



**广发银行 | CGB**

China Guangfa Bank Co., Ltd.  
广发银行股份有限公司



**Annual Report 2012**

# Broad Perspective, Continuous Development, Unlimited Boundary, Seamless Connection

Established in 1988, China Guangfa Bank is one of the earliest-incorporated joint-stock commercial banks in China. In light of the vision to be a first-class commercial bank, the Bank strives to be the best mid to high-end retail bank and the most efficient SME bank in China, and has cultivated a core operation philosophy focusing on innovation, efficiency, customer-orientation, IT leadership and employee welfare. The Bank continues to practice its corporate spirit of “Pursue around-the-clock time efficiency and strive for perfection” throughout its operation and management process. With ever-evolving transformation, innovation and improvement in operation and management, the Bank has grown into a highly competitive and influential commercial bank across China. In 2012, the Bank ranks 123rd by tier 1 capital among the world's 1,000 large banks by the British magazine *The Banker*.

By the end of 2012, the assets of the Bank exceeded RMB1 trillion, with its network expanded to include 33 branches, 607 sub-branches and 103 “Small Enterprises Banking Centers” covering 15 provinces (municipalities and autonomous regions), including Beijing, Tianjin, Liaoning, Heilongjiang, Shanghai, Jiangsu, Zhejiang, Shandong, Henan, Hubei, Hunan, Guangdong, Sichuan, Yunnan and Xinjiang, 61 prefecture-level or above cities, and the Macau Special Administrative Region. The Bank has over 6 million e-banking customers, over 20 million issued credit cards and correspondent bank partnerships with 1,643 bank headquarters and their branches in more than 131 countries and regions. It is the first financial institution to establish the strategic cooperation of multi-channel and multi-application e-payment with China UnionPay. The Bank continues to provide customers with efficient, quality and comprehensive financial services.

## Important Notice

- The Board of Directors, Directors and Senior Managers of the Bank warrant that there are no fraudulent disclosures or misleading statements contained in or any material omissions from this report, and are individually and jointly responsible for the authenticity, accuracy and completeness of the information contained in this report.
- Annual Report 2012 of China Guangfa Bank Co., Ltd. was reviewed and approved by the Eighth Meeting of the Sixth Board of Directors of the Bank. 17 Directors were required to be present at the meeting, and 16 Directors were in attendance. Director Li Zimin authorized Director Pu Jian in writing to exercise the right to vote on his behalf.
- KPMG Huazhen Certified Public Accountants (Special General Partnership) had audited the Bank's 2012 Financial Statements in accordance with China's Accounting Standards, and had issued auditors' report with unqualified opinion. At the same time, KPMG had audited the Bank's 2012 Financial Statements in accordance with International Financial Reporting Standards (IFRS) and Accepted Accounting Principals (US GAAP), and had issued auditors' reports with unqualified opinions.
- This report is prepared in both Chinese and English. In the case of any discrepancies, the Chinese version shall prevail.
- Apart from historical fact, certain sections in this report contain forward-looking statements, such as statements relating to the Bank's future financial position, strategy, planning and the management's mapping of future operations. The Bank's future performance and development may vary due to various factors and uncertainties. The Bank would not undertake the obligations to update or revise any of the forward-looking statement.

The Board of Directors of China Guangfa Bank Co., Ltd.

Chairman Dong Jianyue, President Morris Li, Deputy President in charge of finance Edward Chou and Head of Finance Department Fan Wenning ensure the authenticity and completeness of financial statements in Annual Report 2012.



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## Honor List



### China Business Journal

2012 Outstanding Competitive Small and Medium  
Joint Stock Bank



### China Times

Bank with Most Growth Potential of 2012  
Best Innovation Bank of 2012



### People's Bank of China Guangzhou Branch, China Banking Regulatory Commission Guangdong Office

"Top 10 Enlisted Projects" for Supporting  
Economic and Social Development of  
Guangdong Financial Industry



### Nanfang Daily

Best Financial Service Provider for Small and  
Medium Enterprises of 2012  
Financial Brand Most Favored by  
Civil Servants of 2012  
2012 Southern Tribute —  
Brand Communication Award



### Corporate Social Responsibility and Employer Brand Communication Research Center, Peking University, and zhaopin.com

China's Best Employer of the Year (2012)  
Most Popular Employer for College Students of the  
Year



### Money Week

Best Mobile Bank of 2012  
China's Top 10 Most Popular Credit Card Brands  
of 2012  
Best Marketing and Service Team of 2012



### CFO World

Best Cross-border Trade Settlement Award  
Best Cash Management Innovation Award



### China Financial Certification Authority (CFCA)

China's Best Online Banking Innovation Award of 2012



### eastmoney.com

2012 Oriental Wealth Billboard — Best Wealth  
Management Bank

## Honor List



### Ministry of Finance of the People's Republic of China

Progress Award for Underwriting Book-entry  
Treasure Bonds  
Excellence Award for Underwriting Group of  
Savings Bonds



### People's Bank of China

Third Prize of the 2012 Banking Technology  
Development Award



### China Banking Regulatory Commission

Outstanding organization in the competition  
entitled "Consolidating Statistical Information  
Foundation, Enhancing Banking Data Quality"



### JRJ.com

Most Growth Potential Award of the Banking  
Industry  
Best Brand Marketing Award of the Banking  
Industry  
Best Marketing Award for Retail Banking  
Best Marketing Award for e-Banking



### The Asian Banker

China's Best Credit Card Product of 2012



### Securities Times

Best Credit Card Innovation Award of 2012  
Best Medium-term Notes Project Award  
Best Short-term Financing Bonds Project Award



### 21st Century Business Review and 21st Century Business Herald



China's Best Corporate Citizenship Award  
Best Corporate Culture Award



### League of American Communications Professionals(LACP)

Golden Prize of Annual Report 2011  
Top 25 Best Chinese Annual Report 2011  
Top 50 Best Annual Report 2011 of Asian-Pacific  
Region



Dong Jianyue

Chairman

# Chairman's Statement

In 2012, against the backdrop of tumbling recovery in the world economy, China's stabilizing economy and accelerated financial reform, the Bank fully implemented state macroeconomic policies and regulatory requirements, proactively addressed opportunities and challenges arising out of the complex external environment, balanced size, benefit, quality and structure, and delivered impressive achievement in key performance indicators: firstly, total assets reached RMB1.16815 trillion, surpassing the RMB1 trillion milestone; secondly, net income reached RMB11.220 billion, surpassing the RMB10 billion milestone, achieving a three-year CAGR of nearly 50%; capital adequacy ratio and core capital adequacy ratio increased further to 11.27% and 8.37% respectively, strengthening capability to withstand risks; net fee and commission income increased 41.02% to RMB5.873 billion, accounting for 18.88% of operating revenue.

One reaps no more than what he has sown. Over the past year, the Bank not only improved its own performance, but also won wide recognition from the general public, and saw improved brand image and market presence. According to the Top 1000 World Banks ranking published by *The Banker* of the UK, the Bank was ranked 123rd by tier-one capital, up by 21 places. On behalf of the Board, I would like to extend our sincere gratitude to the shareholders, customers and friends from all professions that have long been supporting the Bank's development, and to all staff for their hard work and commitment.

Looking back on the progress made in the past year, we understand that sustainable growth and core competency can only be achieved if we continue to follow the five-year strategic plan and focus on innovation, improve mechanisms and services, as well as the strategy of streamlined management, product differentiation, business innovation and capital discipline.

**Further enhanced innovation and explored full advantage of technology in business development.** The Bank explored the full advantage of technology in fostering innovation, and continued to commit substantial investment in technology. We accelerated the construction of major application and infrastructure projects with the focus on business innovation, e-banking, back-office process optimization, information-based management, and operation risk system detection. The Bank cultivated a culture of innovation and had in place mechanism that encouraged innovation. We have held the first innovation conference, established the innovation lab, and introduced innovation management platform for all staff. Leveraged on the innovation initiatives, the Bank significantly improved specialized service capabilities and customer service standard. We established the first "7/24 Smart Bank" in China, and pioneered in launching the "Universal Payment" business. Personal online banking customers reached 6.13 million, and mobile banking customers amounted to 1.24 million, a growth of 65% and 305% respectively YoY. In 2012, the Bank received numerous awards, including "the 2012 Best Online Bank Innovation Award in China", "the 2012 Most Innovation Bank", and "the Best Cash Management Innovation Award".

## Chairman's Statement

**Further accelerated business transformation and committed to developing low capital consumption business model.** We have further reformed our retail business, appraisal mechanisms, team building and management model, upgraded the premier banking platform and launched the pilot private banking business. We have introduced the remote wealth management service. In 2012, personal VIP customers grew 41% YoY, credit cards issued exceeded 20 million, personal loans accounted for nearly 40% of new loans, fee and commission income from retail business contributed over 70% of total fee and commission income. Pursuant to our emphasis of the strategic positioning of medium and small enterprise banking business, loans extended to medium, small and micro enterprises accounted for 53% of corporate loan balance, and the Bank has established 103 "Small Enterprises Banking Center" as of the end of 2012. The financial market businesses align with strategic transformation the Bank is going through. By the end of 2012, the assets under the financial market businesses grew 65% YoY to RMB377.4 billion. The Bank integrated such corporate product offerings as trade financing, asset custody and cash management, and became the first Chinese bank to establish the Global Transaction Services (GTS).

**Facilitated system building and further optimized corporate governance.** The Bank strengthened supervision and support of the Board in terms of risk management, and urged management to implement overall risk management protocol by deliberating proposals concerning risk management and encouraging the cultivation of a compliance culture, in which every personnel is held responsible in the overall risk management process. The Bank duly performed capital management responsibilities, and facilitated the implementation of the new capital accord. The Bank successfully issued RMB4.5 billion sub-debt in 2012, and the 9 sub-programs as part of the new consultative plan under the new capital accord have been unfolded. The Bank also facilitated various inspection sessions and training for Directors and Supervisors, established and followed a sound performance review system for Directors, Supervisors and Senior Managers.

**Further improved service capabilities and remained fully committed to supporting real economy development.** The Bank provided financing to small and micro enterprises in response to state policies. In 2012, the Bank rigorously improved SME and micro enterprise financial service efficiency in terms of organizational structure, product design and resources allocation, and successfully launched new corporate e-banking products and SME private placement bonds tailored for SMEs. By the end of 2012, medium, small and micro credit customers accounted for over 80% of corporate credit customers, contributing over 50% of new loan for the past three years. We devoted more resources to supporting industry structure upgrading and ecological civilization. By the end of 2012, the Bank's loan balance and number of customers in strategic emerging sectors such as energy conservation, environment protection, new-generation IT, high-end equipment manufacturing grew by 155% and 461% YoY respectively. The Bank improved the layout of branch offices to coordinate regional development. In terms of the network expansion, the Bank opened two directly managed branches in western cities of Urumqi and Chengdu. The Bank will continue to bolster strategic layout of branch offices pursuant to the national strategy of central region rise, western region development and urbanization. In the meantime, the Bank was actively involved in fulfilling social responsibilities, and organizing charity initiatives such as "CGB Charity Tour", reaping both economic and social benefits.



## Chairman's Statement

2013 marks the 25th anniversary of the Bank. As an old saying says, "To accomplish a huge and challenging task, one shall start with tackling the less complicated building blocks". In recent years, we have continued our efforts in strategic transformation, channel expansion, fostering talent, brand management, reform and restructuring as well as other initiatives, in order to build a solid foundation for our further growth. By seizing the important strategic opportunities arising from economic and social transformational development, we endeavor to achieve across-the-board and sustainable business growth and generate higher values and returns for our stakeholders and the community, taking the development of CGB to a new height.



**DONG Jianyue**

*Chairman*



Morris Li  
President

# President's Statement

In 2012, the macroeconomic and financial situation was extremely complex and challenging both domestically and globally. While following the guidance of the five-year strategic development plan, the management of the Bank diligently executed their responsibilities as prescribed by the Board of Directors. Under the leadership of the management, the cohort of all staff joined force to overcome various challenges, the collective efforts of which has led to remarkable progress in building a first-class commercial bank.

At the end of 2012, the Bank's total assets, total liabilities and shareholders' equity reached RMB1.16815 trillion, RMB1.104622 trillion and RMB63.528 billion respectively, each representing a growth of 27.11%, 27.51% and 20.53% from the beginning of the year. Total loans and deposits increased to RMB615.750 billion and RMB856.166 billion, up by 13.99% and 15.30% respectively from the start of the year. Net profits were RMB11.220 billion, up by 17.05% year on year. Capital adequacy ratio was 11.27% and core capital adequacy ratio was 8.37%, up by 0.17 and 0.32 percentage point respectively from the beginning of the year.

Persistence will always leads to success. These results are attributed to the Bank's strict implementation of the state's macro-economic control policies and compliance with the various regulatory requirements, as well as a series of effective efforts in respect of strategy execution, marketing and business management.

**Strategy execution was enhanced to drive business transformation and development.** The Bank strengthened the development of the full-process strategy management system, established a sound strategy evaluation mechanism, and promoted strategy awareness as well as step-by-step implementation, in order to drive business transformation and development. The transformation to retail bank and establishment of marketing regime tailored for personal banking business have been accelerated. Performance review system, team structuring and team management have been reformed to steadily improve unit productivity. Leadership in the credit card market was reinforced, and total issuance has exceeded 20 million to date. The strategic positioning of medium, small and micro-enterprise banking was emphasized through opening 103 "Small Enterprise Banking Centers" and setting up specialized marketing and service team, to achieve segmented marketing, centralized risk management and bulk customer base development. Furthermore, a dedicated credit line of RMB32 billion for medium, small and micro-enterprises has been set up. The year-end balance of small and micro-enterprise loans was RMB91.3 billion, representing an increase of 21.3% from the beginning of the year. Both the growth rate and amount of such new loans granted have satisfied the regulatory minimum.

**Marketing efforts were accelerated and innovation was encouraged to drive future development.** Carrying forward its proud tradition of innovation, the Bank held its inaugural innovation conference and established an experimental mechanism of innovation to promote bank-wide business innovation. The Bank revised its business plan for corporate banking and established a layered client relation management system to provide a broader depth of services to core clients and improve investment banking service capabilities. The global transaction services (GTS) structure was introduced to improve comprehensive corporate banking service capabilities. Innovation in the electronic channel was strengthened — the personal online banking system was upgraded five times, with a total number of users of 6.13 million and year-on-year growth of 64.7%; over 200 mobile banking service functions was added with a total number of users of 1.24 million, representing a year-on-year growth of 304.6%. The Bank introduced the first "24-hour smart bank" in China, leading the development of the electronic channel in the Chinese banking industry. The Bank was awarded the "Best Mobile Bank", "Most Competitive Innovative Financial Product of 2012" and "E-bank with

## President's Statement

Excellent Competitiveness of 2012". The Bank improved its financial market products offering, made breakthroughs in structuring non-standardized debt financing instruments, private placement bonds, ultra-short-term financing bonds and financial bonds, and offered agency services including foreign exchange options, interest rate swap, commodity derivative transactions, and gold trading, improved its rankings on the spot market-making, government debt underwriting and personal banking agency markets. The Bank became one of the first quoting banks of the interest rate swap fixing (closing) curve, and one of the first financial institutions participating in national debt and futures simulation transactions in the inter-bank market.

**Risk management and internal control was strengthened to lay a solid foundation for business development.** The Bank proactively responded to changes in the macroeconomic situation and regulatory policies following the principle of "controllable risk and balanced development". The Bank strengthened risk management in key industries, fields and regions, and actively mitigated potential risks. The Bank reformed the risk management framework, appointed chief credit officers for corporate and personal banking, and established the Retail Risk Management Department, and risk management team for SMEs to promote specialized risk management. The Bank improved the Business Risk Compliance and Control (BRCC) mechanism, promoted the building of the operational risk system and special instruments, and organized the "CGB Compliance Day", and "Delivering Legal and Compliance Knowledge to the Frontline" campaigns to improve the operational compliance awareness of all the staff. The bank also strengthened auditing and inspection, implemented a wider range of more inspection measures, and organized joint review sessions for material issues, which effectively improved audit quality and effectiveness.

**Support system reform was driven to improve bank-wide development potential.** The Bank accelerated the building of major application systems and infrastructure projects, and was certified to the ISO27001 Information Security Management System. The comprehensive teller system and back-office business centralization were further implemented, and operational systems continued to be optimized to improve support capabilities for businesses. Human resources management reform, with focus on the reform of the position, remuneration and performance systems, was accelerated to create an attractive career path for employees. The Bank was awarded the "China's Best Employer of the Year". Distribution network continued to expand with three new branches set up in Jinan, Urumqi and Chengdu, increasing the total number of business outlets to 607. The Banker proactively increased publicity in the media and increased investment in strategic advertisement to build up the brand image of a "first-class commercial bank".

The accomplishments the Bank achieved in 2012 relied on the guidance and assistance from the Board of Directors and Board of Supervisors, embodied the trust and support from the shareholders and people from all professions, and exhibited the dedication of all staff. I would like to extend my sincere gratitude on behalf of the management to those who have supported the development of the Bank!



## President's Statement

The year of 2013 marks the 25th anniversary of the Bank, and will witness the implementation of transformational initiatives according to the five-year strategy plan. The Bank will continue to comply with the requirements under the "12th Five-year Plan" of the state as well as various other regulatory requirements, focus on market expansion and risk management, significantly optimize business structure, transform development model and strive to achieve better results.



**Morris Li**

*President*

# Corporate Profile

## 1. Statutory Name in Chinese: 广发银行股份有限公司

(Abbreviation: 广发银行)

Statutory name in English: China Guangfa Bank Co., Ltd.

(Abbreviation: China Guangfa Bank, CGB or Guangfa Bank)

## 2. Business Philosophy and Business Scope

**Business Philosophy** Conduct various commercial banking businesses in line with the principles of equality, free will, fairness and honesty; promote and support the development of national economy and the overall prosperity of society; and maximize the shareholders interest.

The Bank shall regard safety, mobility and profitability as principles of its operation, and shall operate independently at its own risk, assume sole responsibility for its profits and losses and be self-disciplined.

**Business Scope** Taking public deposits; granting short-term, mid-term and long-term loans; handling settlements in and out of China; honoring bills and offering discounting services; issuing financial bonds; issuing, paying for and underwriting government bonds as an agent; sales and purchases of negotiable securities such as government bonds and financial bonds; inter-bank borrowings; providing letters of credit service and guarantee; engaging in bank card business; acting as payment and receipt agent and insurance agent; providing safe deposit box services; taking deposits and granting loans in foreign currency; foreign currency remittance; foreign currency exchange; international settlements; foreign exchange settlements and sales; inter-bank foreign currency borrowings; honoring bills of exchange and offering discounting services in foreign currency; granting foreign currency loans; granting foreign currency guarantees; sales and purchases of negotiable securities other than shares in a foreign currency for itself and as an agent; issuing negotiable securities other than shares in a foreign currency for itself and as an agent; sales and purchases of foreign exchange on its own account and on behalf of its customers; issuing and making payments for foreign credit cards as an agent; offshore financial operations; assets and credit verification, consultation and notarization businesses; other businesses approved by the China Banking Regulatory Commission (hereinafter as CBRC) and other relevant authorities.

## 3. Legal Representative: Dong Jianyue

## 4. Secretary to Board of Directors: Zheng Xiaolong

## Corporate Profile

**5. Registered Office Address:**

No. 713, Dongfengdong Road, Yuexiu District, Guangzhou, Guangdong Province, P.R. China  
 Postcode: 510080  
 Tel: 86-20-38322888  
 Fax: 86-20-87310779  
 Service Hotline of China Guangfa Bank: 400-830-8003  
 Guangfa Credit Card Hotline: 95508  
 Website: www.cgbchina.com.cn

**6. Place for Obtaining Annual Report:**

Office of Board of Directors of the Bank

**7. Other Relevant Information**

The first registration date: 8 July 1988  
 The date of last registration change: 5 July 2012  
 Authority of registration: Guangdong Provincial Administration for Industry and Commerce of  
 People's Republic of China  
 Registered capital: RMB15,402,397,264  
 Corporate business license serial number: 440000000046541  
 Financial institution license serial number: B0012H144010001  
 Organization code: 19033642-8  
 Tax registration certificate number: Yue State Tax 440101190336428  
 Yue Local Tax 440102190336428

**8. Engaged Auditors**

Domestic Auditor: KPMG Huazhen Certified Public Accountants(Special General Partnership)  
 Office Address: 8th Floor, Tower E2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China  
 International Auditor: KPMG  
 Office Address: 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

**9. This report was prepared in accordance with the requirements of *Measures on Information Disclosure of Commercial Banks* and the *Notice on Regulating the Contents of Annual Reports of Join-stock Commercial Banks*, etc. promulgated by CBRC.**

# Financial Highlights

## 1. Financial Summary

Item	2012	2011	2010
<b>Business results (RMB thousands)</b>			
Net interest income	24,596,078	23,708,838	19,362,322
Net fee and commission income	5,872,840	4,164,539	2,366,301
Operating income	31,104,615	28,172,779	21,957,867
Operating and administrative expenses	(12,699,202)	(11,250,816)	(9,059,658)
Allowances for asset impairment	(1,292,952)	(2,510,662)	(2,807,783)
Operating profit	14,498,575	12,246,597	8,489,975
Gross profit	14,663,618	12,381,548	8,603,517
Net profit	11,219,859	9,585,734	6,188,614
Net profit attributing to shareholders of ordinary share	11,219,859	9,585,734	6,188,614
Net profit attributing to shareholders of ordinary share after deducting non-recurring profit and loss <sup>1</sup>	11,020,956	9,434,731	5,960,988
Net cash flows from operating activities	19,824,958	(15,811,219)	14,865,065
<b>End of Reporting Period (RMB thousands)</b>			
Total assets	1,168,149,863	918,981,819	814,390,022
Total loans and advances to customers	615,749,510	540,163,069	466,838,802
Allowances for loans and advances impairment losses	(15,488,721)	(16,718,163)	(15,386,721)
Net investment	98,477,482	66,698,278	63,676,381
Total liabilities	1,104,621,776	866,275,839	771,508,425
Deposits from customers	856,166,035	742,537,945	628,857,912
Deposits from banks and non-bank financial institutions	144,474,115	67,125,703	55,539,436
Placements from banks and non-bank financial institutions	34,146,596	9,886,198	13,938,614
Shareholders' equity	63,528,087	52,705,980	42,881,597
Net capital	85,294,627	72,023,183	56,617,234
Net core capital	63,360,048	52,223,508	42,636,249
Supplementary capital	23,836,935	21,701,989	15,884,772
Deductions	(1,904,711)	(1,904,627)	(1,907,574)
Net risk-weighted assets	756,592,367	648,878,447	513,759,170
<b>Data for per share (RMB yuan)</b>			
Net assets per share <sup>2</sup>	4.12	3.42	2.78
Basic earnings per share <sup>1</sup>	0.73	0.62	0.46
Diluted earnings per share <sup>1</sup>	0.73	0.62	0.46
Basic earnings per share after deducting non-recurring profit and loss <sup>1</sup>	0.72	0.61	0.44
Net cash flow from operating activities per share	1.29	(1.03)	0.97

Notes: 1. Calculated in accordance with applicable provisions in the CSRC's No. 9 Rules for Compilation of Information Disclosures by Offering Securities to the Public — Calculation and Disclosure of Return on Net Assets and Earnings per Share (revised in 2010).

2. Shareholders' equity at the end of the period divided by the number of shares outstanding at the end of the period.



## Financial Highlights

## 2. Financial Ratios

Item	2012	2011	2010
<b>Profitability ratios (%)</b>			
ROAA <sup>1</sup>	1.08	1.11	0.84
Weighted average return on net assets <sup>2</sup>	19.31	20.06	19.78
Weighted average return on net assets after deducting non-recurring profit and loss <sup>2</sup>	18.96	19.74	19.05
Net interest spread <sup>3</sup>	2.31	2.78	2.62
Net interest margin <sup>4</sup>	2.52	2.93	2.70
Ratio of net fee and commission income to operating income	18.88	14.78	10.78
Cost to income ratio <sup>5</sup>	40.83	39.94	41.26
<b>Asset quality ratios (%)</b>			
Non-performing loan ratio <sup>6</sup>	1.48	1.34	1.58
Loan provision coverage ratio <sup>7</sup>	170.00	231.21	208.48
Loans provision ratio <sup>8</sup>	2.52	3.10	3.30
<b>Capital adequacy ratios (%)</b>			
Core capital adequacy ratio	8.37	8.05	8.30
Capital adequacy ratio	11.27	11.10	11.02

Notes: 1. Net profit divided by the average balance of total assets at the beginning and the end of the period.

2. Calculated in accordance with applicable provisions in the CSRC's No. 9 Rules for Compilation of Information Disclosures by Offering Securities to the Public — Calculation and Disclosure of Return on Net Assets and Earnings per Share (revised in 2010).

3. Average ROA of interest-earning assets minus average interest payment rate of interest-bearing liabilities.

4. Net interest income divided by average interest-earning assets.

5. Operating and administrative expenses divided by operating income.

6. Balance of non-performing loans divided by total loans and advances of customers.

7. Balance of allowances for loan impairment divided by balance of non-performing loans.

8. Balance of allowances for loan impairment divided by total loans and advances of customers.

## 3. Supplementary Financial Ratios

Key indicator			Regulatory indicators (%)	End of 2012 (%)	End of 2011 (%)	End of 2010 (%)
Loan-deposit ratio	Converted into RMB	≤ 75		71.67	71.64	72.35
Liquidity ratio	RMB	≥ 25		42.46	48.22	55.61
	FX	≥ 25		107.36	110.17	46.46
Proportion of call loans	Called-in RMB	≤ 4		3.52	1.00	1.89
	Called-out RMB	≤ 8		1.82	2.00	1.79
Proportion of loans to the top single borrower to net capital		≤ 10		4.10	4.91	7.95
Proportion of loans to the top 10 borrowers to net capital				22.71	27.25	41.71

## Financial Highlights

### 4. Changes in Shareholders' Equity

*In RMB Thousand*

Item	December 31, 2012	Increase in this period	Decrease in this period	December 31, 2011
Share capital	15,402,397			15,402,397
Capital reserve	11,626,399		398,612	12,025,011
Statutory general reserve	13,490,588	6,432,784		7,057,804
Surplus reserves	3,584,702	1,121,986		2,462,716
Retained earnings	19,474,268	3,665,089		15,809,179
Foreign currency translation reserve	(50,267)	860		(51,127)
Total Shareholders' Equity	63,528,087	11,220,719	398,612	52,705,980

Notes: Main reasons for changes in shareholders' equity:

- Capital reserve has varied in the current period mainly attributes to the decrease in the reserves for changes in the fair value of financial assets available for sale.
- The Bank has made statutory provision for surplus reserves at 10% of the net profit to the year.
- The Bank has made statutory provision for general risks at 1.5% of the balance of risk assets (prior to deduction of impairment provision) as indicated on December 31, 2012.

# Management Discussion and Analysis

## 1. Economic, Financial and Macroeconomic Policy

### Influence of Domestic and Overseas Economic Situation

In 2012, the global economic recovery process significantly slowed down. Under the continued impact of the European debt crisis, the economy of the Euro zone slipped into the “second recession”. Although the financial deleveraging effect of the U.S. economy was significant, the “fiscal cliff” and debt ceiling issues continued to reduce economic confidence. The post-disaster reconstruction effect in Japan gradually disappeared, and Japan economic growth was again depressed. According to the estimate by IMF in *World Economic Outlook*, the overall global economic growth of 2012 was 3.2%, much lower than the 2011 level of 3.9%. In light of the slow down of the global economic recovery, various countries have adopted easing monetary policies. The U.S. initiated the third and fourth rounds of quantitative easing policy (QE3-QE4). The second round of Long-Term Refinancing Operations (LTRO2) and Outright Monetary Transactions (OMT) program were implemented in the Euro zone. Japan continued to raise the amount of national debt purchased, while emerging countries have taken several interest rate easing measures. A new wave of monetary easing has swept across the world.

China was still faced with some structural problems in its economic development, with growth rebounded later in the year. Especially in the first three quarters, the downward pressure of economic growth increased, and key economic indicators, such as fixed assets investment, social retail sales and export trade, declined or slowed down to varying degrees. Production costs rose, the overseas market demand shrunk significantly. The conflict among economic development, resources and environment remained prominent. In the meantime, inflation was well under control, allowing flexibility for macroeconomic policies. In this context, the central government kept implementing active fiscal policies and steady monetary policies. The People's Bank of China lowered the reserve ratio of RMB deposits twice, by a total of 1 percentage point, effectively mitigating the market liquidity pressure, and lowered the benchmark one-year deposit and lending rate twice by respectively 0.5 and 0.56 percentage points, leading to the decline of market interest rates. Well supported by a series of policies, China economy withstood the severe challenge presented in the domestic and overseas market, the national economy ran slowly yet steadily, and social development progressed steadily. Based on preliminary estimates by the National Bureau of Statistics, the GDP of 2012 was RMB51.93 trillion, representing an increase of 7.8% from the previous year based on comparable prices, which met the annual growth target. In terms of quarterly performance, year-on-year growth was 8.1% in Q1, 7.6% in Q2, 7.4% in Q3 and 7.9% in Q4, suggesting that economic growth rebounded and the goal of economic steady “soft landing” was achieved successfully.

### Influence of financial market and financial reform

In 2012, the Chinese financial market was overall steady. The size of bond issuance steadily expanded, and the trading market remained active. The issuance of corporate credit bonds was increasing, with a total amount of RMB3.6 trillion issued by non-financial corporates throughout the year. Stock index continued to tank until it rebounded close to the end of the year. The Shanghai Stock Exchange composite index closed 3.17% higher yoy, but still behind overall global pick-up. Stock trading volume decreased, and so did the total amount of equity. RMB depreciated against USD but later recovered its negative territory, with the mid USD-RMB rate appreciated to 6.2855, up 0.24% from the end of 2011. In the mean time, financial reform has continued. On the one hand, the spread of the spot USD-RMB rate in the inter-bank foreign exchange market expanded from 0.5% to 1%, indicating increasing flexibility of RMB exchange rates. On the other hand, the People's Bank of China revised the interest rate policy twice, adjusting the upper limit for deposit rate of financial institutions to 1.1 times the benchmark interest rate and the lower limit for lending rate to 0.7 times the benchmark interest rate, further accelerating interest rate liberalization.

## Management Discussion and Analysis

The Chinese financial market developed steadily, and reforms in exchange rate, interest rate and other key areas were deepened, bringing new challenges and development opportunities to commercial banks. Competition in the banking market was more intense, with exchange rate risks relatively higher, overall interest spread and margins squeezed, but the room for the banking industry to participate in financial market operations was further broadened. In this situation, the Bank on the one hand observed its risk measures, while, enhancing the use of quantitative methodology on risk, as well as improving FX and interest rate risk management and asset pricing capability. On the other hand, the Bank adjusted to the change of the financial market environment, accelerated product and service innovation, improved investment banking services, developed the underwriting business of inter-bank debt financing instruments and asset management businesses, broadened inter-bank cooperation, continued to reinforce the bases of business and customer, and realized a considerable growth of bond underwriting, inter-bank liability and agency trading volumes, significantly improved its influence on the influence of financial market business.

In addition, financial regulatory policies regime continued to optimize in 2012. The CBRC has promulgated the *Administrative Measures for the Capital of Commercial Banks (Trial)*, *Guidelines on the Innovation of Capital Instruments by Commercial Banks* and other important documents, guiding commercial banks to strengthen capital management, promoting and regulating the capital instrument innovation by commercial banks, and strengthening risk regulation in key areas to prevent systematic and regional risks.

### Outlook of World Economic in 2013

In 2013, mild recovery in the global economy is expected, and yet uncertainties will remain. Whether the Euro zone will be able to go through its debt crisis and achieve economic recovery will be one of the most closely-watched events in the global economy. According to the *World Economic Outlook* by IMF, with the mitigation of negative factors in economy, the 2013 global economy growth would reach 3.5% from 3.2% in 2012, to which emerging markets, developing country and America will contribute most. The market forecast of high-income countries is 1.4%, among which the Euro zone is -0.2%. The market forecast of developing countries is 5.5%, among which China is 8.2%, making it one of the fastest developing entities in the world.



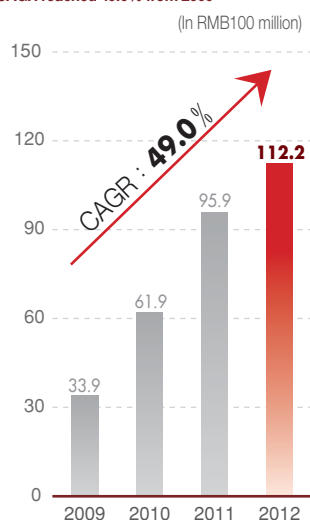
## Management Discussion and Analysis

### 2. Review of the Bank's Operation

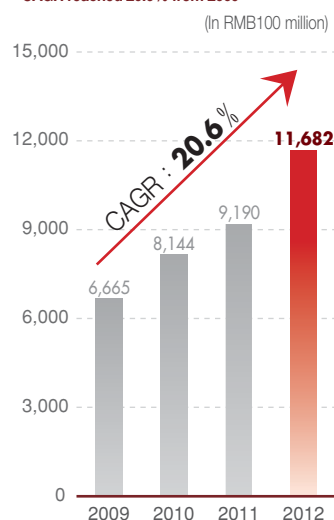
#### 2.1 The Profile of the Overall Business Operation

The Bank's profitability witnessed a rapid expansion in 2012. Net profit exceeded ten billion for the first time, reaching RMB11.22 billion, up by 17.05% YoY; Net interest income reached RMB24.596 billion, a certain increase against last year; Net fee and commission income was RMB5.873 billion, up by 41.02%; ROAA and weighted average ROE were 1.08% and 19.31% respectively, indicating its growing profitability. In the mean time, the balance sheet maintained a rapid growth. As at the end of 2012, the total assets of the Bank amounted to RMB1.16815 trillion, the liabilities amounted to RMB1.104622 trillion, and the shareholders' equity totaled RMB63.528 billion, up by 27.11%, 27.51% and 20.53% respectively YoY. Total deposits and loans amounted to RMB856.166 billion and RMB615.75 billion respectively, representing a growth of 15.30% and 13.99%. In terms of asset quality, as a result of the current macroeconomy, several industries and enterprises to which the Bank granted loans experienced temporary difficulties in operation and thus in their repayment capacity, which resulted in a year-end NPL ratio of 1.48%, up by 0.14 percentage point.

At the end of 2012, net profit reached 11.22 billion, surpassing the RMB10 billion milestone; CAGR reached 49.0% from 2009



At the end of 2012, total assets reached 1.16815 trillion, surpassing the RMB1 trillion milestone; CAGR reached 20.6% from 2009



#### 2.2 The Status of the Business Operation

##### Accelerated Strategic Optimization and Transformation, Built the Best Mid to High-end Retail Bank and the Most Efficient SME Bank

In 2012, as guided by its Five-year Strategic Development Plan, the Bank actively developed SME, personal banking and financial market businesses. The GTS framework was successfully introduced, making the Bank the first among domestic Chinese banks to integrate corporate financial product offering, including trade finance, cash management and asset custody etc., which effectively strengthened our product offering and marketing capability. The Bank made every effort to foster the development of "Small Enterprises Banking Centers", and strengthen multi-layered, differentiated and SME-oriented financial product offering. Reform in personal finance business advanced, with improved customer service segmentation and premier banking launched. Corporate brand marketing campaign was built, and the Bank managed to be the first in the industry to pass the external review of ISO 10002 complaint management system. The 24-hour smart bank was introduced, the first of its kind in China, bringing a new era of financial services. Financial market business grew rapidly, which aligned with strategic transformation the Bank is going through and became a new engine of profit growth. As a result of various reform,

## Management Discussion and Analysis

innovation initiatives as well as upgrades in comprehensive service capabilities, the Bank saw continued optimization of its revenue diversity, rapid expansion of profitability, highlighting the success of its strategic transformation.

### **Enhanced Mechanism and System Reform, Improved Exquisite Management**

The Bank continued to enhance human resource management reform by promoting the construction of position system, remuneration system and performance management system, and built a new generation of human resource management system; actively improved innovation working mechanism, stimulated employees' innovative passion, and effectively promoted bank-wide innovative development; strived to improve the mechanism for replenishing capital, actively responded to the changes in regulatory policies, strengthened capital management, and continuously enhanced the replenishing channel; enhanced the application of management accounting system, set up an appraisal and evaluation system with Returns on Economic Capital as the cores, reinforced the multi-dimensional accounting of outlets, business lines, products and clients, introduced expected loss, initiated expense budget for business lines and cost center, advanced appraisal and budget mechanism reform, and upgraded the exquisite management level across the Bank.

### **Enhanced Comprehensive Risk Management, Strengthened Compliance and Internal Control Construction**

According to its Five-year Strategic Development Plan and the risk management plan, the Bank continued to carry out the building of a comprehensive risk management system. The Bank has enhanced researches and forecasts on credit risks of all kinds, improved the foreseeability and initiative of risk management work, implemented rigorous risk classification and prudent reserve appropriation, specially worked on risk monitoring of key areas, customers and branches, and effectively supported business development on the basis of controllable risks. Additionally, the Bank gradually promoted the building of management systems for liquidity risk, market risk, operational risk, compliance risk and other risks under the New Capital Accord, improved the automation, supervision frequency, accuracy and foresight of risk management, and effectively addressed various changes in financial market climate and internal risks in a variety of financial markets. In 2012, the Bank made October 20 of each year "CGB Compliance Day" so that the management mindset of "compliant operation and coordinated development" could be upheld in order to encourage staff at all levels to effectively improve their compliance awareness, while corporate culture building could be deepened, compliance and internal control environment could be improved and businesses could be developed to the greatest extent across the Bank.

### **Perfected Basic Support Systems, Provided Greater Support to Operation**

Focusing on business innovation, customer marketing, e-banking, IT-based management and other key projects, the Bank specially promoted IT system construction in order to meet its development demands; advanced the "two locations and three centers" construction, started the initial preparations for Beijing Inter-city Disaster Backup Center, fully adopted infrastructure resource pool management, and basically realized the automation of main operation, maintenance and management; deepened the reform of the operational system, and supported steady business development, aiming at "managing and controlling risks, standardizing operation, improving efficiency and reducing cost"; took the initiative to work on news release, and increased strategic advertising investment so as to create the brand image of "a first-class commercial bank".

### **Advanced Newly-built Outlets' Construction, Optimized Outlets Network**

In 2012, Jinan Branch, Urumqi Branch and Chengdu Branch were officially established, and the establishment of Fuzhou Branch was approved; four Tier-2 branches (Dandong, Changzhou, Shaoxing and Mudanjiang) and an inter-city sub-branch (Xiangtan) were opened. The establishment of new outlets strongly supported and promoted the rapid and balanced development of all businesses.

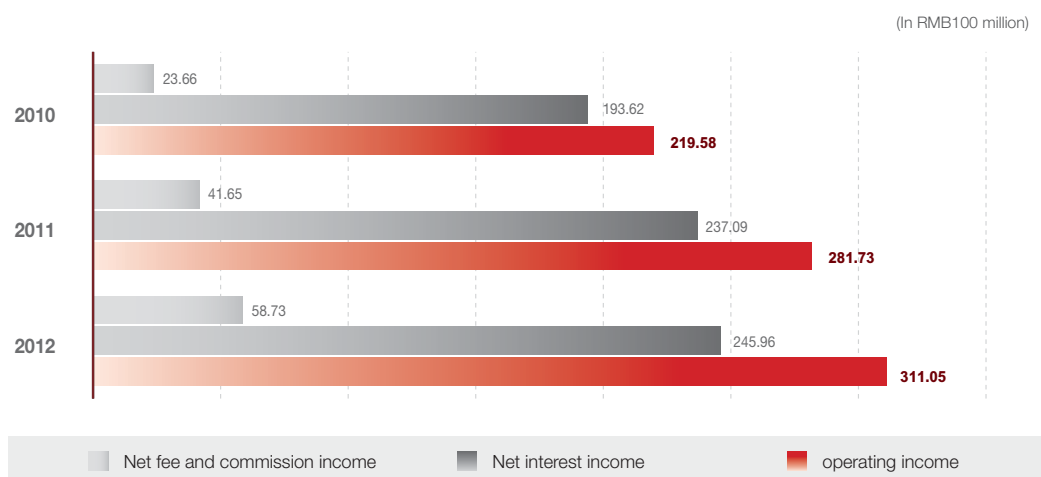
## Management Discussion and Analysis

### 3. Financial Statement Analysis

#### 3.1 Income Statement Analysis

The Bank's after-tax profit was RMB11.22 billion in 2012, an increase of RMB1.634 billion or 17.05% over the previous year, mainly attributable to the sound development of different businesses. The Bank has effectively enhanced its profitability by promoting the transformation of business development strategies, optimizing the structure of asset allocation, accelerating product innovation, improving the construction of related systems, etc.

<i>In RMB Thousand</i>		
Item	2012	2011
Operating income	<b>31,104,615</b>	28,172,779
Including: Net interest income	<b>24,596,078</b>	23,708,838
Net fee and commission income	<b>5,872,840</b>	4,164,539
Other non-interest income	<b>635,697</b>	299,402
Business taxes and surcharges	<b>(2,612,793)</b>	(2,161,810)
Operating and administrative expenses	<b>(12,699,202)</b>	(11,250,816)
Allowances for asset impairment	<b>(1,292,952)</b>	(2,510,662)
Other operating costs	<b>(1,093)</b>	(2,894)
Net amount of non-operating income and expenses	<b>165,043</b>	134,951
Gross profit	<b>14,663,618</b>	12,381,548
Income tax expense	<b>(3,443,759)</b>	(2,795,814)
Net profit	<b>11,219,859</b>	9,585,734



## Management Discussion and Analysis

### (1) Net interest income

Net interest income for the year increased by 3.74% or RMB0.887 billion over the previous year, mainly attributable to the growth in interest-earning assets.

