69**	53	**–**	–
Over 3 years	**375**	246	**–**	–
Total minimum rental payments	**581**	403	**–**	–
Unrecognised finance charge	**(54)**	(40)	**–**	–
Finance lease payments, net	**527**	363	**–**	–

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments

37.1 Share capital

For the year ended 31 December 2014, the movements of the Bank's share capital were as follows:

Unit: Share

	Domestic listed A shares, par value RMB1.00 per share	Overseas listed H shares, par value RMB1.00 per share	Total
As at 1 January 2014	**195,742,276,042**	**83,622,276,395**	**279,364,552,437**
Increase as a result of conversion of convertible bonds (Note V.30)	**9,366,595,563**	**–**	**9,366,595,563**
As at 31 December 2014	**205,108,871,605**	**83,622,276,395**	**288,731,148,000**

All A shares and H shares rank pari passu with the same rights and benefits.

37.2 Capital reserve

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Share premium	**128,948**	110,974	**127,864**	109,890
Other capital reserve	**1,849**	4,395	**1,540**	4,086
Total	**130,797**	115,369	**129,404**	113,976

37.3 Treasury shares

A wholly owned subsidiary of the Group holds certain listed shares of the Bank in relation to its derivative and arbitrage business. These shares are treated as treasury shares, a deduction from equity holders' equity. Gains and losses on sale or redemption of the treasury shares are credited or charged to equity. The total number of treasury shares as at 31 December 2014 was approximately 7.22 million (31 December 2013: approximately 10.13 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.4 Other equity instruments

For the year ended 31 December 2014, the movements of the Bank's other equity instruments were as follows:

	As at 1 January 2014		Increase		Decrease		As at 31 December 2014	
	Quantity	Carrying amount	Quantity	Carrying amount	Quantity	Carrying amount	Quantity	Carrying amount
Preference Shares								
2014 Offshore Preference Shares (1)	–	–	399.4 million	39,782	–	–	399.4 million	39,782
2014 Domestic Preference Shares (2)	–	–	320 million	31,963	–	–	320 million	31,963
Total	–	–	719.4 million	71,745	–	–	719.4 million	71,745

(1) Pursuant to the approvals by the relevant authorities in China, the Bank issued the US Dollar settled non-cumulative Offshore Preference Shares in the aggregate par value of RMB39.94 billion on 23 October 2014. Each Offshore Preference Share has a par value of RMB100 and 399.4 million Offshore Preference Shares were issued in total. The initial annual dividend rate is 6.75% and is subsequently subject to reset per agreement, but in no case shall exceed 18.07%. Dividends are calculated on the basis of RMB but paid out in US Dollars per a fixed exchange rate.

The Offshore Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of CBRC, all or some only of the Offshore Preference Shares may be redeemed at the discretion of the Bank on 23 October 2019 or on any dividend payment date thereafter at the redemption price which is the sum of the par value of the Offshore Preference Shares and the dividends declared but not yet distributed, as calculated on the basis of RMB but paid out in US Dollars per a fixed exchange rate.

(2) Pursuant to the approvals by relevant authorities in China, the Bank issued 6.0% non-cumulative Domestic Preference Shares on 21 November 2014, in the aggregate par value of RMB32 billion. Each Domestic Preference Share has a par value of RMB100 and a total number of 320 million Domestic Preference Shares were issued.

The Domestic Preference Shares have no maturity date. However, subject to the satisfaction of the redemption conditions and having obtained the prior approval of CBRC, the Bank may redeem all or part of the Domestic Preference Shares on 21 November 2019 or on any dividend payment date of its choosing at the redemption price which is the sum of the par value of the Domestic Preference Share and the dividends declared but not yet distributed.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 Share capital, capital reserve, treasury shares and other equity instruments (Continued)

37.4 Other equity instruments (Continued)

Save for such dividend at the agreed dividend payout ratio, the holders of the above preference shares shall not be entitled to share in the distribution of the remaining profits of the Bank together with the holders of the ordinary shares. The dividends on preference shares are non-cumulative. The Bank shall be entitled to cancel any dividend on the preference shares, and such cancellation shall not be deemed a default. However, the Bank shall not distribute profits to the holders of ordinary shares until resumption of full payment of dividends on the preference shares. Upon the occurrence of a trigger event for the compulsory conversion of preference shares into ordinary shares per agreement, the Bank shall report to CBRC for review and determination and the Bank will convert the preference shares into ordinary shares in whole or in part.

Capital raised from the issuance of the above preference shares, after deduction of transaction costs, was wholly used to replenish the Bank's additional tier 1 capital and to increase its capital adequacy ratio.

38 Statutory reserves, general and regulatory reserves and undistributed profits

38.1 Statutory reserves

Under relevant PRC laws, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserves. Appropriation to the statutory surplus reserves may cease when the balance of such reserves has reached 50% of the share capital. Subject to the approval of the equity holders, the statutory surplus reserves can be used for replenishing the accumulated losses or increasing the Bank's share capital. The statutory surplus reserves amount used to increase the share capital is limited to a level where the balance of the statutory surplus reserves after such capitalisation is not less than 25% of the share capital.

In accordance with a resolution of the Board of Directors dated 25 March 2015, the Bank appropriated 10% of the net profit for the year ended 31 December 2014 to the statutory surplus reserves, amounting to RMB15,628 million (2013: RMB14,641 million).

In addition, some operations in Hong Kong, Macau, Taiwan and other countries and regions are required to transfer certain percentages of their net profits to the statutory surplus reserves as stipulated by local banking authorities.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 Statutory reserves, general and regulatory reserves and undistributed profits (Continued)

38.2 General and regulatory reserves

Pursuant to Caijin [2012] No. 20 *Requirements on Impairment Allowance for Financial Institutions* ("Requirement"), issued by MOF, in addition to the impairment allowance, the Bank establishes a general reserve within the equity holders' equity through the appropriation of profit to address unidentified potential impairment losses. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement, and the minimum threshold can be accumulated over a period of no more than five years.

In accordance with a resolution dated 25 March 2015 and on the basis of the Bank's profit for the year ended 31 December 2014, the Board of Directors of the Bank approved the appropriation of RMB14,177 million (2013: RMB11,756 million) to the general reserve for the year ended 31 December 2014.

The regulatory reserve mainly refers to the reserve amount set aside by BOC Hong Kong (Group) Limited ("BOCHK Group"), a subsidiary of the Group, for general banking risks, including future losses or other unforeseeable risks. As at 31 December 2014 and 2013, the reserve amount set aside by BOCHK Group was RMB6,190 million and RMB5,653 million, respectively.

38.3 Dividends

An ordinary share dividend of RMB54,755 million in respect of the profit for the year ended 31 December 2013 was approved by the equity holders of the Bank at the Annual General Meeting held on 12 June 2014 and was distributed during the year.

An ordinary share dividend of RMB0.19 per share in respect of profit for the year ended 31 December 2014 (2013: RMB0.196 per share), amounting to a total dividend of RMB54,859 million based on the number of shares issued as at 31 December 2014 will be proposed for approval at the Annual General Meeting to be held on 17 June 2015. The actual amount of dividend payable will factor in ordinary shares issued in respect of conversion of convertible bonds after 31 December 2014 to the ex-dividend date. These financial statements do not reflect this dividend payable in liabilities.

38.4 Profit attributable to equity holders of the Bank

The profit attributable to equity holders of the Bank for the year ended 31 December 2014 was recognised in the financial statements of the Bank to the extent of RMB156,281 million (2013: RMB146,414 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 Non-controlling interests

Non-controlling interests of the subsidiaries of the Group are as follows:

	As at 31 December	
	2014	2013
BOC Hong Kong (Group) Limited	**39,077**	34,563
Tai Fung Bank Limited	**2,303**	1,982
Other	**1,189**	1,016
Total	**42,569**	37,561

40 Contingent liabilities and commitments

40.1 Legal proceedings and arbitrations

As at 31 December 2014, the Group was involved in certain legal proceedings and arbitrations arising from its normal business operations. In addition, in terms of the range and scale of its international operations, the Group may face a wide variety of legal proceedings within different jurisdictions, including sensitive issues related to anti-money laundering. As at 31 December 2014, provisions of RMB606 million (31 December 2013: RMB738 million) were made based on court judgements or the advice of counsel (Note V.36). After consulting legal professionals, senior management of the Group believes that at the current stage these legal proceedings and arbitrations will not have a material impact on the financial position or operations of the Group.

40.2 Assets pledged

Assets pledged by the Group as collateral for placement, repurchase, short positions, derivative transactions with other banks and financial institutions and for local statutory requirements are set forth in the table below. These transactions are conducted under standard and normal business terms.

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Debt securities	**126,995**	101,181	**107,979**	88,871
Bills	**3,227**	2,071	**3,190**	2,052
Total	**130,222**	103,252	**111,169**	90,923

40.3 Collateral accepted

The Group and the Bank accept securities collateral that are permitted to sell or re-pledge in connection with reverse repurchase and derivatives agreements with banks and other financial institutions. As at 31 December 2014, the fair value of collateral received from banks and other financial institutions accepted by the Group and the Bank amounted to RMB6,650 million and RMB6,638 million respectively (31 December 2013: RMB9,065 million and RMB8,993 million for the Group and the Bank respectively). As at 31 December 2014, the Group had sold or re-pledged such collateral accepted amounted to RMB11 million (31 December 2013: RMB17 million), none for the Bank (31 December 2013: Nil). These transactions are conducted under standard terms in the normal course of business.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.4 Capital commitments

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Property and equipment				
Contracted but not provided for	**57,149**	66,445	**2,807**	3,809
Authorised but not contracted for	**37,895**	6,149	**3,486**	6,081
Intangible assets				
Contracted but not provided for	**712**	683	**577**	580
Authorised but not contracted for	**28**	16	**12**	6
Investment properties				
Contracted but not provided for	**1,916**	–	**–**	–
Authorised but not contracted for	**232**	–	**–**	–
Total	**97,932**	73,293	**6,882**	10,476

40.5 Operating leases

(1) Operating lease commitments — As lessee

Under irrevocable operating lease contracts, the future minimum lease payments that should be paid by the Group and the Bank are summarised as follows:

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Within 1 year	**5,852**	5,399	**4,980**	4,565
Between 1 and 2 years	**4,706**	4,526	**4,096**	3,903
Between 2 and 3 years	**3,591**	3,517	**3,210**	3,141
Over 3 years	**7,947**	9,498	**7,249**	8,718
Total	**22,096**	22,940	**19,535**	20,327

(2) Operating lease commitments — As lessor

The Group acts as lessor in operating leases principally through aircraft leasing undertaken by its subsidiary BOC Aviation Pte. Ltd. Under irrevocable operating lease contracts, as at 31 December 2014, the minimum lease payments which will be received by the Group under the operating leases for existing aircraft and aircraft yet to be delivered amounted to RMB6,213 million not later than one year (31 December 2013: RMB6,171 million), RMB27,043 million later than one year and not later than five years (31 December 2013: RMB22,653 million) and RMB28,134 million later than five years (31 December 2013: RMB20,107 million).

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.6 Treasury bonds redemption commitments

The Bank is entrusted by MOF to underwrite certain Treasury bonds. The investors of these Treasury bonds have a right to redeem the bonds at any time prior to maturity and the Bank is committed to redeem these Treasury bonds. MOF will not provide funding for the early redemption of these Treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2014, the outstanding principal value of the Treasury bonds sold by the Bank under obligation to redeem prior to maturity amounted to RMB37,810 million (31 December 2013: RMB32,561 million). The original maturities of these Treasury bonds vary from 1 to 5 years and management expects the amount of redemption before the maturity dates of these bonds through the Bank will not be material.

40.7 Credit commitments

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Loan commitments (1)				
— with an original maturity of less than 1 year	**82,431**	63,800	**71,171**	57,013
— with an original maturity of 1 year or over	**633,338**	589,427	**560,507**	520,526
Letters of guarantee issued (2)	**1,148,535**	846,497	**1,171,706**	856,311
Bank bill acceptance	**484,243**	465,496	**477,047**	458,266
Undrawn credit card limits	**479,685**	404,141	**408,464**	337,377
Accepted bill of exchange under letters of credit	**248,158**	309,959	**246,380**	299,414
Letters of credit issued	**145,593**	198,079	**126,712**	166,579
Other	**68,228**	26,552	**92,172**	31,628
Total (3)	**3,290,211**	2,903,951	**3,154,159**	2,727,114

(1) Loan commitments mainly represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at 31 December 2014, the unconditionally revocable loan commitments of the Group amounted to RMB258,134 million (31 December 2013: RMB223,161 million).

(2) Letters of guarantee issued mainly include financial guarantees and performance guarantees. These obligations on the Group to make payment are dependent on the outcome of a future event.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

40 Contingent liabilities and commitments (Continued)

40.7 Credit commitments (Continued)

(3) Risk-weighted assets for credit risk of credit commitments

The risk-weighted assets for credit risk of the Group and the Bank were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by CBRC under the advanced capital measurement approaches. The amounts are determined by the creditworthiness of the counterparties, the maturity characteristics of each type of contract and other factors. The risk-weighted assets for credit risk as at 31 December 2013 were calculated under non-advanced approaches.

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Credit commitments	**1,293,082**	981,223	**1,216,921**	942,635

40.8 Underwriting obligations

As at 31 December 2014, there was no firm commitment in underwriting securities of the Group (31 December 2013: RMB169 million).

41 Note to the consolidated statement of cash flows

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with an original maturity of less than three months:

Group

	As at 31 December	
	2014	2013
Cash and due from banks and other financial institutions	**342,087**	280,572
Balances with central banks	**556,498**	503,426
Placements with and loans to banks and other financial institutions	**195,094**	333,792
Short term bills and notes	**54,472**	32,776
Total	**1,148,151**	1,150,566

42 Related party transactions

42.1 CIC was established on 29 September 2007 with registered capital of RMB1,550 billion. CIC is a wholly State-owned company engaging in foreign currency investment management. The Group is subject to the control of the State Council of the PRC government through CIC and its wholly owned subsidiary, Huijin.

The Group enters into banking transactions with CIC in the normal course of its business at commercial terms.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.2 Transactions with Huijin and companies under Huijin

(1) General information of Huijin

Central Huijin Investment Ltd.

Legal representative	DING Xuedong
Registered capital	RMB828,209 million
Location of registration	Beijing
Capital shares in the Bank	65.52%
Voting rights in the Bank	65.52%
Nature	Wholly State-owned company
Principal activities	Investment in major State-owned financial institutions on behalf of the State Council; other related businesses approved by the State Council.
National organisation code	71093296-1

(2) Transactions with Huijin

The Group enters into banking transactions with Huijin in the normal course of its business at commercial terms.

Due to Huijin

	Year ended 31 December	
	2014	2013
As at 1 January	**35,001**	28,036
Received during the year	**38,940**	49,653
Repaid during the year	**(47,499)**	(42,688)
As at 31 December	**26,442**	35,001

Bonds issued by Huijin

As at 31 December 2014, the Bank held government backed bonds issued by Huijin in the carrying value of RMB5,831 million (31 December 2013: RMB5,790 million) which were classified as held to maturity. These bonds have maturity of not more than 30 years and bear fixed interest rates, payable annually. Purchasing of these bonds was in the ordinary course of business of the Group, complying with requirements of related regulations and corporate governance.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.2 Transactions with Huijin and companies under Huijin (Continued)

(3) Transactions with companies under Huijin

Companies under Huijin include its equity interests in subsidiaries, joint ventures and associates in certain other bank and non-bank entities in PRC. The Group enters into banking transactions with these companies in the normal course of business at commercial terms which include mainly purchase and sale of debt securities, money market transactions and derivative transactions.

The Group's outstanding balances and related interest rate ranges with these companies were as follows:

	As at 31 December	
	2014	2013
Due from banks and other financial institutions	**59,807**	44,427
Placements with and loans to banks and other financial institutions	**58,583**	108,335
Financial assets at fair value through profit or loss and financial investments	**284,151**	236,840
Derivative financial assets	**446**	792
Loans and advances to customers	**11,192**	7,403
Due to banks and other financial institutions	**(273,142)**	(176,388)
Placements from banks and other financial institutions	**(22,470)**	(64,824)
Derivative financial liabilities	**(707)**	(808)
Credit commitments	**2,944**	554

	As at 31 December	
	2014	2013
Interest rate ranges at the end of the year		
Due from banks and other financial institutions	**0.00%–8.20%**	0.00%–9.00%
Placements with and loans to banks and other financial institutions	**0.04%–6.80%**	0.11%–7.00%
Financial assets at fair value through profit or loss and financial investments	**0.54%–8.40%**	0.60%–7.50%
Loans and advances to customers	**0.77%–7.28%**	1.60%–7.77%
Due to banks and other financial institutions	**0.00%–6.51%**	0.00%–7.28%
Placements from banks and other financial institutions	**0.10%–8.89%**	0.03%–9.50%

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.3 Transactions with government authorities, agencies, affiliates and other State controlled entities

The State Council of PRC government directly and indirectly controls a significant number of entities through its government authorities, agencies, affiliates and other State-controlled entities. The Group enters into extensive banking transactions with these entities in the normal course of business at commercial terms.

Transactions conducted with government authorities, agencies, affiliates and other State-controlled entities include purchase and redemption of investment securities issued by government agencies, underwriting and distribution of Treasury bonds issued by government agencies through the Group's branch network, foreign exchange transactions and derivative transactions, lending, provision of credit and guarantees and deposit placing and taking.

42.4 Transactions with associates and joint ventures

The Group enters into banking transactions with associates and joint ventures in the normal course of business at commercial terms. These include loans and advances, deposit taking and other normal banking businesses. The main outstanding balances with associates and joint ventures are stated below:

	As at 31 December	
	2014	2013
Loans and advances to customers	**714**	624
Due to customers, banks and other financial institutions	**(4,008)**	(3,386)
Financial assets at fair value through profit or loss and financial investments	**120**	–
Credit commitments	**1,406**	1,405

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.4 Transactions with associates and joint ventures (Continued)

The general information of principal associates and joint ventures is as follows:

Name	Place of incorporation/ establishment	National organisation code	Effective equity held (%)	Voting right (%)	Paid-in capital (in millions)	Principal business
Huaneng International Power Development Corporation	PRC	60000324-8	20.00	20.00	USD450	Power plant operations
BOC International (China) Limited	PRC	73665036-4	37.14	37.14	RMB2,500	Securities brokerage; securities investment consulting; financial advisory services related to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary business; securities asset management; securities investment fund sales agency; margin financing and securities lending; distribution of financial products
CGN Phase I Private Equity Fund Company Limited	PRC	71782747-8	20.00	20.00	RMB100	Investment
Guangdong Small and Medium Enterprises Equity Investment Fund Company Limited	PRC	56456896-1	40.00	40.00	RMB1,600	Investment
Hong Kong Bora Holdings Limited	Hong Kong	NA	19.50	Note (1)	HKD0.01	Investment holding
Hubei Province Guarantee Group Co., Ltd.	PRC	77076550-1	15.80	Note (1)	RMB2,000	Loan guarantees, re-guarantees, financial guarantees
JCC Financial Company Limited	PRC	79478975-1	12.65	Note (1)	RMB1,000	Provide financial services for all subsidiaries of JCC Corporation
Zhejiang Zheshang Investment Fund Limited Partnership	PRC	55967948-0	24.04	24.04	NA	Investment
Guangdong Haomei Aluminum Company Limited	PRC	76573427-6	12.35	Note (1)	RMB165	Alloy material production, manufacture and sales
Silver Union Investments Limited	Cayman	NA	70.00	Note (1)	USD30	Investment holding

(1) In accordance with the respective articles of association, the Group has significant influence over these companies.

42.5 Transactions with the Annuity Plan

Apart from the obligations for defined contributions to Annuity Fund and normal banking transactions, no other transactions were conducted between the Group and the Annuity Fund for the years ended 31 December 2014 and 2013.

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.6 Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and Executive Officers.

The Group enters into banking transactions with key management personnel in the normal course of business. During the years ended 31 December 2014 and 2013, there were no material transactions and balances with key management personnel on an individual basis.

The key management compensation for the years ended 31 December 2014 and 2013 comprises:

	Year ended 31 December	
	2014	2013
Compensation for short-term employment benefits (1)	**17**	17
Compensation for post-employment benefits	**1**	1
Total	**18**	18

(1) The total compensation package for these key management personnel 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 on the Group's and the Bank's 2014 financial statements. The final compensation will be disclosed in a separate announcement when determined.

42.7 Transactions with Connected Natural Persons

As at 31 December 2014, the Bank's balance of loans to the connected natural persons as defined in the *Administration of Connected Transactions between Commercial Banks and Their Insiders and Shareholders* of CBRC and the *Administrative Measures for the Disclosure of Information of Listed Companies* of CSRC totalled RMB77 million (31 December 2013: RMB104 million) and RMB16 million (31 December 2013: RMB16 million) respectively.

42.8 Balances with subsidiaries

Included in the following captions of the Bank's statement of financial position are balances with subsidiaries:

	As at 31 December	
	2014	2013
Due from banks and other financial institutions	**29,291**	23,407
Placements with and loans to banks and other financial institutions	**55,215**	43,793
Due to banks and other financial institutions	**(115,285)**	(74,474)
Placements from banks and other financial institutions	**(32,499)**	(62,134)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42 Related party transactions (Continued)

42.8 Balances with subsidiaries (Continued)

The general information of principal subsidiaries is as follows:

Name	Place of incorporation and operation	Date of incorporation/ establishment	Paid-in capital (in millions)	Effective equity held (%)	Voting right (%)	Principal business
Directly held						
BOC Hong Kong (Group) Limited	Hong Kong	12 September 2001	HKD34,806	100.00	100.00	Holding company
BOC International Holdings Limited (3)	Hong Kong	10 July 1998	HKD3,539	100.00	100.00	Investment banking
Bank of China Group Insurance Company Limited	Hong Kong	23 July 1992	HKD3,749	100.00	100.00	Insurance services
Bank of China Group Investment Limited	Hong Kong	18 May 1993	HKD34,052	100.00	100.00	Investment holding
Tai Fung Bank Limited	Macau	1942	MOP1,000	50.31	50.31	Commercial banking
Bank of China (UK) Limited	United Kingdom	24 September 2007	GBP250	100.00	100.00	Commercial banking
BOC Insurance Company Limited	Beijing	5 January 2005	RMB4,535	100.00	100.00	Insurance services
Indirectly held						
BOC Hong Kong (Holdings) Limited (1)	Hong Kong	12 September 2001	HKD52,864	66.06	66.06	Holding company
Bank of China (Hong Kong) Limited (2) (3)	Hong Kong	16 October 1964	HKD43,043	66.06	100.00	Commercial banking
Nanyang Commercial Bank, Limited (3)	Hong Kong	2 February 1948	HKD3,145	66.06	100.00	Commercial banking
Chiyu Banking Corporation Limited (2) (3)	Hong Kong	24 April 1947	HKD300	46.57	70.49	Commercial banking
BOC Credit Card (International) Limited	Hong Kong	9 September 1980	HKD480	66.06	100.00	Credit card services
BOC Group Trustee Company Limited (3)	Hong Kong	1 December 1997	HKD200	76.43	100.00	Provision of trustee services
BOC Aviation Pte. Ltd.	Singapore	25 November 1993	USD608	100.00	100.00	Aircraft leasing

(1) BOCHK (Holdings) is listed on the Stock Exchange of Hong Kong Limited.

(2) BOCHK, in which the Group holds a 66.06% equity interest, holds 70.49% of the equity interest of Chiyu Banking Corporation Limited.

(3) BOCHK, Nanyang Commercial Bank Limited, Chiyu Banking Corporation Limited and BOC International Holdings Limited ("BOCI"), in which the Group holds 66.06%, 66.06%, 46.57% and 100% of their equity interests, respectively, hold 54%, 6%, 6% and 34% equity interest of BOC Group Trustee Company Limited, respectively.

For certain subsidiaries listed above, the voting rights ratio is not equal to the effective equity held ratio, mainly due to the impact of the indirect holdings.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting

The Group manages the business from both geographic and business perspectives. From the geographic perspective, the Group operates in three principal regions: Chinese mainland, Hong Kong, Macau and Taiwan, and other countries and regions. From the business perspective, the Group provides services through six main business segments: corporate banking, personal banking, treasury operations, investment banking, insurance and other operations.

Measurement of segment assets, liabilities, income, expenses, results and capital expenditure is based on the Group's accounting policies. The segment information presented includes items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual business segments through treasury operations as part of the asset and liability management process. The pricing of these transactions is based on market rates. The transfer price takes into account the specific features and maturities of the product. Internal transactions are eliminated on consolidation.

Geographical segments

Chinese mainland — Corporate banking, personal banking, treasury operations, insurance services, etc. are performed in the Chinese mainland.

Hong Kong, Macau and Taiwan — Corporate banking, personal banking, treasury operations, investment banking and insurance services are performed in Hong Kong, Macau and Taiwan. The business of this segment is centralised in BOCHK Group.

Other countries and regions — Corporate and personal banking services are provided in other countries and regions. Significant locations include New York, London, Singapore and Tokyo.

Business segments

Corporate banking — Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade-related products and other credit facilities, foreign currency, derivative products and wealth management products.

Personal banking — Services to retail customers including savings deposits, personal loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury operations — Consisting of foreign exchange transactions, customer-based interest rate and foreign exchange derivative transactions, money market transactions, proprietary trading and asset and liability management. The results of this segment include the inter-segment funding income and expenses, results from interest bearing assets and liabilities; and foreign currency translation gains and losses.

Investment banking — Consisting of debt and equity underwriting and financial advisory, sales and trading of securities, stock brokerage, investment research and asset management services, and private equity investment services.

Insurance — Underwriting of general and life insurance business and insurance agency services.

Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2014

		Hong Kong, Macau and Taiwan					
	Chinese mainland	BOCHK Group	Other	Subtotal	Other countries and regions	Elimination	Total
Interest income	536,899	39,180	26,915	66,095	36,904	(37,218)	602,680
Interest expense	(266,494)	(13,285)	(19,343)	(32,628)	(19,674)	37,218	(281,578)
Net interest income	270,405	25,895	7,572	33,467	17,230	–	321,102
Fee and commission income	79,909	10,552	5,486	16,038	4,670	(2,079)	98,538
Fee and commission expense	(2,701)	(3,077)	(1,203)	(4,280)	(1,637)	1,320	(7,298)
Net fee and commission income	77,208	7,475	4,283	11,758	3,033	(759)	91,240
Net trading gains	8,107	1,077	962	2,039	953	–	11,099
Net gains/(losses) on financial investments	218	646	943	1,589	(12)	–	1,795
Other operating income (1)	13,436	7,576	10,140	17,716	187	(247)	31,092
Operating income	369,374	42,669	23,900	66,569	21,391	(1,006)	456,328
Operating expenses (1)	(147,149)	(16,934)	(10,056)	(26,990)	(4,655)	1,006	(177,788)
Impairment losses on assets	(43,940)	(832)	(2,018)	(2,850)	(1,591)	–	(48,381)
Operating profit	178,285	24,903	11,826	36,729	15,145	–	230,159
Share of results of associates and joint ventures	–	1	1,318	1,319	–	–	1,319
Profit before income tax	178,285	24,904	13,144	38,048	15,145	–	231,478
Income tax expense							(54,280)
Profit for the year							177,198
Segment assets	12,071,129	1,693,707	1,007,565	2,701,272	1,843,435	(1,378,833)	15,237,003
Investment in associates and joint ventures	–	46	14,333	14,379	–	–	14,379
Total assets	12,071,129	1,693,753	1,021,898	2,715,651	1,843,435	(1,378,833)	15,251,382
Include: non-current assets (2)	99,043	21,731	86,536	108,267	4,956	(161)	212,105
Segment liabilities	11,125,104	1,578,712	943,151	2,521,863	1,799,659	(1,378,672)	14,067,954
Other segment items:							
Intersegment net interest (expense)/income	(26,168)	4,086	15,467	19,553	6,615	–	–
Intersegment net fee and commission income	245	76	869	945	(431)	(759)	–
Capital expenditure	13,528	811	20,624	21,435	290	–	35,253
Depreciation and amortisation	11,620	859	2,839	3,698	245	–	15,563
Credit commitments	3,252,579	186,419	120,720	307,139	288,371	(557,878)	3,290,211

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2013

		Hong Kong, Macau and Taiwan					
	Chinese mainland	BOCHK Group	Other	Subtotal	Other countries and regions	Elimination	Total
Interest income	465,883	32,323	14,103	46,426	21,752	(15,066)	518,995
Interest expense	(220,585)	(9,611)	(9,408)	(19,019)	(10,872)	15,066	(235,410)
Net interest income	245,298	22,712	4,695	27,407	10,880	–	283,585
Fee and commission income	71,550	9,681	4,740	14,421	4,444	(1,830)	88,585
Fee and commission expense	(2,330)	(2,988)	(870)	(3,858)	(1,409)	1,104	(6,493)
Net fee and commission income	69,220	6,693	3,870	10,563	3,035	(726)	82,092
Net trading gains/(losses)	5,218	1,668	864	2,532	(568)	1	7,183
Net gains on financial investments	286	93	78	171	137	–	594
Other operating income (1)	16,594	8,551	8,714	17,265	255	(59)	34,055
Operating income	336,616	39,717	18,221	57,938	13,739	(784)	407,509
Operating expenses (1)	(144,523)	(16,468)	(8,225)	(24,693)	(3,886)	788	(172,314)
Impairment losses on assets	(20,562)	(584)	(1,311)	(1,895)	(1,053)	–	(23,510)
Operating profit	171,531	22,665	8,685	31,350	8,800	4	211,685
Share of results of associates and joint ventures	–	2	1,090	1,092	–	–	1,092
Profit before income tax	171,531	22,667	9,775	32,442	8,800	4	212,777
Income tax expense							(49,036)
Profit for the year							163,741
Segment assets	11,082,460	1,577,423	813,479	2,390,902	1,441,923	(1,054,354)	13,860,931
Investment in associates and joint ventures	–	47	13,321	13,368	–	–	13,368
Total assets	11,082,460	1,577,470	826,800	2,404,270	1,441,923	(1,054,354)	13,874,299
Include: non-current assets (2)	96,998	21,071	77,133	98,204	5,256	(161)	200,297
Segment liabilities	10,328,324	1,476,087	754,764	2,230,851	1,407,841	(1,054,194)	12,912,822
Other segment items:							
Intersegment net interest (expense)/income	(7,828)	1,740	5,132	6,872	956	–	–
Intersegment net fee and commission income	111	130	677	807	(192)	(726)	–
Capital expenditure	15,495	863	18,112	18,975	274	–	34,744
Depreciation and amortisation	12,101	785	2,563	3,348	241	–	15,690
Credit commitments	2,724,554	189,968	98,416	288,384	230,513	(339,500)	2,903,951

(1) Other operating income includes insurance premium income earned, and operating expenses include insurance benefits and claims.

(2) Non-current assets include property and equipment, investment properties and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2014

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	342,900	177,949	135,031	1,362	2,140	732	(57,434)	602,680
Interest expense	(181,584)	(91,575)	(63,097)	(442)	–	(2,314)	57,434	(281,578)
Net interest income/(expense)	161,316	86,374	71,934	920	2,140	(1,582)	–	321,102
Fee and commission income	49,861	35,257	11,147	3,298	–	496	(1,521)	98,538
Fee and commission expense	(2,743)	(2,371)	(658)	(877)	(1,804)	(28)	1,183	(7,298)
Net fee and commission income	47,118	32,886	10,489	2,421	(1,804)	468	(338)	91,240
Net trading gains/(losses)	859	493	8,965	790	(1)	(19)	12	11,099
Net gains on financial investments	3	401	255	89	191	856	–	1,795
Other operating income	616	6,096	1,495	238	13,247	11,436	(2,036)	31,092
Operating income	209,912	126,250	93,138	4,458	13,773	11,159	(2,362)	456,328
Operating expenses	(73,960)	(67,514)	(17,774)	(2,474)	(12,504)	(5,921)	2,359	(177,788)
Impairment losses on assets	(36,907)	(9,630)	(336)	(335)	(10)	(1,163)	–	(48,381)
Operating profit	99,045	49,106	75,028	1,649	1,259	4,075	(3)	230,159
Share of results of associates and joint ventures	–	–	–	382	(5)	939	3	1,319
Profit before income tax	99,045	49,106	75,028	2,031	1,254	5,014	–	231,478
Income tax expense								(54,280)
Profit for the year								177,198
Segment assets	6,681,512	2,532,905	5,705,555	91,622	86,076	251,585	(112,252)	15,237,003
Investment in associates and joint ventures	–	–	–	3,101	–	11,336	(58)	14,379
Total assets	6,681,512	2,532,905	5,705,555	94,723	86,076	262,921	(112,310)	15,251,382
Segment liabilities	7,261,202	4,691,732	1,900,406	83,882	75,015	167,807	(112,090)	14,067,954
Other segment items:								
Intersegment net interest (expense)/income	(23,561)	55,628	(31,493)	301	124	(999)	–	–
Intersegment net fee and commission income	10	191	–	–	(1,166)	1,303	(338)	–
Capital expenditure	4,065	4,497	215	61	75	26,340	–	35,253
Depreciation and amortisation	5,046	6,339	1,082	71	57	2,968	–	15,563

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 Segment reporting (Continued)

The Group as at and for the year ended 31 December 2013

	Corporate banking	Personal banking	Treasury operations	Investment banking	Insurance	Other	Elimination	Total
Interest income	291,460	164,380	118,023	1,060	1,827	657	(58,412)	518,995
Interest expense	(142,087)	(83,036)	(66,579)	(402)	–	(1,718)	58,412	(235,410)
Net interest income/(expense)	149,373	81,344	51,444	658	1,827	(1,061)	–	283,585
Fee and commission income	49,174	28,211	9,243	2,878	–	536	(1,457)	88,585
Fee and commission expense	(2,622)	(1,770)	(941)	(659)	(1,615)	(29)	1,143	(6,493)
Net fee and commission income	46,552	26,441	8,302	2,219	(1,615)	507	(314)	82,092
Net trading (losses)/gains	(90)	499	6,124	686	(253)	205	12	7,183
Net gains/(losses) on financial investments	59	11	446	–	(15)	93	–	594
Other operating income	721	10,550	1,299	329	13,156	9,588	(1,588)	34,055
Operating income	196,615	118,845	67,615	3,892	13,100	9,332	(1,890)	407,509
Operating expenses	(70,587)	(69,220)	(15,955)	(1,753)	(11,594)	(5,095)	1,890	(172,314)
Impairment (losses)/reversal on assets	(16,444)	(6,630)	329	(118)	–	(647)	–	(23,510)
Operating profit	109,584	42,995	51,989	2,021	1,506	3,590	–	211,685
Share of results of associates and joint ventures	–	–	–	177	(4)	923	(4)	1,092
Profit before income tax	109,584	42,995	51,989	2,198	1,502	4,513	(4)	212,777
Income tax expense								(49,036)
Profit for the year								163,741
Segment assets	5,811,719	2,269,883	5,506,172	63,597	76,016	235,598	(102,054)	13,860,931
Investment in associates and joint ventures	–	–	–	2,968	–	10,458	(58)	13,368
Total assets	5,811,719	2,269,883	5,506,172	66,565	76,016	246,056	(102,112)	13,874,299
Segment liabilities	6,615,029	4,478,752	1,640,775	57,303	67,942	154,915	(101,894)	12,912,822
Other segment items:								
Intersegment net interest (expense)/income	(15,378)	56,987	(41,220)	121	100	(610)	–	–
Intersegment net fee and commission income	10	180	–	–	(1,098)	1,222	(314)	–
Capital expenditure	4,626	5,115	245	77	106	24,575	–	34,744
Depreciation and amortisation	5,265	6,561	1,150	86	49	2,579	–	15,690

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 Transfers of financial assets

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

Repurchase agreements

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

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

	As at 31 December 2014		As at 31 December 2013	
	Carrying amount of transferred assets	**Carrying amount of associated liabilities**	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements	**10,246**	**10,195**	21,186	21,018

Securitisation transactions

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. The Group may acquire some subordinated tranches of securities and accordingly may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

As at 31 December 2014, the Bank has no continuing involvement (31 December 2013: the Bank retained continuing involvements in some transferred assets, and the carrying amount of assets that the Bank continued to recognise was RMB153 million). In the securitisation transactions where the transferred credit assets were derecognised in their entirety, the corresponding total carrying amount of asset-backed securities held by the Bank was RMB554 million at 31 December 2014 (31 December 2013: Nil), which also approximates the Bank's maximum exposure to loss.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Interests in the unconsolidated structured entities

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

Structured entities sponsored by the Group

In conducting wealth management business, the Group established various structured entities to provide customers specialised investment opportunities within narrow and well-defined objectives. As at 31 December 2014, the balance of the unconsolidated bank wealth management products sponsored by the Group amounted to RMB846,947 million (31 December 2013: RMB838,015 million). For the year ended 31 December 2014, fee and commission income from wealth management business, which includes commission, custodian fee and management fee amounted to RMB7,966 million (2013: RMB7,269 million).

For the purpose of asset-liability management, wealth management products may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into repurchase and placement transactions with these wealth management products in accordance with market principles. For the year ended 31 December 2014, the maximum balance of such financing provided by the Group to the unconsolidated wealth management products was RMB25,550 million (2013: RMB37,500 million). Such financing provided by the Group was included in "Placements with and loans to banks and other financial institutions". As at 31 December 2014, the balance of above tradings is nil (31 December 2013: RMB29,000 million). The maximum exposure to loss of those placements approximated the carrying amount.

The total carrying amount as at the transfer date of credit assets transferred by the Group into the unconsolidated structured entities was RMB12,713 million for the year ended 31 December 2014 (2013: Nil). For description of the portion of asset-backed securities issued by above structured entities and held by the Group, refer to Note V.44. As at 31 December 2014, the amount of assets held by publicly offered funds that are sponsored by the Group was RMB160,900 million (31 December 2013: RMB121,700 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45 Interests in the unconsolidated structured entities (Continued)

Structured entities sponsored by other financial institutions

As at 31 December 2014, the interests held by the Group in the structured entities sponsored by other financial institutions through direct investments are set out as below:

Group

Structured entity type	Financial assets at fair value through profit or loss	Investment securities available for sale	Debt securities held to maturity	Financial investments classified as loans and receivables	Total	Maximum exposure to loss
As at 31 December 2014						
Fund	**1,209**	**10,042**	**–**	**–**	**11,251**	**11,289**
Wealth management plans	**–**	**–**	**–**	**170**	**170**	**170**
Investment trusts and asset management plans	**–**	**–**	**–**	**120,012**	**120,012**	**120,012**
Asset-backed securitisations	**–**	**11,907**	**11,311**	**55**	**23,273**	**23,273**
As at 31 December 2013						
Fund	355	7,435	–	–	7,790	7,840
Wealth management plans	–	–	–	50	50	50
Investment trusts and asset management plans	–	–	–	147,161	147,161	147,161
Asset-backed securitisations	–	14,270	1,299	153	15,722	15,722

46 Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

				Amounts not set off in the statement of financial position		
	Gross amounts of recognised financial assets	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Financial instruments*	Cash collateral received	Net amount
As at 31 December 2014						
Derivatives	**21,502**	**–**	**21,502**	**(10,808)**	**(1,654)**	**9,040**
Other assets	**11,671**	**(9,140)**	**2,531**	**–**	**–**	**2,531**
Total	**33,173**	**(9,140)**	**24,033**	**(10,808)**	**(1,654)**	**11,571**
As at 31 December 2013						
Derivatives	13,834	–	13,834	(9,406)	(1,435)	2,993
Other assets	10,445	(6,708)	3,737	–	–	3,737
Total	24,279	(6,708)	17,571	(9,406)	(1,435)	6,730

(Amount in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46 Offsetting financial assets and financial liabilities (Continued)

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are analysed as below:

	Gross amounts of recognised financial liabilities	Gross amounts offset in the statement of financial position	Amounts presented in the statement of financial position	Amounts not set off in the statement of financial position: Financial instruments*	Amounts not set off in the statement of financial position: Cash collateral pledged	Net amount
As at 31 December 2014						
Derivatives	**21,580**	**–**	**21,580**	**(11,182)**	**(1,028)**	**9,370**
Repurchase agreements	**2,960**	**–**	**2,960**	**(2,960)**	**–**	**–**
Other liabilities	**9,362**	**(9,140)**	**222**	**–**	**–**	**222**
Total	**33,902**	**(9,140)**	**24,762**	**(14,142)**	**(1,028)**	**9,592**
As at 31 December 2013						
Derivatives	16,163	–	16,163	(9,662)	–	6,501
Repurchase agreements	1,651	–	1,651	(1,651)	–	–
Other liabilities	6,906	(6,708)	198	–	–	198
Total	24,720	(6,708)	18,012	(11,313)	–	6,699

* Including non-cash collateral.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ("the offset criteria").

Derivatives and reverse repo/repurchase agreements included in amounts not set off in the statement of financial position where:

- the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement (including ISDA master agreement and Global Master Netting Agreement) is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash and non-cash collateral received/pledged in respect of the transactions described above.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47 Events after the financial reporting date

Subordinated Bonds Redemption

On 4 March 2015, the Bank redeemed at face value all of the fixed-rate subordinated bonds issued on 18 February 2005 with a maturity of 15 years in the amount of RMB9 billion. The redemption details have been set out in the Bank's announcement dated 5 March 2015.

Convertible Bonds Redemption

From 1 January 2015 to 6 March 2015, an aggregate amount of RMB14,820,428,000 of the A Share Convertible Bonds of the Bank (the "BOC Convertible Bonds") was converted into A Shares of the Bank, representing 5,656,643,241 shares. As at 6 March 2015, the unconverted BOC Convertible Bonds amounted to RMB25,822,000, representing 0.06% of the total issued BOC Convertible Bonds.

On 13 March 2015, the Bank redeemed all the BOC Convertible Bonds registered on the redemption record date (6 March 2015) at a price of RMB101.304 per unit (inclusive of current pre-tax interest). The relevant details have been set out in the Announcement on the Redemption Results, Payment and Delisting of the "BOC Convertible Bonds" issued by the Bank on 9 March 2015.

Issuance of Preference Shares

The Bank issued 280,000,000 Non-Cumulative Domestic Preference Shares ("Domestic Preference Shares") in the aggregate par value of RMB28,000,000,000 (at a par value of RMB100 each) with a dividend rate of 5.5% on 13 March 2015. Please refer to the announcement regarding "Non-public Issuance of Domestic Preference Shares (Phase II)" of the Bank dated 20 March 2015 for further details.

VI FINANCIAL RISK MANAGEMENT

1 Overview

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has designed a series of risk management policies and has set up controls to analyse, identify, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk and other price risk.

2 Financial risk management framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures related to risk management. The Risk Management Department, the Credit Management Department, the Financial Management Department and other relevant functional departments are responsible for monitoring financial risks.

The Group manages the risks at the branch level through direct reporting from the branches to the relevant departments responsible for risk management at the Head Office. Business line related risks are monitored through establishing specific risk management teams within the business departments. The Group monitors and controls risk management at subsidiaries by appointing members of their boards of directors and risk management committees as appropriate.

3 Credit risk

The Group takes on exposure to credit risk, which is the risk that a customer or counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is one of the most significant risks for the Group's business.

Credit risk exposures arise principally in lending activities and debt securities investment activities. There is also credit risk in off-balance sheet financial instruments, such as derivatives, loan commitments, letters of guarantee, bill acceptance and letters of credit.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement

(1) Loans and advances and off-balance sheet commitments

Monitoring and measurement of credit risk over loans and advances and off-balance sheet credit related exposures are performed by the Credit Management Department, and reported to the senior management and the Board of Directors regularly.

In measuring the credit risk of loans and advances to corporate customers, the Group mainly reflects the "probability of default" by the customer on its contractual obligations and considers the current financial position of the customer and the exposures to the customer and its likely future development. For retail customers, the Group uses standard approval procedures to manage credit risk for personal loans, and uses credit score-card models, which are based on historical default data to measure credit risk for credit cards.

For credit risk arising from off-balance sheet commitments, the Group manages the risks according to the characteristics of the products. These mainly include loan commitments, guarantees, bill acceptances and letters of credit. Loan commitments, guarantees, bill acceptances and standby letters of credit carry similar credit risk to loans and the Group takes a similar approach on risk management. Documentary and commercial letters of credit are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions and are collateralised by the underlying shipment documents of goods to which they relate or deposits and are therefore assessed to have less credit risk than a direct loan. Besides, the Group monitors the term to maturity of off-balance sheet commitments and those with longer-terms are assessed to have greater credit risk than shorter-term commitments.

The Group measures and manages the credit quality of loans and advances to corporate and personal customers based on the *Guideline for Loan Credit Risk Classification* (the "Guideline") issued by CBRC, which requires commercial banks to classify their corporate and personal loans into five categories: pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans. Off-balance sheet commitments with credit exposures are also assessed and categorised with reference to the Guideline. For operations in Hong Kong, Macau, Taiwan and other countries and regions, where local regulations and requirements are more prudent than the Guideline, the credit assets are classified according to local regulations and requirements.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

The five categories are defined as follows:

Pass: loans for which borrowers can honour the terms of the contracts, and there is no reason to doubt their ability to repay principal and interest of loans in full and on a timely basis.

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot pay back principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and resorting to necessary legal procedures.

The Group has developed an internal customer credit rating system, using measurements of the probability of default within one year based on regression analysis. These probability of default measurements are then mapped to internal credit ratings. The Group performs back testing to actual default rates and refines the model according to the results.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into fifteen grades as AAA, AA, A, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B-, CCC, CC, C, and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Five-category loan classifications and customer credit ratings are determined by Head Office and tier 1 branch management under approved delegated authorities. The Bank performs centralised review on customer credit ratings and five-category loan classifications on an annual basis. Further, five-category loan classifications are re-examined on a quarterly basis. Adjustments are made to these classifications and ratings as necessary according to customers' operational and financial position.

The Group identifies credit risk collectively based on industry, geography and customer type. This information is monitored regularly by management.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.1 Credit risk measurement (Continued)

(1) Loans and advances and off-balance sheet commitments (Continued)

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry quotas and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position. The actions may include obtaining additional guarantors or collateral.