#### (a) Interest-earning assets and interest-bearing liabilities

*In RMB Thousand*

Item	2012			2011		
	Average balance	Interest income/expense	Average yield/payment of interest rate (%)	Average balance	Interest income/expense	Average yield/payment of interest rate (%)
Assets						
Loans and advances to customers	563,295,020	38,498,551	6.83	504,507,712	32,427,991	6.43
Investment	78,421,548	2,964,512	3.78	66,423,095	2,336,835	3.52
Deposits with central banks	147,786,917	2,257,651	1.53	117,213,314	1,778,271	1.52
Deposits and placements with banks and non-bank financial institutions <sup>1</sup>	186,365,704	8,389,509	4.50	120,645,871	6,029,008	5.00
<b>Total interest-earning assets</b>	<b>975,869,189</b>	<b>52,110,223</b>	<b>5.34</b>	<b>808,789,992</b>	<b>42,572,105</b>	<b>5.26</b>
Liabilities						
Deposits from customers	734,452,208	19,745,299	2.69	643,995,854	13,689,873	2.13
Deposits and placements from banks and non-bank financial institutions <sup>2</sup>	162,432,660	7,165,362	4.41	104,762,705	4,751,067	4.54
Subordinated bonds	10,049,180	603,484	5.98	10,000,000	422,327	6.01
<b>Total interest-bearing liabilities</b>	<b>906,934,048</b>	<b>27,514,145</b>	<b>3.03</b>	<b>758,758,559</b>	<b>18,863,267</b>	<b>2.49</b>
Net interest income		24,596,078			23,708,838	
Net interest spread			2.31			2.78
Net interest margin			2.52			2.93

- Notes: 1. Deposits and placements with banks and non-bank financial institutions mainly include deposit with other banks and non-bank financial institutions, placements and financial assets under resale agreements.
2. Deposits and placements from banks and non-bank financial institutions mainly include deposits from other banks and non-bank financial institutions, takings and financial assets sold for repurchase.



## Management Discussion and Analysis

### (b) Net interest income and changes of size and interest rate

*In RMB Thousand*

Item	Cause for change (comparison of 2012 and 2011)		Net increase/ (decrease)
	Scale	Interest rate	
Assets			
Loans and advances to customers	3,778,643	2,291,917	6,070,560
Investment	418,969	208,709	627,678
Deposits with central banks	463,839	15,541	479,380
Deposits and placements with banks	3,245,249	(884,749)	2,360,500
<b>Change of interest income</b>	<b>7,906,700</b>	<b>1,631,418</b>	<b>9,538,118</b>
Liabilities			
Deposits from customers	1,922,895	4,132,532	6,055,427
Deposits and placements from banks	2,508,046	(93,752)	2,414,294
Subordinated bonds	2,956	178,201	181,157
<b>Change of interest expense</b>	<b>4,443,897</b>	<b>4,216,981</b>	<b>8,650,878</b>
<b>Change of net interest income</b>	<b>3,472,803</b>	<b>(2,585,563)</b>	<b>887,240</b>

Note: The change of scale and that of interest rate are measured based on the change of average balance and that of average interest rate, respectively. The change derived jointly from scale and interest rate is allocated in the change of interest rate.

### (2) Net interest spread and net interest margin

The Bank recorded a net interest spread of 2.31% in 2012, down by 47 basis points over the previous year, largely because the Bank's interest-earning assets increased from 5.26% in 2011 to 5.34% in 2012, up by 8 basis points. The average payment rate of interest-bearing liabilities increased from 2.49% in 2011 to 3.03% in 2012, up by 54 basis points.

The Bank recorded a net interest margin of 2.52% in 2012, down by 41 basis points over the previous year. The said changes were mainly caused by the market interest rate cuts as well as by the Bank's structure adjustment of its asset/liability business.

Item	2012 (%)	2011 (%)	Change (basis points)
Interest rate of interest-earning assets	5.34	5.26	8
Interest rate of interest-bearing liabilities	3.03	2.49	54
Net interest spread	2.31	2.78	(47)
Net interest margin	2.52	2.93	(41)

## Management Discussion and Analysis

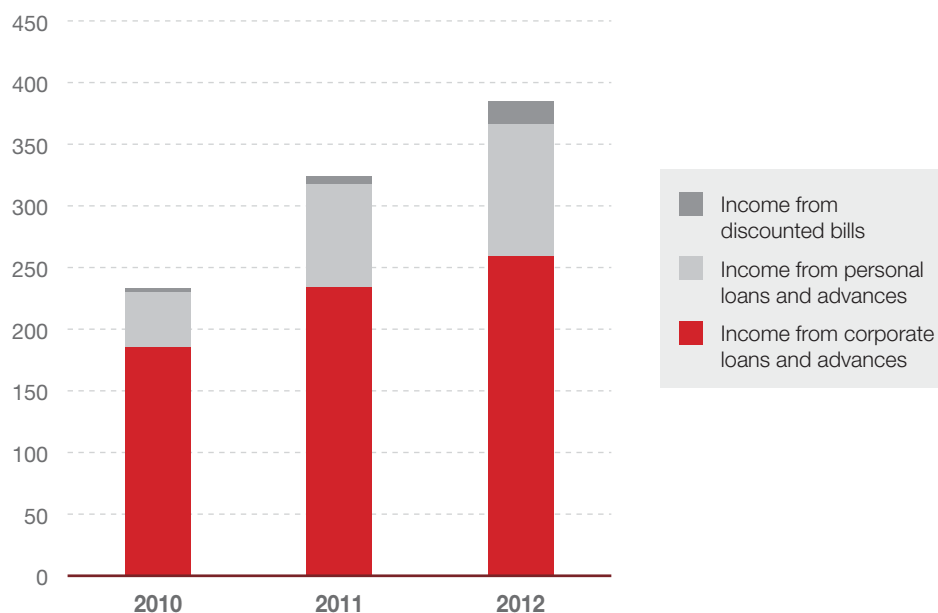
### (3) Interest income

The Bank recorded a year-on-year increase of RMB9.538 billion or 22.40% in its interest income for 2012, mainly attributable to the rapid growth in interest income from loans and that from financial assets purchased under resale agreements.

*In RMB Thousand*

Item	2012		2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Interest income from loans and advances to customers	38,498,551	73.9	32,427,991	76.2
Including: Corporate loans and advances	25,868,786	49.6	23,396,296	55.0
Personal loans and advances	10,717,617	20.6	8,359,463	19.6
Discounted bills	1,912,148	3.7	672,232	1.6
Interest income from investment	2,837,889	5.5	2,197,326	5.1
Interest income from deposits with central banks	2,257,651	4.3	1,778,271	4.2
Interest income from placements with FIs	583,928	1.1	492,581	1.2
Interest income from financial assets held under resale agreement	6,275,296	12.1	4,649,944	10.9
Interest income from deposits with FIs	1,530,285	3.0	886,483	2.1
Other interest income	126,623	0.2	139,509	0.3
<b>Total</b>	<b>52,110,223</b>	<b>100.0</b>	<b>42,572,105</b>	<b>100.0</b>

(In RMB100 Million)



## Management Discussion and Analysis

### (4) Interest expense

The Bank recorded a year-on-year increase of RMB8.651 billion or 45.86% in its interest expense for 2012, mainly attributable to the growth in interest expense of deposits and that of FIs.

*In RMB Thousand*

Item	2012		2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Deposit interest expense	19,745,299	71.8	13,689,872	72.7
Subordinated bond interest expense	603,484	2.2	422,327	2.2
Interest expense of deposit from FIs	5,706,216	20.7	3,490,780	18.5
Interest expense of placements from FIs	511,704	1.9	214,514	1.1
Interest expense of financial assets sold under repurchase agreement	947,442	3.4	1,045,774	5.5
Total	27,514,145	100.0	18,863,267	100.0

### (5) Non-interest income

The Bank's non-interest income accumulated to RMB6.509 billion in 2012, up by RMB2.045 billion or 45.80% over the previous year, mainly due to the growth in the Net fee and commission income.

*In RMB Thousand*

Item	2012	2011
Net fee and commission income	5,872,840	4,164,539
Investment gain/(loss)	132,697	(84,306)
Gain/(Loss) arising from changes in fair value	106,416	115,504
Foreign exchange gain	371,944	243,147
Other operating income	24,640	25,057
Total	6,508,537	4,463,941

## Management Discussion and Analysis

### Main composition of net fee and commission income

*In RMB Thousand*

Item	2012	2011	Amount of change	Growth rate (%)
Remittance and settlement	520,196	467,644	52,552	11.2
Agency service	484,203	346,144	138,059	39.9
Bank card	4,549,207	3,092,290	1,456,917	47.1
Consulting fees	353,000	535,244	(182,244)	(34.0)
Assets custody	123,599	47,461	76,138	160.4
Guarantees and commitment	364,322	231,667	132,655	57.3
Others	574,726	232,229	342,497	147.5
Fee and commission income	6,969,253	4,952,679	2,016,574	40.7
Deduct: Fee and commission expenses	(1,096,413)	(788,140)	(308,273)	39.1
Net fee and commission income	5,872,840	4,164,539	1,708,301	41.0

### (6) Operating and administrative expenses

The Bank's operating and administrative expenses for 2012 stood at RMB12.699 billion, up by 12.87% over the previous year.

The increase in operating and administrative expenses was mainly caused by: (i) Additional personnel expenditure due to business development and employee increase; and (ii) the Bank's greater efforts in channel building and IT construction, with corresponding increase in rental fees and depreciation expenses.

*In RMB thousands*

Item	2012		2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Staff costs	6,810,879	53.6	6,432,588	57.2
Rental fees	1,122,593	8.8	851,678	7.6
Maintenance fee	550,416	4.3	490,216	4.4
Depreciation	563,243	4.4	489,827	4.4
Others	3,652,071	28.9	2,986,507	26.4
Total	12,699,202	100.0	11,250,816	100.0

## Management Discussion and Analysis

### (7) Allowances for asset impairment

The allowances for asset impairment was RMB1.293 billion in 2012, down by 48.50% over the previous year.

*In RMB Thousand*

Item	2012		2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Impairment losses on loans and advances	1,305,702	101.0	2,488,651	99.1
Others	(12,750)	(1.0)	22,011	0.9
Total	1,292,952	100.0	2,510,662	100.0

### (8) Segment reporting

#### (a) Segment operating results by regions

*In RMB Thousand*

Region	Total assets	Operating income	Gross profit
Head Office	480,407,467	9,059,770	6,822,733
Yangtze River Delta	249,270,092	5,656,066	772,047
Pearl River Delta	376,718,813	8,606,858	3,747,934
Bohai Rim	255,254,221	4,264,063	1,424,014
Central and Western	147,946,522	3,399,066	1,837,596
Overseas	9,785,527	118,792	59,294
Offset among regions	351,232,779		
Total	1,168,149,863	31,104,615	14,663,618

## Management Discussion and Analysis

### (b) Segment operating results by types

*In RMB Thousand*

Type of Service	Total assets	Operating income	Pre-tax profit
Corporate banking business	437,722,046	16,334,884	9,045,800
Retail banking business	163,165,743	11,696,042	3,213,791
Treasury business	567,262,074	3,073,689	2,404,027
Total	1,168,149,863	31,104,615	14,663,618



## 3.2 Balance Sheet Analysis

### (1) Asset

The Bank's total assets stood at RMB1,168.150 billion at the end of 2012, up by RMB249.168 billion or 27.11% over the previous year, mainly attributable to the growth in disbursement of loans and advances, in funds under resale agreements as well as in investments.

*In RMB Thousand*

Item	December 31, 2012		December 31, 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans and advances to customers	615,749,510	52.7	540,163,069	58.8
Less: Allowances for impairment losses	(15,488,721)	(1.3)	(16,718,163)	(1.8)
Net loans and advances to customers	600,260,789	51.4	523,444,906	57.0
Net investment securities	98,477,482	8.4	66,698,278	7.3
Cash and deposits with central banks	180,776,125	15.5	149,944,006	16.3
Net deposits and placements with banks and non-bank financial institutions	90,356,649	7.7	64,070,673	7.0
Financial assets held under resale agreement	177,482,650	15.2	93,391,188	10.1
Others	20,796,168	1.8	21,432,768	2.3
Total assets	1,168,149,863	100.0	918,981,819	100.0



## Management Discussion and Analysis

### (a) Loans and advances to clients

In 2012, the Bank's loans amounted RMB615.750 billion at the year end, an increase of 75.586 billion and 13.99% year-on-year growth.

#### (i) Loans of the Bank classified by business type

*In RMB Thousand*

<b>Business Type</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Corporate loans and advances	<b>423,060,566</b>	388,841,111
Personal loans and advances	<b>164,129,128</b>	137,944,401
Discounted bills	<b>28,559,816</b>	13,377,557
<b>Total</b>	<b>615,749,510</b>	540,163,069

In 2012, the Bank adjusted its business structure gradually and accelerated the development of retail banking. At the end of 2012, personal loans accounted for 26.7%, an increase of one percentage point from the beginning of the year, and corporate loans and discounts accounted for 73.3%, a decrease of one percentage point from the beginning of the year.

#### (ii) Loans by region

*In RMB Thousand*

<b>Region</b>	<b>Loan Balance</b>	<b>Percentage (%)</b>
Pearl River Delta	182,032,880	29.6
Yangtze River Delta	151,172,575	24.6
Bohai Rim Region	114,367,321	18.6
Head Office	82,236,449	13.3
Central and Western	81,393,193	13.2
Overseas	4,547,092	0.7
<b>Total</b>	<b>615,749,510</b>	<b>100.0</b>

#### (iii) Loan types, average daily balance and average annual interest rate

*In RMB Thousand*

<b>Item</b>	<b>Average daily balance</b>	<b>Average annual rate (%)</b>
Loans and advances to customers	563,295,020	6.83
Including: Loans and advances to customers (without discounted bills)	530,315,333	6.90
Discounted bills	32,979,687	5.80

## Management Discussion and Analysis

(iv) *Structure of corporate loans classified by tenor*

*In RMB Thousand*

Item	December 31, 2012		December 31, 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Short-term Corporate Loan	292,441,252	69.1	240,020,745	61.7
Mid and Long-term Corporate Loan	130,619,314	30.9	148,820,366	38.3
Total	423,060,566	100.0	388,841,111	100.0

Note: Due to disclosure caliber change, data of 2011 were restated.

In 2012, the Bank continued to control local government funding vehicle(LGFV) loans and real estate loans strictly, and the percentage of mid- and long-term loans of the Bank dropped to a certain degree.

(v) *Structure of retail loans classified by product type*

*In RMB Thousand*

Item	December 31, 2012		December 31, 2011	
	Loan balance	Percentage (%)	Loan balance	Percentage (%)
Residential mortgage loan	76,460,051	46.6	73,544,863	53.3
Credit-cards	70,525,724	43.0	49,877,151	36.2
Other personal loans	17,143,353	10.4	14,522,387	10.5
Total	164,129,128	100.0	137,944,401	100.0

In 2012, the outstanding balance of personal loans rose 18.98% from the beginning of the year. Credit card overdraft operations developed steadily and their proportion rose. The percentage of residential mortgage loan went down.

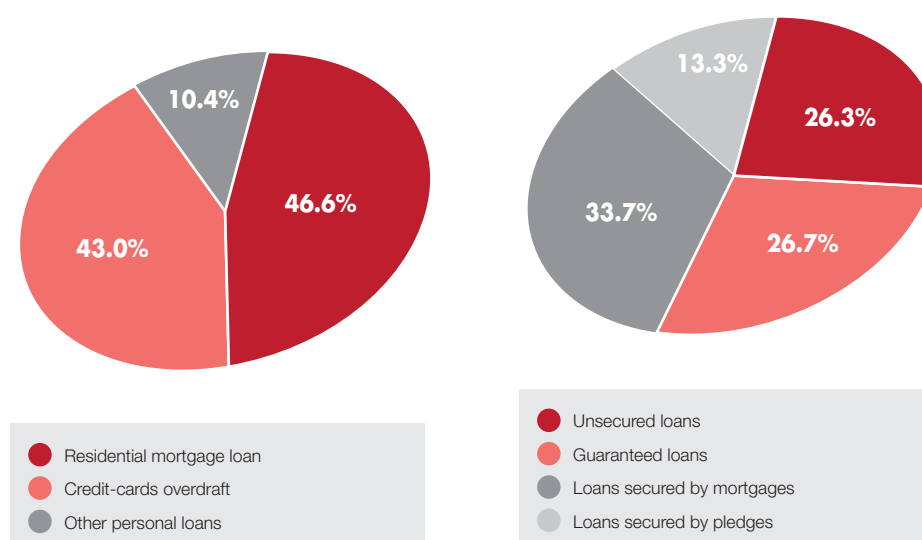
## Management Discussion and Analysis

### (vi) Breakdown of loans by types of collateral

*In RMB Thousand*

Guarantee mode	December 31, 2012		December 31, 2011	
	Loan balance	Percentage (%)	Loan Balance	Percentage (%)
Unsecured loans	162,076,012	26.3	157,037,112	29.1
Guaranteed loans	164,002,236	26.7	130,225,902	24.1
Loans secured by mortgages	207,642,828	33.7	190,699,265	35.3
Loans secured by pledges	82,028,434	13.3	62,200,790	11.5
Total	615,749,510	100.0	540,163,069	100.0

In 2012 the Bank strengthened the management of loan guarantees, resulting in the decreased proportion of credit loans and a higher percentage of collateral/pledge loans.



## Management Discussion and Analysis

### (vii) Top 10 loan clients

In RMB Thousand

Top 10 Borrower	Loan Balance	Percentage as of Net Capital (%)	Percentage as of Total Year-end Loan Balance (%)
Client A	3,499,306	4.10	0.57
Client B	2,500,000	2.93	0.41
Client C	2,200,000	2.58	0.36
Client D	2,000,000	2.34	0.32
Client E	2,000,000	2.34	0.32
Client F	1,792,000	2.10	0.29
Client G	1,637,000	1.92	0.26
Client H	1,455,304	1.71	0.24
Client I	1,418,400	1.66	0.23
Client J	1,350,000	1.58	0.22
Total	19,852,010	23.27	3.22

### (b) Investment

The Bank's investment securities and other financial assets include financial assets which are held for trading, available for sale and held to maturity as well as those involving receivables, together with long-term equity investment.

### (i) Classification by accounts

In RMB Thousand

Item	December 31, 2012		December 31, 2011	
	Balance	Percentage (%)	Balance	Percentage (%)
Trading	6,446,558	6.5	2,293,364	3.5
Available for sale	52,414,719	53.3	31,946,857	47.9
Debt securities classified as receivables	6,678,444	6.8	1,565,453	2.3
Held to maturity	32,935,919	33.4	30,890,846	46.3
Long-term equity investment	1,842	0.0	1,758	0
Total	98,477,482	100.0	66,698,278	100.0

In response to the complicated interest rate environment, the Bank continued to increase the proportions of trading and available-for-sale financial assets in 2012. At the same time, the Bank actively expanded the investment scope and increased the ratio of receivables investments.

## Management Discussion and Analysis

### (ii) Classification by issuers

*In RMB Thousand*

Category	December 31, 2012		December 31, 2011	
	Balance	Percentage (%)	Balance	Percentage (%)
Government bonds	49,144,357	49.9	22,265,103	33.4
Bills of central banks and financial bonds	31,433,601	31.9	36,151,146	54.2
Other bonds	12,460,185	12.7	8,119,918	12.2
Other investments	5,437,497	5.5	160,353	0.2
Long-term equity investments	1,842	0.0	1,758	0
Total	98,477,482	100.0	66,698,278	100.0

In 2012 the Bank recorded a certain increase in the overall scale of bond investments compared with 2011, mainly with additional holding of government bonds, thus resulting in a higher percentage of government bonds and accordingly a lower one of bills issued by the Central Bank and financial bonds. In 2012, the Bank paid close attention to the movements of market interest rates and strengthened the management of internal funds, thus improving the overall gains on bond investments on the precondition of reasonably controlling the liquidity and safety of bond investments.

### (iii) Investment distribution by remaining maturity

*In RMB Thousand*

Maturity	December 31, 2012		December 31, 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Undated	189,123	0.2	162,111	0.3
Within 3 months	10,920,519	11.1	2,732,060	4.1
3-12 months	11,477,536	11.6	13,150,500	19.7
1-5 years	43,397,448	44.1	37,965,784	56.9
Over 5 years	32,492,856	33.0	12,687,823	19.0
Total	98,477,482	100.0	66,698,278	100.0

## Management Discussion and Analysis

(iv) *Top 5 government bonds held at the end of reporting period*

*In RMB Thousand*

<b>Item</b>	<b>Nominal value</b>	<b>Maturity day</b>	<b>Interest rate (%)</b>
12 coupon-bearing government bond 17	5,040,000	2015-09-13	3.10
12 coupon-bearing government bond 05	4,440,000	2019-03-08	3.41
12 coupon-bearing government bond 16	4,070,000	2019-09-06	3.25
12 coupon-bearing government bond 07	3,170,000	2015-04-26	2.91
12 coupon-bearing government bond 15	2,870,000	2022-08-23	3.39
<b>Total</b>	<b>19,590,000</b>		

(v) *Top 5 financial bonds (including Central Bank bills) held at the end of reporting period*

*In RMB Thousand*

<b>Item</b>	<b>Nominal value</b>	<b>Maturity day</b>	<b>Interest rate (%)</b>
10 Central Bank Bill 37	1,000,000	2013-05-07	2.72
10 Central Bank Bill 42	1,000,000	2013-05-20	2.70
11 China Development Bank 02	1,000,000	2018-01-14	3.41
07 China Development Bank 26	990,000	2013-01-10	3.50
04 China Development Bank 06	955,000	2014-04-16	4.55
<b>Total</b>	<b>4,945,000</b>		

(vi) *Details of long-term equity investments*

In 1994, the Bank invested RMB4.1 million (41% in equities) to establish Guangdong Guangfa International Finance Consultancy Co., Ltd. During the reporting period, the said investment was accounted for via the equity approach. As of the end of 2012, the Bank recorded RMB1.84 million as the balance of its equity investment in Guangdong Guangfa International Finance Consultancy Co., Ltd.



## Management Discussion and Analysis

### (2) Liabilities

As of December 31, 2012, the Bank's total liabilities reached RMB1,104.622 billion, representing an increase of RMB238.346 billion, mainly due to the increase in the deposit balance. Balance of the Bank's deposits stood at RMB856.166 billion, up by RMB113.628 billion or 15.30% over the previous year.

#### (a) Composition of the liabilities

*In RMB Thousand*

Item	December 31, 2012		December 31, 2011	
	Balance	Percentage (%)	Balance	Percentage (%)
Deposits from customers	856,166,035	77.5	742,537,945	85.7
Deposit from FIs	144,474,115	13.1	67,125,703	7.7
Financial assets sold under repurchase agreements	36,756,613	3.3	15,690,830	1.8
Subordinated bonds	14,500,000	1.3	10,000,000	1.2
Other liabilities	52,725,013	4.8	30,921,361	3.6
Total	1,104,621,776	100.0	866,275,839	100.0

#### (b) Main deposit types, average daily balance and yearly average interest rate of deposits

*In RMB Thousand*

Item	Average daily balance	Average annual rate (%)
Corporate demand deposits	209,399,665	0.68
Corporate time deposits	395,606,880	3.85
Personal demand deposits	52,122,457	0.36
Personal time deposits	77,323,206	3.74

## Management Discussion and Analysis

### (c) Deposits distribution by business type

*In RMB Thousand*

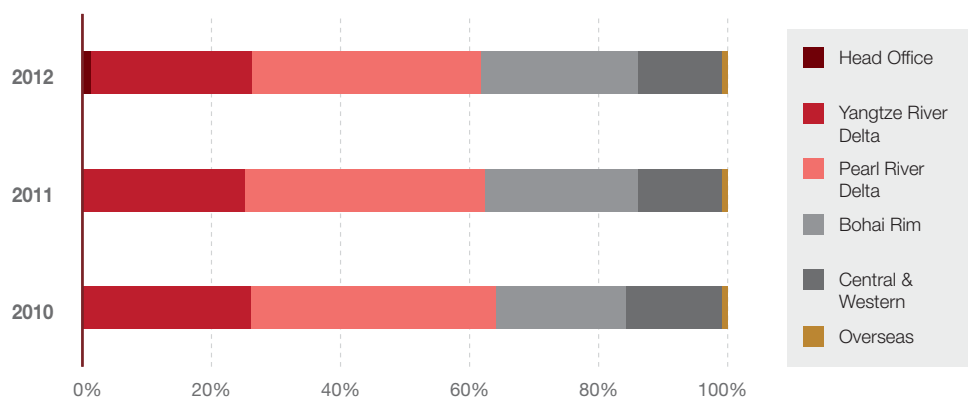
Item	December 31, 2012		December 31, 2011	
	Balance	Percentage (%)	Balance	Percentage (%)
Demand deposits	318,625,155	37.2	311,392,447	42.0
Including: Corporate	246,570,598	28.8	241,198,597	32.5
Personal	72,054,557	8.4	70,193,850	9.5
Time deposits	536,219,183	62.6	429,912,329	57.9
Including: Corporate	454,592,684	53.1	362,556,309	48.8
Personal	81,626,499	9.5	67,356,020	9.1
Other deposits	1,321,697	0.2	1,233,169	0.1
Total	856,166,035	100.0	742,537,945	100.0

Note: Because of the change in the caliber of the disclosure, the data of 2011 has been restated.

### (d) Distribution of deposits by regions

*In RMB Thousand*

Region	December 31, 2012		December 31, 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	11,171,503	1.3	1,110,304	0.1
Yangtze River Delta	213,202,865	24.9	186,012,761	25.0
Pearl River Delta	305,262,934	35.6	276,695,505	37.3
Bohai Rim	206,824,597	24.2	175,372,503	23.6
Central & Western	111,888,092	13.1	96,977,413	13.1
Overseas	7,816,044	0.9	6,369,459	0.9
Total	856,166,035	100.0	742,537,945	100.0



## Management Discussion and Analysis

### (e) Deposits distribution by maturity

*In RMB Thousand*

Maturity	December 31, 2012		December 31, 2011	
	Amount	Percentage (%)	Amount	Percentage (%)
Demand/Spot	331,007,117	38.7	312,590,559	42.1
Within 3 months	162,036,555	18.9	143,393,821	19.3
3-12 months	199,635,966	23.3	163,135,041	22.0
1-5 years	159,296,413	18.6	116,668,706	15.7
Over 5 years	4,189,984	0.5	6,749,818	0.9
Total	856,166,035	100.0	742,537,945	100.0

### 3.3 Cash Flow Statement Analysis

By the end of 2012, the Bank recorded RMB 118.640 billion as balance of cash and equivalents, down by RMB 8.464 billion or 6.66% over the end of the previous year.

The net cash inflow generated from operation activities amounted to RMB 19.825 billion, up by 225.39% over the previous year, mainly because of the increase in deposits from customers and other banks.

The net cash outflow generated from investment activities amounted to RMB 32.107 billion, up by 912.07% over the previous year, mainly because of the increase in cash amount paid for investments exceeded the increase in cash amount received therefrom.

The net cash inflow generated from fund-raising activities amounted to RMB 3.880 billion, down by 58.41% over the previous year, mainly because of the transferred NPAs of 4.629 billion received by the Bank during 2011.

### 3.4 Financial Position and Operating Performance

#### (1) Changes of the main financial indicators and corresponding reasons

*In RMB Thousand*

Item	December 31, 2012	Increase/decrease over the previous year	
		(%)	Brief reasons
Total assets	1,168,149,863	27.1	Increase in loans
Total liabilities	1,104,621,776	27.5	Growth in deposits
Shareholders' equity	63,528,087	20.5	Increase in profits
Net profit	11,219,859	17.1	Healthy business development

## Management Discussion and Analysis

### (2) Main items whose change over 30% in financial statements

The reasons for the fluctuation over 30% for the items which are either accounting for at least 5% of total assets for balance sheet items or 10% of total profit for income statement items, are as follows:

*In RMB Thousand*

Major accounting item	December 31, 2012	Increase/decrease over the previous year (%)	Brief reasons
Deposits with banks and non-bank financial institutions	64,121,338	41.4	Increase in deposits within other banks
Financial assets held under resale agreements	177,482,650	90.0	Increase in volume of bills purchased under resale agreements
Deposits from banks and non-bank financial institutions	144,474,115	115.2	Increase in deposits from other banks
Interest Expense	(27,514,145)	45.9	Increase in deposit scale
Fee and commission income	6,969,253	40.7	Rapid development of fee-based businesses
Fee and commission expense	(1,096,413)	39.1	Increase in costs of fee-based businesses
Impairment losses	(1,292,952)	(48.5)	Decrease in provision for asset impairment

### 3.5 Other Financial Information

#### (1) Financial assets and financial liabilities held at the end of reporting period

*In RMB Thousand*

Item	Opening amount	Profit or loss on changes in fair value of the period	Accumulation of changes in fair value including in equity	Impairment counted and drew in the period	Ending amount
Financial assets					
Including: 1. Financial assets at fair value through profit and loss	2,687,822	1,701,573	10,519	0	8,568,179
Including: derivative financial assets	394,458	1,716,644	10,519	0	2,121,621
2. Loans and debt securities classified as receivables	1,565,453	0	0	0	6,678,444
3. Available-for-sale financial assets	31,946,857	0	(373,459)	(7,940)	52,414,719
4. Held-to-maturity investment	30,890,846	0	0	0	32,935,919
Total financial assets	67,090,980	1,701,573	(362,940)	(7,940)	100,597,261
Financial liabilities	376,726	1,595,157	19,082	0	1,990,965

Notes: There's no articulation in this table.

## Management Discussion and Analysis

### (2) Major off-balance-sheet items

*In RMB Thousand*

Item	December 31, 2012	December 31, 2011	December 31, 2010
Loan commitments	5,974,418	7,007,319	9,154,865
Bank acceptances	229,475,297	189,852,432	173,722,721
Letter of guarantee issuance	15,757,001	44,708,307	9,683,729
Letters of credit issuance	17,185,609	21,672,540	12,688,480
Financial derivative instruments	229,873,482	63,886,555	27,942,299
Operating lease commitments	4,356,281	3,479,383	2,578,813
Capital commitments	3,931,117	4,404,806	1,077,035
Credit card unused overdraft limit	92,700,387	58,387,555	42,406,215
Commitment of bond acceptance	3,372,859	4,437,187	4,930,278

### (3) Variations of interests receivable on and off the balance sheet

*In RMB Thousand*

Item	Beginning balance	Ending balance
On-sheet interests receivable	2,879,241	3,625,776
Off-sheet interest receivable	1,786,101	2,139,062

The Bank does not make bad debt provision for interests receivable on loans except for those on credit cards, since they are subject to off-sheet accounting if they are not recovered within 90 days after becoming due.

## Management Discussion and Analysis

### 4. Business Review

#### 4.1 Corporate Finance

During the reporting period, the Bank proactively responded to the changes in the overall macroeconomic environment, and made every effort to seize opportunities. While steadily developing basic business, product innovation and business model transformation were accelerated. The Bank has cultivated a philosophy of customer-orientation, and provided comprehensive financial services including on/off-balance sheet credit, trade financing, investment banking, assets custody, wealth management, settlement and cash management. By the end of the year, the number of corporate customers exceeded 220,000, further strengthening the customer base. With the improving clientele mix and asset mix, profitability continued to be enhanced.



#### Corporate Deposits and Loans

The corporate deposit and loan business saw steady increase in 2012. By the end of the reporting period, the corporate deposit balance reached RMB702.485 billion, up by RMB97.497 billion or 16.12% from the beginning of 2012. The corporate loan balance reached RMB451.621 billion, up by RMB49.402 billion or 12.28%.

The Bank continued to promote the transformation of corporate banking business model, and a three-pillar system comprising of customer center, product center and management center was established. It also promoted core customer relationship management model, enhanced investment banking product innovation and operation, and optimized systematic management of corporate banking business line.

Furthermore, the Bank proactively improved industry finance service capabilities as it endeavored to be the leading bank for quality industries and customers. It enhanced organization and management of customer services, promoted the building of corporate business e-banking service system, customer relationship management and other information platforms, established core Customer Relationship Index (CRI) with EVA and RAROC, optimized resource allocation, and increased resource efficiency so that the Bank could maximize its returns while creating benefits for our customers.



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The Bank also seized market opportunities to actively explore and endeavor to carry out PE cooperation, non-standard debt financing instruments and cross-border financing business, meanwhile greatly promoted products such as asset securitization, option loans, syndicated loans and corporate wealth management. As a result, debt financing instruments trust financing, financing leasing and other businesses achieved remarkable development.

### Global Transaction Services

The Bank established Global Transaction Services (GTS) in order to adapt to the changes in the domestic and global economies, accelerate the transformation of corporate banking business and leverage on the successful track record of leading global banks in this field, which improved the Bank's transaction service abilities and made it the first domestic bank with comprehensive integration of trade financing, asset custody and cash management services to provide all-around financial service for corporate clients. During the reporting period, the total income of the fee-based business was RMB1.366 billion, up by 19.41% YoY. The volume of international settlement increased by 24.91% YoY to USD87.397 billion.

Channel integration and product innovation were strengthened. Leveraged on synergies with electronic channels for corporate business including corporate e-banking, cash management and corporate-bank express, the Bank successfully launched the new corporate e-Banking products tailored for SMEs, which claimed the Bank a leading position. The Bank enhanced coordination between the headquarter and branches, together introducing a number of products including instant subpurchase for forfaiting, letter of guarantee issued at a third place for domestic project.

Targeted and cross-regional marketing was implemented. Clientele base was optimized through a marketing strategy targeting key regions and industries, and core customers. Leveraged on the upstream and downstream network of the existing core clients, key products such as financing guarantees, traditional commodity-based performance guarantees and factoring under the cross-border wealth management product line, were promoted. Fee-based income from Guarantee business and factoring business were up by 66% and 57% YoY respectively.

Various asset custody products underwent a comprehensive integration, with the size and income of custody business growing rapidly. The Bank launched the integrated product line of "Tuo Fu Tong", and strengthened its cooperation with securities, trust, fund, insurance and other non-bank financial institutions to diversify customer resources and income sources. The size of assets custody business rose to RMB104 billion, up by 180% YoY. Revenue from custody business increased by 160% YoY to RMB123 million.

The cash management system was enhanced, which contributed to the continued growth in the number of cash management customers and increased corporate coverage. The Bank launched "inter-bank account management" and "group capital pool", to provide balance inquiry, bank statement inquiry, cash concentration and outbound payment services. Apart from the above-mentioned traditional functions, the new functions introduced also serve corporates' desire of capital pooling and capital cost reduction.

### Financial Institution Business

In 2012, driven by innovation, the Bank continued to strengthen the inter-bank financial platform, further enhanced business cooperation with financial institutions, and expanded the assets and liabilities of its financial institutions ("FI") business. The average daily balance of inter-bank deposits reached 110.164 billion, up by 83%. The Bank made the most use of the inter-bank fund, with deposits from banks and FI borrowings experiencing continued growth in volume. The number of FI credit customers expanded to 300. Channeling credit resources to key customers, the Bank achieved steady development of inter-bank

## Management Discussion and Analysis

assets, liabilities and fee income businesses, and made remarkable process with the lending business with asset management companies, auto financing companies and financial leasing companies. The Bank expanded the channel marketing capacity, promoted agency business of collective wealth management products by trust and securities companies, actively marketed financial products, optimized its credit structure, and improved customer services. By the end of 2012, the Bank had established correspondent bank partnerships with the headquarters and subsidiaries of 1,643 banks in 131 countries and regions, further expanding the overseas finance services network.

### SME Business

Diligently carrying out the government and regulatory policies of strengthening SME financial services, the Bank actively promoted SME financial product and service innovation based on customers' demands, took efforts to be the most efficient leading bank for SME, and realized rapid development. By the end of 2012, SME loan balance reached RMB230.51 billion, up RMB18.289 billion from early of the year, representing 54.49% of total corporate loans. The number of SME loan customers took up 80.48% of the total corporate loan customers. Specifically, the loan balance of micro-enterprises was RMB91.302 billion, up RMB16.021 billion and 21.28% YoY, achieving the regulatory goal of "the growth speed exceeds that of loans of the Bank" and "the increase volume exceeds that of the previous year".

A tailored operation and management structure for SME business was introduced. With a continued focus on tailored marketing, centralized risk management and bulk customer base expansion, the Bank enhanced the transformation of its SME business under the internal client segmentation management, strived to foster the development of small enterprises through its "Small Enterprise Banking Centers" building and specialized operation. A dedicated credit line of RMB32 billion for medium, small and micro-enterprises has been put in place. Size of SME loans portfolio increased as a result of several initiatives such as separated budgeting and dedicated loan assessment. As of the end of 2012, 14 branches established a SME marketing and management department, and 103 "Small Enterprises Banking Centers" were set up in 28 branches, among which 52 were added in 2012.

A multi-layered and differentiated financial product system tailored for SMEs was established. The Bank designed standardized credit products, special solutions and non-credit products to meet market demands, and launched "Hao Rong Tong", "Kuai Rong Tong", "Shi Chang Dai", "Ying Li Dai", "SME Finance Consultant", "Credit Guarantee Insurance" and other products and services while facilitating the development of non-capital-consuming products such as SME collective notes, to satisfy the needs of SME customers. It also built an SME customer data analysis and marketing management system to bolster the comprehensive management of SME assets, customers, markets, risks and marketing. A financial consultancy and management system was also introduced to provide SMEs with financial, operational and cost analyses.



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The specialized risk management technique framework for small enterprise financial businesses was improved. The Bank adopted the customer marketing pattern of bulk development and teamwork, to implement risk control to an early stage; promoted the reform of the specialized approval system to approve small-enterprise credits independently, which enhanced approval efficiency. Risk assessment, risk control, and risk monitoring and early warning techniques were further improved. The Bank also cultivated risk culture and philosophy tailored for small enterprise which aimed to prompt rapid growth of small enterprise financial business without sacrificing effective risk control.

Marketing planning and channel building were strengthened, and the multi-party cooperation platform for governments, banks, guarantee companies, associations and enterprises was introduced, in order to provide SME customers with comprehensive guidance and services. In 2012, the Bank established high-level cooperative relationships with government departments in charge of SMEs, SME business associations, investment guarantee companies, securities companies and other organizations, supported SMEs to finance with various channels such as private placement bonds, and guided qualified growing and innovative SMEs to go public in domestic and overseas securities markets.

During the reporting period, the Bank was granted the “SME Financing Service Model Unit” special financial fund by Guangdong SME Bureau and the Finance Department of Guangdong Province, and was honored the “2012 Best SME Financial Service Provider” by the Financial Affairs Office of the People’s Government of Guangdong and Nanfang Daily Press Group; “Kuai Rong Tong” was awarded as “the most popular SME financial product among business elites in 2012”.

### 4.2 Personal Banking Business

The Bank’s personal banking business provides personal customers with a wide range of products and services, such as savings deposits in RMB and foreign currencies, bank cards, payment settlement, personal loans, personal wealth management and premier banking. Personal banking reform is the key and highlight of the Bank’s strategic transformation. Pursuant to the goal of becoming the best mid- and high-end retail bank, the Bank continued to push forward the personal banking reform, through upgrading wealth management, introducing remote personal banking services, rolling out pilot private banking services, building up a professional marketing team, improving IT systems, as a result of which the business achieved meaningful progress, and brand awareness as well as customer satisfaction continued to grow. In 2012, revenues from personal banking exceeded RMB11.696 billion, up by 29.55% YoY. Net fee and commission income increased by 50% to 4.18 billion. Personal banking business was awarded “Best Wealth Management Brand” (Hexun.com) and “Best Wealth Management Bank” (2012 Eastmoney Award). The Bank was also recognized as the “Best Wealth Management Bank” at the 8th Beijing International Finance Expo.

## Management Discussion and Analysis

### Savings Deposits

In 2012, the Bank's balance of savings deposits in RMB was RMB148.403 billion, up by 11.34% YoY. The daily average of savings deposits in RMB was RMB124.772 billion, up 21.01% YoY. The total number of "Li Cai Tong" debit cards issued exceeded 1.9 million, with an accumulative number of issuance reaching 19.65 million, contributing a fee and commission income of RMB149 million on an accumulative basis.



### Personal Loans

Pursuant to an operating philosophy of "structure fine-tuning, profitability-driven, target customers focused on", the Bank actively expanded its market share for personal loans, successfully launched a number of new products, including personal operating loan "Sheng Yi Tong" with its sub-products "Di Ya Yi" and "You Hui Dai", and "Auto Loan", sub-product of "Unsecured Personal Loan", and improved product offering. During the reporting period, the balance of personal loans (excluding Credit Card) totaled RMB93.603 billion, among which the balance of unsecured personal loans gained a 3 fold growth YoY.

### Wealth Management

The Bank launched a new generation of the asset allocation scheme, which provided personal customers with a more advanced and comprehensive asset allocation system and guidance. The Bank enhanced the research and development capabilities for its wealth management products. Accumulative sales of independently developed wealth management products exceeded RMB140 billion, resulting in RMB150 million in fee and commission income, which became an important revenue source of wealth management business.

### Premier Banking

The Bank endeavours to expand its quality customer base, improve its customer segmentation system, strengthen its customer base and optimize its customer structure. In 2012, the Bank launched the upgraded brand of "CGB Premier Banking", rolled out the pilot private banking business, and introduced CGB mobile wealth management, which increased brand awareness and customer satisfaction. The number of mid- and high-end personal banking customers exceeded 300,000, up by 26% YoY, among which the number of VIP customers and private banking customers increased by 41% and 28% respectively. According to a survey conducted by a third-party authoritative consultancy agency, the Bank ranked 5th in terms of customer satisfaction in the industry, up by two places from 2011.

### Credit Card

Confronted with complicated international and domestic economic environments in 2012, the Bank strived to seek for breakthroughs in its credit card business and seize every opportunity to grow. By the end of the year, the total number of credit cards issued increase to 22.93 million, making the Bank the second domestic joint-stock commercial bank with the number of total cards issued exceeding 20 million. The overdraft balance of credit cards was RMB70.526 billion,



## Management Discussion and Analysis

up by 41.40% YoY. The total income was 9.731 billion, up by 38.80%. Incremental loss rate was 0.58%, representing an improvement in both quality and quantity.

The Bank diversified its credit card marketing and increased the brand awareness of CGB credit cards in the market. In 2012, the Bank continued with the Guangfa Hope Charity Fund donation initiatives, donating RMB5.5 million to finance the construction of 112 Hope Kitchens and 2 Hope Libraries, and subsidized 498 students and children. In the meantime, the Bank rolled out “Guangfa Joy Day” in cooperation with a number of international and domestic brands across various industries, which received very positive response from white collars and other targeted customer groups.

The Bank accelerated product and function innovation for further business development. It promoted the project of issuing cards through internal control facilities, which greatly shortened application time and prevented identity fraud; succeeded in establishing a well-maintained cardholder’s club for key products, introduced the “buy-one-get-one-free” and the “half-price Friday” promotions on “CGB Day”. The various promotions and theme events effectively increased the number of cards issued and transaction volume.



The Bank applied scientific decision-making approaches to optimize risk management mechanism. The Bank applied data mining, model analysis and other techniques to support precise marketing and customer base development; optimized credit line structure, and improved the utilization ratio of the assigned credit; resumed large-amount EPPC business as a new profitability driver.



*The bank introduced the first EC12 mainframe in China, with powerful processing capabilities which can handle 78 billion instructions per second. Compared with the mainstream in the bank industry, the stand-alone processing power has been improvement more than 50%.*

The Bank implemented and promoted the planning and building of systems in order to support better and faster business development. The Bank initiated the core application system of credit card mainframe platform and introduced the first EC12 mainframe in China, to better support the development of the credit card business. In addition, the automated online credit card request processing system provided a centralized, flexible credit card management platform. With the introduction of the online CGB shops, the mobile shop, and reward e-shop, customer satisfaction was greatly enhanced, revenue grew strongly and at the same time cost saving continued.

Guangfa Card was awarded the “2012 Best Domestic Credit Card” from *The Asian Banker*; the “Customer Complaint Management Performance Model Certificate” from the third-party professional accreditation body, making CGB Credit Card Center the first to receive such recognition in China. Guangfa Customer Service Center was awarded the “All-round Model Unit Award” in the 2nd Best Customer Service Center of China Banking Industry; the “Best Customer Service Center of China” and “Best Customer Service Management Team of China” in the 7th Best Customer Service Poll of China.



## Management Discussion and Analysis

### 4.3 Financial Market Business

In 2012, the Bank strived to develop financial market business in order to facilitate its overall strategic transformation. The inter-bank market business, money market business, notes and bill business, and securities market business developed concurrently to achieve both liquidity and profitability. The Bank played an active role in inter-bank market transaction, enhanced product innovation and R&D, and accelerated the business growth of financial market. As of the end of 2012, total asset under the financial market business increased by 148.1 billion to RMB377.4 billion, up by 65% YoY.

#### RMB Foreign Exchange Transaction

The Bank continued to conduct global foreign exchange transactions, and act as a spot, forward and swap market maker in the RMB exchange market, achieving remarkable progress in the inter-bank RMB exchange rate market-making. In terms of the spot market making, the Bank was ranked 11th among 34 domestic commercial banks in the annual accumulative ranking released by China Foreign Exchange Trading System, up by six places in 2011.

#### Bond Investment and Trading

The Bank actively carried out inter-bank RMB bond market making and interest rate swap, participated in treasury bond and futures mock trading before going public, and became one of the earliest banks to offer interest rate swap fixing and closing prices in 2012. The Bank accurately grasped the full-year interest rate trend, and further optimized bond portfolio. The Bank fulfilled its underwriting duties of treasury bonds and financial bonds, winning the progress award of book-entry treasury bond underwriting in the general ranking of treasury bond and financial bond underwriting groups, and the award of 2012 excellent savings bond underwriting group. It strengthened analyses on macro situations, interest rate, credit bond and various economic data, publicized research reports, data analyses and press releases which were often cited by prestigious media.

#### Debt Capital Market

In 2012, the lead underwriting amount of CGB debt capital financing instruments reached RMB22.2 billion, 3.3 fold growth YoY. As one of the fastest growing lead underwriters, the Bank moved up seven places in the ranking. Private placement bond, SCP and financial bond projects made breakthrough. And the Bank succeeded in operating the first inter-bank private placement bonds with the shortest period, the first financing leasing beneficiary right and other non-standard debt financing instruments. In the Best Investment Bank Projects Election & Award held by *Security Times*, the projects operated by the Bank got the Award of the Best Medium-term Note Project and the Best Short-term Bond Project.





## Management Discussion and Analysis

### Wealth Management Business

In 2012, the Bank issued 1,984 wealth management products, whose accumulated sales were RMB261.4 billion. By the end of the year, several tranches of the stock-based structure product “Equity MLD” realized the highest expected annualized return in advance, which brought more competitive power to the wealth management product line. Besides, the Bank strengthened product innovation and R&D, released structural foreign currency wealth management product and the “Everyday Profit” wealth management scheme.

### Customer Transaction Services

The Bank steadily promoted traditional customer exchange rate products, foreign exchange options, exchange rate and interest rate portfolio products and other transaction solutions to meet customers’ hedging demands. It launched agency foreign exchange options and commodity derivatives transaction products for the first time, started gold automatic investment plan (AIP) business, and promoted agency interest rate swap products. Guided by the needs of customers’ investment, financing and risk management, the Bank built a professional financial market product and sales team to coordinate the cooperation with financial market dealers and products promotion for customers. The Bank provided instant professional service for branch client managers as well as key clients, and direct service to special key clients, thus greatly enhanced the market expansion.

## 4.4 Distribution Channels

### Outlet Network

By the end of 2012, the Bank had established 607 outlets in 61 prefecture-level or above cities in 15 provinces (municipalities and autonomous regions), including Beijing, Tianjin, Liaoning, Heilongjiang, Shanghai, Jiangsu, Zhejiang, Shandong, Henan, Hubei, Hunan, Guangdong, Sichuan, Yunnan and the Xinjiang Uygur Autonomous Region and the Macau Special Administrative Region. Representative offices had been set up in Beijing and Hong Kong respectively, and a postdoctoral scientific research institute had been set up at the Head Office.

During the reporting period, the Bank set up three branches directly managed by the Head Office (Jinan Branch, Urumqi Branch and Chengdu Branch), four Tier-2 branches (Dandong, Changzhou, Shaoxing and Mudanjiang), and one inter-city sub-branch (Xiangtan Branch); one branch directly managed by the Head Office (Fuzhou Branch) and seven Tier-2 branches (Zhenjiang, Jiaxing, Huludao, Changde, Honghe, Kashgar and Sanmenxia) were under construction. Establishment of new outlets not only optimized the network of the Bank in China but also contributed to improvement of loan extension, optimization of business structure and customer distribution, and balanced development of all businesses.

### E-banking

In 2012, the Bank aligned its e-banking business with the development ideas of “paying equal attention to size and quality, strengthening channel synergies and consolidating brand image”, formulated clear and scientific developmental strategies, carried out strategic plan, made major breakthroughs in product innovation and brand building, expanded customer base and maintained rapid business development.

was redesigned with clearer framework, more substantial content and more powerful functions. The text message platform was upgraded so that over 20 million messages could be sent every day to lay a solid foundation for future marketing development. The brand framework of “Smart E-Bank, Intelligent Yet Uncomplicated” began to be established. By hiring the image spokesperson and running advertisements on CCTV, People’s Daily and Xinhuanet, the brand popularity and reputation were significantly promoted.



The Bank has adhered to the concept of “Customer-based Experience”, enriched e-banking products and services and promoted its competitiveness. Functions of e-banking business have been upgraded. 23 new products were launched on personal online banking and 74 function items were added to the list; 36 function items were added to mobile-bank and over 200 function items were added; 42 function items were added to self-service banking and 149 function items were optimized; 9 new function items of e-payment were promoted, 10 function items were optimized and the Bank was the first to realize paperless approval of business; construction of one-stop e-payment marketing platform and the Phase II of new corporate online banking was completed; token and the second generation of USB-Key authentication were realized to ensure the security of online banking; the official website extended 3 exclusive marketing experience substations, 5 important sections were upgraded and 10 new function items were added, which has become the Bank’s important window of financial information service.

By the end of 2012, there were 6.128 million e-bank customers, up 64.68% YoY; 89.9935 million online banking transactions were completed, up 81.81%; the trading volume of RMB reached 858.675 billion, up 53.94%. There were 1.2424 million mobile banking users, a growth rate of 304.62%; 2.5322 million mobile banking transactions, up 486.70%, with a total trading volume of RMB7.291 billion, a growth rate of 342.15%. The Bank had 814 self-service outlets, 2 smart outlets and 3,862 pieces of connected self-service equipment, of which there were 3,233 ATMs and CRSs with 70.4821 million transactions, up 15.14%. The total trading volume was 127.578 billion, up 25.00%. Counter replacement rate by e-banking channel reached 82.56%, which had significant effect in the diversion of counter operations, reduction of operational costs, increase of management efficiency, transition of business and promotion of brand image.

## Management Discussion and Analysis

The E-banking service of the Bank won many awards and was rated as “2012 Best Mobile Bank”, “2012 Best E-bank”, “2012 Most Competitive Innovative Financial Product”, and “Most Trustworthy Online Bank” by multiple famous media, and as one of “Ten Top Projects” supporting economic and social development of 2012 Guangdong financial industry by regulatory authority.

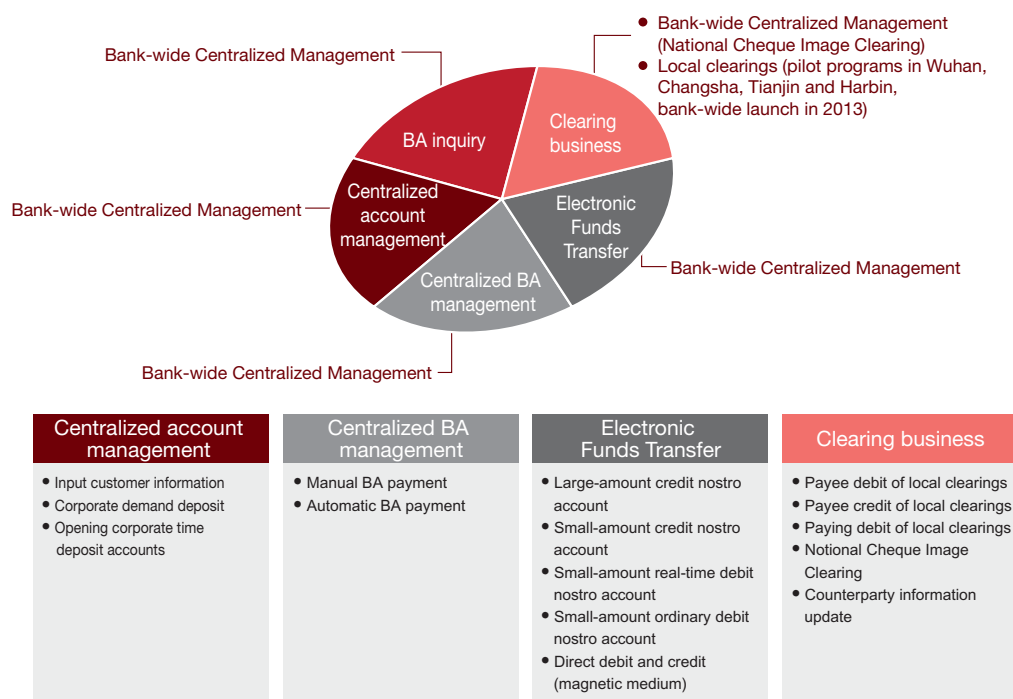


### 4.5 Information Technology and R&D

The Bank maintained large technological investment, centered on business innovation, customer marketing, e-banking and IT-based management, promoted the construction of major application systems and infrastructure projects, and evidently improves the supports of information technology for business development, operation and management.

In 2012, the Bank launched a 24-hour and all-round IT smart service, supported innovation of all business lines through establishment and optimization of business systems, and improved product competitiveness. In personal business, the functional support for wealth management products and personal loan products was provided. System construction of financial IC card issuance and transaction was completed. In credit card business, mobile payment, real-time bonus point, real-time issuance and single currency settlement of credit card were activated. In financial market business, a physical brand gold sales management system was established to support the building of the Bank's gold business brand. In asset custody business, insurance asset, QDII, stock index futures were added; “Tuo Fu Tong” system was developed to lay a foundation for development of relevant businesses. A series of system construction were launched, and online banking pre-filled forms, intelligent form filler, Queue Management System were added to improve customer service quality and efficiency.

## Management Discussion and Analysis



The Bank constantly enhanced the infrastructure and improved IT management and operational mode to consolidate the base of scientific and technological development. The Bank accelerated the “two locations and three centers” construction, started the infrastructure construction of Nanhai IT Center, initiated the early-stage preparations of Beijing Non-local Disaster Backup Center, launched the management of infrastructure resource pool and basically automatized maintenance and operation management. Also, the Bank carried forward the data standardization, optimized technical framework management process and formed highly efficient IT operational mode. In information security management, the Bank reached a new level, accomplished the annual information safety control, and passed the certification of the ISO27001 Information Security Management System.

Besides, the Bank supported business operation management optimization, counter terminal system optimization, real-time clearance reform phase I and operational risk monitoring system. The operational management benefited greatly from the process simplification, risk control and settlement optimization. Through optimization of management accounting rules and financial management process of uniform accounting system, as well as the establishment of data management and control platform, the Bank further perfected the financial management system; through promotion of system construction of operational risk, credit risk, market risk and liquidity risk, the Bank laid a foundation for strengthening all-round risk management ability.

## Management Discussion and Analysis

### 4.6 Human Resources Management

#### Reform in Human Resources Management

With the aim of establishing a market-oriented human resource management system, the Bank advanced restructuring in human resource management in a holistic way based on position management, performance management and remuneration management, under the direction of the *Overall Plan for Human Resources Management Reform*. During the past three years, the Bank had essentially set up a standardized position system, established three specialized teams on “operational management”, “professional technique” and “skill performance”, and pursued position appointment and position competition. Meanwhile, a performance management system oriented to value creation was perfected with “balanced score card” as the core concept. Overall-process management of performance was thereby realized and employees’ efficiency improved. Based on development of reform in position and performance system, the employee remuneration framework focusing on the post performance and wage system was established, which basically implemented market-oriented remuneration while strengthening the incentive role of remuneration and welfare.

#### Talent Training and Development

It has been one guiding ideology of the Bank’s Five-year Strategic Development Plan to care for employees, put people at the center and build a powerful leadership and first-grade employees. The Bank actively organized employee training covering all business lines and levels in accordance with the principle of “improving the utilization efficiency of training resources and promoting business development”. During the reporting period, the Bank organized 7,524 training sessions and trained 220,000 person-times in total.



In order to improve risk management capability, the Bank held the first “Branches Credit Risk Directors training Course” in March 2012.

In 2012, the Bank continued to join hands with the University of Cambridge and organized the CGB-Cambridge Senior Executives Training; 50 Senior Managers attended the training; in order to improve the professional management of Financial Directors and Risk Directors of branches, the Bank organized training course for Financial Directors and Risk Directors, and 85 medium- and high-level managers attended the course; organized staff training covering all corporate, personal and risk lines and levels, and established a multi-layer, three-dimensional training network of “combining HO unified training and branch independent training, combining human resource departments and business line departments, combining on-site class training and remote online training”.

#### Remuneration and Benefit Management

In 2011, the Bank gave full play to the role of remuneration and benefit management in supporting key strategic regions and businesses with the primary aim of implementing its Five-year Strategic Development Plan and human resources management reform.

In terms of remuneration management, the Bank facilitated the implementation of remuneration system reform focusing on the position and performance, and established an externally competitive and internally fair remuneration system. An annual salary system has been applied to employees of the Head Office and branch senior executives; in branches, a remuneration system was based on the principle of marketization and the salary system focusing on the work performance has been basically established.

## Management Discussion and Analysis

In terms of benefit management, the Bank established a benefit system with a focus on pension, medical care and housing, regulated and optimized the management approaches and processes for social insurance, housing fund and corporate annuity, promoted and optimized supplementary pension subsidies, commercially supplementary medical insurance and the flexible benefit system actively in order to meet the diverse benefit needs of employees and constantly improve employee satisfaction.

### Talent Recruitment and Brand Building

The Bank has been committed to the all-round development of employees, and has been caring for, respecting, training and developing talents, providing employees with a wide development platform while meeting the needs of business operation and talent management through continuous reform development and mechanism construction. In recent years, the Bank has persisted in holding national campus recruitment, organizing campus recruitment sessions in key universities in Beijing, Shanghai, Nanjing, Wuhan, Guangzhou, Xi'an and Chengdu, which have attracted hundreds of thousands of college students to apply for positions in CGB. Many students were employed through a selection system which has clear statistics, scores and procedures, and the brand and market reputation of campus recruitment have been significantly boosted. In the "China's Best Employer (2012)" survey jointly organized by Peking University Corporate Social Responsibility and Employer Brand Communication Research Center and [www.zhaopin.com](http://www.zhaopin.com), CGB won the title of "Most Popular Employer with College Students" and was again awarded "China's Best Employer (2012)".

## 4.7 Branding and Services

### Brand Building

In 2012, the Bank advanced brand building innovation vigorously, and promoted its brand by diversified media channels to showcase its service philosophy of "providing excellent experiences and creating greater value", and its corporate vision of "building a first-class commercial bank".

Promoted courteous and standard services and worked hard to build a quality service brand. The Bank implemented the courteous and standard service system project and further enhanced service standards, training, improvement, monitoring and customer complaint management to keep customer satisfaction at a relatively high level through strengthening the efforts to reform outlets and continuously improving the product and service innovation mechanism. During the reporting period, the Business Department of Guangzhou Branch was honored among "A Hundred Model Units in China's Banking Industry in Providing Courteous and Standard Services", Shenhe Sub-branch of Shenyang Branch was awarded the "Consolation Prize of A Hundred Model Units in China's Banking Industry in Providing Courteous and Standard Services", 21 outlets were selected into the third "A Thousand Model Units in China's Banking Industry" which set new records in history of the Bank. What's more, the Bank was awarded the "Prize for the Outstanding Contribution of 2012 A Thousand Model Units in China's Banking Industry in Providing Courteous and Standard Services".





## Management Discussion and Analysis

Strengthened multi-media communication and increased brand value. Implemented multi-channel, multi-media communication and deepened customers' understandings of CGB's brand through organizing and participating in various social events, public interest activities and marketing campaigns. The Bank has advertised strategically on CCTV, Phoenix TV and People's Net to promote step by step the cooperation with major national media organizations and establish and maintain good cooperative relationships. Taking business development as an opportunity, the Bank promoted the brand value of customer service through exclusive interviews, press conference and forums.

Making the best use of the Olympic Games in London, the Bank launched brand promotion campaign to promote the brand reputation. Taking the Olympic Games in London as a good opportunity, the Bank extended the brand logo concept, organized a series of brand promotion campaigns with "Convergence of Power in London" as the main theme and became partner with CCTV in Olympic Games reporting, cast CGB commercials of Olympic Games at high frequency during prime time of CCTV-1, CCTV-Olympics and CCTV-7, and title-sponsored Gold Medal Tally of sports that attracted much attention on NetEase, one of the most famous web portals in China, to pass CGB's brand concept of passion, persistence and innovation to audience. During the Olympic Games, the Bank effectively integrated Olympic elements into brand publicity promotion, 8 billion person-times were covered and the brand popularity and impact were significantly improved.

At the end of 2012, the Bank held a series of thank-you campaigns including golf elites events, art appreciation and SME financing forums themed by "Gratitude, Sharing and Win-win" in Guangzhou, Shanghai, Zhengzhou and Shenzhen to further promote brand and experience. The Bank was rated as "Best Brand Marketing Bank" by *Financial Times* and China Academy of Social Sciences, and the Olympic brand promotion project was awarded "Outstanding Brand of Sports Marketing" on 2012 China Sports Marketing Summit.

### Service Management

In accordance with its service outlook of "centering on customers", the Bank has established a service supporting system oriented by service standards, service training, service monitoring, complaint management, service appraisal and service culture to effectively promote service quality.

**Service Standard System:** established a series of service process standards including standard talks by counter tellers and hall managers; established outlet equipment positioning management system to guarantee the consistency of service quality with standards.

**Service Training System:** initiated positive mentality training and service experience exchange meetings of frontline staff to promote their service state and capability.

**Service Monitoring System:** based on annual service surprise inspection, secret inquiry and customer satisfaction survey, the Bank expanded the scale of inspection, refined standards and strengthened the ability to monitor service.

**Complaint Management System:** introduced and implemented the Interim Procedures for *CGB Service Complaint Supervision and Administration*, *Complaint Handling Instructions on Illegal Charges* and other complaint management standards, perfected the Bank's service supervision and complaint system and thereby cleared the price and charge complaint channels.



## Management Discussion and Analysis

Service Appraisal System: took the selection of model units, third party secret inquiry, customer satisfaction survey, HO surprise inspection, customer complaint index and other serious complaints as appraisal standards, and included branches' service promotion and improvement progress in KPI assessment.

Service Culture System: held the selection of a thousand model units, professional skill competitions and "Gratitude • Listening" activities, set up service culture exchange platform and motivated all branches to set up service benchmark.

Through establishment and perfection of the six service supporting systems mentioned above, the Bank ceaselessly optimized the service management reward and punishment mechanism, conducted tier-to-tier, top-down and continuous service quality management, put quality service concepts and standards into practice, and implemented, managed, monitored and evaluated every key point to make customers satisfied. In 2012, results of annual service inspections, "mystery consumer" by intermediary agencies and customer satisfaction surveys showed that the comprehensive service quality had been further improved. The Bank was awarded the "Best SME Financial Service Organization", "Best Customer Service Center of China", "Best Online Bank Innovation of China" and "Best Customer Satisfaction Award for Credit Card Business". In the 2012 China's Retail Banking Satisfaction Study by J. D. Power, a world-famous customer service evaluation company, the Bank's customer satisfaction had been further improved and ranked fifth, rising from seventh last year.

## 5. Risk Management of the Bank

### 5.1 Risk Management Overview

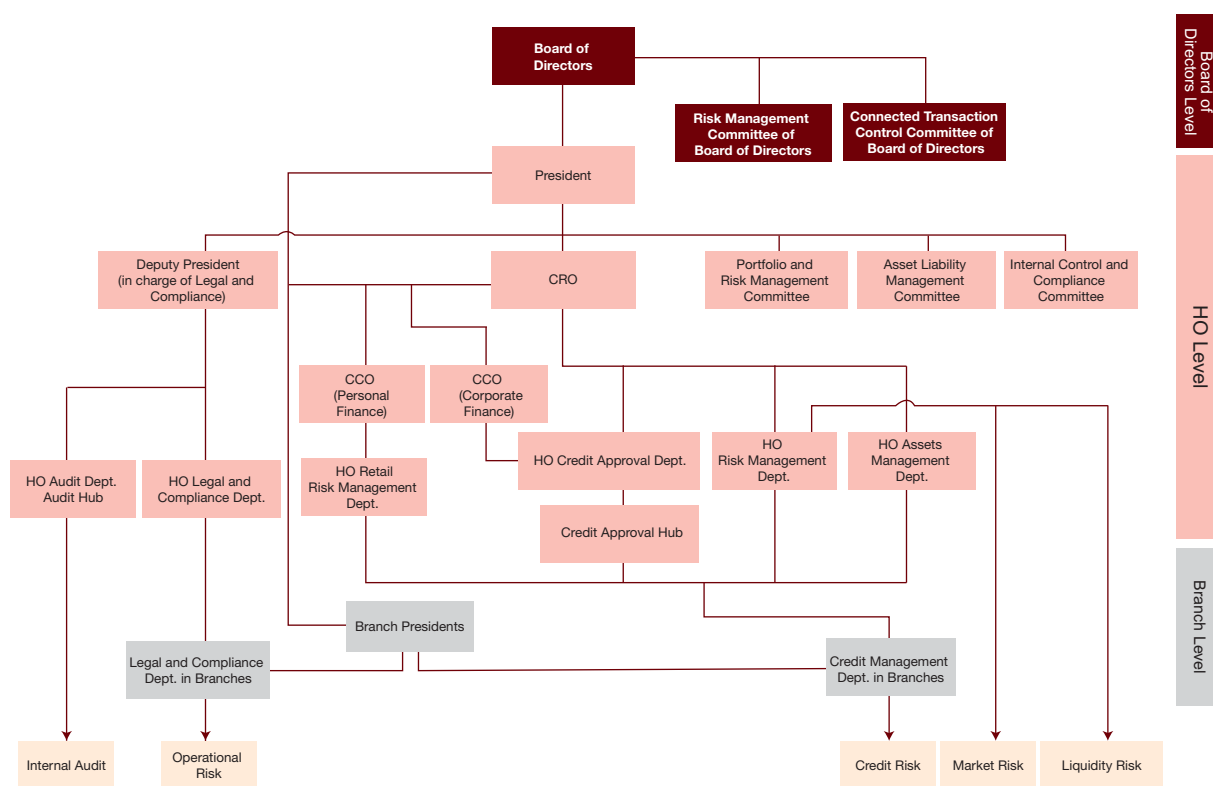
In recent years, according to the five-year development strategy and risk management plan, the Bank steadily pushes forward overall risk management, has been building a centralized, vertical and unified risk management system and established a risk management framework that matches such business lines as corporate banking, personal banking, financial institution and financial market. In terms of management strategy, the Bank has focused on the prevention and control of credit risks, mitigated risks actively, and promoted structural optimization and adjustment; improved the measuring and control capabilities of market risks; optimized the distribution of funds, strengthened the control over liquidity risks; improved operational risk management, ensured business compliance, and further improved the Bank's comprehensive risk management capabilities.

The Board of Directors assumes final responsibility for the Bank's risk management, and is responsible for determining the Bank's comprehensive risk appetite and tolerance, and approving the Bank's major risk management objectives, strategies, policies and procedures. The Risk Management Committee under the Board of Directors is responsible for reviewing risk policies and systems, and internal control building and implementation programs, evaluating the Bank's risk management capabilities, and reviewing the risk management strategies for credit, market, operational and liquidity risks. The Bank's Chief Risk Officer assists the President in overall risk management, and the Chief Credit Officer (corporate finance and personal finance) assists the Chief Risk Officer in performing specific tasks of risk management. The Portfolio and Risk Management Committee, Assets and Liabilities Management Committee, and Internal Control and Compliance Committee under the Senior Management are responsible for studying strategies and policies for preventing credit, market, liquidity and operational risks respectively, evaluating the effectiveness of management systems, monitoring the implementation thereof, identifying deficiencies thereof and studying solutions. The Risk Management Department, Credit Approval Department, Asset Management Department, Retail Risk Management Department and three Credit Approval Hubs are responsible for developing, implementing and managing the Bank's credit risk management systems.

## Management Discussion and Analysis

The Risk Management Department is responsible for developing, implementing and managing the Bank's management systems for market and liquidity risks; the Legal and Compliance Department is responsible for developing, implementing, inspecting and managing the Bank's management systems for operational risks; the Audit Department is responsible for conducting the independent review, supervision and evaluation of the Bank's business operations and risk control. Decisions on credit, market, liquidity and operational risks of the Board of Directors, its Risk Management Committee and the Senior Managers are implemented by branch offices under the direction of the departments concerned.

### Risk Management Organization Chart of China Guangfa Bank



## 5.2 Risks Encountered by the Bank and Corresponding Countermeasures

### (1) Credit Risk

Credit risk refers to the risk of economic loss in situations where the borrowers or counterparties of banks fail to fulfill their corresponding obligations as stipulated in the contract because of various reasons.

In 2012, the Bank strengthened the analysis and prejudgment of various types of credit risks, improved the predictability and initiative of risk management, conducted risk monitoring for key areas, clients and branches pertinently, and supported business development effectively on the basis of controllable risks. The Bank accelerated and deepened various risk management measures, reformed, optimized and improved credit policies and systems, risk management processes, key area management, portfolio monitoring, risk measuring techniques and system support.

## Management Discussion and Analysis

- The building of the policy framework of credit risks was driven steadily to improve the Bank's credit risk management capabilities. Risk management guidelines were developed and risk alerting issued according to changes in the macroeconomic situation and regulatory environment, and management strategies adjusted actively; credit policies for industries, products and clients were developed carefully to realize business transformation and loan portfolio restructuring; processes and management measures for group clients and entrusted loans were improved to strengthen bank-wide compliance awareness and risk management capabilities.
- Whole-process risk management was kept improving to realize a proper balance between risks and returns. Piloting of the new loan disbursement was launched to keep improving the pre-disbursement review process; the risk early warning mechanism involving the entire lending process was improved to enhance the efficiency of risk early warning and risk identification capability of clients; attention was paid to collateral management, and the risk management of specialized guarantee and supervision companies was strengthened to ensure the risk mitigation role of the second source of repayment practically.
- The authority delegation framework for authorized approvers was further improved, and a credit responsibility mechanism with more clearly defined responsibilities established. Delegation management systems, such as annual review of corporate credit businesses, were established to provide a policy basis for credit authority delegation; some products and branches were subject to special authority delegation based on business needs; the effectiveness of authority delegation by branches was managed more strictly to ensure the effective implementation of the regulations on authority delegation.
- The risk management of key areas, clients and branches was further strengthened, including steel trading enterprises, cooperation between the Bank and guarantee companies, government financing platforms and real estate loans, to prevent systematic risks practically; the loan quality control over key clients in high-risk industries was strengthened to control the size of new NPLs strictly; the risk monitoring of key areas and branches was strengthened, and the one policy per branch management initiative was executed.
- The management measures and modes of off-site monitoring and on-site inspection were improved greatly to enhance risk management efficiency. The management strategy for loan portfolio in 2012 was developed, and its implementation monitored and reported regularly; the relevant functions of the Credit Statistical Monitoring Data System (CDS) were further optimized and adjusted; system data cleanup was driven to improve the quality of system data and information; on-site inspection was strengthened to urge branches to improve compliant operation and risk control capabilities effectively.
- The risk management quantification tools were improved to strengthen the quantification capability of risk management. The stress testing method was improved to identify risks and simulate risk losses, and management strategies developed based on test results accordingly; the existing internal rating system was further optimized and the development of the credit scorecard model accelerated to promote the application of internal ratings to risk management.

## Management Discussion and Analysis

- The Credit Management System (CMS) was improved and the new-generation credit management system group consulting project was implemented according to the building plan for the new-generation credit management system group; the CMS was further optimized to strengthen the stringent control over business processes; system building tasks were performed, and the risk monitoring system, authorized approver authority delegation management system, credit guarantee management system and data quality monitoring system were completed.

### (a) Five-category loan classification and loss provision for each category

*In RMB Thousand*

<b>Item</b>	<b>2012 Year-end Balance</b>	<b>Percentage(%)</b>	<b>2012 Year-end Loan Loss Provision Balance</b>
Pass	593,545,567	96.39	7,345,676
Special-mentioned	13,092,858	2.13	1,908,417
Sub-standard	3,953,030	0.64	1,837,820
Doubtful	3,996,767	0.65	3,235,520
Loss	1,161,288	0.19	1,161,288
<b>Total</b>	<b>615,749,510</b>	<b>100.00</b>	<b>15,488,721</b>

### (b) Change of non-performing loans

*In RMB Thousand*

<b>Item</b>	<b>December 31, 2011</b>		<b>Increase/(decrease)</b>		<b>December 31, 2012</b>	
	<b>Amount</b>	<b>Percentage (%)</b>	<b>Amount</b>	<b>Percentage (%)</b>	<b>Amount</b>	<b>Percentage (%)</b>
Sub-standard	2,002,298	0.37	1,950,732	0.27	3,953,030	0.64
Doubtful	3,788,841	0.70	207,926	(0.05)	3,996,767	0.05
Loss	1,439,711	0.27	(278,423)	(0.08)	1,161,288	0.19
<b>Total</b>	<b>7,230,850</b>	<b>1.34</b>	<b>1,880,235</b>	<b>0.14</b>	<b>9,111,085</b>	<b>1.48</b>

### (c) Management policies and measures for NPAs, and management outcome

The Bank has always been strengthening the recovery and disposal of existing and new NPAs by diversified means to improve its asset quality and reduce its NPA level. The key management measures for NPAs include:

- The risk classification of credit businesses was conducted in strict conformity with the risk classification criteria and methods for loans of the CBRC; the Chief Risk Officer convened a risk analysis meeting with the risk management departments on a monthly basis to determine risk classification of loans strictly based on risk early warning and post-loan inspection results, and make provisions for loan losses prudently based on the estimated level of losses;

## Management Discussion and Analysis

- The risk management policies and risk monitoring targets were optimized timely, investment targets of loans adjusted, asset structure improved continually based on changes of the economic situation and regulatory requirements to prevent systematic credit risks practically;
- The rules and regulations on NPA management were amended and improved, and the credit business processes of client admittance, pre-loan investigation, loan review, post-loan management, and NPL recovery and disposal improved;
- A number of measures, including cash collection, creditor's right transfer and discount, loan restructuring, DPC, bad debt write-off and NPL sales, were taken comprehensively to recover and dispose of NPLs more effectively;
- The NPA accountability mechanism was strengthened and an NPA recovery commissioner system practiced to strengthen the HO's direct involvement in NPL recovery;
- Team building was further strengthened to attract and train talents in NPA recovery and management.

Through the above measures, the Bank recovered and disposed of NPAs of all kinds totaling RMB6.9 billion in 2012, in which NPAs totaling RMB3.7 billion were recovered in cash, with a cash recovery rate of 54%.

(i) *Structure of loans and non-performing loans (NPL) classified by business type*

*In RMB Thousand*

Item	December 31, 2012			December 31, 2011		
	Loan Balance	Percentage (%)	NPL Ratio (%)	Loan Balance	Percentage (%)	NPL Ratio (%)
Corporate Loans (including discounts)	447,622,480	72.7	1.70	398,631,147	73.8	1.51
Personal Loans	163,579,938	26.6	0.91	137,564,923	25.5	0.86
—Including: credit card overdraft	70,525,724	11.5	1.50	49,877,151	9.2	1.63
Overseas and others	4,547,092	0.7	0.05	3,966,999	0.7	0.60
Total	615,749,510	100.0	1.48	540,163,069	100.0	1.34

In 2012, influenced by macroeconomy, some regions and industries were exposed to greater risks. At the end of the year, the Bank's balance of NPLs and NPL ratio rose from the beginning of the year.

## Management Discussion and Analysis

(ii) *Structure of corporate loans and non-performing loans (NPL) classified by industry*

*In RMB Thousand*

Industry	December 31, 2012			31 December 2011		
	Percentage			Percentage		
	Loan Balance	(%)	NPL Ratio (%)	Loan Balance	(%)	NPL Ratio (%)
Manufacturing	130,251,226	30.8	3.16	116,658,981	30.0	3.03
Wholesale and Retail	104,780,915	24.8	2.66	86,174,534	22.2	1.97
Energy and raw material	53,328,561	12.6	0	60,089,026	15.5	0.14
Transportation	27,216,057	6.4	0.08	27,014,337	6.9	0.07
Real estate	39,580,691	9.4	0.09	42,000,272	10.8	0.26
Tourism and service	18,197,343	4.3	1.42	18,691,257	4.8	0.94
Construction and installment	31,767,710	7.5	0.19	25,322,844	6.5	0.63
Financial service	3,366,462	0.8	0	1,488,839	0.4	0
Postal and telecommunication	3,798,727	0.9	0.51	2,612,533	0.7	0
Others	10,772,874	2.5	0.18	8,788,488	2.2	0.28
Total	423,060,566	100.0	1.73	388,841,111	100.0	1.49

According to the adjustment direction of the Chinese policies on economic structure optimization, industry upgrading promotion and strategic emerging industry development under the framework of the “12th Five-year” Plan, the Bank proactively pushed forward the optimization of its overall credit structure based on its market positioning, risk appetite and risk policies.

The Bank strengthened credit support for key industries, small and medium enterprises, agriculture related areas; granted credit to support the nationwide effort of environmental protection, and diverts funds to industries, enterprises and projects more favorable for environmental protection; further strengthened support for strategic emerging industries, supported energy conservation and emission reduction, and promoted the development of low-carbon, environment-friendly and innovative industries; granted more loans to core technology enterprises to support technical innovation and the elimination of backward production capacity; controlled loan admittance strictly, and prohibited the extension of loans to industries identified as seriously excessive in production capacity by the state and nonconforming newly started projects; and also implemented state regional development policies actively, and supported the financing demand for the development of key regions based on the practical situation of the Bank’s credit business.

For loans to the real estate industry, the Bank stuck to the policy of “appropriate tightness, differentiation and selection of the best of the best”. For the real estate development loans, the Bank exercised the policy of unified approval by the HO, list-based classified management and a fully closed loop management pattern, conducted proper management of client acquisition and fund uses, strengthened the monitoring of marketing progress and fund recovery, and conducted portfolio limit control to manage risks of real estate loans effectively.

## Management Discussion and Analysis

For local government financing platform loans, the *Classification Criteria for Local Government Financing Platform Loans* were developed carefully in light of the *Guidelines of the China Banking Regulatory Commission on Strengthening the Risk Regulation of Local Government Financing Platform Loans in 2012* to manage existing loans according to “support, maintain and reduce” classification. The management team specialized for government financing platform loans was founded to study platform loan policies and develop guidelines for platform loans, and the policy of list-based management was practiced, leaving all platform admittance, credit approval and disbursement review operations to the HO. In 2012, a limit management policy with zero growth was applied to platform loans. The delicacy management of platform loans was strengthened by means of portfolio analysis, post-loan management and system monitoring. At the end of the reporting period, the balance of government financing platform loans was further reduced, and loan quality was good in general.

### (d) Accrual and writing-off of loan loss provision

*In RMB Thousand*

Item	Loan Loss Provision
Opening balance	(16,718,163)
Change for the year	(4,149,407)
Release during the year	2,843,705
Unwinding of discount	91,044
Recoveries	(133,567)
Writing-offs	2,577,667
Closing balance	(15,488,721)

### (e) Risk management relating to loans granted to group clients

The Bank paid great attention to the management of group client loans, and strengthened the maintenance of the credit management system by optimizing the assessment of connections among group clients as well as the authority delegation and approval process on loan amounts, thus improving the risk management of group clients. At the end of 2012, the Bank had granted group loans to 2,026 clients in total, including 100 HO-level core clients.

During the reporting period, the Bank amended and implemented the *Policy of Management Measures for Group Clients* to further define and regulate the management of group clients in terms of overall structure, division of responsibilities, operating process and management requirements; assessed comprehensive uniform credit limits for group clients to control the total volume of their credit risks and manage them on the principle of unified credit; defined the risk management responsibilities of units and persons chiefly and secondarily responsible for group loans, and had the HO manage key group clients directly to improve the overall return and management level of group loans; applied strict credit admittance criteria to group clients, and reviewed them in terms of loan use, credit limits and connections; strengthened the management of loan payments among related parties within groups, and defined the payment rules between parent companies and subsidiaries within groups; and established an off-site risk monitoring system and strengthened post-loan inspection.



## Management Discussion and Analysis

### (f) Basic information concerning repossessed assets

*In RMB Thousand*

Item	31 December 2012	31 December 2011
Repossessed assets	161,123	167,247
Including: Properties and buildings	144,006	146,669
Land	17,117	17,117
Others	0	3,461
Deduction: Allowances for impairment losses	(24,328)	(26,684)
Net value of repossessed assets	136,795	140,563

### (2) Liquidity Risk

Liquidity risk refers to the risk that a commercial bank of is unable to obtain adequate funds timely or at reasonable costs to respond to asset growth or pay due debts.

The liquidity risk management strategies of the Bank mainly include: setting appropriate risk tolerance, striving to improve financing capacity, keeping proper assets liquidity, continuously assessing the cash ability of assets, paying attention to the impact of various risks on liquidity, stressing the application of the stress test of liquidity risk and assessing its limitations in practical application effect.

As for liquidity risk management, the Bank simultaneously adopted liquidity management strategies in both asset and liability sides. The Bank has paid particular attention to cash flow and liquidity limit management technical methods to effectively control liquidity risk in accordance with the external regulatory indicators, internal liquidity indicators and stress testing technology. Asset liquidity management strategy of the Bank includes asset portfolio diversification, improving the liquidity of asset portfolio. The liability liquidity management strategy includes maintaining the stability of liabilities, improving the percentage of core deposits in liabilities and keeping good market financing capacity.

In 2012, the Bank's liquidity was good, liquidity risks were low and controllable, and all liquidity indicators met the regulatory requirements. Its assets and liabilities were matched rationally in term and structure, and fund positions were utilized properly, enabling it to withstand the challenge of market liquidity crunch.

During the reporting period, the Bank took the following measures for liquidity risk management:

- The building of the liquidity risk management system under the New Capital Accord was promoted orderly, an advanced system platform is being established to embody the concept and techniques of liquidity management, improve the automation level, monitoring frequency, accuracy and proactivity of risk management, and respond to the variation of the financial environment arising from interest rate liberalization.

## Management Discussion and Analysis

- According to the requirement of the liquidity risk management policy, the Bank implemented the objectives gradually and optimized the risk measurement techniques including the improvement of the measurement of minimum survival period under stressed scenarios and the evaluation of risk mitigation measures. Liquidity risk scenario analysis and stress testing were conducted regularly, stress laid on the periodic calculation of such key regulatory indicators as Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). Meanwhile, liquidity risk mitigation measures taken on multiple levels.
- Continued to optimize the Internal Fund Transfer Pricing (FTP) Mechanism and centralized pooling mechanism. The bank-wide liquidity risk management strategy is further implemented. Based on asset liquidity level, liquidity provisions at multiple levels were established to strengthen the Bank's capability of financing from a number of interbank funding channels, and consideration was given to liquidity, credit and market risks during the operation of bond investment, bills investment and credit assets portfolios.
- The monitoring of liquidity risks was strengthened to monitor regulatory indicators for liquidity risks and liquidity gaps frequently. Close attention was paid to market trends and central monetary policies, substantial fund variations monitoring and provision funds arranged rationally to ensure liquidity safety.
- Capital was replenished and subordinated bonds issued to enhance the risk resistance of the capital.
- Attention was paid to macroeconomic changes and their impact on banks both at home and abroad to guard against default risks arising from the variation of the real economy, as well as to the opportunities and restructuring requirements for banks arising from interest rate liberalization and RMB internationalization.

### (3) Market Risk

Market risk refers to the risk of losses incurred in both trading and non-trading business, as well as losses in on-sheet and off-sheet business of commercial banks caused by the adverse change of market prices (including interest rate, exchange rate, stocks and commodities). The Bank's market risks are mainly from interest rate and exchange rate risks, and almost involve neither stocks nor commodities; for sophisticated derivatives, market risks are fully hedged in the market.

The market risk management of the Bank refers to the whole process of identifying, measuring, monitoring and reporting market risk exposure level. The target of market risk management is to realize risk-adjusted maximum return by controlling market risk exposure within tolerable range in accordance with the Bank's capital strength and risk appetite.

## Management Discussion and Analysis

The Bank's market risk management is based on the classification of trading book and banking book, where different methods or models are used to measure different types of risks. In the market risk management of trading book, market risk limit for trading book include exchange rate and interest rate sensitivity limits, and stop-loss limits are used to reevaluate positions of trading book daily, and such methods as sensitivity analysis and stress testing used to measure market risks regularly. The market risk management of banking book is focused on the management of interest rate and exchange rate risks, where market risks in different operations are identified, measured and monitored by such means as duration monitoring, exposure analysis, sensitivity analysis and scenario analysis. In addition, the Bank evaluates mismatches in interest rate-sensitive assets and liabilities, and adjusts and hedges mismatches of interest rate-sensitive gaps.