(2) Due from, placements with and loans to banks and other financial institutions

The Group manages the credit quality of due from, placements with and loans to banks and other financial institutions considering the size, financial position and the internal and external credit rating of counterparties. In response to adverse credit market conditions, various initiatives were implemented since 2008 to better manage and report credit risk, including establishing a special committee which meets periodically and on an ad hoc basis to discuss actions in response to market changes impacting the Group's exposure to credit risk, and formulating a watch list process over counterparty names at risk.

(3) Debt securities and derivatives

Credit risk within debt securities arises from exposure to movements in credit spreads, default rates and loss given default, as well as changes in the credit of underlying assets.

The Group manages the credit risk within debt securities by monitoring the external credit rating, such as Standard & Poor's ratings or their equivalents, of the security, the internal credit rating of the issuers of debt securities, and the credit quality of underlying assets of securitisation products, including review of default rates, prepayment rates, industry and sector performance, loss coverage ratios and counterparty risk, to identify exposure to credit risk.

The Group has policies to maintain strict control limits on net open derivative positions based on notional amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets for which fair value is positive). The derivative credit risk exposure is managed as part of the overall exposure lending limits set for customers and financial institutions. Collateral or other security is not usually obtained for credit risk exposures on these financial instruments.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk in particular, to individual customers and to industries.

(1) Credit risk limits and controls

(i) Loans and advances and off-balance sheet commitments

In order to manage the exposure to credit risk, the Group has adopted credit policies and procedures that are reviewed and updated by the Credit Management Department and the Credit Approval Department at Head Office. The credit approval process for both corporate loans and personal loans can be broadly divided into three stages: (1) credit origination and assessment; (2) credit review and approval; and (3) fund disbursement and post-disbursement management.

Credit to corporate customers in the Chinese mainland are originated by the Corporate Banking Department at Head Office and the Corporate Banking Department at branch level and submitted to the Credit Approval Department for due diligence and approval. All credit applications for corporate customers must be approved by authorised credit application approvers at Head Office and tier 1 branches level in Chinese mainland, except for the low risk credit applications which are in accordance with the rules. The exposure to any one borrower, including banks, is restricted by credit limits covering on and off-balance sheet exposures.

Personal loans in the Chinese mainland are originated by the Personal Banking Departments at branch level and must be approved by authorised approvers at tier 1 branches level in Chinese mainland, except for individual pledged loans and government-sponsored student loans, which may be approved by authorised approvers at sub-branches below tier 1 level. High risk personal loans such as personal loans for business purposes in excess of certain limits must also be reviewed by the Risk Management Department.

The Head Office also oversees the risk management of the branches in Hong Kong, Macau, Taiwan and other countries and regions. In particular, any credit application at these branches exceeding the authorisation limits is required to be submitted to the Head Office for approval.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(1) Credit risk limits and controls (Continued)

(ii) Debt securities and derivatives

The Group is also exposed to credit risk through investment activities and trading activities. Credit limits are established based on type of instruments and the credit quality of counterparties, securities issuers and securities and set limits are actively monitored.

(2) Credit risk mitigation policies

(i) Collateral and guarantees

The Group has a range of policies and practices intended to mitigate credit risk. The most prevalent of these is the taking of security for funds advances (collateral) and guarantees, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral. The amount of acceptable collateral at the time of loan origination is determined by the Credit Management Department and is subject to loan-to-value ratio limits based on type and is monitored on an ongoing basis by the Credit Management Department. The principal collateral types for corporate loans and advances are:

Collateral	Maximum loan-to-value ratio
Deposit receipt	95%
PRC Treasury bonds	90%
PRC financial institution bonds	85%
Publicly traded stocks	50%
Construction land use rights	70%
Real estate	70%
Automobiles	40%

Mortgages to retail customers are generally collateralised by mortgages over residential properties. Other loans are collateralised dependant on the nature of the loan.

For loans guaranteed by a third party guarantor, the Group will assess the guarantor's credit rating, financial condition, credit history and ability to meet obligations.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of certain asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Collateral is also held as part of reverse repurchase agreements. Under such agreements, the Group is permitted to sell or repledge collateral in the absence of default by the owner of the collateral. Details of collateral accepted and which the Group is obligated to return are disclosed in Note V.40.3.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.2 Credit risk limit control and mitigation policies (Continued)

(2) Credit risk mitigation policies (Continued)

(ii) Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offsetting of assets and liabilities in the statement of financial position, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the customer are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

3.3 Impairment and provisioning policies

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(1) Loans and advances

Management determines whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group including consideration of:

- significant financial difficulty incurred by the borrower;
- a breach of contract, such as a default or delinquency in interest or principal payment;
- for economic or legal reasons related to the borrower's financial difficulty, whether the Group has granted to the borrower a concession that it would not otherwise consider;
- probability that the borrower will become bankrupt or will undergo other financial re-organisation;
- deterioration in the value of collateral;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such loans and advances.

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.3 Impairment and provisioning policies (Continued)

(1) Loans and advances (Continued)

The Group's policy requires the review of individual financial assets that are above certain thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the financial reporting date on a case-by-case basis using discounted cash flow analysis. The assessment normally encompasses guarantees and collateral held and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been specifically identified, by using the available historical data, experience, professional judgement and statistical techniques.

(2) Debt securities

Debt securities are assessed for individual impairment using similar criteria as loans and advances. Management determines whether objective evidence of debt securities impairment exists under IAS 39 based on criteria set out by the Group including consideration of:

- a breach of contract or a trigger event, such as a default or delinquency in interest or principal payment;
- significant financial difficulty of issuers or underlying asset holders;
- probable that the issuer or underlying asset holders will become bankrupt or will undergo other financial re-organisation;
- deterioration in credit rating; or
- other observable data indicating that there is a measurable decrease in the estimated future cash flows from such debt securities.

Impairment allowances on individually assessed securities are determined by an evaluation of the incurred loss at financial reporting date on a case-by-case basis using available data, including default rates, loss given default and assessment of the quality of the underlying assets of securitisation products, industry and sector performance, loss coverage ratios and counterparty risk.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.4 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Credit risk exposures relating to on-balance sheet financial assets are as follows:				
Due from banks and other financial institutions	**727,931**	620,245	**654,957**	572,852
Balances with central banks	**2,306,088**	2,132,001	**2,211,837**	2,015,175
Placements with and loans to banks and other financial institutions	**402,280**	512,888	**405,101**	510,355
Government certificates of indebtedness for bank notes issued	**76,517**	82,069	**4,908**	4,086
Financial assets at fair value through profit or loss	**86,429**	67,173	**44,035**	33,314
Derivative financial assets	**47,967**	40,823	**26,433**	22,971
Loans and advances to customers, net	**8,294,744**	7,439,742	**7,377,812**	6,628,759
Financial investments				
— available for sale	**713,603**	666,951	**442,775**	354,131
— held to maturity	**1,424,463**	1,210,531	**1,355,313**	1,188,878
— loans and receivables	**430,699**	416,704	**425,026**	408,768
Other assets	**142,392**	115,190	**90,806**	76,587
Subtotal	**14,653,113**	13,304,317	**13,039,003**	11,815,876
Credit risk exposures relating to off-balance sheet items are as follows:				
Letters of guarantee issued	**1,148,535**	846,497	**1,171,706**	856,311
Loan commitments and other credit commitments	**2,141,676**	2,057,454	**1,982,453**	1,870,803
Subtotal	**3,290,211**	2,903,951	**3,154,159**	2,727,114
Total	**17,943,324**	16,208,268	**16,193,162**	14,542,990

The table above represents a worst case scenario of credit risk exposure of the Group and the Bank as at 31 December 2014 and 2013, without taking into account of any collateral held, master netting agreements or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statements of financial position.

As at 31 December 2014, 46.23% of the Group's total maximum credit exposure is derived from loans and advances to customers (31 December 2013: 45.90%) and 14.77% represents investments in debt securities (31 December 2013: 14.53%).

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances

(1) Concentrations of risk for loans and advances to customers

The total loans and advances of the Group and the Bank are set out below:

(i) Analysis of loans and advances to customers by geographical area

Group

	As at 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
Chinese mainland	**6,605,773**	**77.87%**	6,058,180	79.63%
Hong Kong, Macau and Taiwan	**1,085,928**	**12.80%**	945,414	12.43%
Other countries and regions	**791,574**	**9.33%**	604,197	7.94%
Total loans and advances to customers	**8,483,275**	**100.00%**	7,607,791	100.00%

Bank

	As at 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
Chinese mainland	**6,589,364**	**87.15%**	6,049,817	89.06%
Hong Kong, Macau and Taiwan	**227,022**	**3.00%**	172,290	2.54%
Other countries and regions	**744,894**	**9.85%**	570,553	8.40%
Total loans and advances to customers	**7,561,280**	**100.00%**	6,792,660	100.00%

Chinese mainland

	As at 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
Northern China	**1,042,449**	**15.78%**	945,815	15.61%
Northeastern China	**457,802**	**6.93%**	425,990	7.03%
Eastern China	**2,685,603**	**40.66%**	2,462,657	40.65%
Central and Southern China	**1,597,434**	**24.18%**	1,473,512	24.32%
Western China	**822,485**	**12.45%**	750,206	12.39%
Total loans and advances to customers	**6,605,773**	**100.00%**	6,058,180	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(ii) Analysis of loans and advances to customers by customer type

Group

	As at 31 December 2014				As at 31 December 2013			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	713,054	148,191	255,968	1,117,213	743,516	153,414	228,427	1,125,357
— Other	3,808,411	606,550	513,422	4,928,383	3,448,639	507,815	357,528	4,313,982
Personal loans	2,084,308	331,187	22,184	2,437,679	1,866,025	284,185	18,242	2,168,452
Total loans and advances to customers	6,605,773	1,085,928	791,574	8,483,275	6,058,180	945,414	604,197	7,607,791

Bank

	As at 31 December 2014				As at 31 December 2013			
	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total	Chinese mainland	Hong Kong, Macau and Taiwan	Other countries and regions	Total
Corporate loans								
— Trade bills	713,054	34,062	245,521	992,637	743,516	30,575	221,362	995,453
— Other	3,803,854	117,058	487,473	4,408,385	3,446,056	84,171	339,531	3,869,758
Personal loans	2,072,456	75,902	11,900	2,160,258	1,860,245	57,544	9,660	1,927,449
Total loans and advances to customers	6,589,364	227,022	744,894	7,561,280	6,049,817	172,290	570,553	6,792,660

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry

Group

	As at 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,690,267**	**19.92%**	1,557,044	20.47%
Commerce and services	**1,270,883**	**14.98%**	1,148,963	15.10%
Transportation, storage and postal services	**825,423**	**9.73%**	724,189	9.52%
Real estate	**714,573**	**8.42%**	625,191	8.22%
Production and supply of electricity, heating, gas and water	**413,033**	**4.87%**	392,643	5.16%
Mining	**356,991**	**4.21%**	329,728	4.33%
Financial services	**230,508**	**2.72%**	168,734	2.22%
Water, environment and public utility management	**189,017**	**2.23%**	198,920	2.62%
Construction	**170,358**	**2.01%**	143,278	1.88%
Public utilities	**89,024**	**1.05%**	72,682	0.96%
Other	**95,519**	**1.13%**	77,967	1.02%
Subtotal	**6,045,596**	**71.27%**	5,439,339	71.50%
Personal loans				
Mortgages	**1,694,275**	**19.97%**	1,506,331	19.80%
Credit cards	**268,026**	**3.16%**	222,141	2.92%
Other	**475,378**	**5.60%**	439,980	5.78%
Subtotal	**2,437,679**	**28.73%**	2,168,452	28.50%
Total loans and advances to customers	**8,483,275**	**100.00%**	7,607,791	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Bank

	As at 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	**1,586,321**	**20.98%**	1,473,953	21.70%
Commerce and services	**1,083,942**	**14.34%**	959,131	14.12%
Transportation, storage and postal services	**758,800**	**10.03%**	669,830	9.86%
Real estate	**557,645**	**7.37%**	468,572	6.90%
Production and supply of electricity, heating, gas and water	**375,077**	**4.96%**	368,279	5.42%
Mining	**341,057**	**4.51%**	313,567	4.62%
Financial services	**195,752**	**2.59%**	150,925	2.22%
Water, environment and public utility management	**188,977**	**2.50%**	198,875	2.93%
Construction	**156,304**	**2.07%**	131,001	1.93%
Public utilities	**88,566**	**1.17%**	72,226	1.06%
Other	**68,581**	**0.91%**	58,852	0.87%
Subtotal	**5,401,022**	**71.43%**	4,865,211	71.63%
Personal loans				
Mortgages	**1,495,266**	**19.77%**	1,323,801	19.49%
Credit cards	**256,911**	**3.40%**	212,165	3.12%
Other	**408,081**	**5.40%**	391,483	5.76%
Subtotal	**2,160,258**	**28.57%**	1,927,449	28.37%
Total loans and advances to customers	**7,561,280**	**100.00%**	6,792,660	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iii) Analysis of loans and advances to customers by industry (Continued)

Chinese mainland

	As at 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
Corporate loans and advances				
Manufacturing	1,385,487	20.97%	1,347,808	22.25%
Commerce and services	821,011	12.43%	763,597	12.60%
Transportation, storage and postal services	707,646	10.71%	634,768	10.48%
Real estate	470,149	7.12%	405,075	6.69%
Production and supply of electricity, heating, gas and water	372,713	5.64%	365,889	6.04%
Mining	201,333	3.05%	192,932	3.18%
Financial services	112,005	1.70%	67,212	1.11%
Water, environment and public utility management	188,983	2.86%	198,877	3.28%
Construction	147,512	2.23%	125,825	2.08%
Public utilities	85,707	1.30%	71,112	1.17%
Other	28,919	0.44%	19,060	0.32%
Subtotal	4,521,465	68.45%	4,192,155	69.20%
Personal loans				
Mortgages	1,444,715	21.87%	1,282,276	21.17%
Credit cards	256,049	3.87%	211,456	3.49%
Other	383,544	5.81%	372,293	6.14%
Subtotal	2,084,308	31.55%	1,866,025	30.80%
Total loans and advances to customers	6,605,773	100.00%	6,058,180	100.00%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(1) Concentrations of risk for loans and advances to customers (Continued)

(iv) Analysis of loans and advances to customers by collateral type

Group

	As at 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
Unsecured loans	**2,650,613**	**31.25%**	2,370,291	31.16%
Guaranteed loans	**1,625,428**	**19.16%**	1,380,146	18.14%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**3,158,716**	**37.23%**	2,891,696	38.01%
— other pledged loans	**1,048,518**	**12.36%**	965,658	12.69%
Total loans and advances to customers	**8,483,275**	**100.00%**	7,607,791	100.00%

Bank

	As at 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
Unsecured loans	**2,237,159**	**29.59%**	2,009,900	29.59%
Guaranteed loans	**1,577,934**	**20.87%**	1,336,764	19.68%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**2,875,011**	**38.02%**	2,642,713	38.90%
— other pledged loans	**871,176**	**11.52%**	803,283	11.83%
Total loans and advances to customers	**7,561,280**	**100.00%**	6,792,660	100.00%

Chinese mainland

	As at 31 December			
	2014		2013	
	Amount	% of total	Amount	% of total
Unsecured loans	**1,831,113**	**27.72%**	1,681,717	27.76%
Guaranteed loans	**1,368,779**	**20.72%**	1,212,925	20.02%
Collateralised and other secured loans				
— loans secured by property and other immovable assets	**2,708,384**	**41.00%**	2,505,607	41.36%
— other pledged loans	**697,497**	**10.56%**	657,931	10.86%
Total loans and advances to customers	**6,605,773**	**100.00%**	6,058,180	100.00%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) *Analysis of loans and advances to customers by overdue and impaired status*

	As at 31 December					
	Group		Bank		Chinese mainland	
	2014	2013	**2014**	2013	**2014**	2013
Corporate loans and advances						
— Neither past due nor impaired	**5,950,539**	5,375,770	**5,309,223**	4,804,187	**4,430,716**	4,132,109
— Past due but not impaired	**12,928**	4,442	**11,565**	3,748	**11,184**	3,476
— Impaired	**82,129**	59,127	**80,234**	57,276	**79,565**	56,570
Subtotal	**6,045,596**	5,439,339	**5,401,022**	4,865,211	**4,521,465**	4,192,155
Personal loans						
— Neither past due nor impaired	**2,391,737**	2,132,844	**2,117,715**	1,894,842	**2,043,175**	1,834,554
— Past due but not impaired	**28,282**	21,616	**25,137**	18,759	**23,641**	17,608
— Impaired	**17,660**	13,992	**17,406**	13,848	**17,492**	13,863
Subtotal	**2,437,679**	2,168,452	**2,160,258**	1,927,449	**2,084,308**	1,866,025
Total	**8,483,275**	7,607,791	**7,561,280**	6,792,660	**6,605,773**	6,058,180

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired

The Group classifies loans and advances based on regulatory guidance including the "Guiding Principles on Classification of Loan Risk Management" issued by CBRC as set out in Note VI.3.1. The loans and advances neither past due nor impaired are classified under these principles and guidelines as set out in the table below.

Group

	As at 31 December					
	2014			2013		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	**5,787,588**	**162,951**	**5,950,539**	5,209,555	166,215	5,375,770
Personal loans	**2,391,091**	**646**	**2,391,737**	2,132,217	627	2,132,844
Total	**8,178,679**	**163,597**	**8,342,276**	7,341,772	166,842	7,508,614

Bank

	As at 31 December					
	2014			2013		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	**5,149,107**	**160,116**	**5,309,223**	4,642,211	161,976	4,804,187
Personal loans	**2,117,354**	**361**	**2,117,715**	1,894,518	324	1,894,842
Total	**7,266,461**	**160,477**	**7,426,938**	6,536,729	162,300	6,699,029

Chinese mainland

	As at 31 December					
	2014			2013		
	Pass	Special-mention	Total	Pass	Special-mention	Total
Corporate loans and advances	**4,276,206**	**154,510**	**4,430,716**	3,974,255	157,854	4,132,109
Personal loans	**2,043,055**	**120**	**2,043,175**	1,834,372	182	1,834,554
Total	**6,319,261**	**154,630**	**6,473,891**	5,808,627	158,036	5,966,663

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(i) Loans and advances neither past due nor impaired (Continued)

Collectively assessed impairment allowances are provided on loans and advances neither past due nor impaired to estimate losses that have been incurred but not yet specifically identified. As part of this assessment, the Group considers information collected as part of the process to classify loans and advances under CBRC regulatory guidelines, as well as additional information on industry and portfolio exposure.

(ii) Loans and advances past due but not impaired

The total amount of loans and advances to customers that were past due but not impaired is as follows:

Group

	As at 31 December 2014				As at 31 December 2013			
	Within 1 month	1–3 months	More than 3 months	Total	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	**10,310**	**2,441**	**177**	**12,928**	3,440	788	214	4,442
Personal loans	**17,857**	**10,341**	**84**	**28,282**	14,384	7,197	35	21,616
Total	**28,167**	**12,782**	**261**	**41,210**	17,824	7,985	249	26,058

Bank

	As at 31 December 2014				As at 31 December 2013			
	Within 1 month	1–3 months	More than 3 months	Total	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	**9,117**	**2,297**	**151**	**11,565**	2,916	649	183	3,748
Personal loans	**15,124**	**10,013**	**–**	**25,137**	11,789	6,970	–	18,759
Total	**24,241**	**12,310**	**151**	**36,702**	14,705	7,619	183	22,507

Chinese mainland

	As at 31 December 2014				As at 31 December 2013			
	Within 1 month	1–3 months	More than 3 months	Total	Within 1 month	1–3 months	More than 3 months	Total
Corporate loans and advances	**8,798**	**2,236**	**150**	**11,184**	2,679	650	147	3,476
Personal loans	**13,775**	**9,866**	**–**	**23,641**	10,740	6,868	–	17,608
Total	**22,573**	**12,102**	**150**	**34,825**	13,419	7,518	147	21,084

Collateral held against loans and advances to customers which have been overdue for more than 3 months principally includes properties, equipments and cash deposits.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances

(a) Impaired loans and advances by geographical area

Group

	As at 31 December					
	2014			2013		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	**97,057**	**97.26%**	**1.47%**	70,433	96.33%	1.16%
Hong Kong, Macau and Taiwan	**1,827**	**1.83%**	**0.17%**	1,955	2.67%	0.21%
Other countries and regions	**905**	**0.91%**	**0.11%**	731	1.00%	0.12%
Total	**99,789**	**100.00%**	**1.18%**	73,119	100.00%	0.96%

Bank

	As at 31 December					
	2014			2013		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland	**96,869**	**99.21%**	**1.47%**	70,352	98.92%	1.16%
Hong Kong, Macau and Taiwan	**145**	**0.15%**	**0.06%**	131	0.18%	0.08%
Other countries and regions	**626**	**0.64%**	**0.08%**	641	0.90%	0.11%
Total	**97,640**	**100.00%**	**1.29%**	71,124	100.00%	1.05%

Chinese mainland

	As at 31 December					
	2014			2013		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Northern China	**15,675**	**16.15%**	**1.50%**	9,831	13.96%	1.04%
Northeastern China	**5,507**	**5.67%**	**1.20%**	3,945	5.60%	0.93%
Eastern China	**44,754**	**46.11%**	**1.67%**	31,666	44.96%	1.29%
Central and Southern China	**20,974**	**21.61%**	**1.31%**	20,658	29.33%	1.40%
Western China	**10,147**	**10.46%**	**1.23%**	4,333	6.15%	0.58%
Total	**97,057**	**100.00%**	**1.47%**	70,433	100.00%	1.16%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(b) Impaired loans and advances by customer type

Group

	As at 31 December					
	2014			2013		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**82,129**	**82.30%**	**1.36%**	59,127	80.86%	1.09%
Personal loans	**17,660**	**17.70%**	**0.72%**	13,992	19.14%	0.65%
Total	**99,789**	**100.00%**	**1.18%**	73,119	100.00%	0.96%

Bank

	As at 31 December					
	2014			2013		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**80,234**	**82.17%**	**1.49%**	57,276	80.53%	1.18%
Personal loans	**17,406**	**17.83%**	**0.81%**	13,848	19.47%	0.72%
Total	**97,640**	**100.00%**	**1.29%**	71,124	100.00%	1.05%

Chinese mainland

	As at 31 December					
	2014			2013		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Corporate loans and advances	**79,565**	**81.98%**	**1.76%**	56,570	80.32%	1.35%
Personal loans	**17,492**	**18.02%**	**0.84%**	13,863	19.68%	0.74%
Total	**97,057**	**100.00%**	**1.47%**	70,433	100.00%	1.16%

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(c) Impaired loans and advances by geography and industry