The Bank has taken the following measures to reinforce market risk management during the reporting period:

- As to Internal Model Approach consulting and building project, the Bank has begun to implement the New Capital Accord, and is building a complete framework for market risk management, and improving systems and processes gradually to enhance risk identification, measurement, monitoring and control capabilities. The Bank will build the Financial Market Middle Office System (FMS) to cater for market risks management to improve working efficiency greatly while meeting the need for regulatory compliance and internal management.
- A market risk limit framework was established with interest rate and exchange rate sensitivity indicators as its main constituents, and independent monitoring on usage of limit is applied. To come up with proper market risk limits, a number of factors were factored in, i.e. risk tolerance level of market risk, business nature, size, complexity and risk features.
- The control over market risks in treasury products and activities and wealth management products was strengthened, and the relevant risk monitoring processes improved to improve the level of identification, measurement, monitoring and control of market risks.
- Various policies and processes were improved. The *Management Measures for Counterparty Risks in Treasury Transaction Customers of China Guangfa Bank (2012)* and PSE Calculation Rules for Counterparty Credit Risks were promulgated to include CEF factors for commodity and RMB foreign exchange options, and promote the development of financial market business.
- The procedure and method for the effectiveness test of hedging were developed according to the derivative management measures and enterprise accounting standards of the CBRC, and management measures for hedging transactions developed to regulate hedging transactions.
- Market risk capital was calculated using the standardized method, VaR values of transaction accounts by product calculated regularly, and the stress testing of market risks conducted.
- Middle-office product control functions for the reconciliation of profits and losses of RMB bonds between the front and back offices were established gradually.

## Management Discussion and Analysis

### (4) Operational Risk

Operational risk refers to the risk of loss arising from imperfect or questionable internal procedures, employees, IT systems and external events.

The Risk Management Committee under the Board of Directors is responsible for directing and urging the Senior Management to perform operational risk management responsibilities effectively. The Internal Control and Compliance Committee and BRCC under the Senior Management and the management of each branch office are responsible for the review, evaluation and monitoring of operational risk management. The Legal and Compliance Department is the leading department of operational risk management, while different business and management departments are responsible for the management of operational risks within their respective scope of duties. In 2012, the Bank's operational risks were well controlled, and losses from operational risks were kept at a low level. The main tasks include:

- The management system and tools for operational risks were further improved. Taking The New Capital Accord implementation as an opportunity, the Bank started the special task of improving the management system for operational risks and the bank-wide extension of relevant tools. To date, the self-evaluation of operational risks and control, and the collection of loss data have been conducted at the HO and some pilot branches. Key risk indicators were set for the major business lines to identify, evaluate and monitor operational risks. In addition, the development of the management system for operational risks was started to support the bank-wide implementation of the management tools for operational risks.
- A dynamic risk evaluation and reporting mechanism was established. In order to further strengthen the internal control and risk management of all business lines, and prevent potential risks, the Bank combined risk self-inspection with the BRCC system, and established a dynamic risk evaluation and reporting mechanism. While risk self-inspection was conducted in all business lines to strengthen risk control, the Senior Management of the HO and branches learned the Bank's risk self-inspection and urged the correction of relevant issues through BRCCs.
- The operational risk management of IT systems was strengthened. The Bank improved IT system building actively to minimize manual operations and reduce operational risks, including building and optimizing such system functions as mobile banking, online banking channel extension, synergetic transaction optimization, and intelligent PDA card issue terminals to improve the electronic and graphic level of business information. The Bank paid great attention to building and maintaining the risk monitoring and credit risk management systems to identify and track risks effectively through in-depth data analysis and tapping, meanwhile starting the management systems for operational, liquidity, interest rate, market and middle-office treasury risks to further establish a risk monitoring system that covers all business lines. The Bank fulfilled most of the one-year management objectives specified in the *IT Management Objectives and Requirements for Banking Financial Institutions in Guangdong Province (China Guangfa Bank)* in light of the applicable regulatory requirements during the reporting period, and is going to implement the three-year objectives actively. The Bank has promulgated the *China Guangfa Bank Management Policy for Business Continuity (Trial)*, defining the overall objectives, principles, methods and tasks of the business continuity management system of the Bank.

## Management Discussion and Analysis

- The rules and regulations were improved, and employee training were strengthened to improve their professional skills and risk control abilities. For the business areas where operational risks are likely to occur, the relevant rules and operating regulations were further defined and improved to provide a clear institutional guide. Professional training in diversified forms was further conducted to improve the employees' business skills. At the same time, education on operational risk management was further strengthened to improve the employees' abilities to identify, manage and control operational risks.

### (5) Compliance Risk

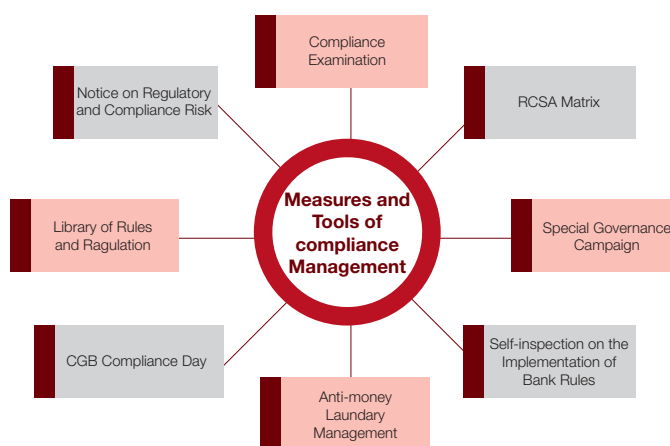
Compliance risk refers to the risk of legal sanction, regulatory punishment, major financial losses and reputation loss when a commercial bank fails to observe laws, rules and guidelines.

In strict conformity with the national macro-control policy and regulatory requirements, the Bank has kept strengthening total risk management, moved internal risk control functions forward with the business philosophy of "compliant operation and balanced development". Under the leadership of the Board of Directors and Senior Management, the Bank has established the three risk defense lines that involve the business management departments, Legal and Compliance Department, and Audit Department. All functional departments perform their respective duties with concerted effort to conduct compliance risk management effectively.

The Board of Directors and Senior Management review compliance risk management reports of the Bank regularly, supervise the Bank's compliance risk management and evaluate the effectiveness thereof. The Board of Supervisors supervises the performance of the compliance management duties by the Senior Management through listening to reports on the Bank's compliance management. The Bank has been expanding the HO and branch professional teams on legal and compliance management, assigned part-time compliance commissioners to all business lines and sub-branches, and established an integrated and efficient organizational system for compliance risk management to improve the effectiveness of compliance risk management.

In 2012, the Bank mainly took the following measures in compliance risk management:

- The compliance examination mechanism was further improved to strengthen the normative and timely management of the review process, give full play to the preventive and corrective role of compliance management in risk control, and promote the balanced development between business operations and compliance management.



## Management Discussion and Analysis

- Close attention was paid to the development and variation of laws, regulations and regulatory systems, and regulatory policies and compliance requirements were grasped accurately, reported timely to the management and communicated to the relevant business lines to respond to compliance risks in business management effectively.
- The library of rules and regulations was continuously improved to give full play to its role as a comprehensive monitoring information platform, and regulate all management activities of the Bank.
- The RCSA matrix was maintained and updated to build basic tools for compliance risk management, and the relevant regulatory provisions were carried through by identifying, evaluating and controlling compliance risks effectively.
- Compliance culture building was promoted greatly, and the “CGB Compliance Day” was started to strengthen the compliance awareness of the staff, and create the Bank’s compliance culture and traditions through prolonged, sustained bank-wide compliance education and publicity.



- The special governance campaign with the theme of “regulating loan granting practices, and collecting fees properly and rationally”, and self-inspection on the implementation of bank rules were conducted to eliminate potential compliance risks, strengthen the risk prevention capabilities of all business unites, and promote the steady and compliant development of all operations.
- The risk-oriented regulatory principle of the People’s Bank of China was carried through carefully, the internal control management of anti-money laundering further strengthened, the internal control systems for anti-money laundering revised and improved timely, and the compliance risk prompt function in anti-money laundering strengthened, the investment in technology for anti-money laundering increased, the inspection and supervision over branch offices further strengthened, and training and publicity on anti-money laundering conducted in diversified forms and channels, and at different levels. These efforts were recognized by the People’s Bank of China, and the Bank was approved as a national integrated pilot bank for the reporting of large-amount and suspicious transactions.

## Management Discussion and Analysis

### (6) Information Technology Risk

Information technology risk ("IT risk") refers to the operational, legal and reputational risks arising from natural and human factors, technical vulnerabilities and management defects during the application of information technology to a commercial bank.

The Bank defined the duties of the Board of Directors and the Senior Management with regard to IT risk management, established the three defense lines for IT risk prevention mainly composed of IT Department, Legal and Compliance Department and Audit Department, set up the position Chief Information Officer (CIO), established the routine discussion mechanism for the Information Security Leading Group, and held regular meetings of the Information Security Leading Group to discuss, deliberate and decide on major matters about information security.

During the reporting period, the Bank prevented and controlled IT risks effectively through the following measures:

- The Bank established the IT security management policy, and defined the overall management requirements for information security. A multi-level system of IT rules and regulations was established according to the framework of IT rules and regulations, covering production operation and maintenance, development testing, information security and integrated management. In 2012, the Bank developed or amended 24 sets of rules and regulations, including the IT Code of Conduct, Measures for IT Confidentiality Management and Measures for Key Management.
- The information security work for the 18th National CPC Congress was completed successfully by making preparations early and carefully, developing a detailed security program and taking security measures strictly, so as to ensure that no major information security liability event occurred during the 18th National CPC Congress.
- The Bank was certified to the ISO27001 information security management system successfully, established a sound information security management system, proposed the guidelines for information security of "normative management, proactive prevention, continual improvement and synergetic security", implemented comprehensive IT risk evaluation, and conducted publicity on information security awareness to employees in diversified forms, strengthening the level of IT risk prevention and the information security awareness of the employees greatly.
- An internal control security self-inspection was conducted in depth and extensively throughout the Bank. In particular, the HO conducted a special inspection on information security in 19 key aspects, covering user management, network management, development testing management and employee daily behavior regulation; an on-site inspection on information security in 9 major aspects, including user, computer room, network and system management was conducted on all branches, covering over 400 points. The information security risks identified were subject to correction timely, controlling and mitigating effectively.
- IT system information security rating protection was continuously implemented. The safety rating of 61 IT systems, the correction and acceptance evaluation of 8 key IT systems, and the gap evaluation of 10 IT systems were completed according to the national management requirements for IT system security rating protection, ensuring that the Bank's IT systems meet the requirements of the national rating protection standard and prevent systematic risks practically.



## Management Discussion and Analysis

- The disaster recovery drill and emergency switchover drills of key systems were conducted successfully. The disaster recovery drill of the disaster backup center (reporting and notification tree drill, practical drill, desktop drill, and simulation drill) was implemented in four stages, verifying the effectiveness of the disaster backup system and disaster recovery processes. In addition, a practical switchover drill on key IT systems was conducted to further improve the emergency response capability of the emergency response personnel.
- The bank-wide disaster backup system was established and improved, and the disaster backup for 27 IT systems, including core banking system, credit card core system, online banking system, teller terminal system, gold transaction management system and cash management system, was established, covering the Bank's core operation, payment and settlement, and major channel operations, and meeting the Bank's demand for business continuity.
- IT outsourcing risk management was conducted strictly. IT outsourcing management measures were developed, the emergency plan for key IT outsourcing services established and drilled, criteria for information security introduced into the outsource admittance examination, and the on-site inspection and correction of 6 key service outsources was conducted to further improve the Bank's capability to control IT outsourcing risks.
- Training and exchanges on information security were strengthened on multiple levels, and in multiple dimensions and types, including the information security and compliance knowledge contest, bank-wide training on IT security code of conduct, branch communication on IT risk prevention and control, and information security awareness training for IT managers to strengthen the IT risk awareness and skills of the HO and branch staff comprehensively.

### (7) Reputation Risk

Reputation risk refers to the risk of negative evaluation by stakeholders of a commercial bank arising from its operations, management and other behaviors or external events.

The Board of Directors of the Bank is the highest decision-making and the final responsible organ for reputation risk management of the Bank. The Head Office has set up a reputation risk management leading team with the Bank's President as the team leader. The leading team is responsible for making decisions and work arrangement on reputation risk management under the leadership of the Board of Directors. In case of reputation or significant reputation incidents, the HO department head and branch leaders cooperate effectively with the leading team and the Head Office to effectively allocate resources and manpower to ensure that the reputation risk management departments and business departments share resources and cooperate with each other.

*The Detailed Rules for the Management of Reputation Risks of China Guangfa Bank, Measures for the Management of News and Publicity Work of China Guangfa Bank, and Measures for the Examination of News and Publicity Work of China Guangfa Bank* were developed and issued, and a public opinion monitoring, submission, disposal and examination mechanism was established to make the Bank's reputation risk management professional, institutionalized and normative gradually.

## Management Discussion and Analysis

The research and training on reputation risk management was strengthened, information sharing among departments and branches conducted timely, reputation risks studied and judged in advance in routine work, an emergency plan prepared timely for possible reputation risk events, and the sensitivity of pre-judgment of reputation risks increased. Great importance was attached to the “first golden time” for response to reputation risks, key information of the Bank disclosed to the press timely and accurately, and the news release process regulated and emergencies and implement crisis management responded to quickly and effectively.

### (8) Country Risk

Country risk is defined as follows: an economic, political, social change and event in a country or region renders borrowers or debtors in that country or region unable or unwilling to repay debts owed to the Bank; or such a change and event causes the Bank to suffer from business losses or other losses in that country or region. Country risk exists in credit-granting, international capital market business, overseas institutions, correspondent banks, and outsourcing services provided by overseas service providers.

According to the *Guidelines of the China Banking Regulatory Commission on the Management of Country Risks of Banking Financial Institutions and other regulatory requirements*, the Bank developed and implemented the *Measures for the Management of Country Risks of China Guangfa Bank (Trial)*, and established a country risk management system suited to the Bank's strategic goals, and exposure to and complexness of country risks. The Bank practiced the reporting system of country risk statements, included the provisioning of country risk reserves in the Bank's provisions for asset impairment for management, and prevented and controlled country risks effective through country risk identification, measurement, monitoring, evaluation and stress testing.

In 2012, the Bank's country risks were controllable in general, and did not affect regular business operations materially.

### 5.3 Internal Control

The Bank kept improving the modern corporate governance mechanism, optimizing its organizational structure, promoted corporate culture building, improved internal control systems and risk management measures, and strengthened information source building, supervision, evaluation and correction in strict conformity with the *Commercial Bank Law*, *Basic Norm for Enterprise Internal Control and Guidelines for Internal Control of Commercial Banks*, promoting the improvement of its internal control level effectively and ensuring the steady, healthy development of all businesses.

- The corporate governance structure and management framework, and organizational system for internal control were improved. According to the regulatory requirements and Articles of Association, the Bank has established an organizational framework for corporate governance composed mainly of the General Meeting of Shareholders, Board of Directors, Board of Supervisors and Senior Management, improved the corporate governance mechanism featuring “clear responsibility boundaries, orderly check-balance and collaboration, democratic and proper decision-making, efficient and normative operation, timely and transparent information”, and created a benign governance pattern featuring clearly defined authorities and responsibilities, effective check and balance, and coordinated operation, laying a solid foundation for further internal control building. During the reporting period, the Bank kept optimizing the organizational structure, established an independent, specialized retail risk management department at the Head Office, extended the bank-wide retail risk management system actively, and further regulated and optimized the responsibilities and organizational setup of the HO Risk Management Department and Credit Approval Department, three major Regional Credit Approval Hubs, Asset Management Department and other middle-office risk management departments to improve credit approval efficiency and risk control capabilities.

## Management Discussion and Analysis

- Corporate culture building was deepened and the internal control environment was further optimized. The Bank attaches great importance to corporate culture building, and has established a corporate culture development system aligned with its core values and concepts. In 2012, the Bank further carried its cultural philosophy and compliance awareness through bank-wide management by holding such events as the Corporate Culture Deepening Year and “CGB Compliance Day”. The internal e-journal Culture Guangfa and the Guangfa employee forum solicited articles on integrity to deepen the cultural philosophy and base the compliance culture deeply in the management practice. *The Code of Employee Professional Conduct of China Guangfa Bank, Measures for the Punishment of Regulatory and Disciplinary Violations by Employees, Accountability Measures for NPAs, and Compliance Knowledge Handbook* were promulgated, and October 20 of each year fixed as the “CGB Compliance Day”. While pursuing business development energetically, the Bank carried through the business philosophy of “compliant operation and coordinated development”, promoting the improvement of compliance awareness among employees at all levels and the continual optimization of the internal control environment.
- The Bank strengthened the building of internal control systems and improved risk management and control. In 2012, the Bank developed and issued a number of policies and systems covering various operations and management activities, including the *Measures for the Off-office Audit of Senior Management of China Guangfa Bank*, and *Measures of the Board of Supervisors for the Performance Evaluation of Directors, Supervisors and Senior Management of China Guangfa Bank*, further regulating the off-office audit of Senior Management and improve the performance evaluation system; the *Measures for the Quality Management of Audit Projects (Trial)*, *Management Measures for Audit Rating (Trial)*, and *Management Measures for Audit Correction Tracking* were developed, and the audit process further improved to improve audit quality, and strengthen internal control supervision and inspection; industry risk prompts were issued timely, and relevant management measures developed and taken to give risk prompts for industries and operations with sharp credit risk issues to guide steady and balanced business operations and risk management. Relevant management systems of the other business lines were also revised according to the external regulatory requirements and internal management needs, laying a solid institutional foundation for internal control management effectively.



August 21, 2012, the Bank held the Internal Control & Business Risk Countermeasures Work Conference. Liu Yuan, General Director of the Audit Bureau of CBRC, gave a lecture on operational risk and case precautions.

## Management Discussion and Analysis

- Working mechanisms related to internal control management were established to ensure smooth communication. During the reporting period, the HO held four BRCCs, and over 100 meetings held at all branches in total to report and study key potential risks and internal control issues identified in internal and external inspection, and the correction thereof, and explore and implement solutions; the Audit Working Group (AWG) meeting mechanism was established to promote the timely solution of cross-business-line, systematic issues; a correction information sharing platform and an issue correction tracking management mechanism were established to promote the solution of issues identified in inspections. The operation of the bank-wide BRCC, AWG and correction tracking management mechanisms built an effective management platform for instant notification on internal control risks, disposing of risk events timely and strengthening issue correction, further improving the Bank's internal control management, risk prevention and response capabilities.
- The building of the internal control self-evaluation was promoted actively to strengthen the foundation of internal control and risk management. In 2012, the Bank continued to promote the building of the internal control self-evaluation, conducted risk self-evaluation at the HO and pilot branches in conjunction of the operational risk subproject under The New Capital Accord, extended the internal control self-evaluation system to branches, and established an internal control framework based mainly on the internal environment and risk evaluation, by means of control activities, information, communication, and internal monitoring.

The Bank has established a complete, proper and effective internal control system, and will keep improving it based on business development and external changes in practice.

### 5.4 Audit System

In 2012, the Bank continued to deepen audit system reform to improve its institutional system, conducted audits, inspections and NPA due diligence investigations, developed and applied an off-site audit system, meanwhile promoted audit correction greatly, strengthened team building continually, and made new breakthroughs in audit quality and efficiency.

- Audits and inspections were conducted in a risk-oriented and comprehensive manner, improving the Bank's management level effectively. During the reporting period, the Bank conducted 162 audits in total, including special audits on wealth management, credit cards, data quality, related party transaction and other business lines of the HO, to find out systematic problems from a bank-wide perspective; routine audits on branches were conducted in depth, and surprise inspections conducted on branch and sub-branch operations to evaluate the breadth, depth and effectiveness of management by grass-root business units by the HO and branches; due diligence investigations were conducted on NPAs of some branches, persons responsible appointed and suggestions on disposition given; special audits on additional NPLs were organized, and joint inspections conducted on high-risk business areas, urging branches to mitigate potential risks timely.
- Resources were concentrated to promote off-site audit system building greatly, and strengthen the effectiveness of risk early warning in audits comprehensively. The corporate credit and all-in-one account functions of the off-site audit system (Phase 1), and personal credit functions (Phase 2) were put into operation successfully. Through collecting, processing, storing, analyzing and transmitting business data from different systems of the Bank centrally based on computer technology by the off-site audit system, sound audit data and analytics were timely acquired, realizing the critical supporting role of the risk early warning function for business management effectively, and building a brand-new technology platform that combines supervision and inspection with risk prevention.

## Management Discussion and Analysis

- The audit correction tracking mechanism was further strengthened to promote the improvement of systems and processes practically. The correction and solution of cross-business-line, systematic issues was promoted effectively through the BRCC and AWG mechanisms; a correction tracking mechanism featuring “assigning responsibilities to individuals and continual improvement” was established and practiced, and a correction and verification system featuring “multi-level review and level-by-level control” to combine on-site and off-site tracking. The information sharing platform was improved and corrected continually to compile and sum up common issues identified in inspections timely, and improve the effectiveness of the audit correction mechanism.
- A number of measures were taken to deepen audit mechanism reform in an effort to improve audit quality. Institutional building in respect of audit project management, rating management, correction tracking and quality management was further strengthened to further improve the audit working process; the progress control criteria for audit projects were clearly defined to strengthen the control over the timeliness of audit projects. Full play was given to the role of the BRCC review mechanism to realize the standardized management of issues identified in audits; an audit quality supervision mechanism was established, and quality evaluation reports generated regularly to make audits more normative; the internal organizational setup and functions for audits were adjusted, and personnel recruitment and training on audits conducted continually, and the quantitative management of the audit personnel strengthened to improve audit quality and effectiveness.

### 6. Capital Management

The objective of capital management of the Bank is to maximize shareholders' value and boost the Bank's value. The Bank strived to expand sources of replenishing capital, endeavored to build a long-term mechanism for replenishing capital and ensured that its total capital amount and capital structure could satisfy business development needs and regulatory requirements. The Bank strengthened capital constraint and realized scientific and dynamic capital management, thus improved capital allocation and utilization efficiency.

In 2012, the Bank introduced *Measures for the Administration of the Capital of Commercial Banks (Trial)*, promoted actively the construction of an effective capital constraint mechanism, and maximized shareholders' values on condition of capital adequacy ratio meeting regulatory authorities' requirements and effective control of risk; continuously explored new capital instruments, improved techniques and methods of capital management to further refine capital management, optimized capital structure and profitability structure, and increased service efficiency of risk assets; strengthened capital performance management, promoted the transformation of bank operation to intensive development through performance appraisal after implementing risk adjustment, and guaranteed the organic unity of capital constraint, risk prevention and business development.

According to the requirements of the *Measures for the Administration of the Capital of Commercial Banks (Trial)* by China Banking Regulatory Commission and the *China Banking Regulatory Commission's Notice on Related Issues of Transitional Period of the Measures for the Administration of the Capital of Commercial Banks (Trial)*, the Bank took future developmental strategies and operational conditions into consideration and decided to prepare Capital Adequacy Ratio Standard-reaching Plan during Transitional Period to achieve the goal of capital adequacy ratio in a dynamic manner.

## Management Discussion and Analysis

### 6.1 Economic Capital Allocation and Management

Centering on capital management and guided by value management, the Bank set up economic capital growth goal based on the Bank's business developmental strategy and capital replenishment plan. In performance appraisal, the Bank adopted the performance appraisal and evaluation system with Economic Profits and Risk-weighted Return on Capital as the benchmark to balance profits and risk, and increase capital allocation efficiency and capital returns.

In order to strengthen the role of economic capital as orientation to its business, the Bank continuously perfected risk measurement technology and economic capital management methods, promoted the application of economic capital management in budget management, business planning, performance appraisal, pricing and risk control, and effectively guided rational flow, optimization and allocation of resources so as to realize efficient utilization of capital resources and optimal combination of assets, and to guarantee smooth implementation of the Bank's strategic planning.

### 6.2 Capital Adequacy Ratio

*In RMB Thousand*

Item	31 December 2012	31 December 2011
Core capital	<b>63,362,403</b>	52,225,821
Share capital	<b>15,402,397</b>	15,402,397
Counted part of capital reserves	<b>11,500,552</b>	11,499,692
Surplus reserves and general risk reserves	<b>17,075,290</b>	9,520,520
Counted part of retained earnings	<b>19,384,164</b>	15,803,212
Minority equity	<b>0</b>	0
Secondary capital	<b>23,836,935</b>	21,701,989
General reserves for loan loss	<b>9,254,093</b>	11,458,927
Long-term subordinated debts	<b>14,500,000</b>	10,000,000
Other secondary capital	<b>82,842</b>	243,062
Total capital base before deduction	<b>87,199,338</b>	73,927,810
Deduction	<b>1,904,711</b>	1,904,627
Unconsolidated equity investment	<b>4,711</b>	4,627
Goodwill	<b>0</b>	0
Others	<b>1,900,000</b>	1,900,000
Net capital	<b>85,294,627</b>	72,023,183
Net value of core capital	<b>63,360,048</b>	52,223,508
Net balance of risk-weighted assets	<b>756,592,367</b>	648,878,447
Core capital adequacy ratio	<b>8.37%</b>	8.05%
Capital adequacy ratio	<b>11.27%</b>	11.10%

As of end of 2012, CAR of the Bank was 11.27%, up 0.17 percentage point YoY; core CAR was 8.37%, up 0.32 percentage point YoY.



## Management Discussion and Analysis

### 6.3 Capital Financing Management

To achieve the objective of capital management, the Bank replenished capital through multiple channels, including equity and obligation financing instruments, which were advanced in the meantime and combined closely, while increasing its profit level steadily and strengthening capital endogenous ability with much effort, so as to ensure the effective implementation of capital plan.

In accordance with the approval notices of CBRC (Yin Jian Fu [2012] No. 704) and PBOC (Yin Shi Chang Xu Zhun Yu [2012] No. 85) respectively, the Bank issued subordinated bonds of RMB4.5 billion in 2012 successfully, thus replenishing subordinated capital for the Bank in effects.

### 6.4 Implementation of/Preparation for the New Basel Capital Accord

Attaching great importance to the establishment of comprehensive risk management framework and corporate risk culture, the Board of Directors and Senior Management of the Bank planed the implementation of the New Basel Capital Accord and advanced it steadily. The Bank set up the Implementation Leadership Team, with President as its team leader and relevant Senior Managers as its members. The Leadership Team regularly reported on the implementation progress of the project to the Board of Directors, to whose supervision and guidance it is subject. After the general implementation plan of the New Capital Accord was completed and approved by the Board of Directors in 2011, the Bank began promoting the implementation of 11 sub-projects including program group management, development and rating process of corporate banking models, development of retail banking model, market risk internal model method, liquidity risk and interest rate risk, ICAAP, risk-weighted asset calculation and operational risk management. By the end of the reporting period, 9 of the 11 sub-projects had been officially initiated and launched in accordance with the plan.

## 7. Strategic Cooperation with Major Shareholders

The Bank valued strategic cooperation with major shareholders, with whom the Bank realized a virtuous cycle of win-win situation by sharing resource and cooperate in business. In 2012, the Bank continued to maintain close strategic partnerships with major shareholders including Citigroup, China Life Insurance (Group) Company, State Grid Yingda International Holdings Corporation, Ltd., CITIC Trust Co., Ltd., etc., so as to gain remarkable achievements in technological cooperation and market development.

Citigroup entered into deeper technical cooperation and training exchange activities with the Bank in risk management, human resources management, information technology and financial innovation. During the reporting period, the Bank had over 80 cooperative training sessions with Citigroup and over 10,000 person-times attended the training. Meanwhile, the structural wealth management products developed by the two parties in cooperation resulted in good effects.

China Life Insurance (Group) Company renewed the *Comprehensive Strategic Cooperation Agreement* with the Bank in 2012 to support the Bank's business development. By the end of 2012, China Life Insurance (Group) Company and its affiliated companies had agreement deposits of RMB22.1 billion in the Bank; under the framework of the headquarter-to-headquarter special cooperation agreement for agent insurance products, the Bank act as agent of China Life Insurance's multiple insurance products and earned premium income of RMB180 million.



## Management Discussion and Analysis

With the large business network of its parent company State Grid Corporation, State Grid Yingda International Holdings Corporation, Ltd., launched mutual-beneficial cooperation with the Bank. During the reporting period, the Bank led the underwriting of RMB10 billion medium-term notes for State Grid Corporation with China Development Bank, and participated in subscribing the Phase III medium-term notes worth RMB2 billion and the Phase II corporate bonds worth RMB500 million of State Grid Corporation in 2012. State Grid Corporation and its affiliated companies have opened long-term, stable special deposit accounts in the Bank to support the Bank's business development.

Under the framework agreement with intention of collaboration on the consignment of trust plans, CITIC Trust and the Bank continued to launch cooperative activities in many aspects including investment banks, product innovation and channel construction to effectively increase the Bank's competitiveness in non-traditional areas. Besides, the Bank has maintained good cooperative relationship with CITIC Securities and other affiliated companies of CITIC Group, expanding and deepening business contacts through direct bank-company connection.

### 8. Forward-looking Statements

2013 will be the first year for carrying out the spirit of the 18th National Congress and a crucial year for implementing the "Twelfth Five-year Plan" and laying a solid foundation for building a moderately prosperous society. Despite some uncertainties of the global economic recovery, the stability of China's reform and development contributes to the fast and stable development of domestic economy. In present condition where the overall liquidity of domestic markets has been further improved and the capital market has shown signs of recovery, the implementation of Income Doubling Program, urbanization construction, ecological civilization construction and assistance program for emerging technology industries and micro-businesses will power the development of banking industry.

In 2013, the Bank will closely take into consideration national macro-economic policies and financial developmental trends. Aiming at building a first-class commercial bank, the Bank will implement Five-year Strategic Development Plan vigorously under the policy of market-orientation and customer-centered. Through sticking to stable operation, deepening reformation, speeding transformation of business, promoting lean management, the Bank can make its way to innovation-driven and low-capital consumption development, as well as to realizing the substantial growth of core competitiveness and sustainable development ability combined with exploring new profit growth points generated by the deepening of financial reform.

#### Deepening Customer Marketing Management and Promoting Stable Development of Major Businesses

While making efforts into innovating product and business, the Bank will also insist on accelerating the expansion of organizations, along with reinforcing cooperation with local governments and large-scale enterprises. In that, the Bank can deepen customer system construction, consolidate customer base and expand the size of customers. Based on customers and products, the Bank will form synergy to make the best use of various resources, reinforce cross-selling, complete incentive and constraint mechanism, promote substantial growth of major businesses, and keep a rational proportion of managed liability to total liabilities.

## Management Discussion and Analysis

### Improving Asset Quality Management and Strengthening Compliance and Internal Control

The Bank will continue attaching importance to pre-loan, loan and post-loan investigations, complete market access standards, strengthen risk prevention of key areas, reinforce accountability mechanism of non-performing loans, control newly-added non-performing loans, and clear out existing and newly-added non-performing loans in time. And the Bank will also keep on promoting the reform of authorization system, optimizing credit approval process and establishing risk control accountability system so as to improve approval efficiency. Apart from that, internal control management system will be further improved, with internal control self-assessment and investigation established, and mechanism of information exchange and problems tracking and rectifying built gradually, and the preventive role of monitoring system can be given full play to. Besides, the Bank will strengthen audit and investigation of all outlets, new businesses and new products, give full play to the post-investigative role of audit, and promote staff's awareness of compliant operation through promotion of a culture of compliance.

### Actively Promoting Innovation-driven Mechanism and Continuously Improving Customer Service Ability

The Bank will adhere to the innovative development target, innovate the service mode, establish an all-round, multi-dimensional innovation system and encourage staff to participate in innovation culture with core competitiveness; continue to promote the product innovation oriented by electronic finance and put forth effort to improve customers' experience and increase service level; strengthen the innovation of financial products, improve current fixed-income products and structural products, develop diversified wealth management service targeting high-end customers and private banking customers, and strengthen the ability regarding financial capital gains and asset management; promote the development of debt financing instruments, enrich product service functions, issue private placement bills, strive for being the lead underwriter or joint underwriter of SCP; establish and perfect customer capital transaction product line based on market trend and customer demands, and provide strategies consulting service with comprehensive fund transaction for customers.

### Strengthening the Reform of Personal Banking and Accelerating the Construction of Small Enterprises Banking Centers

The Bank will deepen the reform of the special marketing system of personal banking, increase resource investment, build the best medium and high end retail bank based on customers, channels, products and marketing management; continue to perfect the "Small Enterprises Banking Centers" centered on customers, and establish a standardized, procedural, automatic and large-scale operating system to build the most efficient SME bank.

### Intensifying the Connection between Performance and Remuneration and Further Improving Performance Management

The Bank will continuously perfect its performance appraisal system, simplify the indicators and emphasize key assessment points; add cross settings of business development and risk control indicators, increase the appraisal weight of customer dimension and cross-selling, and enhance the linking role of performance appraisal to strategic planning; exert "hard constraint" of performance on assessment of organizations and individuals, evaluation and selection of managers, remuneration and bonus, expense allocation and resource investment through enhancing performance appraisal process management.

# Changes in Shareholding and Shareholders' Profile

## 1. Change in Shareholding

(Unit: share)

Nature of shares	Before the change	Proportion of shareholding (%)	Increase/decrease	After the change	Proportion of shareholding (%)
State-owned shares	80,474,860	0.523	(26,910,097)	<b>53,564,763</b>	<b>0.348</b>
Shares held by State-owned legal persons	11,037,015,815	71.658	21,997,359	<b>11,059,013,174</b>	<b>71.801</b>
Shares held by foreign investors	3,648,276,645	23.686	0	<b>3,648,276,645</b>	<b>23.686</b>
Shares held by individuals	904,739	0.006	0	<b>904,739</b>	<b>0.006</b>
Shares held by other domestic investors	635,725,205	4.127	4,912,738	<b>640,637,943</b>	<b>4.159</b>
<b>Total</b>	<b>15,402,397,264</b>	<b>100.00</b>	<b>0</b>	<b>15,402,397,264</b>	<b>100.00</b>

## 2. Number of Shareholders and Shareholdings

At the end of the reporting period, the Bank had 468 shareholders holding a total of 15,402,397,264 shares of the Bank.

## 3. Profile of Top 10 Shareholders

(Unit: share)

Name of shareholder	Increase/decrease in the reporting period	Number of shares held	Proportion of shareholding (%)
CITIGROUP INC.	0	3,080,479,452	20.000
China Life Insurance Co., Ltd.	0	3,080,479,452	20.000
State Grid Yingda International Holdings Corporation, Ltd.	0	3,080,479,452	20.000
CITIC Trust Co., Ltd.	0	3,080,479,452	20.000
IBM CREDIT LLC	0	567,797,193	3.686
Guangdong Finance Investment Holdings Corporation, Ltd.	0	316,906,594	2.058
Shanghai Shenhua Holdings Co., Ltd.	0	223,596,793	1.452
Jiangsu Suzhou Iron & Steel Group Co., Ltd.	0	222,777,231	1.446
Heungkong Group Co., Ltd.	2,060,927	147,274,857	0.956
Beijing Energy Investment (Group) Co., Ltd.	0	133,349,884	0.866
<b>Total</b>	<b>2,060,927</b>	<b>13,933,620,360</b>	<b>90.464</b>

Note: 1. There are no hypothecated, sequestered or frozen shares for single shareholder holding over 5% of the Bank's Shares.

2. The shares held by the 9th largest shareholder Heungkong Group Co., Ltd. increased due to purchasing shares from other shareholders.

## Changes in Shareholding and Shareholders' Profile

### 4. Introduction of Shareholders Holding over 5% of the Bank's Shares

#### 1) Citigroup Inc.

Citi, the leading global bank, has approximately 200 million customer accounts and does business in more than 160 countries and jurisdictions. Citi provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, securities brokerage, transaction services and wealth management.

#### 2) China Life Insurance Co., Ltd.

China Life Insurance Co., Ltd. is a life insurance company established in Beijing, China on 30 June, 2003 in accordance with the Corporate Law of the People's Republic of China. The Company was successfully listed on the New York Stock Exchange, the Hong Kong Stock Exchange and the Shanghai Stock Exchange on 17 and 18 December 2003, and 9 January 2007, respectively. The Company's registered capital is RMB28,264,705,000. The Company is the largest life insurance company in China ("China" refers to the People's Republic of China, excluding the Hong Kong Special Administrative Region, Macau Special Administrative Region, and Taiwan region) insurance market. Its distribution network, comprising tied agents, direct sales representatives, and dedicated and non-dedicated agencies, is the most extensive in China. The Company is one of the largest institutional investors in China, and through its controlling shareholding in China Life Insurance Asset Management Co., Ltd., the Company is the largest insurance asset management company in China. The Company also has controlling shareholding in China Life Pension Company Limited. Products and services of the Company include individual life insurance, group life insurance, accident and health insurance. The Company is China's leading life insurance company, a leading provider of annuity products and life insurance for both individuals and groups, and a leading provider of accident and health insurance in China.

#### 3) State Grid Yingda International Holdings Corporation, Ltd.

State Grid Yingda International Holdings Corporation, Ltd. is one of wholly-owned subsidiaries of State Grid Corporation of China with registered capital of RMB16 billion. Being the core enterprise of State Grid Yingda International Group, State Grid Yingda International Holdings Corporation, Ltd. performs the duty of operation and management upon Group affiliated companies in accordance with relevant laws and corporate governance procedures.

#### 4) CITIC Trust Co., Ltd.

CITIC Trust Co., Ltd. is a national non-banking financial institution, focusing on trust business, under direct regulation of the China Banking Regulatory Commission. In China's trust industry, the Company has the largest scale of assets under management and is one of the leading players in the industry, and being the Chairman Unit of China Trustee Association. The Company's registered capital is RMB1.2 billion (including the value converted from 23 million US dollars). The two shareholders are China CITIC Limited and CITIC Industrial Investment Group Corp., Ltd. respectively.

## Changes in Shareholding and Shareholders' Profile

### 5 Connected Transactions

#### 5.1 Brief on Connected Transactions

Based on relevant regulations of the *Administrative Measures for the Connected Transactions between the Commercial Banks and their Insiders or Shareholders* promulgated by CBRC and the *Governing Rules for Connected Transactions of China Guangfa Bank Co., Ltd.*, the Bank adheres to the following principles when conducting connected transactions:

- (i) Abide by relevant laws, regulations, provisions, national uniform accounting policies and banking regulatory rules;
- (ii) Keep in conformity to the principles of honesty, creditworthiness and fairness;
- (iii) Keep to the commercial principles and carry out the connected transactions with terms not superior to those for non-connected parties. The Bank's General Meeting of Shareholders is responsible for approving special substantial connected transactions and other relevant matters that need to be approved by it; the Board of Directors is responsible for approving substantial connected transactions; Connected Transaction Control Committee is established under the Board of Directors to perform duties for connected transaction management and supervision; Senior Management is responsible for guiding and coordinating connected transaction management of the Bank.

The main connected parties of the Bank include: the Bank's shareholders with 5% or above shares and their controlling shareholders; legal representatives, natural persons or other organizations under direct, indirect, co-control or capable of being significantly influenced by the Bank's shareholders with 5% or above shares; the Bank's Directors, Supervisors, Senior Management and other parties and their next-of-kin with the power to decide or participate in the Bank's credit lending and asset transfer; legal representatives or other organizations under direct, indirect, co-control or capable of being significantly influenced by the Bank's Directors, Supervisors, Senior Management and other parties and their next-of-kin with the power to decide or participate in the Bank's credit lending and asset transfer. The Bank has no controlling shareholder. Shareholders who hold 5% and more than 5% shares include: Citigroup Inc., China Life Insurance Co., Ltd., State Grid Yingda International Holdings Corporation, Ltd. and CITIC Trust Co., Ltd., each of whom holds 20% of the Bank's shares.

#### 5.2 Information on Substantial Connected Transactions

During the reporting period, in strict conformity with the regulatory provisions and applicable systems, the Bank underwrote medium-term notes of State Grid Corporation totaling RMB4.5 billion and subscribed a total of RMB2 billion from it, and subscribed its RMB350 million of corporate bond as well. State Grid Corporation is a pilot organization approved by the State Council to make investments authorized by the state and controlled by the state, with a long-term credit rating of AAA. Its wholly funded subsidiary State Grid Yingda International Holdings Co., Ltd. is a major shareholder of the Bank.

#### 5.3 NPL Balance of Connected Transactions

At the end of the reporting period, the Bank has no NPL balance in connected transactions.

# Directors, Supervisors, Senior Management and Employees

## 1. Directors and Senior Managers

### 1.1 Basic Information (Chinese names listed according to strokes of family name; English according to alphabetical order)

Name	Title	Gender	Birth	Appointment Date
Wan Feng	Director	Male	54	2009/03/17
Wang Fenghua	Director	Male	59	2006/12/18
Weber Lo	Director	Male	42	2012/02/17
Frederick Ip	Independent Director	Male	65	2012/11/16
Liu Jiade	Director	Male	49	2006/12/18
Li Zimin	Director	Male	41	2007/06/26
Li Dianjun	Independent Director	Male	70	2010/06/18
Chan Tai Loi	Independent Director	Male	53	2006/12/18
Morris Li	Executive Director, President	Male	56	2010/06/18
Zhang Xifang	Director	Male	40	2012/02/17
Zheng Yong	Executive Director	Male	50	2009/12/01
	Deputy President			
Larry Zong	Executive Director,	Male	47	2010/06/18
	Deputy President			
Gai Yongguang	Director	Male	52	2006/12/18
Zhang Shengman	Director	Male	55	2007/09/20
Dong Jianyue	Chairman of the Board of Directors,	Male	51	2009/06/22
	Secretary General of			
	the CPC Committee of the Bank			
Pu Jian	Director	Male	52	2006/12/18
James Morrow	Executive Director,	Male	57	2010/03/23
	Deputy President,			
	Chief Risk Officer			
Deng Jianhua	Shareholder Representative Supervisor	Male	51	2007/06/26
Li Jinsheng	Chairman of the Board of Supervisors,	Male	56	2009/02/18
	Employee Representative Supervisor			
Zhu Yingyu	Employee Representative Supervisor	Male	37	2011/10/13
Zheng Lanping	External Supervisor	Female	57	2011/06/30
Fan Junxiong	Employee Representative Supervisor	Male	50	2011/10/13
Gu Xuejin	Employee Representative Supervisor	Male	49	2011/10/13
Tan Jinsong	External Supervisor	Male	47	2007/06/26
Zhai Meiqing	Shareholder Representative Supervisor	Female	48	2007/06/26
Zhai Feng	Shareholder Representative Supervisor	Male	45	2011/06/30
Edward Chou	Deputy President	Male	47	2006/12/18
Zheng Lianming	Deputy President	Male	52	2007/01/30
Zheng Xiaolong	Secretary to Board of Directors	Male	49	2006/12/18

Note: According to the regulation, Mr. Frederick Ip's qualification needs to be approved by the regulatory institution.

## Directors, Supervisors, Senior Management and Employees

### 1.2 Main Working Experience and Incumbency in the Shareholding Companies or Other Organizations of Directors, Supervisors, and Senior Managers



**Wan Feng** Director of the Bank.

Executive Director and President of China Life Insurance Company Ltd., Deputy President of China Life Insurance (Group) Company, Director of China Life Pension Company Ltd., Director of China Life Property and Casualty Insurance Company Ltd., Director of China Life Asset Management Company Ltd..

Ph.D in Economics, MBA, Senior Economist. He served as Deputy General Manager of PICC Jilin Municipal Branch Company, Deputy General Manager of Life Insurance Division of PICC Jilin Provincial Company, Assistant to General Manager of China Life Hong Kong Branch Company, Senior Deputy General Manager of Taiping Life Insurance Co., Ltd. Hong Kong Branch, General Manager of China Life Shenzhen Branch Company, Deputy General Manager of China Life and General Manager of Shenzhen Municipal Branch Company, Deputy President of China Life Insurance Company Ltd..



**Wang Fenghua** Director of the Bank.

Assistant General Manager of State Grid Corporation of China; Secretary General of the Communist Party of China (CPC) Committee and Chairman of State Grid Yingda International Holdings Corporation, Ltd..

Master's degree, Senior Economist. He has served as Deputy Director and Director of Dezhou Electric Power Bureau; Head of Finance Department of Shandong Electric Power Bureau; General Manager of Yingda International Trust and Investment Co. Ltd.; Chief Economist of Shandong Electric Power Group; Chairman of Weishen Securities Co. Ltd.; Secretary General of the CPC Committee and Deputy President of State Grid Power Development Co. Ltd.; General Manager, Chairman of the Board and Secretary General of the CPC Committee of China Power Finance Co., Ltd., Deputy Chief Economist and Head of Financial Asset Management Department of State Grid Corporation of China.



**Weber Lo** Director of the Bank.

Citi Country Officer & Chief Executive Officer for Citi Hong Kong and Macau. Bachelor degree in Social Sciences from the University of Hong Kong. Mr. Lo once held senior positions in Coca-Cola China Ltd. and Procter and Gamble (HK) Ltd. He joined Citi in 2000 and held several senior positions including Head of Citigold, Head of Bankcard Marketing, Country Marketing Director, Director of Retail Banking and Chief Operating Officer. Before assuming the present role, he was Country Business Manager for Citibank Global Consumer Banking in Hong Kong and Macau. He was the recipient of the "Promising Young Banker of the Year" award for Hong Kong in the Asian Banker Achievement Awards 2008.



## Directors, Supervisors, Senior Management and Employees



**Frederick Ip**      **Independent Director of the Bank.**

Graduated from the Management Department of University of East Asia, Macau, and was an Associate of The Institute of Canadian Bankers. In the early stage beginning 1965, he had worked for several financial institutions, namely Citibank Hong Kong Branch, European Asian Bank (now Deutsche Bank) Hong Kong Branch, and Royal Bank of Canada (in Greater Toronto area). From 1980 to 1991, he served successively as a founding manager, Deputy Chief Manager, Chief Manager (CEO) of Midland Bank Hong Kong Branch and Managing Director of the bank's investment banking subsidiary – Midland Montagu (Asia) Ltd., and Regional Manager of Greater China of Credit Agricole Hong Kong Branch. From 1991, he served successively as Vice President, Group Head of Financial Institutions (concurrently Group Head of Global Transaction Services for two years) of Citibank Hong Kong Branch, being a member of the Management Committees for Hong Kong and China for over 10 years, and deputizing as the bank's Country Head for Hong Kong at intervals. From 2002 to 2010, he served as the President of MM Capital Company Limited, and also held the directorship of a number of companies in Hong Kong.



**Liu Jiade**      **Director of the Bank.**

Deputy President of China Life Insurance Company Limited, Director of China Life Insurance Asset Management Company Limited, and Director of China Life Franklin Asset Management Company.

Bachelor's degree. Mr. Liu served as Deputy Division Chief and Division Chief in the Commercial Finance Bureau of Ministry of Finance, Deputy County Chief of the People's Government of Guantao County in Hebei Province, the Division Chief in the Treasury Bond Finance Bureau of the Ministry of Finance from 1998 to 2000, Deputy Director of the Finance Bureau of the Ministry of Finance from 2000 to 2003. During his tenure at the Ministry of Finance, Mr. Liu gained extensive experience in the administration of assets, finance and taxation of insurance companies, banks, trust companies and securities institutions.



**Li Zimin**      **Director of the Bank.**

Deputy General Manager and member of CPC Committee of CITIC Trust Co., Ltd., Chairman of Allianz China Life Insurance Co., Ltd..

MBA and Senior Economist. He has served as project manager of Assets Preservation Department and Investment Management Department of CITIC Industrial Trust Investment Co., Ltd.; Deputy General Manager of Finance Department of Zhongxing Shenyang Commercial Building (Group) Company Limited; Director of Maoming Petro-Chemical ShiHua Co., Ltd.; Head of Comprehensive Financial Service Group, Company Expert, General Manager of Investment Banking Department I, Chief Operating Officer of CITIC Trust Co., Ltd..

## Directors, Supervisors, Senior Management and Employees



**Li Dianjun**      **Independent Director of the Bank.**

Bachelor's degree, researcher. After graduation from University in 1967, Mr. Li served as Head of the Propaganda Department of the County CPC Committee (member of the standing committee), Deputy Secretary General of the County CPC Committee in Yongji County, Jilin Province; Deputy Director and Director of Personnel Bureau of Head Office of the People's Bank of China; Deputy Secretary General of CPC Committee and Deputy President of Head Office of Agricultural Bank of China; member of the Central Financial Work Committee; Chairman of Board of Supervisors of major state-owned financial institutions (at the vice-ministerial level). Mr. Li has the experience of working in local party and government administration, Central Bank, State-owned Commercial Bank and State-owned Insurance Company and is familiar with the policies and business of Banking or Issuance Industry, and has solid academic knowledge and theoretical attainment.



**Chan Tai Loi**      **Independent Director of the Bank.**

Bachelor of Business Administration. He has served as stockbroker of Nomura Securities; Assistant Vice President of Citibank; General Manager of Franklin And Taylor Asset Management Limited; Sales Director of Heng Feng Securities Limited; Chairman of the Board of Directors of Premium Holdings P/L; General Manager in Corporate Finance Department of Peregrine Securities (Taiwan); Chairman of the Board of Directors of Premium Group P/L; Senior Vice President of Asia Financial Securities; Director and Head of Corporate Finance and Equity Capital Market of CU Securities and CU Capital (Asia), COO of Shang Hua Holdings Limited.



**Morris Li**      **Executive Director, President of the Bank.**

Graduated from Department of Economics of the National Taiwan University. Before joining China Guangfa Bank, Mr. Li was the Country Officer of Citi Taiwan as well as Chairman of Citibank Taiwan Ltd. Mr. Li joined Citi in 1989 and has worked in Taipei and Hong Kong for Citi in various senior positions including Treasury Marketing Unit Head, FX Sales and Derivatives Head and Financial and Capital Markets Head. He has served as Country Treasurer of Citi Taiwan, and Head of Financial Market Sales and Structuring for Greater China. Mr. Li once joined Chinatrust, one of the largest local banks in Taiwan as Senior EVP, in charge of the bank's capital markets and treasury businesses. As Citi Country Officer for Taiwan, Mr. Li took the lead to complete the acquisition of a Taiwan local bank (Bank of Overseas Chinese) in April 2007, making Citi Taiwan the biggest foreign bank in Taiwan.

## Directors, Supervisors, Senior Management and Employees



**Zhang Xifang**      **Director of the Bank.**

Deputy General Manager and member of CPC Committee of State Grid Yingda International Holdings Corporation, Ltd..

MBA. Mr. Zhang has served as Deputy Manager of Investment and Development Department, Manager Assistant of Investment Banking Department, person-in-charge of Corporate Financing Department of China Power Trust & Investment Co., Ltd.; Manager of Corporate Financing Department, Institution Management Department, Director of Subordinate Institution Management Department, Development Planning Department of China Power Finance Co., Ltd.; Section Chief of Operation Section, Deputy Director of Financial Assets Management Department of State Grid Corporation of China; Deputy General Manager and member of CPC Committee of State Grid Asset Management Co., Ltd..



**Zheng Yong**      **Executive Director, Deputy President of the Bank.**

LL.M. degree, Senior Economist, arbitrator of China International Economic and Trade Arbitration Commission and South China International Economic and Trade Arbitration Commission. Mr. Zheng has served as Division Chief of the Ministry of Justice of China; an attorney-at-law with Beijing L&A Law Firm, the China Law Office (Hong Kong) as well as Beijing De Heng Law Firm; Deputy General Manager of Legal Affairs Department, Company Secretary, General Manager of Legal and Compliance Department of China Life Insurance Co., Ltd. He was a visiting scholar at both Harvard Law School and J.F. Kennedy School of Government in the US from August 1996 to October 1997.



**Larry Zong**      **Executive Director, Deputy President of the Bank.**

MBA. Mr. Zong has served as Assistant Vice President of the Settlement Department in Bank of Communications Co., Ltd., New York Branch, Manager of the Operations Department and Deputy President of Industrial Bank of Japan, Dalian Branch, Deputy General Manager of the International Business Department of Shanghai Pudong Development Bank (SPDB), President of SPDB Dalian Branch, Director of System Reform Office of SPDB, President of SPDB Shenzhen Branch. Mr. Zong was also responsible for the operation of SPDB Hong Kong representative office during his position in System Reform Office and in Shenzhen.

## Directors, Supervisors, Senior Management and Employees



**Gai Yongguang**      **Director of the Bank.**

Chairman of the Board and Secretary General of the CPC Committee of Ying Da International Trust Co., Ltd., Chief Supervisor of China Trustee Association. Master's degree, Senior Engineer. He has served as Program Manager, Deputy Director of the Machinery Office, Assistant of Institute Head, Director of Multi-operation Office, Deputy Institute Head and CPC Committee Commissioner in Shandong Electric Power Research Institute; Deputy President of Shandong Electric Power Institute; Deputy General Manager of Shandong Electric Power Materials Company; General Manager of Shandong Electric Power International Trade Company; Deputy Secretary General and Secretary General of the CPC Committee of Shandong Electric Power Institute; Deputy President of Shandong Electric Power College; Deputy President of Shandong Electric Power Institute; Deputy General Manager, Deputy Chairman of the Board, Deputy Secretary General of the CPC Committee, General Manager of Ying Da International Trust Co., Ltd..



**Zhang Shengman**      **Director of the Bank.**

Chairman of Citigroup (Asia Pacific), Independent Director of Fosun International. MPA. He has served as Division Director and Deputy Director-General of Ministry of Finance of PRC; China Executive Director, Deputy President and Secretary General, Senior Deputy President, Duty Deputy President of World Bank; Chairman of Operation Committee, Crisis Management Committee, Sanction Committee and Corporate Fraud and Corruption Policy Committee of World Bank.



**Dong Jianyue**      **Chairman of the Board of Directors and Secretary General of the CPC Committee of the Bank.**

Bachelor's degree, Senior Engineer. He has served in Ministry of Chemical Industry of the People's Republic of China, successively taking posts of Deputy Division Head of Facilities and Power Division in Department of Production General Affair, Division Head of Facilities and Energy Division in Department of Production Coordination, Deputy Department Head of Department of Production Coordination, and he took post in Wuxi City Government as a Mayor assistant; worked successively as Deputy General Manager of Credit Business Department, Corporation Business Department, General Manager of Asset Preservation Department at Bank of China (BOC) Head Office, also took the position as Secretary General of Asset Disposal Committee of BOC Head Office, Member of Risk Management Committee and Risk Control Committee of BOC Hong Kong, the Chairman of the Board of Zhonggang (Cayman) Company, Director of Bank of China Group Investment Company; worked as Branch President and Secretary General of the CPC Committee of BOC Liaoning Provincial Branch; took the position as Member of Executive Committee of Bank of China Group, Branch President and Secretary General of the CPC Committee of BOC Beijing Branch.

## Directors, Supervisors, Senior Management and Employees



**Pu Jian**      **Director of the Bank.**

Chairman and Secretary General of the CPC Committee of CITIC Trust Co., Ltd.; Chairman of China International Economic Consulting Co., Ltd., Chairman of China Trustee Association, Director of TaiKang Life Insurance Co., Ltd..

MBA, Senior Economist. He has served as Deputy General Manager, Chief of Enterprise Financing Committee and General Manager of Research Department at Citic Securities Co., Ltd.; Chairman and General Manager of Citic Joint Venture Company; Deputy-Chairman and Secretary General of CPC Committee at China Sea Helicopter Controlling Company; General Manager and Secretary General of CPC Committee at Citic Sea Helicopter Co., Ltd.; General Manager of CITIC Trust Co., Ltd.; Director of China CITIC Group.



**James Morrow**      **Executive Director, Deputy President of the Bank, Chief Risk Officer.**

MBA. Mr. James Morrow served as operations manager and corporate banking manager at Citi affiliate Saudi American bank, corporate banker in Citibank (Sweden), risk asset examiner in the Audit Division covering the Asia Pacific region, Taiwan's Country Risk Manager, Country Corporate Officer in Sweden, the Global Industry Head for Citi's worldwide business with electronic companies, Group Executive and Japan Registered Representative for Citi's Corporate Banking business in Japan, Chief Risk Officer of Citibank Korea Inc., Citi Country Officer Morocco, Cluster Head Morocco, Tunisia and Libya.



**Deng Jianhua**      **Shareholder Representative Supervisor of the Bank.**

Mr. Deng currently serves as the Standing Deputy General Manager of Guangdong Finance Asset Management Co., Ltd..

Master of Economics. He used to serve as Chief Accountant of Jiangxi Chemical Laboratory Factory, Manager of Industry and Communication Division of Jiangxi Audit Bureau, Deputy General Manager of Audit Department of Guangdong Finance Trust and Investment Co., Ltd., General Manager of Audit Department of Guangdong Finance Investment (Holding) Co., Ltd., General Manager of Guangdong Finance Investment Company Limited, Director of Guangdong Fenghua Advanced Technology (Holding) Co., Ltd., General Manager of Zhuhai Providence Real Estate Development Co., Ltd., and Standing Deputy General Manager of Guangdong Finance Asset Management Co., Ltd..



## Directors, Supervisors, Senior Management and Employees



**Li Jinsheng**      **Chairman of the Board of Supervisors, Employee Representative Supervisor of the Bank.**

Mr. Li is now working as member of CPC Committee of China Guangfa Bank. PhD in Monetary Banking of Southwestern University of Finance and Economics, Senior Economist. Mr. Li worked successively as cadre of the Commerce Division of Finance Department of Heilongjiang Province; cadre of Finance Office, Office III of General Office and Governor's Office of Heilongjiang Province; Deputy Director of General Office of Bank of China Harbin Branch (provincial branch); Director of General Office of Guangdong Development Bank, General Manager of Audit Department, General Manager of Treasury Department; Deputy Director of Working Group of Preparation for the Incorporation of Guangzhou Branch of Guangdong Development Bank and Deputy Branch President (in charge of overall administration), Branch President and Secretary General of CPC Committee; Chief Auditor, member of CPC Committee of Guangdong Development Bank and Chairman of the Fourth Board of Supervisors.



**Zhu Yingyu**      **Employee Representative Supervisor of the Bank.**

General Manager of Strategic Management Department and Chief Representative of Hong Kong Representative Office of China Guangfa Bank. Master of International Economics of Nanjing University. He used to work as Deputy Head of Planning Section of Asset Preservation Department of Head Office of Bank of China, Senior Manager of Credit Enforcement Department of Head Office of Bank of China, Senior Manager of General Office of Head Office of Bank of China and General Manager of Strategic Management Department of Head Office of China Guangfa Bank.



**Zheng Lanping**      **External Supervisor of the Bank.**

Ms. Zheng is currently working as Vice President of Phoenix Metropolis Media of Phoenix TV. Bachelor of Law of Tsinghua University. Ms. Zheng used to work as Secretariat Director of General Office and Deputy Director of General Office of Supreme People's Procuratorate of the People's Republic of China, a departmental level leader, second grade senior public procurator, Assistant-to-President of Phoenix Metropolis Media of Phoenix TV. During her term in the Supreme People's Procuratorate, she was engaged in procuratorial and administrative work, responsible for conference services of the Sixth, Seventh and Eighth Procuratorial Committee of Supreme People's Procuratorate, and undertook secretarial work for the CPC Committee of the Ninth, Tenth and Eleventh Supreme People's Procuratorate.

## Directors, Supervisors, Senior Management and Employees



**Fan Junxiong**      **Employee Representative Supervisor of the Bank.**

General Manager of Supervision Department (Discipline Supervision Office) of China Guangfa Bank.

Political engineer. He worked as Instructor at the Training Center of Guangzhou Maritime Transport Co., Ltd., Instructor, Dean and Deputy Manager of Academic Division of Guangzhou Marine Technical School, Discipline Supervisor at deputy section level and section level, Head of Case Trial Division of Guangzhou Maritime Transport (Group) Co., Ltd., cadre at section level of the Publicity Department of the CPC Committee of Guangzhou Maritime Transport (Group) Co., Ltd., General Manager, Deputy Director, Director, Interim Head of Supervision Department (Discipline Supervision Office) of China Guangfa Bank.



**Gu Xuejin**      **Employee Representative Supervisor of the Bank.**

President and Secretary General of Zhengzhou Branch of China Guangfa Bank.

Master of Business Administration of Peking University, Economist. He worked as section member and chief of Savings Division of ICBC Zhejiang Branch, Principal Member of Credit Division of ICBC Zhejiang Branch, Deputy General Manager of Credit Department I of Hangzhou Branch of Guangdong Development Bank, General Manager of Credit Department of Hangzhou Branch of Guangdong Development Bank, President and Secretary General of CPC Committee of Foshan Branch of Guangdong Development Bank.



**Tan Jinsong**      **External Supervisor of the Bank.**

Secretary General of CPC Committee and Professor of the School of Business of Sun Yat-sen University, Commissioner of Education Committee of MPAcc, Director of China Audit Society, Director of China Institute of Internal Audit, Executive Director of Chartered Accountants Association of Guangdong, Director of Guangdong Audit Society.

PhD. of Management (Accounting). He has served as Principal Director of Accounting Department in School of Business of Sun Yat-sen University, Associate Dean of School of Business of Sun Yat-sen University.



## Directors, Supervisors, Senior Management and Employees



**Zhai Meiqing      Shareholder Representative Supervisor of the Bank.**

Ms. Zhai is Chairman of the Board and President of Heungkong Group Co., Ltd., Chairman of the Board of Directors of Kinhom Group Co., Ltd. and of Heungkong Southern Group Co., Ltd., Chairman of the Board of Directors of Heungkong Holding Co., Ltd., Member of the Standing Committee of All-China Women's Federation, Deputy President of China Association for the Promotion of Industry Development, member of the Standing Committee of the Guangdong People's Political Consultative Conference, Vice Chairman of Guangdong Federation of Industry and Commerce, Vice Chairman of the Women's Federation of Guangdong Province, President of Guangdong Association of Women Entrepreneurs, member of the Standing Committee of the Shenzhen People's Political Consultative Conference, Chairman of Heungkong Social Assistance Fund.

Master of Business Administration.



**Zhai Feng      Shareholder Representative Supervisor of the Bank.**

Director of the Board, Secretary of the Board and Vice President of Shanghai Shenhua Holding Co., Ltd., Executive Director of Shanghai Shenhua Wind Power New Energy Co., Ltd., Director of Shanghai Baohua Auto Investment Co., Ltd., Director of Shanghai Shenhua Real Estate Development Co., Ltd., Director of Liaoning Toyota Jinbei Technical School, Director of Hunan Shende Industrial Development Co., Ltd etc..

Bachelor of Economic Law of Fudan University, Master of Business Administration of Peking University, lawyer and legal advisor for enterprises. He worked as Assistant-to-President and Head of Legal Department of Shanghai Shenhua Holding Co., Ltd., Director of Jinbei Auto Co., Ltd..



**Edward Chou      Deputy President of the Bank.**

Master of Finance. He has served as the Manager of Treasury Operations Department; Head of Financial Accounting & Reporting of Citibank, Taipei; Chief Financial Officer of Chase Manhattan Bank, Taipei; Chief Financial Officer of Citigroup, China; Representative of Citibank China Head Office and Chief of Staff of Citigroup, China.

## Directors, Supervisors, Senior Management and Employees



**Zheng Lianming**

**Deputy President, member of CPC Committee of the Bank.**

Graduated from School of Economics of Peking University, Master's degree, Senior Economist. He used to work for the State Development and Planning Commission as Deputy Director of Laws and Regulations Restructuring Bureau and Deputy Director of Policy Research Office (in charge of all-round work). After joining GDB, he has served as Deputy General Manager of Headquarters General Office, Deputy General Manager and General Manager of Headquarters International Business Department, President Assistant of Headquarters and President of Foshan Branch, member of Headquarters CPC Committee and Deputy President of the Bank.



**Zheng Xiaolong**

**Secretary to Board of Directors of the Bank.**

Master of Economics. He used to be a lecturer in Electronic Industry Management Cadre College and serve in Everbright International Leasing Co., Ltd.. In 1996, he participated in Guangdong Development Bank Co., Ltd.'s acquisition of Zhong Yin Trust & Investment Co., Ltd.. In 1997, he served as the Deputy Branch President in charge of GDB Huizhou Branch's operations. In 2001, he served as the General Manager of the Planning and Management Department of GDB Headquarters, and concurrently the Head of GDB Restructuring and Development Office. Since 2006, he served as the Secretary to Board of Directors of Guangdong Development Bank.

## Directors, Supervisors, Senior Management and Employees

### 1.3 Shares held by Directors, Supervisors and Senior Managers

No Directors, Supervisors and Senior Managers of the Bank hold shares of the Bank.

### 1.4 Annual Remuneration and Incentives of Directors, Supervisors and Senior Executives

During the reporting period, the remuneration of the Non-executive Directors and Non-employee Supervisors of the Bank is verified and paid in accordance with the *Allowance System for Non-executive Directors of China Guangfa Bank Co., Ltd.* and the Allowance System for Non-employee Supervisors of China Guangfa Bank Co., Ltd. The specific standards are as follows:

The remuneration of the Non-executive Directors and Non-employee Supervisors of the Bank consists of four parts i.e. basic allowance, committee allowance, meeting allowance and investigation subsidy: (1) The basic allowance of a Director is RMB200,000 per annum and that of a Supervisor RMB160,000 per annum; (2) For the Board of Directors, the committee allowance of an ordinary member is RMB35,000 per annum and that of a chairman RMB50,000 per annum; for the Board of Supervisors, the committee allowance of an ordinary member is RMB28,000 per annum and that of a chairman RMB40,000 per annum. Specialized committee allowance of Directors and Supervisors participating in the work of multiple committees is paid according to the number of committees on which they serve; (3) Meeting allowance is a subsidy for any Non-executive Director or Supervisor to attend on a voting or non-voting basis general meetings, and on-site meetings of the Board of Directors and Board of Supervisors, and their specialized committees (including teleconferences and videoconferences), being RMB5,000 per capita per time; and (4) Investigation subsidy is a subsidy for Directors and Supervisors to participate in work inspections, investigations, training sessions, etc. organized by the Bank and organizations concerned, and activities related to the performance of their duties, being RMB5,000 per capita per time.

The Employee Representative Supervisors of the Bank shall receive remuneration based on their internal post in the Bank, and will not receive any extra allowance, meeting allowance or subsidy.

Multi-dimensional measurement indicators are involved in the Senior Managers' performance appraisal, such as annual operation plan fulfillment, post responsibilities, performance evaluation of in-charge fields, assessment of duty fulfilling satisfaction degree and duty report, etc. Appraisal results are the major basis for Senior Managers' remuneration allocation. The program for the allocation of remuneration for Senior Managers, together with the Senior Managers' performance appraisal, after being examined and verified by the HR and Remuneration Committee, shall be submitted to the Board of Directors for consideration and approval before being implemented. According to the State's relevant policies, Senior Managers' performance-related remuneration will be paid in installments.

The total remuneration that was paid to the Directors, Supervisors and Senior Executives in 2012 was RMB26 million, and the total remuneration of the Senior Executives in 2012 is pending final confirmation.

The Bank has bought liability insurance for Directors, Supervisors and Senior Managers. The Bank hasn't granted equity incentives to Directors, Supervisors and Senior Managers.

## Directors, Supervisors, Senior Management and Employees

### 1.5 Changes of Directors, Supervisors and Senior Managers

On 17 February 2012, Mr. Lin Jianjun resigned Director position from the Sixth Board of Directors because of working reason.

On 17 February 2012, according to relevant regulations of AOA, the Fifth Meeting of the Sixth Board of Directors of the Bank appointed Mr. Weber Lo and Mr. Zhang Xifang as Directors of the Sixth Board of Directors of the Bank.

On 6 March 2012, the First Extraordinary General Meeting of Shareholders in 2012 elected Mr. Weber Lo and Mr. Zhang Xifang as Directors of the Sixth Board of Directors of the Bank.

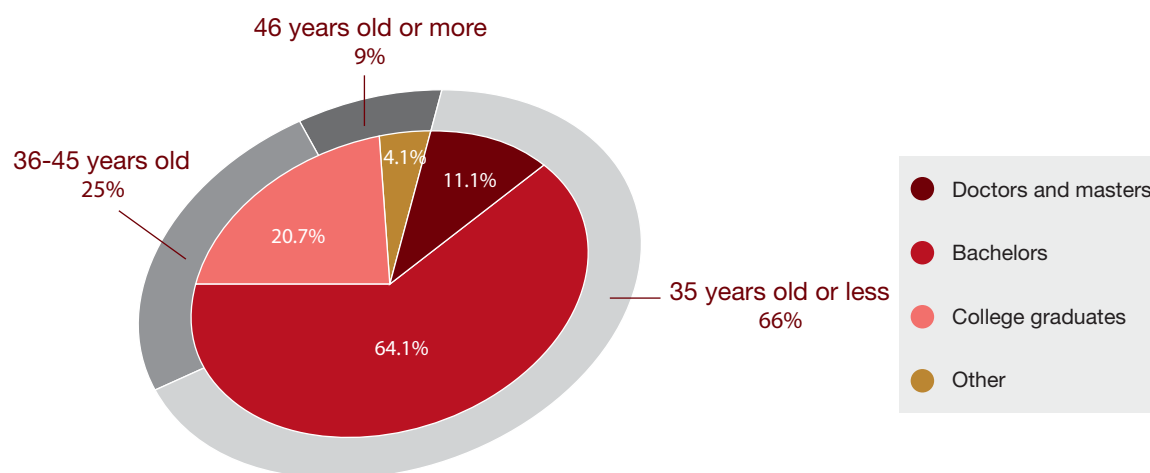
On 16 November 2012, the Second Extraordinary General Meeting of Shareholders in 2012 of the Bank approved Mr. Phee Boon Kang to resign independent Director position from the Sixth Board of Directors, and elected Mr. Frederick Ip as independent Director of the Sixth Board of Directors of the Bank.

On 22 March 2013, the Eighth Meeting of the Sixth Board of Directors approved Ms. Amy Choi to resign Deputy President of the Bank.

There is no position change for the Supervisors in 2012.

## 2 Employees

As at the end of the reporting period, the number of in-service contractual employees of the Bank was 21,324, an increase of 2,683 from the end of 2011, in which doctors and masters accounted for 11.1%, bachelors accounted for 64.1%, college graduates accounted for 20.7%, and employees of other educational levels accounted for 4.1%; those aged 35 years old or less accounted for 65.9%, those aged 36-45 years old accounted for 25.1%, and those aged 46 years old or more accounted for 9.0%. In addition, the Bank had 797 retirees.



# Corporate Governance

In 2012, abiding by relevant laws and regulations and requirements from regulatory authorities on corporate governance, the Bank continuously improved its governance mechanism. By persistently implementing strategic planning, proactively transforming the development method, concretely enhancing risk management and capital management, improving information disclosure quality and the duty fulfilling abilities of the Directors etc., the Bank has steadily promoted the construction of corporate governance and relentlessly upgraded the governance.

## **Proactively Transformed Development Method, Persistently Implemented Strategic Planning**

With its Five-year Strategic Development Plan as the operation direction and action guideline, the Bank accelerated the transformation of its operational and development mode and strategic transition, abandoned the simple extensive scale-based growth, transformed to the intensive low-capital-consumption business development mode, focused on the transformation to professional and delicacy management and accelerated the building of a first-class joint-stock commercial bank. The Bank also optimized the bank-wide strategy implementation mechanism. The Board of Directors regularly listened to the reports on the strategy implementation from the Senior Managers and enforced the evaluation and assessment in order to ensure a smooth implementation.

## **Enhanced Bank-wide Risk Research and Assessment, Improved Comprehensive Risk Management Capabilities**

The Board of Directors and the Risk Management Committee held regular meetings to review relevant risk management proposals, listened to Senior Managers' risk management reports, assessed the Bank's risk status and capital level comprehensively, and made in-depth researches and effective decisions on key risk management issues; perfected the risk management system and organization structure, and set up the independent Retail Risk Management Department according to the differentiated requirements on risk management of the Bank's corporate business and the retail business development in order to professionalize the retail risk management construction; enhanced whole-process credit management, implemented the system of accountability, reinforced non-performing loan clearance, timely adjusted relevant risk management indicators according to changes in economic status, fortified risk management infrastructure construction and concretely improved asset quality and risk management. The Audit Committee under the Board of Directors actively played the function in supervising, regularly listened to work plans and reports of internal and external auditors, continued to enhance the vertical audit system, put into operation the off-site audit system and strengthened the construction of internal control system. The Connected Transaction Control Committee under the Board of Directors reviewed substantial connected transactions carefully, strengthened connected transaction management, further standardized its management process, and applied technological and systematic methods to retrieve, identify and manage the information of connected parties in order to prevent connected transaction risk.

## **Carried out Duty Fulfillment Evaluation of Directors, Supervisors and Senior Management, Effectively Implemented Incentive and Restraint Mechanism**

For the sake of giving full play to the supervision function of Board of Supervisors, enhancing the constraint and supervision mechanism for Directors, Supervisors and Senior Management, urging them to fulfill their duties and ensuring the Bank's safety and smooth operation, according to regulatory requirement and AOA of the Bank, Board of Supervisors formulated the *Implementation Plan for the Overall Performance Evaluation of Directors, Supervisors and Senior Executives of China Guangfa Bank for the Year of 2011* and accordingly carried out the evaluation work of 2011. Through day-to-day supervision and duty fulfillment archives analysis, based on a great amount of relevant information and combined with quantity analysis, Board of Supervisors respectively drafted the 2011 overall performance evaluation reports of Directors, Supervisors and Senior Managers. Board of Supervisors reported the evaluation results that were reviewed and approved to the General Meeting of Shareholders and regulators, and notified Board of Directors, Directors, Supervisors and Senior Managers.

## Corporate Governance

### **Reinforced Capital Management, Promoted the New Basel Capital Accord Implementation**

In 2012, the Bank successfully issued RMB4.5 billion subordinated bonds, continued to research and explore new capital instruments, and accelerated the construction of a long-term mechanism for replenishing capital; implemented relevant policies of the Ministry of Finance's, carried out a one-off increase of the proportion of general reserve balance to risk asset balance from 1% to 1.5%, thus enhancing risk resistance competency; continued to advance related IPO work, achieved important accomplishment on equity compliance and equity ownership confirmation, and basically finished the clearance of substandard stockholders. Also, the Bank comprehensively facilitated the implementation of the New Basel Capital Accord, proactively promoted projects such as retail and non-retail consulting projects, the Internal Model Approach for market risks and capital middle office system, and liquidity risk and bank account interest risk management, optimized the asset portfolio, clarified the risk-yield relationship, guided the construction of the capital constraint transmission mechanism, and focused on increasing capital efficiency.

### **Enhanced the Transparency and Promptness of Information Disclosure, Improved Investor Relationship Management**

The Bank strictly implemented the information disclosure system, continuously improved investor relationship management, released to the public regular reports such as annual reports on the Bank's official website in accordance with laws, and gradually perfected the content of disclosed information. By disclosing information to the public on its website, such as investor relationships, corporate governance and annual reports, the Bank has improved the quality and transparency of information disclosure so as to ensure that the market and investors can receive prompt, authentic, accurate and integrated information relating to the Bank. The Bank's annual report gained continuous quality improvement in its design and information disclosure, winning several important prizes in the 2011 international annual report selection, including the Golden Award, the Top 25 Chinese Annual Report of 2011, and the Top 50 Annual Report in the Asian-Pacific Region of 2011 presented by LACP, which have effectively improved the Bank's publicity and reputation.

### **Revised Certain Clauses of Articles of Association, Improved the Supporting Systems for Corporate Governance**

In light of the Bank's new name and logo, and with approval from CBRC, the Bank revised relevant Articles of Association terms that cover its Chinese name, English name, domicile, website, etc.; further improved the supporting systems for corporate governance, revised the *Policy of Non-executive Director Retainers* and the *Policy of Non-employee Supervisor Retainers* in order to strengthen the role of the incentive and constraint system on corporate governance; revised the *Measures for Audit-on-departure of Senior Executives* and the *Measures for Performance Appraisals of Board of Supervisors on Directors, Supervisors and Senior Executives*, providing a sound systematic foundation for corporate governance system to come into play.



## Corporate Governance

### Enhanced the Survey, Training and Special Inspection of Directors and Supervisors, Continuously Improved Their Skills and Levels of Duty Fulfillment

In 2012, the Bank organized Directors and Supervisors to attend various trainings and surveys, such as the lectures and trainings arranged by CBRC and China Banking Association on the capital management measures for commercial banks, and visits to branches by BOD Risk Management Committee members and BOS members; reinforced Directors' and Supervisors' understanding of external regulatory requirements, the Bank's business status and the practices of leading banks, and encouraged them to improve individual competences, due diligence awareness and professionalism, thus laying a solid foundation for proactive duty fulfillment and effective decision making. Based on the implementation of the Five-year Strategic Development Plan and the internal risk control status, BOS conducted special inspection on certain branches and drafted special inspection reports, offering supervision opinions to promote the healthy development of business.

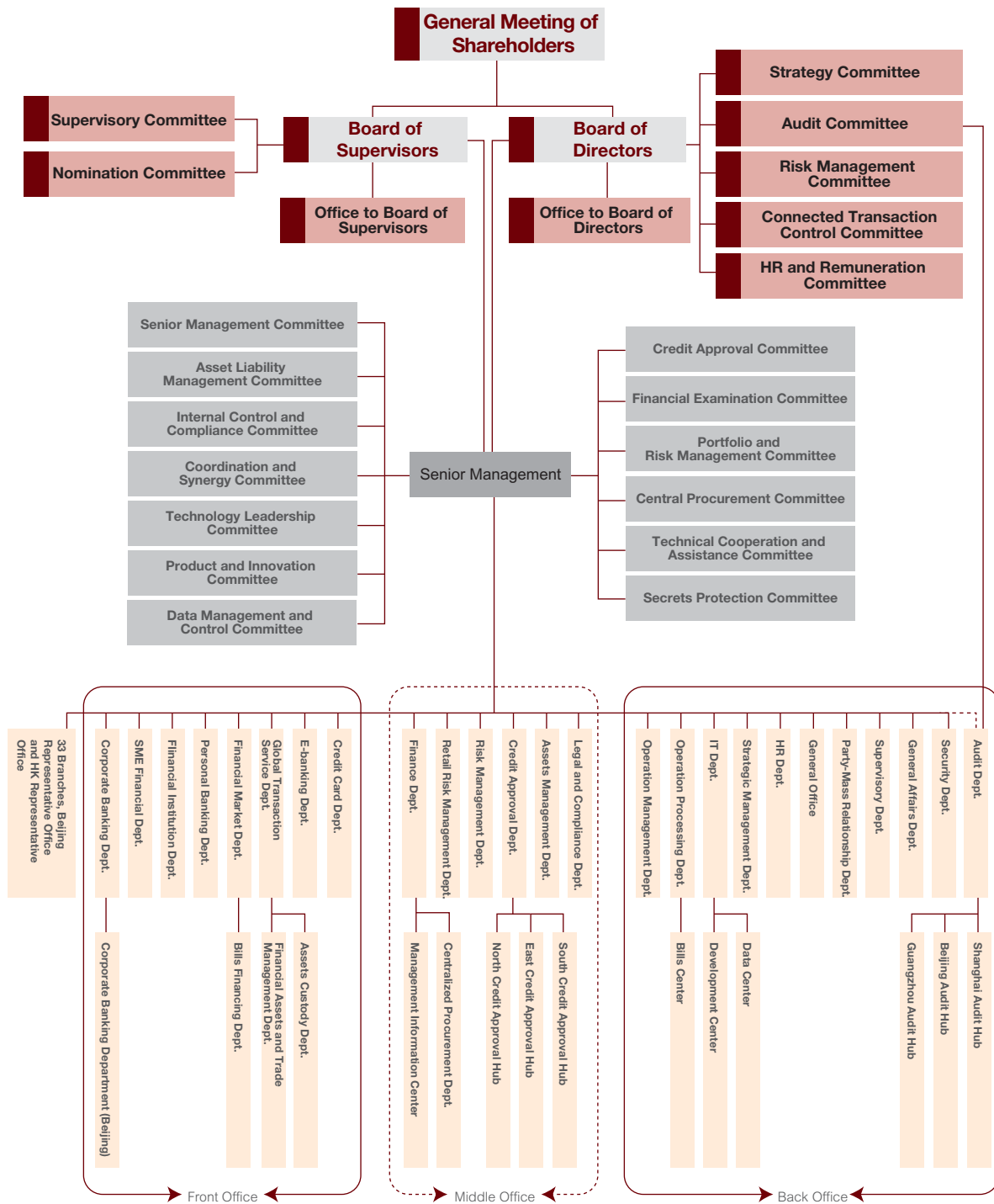


July 26–27, 2012, the Risk Management Committee of the Board of Directors went to Zhengzhou Branch for survey, and had a discussion with a delegation led by Cheng Kangning, the Deputy Director of CRBC Henan Office.



# Corporate Governance

## 1. Organization Chart



## Corporate Governance

### 2. Composition of the Board of Directors and Setup of Specialized Committees

#### 2.1 Composition of the Board of Directors

The Bank's Board of Directors has 17 Directors in total, including three independent Directors and four executive Directors; Directors have international and diversified backgrounds, which provide both complementarity in knowledge structure and management experience and relevant independence. Independent Directors have rich experience in financial industry, are well versed in corporate finance and management and can offer professional opinions for the Board decision; all non-executive Directors hold key positions at major well-known enterprises, and have extensive management experience; executive Directors have been engaging in bank management for a long time and have extensive professional experience.

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

Main functions and powers of the Board of Directors include the following:

- Convening general meetings of shareholders and reporting work to general meetings;
- Executing resolutions of general meetings of shareholders;
- Determining the setup of internal management organizations of the bank;
- Determining the Bank's risk management and internal control policies;
- Determining the Bank's annual business plan and investment programs;
- Formulating the Bank's annual financial budget plans and final settlement plans;
- Formulating the Bank's profit distribution plan and plan for making up for losses;
- Formulating plans for increasing or decreasing the Bank's registered capital, issuing bonds or other securities and listing;
- Formulating the Bank's basic management system;
- Hearing the work report of the Bank's President and examine the work of the President;
- Be responsible for the Bank's information disclosure and bearing the ultimate responsibility for the integrity and accuracy of the Bank's accounting and financial reporting system;
- Regularly evaluating and improving the Bank's corporate governance;
- Other functions and power stipulated by laws, regulations and Articles of Association of the Bank, or granted by the Bank's General Meeting of Shareholders.

#### 2.3 Specialized Committees under the Board of Directors

5 specialized committees were set up under the Board of Directors: Strategy Committee, Audit Committee, Risk Management Committee, Connected Transaction Control Committee and HR & Remuneration Committee; all the Committee principal members except Strategy Committee are Independent Directors; in the Audit Committee and Connected Transactions Control Committee, Independent Directors account for more than half of the Committee members. According to regulations of AOA and procedural rules, all specialized committees perform duties carefully as division of work and professional specialty, actively assisting the Board of Directors in work and playing a good role in decision consulting.

## Corporate Governance

### Strategy Committee

Strategy Committee under Board of Directors is consisted of 5 Directors, of whom Chairman of the Board Dong Jianyue is the principal member of the Committee and four other Directors, Morris Li, Pujian, Liu Jiade and Gai Yongguang are committee members. The primary responsibilities of Strategy Committee are set as follows: researching and studying out operation objectives and medium-and-long-term development strategies for the Bank; supervising and evaluating the implementation process of the Bank's strategies; supervising, examining and evaluating performance of annual operation plans and investment proposals, and so on.

### Audit Committee

Audit Committee under Board of Directors is consisted of 3 Directors, of whom Independent Director Li Dianjun is the principal member and two other Directors, Frederick Ip and Weber Lo, are committee members. The primary responsibilities of Audit Committee are set as follows: examining the Bank's accounting policies, financial position and procedures of financial reports; examining risk position and legal compliance issues; supervising and evaluating internal audit work of the Bank, and so on.

### Risk Management Committee

Risk Management Committee under Board of Directors is consisted of 5 Directors, of whom Independent Director Frederick Ip is the principal member and four other Directors, James Morrow, Zheng Yong, Li Zimin and Zhang Xifang, are committee members. The primary responsibilities of Risk Management Committee are set as follows: evaluating and discussing risk management strategies, risk management policies, grand issues on risk management and grand projects of assets disposition of the Bank; controlling, managing, evaluating and supervising risks of the Bank, and so on.

### Connected Transaction Control Committee

Connected Transaction Control Committee under Board of Directors is consisted of 3 Directors, of whom Independent Director Chan Tai Loi is the principal member and two other Directors, Li Dianjun and Larry Zong, are committee members. The primary responsibilities of the Committee are set as follows: managing the connected transactions of the Bank; auditing and supervising the formulation and implementation work of management measures on connected transactions; supervising the establishment and improvement of management system of connected transactions; examining and evaluating connected transactions and controlling risks in connected transactions, and so on.

### HR & Remuneration Committee

HR & Remuneration Committee under Board of Directors is consisted of 5 Directors, of whom Independent Director Chan Tai Loi is the principal member and four other Directors, Wan Feng, Wang Fenghua, Pu Jian and Zhang Shengman are committee members. The primary responsibilities of the Committee are set as follows: formulating procedures and standards of electing Directors and Senior Managers; primarily checking the qualification of Director and Senior Manager candidates; formulating evaluation system, payment policy and motivation scheme for Directors and Senior Managers; supervising implementation of the said policies and scheme, and so on.

## Corporate Governance

### 3. Composition of the Board of Supervisors and Setup of Specialized Committees

#### 3.1 Structure of the Board of Supervisors

At present, there are nine members in the Board of Supervisors, of whom four members are Employee Representative Supervisors; three members are Shareholder Representative Supervisors; and two members are External Supervisors; the number of members and composition of the Board of Supervisors comply with the regulatory requirements and provisions of the Articles of Association. Four Employee Representative Supervisors have been engaging in bank operations management for a long time and have extensive professional experience; three Shareholder Representative Supervisors assumed important posts in domestic well-known companies, with plentiful experience of management and professional knowledge of finance, accounting and law; two External Supervisors are professionals in accounting and legal affairs.