	As at 31 December					
	2014			2013		
	Amount	% of total	Impaired loan ratio	Amount	% of total	Impaired loan ratio
Chinese mainland						
Corporate loans and advances						
Manufacturing	**34,541**	**34.61%**	**2.49%**	26,284	35.95%	1.95%
Commerce and services	**27,925**	**27.98%**	**3.40%**	12,028	16.45%	1.58%
Transportation, storage and postal services	**8,291**	**8.31%**	**1.17%**	10,322	14.12%	1.63%
Real estate	**2,149**	**2.15%**	**0.46%**	2,292	3.13%	0.57%
Production and supply of electricity, heating, gas and water	**3,106**	**3.11%**	**0.83%**	4,140	5.66%	1.13%
Mining	**1,103**	**1.11%**	**0.55%**	242	0.33%	0.13%
Financial services	**250**	**0.25%**	**0.22%**	2	0.00%	0.00%
Water, environment and public utility management	**198**	**0.20%**	**0.10%**	89	0.12%	0.04%
Construction	**1,407**	**1.41%**	**0.95%**	670	0.92%	0.53%
Public utilities	**312**	**0.31%**	**0.36%**	335	0.46%	0.47%
Other	**283**	**0.28%**	**0.98%**	166	0.23%	0.87%
Subtotal	**79,565**	**79.72%**	**1.76%**	56,570	77.37%	1.35%
Personal loans						
Mortgages	**5,045**	**5.06%**	**0.35%**	4,463	6.10%	0.35%
Credit cards	**5,277**	**5.29%**	**2.06%**	3,588	4.91%	1.70%
Other	**7,170**	**7.19%**	**1.87%**	5,812	7.95%	1.56%
Subtotal	**17,492**	**17.54%**	**0.84%**	13,863	18.96%	0.74%
Total for Chinese mainland	**97,057**	**97.26%**	**1.47%**	70,433	96.33%	1.16%
Hong Kong, Macau, Taiwan and Other countries and regions	**2,732**	**2.74%**	**0.15%**	2,686	3.67%	0.17%
Total	**99,789**	**100.00%**	**1.18%**	73,119	100.00%	0.96%

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(d) Impaired loans and advances and related allowance by geographical area

	As at 31 December 2014			
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Net
Chinese mainland	97,057	(47,582)	(16,305)	33,170
Hong Kong, Macau and Taiwan	1,827	(1,102)	(47)	678
Other countries and regions	905	(555)	(53)	297
Total	99,789	(49,239)	(16,405)	34,145

	As at 31 December 2013			
	Impaired loans	Individually assessed allowance	Collectively assessed allowance	Net
Chinese mainland	70,433	(37,933)	(12,252)	20,248
Hong Kong, Macau and Taiwan	1,955	(793)	(50)	1,112
Other countries and regions	731	(476)	(86)	169
Total	73,119	(39,202)	(12,388)	21,529

For description of allowances on identified impaired loans, refer to Note V 17.3.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(e) Within impaired loans and advances which are subject to individual assessment, the portion covered or not covered by collateral held are as follows:

Group

	Impaired loans and advances by individual assessment	
	As at 31 December	
	2014	2013
Portion covered	**49,566**	39,989
Portion not covered	**21,110**	11,988
Total	**70,676**	51,977
Fair value of collateral held	**14,600**	11,741

Bank

	Impaired loans and advances by individual assessment	
	As at 31 December	
	2014	2013
Portion covered	**48,345**	38,644
Portion not covered	**20,490**	11,553
Total	**68,835**	50,197
Fair value of collateral held	**13,910**	10,704

Chinese mainland

	Impaired loans and advances individual assessment	
	As at 31 December	
	2014	2013
Portion covered	**48,263**	38,556
Portion not covered	**19,885**	10,995
Total	**68,148**	49,551
Fair value of collateral held	**13,905**	10,694

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(2) Analysis of loans and advances to customers by overdue and impaired status (Continued)

(iii) Identified impaired loans and advances (Continued)

(e) Within impaired loans and advances which are subject to individual assessment, the portion covered or not covered by collateral held are as follows (Continued):

The Group assesses individually significant loans and advances and those found to have incurred losses are identified as individually-assessed impaired loans and advances. The assessment normally encompasses guarantees and collateral held and the anticipated receipts for that individual account. Collateral includes land, buildings, equipment and others. The fair value of collateral was estimated by the Group with reference to the latest available external valuations adjusted for recent experience in disposal of collateral as well as the market conditions.

(3) Loans and advances rescheduled

Rescheduling (referring to loans and other assets that have been restructured and renegotiated) is a voluntary or, to a limited extent, court-supervised procedure, through which the Group and a borrower and/or its guarantor, if any, rescheduled credit terms as a result of deterioration in the borrower's financial condition or of the borrower's inability to make payments when due. The Group reschedules a non-performing loan only if the borrower has good prospects. In addition, prior to approving the rescheduling of loans, the Group typically requires additional guarantees, pledges and/or collateral, or the assumption of the loan by a borrower with better repayment ability.

All rescheduled loans are subject to a surveillance period of six months. During the surveillance period, rescheduled loans remain as non-performing loans and the Group monitors the borrower's business operations and loan repayment patterns. After the surveillance period, rescheduled loans may be upgraded to "special-mention" upon review if certain criteria are met. If the rescheduled loans fall overdue or if the borrower is unable to demonstrate its repayment ability, these loans will be reclassified to "doubtful" or below. All rescheduled loans within surveillance period are determined to be impaired as at 31 December 2014 and 2013.

As at 31 December 2014 and 2013, within impaired loans and advances, rescheduled loans and advances that were overdue for 90 days or less were insignificant.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days

Group

	As at 31 December 2014				
	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
Unsecured loans	**15,946**	**7,360**	**3,038**	**3,018**	**29,362**
Guaranteed loans	**13,988**	**13,760**	**8,593**	**2,167**	**38,508**
Collateralised and other secured loans					
— loans secured by property and other immovable assets	**24,553**	**14,713**	**7,483**	**5,128**	**51,877**
— other pledged loans	**3,904**	**1,119**	**583**	**583**	**6,189**
Total	**58,391**	**36,952**	**19,697**	**10,896**	**125,936**

	As at 31 December 2013				
	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
Unsecured loans	9,441	3,725	2,563	2,448	18,177
Guaranteed loans	4,895	5,869	4,720	1,976	17,460
Collateralised and other secured loans					
— loans secured by property and other immovable assets	18,644	10,004	10,197	6,020	44,865
— other pledged loans	1,435	2,159	2,500	1,517	7,611
Total	34,415	21,757	19,980	11,961	88,113

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Bank

	As at 31 December 2014				
	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
Unsecured loans	**14,853**	**7,133**	**2,922**	**3,009**	**27,917**
Guaranteed loans	**13,589**	**13,660**	**8,520**	**2,148**	**37,917**
Collateralised and other secured loans					
— loans secured by property and other immovable assets	**21,675**	**14,566**	**7,369**	**5,125**	**48,735**
— other pledged loans	**3,204**	**892**	**167**	**582**	**4,845**
Total	**53,321**	**36,251**	**18,978**	**10,864**	**119,414**

	As at 31 December 2013				
	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
Unsecured loans	8,774	3,611	2,484	2,433	17,302
Guaranteed loans	4,779	5,723	4,674	1,963	17,139
Collateralised and other secured loans					
— loans secured by property and other immovable assets	16,214	9,934	10,163	6,015	42,326
— other pledged loans	545	2,082	2,472	1,517	6,616
Total	30,312	21,350	19,793	11,928	83,383

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(i) Analysis of overdue loans and advances to customers by collateral type and overdue days (Continued)

Chinese mainland

	As at 31 December 2014				
	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
Unsecured loans	**14,843**	**7,157**	**2,874**	**2,962**	**27,836**
Guaranteed loans	**13,323**	**13,654**	**8,517**	**2,139**	**37,633**
Collateralised and other secured loans					
— loans secured by property and other immovable assets	**20,199**	**14,596**	**7,003**	**5,116**	**46,914**
— other pledged loans	**3,050**	**892**	**168**	**569**	**4,679**
Total	**51,415**	**36,299**	**18,562**	**10,786**	**117,062**

	As at 31 December 2013				
	Past due up to 90 days	Past due 91–360 days	Past due 361 days–3 years	Past due over 3 years	Total
Unsecured loans	8,640	3,639	2,491	2,378	17,148
Guaranteed loans	4,705	5,723	4,639	1,955	17,022
Collateralised and other secured loans					
— loans secured by property and other immovable assets	14,984	9,891	9,715	6,006	40,596
— other pledged loans	534	2,082	2,436	1,517	6,569
Total	28,863	21,335	19,281	11,856	81,335

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.5 Loans and advances (Continued)

(4) Overdue loans and advances to customers (Continued)

(ii) Analysis of overdue loans and advances by geographical area

	As at 31 December	
	2014	2013
Chinese mainland	**117,062**	81,335
Hong Kong, Macau and Taiwan	**7,296**	5,606
Other countries and regions	**1,578**	1,172
Subtotal	**125,936**	88,113
Percentage	**1.48%**	1.16%
Less: total loans and advances to customers which have been overdue for less than 3 months	**(58,391)**	(34,415)
Total loans and advances to customers which have been overdue for more than 3 months	**67,545**	53,698
Individually assessed impairment allowance — for loans and advances to customers which have been overdue for more than 3 months	**(29,886)**	(27,298)

3.6 Due from, placements with and loans to banks and other financial institutions

Banks and other financial institutions comprise those institutions in Chinese mainland, Hong Kong, Macau, Taiwan and other countries and regions.

The Group monitors the credit risk of counterparties by collecting and analysing counterparty information and establishing credit limits taking into account the nature, size and credit rating of counterparties.

As at 31 December 2014, the majority of the balances of due from, placements with and loans to banks and other financial institutions were with banks in Chinese mainland, including policy banks, large-sized and medium-sized commercial banks (Note V.12 and Note V.14). As at 31 December 2014, the majority of the credit ratings of the banks in Hong Kong, Macau, Taiwan and other countries and regions were above A.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities

The tables below represent an analysis of the carrying value of debt securities by credit or issuer rating and credit risk characteristic.

Group

	As at 31 December 2014					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	889,823	2,931	–	892,754
— Public sectors and quasi-governments	42,979	–	–	–	–	42,979
— Policy banks	–	–	55,491	364,887	–	420,378
— Financial institutions	42,889	498	516	111,845	51,858	207,606
— Corporate	230,144	–	16,624	74,238	13,218	334,224
— China Orient	160,000	–	–	–	–	160,000
Subtotal	476,012	498	962,454	553,901	65,076	2,057,941
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	52,504	132,344	5,457	2,849	193,154
— Public sectors and quasi-governments	699	25,028	14,556	5,334	–	45,617
— Financial institutions	2,017	5,583	51,478	64,896	14,081	138,055
— Corporate	9,430	15,840	3,247	21,617	10,574	60,708
Subtotal	12,146	98,955	201,625	97,304	27,504	437,534
Total (1)	488,158	99,453	1,164,079	651,205	92,580	2,495,475

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Group

	As at 31 December 2013					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	774,002	1,364	–	775,366
— Public sectors and quasi-governments	29,056	–	–	–	–	29,056
— Policy banks	–	–	39,287	298,927	–	338,214
— Financial institutions	17,847	496	1,002	92,005	29,232	140,582
— Corporate	220,717	–	35,643	50,156	19,051	325,567
— China Orient	160,000	–	–	–	–	160,000
Subtotal	427,620	496	849,934	442,452	48,283	1,768,785
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	33,806	128,293	4,197	2,859	169,155
— Public sectors and quasi-governments	684	25,032	29,440	181	105	55,442
— Financial institutions	7,175	24,244	58,202	60,102	17,357	167,080
— Corporate	10,292	1,443	3,114	22,441	10,932	48,222
Subtotal	18,151	84,525	219,049	86,921	31,253	439,899
Total (1)	445,771	85,021	1,068,983	529,373	79,536	2,208,684

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2014					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	877,761	150	–	877,911
— Public sectors and quasi-governments	42,778	–	–	–	–	42,778
— Policy banks	–	–	1,892	363,984	–	365,876
— Financial institutions	51,713	498	516	65,184	47,357	165,268
— Corporate	210,222	–	8,382	67,910	8,515	295,029
— China Orient	160,000	–	–	–	–	160,000
Subtotal	464,713	498	888,551	497,228	55,872	1,906,862
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	11,410	116,078	4,423	1,080	132,991
— Public sectors and quasi-governments	661	51	8,551	558	–	9,821
— Financial institutions	1,765	2,829	18,132	21,720	5,951	50,397
— Corporate	475	226	252	5,353	2,670	8,976
Subtotal	2,901	14,516	143,013	32,054	9,701	202,185
Total (1)	467,614	15,014	1,031,564	529,282	65,573	2,109,047

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.7 Debt securities (Continued)

Bank

	As at 31 December 2013					
	Unrated	AAA	AA	A	Lower than A	Total
Issuers in Chinese mainland						
— Government	–	–	764,669	349	–	765,018
— Public sectors and quasi-governments	28,868	–	–	–	–	28,868
— Policy banks	–	–	220	295,241	–	295,461
— Financial institutions	16,945	496	1,002	47,324	25,007	90,774
— Corporate	203,317	–	29,217	43,167	14,208	289,909
— China Orient	160,000	–	–	–	–	160,000
Subtotal	409,130	496	795,108	386,081	39,215	1,630,030
Issuers in Hong Kong, Macau, Taiwan and other countries and regions						
— Governments	–	13,635	102,066	2,647	1,518	119,866
— Public sectors and quasi-governments	671	65	16,307	181	105	17,329
— Financial institutions	6,565	4,645	18,606	21,491	6,519	57,826
— Corporate	876	100	680	4,893	2,173	8,722
Subtotal	8,112	18,445	137,659	29,212	10,315	203,743
Total (1)	417,242	18,941	932,767	415,293	49,530	1,833,773

(1) The Group's available for sale and held to maturity debt securities are individually assessed for impairment. The Group's accumulated impairment charges on available for sale and held to maturity debt securities at 31 December 2014 amounted to RMB1,924 million and RMB218 million, respectively (31 December 2013: RMB2,533 million and RMB246 million). The carrying values of the available for sale and held to maturity debt securities considered impaired as at 31 December 2014 were RMB3,256 million and RMB370 million, respectively (31 December 2013: RMB4,007 million and RMB464 million).

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

3 Credit risk (Continued)

3.8 Derivatives

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group and the Bank were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by CBRC under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA") and the risk-weighted assets for central counterparties ("CCPs"). The risk-weighted assets for CCR as at 31 December 2013 were calculated under non-advanced approaches.

The risk-weighted assets for CCR of derivatives are as follows:

	As at 31 December			
	Group		Bank	
	2014	2013	**2014**	2013
Risk-weighted assets for default risk				
Currency derivatives	**29,431**	28,393	**24,928**	26,013
Interest rate derivatives	**2,776**	2,784	**1,748**	1,187
Equity derivatives	**524**	564	**3**	5
Commodity derivatives and others	**3,128**	1,844	**1,197**	670
	35,859	33,585	**27,876**	27,875
Risk-weighted assets for CVA	**26,620**	26,761	**18,166**	16,684
Risk-weighted assets for CCPs	**2,038**	–	**7**	–
Total	**64,517**	60,346	**46,049**	44,559

3.9 Repossessed assets

The Group obtained assets by taking possession of collateral held as security. Detailed information of such repossessed assets of the Group is disclosed in Note V.23.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk

4.1 Overview

The Group is exposed to market risks that may cause losses to the Group as a result of adverse changes in market prices of interest rate, exchange rate, equities and commodities. Market risk arises from open positions in the trading and banking books. Both the Group's trading book and banking book face market risks. The trading book consists of positions in financial instruments and commodities that are held with trading intent or in order to hedge other elements of the trading book. The banking book consists of financial instruments not included in the trading book (including those financial instruments purchased with surplus funds and managed in the investment book).

The Board of Directors of the Group takes the ultimate responsibility for the oversight of market risk management, including the approval of market risk management policies and procedures and the determination of market risk tolerance. Senior management is responsible for execution of such policies and ensuring that the level of market risk is within the risk appetite determined by the Board, while meeting the Group's business objectives.

Market risk management departments are responsible for the identification, measurement, monitoring, control and reporting of market risks on a Group basis. Business units are responsible for monitoring and reporting of market risk within their respective business lines.

4.2 Market risk measurement techniques and limits

(1) Trading book

For the purpose of market risk management in the trading book, the Group monitors trading book Value at Risk (VaR) limits, stress testing results and exposure limits and tracks each trading desk and dealer's observance of each limit on a daily basis.

VaR is used to estimate the largest potential loss arising from adverse market movements in a specific holding period and within a certain confidence level.

VaR is performed separately by the Bank and its major subsidiaries that are exposed to market risk, BOCHK (Holdings) and BOCI. The Bank, BOCHK (Holdings) and BOCI used a 99% level of confidence (therefore 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR estimate. The holding period of the VaR calculations is one day. To enhance the Group's market risk management, the Group has established the market risk data mart, which enabled a group level trading book VaR calculation on a daily basis.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Accuracy and reliability of the VaR model is verified by daily back-testing of the VaR result on trading book. The back-testing results are regularly reported to senior management.

The Group utilises stress testing as an effective supplement to the trading book VaR analysis. Stress testing scenarios are performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. To address changes in the financial markets, the Group enhances its market risk identification capabilities by continuously modifying and improving the trading book stress testing scenarios and measurement methodologies in order to capture the potential impact to transaction market prices stemming from changes in market prices and volatility.

The table below shows the VaR of the trading book by type of risk during the years ended 31 December 2014 and 2013:

Unit: USD million

	Year ended 31 December					
	2014			2013		
	Average	High	Low	Average	High	Low
The Bank's trading VaR						
Interest rate risk	**4.50**	**7.43**	**1.65**	2.05	3.02	0.88
Foreign exchange risk	**9.41**	**14.28**	**3.50**	0.72	4.61	0.14
Volatility risk	**0.09**	**0.37**	**0.03**	0.02	0.12	0.00
Commodity risk	**0.44**	**1.32**	**0.01**	0.25	1.86	0.00
Total of the Bank's trading VaR	**10.24**	**14.93**	**5.37**	2.27	4.80	0.98

The Bank's VaR for the year ended 31 December 2014 was calculated on the Group's trading positions, excluding those of BOCHK (Holdings) and BOCI. The Bank's VaR for the year ended 31 December 2013 was calculated on the Group's trading positions, excluding those of BOCHK (Holdings) and BOCI and excluding foreign currency against RMB transactions.

The reporting of risk in relation to bullion is included in foreign exchange risk above.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(1) Trading book (Continued)

Unit: USD million

	Year ended 31 December					
	2014			2013		
	Average	High	Low	Average	High	Low
BOCHK (Holdings)'s trading VaR						
Interest rate risk	**3.13**	**5.09**	**2.11**	2.57	5.11	1.14
Foreign exchange risk	**1.75**	**2.51**	**1.24**	2.24	4.88	1.32
Equity risk	**0.04**	**0.09**	**0.01**	0.14	0.42	0.00
Commodity risk	**0.03**	**0.17**	**0.00**	0.02	0.09	0.00
Total BOCHK (Holdings)'s trading VaR (i)	**3.09**	**4.52**	**2.09**	2.98	5.26	1.79
BOCI's trading VaR (ii)						
Equity derivatives unit	**0.95**	**1.97**	**0.31**	0.83	1.81	0.34
Fixed income unit	**1.09**	**1.54**	**0.67**	1.06	1.84	0.63
Global commodity unit	**0.18**	**0.61**	**0.04**	0.08	0.34	0.00
Total BOCI's trading VaR	**1.42**	**2.62**	**0.97**	1.39	2.50	0.67

(i) BOCHK (Holdings)'s trading VaR for the year ended 31 December 2014 and 2013 was calculated including its subsidiaries of Nanyang Commercial Bank Limited, BOC Credit Card (International) Limited and Chiyu Banking Corporation Limited.

(ii) BOCI monitors its trading VaR for equity derivatives unit, fixed income unit and global commodity unit separately, which include equity risk, interest rate risk, foreign exchange risk and commodity risk.

VaR for each risk factor is the independently derived largest potential loss in a specific holding period and within a certain confidence level due to fluctuations solely in that risk factor. The individual VaRs did not add up to the total VaR as there was diversification effect due to correlation amongst the risk factors.

(2) Banking book

The banking book is exposed to interest rate risk arising from mismatches in repricing periods and inconsistent adjustments between the benchmark interest rates of assets and liabilities. The Group takes on exposure to interest rate risk and fluctuations in market interest rates will impact the Group's financial position.

The Group manages interest rate risk in the banking book primarily through an interest rate repricing gap analysis. Interest rate repricing gap analysis measures the difference between the amount of interest-earning assets and interest-bearing liabilities that must be repriced within certain periods. The Group employs the interest rate repricing gap analysis and takes impact of the off-balance sheet business into consideration when calculating the indications of interest rate risk sensitivity of earnings to changing interest rates. The interest rate gap analysis is set out in Note VI.4.3 and also covers the trading book.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.2 Market risk measurement techniques and limits (Continued)

(2) Banking book (Continued)

Sensitivity analysis on Net interest income

The Group performs sensitivity analysis by measuring the impact of a change in interest rates on "Net interest income". This analysis assumes that yield curves change in parallel while the structure of assets and liabilities remains unchanged, and does not take changes in customer behaviour, basis risk or any prepayment options on debt securities into consideration. The bank calculates the change in net interest income during the year mainly through the analysis of interest rate repricing gaps, and made timely adjustment to the structure of assets and liabilities based on changes in the market situation, and controlled the fluctuation of net interest income within an acceptable level. Limits of the net interest income change are set as a percentage of net interest income budget for the Group's commercial banking operations and are approved by the Board and monitored by the Financial Management Department on a monthly basis.

The table below illustrates the potential impact of a 25 basis points interest rate move on the net interest income of the Group. The actual situation may be different from the assumptions used and it is possible that actual outcomes could differ from the estimated impact on net interest income of the Group.

	(Decrease)/increase in Net interest income	
	As at 31 December	
	2014	2013
+ 25 basis points parallel move in all yield curves	**(1,171)**	(1,006)
– 25 basis points parallel move in all yield curves	**1,171**	1,006

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products. Had the impact of yield curves movement on interest expenses related to demand deposits been excluded, the net interest income for the next twelve months from the reporting date would increase or decrease by RMB9,532 million (2013: RMB9,548 million) for every 25 basis points upwards or downwards parallel shift, respectively.

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis

The tables below summarise the Group's and the Bank's exposure to interest rate risks. It includes the Group's and the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Group

	As at 31 December 2014						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	364,984	169,796	191,207	1,565	–	85,502	813,054
Balances with central banks	2,152,838	–	–	–	–	153,250	2,306,088
Placements with and loans to banks and other financial institutions	164,596	99,775	128,637	9,272	–	–	402,280
Financial assets at fair value through profit or loss	9,472	12,238	17,299	32,662	14,638	18,219	104,528
Derivative financial assets	–	–	–	–	–	47,967	47,967
Loans and advances to customers, net	2,125,565	1,846,482	3,991,102	57,124	45,998	228,473	8,294,744
Financial investments							
— available for sale	65,596	97,646	149,386	259,841	140,631	37,585	750,685
— held to maturity	32,645	61,129	218,051	744,993	367,645	–	1,424,463
— loans and receivables	11,977	49,983	92,634	47,604	228,501	–	430,699
Other	5,117	6,638	4,175	–	–	660,944	676,874
Total assets	**4,932,790**	**2,343,687**	**4,792,491**	**1,153,061**	**797,413**	**1,231,940**	**15,251,382**
Liabilities							
Due to banks and other financial institutions	1,557,680	53,525	61,690	59,769	26,021	21,562	1,780,247
Due to central banks	129,603	105,721	97,741	10,307	–	4,899	348,271
Placements from banks and other financial institutions	111,424	43,924	51,424	18,553	–	5	225,330
Derivative financial liabilities	–	–	–	–	–	40,734	40,734
Due to customers	5,879,818	1,290,696	2,237,125	1,328,283	11,797	137,504	10,885,223
Bonds issued	12,264	35,473	16,477	100,137	113,694	–	278,045
Other	13,473	19,988	9,562	1,117	858	465,106	510,104
Total liabilities	**7,704,262**	**1,549,327**	**2,474,019**	**1,518,166**	**152,370**	**669,810**	**14,067,954**
Total interest repricing gap	**(2,771,472)**	**794,360**	**2,318,472**	**(365,105)**	**645,043**	**562,130**	**1,183,428**

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Group

	As at 31 December 2013						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	176,568	149,957	290,432	608	–	85,019	702,584
Balances with central banks	2,058,786	–	–	–	–	73,215	2,132,001
Placements with and loans to banks and other financial institutions	321,306	63,054	127,710	818	–	–	512,888
Financial assets at fair value through profit or loss	5,630	7,499	12,010	29,773	12,139	8,149	75,200
Derivative financial assets	–	–	–	–	–	40,823	40,823
Loans and advances to customers, net	1,872,529	1,675,457	3,583,425	63,893	60,738	183,700	7,439,742
Financial investments							
— available for sale	65,023	103,863	143,685	238,679	114,508	35,438	701,196
— held to maturity	41,181	65,469	240,205	550,115	313,561	–	1,210,531
— loans and receivables	25,739	53,564	93,625	24,894	218,882	–	416,704
Other	5,580	5,259	5,242	–	–	626,549	642,630
Total assets	4,572,342	2,124,122	4,496,334	908,780	719,828	1,052,893	13,874,299
Liabilities							
Due to banks and other financial institutions	837,211	149,230	299,784	216,749	4,095	44,555	1,551,624
Due to central banks	82,965	46,555	66,189	–	–	5,230	200,939
Placements from banks and other financial institutions	187,104	105,048	47,113	–	–	–	339,265
Derivative financial liabilities	–	–	–	–	–	36,212	36,212
Due to customers	5,715,009	1,105,255	2,155,915	1,004,641	4,383	112,583	10,097,786
Bonds issued	6,199	10,695	20,570	69,711	117,529	–	224,704
Other	15,063	19,523	5,639	300	212	421,555	462,292
Total liabilities	6,843,551	1,436,306	2,595,210	1,291,401	126,219	620,135	12,912,822
Total interest repricing gap	(2,271,209)	687,816	1,901,124	(382,621)	593,609	432,758	961,477

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2014						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	303,482	162,746	186,401	–	–	78,780	731,409
Balances with central banks	2,075,441	–	–	–	–	136,396	2,211,837
Placements with and loans to banks and other financial institutions	172,123	95,195	127,958	9,213	612	–	405,101
Financial assets at fair value through profit or loss	7,293	6,037	8,262	14,562	7,761	120	44,035
Derivative financial assets	–	–	–	–	–	26,433	26,433
Loans and advances to customers, net	1,445,534	1,707,542	3,921,982	36,161	44,130	222,463	7,377,812
Financial investments							
— available for sale	35,518	57,790	88,294	166,303	94,870	2,690	445,465
— held to maturity	31,958	58,864	212,219	703,595	348,677	–	1,355,313
— loans and receivables	9,102	48,406	91,513	47,504	228,501	–	425,026
Other	2,344	6,149	4,175	–	–	502,258	514,926
Total assets	4,082,795	2,142,729	4,640,804	977,338	724,551	969,140	13,537,357
Liabilities							
Due to banks and other financial institutions	1,198,937	159,647	346,089	70,775	26,021	12,945	1,814,414
Due to central banks	87,038	105,441	96,870	10,307	–	–	299,656
Placements from banks and other financial institutions	119,468	43,711	52,390	18,418	–	–	233,987
Derivative financial liabilities	–	–	–	–	–	29,127	29,127
Due to customers	4,960,298	1,097,165	2,116,808	1,318,579	11,745	60,734	9,565,329
Bonds issued	10,445	32,902	16,443	79,926	93,667	–	233,383
Other	8,241	572	4,481	–	–	278,016	291,310
Total liabilities	6,384,427	1,439,438	2,633,081	1,498,005	131,433	380,822	12,467,206
Total interest repricing gap	(2,301,632)	703,291	2,007,723	(520,667)	593,118	588,318	1,070,151

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.3 GAP analysis (Continued)

Bank

	As at 31 December 2013						
	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and due from banks and other financial institutions	147,029	142,039	283,010	–	–	74,593	646,671
Balances with central banks	1,951,415	–	–	–	–	63,760	2,015,175
Placements with and loans to banks and other financial institutions	304,820	59,084	144,167	1,833	451	–	510,355
Financial assets at fair value through profit or loss	3,467	2,432	3,541	17,232	6,521	121	33,314
Derivative financial assets	–	–	–	–	–	22,971	22,971
Loans and advances to customers, net	1,261,658	1,571,244	3,514,178	43,781	59,707	178,191	6,628,759
Financial investments							
— available for sale	32,119	62,707	83,554	124,752	50,999	2,489	356,620
— held to maturity	38,111	63,254	235,884	543,365	308,264	–	1,188,878
— loans and receivables	23,017	50,982	90,993	24,894	218,882	–	408,768
Other	3,039	5,259	5,241	–	–	474,573	488,112
Total assets	3,764,675	1,957,001	4,360,568	755,857	644,824	816,698	12,299,623
Liabilities							
Due to banks and other financial institutions	756,577	158,909	339,533	217,250	4,195	24,352	1,500,816
Due to central banks	52,023	46,534	66,004	–	–	–	164,561
Placements from banks and other financial institutions	203,229	112,473	46,332	–	–	–	362,034
Derivative financial liabilities	–	–	–	–	–	23,530	23,530
Due to customers	4,903,507	956,443	2,038,630	995,611	4,328	49,002	8,947,521
Bonds issued	6,169	10,695	20,082	55,607	98,930	–	191,483
Other	5,366	–	–	–	–	238,352	243,718
Total liabilities	5,926,871	1,285,054	2,510,581	1,268,468	107,453	335,236	11,433,663
Total interest repricing gap	(2,162,196)	671,947	1,849,987	(512,611)	537,371	481,462	865,960

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. The major subsidiary, BOCHK Group, conducts the majority of its business in HKD, RMB and USD.

The Group endeavours to manage its sources and uses of foreign currencies to minimise potential mismatches in accordance with management directives. However, the Group's ability to manage its foreign currency positions in relation to the RMB is limited as the RMB is not a freely convertible currency. The PRC government's current foreign currency regulations require the conversion of foreign currency to be approved by relevant PRC government authorities.

The Group manages its exposure to currency exchange risk through management of its net foreign currency position and monitors its foreign currency risk on trading books using VaR (Note VI.4.2). Meanwhile, the Group performs currency risk sensitivity analysis to estimate the effect of potential exchange rate changes of foreign currencies against RMB on profit before tax and equity.

The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity. A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. Such analysis does not take into account the correlation effect of changes in different foreign currencies, any further actions that may have been or could be taken by management after the financial reporting date, subject to the approval by the PRC government, to mitigate the effect of exchange differences, nor for any consequential changes in the foreign currency positions.

		Effect on profit before tax		Effect on equity*	
Currency	Change in currency rate	**As at 31 December 2014**	As at 31 December 2013	**As at 31 December 2014**	As at 31 December 2013
USD	-1%	**(503)**	(348)	**(236)**	(205)
HKD	-1%	**416**	505	**(1,230)**	(1,072)

* Effect on other comprehensive income (irrespective of income tax effect)

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

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

The tables below summarise the Group's and the Bank's exposure to foreign currency exchange rate risk as at 31 December 2014 and 2013. The Group's and the Bank's exposure to RMB is provided in the tables below for comparison purposes. Included in the table are the carrying amounts of the assets and liabilities of the Group and the Bank along with off-balance sheet positions and credit commitments in RMB equivalent, categorised by the original currencies. Derivative financial instruments are included in the net off-balance sheet position using notional amounts.

Group

	As at 31 December 2014							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	712,920	70,538	9,859	4,286	1,916	1,087	12,448	813,054
Balances with central banks	1,904,294	298,087	10,685	50,231	3,867	18,672	20,252	2,306,088
Placements with and loans to banks and other financial institutions	259,408	82,968	13,005	1,057	308	7,306	38,228	402,280
Financial assets at fair value through profit or loss	44,797	38,100	21,059	427	–	90	55	104,528
Derivative financial assets	9,689	13,640	20,316	627	118	1,711	1,866	47,967
Loans and advances to customers, net	6,176,901	1,302,278	613,502	67,156	7,993	13,295	113,619	8,294,744
Financial investments								
— available for sale	393,396	203,998	101,447	11,093	331	5,815	34,605	750,685
— held to maturity	1,268,586	143,405	6,097	–	616	511	5,248	1,424,463
— loans and receivables	422,189	233	1,973	–	–	–	6,304	430,699
Other	261,225	89,192	120,636	1,350	909	1,656	201,906	676,874
Total assets	11,453,405	2,242,439	918,579	136,227	16,058	50,143	434,531	15,251,382
Liabilities								
Due to banks and other financial institutions	1,033,495	499,133	17,925	27,945	8,843	5,315	187,591	1,780,247
Due to central banks	185,775	147,335	15,161	–	–	–	–	348,271
Placements from banks and other financial institutions	118,159	82,386	14,383	2,077	3,353	2,294	2,678	225,330
Derivative financial liabilities	2,927	13,164	14,653	891	2,099	3,353	3,647	40,734
Due to customers	8,584,335	976,427	799,630	168,279	38,179	63,533	254,840	10,885,223
Bonds issued	174,698	84,086	742	9,828	1,572	5,273	1,846	278,045
Other	298,682	62,509	129,523	2,555	881	1,295	14,659	510,104
Total liabilities	10,398,071	1,865,040	992,017	211,575	54,927	81,063	465,261	14,067,954
Net on-balance sheet position	1,055,334	377,399	(73,438)	(75,348)	(38,869)	(30,920)	(30,730)	1,183,428
Net off-balance sheet position	(75,751)	(249,557)	147,721	72,896	37,780	31,254	40,651	4,994
Credit commitments	2,247,538	667,694	203,347	79,163	7,011	19,757	65,701	3,290,211

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Group

	As at 31 December 2013							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	606,351	64,084	12,379	4,067	1,989	4,648	9,066	702,584
Balances with central banks	1,860,127	223,218	5,468	22,607	6,638	41	13,902	2,132,001
Placements with and loans to banks and other financial institutions	408,230	78,573	1,591	4,411	29	2,694	17,360	512,888
Financial assets at fair value through profit or loss	18,578	34,325	21,024	1,016	48	–	209	75,200
Derivative financial assets	9,753	11,162	15,984	664	244	1,592	1,424	40,823
Loans and advances to customers, net	5,596,690	1,134,219	535,127	61,111	6,645	12,054	93,896	7,439,742
Financial investments								
— available for sale	290,979	262,079	99,681	14,447	786	416	32,808	701,196
— held to maturity	1,120,644	77,730	6,674	480	693	–	4,310	1,210,531
— loans and receivables	401,439	3,176	2,417	–	–	–	9,672	416,704
Other	236,450	75,217	125,851	1,454	1,139	3,029	199,490	642,630
Total assets	10,549,241	1,963,783	826,196	110,257	18,211	24,474	382,137	13,874,299
Liabilities								
Due to banks and other financial institutions	963,948	352,134	16,120	20,798	6,433	8,858	183,333	1,551,624
Due to central banks	56,044	120,540	23,431	–	–	–	924	200,939
Placements from banks and other financial institutions	148,018	161,084	12,794	5,275	8,076	641	3,377	339,265
Derivative financial liabilities	6,692	10,719	12,472	677	1,813	1,384	2,455	36,212
Due to customers	8,091,102	848,525	701,985	144,712	36,762	46,567	228,133	10,097,786
Bonds issued	175,400	40,418	1,525	3,350	–	3,784	227	224,704
Other	256,526	62,633	134,433	1,870	567	2,493	3,770	462,292
Total liabilities	9,697,730	1,596,053	902,760	176,682	53,651	63,727	422,219	12,912,822
Net on-balance sheet position	851,511	367,730	(76,564)	(66,425)	(35,440)	(39,253)	(40,082)	961,477
Net off-balance sheet position	(23,364)	(309,362)	135,296	71,474	33,690	40,922	55,022	3,678
Credit commitments	1,892,010	672,072	175,354	84,313	8,004	15,835	56,363	2,903,951

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2014							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	624,113	67,632	20,579	3,549	1,326	766	13,444	731,409
Balances with central banks	1,828,946	294,612	1,326	50,008	3,867	18,672	14,406	2,211,837
Placements with and loans to banks and other financial institutions	258,295	87,063	19,301	437	316	5,969	33,720	405,101
Financial assets at fair value through profit or loss	18,508	25,020	–	416	–	90	1	44,035
Derivative financial assets	9,789	12,695	75	623	115	1,692	1,444	26,433
Loans and advances to customers, net	6,071,570	1,051,244	94,003	59,370	7,665	8,205	85,755	7,377,812
Financial investments								
— available for sale	324,893	83,774	11,495	6,527	331	–	18,445	445,465
— held to maturity	1,244,079	108,006	789	–	617	–	1,822	1,355,313
— loans and receivables	420,399	–	2	–	–	–	4,625	425,026
Other	212,250	18,392	74,290	2,570	880	4,600	201,944	514,926
Total assets	11,012,842	1,748,438	221,860	123,500	15,117	39,994	375,606	13,537,357
Liabilities								
Due to banks and other financial institutions	1,074,630	494,003	8,323	34,174	8,989	5,506	188,789	1,814,414
Due to central banks	150,441	136,844	12,330	–	–	–	41	299,656
Placements from banks and other financial institutions	128,402	80,267	14,265	2,952	3,507	2,315	2,279	233,987
Derivative financial liabilities	6,841	12,758	–	725	2,093	3,329	3,381	29,127
Due to customers	8,269,485	700,497	167,186	150,062	35,390	48,555	194,154	9,565,329
Bonds issued	175,801	40,741	–	9,828	–	5,273	1,740	233,383
Other	259,256	14,518	1,320	1,168	805	1,027	13,216	291,310
Total liabilities	10,064,856	1,479,628	203,424	198,909	50,784	66,005	403,600	12,467,206
Net on-balance sheet position	947,986	268,810	18,436	(75,409)	(35,667)	(26,011)	(27,994)	1,070,151
Net off-balance sheet position	(17,487)	(155,543)	(3,467)	72,922	34,759	26,691	37,666	(4,459)
Credit commitments	2,270,373	646,016	85,180	76,152	6,716	16,702	53,020	3,154,159

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.4 Foreign currency risk (Continued)

Bank

	As at 31 December 2013							
	RMB	USD	HKD	EURO	JPY	GBP	Other	Total
Assets								
Cash and due from banks and other financial institutions	553,914	59,844	15,285	3,420	1,828	4,456	7,924	646,671
Balances with central banks	1,755,411	220,731	1,590	22,348	6,638	41	8,416	2,015,175
Placements with and loans to banks and other financial institutions	408,000	63,318	20,329	3,124	43	2,037	13,504	510,355
Financial assets at fair value through profit or loss	8,020	24,308	–	986	–	–	–	33,314
Derivative financial assets	9,545	9,876	27	661	241	1,590	1,031	22,971
Loans and advances to customers, net	5,506,959	910,863	70,035	57,044	6,281	8,148	69,429	6,628,759
Financial investments								
— available for sale	223,870	98,948	10,064	9,477	554	–	13,707	356,620
— held to maturity	1,116,389	68,982	786	480	693	–	1,548	1,188,878
— loans and receivables	400,799	–	2	–	–	–	7,967	408,768
Other	193,197	12,941	74,513	2,681	1,047	5,319	198,414	488,112
Total assets	10,176,104	1,469,811	192,631	100,221	17,325	21,591	321,940	12,299,623
Liabilities								
Due to banks and other financial institutions	932,229	338,916	9,668	21,996	6,512	9,016	182,479	1,500,816
Due to central banks	45,779	108,593	9,335	–	–	–	854	164,561
Placements from banks and other financial institutions	174,696	162,430	7,701	5,285	8,105	641	3,176	362,034
Derivative financial liabilities	6,312	11,291	–	507	1,810	1,384	2,226	23,530
Due to customers	7,825,241	608,945	151,529	133,031	33,897	33,600	161,278	8,947,521
Bonds issued	175,474	8,634	–	3,350	–	3,784	241	191,483
Other	221,869	15,046	934	1,044	389	1,538	2,898	243,718
Total liabilities	9,381,600	1,253,855	179,167	165,213	50,713	49,963	353,152	11,433,663
Net on-balance sheet position	794,504	215,956	13,464	(64,992)	(33,388)	(28,372)	(31,212)	865,960
Net off-balance sheet position	(4,781)	(175,699)	4,128	69,088	31,764	30,070	45,105	(325)
Credit commitments	1,885,478	632,054	63,776	80,819	7,620	13,086	44,281	2,727,114

VI FINANCIAL RISK MANAGEMENT (Continued)

4 Market risk (Continued)

4.5 Price risk

The Group is exposed to equity risk on its available for sale listed equity securities. As at 31 December 2014, a 5 percentage variance in listed equity prices from the year end price would impact the fair value of available for sale listed equity positions by RMB247 million (31 December 2013: RMB270 million). For those available for sale equities considered impaired, the impact would be taken to the income statement. The Group is also exposed to commodity risk, mainly related to bullion. The Group manages such risk together with foreign exchange risk (Note VI.4.2).

5 Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to timely obtain adequate funds at a reasonable cost, to maintain its asset growth, pay off debts upon maturity or meet other settlement obligations. The Group's objective in liquidity risk management is to enhance the liquidity of assets and stability of funding sources and maintain a reasonable liquidity level pursuant to the guiding principle of achieving a balance amongst "liquidity, safety and profitability".

5.1 Liquidity risk management policy and process

The Group adopts a liquidity risk management model that incorporates both centralised and decentralised elements. The Head Office is ultimately responsible for managing the Group's overall liquidity risk, while the branches and subsidiaries managing their own liquidity risk pursuant to the Head Office's policies within authorised scope.

The Group considers liquidity risk management a significant component of asset-liability management, and determines the size, structure and duration of assets and liabilities consistent with the principle of overall balance between assets and liabilities. The Group establishes its liquidity portfolio to mitigate liquidity risk, and to minimise the gaps in the amount and duration between the funding sources and the uses of funds. The Group refines its financing strategy, taking into consideration of various factors including customer risk sensitivity, financing cost and concentration of funding sources. In addition, the Group prioritises the development of customer deposits, dynamically adjusts the structure of fund sources by market-oriented financing modes, including due to banks and other financial institutions and inter-bank borrowing.

Sources of liquidity risk are regularly reviewed by a separate team in the Financial Management Department to maintain a wide diversification by currency, geography, provider, product and term. A liquidity maturity analysis is performed by the Financial Management Department on a monthly basis. The forecast net liquidity position is estimated and managed on a daily basis. The Group also performs stress testing for liquidity risk on a quarterly basis.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include "Cash and due from banks and other financial institutions", "Balances with central banks", "Placements with and loans to banks and other financial institutions" and "Loans and advances to customers, net". In the normal course of business, a proportion of short-term customer loans contractually repayable will be extended and a portion of short-term customer deposits will not be withdrawn upon maturity. The Group would also be able to meet unexpected net cash outflows by entering into repurchase and reverse repurchase transactions, and by selling securities and accessing additional funding sources.

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis

The tables below analyse the Group's and the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. For purposes of the tables set below, "Loans and advances to customers, net" are considered overdue only if principal payments are overdue. In addition, for Loans and advances to customers that are repayable by installments, only the portion of the loan that is actually overdue is reported as overdue. Any part of the loan that is not due is reported according to residual maturity.

Group

	As at 31 December 2014							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	190,770	259,717	169,796	191,206	1,565	–	813,054
Balances with central banks	1,727,805	549,386	28,897	–	–	–	–	2,306,088
Placements with and loans to banks and other financial institutions	–	–	164,596	99,529	128,686	9,469	–	402,280
Financial assets at fair value through profit or loss	17,670	–	9,844	11,738	17,104	33,326	14,846	104,528
Derivative financial assets	–	8,559	5,542	5,753	21,443	4,185	2,485	47,967
Loans and advances to customers, net	32,171	111,458	391,002	1,000,634	2,106,643	2,050,490	2,602,346	8,294,744
Financial investments								
— available for sale	37,082	–	37,339	60,324	152,721	312,691	150,528	750,685
— held to maturity	–	–	11,079	31,189	191,746	794,693	395,756	1,424,463
— loans and receivables	–	–	11,977	49,983	86,774	52,664	229,301	430,699
Other	228,158	287,218	35,126	29,822	25,947	48,146	22,457	676,874
Total assets	2,042,886	1,147,391	955,119	1,458,768	2,922,270	3,307,229	3,417,719	15,251,382
Liabilities								
Due to banks and other financial institutions	–	1,286,794	184,231	53,489	107,013	120,949	27,771	1,780,247
Due to central banks	–	111,482	23,020	105,721	97,741	10,307	–	348,271
Placements from banks and other financial institutions	–	–	111,587	43,772	51,424	18,547	–	225,330
Derivative financial liabilities	–	4,744	6,385	6,287	15,605	5,821	1,892	40,734
Due to customers	–	4,615,797	1,354,720	1,278,159	2,261,560	1,350,454	24,533	10,885,223
Bonds issued	–	–	10,861	35,473	17,710	39,788	174,213	278,045
Other	–	144,280	69,095	33,720	140,676	65,138	57,195	510,104
Total liabilities	–	6,163,097	1,759,899	1,556,621	2,691,729	1,611,004	285,604	14,067,954
Net liquidity gap	2,042,886	(5,015,706)	(804,780)	(97,853)	230,541	1,696,225	3,132,115	1,183,428

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Group

	As at 31 December 2013							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	1	162,408	99,073	137,465	302,129	1,508	–	702,584
Balances with central banks	1,613,606	403,586	114,809	–	–	–	–	2,132,001
Placements with and loans to banks and other financial institutions	–	–	321,306	62,181	128,583	818	–	512,888
Financial assets at fair value through profit or loss	7,622	–	5,270	7,093	10,416	32,332	12,467	75,200
Derivative financial assets	–	11,005	5,163	5,437	11,336	4,235	3,647	40,823
Loans and advances to customers, net	21,678	83,794	434,613	878,725	1,915,073	1,716,505	2,389,354	7,439,742
Financial investments								
— available for sale	34,245	–	39,352	69,970	152,305	277,096	128,228	701,196
— held to maturity	–	–	18,387	33,814	195,971	617,451	344,908	1,210,531
— loans and receivables	–	–	25,739	53,564	88,625	29,894	218,882	416,704
Other	212,668	289,907	34,222	21,982	22,927	44,685	16,239	642,630
Total assets	1,889,820	950,700	1,097,934	1,270,231	2,827,365	2,724,524	3,113,725	13,874,299
Liabilities								
Due to banks and other financial institutions	–	727,316	131,752	146,786	324,654	217,021	4,095	1,551,624
Due to central banks	–	65,077	23,118	41,344	64,538	6,862	–	200,939
Placements from banks and other financial institutions	–	–	187,104	105,048	47,113	–	–	339,265
Derivative financial liabilities	–	7,529	4,348	5,812	11,124	6,165	1,234	36,212
Due to customers	–	4,581,538	1,233,777	1,071,379	2,174,469	1,024,471	12,152	10,097,786
Bonds issued	–	–	5,951	10,695	20,571	69,958	117,529	224,704
Other	–	132,880	64,851	29,405	128,742	65,423	40,991	462,292
Total liabilities	–	5,514,340	1,650,901	1,410,469	2,771,211	1,389,900	176,001	12,912,822
Net liquidity gap	1,889,820	(4,563,640)	(552,967)	(140,238)	56,154	1,334,624	2,937,724	961,477