#### 3.2 Functions, Power and Operation of Board of Supervisors

Board of Supervisors is the supervisory organ of the Bank and responsible for General Meeting of Shareholders. According to the Articles of Association of the Bank, the functions and powers of the Board of Supervisors are listed as follows:

- Supervising duty performance of the Board of Directors and senior managerial personnel;
- Supervising duty performance of Directors, Chairman of the Board and senior managerial personnel;
- Requiring Directors, Chairman of the Board and senior managerial personnel to rectify his/her breaching behavior when such behavior hurts the Bank's benefit, if any;
- Auditing Directors, Chairman of the Board and senior managerial personnel when such persons are to leave their posts;
- Examining and supervising financial activities of the Bank;
- Inquiring Directors, Chairman of the Board and senior managerial personnel when necessary;
- Auditing operation decisions, risk management issues and internal control of the Bank and guiding internal audit department of the Bank to work if necessary;
- Attending meetings held by the Board of Directors;
- Proposing to convene extraordinary shareholders' meeting;
- Formulating and amending rules of procedure of the Board of Supervisors;
- Other functions and power stipulated by laws, regulations and Articles of Association of the Bank, or granted by the Bank's General Meeting of Shareholders.

#### 3.3 Specialized Committees under the Board of Supervisors

The Nomination and Supervisory Committees are established under the Board of Supervisors of the Bank, both headed by external Supervisors.

##### Nomination Committee

Nomination Committee is consisted of five Supervisors, of whom External Supervisor Zheng Lanping is the principal member and four other Supervisors Zhai Meiqing, Zhai Feng, Gu Xuejin and Zhu Yingyu are committee members. The primary responsibilities of Nomination Committee are set as follows: studying procedures and standards of electing and appointing supervisors; primarily auditing the qualification and conditions of Supervisor candidates and putting forward suggestions to the Board of Supervisors on the scale and members of the Board of Supervisors; nominating candidates to the Board of Supervisors and recommending nominees to specialized committees; searching eligible Supervisor candidates from a broad perspective.

## Corporate Governance

### Supervisory Committee

Supervisory Committee is consisted of five Supervisors, of whom External Supervisor Tan Jinsong is the principal member and four other Supervisors Li Jinsheng, Zhai Meiqing, Deng Jianhua, and Fan Junxiong. The primary responsibilities of Supervisory Committee are set as follows: studying supervisory scheme for the Board of Supervisors to supervise the duty fulfillment of the Board of Directors and Senior Management; studying supervisory scheme for the Board of Supervisors to supervise the duty fulfillment of Directors, Chairman and Senior Managers; studying audit scheme for the Board of Supervisors to audit Directors and Senior Management when they are to leave their posts; studying schemes for the Board of Supervisors to check and supervise financial activities of the Bank; studying schemes for the Board of Supervisors to check and supervise the Bank's operation decisions, risk management, internal control and so on if necessary; checking and examining the regular reports prepared by the Board of Directors and profit distribution schemes formulated by the Board of Directors, and giving its own opinions to the Board of Supervisors in written form.

#### 4. Composition of the Senior Management and Setup of Specialized Committees

President of the Bank is responsible to the Board of Directors and is under the supervision of the Board of Supervisors. Deputy Presidents and other Senior Managers assist President to work. The power of Senior Management and the Board of Directors is divided strictly in accordance with corporate governance documents of the Bank, such as the Articles of Association.

The specialized committees under the Senior Management of the Bank include: Senior Management Committee, Asset Liability Management Committee, Internal Control and Compliance Committee, Coordination and Synergy Committee, Technology Leadership Committee, Product and Innovation Committee, Data Management and Control Committee, Credit Approval Committee, Financial Examination Committee, Portfolio and Risk Management Committee, Central Procurement Committee, Technical Cooperation and Assistance Committee, Secrets Protection Committee.

# Summary of General Meeting of Shareholders

In 2012, the Bank held three general meetings, including the annual general meeting and two extraordinary general meetings. King & Wood Mallesons (PRC) witnessed the convocation procedures, qualifications of the shareholders present, lawfulness and effectiveness of the voting procedures and other related matters on site, and gave a legal opinion. The details are as follows:

## 1. Information on the Annual General Meeting

On June 15, 2012, the 2011 Annual General Meeting of the Bank was held in Guangzhou.

97 shareholders and proxies were present, representing 13.955 billion shares, accounting for 90.60% of the total share of the Bank.

The meeting deliberated each proposal and approved the followings by ballot: *Proposal on the 2011 Annual Work Report of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on the 2011 Annual Work Report of the Fifth Board of Supervisors of China Guangfa Bank Co., Ltd.*, *Proposal on the 2011 Final Financial Report of China Guangfa Bank Co., Ltd.*, *Proposal on the 2011 Preliminary Profit Distribution Plan of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Financial Budget of China Guangfa Bank Co., Ltd.*, *Proposal on the Allowance System for Non-employee Supervisors of China Guangfa Bank Co., Ltd.*, and *Proposal on the 2012 Subordinated Bond Offering Scheme of China Guangfa Bank Co., Ltd.*, and related resolutions were generated.

At the meeting, the *Circular of the Results of the 2011 Overall Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.* was also listened to. The results of the 2011 overall performance evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors were “competent” without exception.

## 2. Information on the Extraordinary General Meetings

### 2.1 First Extraordinary General Meeting of 2012

On March 6, 2012, the First Extraordinary General Meeting of 2012 was held in Guangzhou.

95 shareholders and proxies were present, representing 13.791 billion shares, accounting for 89.54% of the total share of the Bank.

The meeting deliberated each proposal and approved the followings by ballot: *Proposal on the Financial Bond Offering Scheme of China Guangfa Bank Co., Ltd.*, *Proposal on the Amendment of the Articles of Association of China Guangfa Bank Co., Ltd.*, *Proposal on Electing Mr. Weber Lo as Director of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on Electing Mr. Zhang Xifang as Director of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on the Allowance System for Non-executive Directors of China Guangfa Bank Co., Ltd.*, and related resolutions were generated.

## Summary of General Meeting of Shareholders

### 2.2 Second Extraordinary General Meeting of 2012

On November 16, 2012, the Second Extraordinary General Meeting of 2012 was held in Guangzhou.

53 shareholders and proxies were present, representing 13.341 billion shares, accounting for 86.62% of the total share of the Bank.

The meeting deliberated each proposal and approved the followings by ballot: *Proposal on Approving the Resignation of Mr. Phee Boon Kang as an Independent Director of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on Electing Mr. Frederick Ip as an Independent Director of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, and *Proposal on Adjusting the General Provisioning Method of China Guangfa Bank Co., Ltd.*, and related resolutions were generated.



# Report of the Board of Directors

## 1. Meetings Convened by Board of Directors and its Specialized Committees

The Bank held a total of 9 Board Meetings in 2012, the time of which spread from February to October. The table below shows Directors' attendance at Board Meetings during the reporting period:

Member of the Board of Directors	Times of Attendance (Attended by Authorized Representative)/ Required Attendance	Attendance Rate
Wan Feng	9/9	100%
Wang Fenghua	9/9	100%
Weber Lo	9/9	100%
Liu Jiade	9/9	100%
Li Zimin	9/9	100%
Li Dianjun	9/9	100%
Chan Tai Loi	9/9	100%
Morris Li	9/9	100%
Zhang Xifang	9/9	100%
Zheng Yong	9/9	100%
Larry Zong	9/9	100%
Gai Yongguang	9/9	100%
Zhang Shengman	9/9	100%
Dong Jianyue	9/9	100%
Pu Jian	9/9	100%
James Morrow	9/9	100%

Note: 1. During the reporting period, Mr. Lin Jianjun and Phee Boon Kang resigned from Director of the Bank because of work reason. And the General Meeting of Shareholders on November 16, 2012 elected Mr Frederick Ip as the Independent Director.  
2. Please refer to "Changes of Directors, Supervisors and Senior Managers" for more details on changes of Directors.

On February 17, 2012, the Bank held the Fifth Meeting of the Sixth Board of Directors, and the following proposals were deliberated: *Proposal on Electing Mr. Weber Lo as Director of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on Electing Mr. Zhang Xifang as Director of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on the Financial Bond Offering Scheme of China Guangfa Bank Co., Ltd.*, *Proposal on the Organizational Development Plan of China Guangfa Bank Co., Ltd. in 2012*, *Proposal on the Amendment of the Articles of Association of China Guangfa Bank Co., Ltd.*, *Proposal on the Appointment of the Accounting Firm for 2011 of China Guangfa Bank Co., Ltd.*, *Proposal on the Allowance System for Non-executive Directors of China Guangfa Bank Co., Ltd.*, *Proposal on Donation Matters of CGB Hope Charity Fund*, and *Proposal on Convening the 2012 First Extraordinary General Meeting of China Guangfa Bank Co., Ltd.*, and related resolutions were generated.

On March 26, 2012, at the 2012 First Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on the 2011 Audit Report of China Guangfa Bank Co., Ltd.* was deliberated by voting via correspondence, and related resolutions were generated.

## Report of the Board of Directors

On April 13, 2012, the Bank held the Sixth Meeting of the Sixth Board of Directors, and the following proposals were deliberated: *Proposal on the 2011 Final Financial Report of China Guangfa Bank Co., Ltd.*, *Proposal on the 2011 Preliminary Profit Distribution Plan of China Guangfa Bank Co., Ltd.*, *Proposal on the 2011 Audit Report (US GAAPs) of China Guangfa Bank Co., Ltd.*, *Proposal on the 2011 Annual Report of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Business Plan and Financial Budget of China Guangfa Bank Co., Ltd.*, *Proposal on the 2011 Annual Work Report of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on the Addition of Candidate Cities for Tier-2 Branches of China Guangfa Bank Co., Ltd. in 2012*, *Proposal on the 2012 Technical Cooperation and Assistance Plan*, *Proposal on the Market Risk Limits of the HO Financial Market Department and Macau Branch in 2012*, *Proposal on the 2012 Stress Testing Report*, *Proposal on the Package Sales of Some Corporate NPLs in 2012*, *Proposal on Becoming a Shareholder of ExpressPay*, *Proposal on Establishing the Retail Risk Management Department*, *Proposal on the Performance Evaluation and Remuneration Distribution of Senior Executives in 2011*, and *Proposal on Convening the 2011 Annual General Meeting of China Guangfa Bank Co., Ltd.*, and related resolutions were generated.

On May 21, 2012, at the 2012 Second Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on the Performance Evaluation of Directors and Senior Executives in 2011* was deliberated by voting via correspondence, and related resolutions were generated.

On June 1, 2012, at the 2012 Third Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on Adding Hefei as a Candidate City for Branch directly under the HO in 2012 of China Guangfa Bank Co., Ltd.*, and *Proposal on Adjusting the Market Risk Limits of 2012* were deliberated by voting via correspondence, and related resolutions were generated.

On August 1, 2012, at the 2012 Fourth Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on Lead-underwriting Medium-term Bonds of State Grid Corporation Totaling RMB4.5 billion of China Guangfa Bank Co., Ltd.* was deliberated by voting via correspondence, and related resolutions were generated.

On September 4, 2012, at the 2012 Fifth Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on the Renewal of Liability Insurance for Directors, Supervisors and Senior Executives in 2012/2013*, and *Proposal on the 2012 Technical Cooperation and Assistance Plan (Amended)* were deliberated by voting via correspondence, and related resolutions were generated.

On October 8, 2012, at the 2012 Sixth Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on Subscribing the Third-round of Medium-term Bonds of State Grid Corporation in 2012 of China Guangfa Bank Co., Ltd.* was deliberated by voting via correspondence, and related resolutions were generated.

On October 26, 2012, the Bank held the Seventh Meeting of the Sixth Board of Directors on site, at which the following proposals were deliberated: *Proposal on Approving the Resignation of Mr. Phee Boon Kang as an Independent Director of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on Nominating Mr. Federick Ip as a Candidate of Independent Director of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on Adjusting the General Provisioning Method of China Guangfa Bank Co., Ltd.*, *Proposal on Deliberating and Appointing the Audit Firm for 2012*, *Proposal on Adjusting the Plan of Liability Insurance for Directors, Supervisors and Senior Executives in 2012/2013*, *Proposal on the Increased Appropriation of Consumption Bonus Points of the Guangfa Hope Card for Donation to the Guangfa Hope Charity Fund*, and *Proposal on Convening the 2012 Second Extraordinary General Meeting of China Guangfa Bank Co., Ltd.*, and related resolutions were generated.

## Report of the Board of Directors

In 2012, the special committees under the Board of Directors held 19 meetings in total, deliberating the proposals on the appointment of the accounting firm, 2012 audit plan, audit reconsideration management measures, 2011 audit report and annual report, measures for the adjustment of general provisions, Director replacement, allowance system for Non-executive Directors, performance evaluation and remuneration allocation of Senior Executives in 2011, renewal of Director liability insurance, financial bond issuance program, 2012 technical cooperation and assistance plan, market risk limit, stress testing report, packing sale of some corporate NPLs, etc., and listening to the auditor's audit plan, 2011 annual audit summary, and reports on key audit findings, data control and standardization, strategy execution, business line reform and development, connected transaction management, IT risk policy, risk preference policy, etc.

### 2. Enforcement of Resolutions of General Meeting of Shareholders by the Board of Directors

During the reporting period, the Board of Directors fully implemented the resolutions of the General Meeting of Shareholders, actively responded to changes in macro-economic and financial situation, observed national economic policies, regulations and regulatory requirements in the banking sector, and accelerated the transformation of the development mode, all of which contributed to steady business development, improvement of management efficiency, continued growth of net profits and the size of assets breaking through RMB1 trillion. With the approval of the CBRC, the Bank changed the terms and conditions of the Articles of Association on the registered name and legal domicile, etc. The two Non-executive Directors elected by the general meeting of shareholders were approved for appointment by the regulator, and the qualifications of the newly appointed Independent Directors have been submitted to the regulator for approval. According to the 2012 subordinated bond issuing scheme deliberated and approved at the 2011 annual general meeting, the Bank issued subordinated bonds totaling RMB4.5 billion during the reporting period, supplementing its tier 2 capital effectively and ensuring that its capital adequacy ratio met the regulatory requirement. The general provisioning method was adjusted under the resolution of the general meeting that increased the proportion of the balance of general provisions to the balance of risk assets from 1% to 1.5% at a time to improve risk resistance.

### 3. Independency of and Responsibility Fulfillment by Independent Directors

At present, there are 3 Independent Directors in the Board of Directors, which fulfills the requirement of *Article of Association* in terms of the number of Independent Directors. Independent Directors act as chief members of some committees under the Board of Directors, including Audit Committee, Risk Management Committee, Connected Transaction Control Committee and HR & Remuneration Committee. Independent Directors have no business or financial interest in the Bank, nor do they assume any managerial post in the Bank, so as to effectively guarantee their independency as well as the rights and benefits of small-and-medium investors.

During the reporting period, Independent Directors earnestly fulfilled their own duties and attended all board meetings and the meetings held by specialized committees. From the perspective of safeguarding the rights and benefits of investors and the related shareholders, each Independent Director, with the principle of objectivity, independence and prudence fully exerted their own professional functions to assist the Board of Directors. Their efforts duly facilitated the Board of Directors to make proper decisions and promoted the Bank's business development in a sustainable and healthy manner.

In 2012, Independent Directors of the Bank attended all meetings of the Board of Directors and its specialized committees in person.

## Report of the Board of Directors

### 4. Preliminary Plan for 2012 Profit Distribution

Based on audited after-tax profit in 2012 of the Bank which was RMB11.220 billion, 10% of net profit, i.e. RMB1,122 million, was accrued into statutory surplus reserve; in accordance with relevant regulation from the Ministry of Finance and resolutions of the General Meeting of Shareholders, the Bank increased the proportion of general reserve balance to risk asset balance from 1% to 1.5%. Based on the difference between 1.5% of the 2012 ending balance of the risk assets and the opening general provision balance of 2012, RMB6433 million was accrued into the general provision for 2012. So distributable profits to shareholders for the year was RMB19.474 billion. After comprehensively considering the regulatory authorities' guideline opinions and capital replenishment need of the Bank, it is suggested not to distribute profits to shareholders for the year 2012.

The above Profit Distribution Plan shall be submitted to the 2012 Annual General Meeting of Shareholders of the Bank for approval, after that can it be implemented.

# Report of the Board of Supervisors

## 1. Meetings Convened by Board of Supervisors and its Specialized Committees during the Reporting Period

During the reporting period, the Board of Supervisors of the Bank held six meetings in total, and the relevant information is as follows:

On February 16, 2012, the Bank held the First Extraordinary Meeting of the Fifth Board of Supervisors, at which *Proposal on the Off-office Audit Report of Vice President Jin Haiteng was deliberated, and Advice on the Names and Composition of the Specialized Committees under the Fifth Board of Supervisors of China Guangfa Bank Co., Ltd., Advice on Determining the Priorities of the Fifth Board of Supervisors of China Guangfa Bank Co., Ltd., Implementation Plan for the 2011 Overall Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd. (Draft for Discussion), and the 2011 Special Inspection Working Plan of the Board of Supervisors of China Guangfa Bank Co., Ltd. (Draft for Discussion)* were discussed, and related resolutions were generated.

On March 27, 2012, at the Second Extraordinary Meeting of the Fifth Board of Supervisors of the Bank, *Proposal on the 2011 Annual Work Report of the Board of Supervisors of China Guangfa Bank Co., Ltd., and Proposal on the Implementation Plan for the 2011 Overall Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.* were deliberated by means of voting via correspondence, and related resolutions were generated.

On April 13, 2012, the Bank held the Third Extraordinary Meeting of the Fifth Board of Supervisors, at which *Proposal on the 2011 Preliminary Profit Distribution Plan of China Guangfa Bank Co., Ltd., Proposal on the 2011 Audit Report of China Guangfa Bank Co., Ltd., Proposal on the 2011 Annual Report of China Guangfa Bank Co., Ltd.* were deliberated, and related resolutions were generated.

On May 22, 2012, at the Fourth Extraordinary Meeting of the Fifth Board of Supervisors of the Bank, *Proposal on the Allowance System for Non-employee Supervisors of China Guangfa Bank Co., Ltd.* was deliberated by means of voting via correspondence, and related resolutions were generated.

On May 29, 2012, the Bank held the Fifth Extraordinary Meeting of the Fifth Board of Supervisors, at which *Proposal on the 2012 Special Inspection Working Plan of the Board of Supervisors of China Guangfa Bank Co., Ltd., and Proposal on the 2011 Overall Performance Evaluation Report of the Board of Supervisors of China Guangfa Bank Co., Ltd. on Directors, Supervisors and Senior Executives* were deliberated, and related resolutions were generated.

On December 7, 2012, the Bank held the Sixth Extraordinary Meeting of the Fifth Board of Supervisors on site, at which *Proposal on the Measures for the Off-office Audit of Senior Executives of China Guangfa Bank Co., Ltd., Proposal on the Measures for the Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd., and Proposal on the 2012 Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.* were deliberated, *Proposal on the 2012 Special Inspection Working Plan of the Board of Supervisors of China Guangfa Bank Co., Ltd. (Draft for Discussion)* was discussed, and related resolutions were generated.

## Report of the Board of Supervisors

During the reporting period, the Nomination Committee of the Board of Supervisors of the Bank held four meetings in total, and the relevant information is as follows:

On March 27, 2012, at the First Meeting of the Nomination Committee of the Fifth Board of Supervisors of the Bank, *Proposal on the Implementation Plan for the 2011 Overall Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.* was deliberated by means of voting via correspondence, and related resolutions were generated.

On May 21, 2012, at the Second Meeting of the Nomination Committee of the Fifth Board of Supervisors of the Bank, *Proposal on the Allowance System for Non-employee Supervisors of China Guangfa Bank Co., Ltd.* was deliberated by means of voting via correspondence, and related resolutions were generated.

On May 29, 2012, the Bank held the Third Meeting of the Nomination Committee of the Fifth Board of Supervisors, at which *Proposal on the 2011 Overall Performance Evaluation Report on Directors, Supervisors and Senior Executives of the Board of Supervisors of China Guangfa Bank Co., Ltd.* was deliberated, and related resolutions were generated.

On November 29, 2012, at the Fourth Meeting of the Fifth Board of Supervisors of the Bank, *Proposal on the Measures for the Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.*, and *Proposal on the Implementation Plan for the 2012 Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.* were deliberated by means of voting via correspondence, and related resolutions were generated.

During the reporting period, the Supervisory Committee of the Board of Supervisors of the Bank held three meetings in total, and the relevant information is as follows:

On April 13, 2012, the Bank held the First Meeting of the Supervisory Committee of the Fifth Board of Supervisors, at which *Proposal on the 2011 Preliminary Profit Distribution Plan of China Guangfa Bank Co., Ltd.*, *Proposal on the 2011 Audit Report of China Guangfa Bank Co., Ltd.*, *Proposal on the 2011 Annual Report of China Guangfa Bank Co., Ltd.* were deliberated, and related resolutions were generated.

On May 29, 2012, the Bank held the Second Meeting of the Supervisory Committee of the Fifth Board of Supervisors, at which *Proposal on the 2012 Special Inspection Working Plan of the Board of Supervisors of China Guangfa Bank Co., Ltd.* was deliberated, and related resolutions were generated.

On November 29, 2012, at the Third Meeting of the Supervisory Committee of the Fifth Board of Supervisors of the Bank, *Proposal on the Measures for the Off-office Audit of Senior Executives of China Guangfa Bank Co., Ltd.* was deliberated by means of voting via correspondence, and related resolutions were generated.

## 2. Performance of External Supervisors

The Board of Supervisors has 2 external supervisors. Both Nomination and Supervisory Committees of the Board of Supervisors were headed by external supervisors. During the reporting period, the external supervisors of the Bank worked diligently, gave full play to their specialized skills, attended meetings of the Board of Supervisors and its specialized committees actively, deliberated all proposals carefully, gave objective and fair independent opinions, performed their duties as members of the specialized committees under the Board of Supervisors carefully, and convened meetings of the specialized committees timely, playing an active role in promoting the normative operation of the Board of Supervisors, and improving the corporate governance of the Bank.

## Report of the Board of Supervisors

### 3. Work of the Board of Supervisors in 2012

#### 3.1 Convening Meetings of the Board of Supervisors and Its Special Committees, Deliberating Important Matters and Listening to Relevant Reports

##### (1) Meetings of the Board of Supervisors and Special Committees

In 2012, the number of meetings for the Board of Supervisors, Nomination Committee and Supervisory Committee was 6, 4 and 3 respectively. The meetings deliberated and adopted 12 proposals including annual reports, audit reports, annual work reports of the Board of Supervisors, special inspection working plan of the Board of Supervisors, performance evaluation of Directors, Supervisors and Senior Executives and off-office audit of Senior Executives; analyzed and discussed 5 matters including name and composition of Special Committees under the Board of Supervisors, priorities of the fifth Board of Supervisors, special inspection report; listened to 8 on-site reports including asset and liabilities management, financial and operation situation, risk management, asset management, compliance operation, connected transaction and audit work from Senior Management and Head of relevant Departments; reviewed 7 reports in written form.

##### (2) Supervising Important Matters in Operational Management through Meeting Discussion and Other Methods

In 2012, the Supervisors attended the General Meetings of Shareholders held according to law, and supervised the legality and compliance of the convocation procedures, and on-site voting on all proposals, ensuring that the voting results were open, fair and just; supervised the deliberation and decision-making processes of regulatory opinions and requirements, and major operational management matters of the Bank by attending the annual prudent regulation meeting, and meetings of the Board of Directors and Senior Management as non-voting delegates; kept updated on relevant operational management information, and supervised finance, risk and internal control conditions mainly by implementing the working system of regular and on-site reporting by the Senior Management to the Board of Supervisors, requiring the relevant business management departments of the Bank to submit special reports to the Board of Supervisors on a quarterly basis, and reporting relevant matters on-site at regular meetings of the Board of Supervisors.

#### 3.2 Organizing Special Inspection, Giving Comments and Suggestions

In order to carry through the applicable regulatory requirements, give active play to the supervisory role of the Board of Supervisors, and promote the healthy development of all operations of the Bank, the Board of Supervisors deliberated and adopted the *2012 Working Plan for Special Inspection of the Board of Supervisors* in June 2012, and started the annual special inspection officially. The special inspection was focused on the implementation of the five-year strategic plan and risk control, during which eight branches including Beijing, Shanghai, Guangzhou, etc. were inspected by means of document review, on-site inspection, off-site data analysis, reporting and communication; an HO communication meeting on special inspection was held to interview the relevant Senior Executives, and 12 front-office and middle-office departments of the HO. All the nine Supervisors were present at the inspected branches, and attended their inspection exchange meetings and the HO's communication meeting. After the inspection, the Board of Supervisors drafted a special inspection report, pointing out the relevant issues, and giving comments and suggestions of the Board of Supervisors, and submitted the report to the 2012 Sixth Extraordinary Meeting of the Fifth Board of Supervisors for deliberation and discussion.



## Report of the Board of Supervisors

### 3.3 Establishing a Sound Institutional System on Performance Evaluation, and Conducting Annual Performance Evaluation Properly

In 2012, the Board of Supervisors improved the performance evaluation system actively, explored ways of performance supervision suited to the Bank's practical conditions, and conducted the 2011 performance evaluation of Directors, Supervisors and Senior Executives in accordance with the *Measures of the CBRC on the Performance Evaluation of Directors of Commercial Banks (Trial)*.

In March 2012, the Board of Supervisors formulated, deliberated and adopted the *Proposal on the Implementation Plan for the 2011 Overall Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.*, and conducted 2011 performance evaluation. Through routine supervision, performance file review and quantitative analysis, the Board of Supervisors drafted the 2011 performance evaluation report of Directors, supervisors and senior executives, circulated the performance evaluation results to the Directors, Supervisors, Senior Executives and the Board of Directors, submitted a special report to the Annual General Meeting, and reported to the regulator for reference.

In the second half of 2012, the Board of Supervisors worked out the *Measures for the Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.*, which was deliberated and adopted at the 2012 Sixth Extraordinary Meeting of the Fifth Board of Supervisors, laying an institutional foundation for the institutionalization and normalization of the Bank's performance evaluation.

### 3.4 Establishing the Audit-on-departure System for Senior Executives, and Conducting the Audit-on-departure of Senior Executives Seriously

In 2012, the Board of Supervisors conducted and completed the audit-on-departure of Deputy President Jin Haiteng. In order to implement the regulatory requirements, and regulate the organizational structure, working procedures, scope and reporting of the audit-on-departure of senior executives, the Board of Supervisors developed the *Measures for the Audit-on-departure of Senior Executives of China Guangfa Bank Co., Ltd.*, which was deliberated and adopted at the 2012 Sixth Extraordinary Meeting of the Fifth Board of Supervisors, providing an institutional basis for the normative and orderly audit-on-departure of senior executives of the Bank.

### 3.5 Establishing the Allowance System for Supervisors, and Further Improving the Incentive and Restraint Mechanism

To adapt to changes in the internal and external environment, the Board of Supervisors developed the *Allowance System for Non-employee Supervisors of China Guangfa Bank Co., Ltd.* based on allowance statistics of Supervisors and Non-executive Directors of listed banks, which was deliberated and adopted at the 2012 Fourth Extraordinary Meeting of the Fifth Board of Supervisors, and approved for implementation at the Annual General Meeting, further improving the incentive and restraint mechanism.

### 3.6 Strengthening the Building of the Board of Supervisors to Provide Basic Support for Effective Performance

First, the organizational structure of the Board of Supervisors was further improved, the names of the special committees under the Board of Supervisors finalized as the Supervisory Committee and Nomination Committee, and their members elected and determined.

## Report of the Board of Supervisors

Second, some Supervisors were organized to attend the explanation meetings of the *Measures for the Capital Management of Commercial Banks (Trial)* organized by the China Banking Association and the Bank, listening to the authoritative interpretations on the background of promulgation of these measures, and their significance for the reform and development of China's banking industry by experts and leaders from the CBRC.

### 4. Independent Opinions of the Board of Supervisors on Relevant Matters of the Bank during the Reporting period

According to the applicable provisions, the Board of Supervisors expressed the following independent opinions:

#### 4.1 Lawful Operations

During the reporting period, the Bank continued to operate lawfully and compliantly, and kept improving its internal control systems and corporate governance structure, and its decision-making procedures complied with the applicable laws and regulations, and the Articles of Association. No member of the Board of Directors and Senior Management of the Bank was found to violate the applicable laws and regulations, and the Articles of Association, or do anything in prejudice to the interests of the Bank and shareholders when performing his/her duties.

#### 4.2 Financial Reporting

KPMG Huazhen (Special General Partnership) and KPMG audited the 2012 financial reports prepared by the Bank in accordance with the Chinese Accounting Standards, International Accounting Standards and US GAAPs, and issued a standard unqualified audit report. The financial reports of the Bank reflected the Bank's financial standing and business performance during the reporting period truthfully, fairly and completely.

#### 4.3 Fund Raising and Use

During the reporting period, the funds raised by the Bank were used as promised in the prospectuses.

#### 4.4 Acquisition and Sale of Assets

During the reporting period, no insider transaction, or any act prejudicing the shareholders' interests or resulting in any loss of assets of the Bank was found in the Bank's acquisition and sale of assets.

#### 4.5 Related Party Transactions

During the reporting period, the Bank's related party transactions complied with the applicable laws and regulations, and the Articles of Association, and were conducted on a fair and just basis. No act in breach of the principle of fairness or in prejudice to the interests of the Bank and shareholders was found.

#### 4.6 Execution of Resolutions of General Meetings

During the reporting period, the Board of Supervisors had no objection to the reports and proposals submitted by the Board of Directors to the General Meeting for deliberation; the Board of Supervisors supervised and inspected the implementation of the resolutions of the General Meeting, and concluded that the Board of Directors implemented all resolutions of the General Meeting carefully.

#### 4.7 Risk Management and Internal Control

During the reporting period, no major defect in integrity and rationality was found in the Bank's risk management and internal control mechanisms and systems.

# Material Events

## 1. Change of Top 10 Shareholders during the Reporting period

During the reporting period, among the top 10 shareholders of the Bank, the number of shares held by Heung Kong Group Limited rose to 147,274,857 due to the transfer of 2,060,927 shares from other shareholders.

## 2. Increasing or Decreasing Registered Capital

During the reporting period, registered capital of the Bank remained unchanged.

## 3. Acquisition, Sales of Assets, Merger

In 2012, the Bank sold repossessed assets of RMB6.12 million and NPLs of RMB2,871.58 million through open channels like auctions.

## 4. Material Lawsuit and Arbitration

By the end of 2012, the Bank was involved in 2,032 pending lawsuits as the plaintiff, with a total amount of RMB10.097 billion, and also in pending lawsuits and disputes as the defendant with a total claim amount of RMB770 million. The Bank had accrued corresponding provision for the estimated loss of the involved lawsuits and disputes.

## 5. Material Events Concerning Custody, Guarantee, Commitment and Entrusted Asset Management

### (1) Material Custody, Contract and lease

In 2012, there were no such material events concerning custody, contracting and leasing of other companies' assets or custody, contracting and leasing of the Bank's assets by other companies, apart from the asset custody business conducted by the Bank within business scope as approved by CBRC.

### (2) Material Guarantees

In 2012, there were no material guarantee events, apart from the financial guarantee business conducted by the Bank within business scope as approved by CBRC.

### (3) Material Entrustment of Asset Management

In 2012, there were no material events concerning entrustment of asset management.

## 6. Penalties of the Commercial Bank, its Directors and Senior Managers by Relevant Regulatory and Judiciary Authorities

During the reporting period, there were no material penalties on the Bank, its Directors or Senior Management members by state regulatory authorities.

## 7. Engagement and Disengagement of Public Accounting Agencies

In accordance with the resolution of the Seventh Meeting of the Sixth Board of Directors of the Bank, the Bank renewed engagement of KPMG Huazhen Certified Public Accountants (Special General Partnership) and KPMG for one year to audit 2012 financial statements which were compiled by the Bank in accordance with China's Accounting Standards, International Accounting Standards and U.S. Accounting Standards and issue Audit Report on such financial statements.

## Material Events

### 8. Other Material Events

#### January

The Bank entered into a strategic cooperation agreement with Hua Nan Commercial Bank Ltd. in Taiwan.

#### February

The Bank held the First Innovation Award Conference of China Guangfa Bank.

The Bank entered into a comprehensive business cooperation agreement with Ping An Life Insurance Company of China, Ltd.

The Bank entered into a bank-business strategic cooperation agreement with Zhongsheng Group.

The Automobile Financial Center (Zhengzhou) of the Bank was founded.

Board Chairman Dong Jianyue attended the 2012 Golden Phoenix Financial Ceremony hosted by [www.ifeng.com](http://www.ifeng.com) and received the title “Financial Figure of the Year”.

The Bank received the title “China’s Best Employer of the Year (2011)”.

#### March

The Jinan branch was founded.

The Bank entered into a cooperative agreement on multi-channel and multi-application e-payment with China UnionPay, and became the first financial institution cooperating strategically with China UnionPay in multi-channel and multi-application e-payment.

At the Sixth China (Shenzhen) Private Fund Summit Forum, the Bank won the “China’s Best Innovative Custodian Bank of Private Funds in 2011” award.

#### April

At the First China Brand Innovation Conference, the Bank won “China’s Innovative Brand of the Year of 2011” and “Golden Innovation Award of 2011”, and Board Chairman Dong Jianyue received the title “China’s Top 10 Innovation Figures of 2011”.

The Bank initiated the “Future Chinese Finance Stars Training Program”.

#### May

With the approval of CBRC, the Bank became a supervising bank of fund sales payment and settlement operations, and Tenpay conducted fund sales payment and settlement operations under the Bank’s supervision. The Bank integrated the three business lines of trade financing, cash management and asset custody, and took the lead in building a global transaction services (GTS) framework among domestic banks.

The Bank won the “2012 Outstanding Contribution Award in Information Security in the Chinese Financial Industry” awarded by China Information World and China Electronic Information Industry Development Research Institute.

#### June

The Bank donated RMB4 million to the Hope Kitchen Project of the China Youth Development Foundation, and won the “Best Civil Finance for Social Responsibility of the Year” awarded by the China Banking Association.

The Bank entered into a strategic cooperation agreement with China National Investment & Guaranty Co., Ltd.

At the Innovation and Development — Small and Medium Enterprise Financing Forum of the China (Guangzhou) International Finance Expo, Board Chairman Dong Jianyue received the “2012 Southern Finance Leadership of the Year” Award; the Bank won the “Best Financial Service Provider for Small and Medium Enterprises of 2012”, and personal online banking received the “Most Competitive Innovative Financial Product (Science and Technology)” award.

## Material Events

### July

The Bank set up the first 24-hour smart banking outlet of the Chinese banking industry in Beijing.

The Urumqi branch was founded.

The Bank's VIP wealth management services were upgraded and the "Guangfa Wealth Management" brand was launched formally.

The Bank entered into a strategic cooperation agreement with Yunnan Provincial Government.

### August

The Bank became the first financial institution introducing the ISO10002 Complaints Management System framework successfully.

The Bank published the Social Responsibility Report (2007–2011) of China Guangfa Bank Co., Ltd.

During the London Olympic Games, the Bank conducted a series of brand communication events with the theme of "Gathering in London and Assembling Forces".

### September

The number of credit cards issued by the Bank broke through 20 million, and the Bank became the second domestic joint-stock commercial bank having issued over 20 million credit cards.

The Bank entered into a strategic cooperation agreement with the State-owned Assets Supervision and Administration Commission of Henan Province.

The Bank entered into a strategic cooperation agreement with PetroChina Liaohe Oilfield Company.

### October

The Bank held the Fifth Anniversary of the Guangfa Hope Charity Fund with ceremony of 2012 Guizhou Charity Tour in Beijing.

The Bank entered into government-bank strategic cooperation agreements with Huizhou and Qingyuan Governments.

The Bank entered into a strategic cooperation agreement with China Orient Asset Management Corp.

The Bank entered into a comprehensive business cooperation agreement with Sunshine Insurance Group.

The Bank held the "CGB Compliance Day" initiating meeting and "Compliance Workshop" campaign, fixing October 20 of each year as "CGB Compliance Day" to build up the compliance awareness of all employees.

### November

The Bank entered into a strategic cooperation agreement with GF Securities.

The Bank's US dollar and Eurodollar payment operations received the STP awards for World Best Bank Payments (MT202) and World Best Customer Payments (MT103) from Bank of America, Bank of America Merrill Lynch, Citibank and Deutsche Bank respectively.

At the 2012 NetEase Finance Forum and "Golden Diamond Award" ceremony, the Bank won the "Best Retail Bank" award.

The Bank won the "Most Socially Responsible Bank in the Financial Industry of the Pearl River Delta in 2012" award.

The Chengdu branch was founded.

### December

The Bank received a certificate of conformity with the Information Security Management System (ISO27001).

At the Eighth Beijing International Finance Expo, the Bank won the "Best Wealth Management Bank" and "Best Mobile Bank" awards.

At the 13th China Financial IT Innovation & Excellent Economic/financial Website Appraisal, the Bank won the "Best Online Financial Supermarket of 2012" and "Best Credit Card Innovation Bank of 2012" awards.

The Bank won the "Excellent Trade Financing Bank of the Year" award at the awarding ceremony of the "2011–2012 China Financial Excellence Awards" hosted by *The Economic Observer*.

The Bank won the "Best Wealth Management Brand" award at the 2012 Tenth China Finance and Economics Ranking hosted by [www.hexun.com](http://www.hexun.com).

# Corporate Social Responsibility

In August, 2012, the Bank released the first Five-year Corporate Social Responsibility Report. As a corporation with a strong sense of responsibility, the Bank regards it as its historical mission to “provide excellent experiences and create maximum values”, adheres to the core values of “integrity, responsibility, innovation and practice”, carries out humanism spirit through the strategic objective of building a first-class commercial bank, attaches great importance to the comprehensive development of people, gives full play to the platform effect of banks to social economy, and strives to realize co-existing, win-win and mutual development with all stakeholders.

While improving its operational performance and ranking in the industry, the Bank is more devoted to social responsibility. It carries out social responsibility through each business link. By treating each stakeholder fairly, openly and honestly, it has won wide recognition from all circles of society. During the reporting period, the Bank won “China Best Corporate Citizenship Award”, “Bank of Social Responsibility”, “Social Responsibility — Best Financial Institution for Caring for People’s Well-being” and “Excellent Practice Award” granted by China Banking Association, 21st Century Media, China Business Network, Information Times and other authorities and media, and became a commercial bank with great brand influence in China.

## 1. Serving Real Economy and Building a Responsible Bank

The Bank takes the Five-year Strategic Development Plan as an opportunity, optimizes and regulates key business areas, promotes the reform of internal mechanism, perfects the system of internal risk control, accelerates the business transformation, improves operating effectiveness and realizes coordinated development of effectiveness, quality and scale.

With building “the most efficient SME bank” as its objective, the Bank supports the development of SMEs, provides the best financing products and service programs and helps SMEs solve financing problems so as to contribute to development of SMEs, employment stability and building a harmonious society. By the end of 2012, the Bank had established over 100 “Small Enterprises Banking Centers” around the country, provided SME business with channeling support in professional service staff, product innovation, credit line, performance appraisal and business process and perfected supporting mechanisms, and established SME financial service system featuring CGB characteristics.

Besides, the Bank carried out regional coordinated development policies of the state, opened Urumchi Branch in Xinjiang Uygur Autonomous Region so as to fulfilled corporate social responsibility.

## 2. Customer First and Providing Excellent Experience

Driven by innovation and aiming to build a first-class commercial bank, the Bank is committed to bringing customers smart, convenient and high-efficient service experience with innovative ideas, products, service and technologies. In 2012, the Bank had a trial of Master Charge and firstly adopted free inter-bank payment through digital channel; opened 24-hour smart bank in communities and “Financial Convenience Store” to support self-service account opening and card issuing; built the new brand of wealth management, “CGB Premier Banking” with smart identification technology leading the country; established hundreds of Small Enterprises Banking Centers and released fast-financing innovative products including “Kuai Rong Tong”.

Launching the event of spreading financial knowledge in miles, the Bank enhanced publicity of financial knowledge and increased the public’s awareness of financial security through activities like “Month of Financial Knowledge”, “Supporting Micro-Enterprises, Farmers, Agriculture and Rural Areas” and “Month of Helping Customers of Special Group” and so on. According to statistics, the Bank held 1,675 sessions of financial knowledge and 583 lectures in 2012, and won “Best Innovation Award of Spreading Financial Knowledge in China Banking Industry”.



## Corporate Social Responsibility

### 3. Caring for Employees and Being Awarded Again “Best Employer”

The Bank attaches great importance to providing employees with a platform of realizing the pursuit of career and self-value, so as to promote mutual development of employees and the Bank and let employees share the results of the Bank’s success. During the investigation of “China’s Best Employer (2012)” jointly organized by Peking University Corporate Social Responsibility and Employer Brand Communication Research Center and Zhaopin.com in 2012, the Bank was awarded again “Best Employer of China”.

The Bank conducted customer satisfaction investigation and made efforts into creating a favorable internal environment. In order to record the Bank’s growth, learn about employees’ job morale and provide reference for the Bank’s reform and development, the Bank has invited authoritative consulting agencies to conduct independent, objective employee satisfaction (commitment) investigation for three successive years. According to the results, the Bank had an above-average and stable employee satisfaction (commitment).

The Bank cared for its employees and strengthened humanistic concern; held employees’ cultural activities like fun sports games and calligraphy and painting exhibitions for employees’ children etc. to create a positive and relaxing working environment; conducted heart-warming activities, established “CGB Assistance Fund” to help employees in need and bring CGB’s love to them; organized a set of recreational activities including “Joining Hands to Create Happiness” to enhance young employees’ sense of belonging.



### 4. Low-carbon Practice to Build the Image of Green Bank

The Bank’s new objective of fulfilling social responsibility is to practice green concepts, implement green credit, advocate green public welfare establishments and promote the sustainable development of social economy.

The Bank practiced low-carbon philosophy, reduced carbon footprints caused by its operational activities, and fulfilled corporate environmental responsibilities; promoted paperless office, electronic bills, water and electricity conservation, teleconference and video conference, attended “Earth Hour” and other influential environmental protection activities, set up CGB Day of Bicycle and encouraged employees to walk to protect the environment, advertised energy conservation and emission reduction concepts, and directed employees, customers and the public to attend low-carbon and green public welfare activities actively.