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2014							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	126,886	255,528	162,746	186,249	–	–	731,409
Balances with central banks	1,715,653	470,800	25,384	–	–	–	–	2,211,837
Placements with and loans to banks and other financial institutions	–	42,505	129,474	94,899	127,534	10,077	612	405,101
Financial assets at fair value through profit or loss	–	–	7,254	6,037	7,620	15,312	7,812	44,035
Derivative financial assets	–	65	4,131	4,699	14,256	2,842	440	26,433
Loans and advances to customers, net	28,352	2,235	334,825	921,607	1,928,407	1,754,593	2,407,793	7,377,812
Financial investments								
— available for sale	2,690	–	22,127	36,033	84,545	196,514	103,556	445,465
— held to maturity	–	–	10,736	29,047	185,677	753,187	376,666	1,355,313
— loans and receivables	–	–	9,102	48,406	85,653	52,564	229,301	425,026
Other	200,720	199,259	15,874	27,062	18,595	43,625	9,791	514,926
Total assets	1,947,415	841,750	814,435	1,330,536	2,638,536	2,828,714	3,135,971	13,537,357
Liabilities								
Due to banks and other financial institutions	–	851,500	257,955	157,878	387,393	131,917	27,771	1,814,414
Due to central banks	–	64,031	23,007	105,441	96,870	10,307	–	299,656
Placements from banks and other financial institutions	–	22,318	97,150	43,711	52,390	18,418	–	233,987
Derivative financial liabilities	–	7	5,362	5,478	13,746	3,856	678	29,127
Due to customers	–	3,939,581	1,054,676	1,083,999	2,125,415	1,337,177	24,481	9,565,329
Bonds issued	–	–	9,012	32,902	17,099	21,736	152,634	233,383
Other	–	56,247	45,789	27,219	120,070	33,932	8,053	291,310
Total liabilities	–	4,933,684	1,492,951	1,456,628	2,812,983	1,557,343	213,617	12,467,206
Net liquidity gap	1,947,415	(4,091,934)	(678,516)	(126,092)	(174,447)	1,271,371	2,922,354	1,070,151

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.2 Maturity analysis (Continued)

Bank

	As at 31 December 2013							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Assets								
Cash and due from banks and other financial institutions	–	131,120	90,502	129,672	295,377	–	–	646,671
Balances with central banks	1,601,600	298,766	114,809	–	–	–	–	2,015,175
Placements with and loans to banks and other financial institutions	48	–	304,610	56,407	144,585	1,833	2,872	510,355
Financial assets at fair value through profit or loss	–	–	3,089	2,256	3,022	18,351	6,596	33,314
Derivative financial assets	–	257	4,071	4,610	10,310	2,967	756	22,971
Loans and advances to customers, net	18,468	1,125	393,267	816,873	1,760,878	1,443,523	2,194,625	6,628,759
Financial investments								
— available for sale	2,489	–	20,272	44,016	86,301	140,568	62,974	356,620
— held to maturity	–	–	17,363	33,524	191,222	607,486	339,283	1,188,878
— loans and receivables	–	–	23,017	50,982	85,993	29,894	218,882	408,768
Other	191,339	196,881	16,323	19,930	19,399	36,703	7,537	488,112
Total assets	1,813,944	628,149	987,323	1,158,270	2,597,087	2,281,325	2,833,525	12,299,623
Liabilities								
Due to banks and other financial institutions	–	614,434	143,824	156,465	364,404	217,494	4,195	1,500,816
Due to central banks	–	39,726	12,297	41,325	64,352	6,861	–	164,561
Placements from banks and other financial institutions	–	–	202,364	112,038	47,632	–	–	362,034
Derivative financial liabilities	–	236	3,777	5,211	9,716	3,895	695	23,530
Due to customers	–	3,953,875	989,661	919,977	2,053,303	1,018,609	12,096	8,947,521
Bonds issued	–	–	6,169	10,695	20,082	55,607	98,930	191,483
Other	–	35,350	43,816	23,875	110,170	28,253	2,254	243,718
Total liabilities	–	4,643,621	1,401,908	1,269,586	2,669,659	1,330,719	118,170	11,433,663
Net liquidity gap	1,813,944	(4,015,472)	(414,585)	(111,316)	(72,572)	950,606	2,715,355	865,960

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities

The tables below present the cash flows of the Group and the Bank of non-derivative financial assets and financial liabilities and derivative financial instruments that will be settled on a net basis and on a gross basis by remaining contractual maturities at the financial reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, except for certain derivatives which are disclosed at fair value (i.e. discounted cash flows basis). The Group also manages its inherent short-term liquidity risk based on expected undiscounted cash flows.

Group

	As at 31 December 2014							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	191,969	260,772	171,919	200,269	1,788	–	826,717
Balances with central banks	1,727,805	549,407	28,897	–	–	–	–	2,306,109
Placements with and loans to banks and other financial institutions	–	–	165,175	103,084	135,084	11,010	–	414,353
Financial assets at fair value through profit or loss	17,670	–	10,405	12,582	22,295	58,956	26,170	148,078
Loans and advances to customers, net	33,203	111,947	412,721	1,045,157	2,383,343	2,761,023	3,570,297	10,317,691
Financial investments								
— available for sale	37,082	–	38,513	62,971	164,753	357,257	172,339	832,915
— held to maturity	–	–	11,793	33,209	222,841	915,028	463,882	1,646,753
— loans and receivables	–	–	12,751	70,447	101,110	76,103	235,097	495,508
Other financial assets	1,020	9,881	32,074	28,236	17,611	17,023	9,823	115,668
Total financial assets	1,816,780	863,204	973,101	1,527,605	3,247,306	4,198,188	4,477,608	17,103,792
Due to banks and other financial institutions	–	1,286,858	184,753	54,572	115,943	130,645	31,173	1,803,944
Due to central banks	–	111,482	23,039	105,821	98,367	10,575	–	349,284
Placements from banks and other financial institutions	–	–	111,954	44,127	52,635	18,573	–	227,289
Due to customers	–	4,615,900	1,358,487	1,286,559	2,326,005	1,474,481	25,945	11,087,377
Bonds issued	–	–	10,883	36,274	22,882	76,876	271,777	418,692
Other financial liabilities	–	45,941	58,979	29,238	65,705	41,176	24,115	265,154
Total financial liabilities	–	6,060,181	1,748,095	1,556,591	2,681,537	1,752,326	353,010	14,151,740
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	3,080	215	552	1,870	124	(171)	5,670
Derivative financial instruments settled on a gross basis								
Total inflow	–	48,142	904,198	639,313	1,291,589	232,797	3,178	3,119,217
Total outflow	–	(48,090)	(904,868)	(639,320)	(1,291,280)	(232,423)	(3,171)	(3,119,152)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Group

	As at 31 December 2013							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	1	163,055	100,402	140,436	314,825	1,612	–	720,331
Balances with central banks	1,613,606	404,448	114,827	–	–	–	–	2,132,881
Placements with and loans to banks and other financial institutions	–	–	323,830	63,317	134,456	1,051	–	522,654
Financial assets at fair value through profit or loss	7,622	–	5,595	7,421	11,658	36,249	14,556	83,101
Loans and advances to customers, net	22,126	84,445	456,771	962,530	2,118,518	2,352,610	3,255,828	9,252,828
Financial investments								
— available for sale	34,245	–	40,577	73,244	165,791	313,593	150,863	778,313
— held to maturity	–	–	19,091	35,530	222,157	716,680	410,328	1,403,786
— loans and receivables	–	–	25,741	55,046	94,465	56,961	237,478	469,691
Other financial assets	110	8,081	18,866	6,121	14,498	1,394	4,021	53,091
Total financial assets	1,677,710	660,029	1,105,700	1,343,645	3,076,368	3,480,150	4,073,074	15,416,676
Due to banks and other financial institutions	–	727,363	135,655	149,772	330,933	238,806	5,119	1,587,648
Due to central banks	–	65,077	23,609	41,449	65,172	7,128	–	202,435
Placements from banks and other financial institutions	–	–	188,234	105,458	47,928	–	–	341,620
Due to customers	–	4,582,972	1,266,879	1,097,095	2,282,818	1,167,245	13,712	10,410,721
Bonds issued	–	–	5,978	12,787	26,551	101,769	157,425	304,510
Other financial liabilities	–	36,973	25,916	4,320	3,916	18,123	16,641	105,889
Total financial liabilities	–	5,412,385	1,646,271	1,410,881	2,757,318	1,533,071	192,897	12,952,823
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	3,460	(31)	175	(564)	140	1,689	4,869
Derivative financial instruments settled on a gross basis								
Total inflow	–	20,744	776,781	412,859	1,058,576	142,048	5,546	2,416,554
Total outflow	–	(20,573)	(775,164)	(412,679)	(1,054,743)	(141,900)	(5,546)	(2,410,605)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2014							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	141,322	256,547	164,695	195,122	–	–	757,686
Balances with central banks	1,715,653	470,806	25,384	–	–	–	–	2,211,843
Placements with and loans to banks and other financial institutions	–	47,824	130,028	98,533	134,025	11,758	630	422,798
Financial assets at fair value through profit or loss	–	–	7,565	6,262	7,813	15,587	7,873	45,100
Loans and advances to customers, net	29,288	2,705	354,975	963,659	2,198,584	2,444,282	3,346,311	9,339,804
Financial investments								
— available for sale	2,690	–	22,790	37,430	91,868	226,563	119,454	500,795
— held to maturity	–	–	11,192	30,532	214,921	867,961	442,746	1,567,352
— loans and receivables	–	–	9,415	49,654	92,912	76,513	235,097	463,591
Other financial assets	854	5,043	15,082	27,463	16,721	16,909	9,788	91,860
Total financial assets	1,748,485	667,700	832,978	1,378,228	2,951,966	3,659,573	4,161,899	15,400,829
Due to banks and other financial institutions	–	851,560	260,139	163,163	407,978	142,564	31,173	1,856,577
Due to central banks	–	64,031	23,017	105,541	97,495	10,573	–	300,657
Placements from banks and other financial institutions	–	25,492	97,598	44,067	53,589	18,418	–	239,164
Due to customers	–	3,939,640	1,057,060	1,090,828	2,187,403	1,460,063	25,889	9,760,883
Bonds issued	–	–	9,031	33,268	21,432	53,117	197,467	314,315
Other financial liabilities	–	41,022	38,596	26,670	61,095	26,135	5,952	199,470
Total financial liabilities	–	4,921,745	1,485,441	1,463,537	2,828,992	1,710,870	260,481	12,671,066
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	1	291	373	2,330	(275)	(81)	2,639
Derivative financial instruments settled on a gross basis								
Total inflow	–	971	543,363	399,459	858,075	155,266	960	1,958,094
Total outflow	–	(915)	(544,220)	(399,661)	(859,294)	(155,045)	(960)	(1,960,095)

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.3 Undiscounted cash flows by contractual maturities (Continued)

Bank

	As at 31 December 2013							
	Overdue/ Undated	On demand	Less than 1 month	Between 1 and 3 months	Between 3 and 12 months	Between 1 and 5 years	Over 5 years	Total
Non-derivative cash flow								
Cash and due from banks and other financial institutions	–	131,120	91,740	132,474	307,812	–	–	663,146
Balances with central banks	1,601,600	299,597	114,825	–	–	–	–	2,016,022
Placements with and loans to banks and other financial institutions	48	–	307,069	57,508	150,738	2,047	3,309	520,719
Financial assets at fair value through profit or loss	–	–	3,344	2,482	3,637	20,355	7,479	37,297
Loans and advances to customers, net	18,827	1,725	413,962	898,483	1,958,025	2,059,494	3,034,149	8,384,665
Financial investments								
— available for sale	2,489	–	20,862	45,878	93,322	160,284	74,043	396,878
— held to maturity	–	–	17,986	35,165	216,945	705,096	404,538	1,379,730
— loans and receivables	–	–	23,017	52,454	91,806	56,961	237,478	461,716
Other financial assets	44	4,844	3,038	5,577	6,494	–	921	20,918
Total financial assets	1,623,008	437,286	995,843	1,230,021	2,828,779	3,004,237	3,761,917	13,881,091
Due to banks and other financial institutions	–	614,475	148,364	159,563	376,200	236,211	4,926	1,539,739
Due to central banks	–	39,726	12,770	41,425	64,984	7,127	–	166,032
Placements from banks and other financial institutions	–	–	203,727	112,521	48,467	–	–	364,715
Due to customers	–	3,955,224	1,021,653	944,539	2,159,169	1,160,228	13,642	9,254,455
Bonds issued	–	–	6,195	12,361	24,833	80,862	136,957	261,208
Other financial liabilities	–	25,725	2,492	1,256	426	163	193	30,255
Total financial liabilities	–	4,635,150	1,395,201	1,271,665	2,674,079	1,484,591	155,718	11,616,404
Derivative cash flow								
Derivative financial instruments settled on a net basis	–	1	(15)	4	(72)	(505)	60	(527)
Derivative financial instruments settled on a gross basis								
Total inflow	–	4,928	511,939	285,302	814,401	97,097	4,210	1,717,877
Total outflow	–	(4,755)	(511,107)	(285,749)	(812,577)	(97,112)	(4,210)	(1,715,510)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items

The Group's and the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are summarised in the table below at the remaining period to the contractual maturity date. Financial guarantees are also included below at notional amounts and based on the earliest contractual maturity date. Where the Group and the Bank are the lessee under operating lease commitments, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note V.40.5, are summarised in the table below.

Group

	As at 31 December 2014			
	Less than 1 year	**Between 1 and 5 years**	**Over 5 years**	**Total**
Loan commitments [(1)]	**946,233**	**185,343**	**63,878**	**1,195,454**
Guarantees, acceptances and other financial facilities	**1,466,529**	**415,277**	**212,951**	**2,094,757**
Subtotal	**2,412,762**	**600,620**	**276,829**	**3,290,211**
Operating lease commitments	**5,852**	**12,760**	**3,484**	**22,096**
Capital commitments	**54,986**	**35,497**	**7,449**	**97,932**
Total	**2,473,600**	**648,877**	**287,762**	**3,410,239**

	As at 31 December 2013			
	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Loan commitments [(1)]	811,669	188,353	57,346	1,057,368
Guarantees, acceptances and other financial facilities	1,359,420	285,598	201,565	1,846,583
Subtotal	2,171,089	473,951	258,911	2,903,951
Operating lease commitments	5,399	12,505	5,036	22,940
Capital commitments	22,381	34,332	16,580	73,293
Total	2,198,869	520,788	280,527	3,000,184

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

5 Liquidity risk (Continued)

5.4 Off-balance sheet items (Continued)

Bank

	As at 31 December 2014			
	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Loan commitments [1]	828,069	152,396	59,677	1,040,142
Guarantees, acceptances and other financial facilities	1,466,936	432,350	214,731	2,114,017
Subtotal	2,295,005	584,746	274,408	3,154,159
Operating lease commitments	4,980	11,353	3,202	19,535
Capital commitments	5,817	1,065	–	6,882
Total	2,305,802	597,164	277,610	3,180,576

	As at 31 December 2013			
	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Loan commitments [1]	708,728	149,823	56,365	914,916
Guarantees, acceptances and other financial facilities	1,316,236	293,794	202,168	1,812,198
Subtotal	2,024,964	443,617	258,533	2,727,114
Operating lease commitments	4,565	11,126	4,636	20,327
Capital commitments	7,918	2,558	–	10,476
Total	2,037,447	457,301	263,169	2,757,917

(1) Included within "Loan commitments" are amounts relating to loan commitments and undrawn credit card limits, refer to Note V.40.7.

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value

6.1 Assets and liabilities measured at fair value

Assets and liabilities measured at fair value are classified into the following three levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity securities listed on exchange or debt instrument issued by certain governments and certain exchange-traded derivative contracts.

- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts, debt securities for which quotations are available from pricing services providers, traded loans and issued structured deposits.

- Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The Group uses valuation techniques or counterparty quotations to determine the fair value when it is unable to obtain open market quotation in active markets.

The main parameters used in valuation techniques include bond prices, interest rates, foreign exchange rates, equity and stock prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from the open market.

For certain illiquid debt securities (mainly asset-backed securities), unlisted equity (private equity), over-the-counter structured derivatives transactions held by the Group, unlisted funds and part of investment properties, the management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, rental growth, etc. As at 31 December 2014, fair value changes resulting from changes in the unobservable inputs were not significant. Management determines whether to make necessary adjustments to the fair value for the Group's level 3 financial instruments by assessing the impact of changes in macro-economic factors, valuations by external valuation agencies and other inputs, including loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

	As at 31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets measured at fair value through profit or loss				
Financial assets at fair value through profit or loss				
— Debt securities	**209**	**81,226**	**850**	**82,285**
— Fund investments and other	**2,211**	**–**	**–**	**2,211**
— Loans	**–**	**4,144**	**–**	**4,144**
— Equity securities	**15,888**	**–**	**–**	**15,888**
Derivative financial assets	**11,959**	**36,008**	**–**	**47,967**
Investment securities available for sale				
— Debt securities	**34,702**	**676,457**	**979**	**712,138**
— Fund investments and other	**2,356**	**314**	**9,329**	**11,999**
— Equity securities	**4,663**	**2,616**	**19,269**	**26,548**
Investment properties	**–**	**2,274**	**16,379**	**18,653**
Liabilities measured at fair value through profit or loss				
Placements from banks and other financial institutions at fair value	**–**	**(5,776)**	**–**	**(5,776)**
Due to customers at fair value	**–**	**(317,487)**	**–**	**(317,487)**
Short position in debt securities	**–**	**(7,224)**	**–**	**(7,224)**
Derivative financial liabilities	**(8,191)**	**(32,543)**	**–**	**(40,734)**

	As at 31 December 2013			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value through profit or loss				
Financial assets at fair value through profit or loss				
— Debt securities	267	62,284	301	62,852
— Fund investments and other	1,278	–	–	1,278
— Loans	–	4,321	–	4,321
— Equity securities	6,470	279	–	6,749
Derivative financial assets	11,175	29,648	–	40,823
Investment securities available for sale				
— Debt securities	54,911	605,417	5,430	665,758
— Fund investments and other	1,891	–	6,930	8,821
— Equity securities	4,667	2,735	19,215	26,617
Investment properties	–	2,888	17,383	20,271
Liabilities measured at fair value through profit or loss				
Due to customers at fair value	–	(156,498)	–	(156,498)
Short position in debt securities	–	(7,681)	–	(7,681)
Derivative financial liabilities	(7,649)	(28,563)	–	(36,212)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

Reconciliation of Level 3 Items

	Financial assets at fair value through profit or loss — Debt securities	Investment securities available for sale			Due to customers at fair value — Structured deposit	Investment properties
		Debt securities	Fund investments and other	Equity securities		
As at 1 January 2014	**301**	**5,430**	**6,930**	**19,215**	**–**	**17,383**
Total gains and losses						
— profit or loss	**(7)**	**9**	**(253)**	**(422)**	**–**	**1,052**
— other comprehensive income	**–**	**40**	**530**	**(998)**	**–**	**–**
Sales	**(17)**	**(2,766)**	**(1,565)**	**(195)**	**–**	**(2,570)**
Purchases	**573**	**63**	**3,687**	**1,669**	**–**	**70**
Settlements	**–**	**–**	**–**	**–**	**–**	**–**
Transfers into/(out of) Level 3, net	**–**	**(1,797)**	**–**	**–**	**–**	**726**
Transfer to property and equipment	**–**	**–**	**–**	**–**	**–**	**(320)**
Other changes	**–**	**–**	**–**	**–**	**–**	**38**
As at 31 December 2014	**850**	**979**	**9,329**	**19,269**	**–**	**16,379**
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2014	**(7)**	**5**	**(314)**	**(457)**	**–**	**381**
As at 1 January 2013	268	2,952	7,054	17,846	(622)	14,745
Total gains and losses						
— profit or loss	19	44	(121)	5	–	340
— other comprehensive income	–	49	168	681	–	–
Sales	–	(614)	(934)	(63)	–	(7)
Purchases	142	3,813	1,346	746	–	2,775
Settlements	–	–	–	–	622	–
Transfers out of Level 3, net	(128)	(456)	(583)	–	–	–
Reclassification to held to maturity securities	–	(358)	–	–	–	–
Transfer to property and equipment	–	–	–	–	–	(199)
Other changes	–	–	–	–	–	(271)
As at 31 December 2013	301	5,430	6,930	19,215	–	17,383
Total gains/(losses) for the period included in the income statement for assets/liabilities held as at 31 December 2013	17	15	(120)	–	–	340

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.1 Assets and liabilities measured at fair value (Continued)

Total gains or losses for the years ended 31 December 2014 and 2013 included in the income statement as well as total gains or losses included in the income statement relating to financial instruments held at 31 December 2014 and 2013 are presented in "Net trading gains", "Net gains on financial investments" or "Impairment losses on assets" depending on the nature or category of the related financial instruments.

Gains or losses on level 3 assets and liabilities included in the income statement for the year comprise:

	Year ended 31 December 2014			Year ended 31 December 2013		
	Realised	**Unrealised**	**Total**	Realised	Unrealised	Total
Total gains/(losses) for the year	**768**	**(389)**	**379**	41	246	287

The assets and liabilities measured at fair value have been no significant transfers between level 1 and level 2 during 2014.

6.2 Financial assets and liabilities not measured at fair value

Financial assets and liabilities not presented at their fair value on the statement of financial position mainly represent "Balances with central banks", "Due from banks and other financial institutions", "Placements with and loans to banks and other financial institutions", "Loans and advances to customers, net", "Financial investments" classified as held to maturity and loans and receivables, "Due to central banks", "Due to banks and other financial institutions", "Placements from banks and other financial institutions", and "Due to customers" measured at amortised cost, and "Bonds issued".

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.2 Financial assets and liabilities not measured at fair value (Continued)

The tables below summarise the carrying amounts and fair values of "Debt securities" classified as held to maturity and loans and receivables, and "Bonds issued" not presented at fair value on the statement of financial position.

Group

	As at 31 December			
	Carrying value		Fair value	
	2014	2013	**2014**	2013
Financial assets				
Debt securities [1]				
— held to maturity	**1,424,463**	1,210,531	**1,430,467**	1,163,807
— loans and receivables	**276,589**	269,543	**276,941**	268,559
Financial liabilities				
Bonds issued [2]	**278,045**	224,704	**289,875**	215,070

Bank

	As at 31 December			
	Carrying value		Fair value	
	2014	2013	**2014**	2013
Financial assets				
Debt securities [1]				
— held to maturity	**1,355,313**	1,188,878	**1,360,007**	1,142,075
— loans and receivables	**270,916**	261,607	**271,269**	260,625
Financial liabilities				
Bonds issued [2]	**233,383**	191,483	**243,348**	180,368

(1) Debt securities classified as held to maturity and loans and receivables

The Orient Bond and Special Purpose Treasury Bond held by the Bank are non-negotiable. As there are no observable market prices or yields reflecting arm's length transactions of a comparable size and tenor, the fair value is determined based on stated interest rate of the instruments.

Fair values of other debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

(2) Bonds issued

The aggregate fair values are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The fair value for the convertible bonds (including the conversion option value) is based on the quoted market price on the Shanghai Stock Exchange.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

6 Fair value (Continued)

6.2 Financial assets and liabilities not measured at fair value (Continued)

The tables below summarise the three levels' fair values of "Debt securities" classified as held to maturity and loans and receivables (excluding the China Orient Bond and Special Purpose Treasury Bond), and "Bonds issued" not presented at fair value on the statement of financial position.

	As at 31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Debt securities				
— held to maturity	**90,276**	**1,340,139**	**52**	**1,430,467**
— loans and receivables	**–**	**74,386**	**55**	**74,441**
Financial liabilities				
Bonds issued	**23,365**	**266,510**	**–**	**289,875**

	As at 31 December 2013			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities				
— held to maturity	62,575	1,100,976	256	1,163,807
— loans and receivables	–	65,906	153	66,059
Financial liabilities				
Bonds issued	38,197	176,873	–	215,070

Other than the above, the difference between the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the statement of financial position are insignificant. Fair value is measured using a discounted cash flow model.

7 Capital management

The Group follows the principles below with regard to capital management:

- Adequate capital and sustainable development. Implement the Scientific Outlook on Development thoroughly; follow the lead of the strategic planning of the Group development; and maintain the high quality and adequacy of capital as to meet regulation requirements, support business growth, and advance the sustainable development of the scale, quality and performance of the business in the Group.

- Allocation optimisation and benefit augmentation. Allocate capital properly by prioritizing the asset businesses with low capital occupancy and high comprehensive income, to steadily improve the efficiency and return of capital, achieving the reciprocal matchup and dynamic equilibrium among risks, assets and returns.

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

- Refined management and capital level improvement. Optimise the capital management system by sufficiently identifying, calculating, monitoring, mitigating, and controlling various types of risks; Incorporate capital restraints into the whole process of product pricing, resource allocation, structural adjustments, performance evaluation, etc., ensuring that the capital employed is commensurate with the related risks and the level of risk management.

Capital adequacy and regulatory capital are monitored by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by CBRC, for supervisory purposes. The required information is filed with CBRC on a quarterly basis.

From 1 January 2013, the Group commenced to calculate the capital adequacy ratios in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by CBRC. As a Systemically Important Bank, the Group is required to meet the requirements of CBRC by the end of 2018, that is, the common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio should be no less than 8.50%, 9.50% and 11.50%, respectively.

In April 2014, the Group obtained approval from CBRC to adopt the advanced capital measurement approaches, which include Foundation Internal Ratings-based Approach for corporate exposures, Internal Ratings-based Approach for retail exposures, Internal Models Approach for market risk and Standardised Approach for operational risk. For risk exposures not covered by the advanced approaches, the corresponding portion shall be calculated adopting non-advanced approaches.

The Group's regulatory capital is managed by its capital management related departments and consists of the following:

- Common equity tier 1 capital, including common shares, capital reserve, surplus reserve, general reserve, undistributed profits, eligible portion of minority interests and other;

- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests;

- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

Goodwill, other intangible assets (except land use rights), investments in common equity tier 1 capital of financial institutions with controlling interests but outside of the scope of regulatory consolidation, significant minority capital investment in tier 2 capital of financial institutions that are outside of the scope of regulatory consolidation and other deductible items are deducted from common equity tier 1 and tier 2 capital to derive at the regulatory capital.

The Group took various measures to manage risk-weighted assets including adjusting the composition of its on-balance and off-balance sheet assets.

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio [(1)(2)] calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* and other relevant regulations promulgated by CBRC.

(Amount in millions of Renminbi, unless otherwise stated)

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

	As at 31 December 2014	As at 31 December 2013
Common equity tier 1 capital adequacy ratio	**10.61%**	9.69%
Tier 1 capital adequacy ratio	**11.35%**	9.70%
Capital adequacy ratio	**13.87%**	12.46%
Composition of the Group's capital base		
Common equity tier 1 capital	**1,068,706**	925,037
Common shares	**288,731**	279,365
Capital reserve	**130,116**	114,687
Surplus reserve	**95,630**	79,868
General reserve	**159,291**	144,434
Undistributed profits	**383,213**	303,156
Eligible portion of minority interests	**27,329**	25,225
Other [(3)]	**(15,604)**	(21,698)
Regulatory deductions	**(14,317)**	(12,089)
Goodwill	**(96)**	(96)
Other intangible assets (except land use rights)	**(4,554)**	(3,887)
Gains on sales related to securitisation transactions	**(131)**	(60)
Direct or indirect investments in own shares	**(25)**	(28)
Reserve relating to cash-flow hedge items not measured at fair value	**10**	(1)
Investments in common equity tier 1 capital of financial institutions with controlling interests but outside the scope of regulatory consolidation	**(9,521)**	(8,017)
Net common equity tier 1 capital	**1,054,389**	912,948
Additional tier 1 capital	**72,923**	698
Preference shares and related premium	**71,745**	–
Eligible portion of minority interests	**1,178**	698
Net tier 1 capital	**1,127,312**	913,646
Tier 2 capital	**250,714**	262,768
Tier 2 capital instruments issued and related premium	**166,368**	148,102
Excess loan loss provisions	**67,299**	94,778
Eligible portion of minority interests	**17,047**	19,888
Regulatory deductions	**–**	(3,067)
Significant minority capital investment in tier 2 capital of financial institutions that are outside the scope of regulatory consolidation	**–**	(3,067)
Net capital	**1,378,026**	1,173,347
Risk-weighted assets	**9,934,105**	9,418,726

VI FINANCIAL RISK MANAGEMENT (Continued)

7 Capital management (Continued)

(1) As at 31 December 2013, the Group calculated capital adequacy ratio under the non-advanced approaches, including the Regulatory Weighting Approach for credit risk, the Standardised Measurement Approach for market risk and the Basic Indicator Approach for operational risk.

(2) When calculating the capital adequacy ratios, Bank of China Group Investment Limited, Bank of China Insurance Company Limited, Bank of China Group Insurance Company Limited and Bank of China Group Life Assurance Company Limited were excluded from the scope of consolidation in accordance with requirements of CBRC.

(3) This mainly represented exchange differences from the translation of foreign operations and fair value gains or losses on available for sale financial assets.

8 Insurance risk

Insurance contracts are mainly sold in Chinese mainland and Hong Kong denominated in RMB and HKD. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. This risk is inherently random and, therefore, unpredictable. The Group manages its portfolio of insurance risks through its underwriting strategy and policies, portfolio management techniques, adequate reinsurance arrangements and proactive claims handling and processing. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk and industry.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of the claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Uncertainty in the estimation of future benefit payments and premium receipts for long-term life insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality. In order to assess the uncertainty due to the mortality assumption and lapse assumption, the Group conducted mortality rate studies and policy lapse studies in order to determine the appropriate assumptions.

According to Hong Kong Listing Rules and disclosure regulations of the banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 31 December	
	2014	2013
RMB current assets to RMB current liabilities	**49.91%**	48.00%
Foreign currency current assets to foreign currency current liabilities	**59.91%**	62.16%

The liquidity ratios are calculated in accordance with the relevant provisions of PBOC and CBRC. Financial data as at 31 December 2014 and 2013 is based on CAS 2006.

2 CURRENCY CONCENTRATIONS

The following information is computed in accordance with the provisions of CBRC.

	Equivalent in millions of RMB			
	USD	HKD	Other	Total
As at 31 December 2014				
Spot assets	**1,204,041**	**21,526**	**146,298**	**1,371,865**
Spot liabilities	**(850,686)**	**(219,768)**	**(358,942)**	**(1,429,396)**
Forward purchases	**2,111,819**	**359,305**	**688,830**	**3,159,954**
Forward sales	**(2,425,461)**	**(206,214)**	**(495,257)**	**(3,126,932)**
Net options position*	**10,598**	**3,550**	**(3,512)**	**10,636**
Net long/(short) position	**50,311**	**(41,601)**	**(22,583)**	**(13,873)**
Net structural position	**23,628**	**123,041**	**44,199**	**190,868**
As at 31 December 2013				
Spot assets	1,110,052	24,075	158,852	1,292,979
Spot liabilities	(760,343)	(211,491)	(376,382)	(1,348,216)
Forward purchases	985,290	206,032	449,683	1,641,005
Forward sales	(1,306,521)	(69,650)	(248,263)	(1,624,434)
Net options position*	6,296	524	(258)	6,562
Net long/(short) position	34,774	(50,510)	(16,368)	(32,104)
Net structural position	20,498	107,204	36,379	164,081

* The net option position is calculated using the delta equivalent approach as set out in the requirements of CBRC.

3 CROSS-BORDER CLAIMS

The Group is principally engaged in business operations within Chinese mainland, and regards all claims on third parties outside Chinese mainland as cross-border claims.

Cross-border claims include "Balances with central banks", "Placements with and loans to banks and other financial institutions", "Government certificates of indebtedness for bank notes issued", "Financial assets at fair value through profit or loss", "Loans and advances to customers, net" and "Financial investments".

Cross-border claims have been disclosed by country or geographical area. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Public sector entities	Other*	Total
As at 31 December 2014				
Asia Pacific excluding Chinese mainland				
Hong Kong	**48,442**	**4,804**	**832,077**	**885,323**
Other Asia Pacific locations	**113,750**	**14,618**	**276,141**	**404,509**
Subtotal	**162,192**	**19,422**	**1,108,218**	**1,289,832**
North and South America	**51,198**	**24,489**	**217,974**	**293,661**
Europe	**65,659**	**8,816**	**85,269**	**159,744**
Middle East and Africa	**3,393**	**134**	**11,184**	**14,711**
Total	**282,442**	**52,861**	**1,422,645**	**1,757,948**
As at 31 December 2013				
Asia Pacific excluding Chinese mainland				
Hong Kong	25,849	5,130	720,915	751,894
Other Asia Pacific locations	84,934	19,287	217,214	321,435
Subtotal	110,783	24,417	938,129	1,073,329
North and South America	45,397	29,532	199,494	274,423
Europe	64,045	9,785	65,807	139,637
Middle East and Africa	3,948	655	9,901	14,504
Total	224,173	64,389	1,213,331	1,501,893

* Claims on the government entities are included in "Other".

(Amount in millions of Renminbi, unless otherwise stated)

4 OVERDUE ASSETS

For the purpose of the table below, the entire outstanding balance of "Loans and advances to customers" and "Placements with and loans to banks and other financial institutions" are considered overdue if either principal or interest payment is overdue.

(1) Total amount of overdue loans and advances to customers

	As at 31 December	
	2014	2013
Total loans and advances to customers which have been overdue		
within 3 months	**58,391**	34,415
between 3 and 6 months	**16,195**	9,277
between 6 and 12 months	**20,757**	12,480
over 12 months	**30,593**	31,941
Total	**125,936**	88,113
Percentage		
within 3 months	**0.69%**	0.45%
between 3 and 6 months	**0.19%**	0.12%
between 6 and 12 months	**0.24%**	0.17%
over 12 months	**0.36%**	0.42%
Total	**1.48%**	1.16%

(2) Total amount of overdue Placements with and loans to banks and other financial institutions

The total amount of overdue "Placements with and loans to banks and other financial institutions" as at 31 December 2014 and 2013 is not considered material.

Supplementary Information — Differences Between CAS and IFRS Consolidated Financial Statements

(Amount in millions of Renminbi, unless otherwise stated)

DIFFERENCES BETWEEN CAS AND IFRS CONSOLIDATED FINANCIAL STATEMENTS

There are no differences in the Group's operating results for the years ended 31 December 2014 and 2013 or total equity as at 31 December 2014 and 2013 presented in the Group's consolidated financial statements prepared under IFRS and those prepared under CAS.

Unaudited Supplementary Information — Global Systemically Importance Assessment Indicators of Commercial Banks

(Amount in millions of Renminbi, unless otherwise stated)

The following global systemically importance assessment indicators of commercial banks are disclosed in accordance with the *Guidelines for the Disclosure of Global Systemically Importance Assessment Indicators of Commercial Banks* (Yin Jian Fa, [2014] No. 1) promulgated by CBRC.

No.	Indicators (1)	2014 Value
1	Adjusted on-balance and off-balance sheet assets	18,230,490
2	Intra-financial system assets	1,679,381
3	Intra-financial system liabilities	1,570,486
4	Securities and other financing instruments	1,767,844
5	Payments settled via payment systems or correspondent banks	437,780,513
6	Assets under custody	6,377,159
7	Underwritten transactions in debt and equity markets	439,092
8	Notional amount of over-the-counter derivatives	3,675,499
9	Trading and available for sale securities	373,853
10	Level 3 assets	30,427
11	Cross-jurisdictional claims	2,147,162
12	Cross-jurisdictional liabilities	4,018,023

(1) The above indicators are calculated and disclosed in accordance with the *Guidelines for the Disclosure of Global Systemically Importance Assessment Indicators of Commercial Banks*, which are unaudited and inconsistent with the disclosures in the financial report.

Reference for Shareholders

Financial Calendar for 2015

2014 annual results	To be announced on 25 March 2015
2014 Annual report	To be printed and dispatched to H-Share Holders in late April 2015
2014 Annual General Meeting	To be held on 17 June 2015
2015 interim results	To be announced no later than 31 August 2015

Annual General Meeting

The Bank's 2014 Annual General Meeting is scheduled to be held at Bank of China Head Office, No. 1 Fuxingmen Nei Dajie, Beijing, China and at the Four Seasons Hotel, 8 Finance Street, Central, Hong Kong at 9:30 a.m. on Wednesday, 17 June 2015.

Dividends of Ordinary Shares

The Board of Directors recommended a final dividend of ordinary shares of RMB0.19 per share (before tax), subject to the approval of shareholders at the 2014 Annual General Meeting.

Securities Information

Listing and Trading

The Bank's ordinary shares were listed on the Hong Kong Stock Exchange and SSE on 1 June and 5 July 2006 respectively.

The Bank's Convertible Bonds were listed on SSE on 18 June 2010, and were redeemed by the Bank and delisted from SSE on 13 March 2015.

The Bank's Offshore Preference Shares were listed on the Hong Kong Stock Exchange on 24 October 2014. The Domestic Preference Shares (First Tranche) were traded on the Comprehensive Business Platform of SSE on 8 December 2014. The Domestic Shares (Second Tranche) will also be traded on the Comprehensive Business Platform of SSE.

Ordinary Shares

Issued shares:	294,387,791,241	shares (as at 25 March 2015)
Including:		
A Share:	210,765,514,846	shares
H Share:	83,622,276,395	shares

Preference Shares

Issued shares:	999,400,000	shares (as at 25 March 2015)
Including:		
Domestic Preference Share:	600,000,000	shares
Offshore Preference Share:	399,400,000	shares

Market Capitalisation

As at the last trading day in 2014 (31 December for both H Shares and A Shares), the Bank's market capitalisation was RMB1,139.478 billion (based on the closing price of H Shares and A Shares on 31 December 2014, and the exchange rate of HKD100 = RMB78.887 as published by the SAFE on 31 December 2014.

Securities Price

	Closing price on 31 December 2014	Highest trading price in the year	Lowest trading price in the year
A Share	RMB4.15	RMB4.28	RMB2.44
H Share	HKD4.37	HKD4.40	HKD3.03
A-Share Convertible Bond	RMB157.38	RMB161.50	RMB95.85

Securities Code

A Share

Stock name	中國銀行
Shanghai Stock Exchange	601988
Reuters	601988.SS
Bloomberg	601988 CH

H Share

Stock name	Bank of China
Hong Kong Stock Exchange	3988
Reuters	3988.HK
Bloomberg	3988 HK

Domestic Preference Share (First Tranche)

Stock Name	中行優1
Shanghai Stock Exchange	360002
Bloomberg	EK6323670

Offshore Preference Share

Stock Name	BOC 2014 PREF
Hong Kong Stock Exchange	4601
Reuters	4601.HK
Bloomberg	EK5371647

Shareholder Enquiry

If a shareholder wishes to enquire about share transfers, changes of name or address, or loss of share certificates, or to receive other information concerning the shares held, please write to the Bank at the following address:

A Share

Shanghai Branch of China Securities Depository
and Clearing Corporation Limited
36/F, China Insurance Building,
166 East Lujiazui Road,
Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

Domestic Preference Share

Shanghai Branch of China Securities Depository
and Clearing Corporation Limited
36/F, China Insurance Building,
166 East Lujiazui Road,
Pudong New Area, Shanghai
Telephone: (86) 21-3887 4800

H Share

Computershare Hong Kong Investor Services Limited
17M, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Telephone: (852) 2862 8555
Facsimile: (852) 2865 0990

Credit Rating (Long Term, Foreign Currency)

Standard & Poor's Ratings Services:	A
Moody's Investors Service:	A1
Fitch Ratings:	A
Rating and Investment Information, Inc.:	A
Dagong Global Credit Rating Co., Ltd. (RMB):	AAA

Index Constituents

Hang Seng Index
Hang Seng China H-Financial Index
Hang Seng China Enterprises Index
Hang Seng China A Industry Top Index
Hang Seng Composite Index (HSCI) Series
Hang Seng Corporate Sustainability Index Series
MSCI Index Series
CITIC S&P Index Series
Dow Jones Index Series
S&P Index Series
Bloomberg Index Series
Shanghai Stock Exchange Index Series
FTSE/Xinhua China 25 Index
FTSE/Xinhua Hong Kong Index
FTSE Index Series

Investor Enquiry

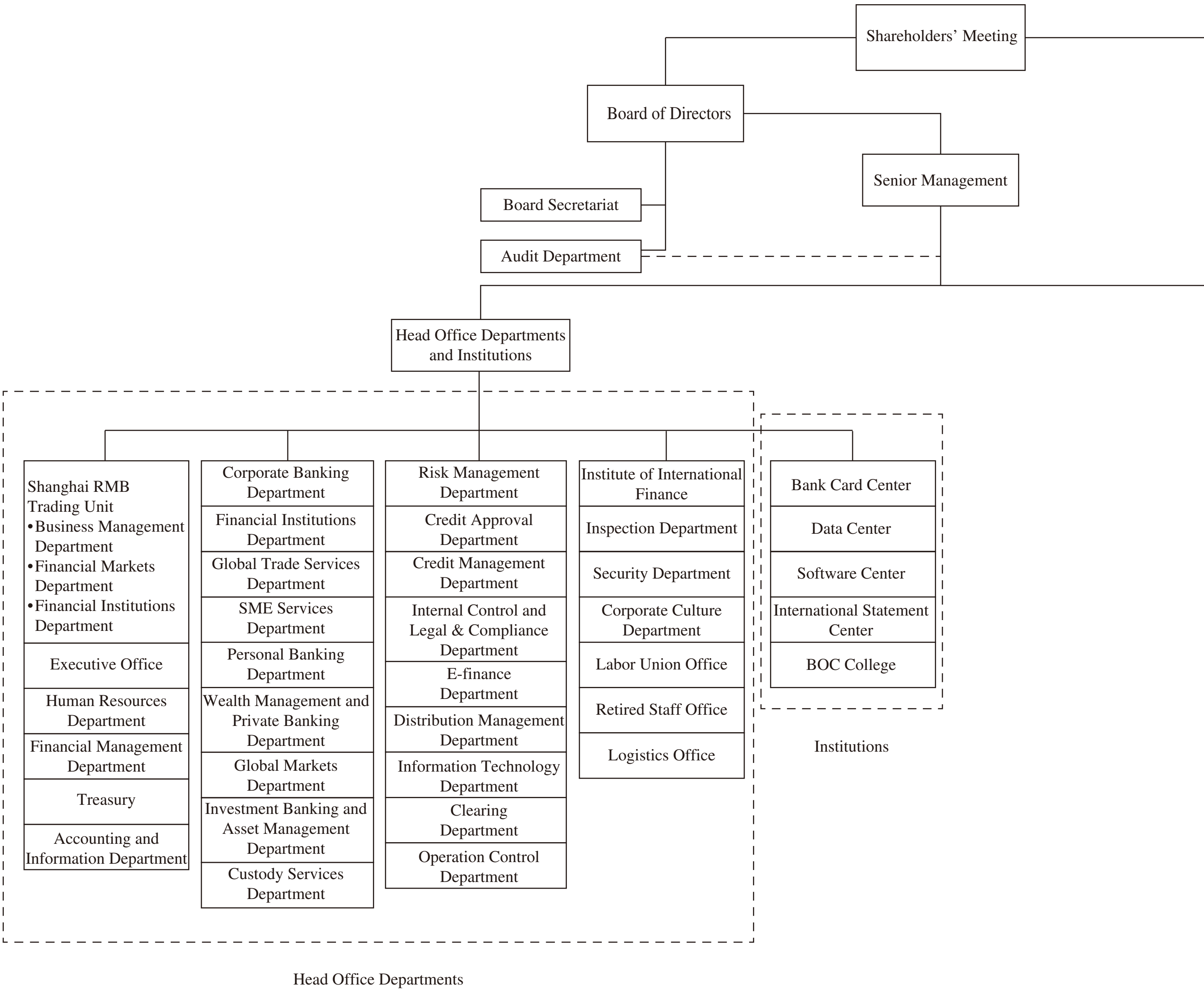
Investor Relations Team, Board Secretariat, Bank of China Limited
8/F, Bank of China Building, 1 Fuxingmen Nei Dajie, Beijing, China
Telephone: (86) 10-6659 2638
Facsimile: (86) 10-6659 4568
E-mail: ir@bankofchina.com

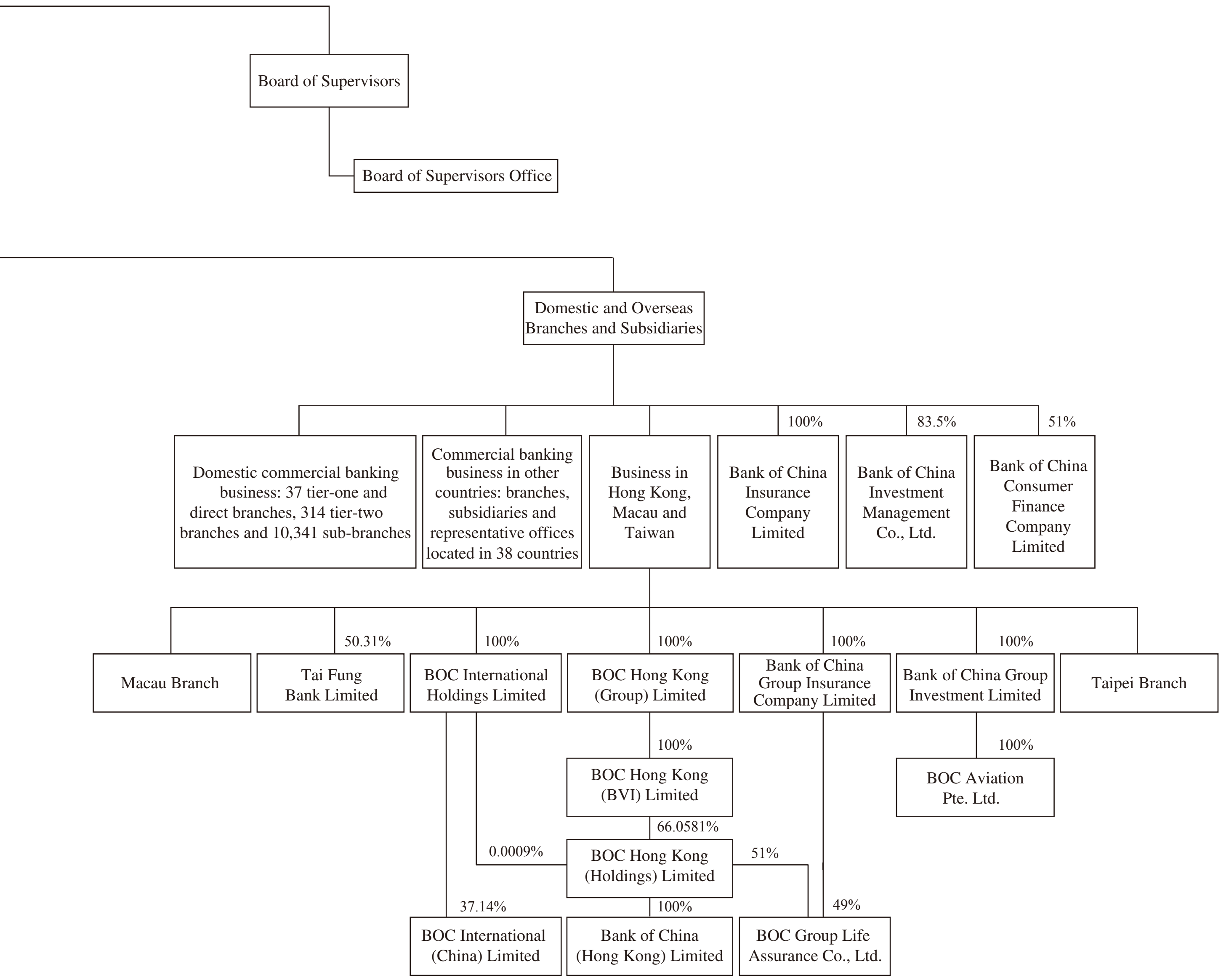
Other Information

You may write to the Bank's H-Share Registrar, Computershare Hong Kong Investor Services Limited (address: 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong) to request the annual report prepared under IFRS or go to the Bank's office address for copies prepared under CAS. The Chinese and/or English versions of the annual report are also available on the following websites: www.boc.cn, www.sse.com.cn and www.hkexnews.hk.