The Bank followed principles of green credit and formulated differential credit policies; applied strict credit access policies to pollution-intensive and high-consumption industries; restrained and rejected small-scale enterprises with weak ability to update technology and low bearing capacity of environmental cost; provided preferential support for environmental protection enterprises, environmental treatment project, green food manufacturers and enterprises with environmental protection advantages and updating ability that meet the requirements of national industrial development policies. Through differential credit policies, the Bank guided enterprises to assume social responsibilities and promote the coordinated development with society and environment.



## Corporate Social Responsibility

### 5. Caring for People's Development and Being Devoted to Public Welfare Establishments

In 2012, CGB Hope Charity Fund contributed RMB5.5 million to launch public welfare establishments: 498 students and children were sponsored, 112 Hope kitchens and 2 Hope libraries were built, and over 30 thousand children benefited from the contribution. In 2012, CGB Hope Charity Fund contributed RMB500 thousand to set up scholarships in schools for nationalities and help outstanding but poor students of national minorities finish school, which will be continued in the following years. Meanwhile, CGB conducted volunteer activities and organized them to places including Gansu, Guizhou and Yunnan to conduct "CGB Charity Tour" and help local students, which attracted wide attention to charity and more customers to make contributions to building a happy country. On the eve of Teachers' Day, the Bank organized volunteer activities of "Showing Respect to Teachers", and organized employees to send uniformly-made theme cards to their teachers, visit teachers in poor areas, and spread financial knowledge and appeal to the public to respect teachers and value education. CGB Hope Charity Fund attaches great importance to transparent management and informs cardholders of fund-raising and charitable activities through websites, e-mails, messages and bills regularly. Thanks to the Bank's unremitting efforts, the Fund has won more recognition and trust from wide public.



The Bank held "Training Program of Future Financial Star of China" to generate more financial elites by inviting famous domestic and overseas financiers and investors to give lectures at major universities around the country. In 2012, the Bank held two sessions of "Training Program of Future Financial Star of China" with *Money Week* in Jinan University and Sun Yat-sen University, which provided a good platform for financial students to learn about industrial reform and development and make personal career planning. President Morris Li gave a lecture on "China Banking Prospects and Strategic Transformation", and held discussions on "Career Path of Financial Students: from College to Society" with faculty and students.


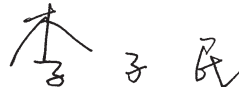






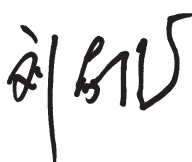

It is one of the Bank's purposes of fulfilling social responsibility to care for people's livelihood and social groups, help those in distress. In 2012, the Bank organized fund-raising to help the poor overcome poverty through donations and caring for the disadvantaged groups, invested money to improve their livelihood, cared for latchkey children in rural areas, and made unremitting efforts to solve social problems, build a beautiful home and promote social harmony and development. While conducting charitable activities, the Bank did a lot of work in equalization of service. The Bank improved its ability to serve special customers and demonstrated its concern for special groups through Handicapped Path, Loving Service Windows, code keyboard for the blind and sign language training program.

# Written Confirmation



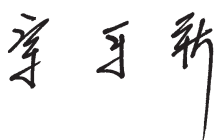
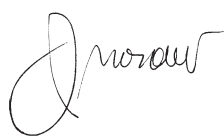
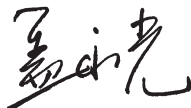
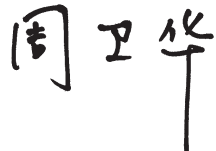



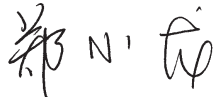
## Written Confirmation of the Annual Report 2012 by Directors and Senior Management Members of China Guangfa Bank Co., Ltd.

We, in the capacity of Directors and Senior Management Members of China Guangfa Bank Co., Ltd., after a full review of the Annual Report 2012 of the Bank, give the following opinions:

1. The Bank operates in strict compliance with the Accounting Standards for Enterprises, Accounting System for Enterprises, Financial Firms Accounting System and their relevant guidelines; the Annual Report 2012 of the Bank presents the financial position and operating results of the Bank during the reporting period in a fair way.
2. The Bank's 2012 Financial Statements have been audited by KPMG Huazhen Certified Public Accountants (Special General Partnership) in accordance with China's Accounting Standards and unqualified opinions have been issued.
3. We believe that the information contained in the Annual Report 2012 of the Bank is authentic, accurate and complete without any false record, misleading statement or material omission, and assume joint and several liabilities to the authenticity, accuracy and completeness of the information herein.

Name	Title	Signature	Name	Title	Signature
Wan Feng	Director		Li Zimin	Director	
Wang Fenghua	Director		Li Dianjun	Independent Director	
Weber Lo	Director		Chan Tai Loi	Independent Director	
Frederick Ip	Independent Director		Morris Li	Executive Director, President	
Liu Jiade	Director		Zhang Xifang	Director	

## Written Confirmation

Name	Title	Signature	Name	Title	Signature
Zheng Yong	Executive Director, Deputy President		Pu Jian	Director	
Larry Zong	Executive Director, Deputy President		James Morrow	Executive Director, Deputy President, Chief Risk Officer	
Gai Yongguang	Director		Edward Chou	Deputy President	
Zhang Shengman	Director		Zheng Lianming	Deputy President	
Dong Jianyue	Chairman of the Board of Directors, Party Secretary of the CPC Committee		Zheng Xiaolong	Secretary to Board of Directors	

# Internal Control Assessment Report



## **Special Report on 2012 Internal Control and Risk Management System Assessment Report of China Guangfa Bank Co., Ltd.**

毕马威华振专字第1300209号

### **The Board of Directors of China Guangfa Bank Co., Ltd.:**

We were appointed by China Guangfa Bank Co., Ltd. (referred to below as “the Bank”) to audit its financial statements as at 31 December 2012, included the balance sheet as at 31 December 2012, the income statement, the cash flow statement for the year ended, the statement of changes in shareholders’ equity and the notes to the financial statements (collectively referred to below as “the financial statements”), which were prepared in accordance with the *China Accounting Standards for Business Enterprises* issued by the Ministry of Finance of the People’s Republic of China, and the unqualified audit report was issued on 22 March 2013. The Bank’s management is responsible for the preparation of the financial statements and our responsibility is to express an opinion on the financial statements based on our audit.

In accordance with the requirements of *Auditing Standard for Certified Public Accountants of China No. 1211 — “Identifying and assessing the risks of material misstatement through understanding the entity and its environment”*, we obtain an understanding of the internal controls relevant to the entity, and internal controls relevant to the audit of the Bank’s financial statements in order to assess the risks of material misstatement of the financial statements, and to plan the nature, timing, and scope of further audit procedures. As part of the audit of the financial statements, we also performed test of control procedures on internal controls relevant to the financial statements in accordance with the relevant requirements of *Auditing Standard for Certified Public Accountants of China No. 1231 — “The responses to assessed risks of material misstatements”* when necessary. Our understanding and testing of the Bank’s internal controls as mentioned above were not performed specifically for the purpose of expressing an opinion on the internal controls and were not for the purpose of identifying any defects, fraud, or corrupt practices existing within the internal control system. The Bank is responsible for the establishment and implementation of a sound internal control system. In the course of our understanding and testing of the internal controls as mentioned above, we took into account the Bank’s actual circumstance, and performed procedures including enquiry, observation, examination, walkthrough of the processing of transactions in the financial reporting information system and re-performance of procedures that we considered necessary.

System of internal controls is subject to inherent limitations, and accordingly, misstatements may not be prevented or detected. In addition, any projection of the effectiveness of internal control in the future based on the result of assessment of the current internal control entails certain level of risk as changes of the circumstances may result in the inappropriateness of the internal controls or weaken its compliance with internal control policies and procedures.

## Internal Control Assessment Report

**Special Report on  
2012 Internal Control and Risk Management System Assessment Report  
of China Guangfa Bank Co., Ltd. (continued)**

毕马威华振专字第1300209号

In accordance with the Bank's appointment and the requirements of *Notice on Standardizing the Content of Annual Report of Joint Stock Commercial Banks* (Yin Jian Fa [2004] No. 8) issued by the China Banking Regulatory Commission, we issue the following special report on the internal control and risk management system relevant to the preparation of financial statements as described in the *2012 Internal Control and Risk Management System Assessment Report of China Guangfa Bank Co., Ltd.* which is prepared by the Bank.

We have read the *2012 Internal Control and Risk Management System Assessment Report of China Guangfa Bank Co., Ltd.* prepared by the Bank's management. Based on the work we performed, we have not identified any significant inconsistencies between the Bank's internal control and risk management system relevant to the preparation of financial statements as described in the *2012 Internal Control and Risk Management System Assessment Report of China Guangfa Bank Co., Ltd.*, and our audit findings based on our audit of the Bank's above-mentioned financial statements.

This report is intended solely for the use by the Bank to prepare its 2012 annual report and should not be used for any other purposes without our prior written consent.

KPMG Huazhen  
(Special General Partnership)

Certified Public Accountants  
Registered in the People's Republic of China

Pu Hong Xia

Beijing, China

Ye Yun Hui

22 March 2013

*This is a translation only. In case of discrepancy, the original version in Chinese shall prevail.*

# Financial Statements



## Auditors' Report

毕马威华振审字第1300482号

### All shareholders of China Guangfa Bank Co. Ltd.:

We have audited the accompanying financial statements of China Guangfa Bank Co. Ltd. ("the Bank") on pages 124 to 233, which comprise the balance sheet as at 31 December 2012, the income statement, the cash flow statement for the year ended, the statement of changes in shareholders' equity and notes to the financial statements.

#### 1. Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China fairly; (2) designing, implementing and maintaining internal control relevant to the financial statements that are free from material misstatements, whether due to fraud or error.

#### 2. Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Financial Statements

**Auditors' Report (continued)**

毕马威华振审字第1300482号

**3. Opinion**

In our opinion, the financial statements comply with the requirements of China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and the results of operations and the cash flows of the Bank for the year then ended.

KPMG Huazhen  
(Special General Partnership)

Certified Public Accountants  
Registered in the People's Republic of China

Pu Hong Xia

Beijing, China

Ye Yun Hui

22 March 2013



# Financial Statements

China Guangfa Bank Co., Ltd.

## Balance sheet

As at 31 December 2012

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2012	2011
Assets			
Cash and deposits with central banks	5	180,776,125	149,944,006
Deposits with banks and non-bank financial institutions	6	64,121,338	45,358,675
Placements with banks and non-bank financial institutions	7	26,235,311	18,711,998
Trading financial assets	8	6,446,558	2,293,364
Derivative assets held for trading	9	2,121,621	394,458
Financial assets held under resale agreements	10	177,482,650	93,391,188
Interest receivable	11	3,625,776	2,879,241
Loans and advances to customers	12	600,260,789	523,444,906
Available-for-sale financial assets	13	52,414,719	31,946,857
Held-to-maturity investments	14	32,935,919	30,890,846
Debt securities classified as receivables	15	6,678,444	1,565,453
Long term equity investments	16	1,842	1,758
Fixed assets	17	7,124,576	4,997,155
Intangible assets	18	823,114	738,151
Deferred tax assets	19	3,408,666	3,627,232
Other assets	20	3,692,415	8,796,531
Total assets		1,168,149,863	918,981,819

The notes on pages 134 to 233 form part of these financial statements.

## Financial Statements

China Guangfa Bank Co., Ltd.

**Balance sheet****As at 31 December 2012 (continued)**

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2012	2011
Liabilities and shareholders' equity			
Liabilities			
Deposits from banks and non-bank financial institutions	22	<b>144,474,115</b>	67,125,703
Placements from banks and non-bank financial institutions	23	<b>34,146,596</b>	9,886,198
Derivative liabilities held for trading	9	<b>1,990,965</b>	376,726
Financial assets sold under repurchase agreements	24	<b>36,756,613</b>	15,690,830
Deposits from customers	25	<b>856,166,035</b>	742,537,945
Accrued staff costs	26	<b>1,838,714</b>	1,985,711
Taxes payable	27	<b>1,650,120</b>	2,706,104
Interest payable	28	<b>10,877,092</b>	8,153,043
Provisions	29	<b>24,297</b>	58,545
Subordinated bonds	30	<b>14,500,000</b>	10,000,000
Other liabilities	31	<b>2,197,229</b>	7,755,034
Total liabilities		<b>1,104,621,776</b>	866,275,839

The notes on pages 134 to 233 form part of these financial statements.

## Financial Statements

China Guangfa Bank Co., Ltd.

### Balance sheet

**As at 31 December 2012 (continued)**

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2012	2011
Liabilities and shareholders' equity (continued)			
Shareholders' equity			
Share capital	32	<b>15,402,397</b>	15,402,397
Capital reserve	33	<b>11,626,399</b>	12,025,011
Surplus reserve	34	<b>3,584,702</b>	2,462,716
Statutory general reserve	35	<b>13,490,588</b>	7,057,804
Retained earnings	36	<b>19,474,268</b>	15,809,179
Foreign currency translation reserve		<b>(50,267)</b>	(51,127)
Total shareholders' equity		<b>63,528,087</b>	52,705,980
Total liabilities and shareholders' equity		<b>1,168,149,863</b>	918,981,819

These financial statements have been approved by the Board of Directors of the Bank on 22 March 2013.

Dong Jianyue  
Authorised representative

Morris Li  
President

Edward Chou  
Vice President in charge  
of finance

Fan Wenning  
General Manager of the  
Finance Department

China Guangfa Bank  
Co., Ltd.

The notes on pages 134 to 233 form part of these financial statements.

## Financial Statements

China Guangfa Bank Co., Ltd.

**Income statement****for the year ended 31 December 2012**

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2012	2011
Operating income			
Interest income		<b>52,110,223</b>	42,572,105
Interest expense		<b>(27,514,145)</b>	(18,863,267)
Net interest income	37	<b>24,596,078</b>	23,708,838
Fee and commission income		<b>6,969,253</b>	4,952,679
Fee and commission expense		<b>(1,096,413)</b>	(788,140)
Net fee and commission income	38	<b>5,872,840</b>	4,164,539
Investment gain/(loss)	39	<b>132,697</b>	(84,306)
- Share of gains/(losses) of associate		<b>84</b>	(2,342)
Gain arising from changes in fair value	40	<b>106,416</b>	115,504
Foreign exchange gain		<b>371,944</b>	243,147
Other operating income		<b>24,640</b>	25,057
Operating income		<b>31,104,615</b>	28,172,779
Operating expenses			
Business taxes and surcharges	41	<b>(2,612,793)</b>	(2,161,810)
Operating and administrative expenses	42	<b>(12,699,202)</b>	(11,250,816)
Allowances for asset impairment	43	<b>(1,292,952)</b>	(2,510,662)
Other operating costs		<b>(1,093)</b>	(2,894)
Operating expenses		<b>(16,606,040)</b>	(15,926,182)
Operating profit		<b>14,498,575</b>	12,246,597

The notes on pages 134 to 233 form part of these financial statements.

## Financial Statements

China Guangfa Bank Co., Ltd.

### Income statement

for the year ended 31 December 2012 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2012	2011
Operating profit (continued)		<b>14,498,575</b>	12,246,597
Add: Non-operating income	44	<b>242,927</b>	201,480
Less: Non-operating expenses	45	<b>(77,884)</b>	(66,529)
Gross profit		<b>14,663,618</b>	12,381,548
Less: Income tax expense	46	<b>(3,443,759)</b>	(2,795,814)
Net profit		<b>11,219,859</b>	9,585,734
Earnings per share			
- Basic and diluted earnings per share (in RMB)		<b>0.73</b>	0.62
Other comprehensive income	47	<b>(397,752)</b>	238,649
Total comprehensive income		<b>10,822,107</b>	9,824,383

These financial statements have been approved by the Board of Directors of the Bank on 22 March 2013.

Dong Jianyue  
Authorised representative

Morris Li  
President

Edward Chou  
Vice President in charge  
of finance

Fan Wenning  
General Manager of the  
Finance Department

China Guangfa Bank  
Co., Ltd.

The notes on pages 134 to 233 form part of these financial statements.

## Financial Statements

China Guangfa Bank Co., Ltd.

**Statement of Cash Flows****for the year ended 31 December 2012**

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2012	2011
Cash flow from operating activities:			
Net increase in deposits from customers and from banks and non-bank financial institutions		<b>191,139,733</b>	126,097,838
Net increase in placements from non-bank financial institutions		<b>45,326,181</b>	-
Interest and fees and commission received		<b>56,103,781</b>	44,234,164
Cash received from other operating activities		<b>574,235</b>	4,014,487
Sub-total of cash inflows		<b>293,143,930</b>	174,346,489
Net increase in loans and advances to customer		<b>(78,094,442)</b>	(75,014,225)
Net increase in deposits with central banks and with banks and non-bank financial institutions		<b>(50,350,769)</b>	(27,235,301)
Net increase in placements with banks and non-bank financial institutions		<b>(99,344,693)</b>	(10,557,920)
Net decrease in placements from non-bank financial institutions		-	(42,509,011)
Interest and fees and commission paid		<b>(25,284,908)</b>	(15,963,645)
Cash paid for all types of staff cost		<b>(6,957,876)</b>	(5,779,163)
Cash paid for all types of taxes		<b>(6,787,756)</b>	(5,224,189)
Cash paid for other operating activities		<b>(6,498,528)</b>	(7,874,254)
Sub-total of cash outflows		<b>(273,318,972)</b>	(190,157,708)
Net cash inflow/(outflow) from operating activities	48(a)	<b>19,824,958</b>	(15,811,219)

The notes on pages 134 to 233 form part of these financial statements.

## Financial Statements

China Guangfa Bank Co., Ltd.

### Statement of Cash Flows

for the year ended 31 December 2012 (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2012	2011
Cash flow from investing activities:			
Proceeds from disposal of investments		485,289,995	404,088,555
Dividends received		3,634	4,182
Interest received from debt securities		2,580,586	2,369,616
Net proceeds received from disposal of fixed assets and other long-term assets		71,283	145,762
Sub-total of cash inflows		487,945,498	406,608,115
Payments on acquisition of investments		(517,501,241)	(406,962,766)
Payments on acquisition of fixed assets, intangible assets and other long-term assets		(2,551,373)	(2,817,769)
Sub-total of cash outflows		(520,052,614)	(409,780,535)
Net cash outflow from investing activities		(32,107,116)	(3,172,420)

The notes on pages 134 to 233 form part of these financial statements.



## Financial Statements

China Guangfa Bank Co., Ltd.

**Statement of Cash Flows****for the year ended 31 December 2012 (continued)**

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2012	2011
Cash flows from financing activities:			
Proceeds received for settlement of consideration for carved-out of non-performing assets		-	4,629,014
Proceeds from subordinated bonds issued		<b>4,482,000</b>	4,995,000
Sub-total of cash inflows		<b>4,482,000</b>	9,624,014
Dividends paid		<b>(31)</b>	(6,260)
Interest paid on subordinated bonds issued		<b>(601,951)</b>	(288,500)
Sub-total of cash outflows		<b>(601,982)</b>	(294,760)
Net cash inflow from financing activities		<b>3,880,018</b>	9,329,254
Effect of foreign exchange rate changes on cash and cash equivalents		<b>(61,828)</b>	(244,966)
Net decrease in cash and cash equivalents	48(b)	<b>(8,463,968)</b>	(9,899,351)
Add: Cash and cash equivalents at the beginning of the year		<b>127,103,719</b>	137,003,070
Cash and cash equivalents at the end of the year	48(c)	<b>118,639,751</b>	127,103,719

These financial statements have been approved by the Board of Directors of the Bank on 22 March 2013.

Dong Jianyue  
Authorised representative

Morris Li  
President

Edward Chou  
Vice President in charge  
of finance

Fan Wenning  
General Manager of the  
Finance Department

China Guangfa Bank  
Co., Ltd.

The notes on pages 134 to 233 form part of these financial statements.

## Financial Statements

China Guangfa Bank Co., Ltd.  
**Statement of changes in shareholders' equity**  
**as at 31 December 2012**

(Expressed in thousands of Renminbi unless otherwise stated)

Note	Capital reserve					Foreign currency		Retained earnings	Total
	Share capital	Share premium	Fair value reserve	Hedge reserve	Surplus reserve	General reserve	translation reserve		
Balance at 1 January 2012	15,402,397	11,550,819	474,604	(412)	2,462,716	7,057,804	(51,127)	15,809,179	52,705,980
Changes in equity for the year:									
1. Net profit								11,219,859	11,219,859
2. Other comprehensive income 33/47	-	-	(392,052)	(6,560)	-	-	860	-	(397,752)
Subtotal of 1 and 2	-	-	(392,052)	(6,560)	-	-	860	11,219,859	10,822,107
3. Appropriation of profit:									
- Appropriation to surplus reserve 36(1)	-	-	-	-	1,121,986	-	-	(1,121,986)	-
- Appropriation to general reserve 36(3)	-	-	-	-	-	6,432,784	-	(6,432,784)	-
Balance at 31 December 2012	15,402,397	11,550,819	82,552	(6,972)	3,584,702	13,490,588	(50,267)	19,474,268	63,528,087

The notes on pages 134 to 233 form part of these financial statements.

## Financial Statements

China Guangfa Bank Co., Ltd.  
**Statement of changes in shareholders' equity**  
**as at 31 December 2012 (continued)**  
 (Expressed in thousands of Renminbi unless otherwise stated)

	Note	Capital reserve				Surplus reserve	General reserve	Foreign	Retained earnings	Total
		Share capital	Share premium	Fair value reserve	Hedge reserve			currency translation reserve		
Balance at 1 January 2011		15,402,397	11,550,819	236,378	-	1,504,142	6,693,316	(51,962)	7,546,507	42,881,597
Changes in equity for the year:										
1. Net profit		-	-	-	-	-	-	-	9,585,734	9,585,734
2. Other comprehensive income	33/47	-	-	238,226	(412)	-	-	835	-	238,649
Subtotal of 1 and 2		-	-	238,226	(412)	-	-	835	9,585,734	9,824,383
3. Appropriation of profit:										
- Appropriation to surplus reserve	36(1)	-	-	-	-	958,574	-	-	(958,574)	-
- Appropriation to general reserve	36(3)	-	-	-	-	-	364,488	-	(364,488)	-
Balance at 31 December 2011		15,402,397	11,550,819	474,604	(412)	2,462,716	7,057,804	(51,127)	15,809,179	52,705,980

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China Guangfa Bank  
 Co., Ltd.

The notes on pages 134 to 233 form part of these financial statements.

# Financial Statements

China Guangfa Bank Co., Ltd.

## Notes on the financial statements

(Expressed in thousands of Renminbi unless otherwise stated)

### 1 Basic information

China Guangfa Bank Co., Ltd. ("the Bank") (formerly known as Guangdong Develop Bank Co., Ltd) is a joint-stock commercial bank with limited liability incorporated in Guangzhou Municipal of Guangdong Province in the PRC on 8 September 1988 with the approval of the State Council of the PRC and the PBOC. The Bank is established with special placement, and registered in Guangdong Province Administration for Industry and Commerce to obtain a legal person business license.

With the approval of the CBRC on 27 January 2011, the Bank changed the name to "China Guangfa Bank Co., Ltd". The Bank obtained an updated financial license on 16 February 2011, and an updated business license for enterprises on 18 February 2011.

As at 31 December 2012, apart from the Head Office, the Bank has 33 branches in Beijing, Shanghai, Dalian, Shenyang, Zhengzhou, Nanjing, Hangzhou, Kunming, Guangzhou, Shenzhen, Dongguan, Zhuhai, Shantou, Meizhou, Huizhou, Shaoguan, Qingyuan, Zhongshan, Foshan, Jiangmen, Zhaoqing, Yangjiang, Zhanjiang, Wuhan, Maoming, Heyuan, Changsha, Tianjin, Harbin, Jinan, Urumqi, Chengdu and Macau respectively. In addition, the Bank has representative offices in Beijing and Hong Kong.

The Bank's principal activities are the provision of corporate and retail deposits, loans and advance, settlement and other financial services as approved by the CBRC. The Bank mainly operates in Mainland China and Macau.

For the purpose of the Financial Information, Mainland China refers to the PRC excluding Hong Kong, Macau and Taiwan. Overseas refers to countries and regions other than Mainland China.

### 2 Basis of preparation

The financial statements have been prepared on the basis that the Bank will continue to operate throughout the next accounting period until 31 December 2013 as a going concern.

#### (1) Statement of compliance

The financial statements have been prepared in accordance with the requirements of "Accounting Standards for Business Enterprises - Basic Standard" and 38 Specific Standards issued by the Ministry of Finance (MOF) on 15 February 2006, and application guidance, bulletins and other relevant accounting regulations issued subsequently (collectively referred to as "Accounting Standards for Business Enterprises" or "CAS"). These financial statements present truly and completely the financial position, the results of operations and the cash flows of the Bank ended at 31 December 2012.

#### (2) Accounting year

The accounting year of the Bank is from 1 January to 31 December.

#### (3) Functional currency and presentation currency

The Bank's functional currency is RMB. The functional currencies of overseas branches are determined in accordance with the primary economic environment in which they operate, and are translated into Renminbi for the preparation of the financial statements (see Note 3(2)(b)). These financial statements are presented in Renminbi and, unless otherwise stated, expressed in thousands of Renminbi.

## Financial Statements

### 3 Significant accounting policies and accounting estimates

#### (1) Cash and Cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, short-term deposits and placements with banks and non-bank financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

#### (2) Transactions of foreign currency and translation of financial statements denominated in foreign currencies

##### (a) Transactions of foreign currency

When the Bank receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the dates of transactions.

A spot exchange rate is quoted by the PBOC, the State Administrative of Foreign Exchange, or a cross rate determinate based on quoted exchange rate. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the end of the relevant periods. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to Renminbi using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the exchange differences are recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognised in capital reserve.

##### (b) Translation of financial statements denominated in foreign currencies

Foreign currency financial statements of overseas branch are translated into Renminbi for the preparation of financial statements. The assets and liabilities in the financial statements denominated in foreign currencies are translated into Renminbi at the spot exchange rates ruling at the end of the relevant periods. The equity items, excluding “retained earnings”, are translated to Renminbi at the spot exchange rates at the transaction dates. The income and expenses of foreign operations are translated into Renminbi at exchange rates at the dates of transactions or approximate rates. The resulting exchange differences are recognised in a separate component of the shareholder’s equity in the statement of financial position. Upon disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (3) Financial instruments

##### (a) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Bank becomes a party to the contractual provisions of a financial instrument.

The Bank classifies financial assets and liabilities into different categories at initial recognition: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

##### **Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)**

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transactions costs that may occur on sale, and changes therein are recognised in profit or loss.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (3) Financial instruments (continued)

##### (a) Recognition and measurement of financial assets and financial liabilities (continued)

###### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than

- those designated at fair value through profit or loss upon initiation recognition or as available-for-sale; or
- those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are stated at amortised cost using the effective interest method.

###### Loans and receivables

Loans and receivables are non-derivative financial assets held by the Bank with fixed or determinable recoverable amounts that are not quoted in an active market, other than

- those that the Bank intends to sell immediately or in the near-term, which will be classified as held for trading;
- those designated at fair value through profit or loss upon initiation recognition or as available-for-sale; or
- those where the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements and debt securities classified as receivables. Subsequent to initial recognition, loans and receivables are stated at amortised cost using the effective interest method.

###### Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available-for-sale and other financial assets which do not fall into any of the above categories.

An investment in equity instrument which does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost subsequent to initial recognition.



## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (3) Financial instruments (continued)

##### (a) Recognition and measurement of financial assets and financial liabilities (continued)

###### Available-for-sale financial assets (continued)

Other than investments in equity instruments whose fair value cannot be measured reliably as described above, subsequent to initial recognition, other available-for-sale financial assets are measured at fair value and changes therein, except for impairment losses and foreign exchange gains and losses from monetary financial assets which are recognised directly in profit or loss, are recognised in capital reserve through other comprehensive income. When an investment is derecognised, the cumulative gain or loss in equity is removed from equity and recognised in profit or loss. Dividend income from these equity instruments is recognised in profit or loss when the investee declares the dividends. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss.

###### Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Except for the liabilities arising from financial guarantee contracts described in Note 3(13), subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

##### (b) Fair value measurement

If there is an active market for financial instruments, the fair value of financial instruments is based on quoted market prices. If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

The Bank calibrates the valuation technique and tests it for validity periodically.

##### (c) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Bank at the end of the relevant periods to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

## Financial Statements

**3 Significant accounting policies and accounting estimates (continued)****(3) Financial instruments (continued)****(c) Impairment of financial assets (continued)**

Objective evidence that financial assets are impaired includes, but not limited to:

- (a) significant financial difficulty of the borrower or issuer;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (d) disappearance of an active market for financial assets because of financial difficulties;
- (e) significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer of an equity instrument; or
- (f) a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

**Loans and receivables**

The Bank uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

*Individual assessment*

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows discounted at the original effective interest rate. The impairment losses are recognised in profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, regardless of whether the collateral would be withdrawn.

*Collective assessment*

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

For homogeneous groups of loans and receivables that are not considered individually significant, the Bank adopts a flow rate methodology to collectively assess impairment losses. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgement based on management's historical experience.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (3) Financial instruments (continued)

##### (c) Impairment of financial assets (continued)

###### *Collective assessment (continued)*

Loans and receivables which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss.

The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar credit risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; and (iii) the current economic and credit environments and judgement on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Bank operates. Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

Collective assessment covers those loans and receivables that were impaired at the end of the relevant periods but which will not be individually identified as such until sometime in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets.

###### *Impairment reversal and loan write-off*

If, in a subsequent period, the amount of the impairment loss on loans and receivables decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Bank determines that a loan has no reasonable prospect of recovery after the Bank has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in the profit or loss through impairment losses.

###### **Held-to-maturity investments**

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

## Financial Statements

**3 Significant accounting policies and accounting estimates (continued)****(3) Financial instruments (continued)****(c) Impairment of financial assets (continued)****Held-to-maturity investments (continued)**

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

**Available-for-sale financial asset**

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost net of any principal repayment and amortisation and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, after an impairment loss has been recognised on available-for-sale debt instruments, the fair value of the assets increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an equity instrument classified as available-for-sale is not reversed through profit or loss but recognised directly in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset, and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. An impairment loss in respect of available-for-sale equity investments carried at cost shall not be reversed.

**(d) De-recognition of financial assets and financial liabilities****Financial assets**

The financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Bank transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Bank continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (3) Financial instruments (continued)

##### (d) De-recognition of financial assets and financial liabilities (continued)

###### Financial liabilities

The financial liabilities (or part of it) are derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Bank and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

##### (e) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

##### (f) Financial assets held under resale and sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Bank acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Bank sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are not recognised. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

##### (g) Equity instrument

An equity instrument is a contract that proves the ownership interest of the assets after deducting all liabilities in the Bank. The consideration received from the issuance of equity instruments net of transaction costs is recognised in share capital and capital reserve. Considerations and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from equity.

##### (h) Hedge accounting

The Bank designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"). Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item in the same accounting period.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (3) Financial instruments (continued)

##### (h) Hedge accounting (continued)

A hedged item is an item that exposes the Bank to risk of changes in fair value or future cash flows and is designed as being hedged. The Bank has defined a hedged item as a floating-rate loan that exposes the Bank to risk of changes in fair value.

A hedging instrument is defined by the Bank as a designated derivative whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

It is the Bank's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the 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 cash flows of hedged items attributable to the hedged risks.

##### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognized in other comprehensive income and accumulated separately in other capital reserve.

Any gain or loss relating to an ineffective portion is recognised immediately in the statement of comprehensive income within "Derivative financial instruments" of "Gain/(Loss) arising from changes in fair value".

For cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from other capital reserve to the statement of comprehensive income in the same periods during which the hedged cash flow affect profit and loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in other capital reserve until the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other capital reserve is immediately reclassified to the statement of comprehensive income.

##### Hedge effectiveness testing

In order to qualify for hedge accounting, the Bank carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Bank adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the change in cash flows must offset each other in the range of 80 percent to 125 percent for the hedge to be deemed effective.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (3) Financial instruments (continued)

##### (h) Hedge accounting (continued)

###### Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognized immediately in the statement of comprehensive income. These gains and losses are reported in “Derivative financial instruments” of “Gain/(Loss) arising from changes in fair value”, except where derivatives are managed in conjunction with financial instruments designated at fair value, in which case gains and losses are reported in “Net gain on financial instruments designated at fair value through profit or loss”.

#### (4) Long-term equity investments

The long-term equity investment of the Bank is the investment in associate. An associate is an enterprise over which the Bank has significant influence.

An investment in an associate is initially recognised at actual payment cost if the Bank acquires the investment by cash, and is accounted for using the equity method, unless the investment is classified as held for sale (see Note 3(7)).

The Bank makes the following accounting treatments when using the equity method:

Where the initial investment cost exceeds the Bank's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the initial investment cost. Where the initial investment cost is less than the Bank's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is charged to profit or loss.

After the acquisition of the investment, the Bank recognises its share of the investee's profit or loss as investment income or losses, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profits distributions, the carrying amount of the investment is reduced by that amount attributable to the Bank.

The Bank recognises its share of the investee's net profits or losses after making appropriate adjustments to align the accounting policies or accounting periods with those of the Bank based on the fair values of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Bank and its associate are eliminated to the extent of the Bank's interest in the associate. Unrealised losses resulting from transactions between the Bank and its associate are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

The Bank discontinues recognising its share of net losses of the investee after the carrying amount of the investment and any long-term interest that in substance forms part of the Bank's net investment in the associate is reduced to zero, except to the extent that the Bank has an obligation to assume additional losses. Where net profits are subsequently made by the associate, the Bank resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Impairment losses on investment in associate are accounted for in accordance with the accounting policies as set out in Note 3(9).



## Financial Statements

**3 Significant accounting policies and accounting estimates (continued)****(5) Fixed assets and construction in progress**

Fixed assets represent the tangible assets held by the Bank for use in the operation and administration purposes with useful lives over one year.

Fixed assets are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (see Note 3 (9)), unless the fixed assets are classified as held for sale (see Note 3 (7)). Construction in progress is stated in the statements of financial position at cost less impairment loss (see Note 3 (9)), unless the construction in progress is classified as held for sale (see Note 3 (7)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

Construction in progress is transferred to fixed assets when it is ready for its intended use. No depreciation is provided against construction in progress.

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Bank in different patterns, thus necessitating use of different depreciation rates or methods, they are recognised as a separate fixed asset.

The subsequent costs including the cost of replacing part of an item of fixed assets are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Fixed assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated net residual values	Depreciation rates
Properties and buildings	30–35 years	3%–5%	2.8%–3.2%
Electronic equipment	5 years	3%–5%	19%–19.4%
Transportation and other equipment	5 years	3%–5%	19%–19.4%

Useful lives, residual values and depreciation methods are reviewed at least each year-end.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (6) Land use rights and intangible assets

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 3(9). An intangible asset with finite useful life is stated in the statement of financial position at cost less accumulated amortisation and impairment losses, and its cost less impairment loss is amortised on the straight-line method over its estimated useful life, unless the intangible asset is classified as held for sale (see Note 3(7)).

The respective amortisation periods for such intangible assets are as follows:

	Estimated useful life
Land use rights	30–50 years
Software	5 years
Others	5 years

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Bank. At the end of the relevant periods, the Bank doesn't have any intangible assets with indefinite useful lives.

#### (7) Non-current assets held for sale

A non-current asset is classified as held for sale when the Bank has made a decision and signed a non-cancellable agreement on the transfer of the asset with the transferee, and the transfer is expected to be completed within one year. Such non-current assets may be fixed assets and construction in progress, intangible assets, investment in associate, etc., but do not include deferred tax assets. Non-current assets held for sale are stated at the lower of carrying amount and net realisable value. Any excess of the carrying amount over the net realisable value is recognised as impairment loss.

#### (8) Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Bank from debtors, warrantors or third parties following the enforcement of its creditor's rights. The initial cost of repossessed assets is measured at the lower of the net carrying amount of loans and advances and the fair value of the assets less costs to sell on the acquisition date. Repossessed assets are not depreciated or amortised. Impairment losses of initial measurement and subsequent remeasurement are recognised to the profit or loss.

Impairment losses on repossessed assets are accounted for in accordance with the accounting policies as set out in Note 3(9).

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (9) Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at the end of the relevant periods based on the internal and external sources of information to determine whether there is any indication of impairment:

- long-term equity investments
- fixed assets
- construction in progress
- intangible assets
- repossessed assets

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A group of assets (the “cash-generating unit” or “CGU”) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Bank also considers how management monitors the Bank’s operations and how management makes decisions about continuing or disposing of the Bank’s assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the higher of its fair value less costs to sell and its present value of expected future cash flows. An asset’s fair value less costs to sell is the amount determined by the price of a sale agreement in an arm’s length transaction, less the costs that are directly attributable to the disposal of the asset. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to profit or loss for the current period. A provision for impairment loss of the asset is recognised accordingly.

For impairment losses related to an asset group or a set of asset groups first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs to sell (if determinable), the present value of expected future cash flows (if determinable) and zero.

The impairment of non-financial assets should not be reversed once confirmed.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (10) Operating lease

##### (a) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

##### (b) Assets leased out under operating leases

Fixed assets leased out under operating leases are depreciated in accordance with the Bank's depreciation policies described in Note 3(5). Impairment losses are provided for in accordance with the accounting policy described in Note 3(9). Income derived from operating leases is recognised in the profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately.

#### (11) Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by its employees, with a corresponding increase in cost of relevant assets or the expenses in the profit or loss.

##### (a) Defined contribution retirement schemes

Pursuant to the relevant laws and regulations in the PRC, the Bank has joined defined contribution retirement schemes for the employees arranged by local government labour and security authorities. The Bank makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the local government organisations. The contributions are charged to the profit or loss on an accrual basis. When employees retire, the local government labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

In addition to the statutory provision schemes, the Bank's employees have joined the annuity scheme set up by the Bank in accordance with state enterprise annuity regulations. The Bank has made annuity contributions in proportion to its employees' gross wages, which are expensed in the profit or loss when the contributions are made. The overseas branch should comply with the relevant local regulations.

##### (b) Housing fund and other social insurance

Pursuant to the related laws and regulations of the PRC, the Bank has joined defined social security contributions for employees, including housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Bank makes housing fund and other social insurance mentioned above at the applicable rate(s) based on the employees' salaries each month. The contributions are charged to profit or loss on an accrual basis.

## Financial Statements

**3 Significant accounting policies and accounting estimates (continued)****(11) Employee benefits (continued)****(c) Termination benefits**

Where the Bank terminates the employment relationship with employees before the employment contracts have expired or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in the profit or loss when both of the following conditions are satisfied:

- the Bank has a formal plan for termination of employment or has made an offer for voluntary redundancy, which will be implemented shortly;
- the Bank is not withdraw from the termination plan or the redundancy offer unilaterally.

**(d) Early retirement expenses**

The Bank recognises the present value of all its liabilities to employees who agreed to retire early in return for certain future payments as expenses in the profit or loss when the relevant staff accepts the early retirement arrangement and ceases to provide any services to the Bank. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in the profit or loss when incurred.

**(12) Provisions and contingent liabilities**

A provision is recognised for an obligation related to a contingency if the Bank has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

In terms of a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

**(13) Financial guarantees**

Financial guarantees are contracts that require the Bank (the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Bank issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles of contingent liabilities (see Note 3(12)).

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (14) Fiduciary activities

The Bank acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Bank and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Bank enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Bank, and the Bank grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

#### (15) Income recognition

Income is the gross inflow of economic benefit arising in the course of the Bank’s ordinary activities when those inflows result in an increase in shareholder’s equity, other than an increase relating to contributions from shareholders. Income is recognised in profit or loss when it is probable that the economic benefits will flow to the Bank, the income and costs can be measured reliably and the following respective conditions are met:

##### (a) Interest income

Interest income for financial assets is recognised in profit or loss based on effective interest method. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows.

##### (b) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided. Origination or commitment fees received by the Bank which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

For proceeds obtained in related to award credits granted to bank card holders, the Bank recognises the fair value as deferred income. When those award credits are redeemed or expire, related portion of the deferred income the Bank recognised originally is transferred out and related fee and commission income will be recognised.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (15) Income recognition (continued)

##### (c) Dividend income

Dividend income from unlisted equity investments is recognised in the profit or loss on the date when the Bank's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

#### (16) Income tax expense

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items that are recognised in other comprehensive income, in which case they are recognised in other comprehensive income.

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, and any adjustment to tax payable in respect of previous years.

At the end of the relevant periods, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the end of the relevant periods, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at the end of each of the relevant periods. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.



## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (16) Income tax expense (continued)

At the end of each of the relevant periods, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and assets; and
- they relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which either intend to settle the current tax liabilities and assets on a net basis, or to simultaneously realise the assets and settle the liabilities in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

#### (17) Dividend distribution

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the end of the relevant periods are not recognised as a liability at the end of the relevant periods but disclosed separately in the notes to the financial statements.

#### (18) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Bank is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Bank. The Bank's related parties include but are not limited to the following:

- (a) the Bank's parent;
- (b) the Bank's subsidiaries;
- (c) enterprises that are controlled by the Bank's parent;
- (d) investors that have joint control or exercise significant influence over the Bank;
- (e) enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Bank;
- (f) associates of the Bank, including subsidiaries of associates;
- (g) principal individual investors and close family members of such individuals;
- (h) key management personnel of the Bank and close family members of such individuals;
- (i) key management personnel of the Bank's parent;
- (j) close family members of key management personnel of the Bank's parent; and
- (k) other enterprises that are controlled or jointly controlled by the principal individual investors, key management personnel of the Bank, and close family members of such individuals.

#### (19) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Bank's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Bank's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial position, results of operations and cash flows is available.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (19) Segment reporting (continued)

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the financial statements.

#### (20) Significant accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

##### (a) Impairment losses on loans and advances, available-for-sale financial assets, held-to-maturity debt investments, and debt securities classified as receivables

The Bank reviews the portfolios of loans and advances, available-for-sale financial assets, held-to-maturity debt investments, and debt securities classified as receivables periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan and advance, an available-for-sale financial asset, a held-to-maturity debt investment or a debt security classified as receivables. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio.

The impairment loss for a loan and advance, a held-to-maturity debt investment and a debt security classified as receivables that is individually assessed for impairment is the net decrease in the estimated discounted future cash flows. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and judgements based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual losses.

The objective evidence of impairment for available-for-sale investments includes significant or continual decline in fair value of investment. When deciding whether there is significant or continual decline in fair value, the Bank will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

## Financial Statements

### 3 Significant accounting policies and accounting estimates (continued)

#### (20) Significant accounting estimates and judgements (continued)

##### (b) Fair value of financial instruments

For financial instruments without observable market price available, the Bank determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation model. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on observable market data at the end of each of the relevant periods.