Should you have any queries about how to obtain copies of this annual report or access the document on the Bank's website, please dial the Bank's H-Share Registrar at (852) 2862 8688 or the Bank's hotlines at (86) 10-6659 2638.

Organisational Chart





Board of Supervisors
Board of Supervisors Office
Domestic and Overseas Branches and Subsidiaries
Domestic commercial banking business: 37 tier-one and direct branches, 314 tier-two branches and 10,341 sub-branches
Commercial banking business in other countries: branches, subsidiaries and representative offices located in 38 countries
Business in Hong Kong, Macau and Taiwan
100%
Bank of China Insurance Company Limited
83.5%
Bank of China Investment Management Co., Ltd.
51%
Bank of China Consumer Finance Company Limited
Macau Branch
50.31%
Tai Fung Bank Limited
100%
BOC International Holdings Limited
100%
BOC Hong Kong (Group) Limited
100%
Bank of China Group Insurance Company Limited
100%
Bank of China Group Investment Limited
Taipei Branch
100%
BOC Hong Kong (BVI) Limited
100%
BOC Aviation Pte. Ltd.
66.0581%
0.0009%
BOC Hong Kong (Holdings) Limited
51%
37.14%
100%
49%
BOC International (China) Limited
Bank of China (Hong Kong) Limited
BOC Group Life Assurance Co., Ltd.

List of Major Branches and Subsidiaries

MAJOR BRANCHES AND SUBSIDIARIES IN CHINESE MAINLAND

HEAD OFFICE

1 FUXINGMEN NEI DAJIE,
BEIJING,
CHINA
SWIFT: BKCHCNBJ
TLX: 22254BCHOCN
TEL: (86) 010-66596688
FAX: (86) 010-66016871
POST CODE: 100818
WEBSITE: www.boc.cn

BEIJING BRANCH

A,C,E KAIHENG CENTER,
2 CHAOYANGMEN NEI DAJIE,
DONGCHENG DISTRICT,
BEIJING,
CHINA
SWIFT: BKCHCNBJ110
TEL: (86) 010-85122288
FAX: (86) 010-85121739
POST CODE: 100010

TIANJIN BRANCH

8 YOUYI NORTH ROAD,
HEXI DISTRICT,
TIANJIN,
CHINA
SWIFT: BKCHCNBJ200
TEL: (86) 022-27108001
FAX: (86) 022-23312805
POST CODE: 300204

HEBEI BRANCH

28 ZIQIANG ROAD,
SHIJIAZHUANG,
HEBEI PROV.,
CHINA
SWIFT: BKCHCNBJ220
TEL: (86) 0311-69696681
FAX: (86) 0311-69696692
POST CODE: 050001

SHANXI BRANCH

186 PINGYANG ROAD,
XIAODIAN DISTRICT,
TAIYUAN,
SHANXI PROV.,
CHINA
SWIFT: BKCHCNBJ680
TEL: (86) 0351-8266016
FAX: (86) 0351-8266021
POST CODE: 030006

INNER MONGOLIA BRANCH

12 XINHUA DAJIE,
XINCHENG DISTRICT,
HUHHOT,
INNER MONGOLIA
AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ880
TEL: (86) 0471-4690052
FAX: (86) 0471-4690001
POST CODE: 010010

LIAONING BRANCH

9 ZHONGSHAN SQUARE,
ZHONGSHAN DISTRICT,
DALIAN,
LIAONING PROV.,
CHINA
SWIFT: BKCHCNBJ810
TEL: (86) 0411-82586666
FAX: (86) 0411-82637098
POST CODE: 116001

JILIN BRANCH

699 XI'AN DALU,
CHANGCHUN,
JILIN PROV.,
CHINA
SWIFT: BKCHCNBJ840
TEL: (86) 0431-88408888
FAX: (86) 0431-88408901
POST CODE: 130061

HEILONGJIANG BRANCH

19 HONGJUN STREET,
NANGANG DISTRICT,
HARBIN,
HEILONGJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ860
TEL: (86) 0451-53636890
FAX: (86) 0451-53624147
POST CODE: 150001

SHANGHAI BRANCH

200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
SWIFT: BKCHCNBJ300
TLX: 33062BOCSHCN
TEL: (86) 021-50375566
FAX: (86) 021-50372911
POST CODE: 200120

JIANGSU BRANCH

148 ZHONGSHAN NAN LU,
NANJING,
JIANGSU PROV.,
CHINA
SWIFT: BKCHCNBJ940
TLX: 34116BOCJSCN
TEL: (86) 025-84207888
FAX: (86) 025-84206082
POST CODE: 210005

ZHEJIANG BRANCH

321 FENGQI ROAD,
HANGZHOU,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ910
TEL: (86) 0571-85011888
FAX: (86) 0571-87074837
POST CODE: 310003

ANHUI BRANCH

313 MID. CHANGJIANG ROAD,
HEFEI,
ANHUI PROV.,
CHINA
SWIFT: BKCHCNBJ780
TEL: (86) 0551-62926995
FAX: (86) 0551-62926993
POST CODE: 230061

FUJIAN BRANCH

BOC BLDG., 136 WUSI ROAD,
FUZHOU,
FUJIAN PROV.,
CHINA
SWIFT: BKCHCNBJ720
TLX: 92109BOCFJCN
TEL: (86) 0591-87090999
FAX: (86) 0591-87090111
POST CODE: 350003

JIANGXI BRANCH

1 ZHANQIAN WEST ROAD,
NANCHANG,
JIANGXI PROV.,
CHINA
SWIFT: BKCHCNBJ550
TEL: (86) 0791-86471503
FAX: (86) 0791-86471505
POST CODE: 330002

SHANDONG BRANCH

59 HONGKONG MIDDLE ROAD,
QINGDAO,
SHANDONG PROV.,
CHINA
SWIFT: BKCHCNBJ500
TEL: (86) 0532-81858000
FAX: (86) 0532-85818243
POST CODE: 266071

HENAN BRANCH

3-1 BUSINESS OUTER RING ROAD.
ZHENGDONG NEW DISTRICT,
ZHENGZHOU,
HENAN PROV.,
CHINA
SWIFT: BKCHCNBJ530
TEL: (86) 0371-87008888
FAX: (86) 0371-87007888
POST CODE: 450008

HUBEI BRANCH

677 JIANSHE ROAD,
WUHAN,
HUBEI PROV.,
CHINA
SWIFT: BKCHCNBJ600
TEL: (86) 027-85562866
(86) 027-85562959
FAX: (86) 027-85562955
POST CODE: 430022

HUNAN BRANCH

593 MID. FURONG ROAD
(1 DUAN),
CHANGSHA,
HUNAN PROV.,
CHINA
SWIFT: BKCHCNBJ970
TEL: (86) 0731-82580703
FAX: (86) 0731-82580707
POST CODE: 410005

GUANGDONG BRANCH

197–199 DONGFENG XI LU,
GUANGZHOU,
GUANGDONG PROV.,
CHINA
SWIFT: BKCHCNBJ400
TLX: 441042GZBOCCN
TEL: (86) 020-83338080
FAX: (86) 020-83347666
POST CODE: 510180

GUANGXI BRANCH

39 GUCHENG ROAD,
NANNING,
GUANGXI ZHUANG
AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ480
TEL: (86) 0771-2879316
FAX: (86) 0771-2813844
POST CODE: 530022

HAINAN BRANCH

29, 31 DATONG ROAD,
LONGHUA DISTRICT,
HAIKOU,
HAINAN PROV.,
CHINA
SWIFT: BKCHCNBJ740
TEL: (86) 0898-66562023
FAX: (86) 0898-66562040
POST CODE: 570102

SICHUAN BRANCH

35 MID. RENMIN ROAD
(2 DUAN),
CHENGDU,
SICHUAN PROV.,
CHINA
SWIFT: BKCHCNBJ570
TEL: (86) 028-86741950
FAX: (86) 028-86403346
(86) 028-86744859
POST CODE: 610031

GUIZHOU BRANCH

BOC BLDG., 347 RUIJIN SOUTH ROAD,
GUIYANG,
GUIZHOU PROV.,
CHINA
SWIFT: BKCHCNBJ240
TEL: (86) 0851-85822419
FAX: (86) 0851-85825770
POST CODE: 550002

YUNNAN BRANCH

515 BEIJING ROAD,
KUNMING,
YUNNAN PROV.,
CHINA
SWIFT: BKCHCNBJ640
TEL: (86) 0871-63192915
FAX: (86) 0871-63175553
POST CODE: 650051

TIBET BRANCH

7 LINKUO XI LU,
LHASA,
TIBET AUTONOMOUS
REGION,
CHINA
SWIFT: BKCHCNBJ900
TEL: (86) 0891-6835311
FAX: (86) 0891-6835311
POST CODE: 850000

SHAANXI BRANCH

246 DONGXIN JIE,
XINCHENG DISTRICT,
XI'AN,
SHAANXI PROV.,
CHINA
SWIFT: BKCHCNBJ620
TEL: (86) 029-87509999
FAX: (86) 029-87509922
POST CODE: 710005

GANSU BRANCH

525 TIANSHUI SOUTH ROAD,
CHENGGUAN DISTRICT
LANZHOU,
GANSU PROV.,
CHINA
SWIFT: BKCHCNBJ660
TEL: (86) 0931-8837809
FAX: (86) 0931-8837809
POST CODE: 730000

QINGHAI BRANCH

218 DONGGUAN STREET,
CHENG DONG DISTRICT,
XINING,
QINGHAI PROV.,
CHINA
SWIFT: BKCHCNBJ280
TEL: (86) 0971-8178888
FAX: (86) 0971-8174971
POST CODE: 810000

NINGXIA BRANCH

39 XINCHANG EAST ROAD,
JINFENG DISTRICT,
YINCHUAN,
NINGXIA HUI
AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ260
TEL: (86) 0951-5681501
FAX: (86) 0951-5681509
POST CODE: 750002

XINJIANG BRANCH

1 DONGFENG ROAD,
URUMQI,
XINJIANG UYGUR
AUTONOMOUS REGION,
CHINA
SWIFT: BKCHCNBJ760
TEL: (86) 0991-2328888
FAX: (86) 0991-2825095
POST CODE: 830002

CHONGQING BRANCH

218 ZHONGSHAN YI ROAD,
YUZHONG DISTRICT,
CHONGQING,
CHINA
SWIFT: BKCHCNBJ59A
TEL: (86) 023-63889234
FAX: (86) 023-63889217
POST CODE: 400013

SHENZHEN BRANCH

INTERNATIONAL FINANCE
BUILDING,
2022 JIANSHE ROAD,
LUOHU DISTRICT, SHENZHEN,
GUANGDONG PROV.,
CHINA
SWIFT: BKCHCNBJ45A
TEL: (86) 0755-22338888
FAX: (86) 0755-82259209
POST CODE: 518001

SUZHOU BRANCH

188 GANJIANG WEST ROAD,
SUZHOU,
JIANGSU PROV.,
CHINA
SWIFT: BKCHCNBJ95B
TEL: (86) 0512-65113558
FAX: (86) 0512-65114906
POST CODE: 215002

NINGBO BRANCH

139 YAOHANG JIE,
NINGBO,
ZHEJIANG PROV.,
CHINA
SWIFT: BKCHCNBJ92A
TEL: (86) 0574-87196666
FAX: (86) 0574-87198889
POST CODE: 315000

JINAN BRANCH

22 LUOYUAN STREET,
JINAN,
SHANDONG PROV.,
CHINA
SWIFT: BKCHCNBJ51B
TEL: (86) 0531-86995099
FAX: (86) 0531-86995099
POST CODE: 250063

XIAMEN BRANCH

BANK OF CHINA BUILDING
40 NORTH HUBIN ROAD,
XIAMEN,
FUJIAN PROV.,
CHINA
SWIFT: BKCHCNBJ73A
TEL: (86) 0592-5066417
FAX: (86) 0592-5095130
POST CODE: 361012

SHENYANG BRANCH

253 SHIFU ROAD,
SHENHE DISTRICT,
SHENYANG,
LIAONING PROV.,
CHINA
SWIFT: BKCHCNBJ82A
TEL: (86) 024-22810827
FAX: (86) 024-22857333
POST CODE: 110013

BANK OF CHINA INSURANCE COMPANY LIMITED

10/11F
NO. 110 XIDAN NORTH
STREET,
XICHENG DISTRICT,
BEIJING,
CHINA
TEL: (86) 010-83260001
FAX: (86) 010-83260011
POST CODE: 100032
WEBSITE: www.bocins.com

BANK OF CHINA INVESTMENT MANAGEMENT CO., LTD

45/F, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-38834999
FAX: (86) 021-68873488
POST CODE: 200120
WEBSITE: www.bocim.com

BANK OF CHINA CONSUMER FINANCE COMPANY LIMITED

1409#, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-63291680
FAX: (86) 021-63291789
POST CODE: 200120
WEBSITE: www.boccfc.cn
EMAIL: boccfcadmin@boccfc.cn

BOC INTERNATIONAL (CHINA) LIMITED

39/F, BOC BUILDING
200 MID. YINCHENG ROAD,
PUDONG NEW DISTRICT,
SHANGHAI,
CHINA
TEL: (86) 021-20328000
FAX: (86) 021-58883554
POST CODE: 200120
WEBSITE: www.bocichina.com
EMAIL: admindiv.china@bocigroup.com

MAJOR BRANCHES AND SUBSIDIARIES IN HONG KONG, MACAU AND TAIWAN

BOC HONG KONG (HOLDINGS) LIMITED

52/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 28462700
FAX: (852) 28105830
WEBSITE: www.bochk.com

BOC INTERNATIONAL HOLDINGS LIMITED

26/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 39886000
FAX: (852) 21479065
WEBSITE: www.bocigroup.com
EMAIL: info@bocigroup.com

HONG KONG BRANCH

8/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 28101203
FAX: (852) 25377609

BANK OF CHINA GROUP INSURANCE COMPANY LIMITED

9/F, WING ON HOUSE,
71 DES VOEUX ROAD CENTRAL,
HONG KONG
TEL: (852) 28670888
FAX: (852) 25221705
WEBSITE: www.bocgroup.com/bocg-ins
EMAIL: info_ins@bocgroup.com

BANK OF CHINA GROUP INVESTMENT LIMITED

23/F, BANK OF CHINA TOWER,
1 GARDEN ROAD,
HONG KONG
TEL: (852) 22007500
FAX: (852) 28772629
WEBSITE: www.bocgi.com
EMAIL: bocginv_bgi@bocgroup.com

BOC GROUP LIFE ASSURANCE CO., LTD.

13–21/F, BOC GROUP LIFE
ASSURANCE TOWER,
136 DES VOEUX ROAD
CENTRAL,
HONG KONG
TEL: (852) 28629898
FAX: (852) 28660938
WEBSITE: www.bocgroup.com/bocg-life
EMAIL: boc_life@bocgroup.com

MACAU BRANCH

BANK OF CHINA BUILDING,
AVENIDA DOUTOR MARIO SOARES,
MACAU
SWIFT: BKCHMOMX
TEL: (853) 28781828
FAX: (853) 28781833
WEBSITE: www.bocmacau.com

TAI FUNG BANK LIMITED

418, ALAMEDA DR. CARLOS,
d'ASSUMPCAO,
MACAU
TEL: (853) 28322323
FAX: (853) 28570737
WEBSITE: www.taifungbank.com
EMAIL: tfbsecr@taifungbank.com

TAIPEI BRANCH

1–4/F, NO. 105, SONGREN ROAD,
XINYI DIST., TAIPEI CITY,
TAIWAN
SWIFT: BKCHTWTP
TEL: (886) 2-27585600
FAX: (886) 2-27581598
EMAIL: service.tw@bankofchina.com

MAJOR BRANCHES AND SUBSIDIARIES IN OTHER COUNTRIES

ASIA-PACIFIC AREA

SINGAPORE BRANCH

4 BATTERY ROAD,
BANK OF CHINA BUILDING,
SINGAPORE 049908
SWIFT: BKCHSGSGXXX
TEL: (65) 65352411
FAX: (65) 65343401
EMAIL: service.sg@bankofchina.com

TOKYO BRANCH

BOC BLDG. 3-4-1 AKASAKA
MINATO-KU, TOKYO
107-0052
JAPAN
SWIFT: BKCHJPJT
TEL: (813) 35058818
FAX: (813) 35058868
EMAIL: service.jp@bankofchina.com

SEOUL BRANCH

41, CHEONG GYE CHEON-RO,
JONGNO-GU,
(1/2/3F., YOUNG POONG BLDG.,
33 SEOLIN-DONG) 110-752,
SEOUL,
KOREA
SWIFT: BKCHKRSEXXX
TEL: (82) 16705566
FAX: (822) 3996265

BANK OF CHINA (THAI) PUBLIC COMPANY LIMITED

179/4 BANGKOK CITY TOWER
SOUTH SATHORN ROAD,
TUNGMAHAMEK
SATHORN DISTRICT,
BANGKOK 10120,
THAILAND
SWIFT: BKCHTHBK
TEL: (662) 2861010
FAX: (662) 2861020
CUSTOMER SERVICE CENTER: (662) 6795566
EMAIL: service.th@bankofchina.com

BANK OF CHINA (MALAYSIA) BERHAD

GROUND, MEZZANINE, &
1st FLOOR PLAZA OSK,
25 JALAN AMPANG
50450 KUALA LUMPUR,
MALAYSIA
SWIFT: BKCHMYKL
TEL: (603) 21626633
FAX: (603) 21615150
EMAIL: service.my@bankofchina.com

HO CHI MINH CITY BRANCH

19/F., SUN WAH TOWER
115 NGUYEN HUE BLVD.,
DISTRICT 1
HO CHI MINH CITY,
VIETNAM
SWIFT: BKCHVNVX
TEL: (8428) 38219949
FAX: (8428) 38219948
EMAIL: service.vn@bankofchina.com

MANILA BRANCH

G/F. & 36/F.
PHILAMLIFE TOWER
8767 PASEO DE ROXAS,
MAKATI CITY
MANILA
PHILIPPINES
SWIFT: BKCHPHMM
TEL: (632) 8850111
FAX: (632) 8850532
EMAIL: service.ph@bankofchina.com

JAKARTA BRANCH

TAMARA CENTER
11th FLOOR,
JALAN JEND.
SUDIRMAN KAV. 24
JAKARTA 12920,
INDONESIA
SWIFT: BKCHIDJA
TEL: (6221) 5205502
FAX: (6221) 5201113/5207552
EMAIL: service.id@bankofchina.com

SYDNEY BRANCH

39–41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
SWIFT: BKCHAU2SXXX
TEL: (612) 82355888
FAX: (612) 92621794
EMAIL: service.au@bankofchina.com

BANK OF CHINA (AUSTRALIA) LIMITED

39–41 YORK STREET,
SYDNEY NSW 2000,
AUSTRALIA
SWIFT: BKCHAU2AXXX
TEL: (612) 82355888
FAX: (612) 92621794
EMAIL: service.au@bankofchina.com

BANK OF CHINA (NEW ZEALAND) LIMITED

LEVEL 17, 205 QUEEN STREET,
AUCKLAND, 1010,
NEW ZEALAND
SWIFT: BKCHNZ22
TEL: (649)9809000
EMAIL: service.nz@bankofchina.com

JSC AB (BANK OF CHINA KAZAKHSTAN)

71B, MICRODISTRICT
ZHETYSU-2,
AUEZOV DISTRICT, 050063,
ALMATY,
REPUBLIC OF KAZAKHSTAN
SWIFT: BKCHKZKA
TEL: (7727) 2585510
FAX: (7727) 2585514/2501896
EMAIL: bockz@ittle.kz

PHNOM PENH BRANCH

CANADIA TOWER,
1st & 2nd FLOOR,
#315 ANG DOUNG St.
(CORNER OF MONIVONG BLVD.)
P.O.BOX 110,
PHNOM PENH, CAMBODIA
SWIFT: BKCHKHPP
TEL: (85523) 988 886
FAX: (85523) 988 880
EMAIL: service.kh@bankofchina.com

ULAANBAATAR REPRESENTATIVE OFFICE

11th FLOOR CENTRAL TOWER,
2 GREAT CHINGGIS
KHAAN SQUARE, SBD-8,
ULAANBAATAR 14200,
MONGOLIA
TEL: (976)77095566
FAX: (976)77195566

BAHRAIN REPRESENTATIVE OFFICE

OFFICE 1502, AL JASRAH TOWER,
DIPLOMATIC AREA
BUILDING 95,
ROAD 1702, BLOCK 317,
MANAMA
KINGDOM OF BAHRAIN
TEL: (973) 17531119
FAX: (973) 17531009

DUBAI REPRESENTATIVE OFFICE

OFFICE 2203, DUBAI WORLD TRADE CENTER,
SHEIKH ZAYED ROAD,
EMIRATE OF DUBAI,
U.A.E.
TEL: (9712) 4041666
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