The Bank reviews the above estimations and assumptions periodically and makes adjustment if necessary.

##### (c) Classification of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Bank has the intention and ability to hold them until maturity. In evaluating whether the requirement to classify a financial asset as held-to-maturity are met, management make significant judgements. Failure in correctly assessing the Bank's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

##### (d) Income taxes and deferred taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Bank carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is therefore required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

##### (e) Impairment of non-financial assets

Non-financial assets are reviewed at the end of the relevant periods to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

The recoverable amount of an asset or CGU, or a group of CGUs is the greater of its selling price and its present value of expected future cash flows. Since the market price of an asset (the CGU) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

## Financial Statements

**3 Significant accounting policies and accounting estimates (continued)****(20) Significant accounting estimates and judgements (continued)****(f) Depreciation and amortisation**

Fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values (if applicable). The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised.

**4 Taxation**

The Bank's main applicable taxes and tax rates are as follows:

Business tax is charged at 5% on taxable income.

City construction tax is calculated as 1%–7% of business tax.

Education surcharge is calculated as 3% of business tax.

Local education surcharge is calculated 2% of business tax.

Income tax is charged at 25% of taxable income.

According to the relevant tax ruling and implementation guidance, the Bank is paying different income tax rate in different region. Except for Shenzhen branch, the income tax rate that is applicable to the branches in Mainland China is reduced from 33% to 25% effective from 1 January 2008. According to the Notice of Implementation of Income Tax Preferential Policy in Transitional Period by the State Council (Guofa [2007] No. 39), the tax rate applicable to Shenzhen branch will be gradually increased to 25% over a period of five years from 2008 to 2012 and the tax rate for twelve months ended 31 December 2012 is 25% (2011: 24%).

The local education surcharges are collected in all cities in Mainland China, and the surtax rate is standardized to be 2% of business tax paid.

Taxation on Macau branch is charged according to the relevant local tax ruling.

## Financial Statements

### 5 Cash and deposits with central banks

	2012	2011
Cash	4,705,943	3,842,674
Deposit with central banks		
- Statutory deposit reserves (i)	139,331,205	115,964,324
- Surplus deposit reserves (ii)	35,885,070	29,646,388
- Fiscal deposits	853,907	490,620
Subtotal	176,070,182	146,101,332
Total	180,776,125	149,944,006

- (i) The Bank places statutory deposit reserves with the PBOC and the Monetary Authority of Macau. The statutory deposit reserves are not available for the Bank's daily business.

As at the end of relevant periods, the statutory deposit reserve ratios applicable to domestic branches of the Bank were as follows:

	2012	2011
Reserve ratio for Renminbi deposits	18.0%	19.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%

The amount of statutory deposit reserve funds placed with the Monetary Authority of Macau by Macau Branch is determined by the local jurisdiction.

- (ii) The surplus deposit reserves are maintained with the PBOC for the purposes of clearing.

### 6 Deposits with banks and non-bank financial institutions

Analysed by type of financial institutions and geographical location

	2012	2011
Banks operating in mainland China	61,588,011	43,733,918
Non-bank financial institutions operating in mainland China	23,660	33,385
Subtotal	61,611,671	43,767,303
Banks operating outside mainland China	2,509,667	1,586,752
Non-bank financial institutions operating outside mainland China	-	4,620
Subtotal	2,509,667	1,591,372
Total	64,121,338	45,358,675

## Financial Statements

**7 Placements with banks and non-bank financial institutions**

Analysed by type of financial institutions and geographical location

	2012	2011
Banks operating in mainland China	<b>17,984,167</b>	15,058,938
Non-bank financial institutions operating in mainland China	<b>7,030,000</b>	3,180,000
Subtotal	<b>25,014,167</b>	18,238,938
Banks operating outside mainland China	<b>1,222,144</b>	474,060
Total	<b>26,236,311</b>	18,712,998
Less: Allowance for impairment losses (Note 21)	<b>(1,000)</b>	(1,000)
Net balance	<b>26,235,311</b>	18,711,998

**8 Trading financial assets**

Debt Securities held for trading purpose

	2012	2011
Analysed by type of debt securities and geographical location		
<i>Unlisted</i>		
Issued by entities in mainland China		
- Government	<b>239,080</b>	70,822
- Policy banks	-	704,512
- Commercial banks and non-bank financial institutions	<b>31,822</b>	747,934
- Corporate	<b>6,175,656</b>	770,096
Total	<b>6,446,558</b>	2,293,364

Listed debt securities or funds are approved by the government and traded in the stock exchange. There is no significant restriction on the realization of the investments above.

## Financial Statements

### 9 Derivative assets and liabilities held for trading

#### (1) Analysed by type of derivative contracts

	2012		
	Notional amounts	Assets	Liabilities
<i>Foreign currency derivatives</i>			
Forward and swap contracts	67,378,166	428,212	(337,070)
Foreign currency option bought	931,945	26,234	-
Foreign currency option sold	1,156,570	-	(26,454)
Subtotal	69,466,681	454,446	(363,524)
<i>Interest rate derivatives</i>			
Swap contracts	54,809,826	275,954	(222,951)
Interest rate option bought	15,193,173	412,183	-
Interest rate option sold	15,193,173	-	(412,183)
Subtotal	85,196,172	688,137	(635,134)
<i>Other derivatives</i>			
Gold option bought	15,962,155	440,548	-
Gold option sold	15,962,155	-	(440,548)
Commodity option bought	2,025,378	65,089	-
Commodity option sold	2,025,378	-	(65,089)
Cross-currency swap contract	2,985,613	-	(4,706)
Stock (linked) option bought	8,056,740	462,882	-
Stock (linked) option sold	8,056,740	-	(462,882)
Subtotal	55,074,159	968,519	(973,225)
<i>Cash flow hedge (Note i)</i>			
Swap contracts	400,000	10,519	-
Cross-currency swap contract	19,736,470	-	(19,082)
Subtotal	20,136,470	10,519	(19,082)
Total	229,873,482	2,121,621	(1,990,965)



## Financial Statements

**9 Derivative assets and liabilities held for trading (continued)****(1) Analysed by type of derivative contracts (continued)**

	2011		
	Notional amounts	Assets	Liabilities
<i>Foreign currency derivatives</i>			
Forward and swap contracts	34,196,399	245,788	(190,700)
Foreign currency option bought	4,202,545	51,494	-
Foreign currency option sold	4,202,545	-	(51,494)
Subtotal	42,601,489	297,282	(242,194)
<i>Interest rate derivatives</i>			
Swap contracts	14,817,132	63,076	(99,882)
Interest rate option bought	1,666,600	16,173	-
Interest rate option sold	1,666,600	-	(16,173)
Subtotal	18,150,332	79,249	(116,055)
<i>Other derivatives</i>			
Gold option bought	1,282,367	14,477	-
Gold option sold	1,282,367	-	(14,477)
Commodity option bought	235,000	3,450	-
Commodity option sold	235,000	-	(3,450)
Subtotal	3,034,734	17,927	(17,927)
<i>Cash flow hedge (Note i)</i>			
Swap contracts	100,000	-	(550)
Total	63,886,555	394,458	(376,726)

- (i) Cash flow hedge includes interest rate swap contracts and cross-currency swap contracts. They are used for hedging the volatility of cash flow of fixed interest rate asset of local currency (interest rate risk) and fixed rate of foreign currency debt (foreign currency risk). The gains or losses of the effective part of cash flow hedge will be recognized directly in other capital reserve (Note 33). For cash flow hedge of a recognized asset or liability, the associated cumulative gain or loss is reclassified from other capital reserve to the statement of comprehensive income in the same periods during which the hedged cash flow affect profit and loss. All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognized immediately in the statement of comprehensive income.

## Financial Statements

### 9 Derivative assets and liabilities held for trading (continued)

#### (2) Analysed by credit risk-weighted amounts

	2012	2011
Foreign currency derivatives	1,435,322	728,167
Interest rate derivatives	827,253	112,970
Other derivatives	1,235,030	47,274
Total	3,497,605	888,411

The notional amounts of derivatives only represent the unsettled transaction volume as at the end of the relevant periods. They do not represent the amounts at risk. The credit risk-weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC, and depends on the status of the counterparty and the maturity characteristics of the instrument. The amounts have taken into account the effects of bilateral netting arrangements.

### 10 Financial assets held under resale agreements

#### (1) Analysed by type of security

	2012	2011
Debt securities		
- Government	8,889,016	5,629,100
- PBOC bills	39,600	10,485,400
- Policy banks	1,323,824	3,669,420
- Commercial banks and non-bank financial institutions	5,546,335	8,727,954
Subtotal	15,798,775	28,511,874
Bills	161,518,536	64,682,458
Receivables	165,339	196,856
Total	177,482,650	93,391,188

#### (2) Analysed by type of counterparty

	2012	2011
Issued by entities in mainland China		
- Banks	169,474,591	79,814,303
- Non-bank financial institutions	8,008,059	13,576,885
Total	177,482,650	93,391,188

## Financial Statements

**11 Interest receivable**

Analysed by type of interest generating financial assets

	2012	2011
Loans and advances to customers	<b>1,830,902</b>	1,599,404
Investment securities	<b>1,459,875</b>	1,034,816
Deposits with banks and non-bank financial institutions	<b>230,286</b>	142,467
Deposits with central banks	<b>71,942</b>	60,712
Placements with banks and non-bank financial institutions	<b>25,207</b>	28,064
Financial assets held under resale agreements	<b>7,403</b>	10,300
Others	<b>161</b>	3,478
<b>Total</b>	<b>3,625,776</b>	2,879,241

The overdue interest receivable is no more than 3 months.

**12 Loans and advances to customers**

(1) Analysed by nature

	2012	2011
Corporate loans and advances	<b>423,060,566</b>	388,841,111
Residential mortgage	<b>76,460,051</b>	73,544,863
Credit cards	<b>70,525,724</b>	49,877,151
Other personal loans	<b>17,143,353</b>	14,522,387
Personal loans and advances	<b>164,129,128</b>	137,944,401
Discounted bills	<b>28,559,816</b>	13,377,557
Gross loans and advances to customers	<b>615,749,510</b>	540,163,069
Less: Allowances for impairment losses (Note 21)		
- individual assessment	<b>(4,816,580)</b>	(4,125,570)
- collective assessment	<b>(10,672,141)</b>	(12,592,593)
Total allowances for impairment losses	<b>(15,488,721)</b>	(16,718,163)
Loans and advances to customers, net	<b>600,260,789</b>	523,444,906

## Financial Statements

### 12 Loans and advances to customers (continued)

#### (2) Analysed by type of collateral

	2012	2011
Loans secured by monetary assets	<b>82,028,434</b>	62,200,790
Loans secured by tangible assets other than monetary assets	<b>207,642,828</b>	190,699,265
Guaranteed loans	<b>164,002,236</b>	130,225,902
Unsecured loans	<b>162,076,012</b>	157,037,112
Gross loans and advances to customers	<b>615,749,510</b>	540,163,069
Less: Allowances for impairment losses		
- individual assessment	<b>(4,816,580)</b>	(4,125,570)
- collective assessment	<b>(10,672,141)</b>	(12,592,593)
Total allowances for impairment losses	<b>(15,488,721)</b>	(16,718,163)
Loans and advances to customers, net	<b>600,260,789</b>	523,444,906

#### (3) Analysed by economic sector

	As at 31 December 2012			As at 31 December 2011		
	Gross balance	Percentage	Collateralised loans as a % of gross loan balances	Gross balance	Percentage	Collateralised loans as a % of gross loan balances
Corporate loans and advances						
- Manufacturing	130,251,226	21.15	23.67	116,658,981	21.60	26.14
- Wholesale and retail trade	104,780,915	17.02	29.25	86,174,534	15.95	28.44
- Energy and raw materials	53,328,561	8.66	12.67	60,089,026	11.12	12.22
- Real estate	39,580,691	6.43	91.55	42,000,272	7.78	76.90
- Construction and installation	31,767,710	5.16	21.78	25,322,844	4.69	21.65
- Transportation	27,216,057	4.42	8.98	27,014,337	5.00	8.13
- Tourism and service sector	18,197,343	2.95	31.62	18,691,257	3.46	27.66
- Postal and telecommunication services	3,798,727	0.62	31.90	2,612,533	0.48	33.10
- Financial services	3,366,462	0.55	10.34	1,488,839	0.28	2.25
- Others	10,772,874	1.75	9.48	8,788,488	1.63	12.57
Corporate loans and advances	<b>423,060,566</b>	<b>68.71</b>	<b>28.88</b>	388,841,111	71.99	28.16
Personal loans and advances	<b>164,129,128</b>	<b>26.65</b>	<b>52.08</b>	137,944,401	25.54	58.86
Subtotal	<b>587,189,694</b>	<b>95.36</b>	<b>35.36</b>	526,785,512	97.53	36.20
Discounted bills	<b>28,559,816</b>	<b>4.64</b>	-	13,377,557	2.47	-
Gross loans and advances to customers	<b>615,749,510</b>	<b>100.00</b>	<b>33.72</b>	540,163,069	100.00	35.30
Less: Allowances for impairment losses						
- Individually assessed	<b>(4,816,580)</b>			(4,125,570)		
- Collectively assessed	<b>(10,672,141)</b>			(12,592,593)		
Total allowances for impairment losses	<b>(15,488,721)</b>			(16,718,163)		
Net loans and advances to customers	<b>600,260,789</b>			523,444,906		

## Financial Statements

**12 Loans and advances to customers (continued)****(4) Analysed by geographical sector**

	As at 31 December 2012			As at 31 December 2011		
	Gross balance	Percentage	Collateralised loans as a % of gross loan balances	Gross balance	Percentage	Collateralised loans as a % of gross loan balances
Corporate loans and advances						
Guangzhou	131,024,828	21.28	20.07	99,412,303	18.40	24.32
Nanjing	59,746,472	9.70	25.05	49,565,697	9.18	27.24
Hangzhou	58,326,355	9.47	37.56	56,629,279	10.48	40.30
Beijing	54,836,614	8.91	21.40	59,371,078	10.99	22.65
Zhengzhou	35,431,348	5.76	27.44	32,601,506	6.04	27.65
Shanghai	33,099,748	5.38	44.24	33,485,405	6.20	39.88
Shenzhen	27,426,843	4.45	34.66	26,151,306	4.84	34.56
Foshan	26,776,211	4.35	35.77	25,099,203	4.65	37.77
Shenyang	25,639,358	4.16	50.07	22,017,171	4.08	50.83
Dongguan	20,264,351	3.29	45.43	22,850,728	4.23	45.83
Kunming	17,423,639	2.83	30.44	14,884,225	2.76	33.58
Others	125,753,743	20.42	49.25	98,095,168	18.15	50.16
Gross loans and advances to customers	615,749,510	100.00	33.72	540,163,069	100.00	35.30
Less: Allowances for impairment losses						
- Individually assessed	(4,816,580)			(4,125,570)		
- Collectively assessed	(10,672,141)			(12,592,593)		
Total allowances for impairment losses	(15,488,721)			(16,718,163)		
Net loans and advances to customers	600,260,789			523,444,906		

## Financial Statements

### 12 Loans and advances to customers (continued)

#### (5) Overdue loans and advances analysed by type of collateral and overdue period

	2012				Total
	Overdue between 1 day and 90 days	Overdue between 90 days and one year	Overdue between one year and three years	Overdue more than three years	
Loans secured by monetary assets	886,209	555,315	117,148	1,912,472	3,471,144
Loans secured by tangible assets other than monetary assets	2,983,706	1,793,514	598,345	219,763	5,595,328
Guaranteed loans	1,136,045	1,861,777	448,770	285,431	3,732,023
Unsecured loans	5,636,321	1,112,108	6,227	458	6,755,114
Total	10,642,281	5,322,714	1,170,490	2,418,124	19,553,609

	2011				Total
	Overdue between 1 day and 90 days	Overdue between 90 days and one year	Overdue between one year and three years	Overdue more than three years	
Loans secured by monetary assets	77,987	137,567	1,906,584	41,240	2,163,378
Loans secured by tangible assets other than monetary assets	1,536,459	480,388	374,561	247,554	2,638,962
Guaranteed loans	655,334	386,336	696,997	132,190	1,870,857
Unsecured loans	4,891,133	831,295	185,123	268,100	6,175,651
Total	7,160,913	1,835,586	3,163,265	689,084	12,848,848

Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more.

Pledged and collateralised loans which are overdue but not impaired is presented as follows:

	2012	2011
Loans secured by tangible assets other than monetary assets	3,002,472	1,099,479
Loans secured by monetary assets	749,400	34,950
Total	3,751,872	1,134,429

## Financial Statements

**12 Loans and advances to customers (continued)****(6) Analysed by assessment method of allowances for impairment losses**

	2012				Impaired loans and advances as a % of total loans and advances (%)
	Loans and advances for which allowances for impairment losses are collectively assessed	Impaired loans and advances for which allowances for impairment losses are collectively assessed	Impaired loans and advances for which allowances for impairment losses are individually assessed	Total	
Gross balances of loans and advances					
- Financial institution	7,382,482	-	-	7,382,482	-
- Non-financial institution	599,255,943	1,486,069	7,625,016	608,367,028	1.50
	606,638,425	1,486,069	7,625,016	615,749,510	1.48
Allowances for Impairment losses					
- Financial institution	(48,071)	-	-	(48,071)	
- Non-financial institution	(9,206,022)	(1,418,048)	(4,816,580)	(15,440,650)	
	(9,254,093)	(1,418,048)	(4,816,580)	(15,488,721)	
Net balances of loans and advances					
- Financial institution	7,334,411	-	-	7,334,411	
- Non-financial institution	590,049,921	68,021	2,808,436	592,926,378	
	597,384,332	68,021	2,808,436	600,260,789	



## Financial Statements

### 12 Loans and advances to customers (continued)

#### (6) Analysed by assessment method of allowances for impairment losses (continued)

	2011				Impaired loans and advances as a % of total loans and advances (%)
	Loans and advances for which allowances for impairment losses are collectively assessed	Impaired loans and advances for which allowances for impairment losses are collectively assessed		for which allowances for impairment losses are individually assessed	
				Total	
Gross balances of loans and advances					
- Financial institution	2,969,833	-	-	2,969,833	-
- Non-financial institution	529,962,386	1,183,770	6,047,080	537,193,236	1.35
	532,932,219	1,183,770	6,047,080	540,163,069	1.34
Allowances for impairment losses					
- Financial institution	(30,707)	-	-	(30,707)	
- Non-financial institution	(11,428,220)	(1,133,666)	(4,125,570)	(16,687,456)	
	(11,458,927)	(1,133,666)	(4,125,570)	(16,718,163)	
Net balances of loans and advances					
- Financial institution	2,939,126	-	-	2,939,126	
- Non-financial institution	518,534,166	50,104	1,921,510	520,505,780	
	521,473,292	50,104	1,921,510	523,444,906	

The Bank assesses and provides for impairment allowances on loans and advances to customers in accordance with the accounting policy set out in Note 3(3)(c).

The amount of the allowance for impairment on impaired loans is measured as the difference between the carrying amount and the present value of expected future cash flows discounted at its original effective interest rate. The repayment source may include:

- (i) Cash flows generated from the debtor's operating activities;
- (ii) Cash flows generated from operating activities of the guarantor or other parties who will repay the loan on behalf of the debtor;
- (iii) Cash flows from an explicit refinancing plan of the debtor;

## Financial Statements

**12 Loans and advances to customers (continued)****(6) Analysed by assessment method of allowances for impairment losses (continued)**

- (iv) Disposal of collaterals and repossessed assets; valuation of repossessed assets and collaterals is based on appraisals by an international reputable valuer, appraisals by a qualified PRC agent or valuation made by the Bank based on market price and estimated realisable value. The recoverable amount from disposal of repossessed assets and collaterals is reasonably assessed considering the factors including the conditions of the title, market price, net book value of collaterals, depreciation, ease of disposal, disposal costs, etc; and
- (v) Sale of the loan in a secondary market.

The Bank assesses the collective impairment allowances on personal loans (including loans to individually-owned businesses), discounted bills and corporate loans classified as pass and special mention:

- For personal loans, the Bank applies collectively assessed impairment testing using a flow rate methodology, which is based on statistical analysis on loss ratio and historical experience of default probability.
- For discounted bills and loans classified as pass and special mention, the collective impairment allowance is assessed after taking into account the following factors:
  - (i) migration rates of previous years being used for the statistical analysis;
  - (ii) an appropriate emergency period correlated to the similar credit risk characteristics of that loan portfolio, which shall not be less than 12 months; and
  - (iii) the Bank management's assessment of inherent loss of the loan portfolio based on current domestic and global economic and credit environment, but not yet reflected in historical experience, including consideration of factors in the regulatory environment.

## Financial Statements

### 12 Loans and advances to customers (continued)

#### (7) Movements of allowance for impairment losses

	2012			
	Allowances for impairment losses which are collectively assessed	Allowances for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
Opening balance	(11,458,927)	(1,133,666)	(4,125,570)	(16,718,163)
Charge for the year	-	(567,704)	(3,581,703)	(4,149,407)
Release during the year	2,204,834	-	638,871	2,843,705
Unwinding of discount	-	-	91,044	91,044
Recoveries	-	(111,815)	(21,752)	(133,567)
Write-offs	-	395,137	2,182,530	2,577,667
Closing balance	(9,254,093)	(1,418,048)	(4,816,580)	(15,488,721)

	2011			
	Allowances for impairment losses which are collectively assessed	Allowances for impaired loans and advances		Total
		which are collectively assessed	which are individually assessed	
Opening balance	(10,841,501)	(844,814)	(3,700,406)	(15,386,721)
Charge for the year	(617,426)	(364,433)	(2,285,372)	(3,267,231)
Release during the year	-	-	778,580	778,580
Unwinding of discount	-	-	110,728	110,728
Recoveries	-	(76,784)	(65,290)	(142,074)
Write-offs	-	152,365	1,036,190	1,188,555
Closing balance	(11,458,927)	(1,133,666)	(4,125,570)	(16,718,163)

## Financial Statements

**12 Loans and advances to customers (continued)****(8) Fair value of collaterals**

The fair values of collaterals for impaired corporate loans, and overdue but not impaired corporate loans at the balance sheet date are as follows:

Fair values of collaterals for impaired corporate loans as at balance sheet date:

	2012	2011
Land, properties and buildings	<b>1,485,332</b>	1,039,707
Other assets	<b>392,785</b>	247,863
Total	<b>1,878,117</b>	1,287,570

Fair values of collaterals for overdue but not impaired corporate loans as at balance sheet date:

	2012	2011
Land, properties and buildings	<b>3,128,395</b>	159,069
Other assets	<b>667,784</b>	135,815
Total	<b>3,796,179</b>	294,884

The fair value of collateral was estimated by the Bank based on the latest available external valuations adjusted by taking into account the current realisation experience as well as the market situation. The above collateral includes land, buildings and equities, etc.

## Financial Statements

### 13 Available-for-sale financial assets

	2012	2011
Debt securities investments		
<i>Unlisted</i>		
Issued by entities in mainland China		
- Government	35,443,374	15,031,429
- PBOC bills	9,987	2,913,438
- Policy banks	1,499,647	1,910,740
- Commercial banks and non-bank financial institutions	10,670,202	6,444,864
- Corporate	4,463,630	5,334,709
Issued by entities outside mainland China		
- Commercial banks and non-bank financial institutions	-	7,562
- Corporate	79,879	82,466
<i>Listed</i>		
Issued by entities outside mainland China		
- Corporate	60,718	61,296
Total debt securities investments (i)	52,227,437	31,786,504
Equity investments		
Unlisted equity investments		
- Measured by cost (ii)	90,929	90,929
- Measured by fair value	96,353	69,424
Total equity investments	187,282	160,353
Total	52,414,719	31,946,857

- (i) When impairment of an available-for-sale investment measured at fair value occurs, any impairment loss recognised is recorded in the carrying amount directly. As at 31 December 2012, the carrying amount of available-for-sale investments measured at fair value includes financial instruments which are individually assessed to be impaired amounting to RMB 0 million (2011: RMB 7.56 million), and impairment loss amounted to RMB 7.94 million was recognised in the profit and loss account (2011: RMB 13.98 million). As at 31 December 2012, the accumulated impairment loss was RMB 60.71 million (2011: RMB 52.77 million).
- (ii) Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any impairment losses.

## Financial Statements

**14 Held-to-maturity investments**

Analysed by type of debt securities and geographical location

	2012	2011
<i>Unlisted</i>		
Issued by entities in mainland China		
- Government	12,553,606	5,767,376
- PBOC bills	2,769,772	2,769,771
- Policy banks	1,681,171	4,192,992
- Commercial banks and non-bank financial institutions	14,226,311	16,242,532
- Corporate	1,629,834	1,818,562
Issued by entities outside mainland China		
- Policy banks	24,756	38,303
- Commercial banks and non-bank financial institutions	-	8,521
Subtotal	32,885,450	30,838,057
<i>Listed</i>		
Issued by entities outside mainland China		
- Corporate	50,469	52,789
Total	32,935,919	30,890,846

**15 Debt securities classified as receivables**

Analysed by type of debt securities and geographical location

	2012	2011
<i>Unlisted</i>		
Issued by entities in mainland China		
- Government	908,296	1,395,476
- Commercial banks and non-bank financial institutions	519,933	169,977
- Wealth management products	5,010,715	-
- Others	239,500	-
Total	6,678,444	1,565,453

Receivables are mainly unlisted bearer's national bonds issued by the PRC government, subordinated bonds issued by other financial institutions, investment in wealth management products, etc.

## Financial Statements

### 16 Long term equity investments

(1) The movement of the Bank's investment in associate is as follow:

	2012	2011
As at 1 January	1,758	4,100
Share of gains/(losses)	84	(2,342)
As at 31 December	1,842	1,758

(2) The investment in associate of the Bank is ordinary shares of unlisted company, details of the investment in associate are as follows:

Name of company	Organisation code	Place of incorporation	Principal activities	Registered share capital	Closing balance of actual investment made by the Bank	% of ownership directly and indirectly held by the Bank	% of direct and indirect voting right of the Bank
Guangdong Guangfa International Financial & Consulting Co., Ltd	61743591-X	China	Services related to Credit cards	RMB 10,000,000	RMB 4,100,000	41%	41%

The financial information of the investment in associate at balance sheet date is as follows:

	2012	2011
Operating income	624,684	486,902
Net gain	205	26

	2012	2011
Total assets	10,748	8,919
Total liabilities	(6,255)	(4,630)
Total shareholders' equity	4,493	4,289

## Financial Statements

## 17 Fixed assets

	Properties and buildings	Construction in progress	Electronic equipment	Transportation and other equipment	Total
<b>Costs:</b>					
1 January 2011	4,224,598	241,741	2,154,344	410,417	7,031,100
Additions	245,052	495,642	311,038	112,662	1,164,394
Transfers in/(out) of construction in progress	233,260	(233,260)	-	-	-
Disposals	(130,611)	-	(176,217)	(49,287)	(356,115)
31 December 2011	4,572,299	504,123	2,289,165	473,792	7,839,379
Additions	73,136	2,134,041	388,451	122,731	2,718,359
Transfers in/(out) of construction in progress	225,632	(225,632)	-	-	-
Transfers in/(out) of repossessed assets	803	-	-	-	803
Disposals	(32,919)	-	(143,122)	(33,781)	(209,822)
31 December 2012	4,838,951	2,412,532	2,534,494	562,742	10,348,719
Accumulated depreciation:					
1 January 2011	(952,556)	-	(1,146,601)	(233,737)	(2,332,894)
Charge for the year	(143,561)	-	(290,805)	(55,461)	(489,827)
Disposals	39,958	-	165,347	45,524	250,829
31 December 2011	(1,056,159)	-	(1,272,059)	(243,674)	(2,571,892)
Charge for the year	(157,535)	-	(335,652)	(70,056)	(563,243)
Disposals	14,386	-	130,399	26,115	170,900
31 December 2012	(1,199,308)	-	(1,477,312)	(287,615)	(2,964,235)
Allowances for impairment losses (Note 21):					
1 January 2011	(276,145)	-	-	-	(276,145)
Additions	-	-	-	-	-
Disposals	5,813	-	-	-	5,813
31 December 2011	(270,332)	-	-	-	(270,332)
Additions	(240)	-	-	-	(240)
Disposals	10,664	-	-	-	10,664
31 December 2012	(259,908)	-	-	-	(259,908)
Net carrying value:					
31 December 2012	3,379,735	2,412,532	1,057,182	275,127	7,124,576
31 December 2011	3,245,808	504,123	1,017,106	230,118	4,997,155

- (i) As at 31 December 2012, the Bank was in the process of completing the ownership documentation of certain properties and buildings with a net carrying value of RMB 396 million (31 December 2011: RMB 692 million). The management are of the opinion that the Bank is entitled to legally and effectively occupy or use the above-mentioned properties and buildings.
- (ii) As at 31 December 2012, the Bank assessed the recoverable amount of certain properties and buildings and construction in progress that are considered to be impaired. Based on the assessment, the net carrying value of such assets was reduced by RMB 260 million (31 December 2011: RMB 270 million). The estimated recoverable amounts were determined based on the fair values of the properties and buildings and construction in progress less disposal costs, with reference to the recent observable market prices for similar properties and buildings and construction in progress within the same area.
- (iii) As at 31 December 2012, the net carrying value of properties and buildings under operating lease amounted to RMB 189 million (31 December 2011: RMB 172 million).



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### 18 Intangible assets

	Land use rights	Software	Others	Total
Costs:				
1 January 2011	427,820	523,901	33,173	<b>984,894</b>
Additions	242	235,378	1,201	<b>236,821</b>
Disposals	(11,383)	(149)	-	<b>(11,532)</b>
31 December 2011	416,679	759,130	34,374	<b>1,210,183</b>
Additions	5,041	223,393	-	<b>228,434</b>
Disposals	-	(345)	-	<b>(345)</b>
31 December 2012	421,720	982,178	34,374	<b>1,438,272</b>
Accumulated amortisation:				
1 January 2011	(46,784)	(293,042)	(33,021)	<b>(372,847)</b>
Charge for the year	(12,510)	(90,611)	(1,237)	<b>(104,358)</b>
Disposals	4,811	362	-	<b>5,173</b>
31 December 2011	(54,483)	(383,291)	(34,258)	<b>(472,032)</b>
Charge for the year	(13,752)	(129,457)	(36)	<b>(143,245)</b>
Disposals	-	119	-	<b>119</b>
31 December 2012	(68,235)	(512,629)	(34,294)	<b>(615,158)</b>
Allowances for impairment losses (Note 21):				
1 January 2011	(5,370)	-	-	<b>(5,370)</b>
Additions	-	-	-	<b>-</b>
Disposals	5,370	-	-	<b>5,370</b>
31 December 2011	-	-	-	<b>-</b>
Additions	-	-	-	<b>-</b>
Disposals	-	-	-	<b>-</b>
31 December 2012	-	-	-	<b>-</b>
Net carrying value:				
31 December 2012	353,485	469,549	80	<b>823,114</b>
31 December 2011	362,196	375,839	116	<b>738,151</b>

As at 31 December 2012, the Bank was in the process of completing the ownership documentation of certain land use rights with a net carrying value of approximately RMB 5.24 million (2011: RMB 6.05 million). The management are of the opinion that the Bank is entitled to legally and effectively occupy or use the above-mentioned land use rights.

## Financial Statements

**19 Deferred tax****(1) Analysed by nature**

	As at 31 December 2012				
	Deductible temporary differences	Deferred tax assets	Taxable temporary differences	Deferred tax liabilities	Net balance
Allowances for impairment losses on loans, other assets and advances to customers	9,984,916	2,496,229	-	-	2,496,229
Fair value change of financial instruments	93,384	23,346	(120,556)	(30,139)	(6,793)
Provisions for litigation	69,592	17,398	-	-	17,398
Deferred interest income of discounted bills	1,939,624	484,906	-	-	484,906
Accrued salary	1,524,960	381,240	-	-	381,240
Others	142,744	35,686	-	-	35,686
<b>Total</b>	<b>13,755,220</b>	<b>3,438,805</b>	<b>(120,556)</b>	<b>(30,139)</b>	<b>3,408,666</b>

	As at 31 December 2011				
	Deductible temporary differences	Deferred tax assets	Taxable temporary differences	Deferred tax liabilities	Net balance
Allowances for impairment losses on loans, other assets and advances to customers	11,419,448	2,854,862	-	-	2,854,862
Fair value change of financial instruments	(329,172)	(82,293)	(18,696)	(4,674)	(86,967)
Provisions for litigation	68,764	17,191	-	-	17,191
Deferred interest income of discounted bills	1,388,652	347,163	-	-	347,163
Accrued salary	1,756,536	439,134	-	-	439,134
Others	223,396	55,849	-	-	55,849
<b>Total</b>	<b>14,527,624</b>	<b>3,631,906</b>	<b>(18,696)</b>	<b>(4,674)</b>	<b>3,627,232</b>

## Financial Statements

### 19 Deferred tax (continued)

#### (2) Movements of deferred tax

	2012			
	As at 1 January	Recognised in income statement	Recognised in equity	As at 31 December
Deferred tax asset				
- Allowances for impairment losses on loans, other assets and advances to customers	2,854,862	(358,633)	-	2,496,229
- Fair value change of financial instruments	(86,967)	(26,040)	106,214	(6,793)
- Provision for litigation	17,191	207	-	17,398
- Deferred interest income of discounted bills	347,163	137,743	-	484,906
- Accrued salary	439,134	(57,894)	-	381,240
- Others	55,849	(20,163)	-	35,686
Net balance	3,627,232	(324,780)	106,214	3,408,666

	2011			
	As at 1 January	Recognised in income statement	Recognised in equity	As at 31 December
Deferred tax asset				
- Allowances for impairment losses on loans, other assets and advances to customers	2,598,685	256,177	-	2,854,862
- Fair value change of financial instruments	98,842	(66,313)	(119,496)	(86,967)
- Provision for litigation	28,126	(10,935)	-	17,191
- Deferred interest income of discounted bills	102,573	244,590	-	347,163
- Accrued salary	282,279	156,855	-	439,134
- Others	33,729	22,120	-	55,849
Net balance	3,144,234	602,494	(119,496)	3,627,232

## Financial Statements

**19 Deferred tax (continued)****(2) Movements of deferred tax (continued)**

In accordance with the accounting policy set out in Note 3(9), as at 31 December 2012, the Bank has not recognised deferred tax assets of RMB 341 million (31 December 2011: RMB 204 million) in respect of the allowances for impairment losses on loans and advances to customers amounting to RMB 1,365 million (31 December 2011: RMB 818 million), as it is not probable that future written-off of certain loans and advances to customers can be approved by the relevant tax authorities.

**20 Other assets**

	2012	2011
Long-term deferred expenses	<b>1,302,433</b>	1,065,540
- Leasehold improvement expenditure	<b>862,515</b>	611,609
- Other long-term deferred expenses	<b>439,918</b>	453,931
Suspense account for clearing	<b>1,350,865</b>	856,507
Receivables on transfer of non-performing assets	<b>186,001</b>	-
Reposessed assets (i)	<b>161,123</b>	167,247
Prepaid rental	<b>78,368</b>	36,317
Prepayment for purchase of fixed assets	<b>65,546</b>	909,186
Import bills refinancing pending for settlement	-	5,413,192
Others	<b>660,181</b>	509,790
Total	<b>3,804,517</b>	8,957,779
Less: Allowances for impairment losses (Note 21)	<b>(112,102)</b>	(161,248)
Net balances	<b>3,692,415</b>	8,796,531

- (i) Reposessed assets  
Analysed by type

	2012	2011
Properties and buildings	<b>144,006</b>	146,669
Land	<b>17,117</b>	17,117
Others	-	3,461
Gross balance	<b>161,123</b>	167,247
Less: Allowances for impairment losses	<b>(24,328)</b>	(26,684)
Net balance	<b>136,795</b>	140,563

The Bank transferred 0.8 million reposessed assets to fixed assets during 2012 (2011: Zero). The Bank disposed 4.85 million reposessed assets during 2012 (2011: RMB 95.32 million).

The Bank intends to dispose of reposessed assets as at 31 December 2012 through various methods including auction, competitive bidding and disposal.

## Financial Statements

### 21 Movements of allowances for impairment losses

		2012					
	Note	As at 1 January	Charge for the year	Write back for the year	Unwinding of discount	Write-offs	As at 31 December
Placements with banks and non-bank financial institutions	7	(1,000)	-	-	-	-	(1,000)
Loans and advances to customers	12	(16,718,163)	(4,149,407)	2,843,705	91,044	2,444,100	(15,488,721)
Fixed assets	17	(270,332)	(240)	-	-	10,664	(259,908)
Intangible assets	18	-	-	-	-	-	-
Other assets	20	(161,248)	(56,952)	77,883	-	28,215	(112,102)
<b>Total</b>		<b>(17,150,743)</b>	<b>(4,206,599)</b>	<b>2,921,588</b>	<b>91,044</b>	<b>2,482,979</b>	<b>(15,861,731)</b>

		2011					
	Note	As at 1 January	Charge for the year	Write back for the year	Unwinding of discount	Write-offs	As at 31 December
Placements with banks and non-bank financial institutions	7	(1,000)	-	-	-	-	(1,000)
Loans and advances to customers	12	(15,386,721)	(3,267,231)	778,580	110,728	1,046,481	(16,718,163)
Fixed assets	17	(276,145)	-	-	-	5,813	(270,332)
Intangible assets	18	(5,370)	-	-	-	5,370	-
Other assets	20	(192,002)	(71,737)	63,702	-	38,789	(161,248)
<b>Total</b>		<b>(15,861,238)</b>	<b>(3,338,968)</b>	<b>842,282</b>	<b>110,728</b>	<b>1,096,453</b>	<b>(17,150,743)</b>

### 22 Deposits from banks and non-bank financial institutions

Analysed by type of financial institutions and geographical location

	2012	2011
Banks operating in mainland China	<b>95,755,433</b>	22,832,969
Non-bank financial institutions operating in mainland China	<b>48,437,054</b>	43,520,676
<b>Subtotal</b>	<b>144,192,487</b>	66,353,645
Banks operating outside Mainland China	<b>281,628</b>	772,058
<b>Total</b>	<b>144,474,115</b>	67,125,703

## Financial Statements

**23 Placements from banks and non-bank financial institutions**

Analysed by type of financial institutions and geographical location

	2012	2011
Banks operating in mainland China	<b>34,146,596</b>	9,886,198

**24 Financial assets sold under repurchase agreements**

Analysed by pledged security held

	2012	2011
Issued by entities in mainland China		
Debt securities		
- Government	<b>15,101,283</b>	5,822,300
- PBOC bills	<b>754,600</b>	2,693,000
- Policy banks	<b>2,130,100</b>	1,002,900
- Commercial banks and non-bank financial institutions	<b>17,924,500</b>	6,075,230
- Corporate	<b>332,200</b>	79,000
Bills	<b>513,930</b>	18,400
Total	<b>36,756,613</b>	15,690,830

Analysed by counterparties

	2012	2011
Issued by entities in mainland China		
- Banks	<b>35,007,400</b>	14,176,700
- Non-bank financial institutions	<b>1,235,283</b>	1,495,730
- PBOC	<b>513,930</b>	18,400
Total	<b>36,756,613</b>	15,690,830

## Financial Statements

### 25 Deposits from customers

	2012	2011
Demand deposits		
- Corporate customers	246,570,598	241,198,597
- Personal customers	72,054,557	70,193,850
Subtotal	318,625,155	311,392,447
Time deposits (include notice deposits)		
- Corporate customers	454,592,684	362,556,309
- Personal customers	81,626,499	67,356,020
Subtotal	536,219,183	429,912,329
Others	1,321,697	1,233,169
Total	856,166,035	742,537,945
The deposits above include:		
(1) Pledged deposits for		
- Acceptance	92,737,092	79,773,659
- Guarantee	4,329,423	2,914,165
- Letters of credit	5,501,644	10,732,931
- Others	18,257,139	13,916,765
Total	120,825,298	107,337,520
(2) Outward and inward remittance	978,184	1,070,841

(3) As at 31 December 2012, the balance of structured deposits is RMB 42.15 billion.

### 26 Accrued staff costs

	2012			
	As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses and allowances	1,829,918	3,932,798	(4,221,033)	1,541,683
Basic retirement insurance and annuity	2,477	530,089	(527,778)	4,788
Social insurance and welfare	1,602	417,907	(417,825)	1,684
Housing fund	1,476	388,519	(376,283)	13,712
Labour union expenses and employee education expenses	26,858	160,891	(165,167)	22,582
Staff termination costs	-	2,219	(2,219)	-
Outsourcing expenses	123,380	1,378,456	(1,247,571)	254,265
Total	1,985,711	6,810,879	(6,957,876)	1,838,714

## Financial Statements

**26 Accrued staff costs (continued)**

	2011			
	As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses and allowances	1,240,271	4,129,760	(3,540,113)	1,829,918
Basic retirement insurance and annuity	1,559	428,584	(427,666)	2,477
Social insurance and welfare	2,778	342,897	(344,073)	1,602
Housing fund	5,446	312,551	(316,521)	1,476
Labour union expenses and employee education expenses	16,122	153,922	(143,186)	26,858
Staff termination costs	-	5,804	(5,804)	-
Outsourcing expenses	66,110	1,059,070	(1,001,800)	123,380
<b>Total</b>	<b>1,332,286</b>	<b>6,432,588</b>	<b>(5,779,163)</b>	<b>1,985,711</b>

## (i) Social insurance

Social insurance includes basic retirement insurance, basic medical insurance, childbirth insurance, work injury insurance, and unemployment insurance. Pursuant to the relevant city and provincial laws and regulations in the PRC and Macau governing labour and social security, the bank pay the required insurances on behalf of the employees. The bank is required to make contributions based on defined ratios of the salaries, bonuses and certain allowances of the employees to the statutory retirement plan under the administration of the government.

## (ii) Annuity scheme

In addition to the basic retirement insurance, the bank has set up an annuity scheme for those qualified employees. The annuity is managed by China Life Pension Company Limited. The bank has made annuity contributions at no more than 8% of its qualified employee's total salaries.

During 2012, the bank made annuity contribution amounted to RMB 168 million (2011: RMB 190 million).

## (iii) No wage arrears is included in the above-mentioned salary payable.

**27 Taxes payable**

	2012	2011
Corporate income tax	<b>749,035</b>	1,898,877
Individual income tax	<b>37,083</b>	44,959
Business tax	<b>764,521</b>	673,083
City construction tax	<b>49,649</b>	45,713
Education surcharge	<b>36,023</b>	31,962
Others	<b>13,809</b>	11,510
<b>Total</b>	<b>1,650,120</b>	2,706,104



## Financial Statements

### 28 Interest payable

Analysed by type of financial liabilities

	2012	2011
Deposits from customers	9,688,550	7,382,095
Deposits from banks and non-bank financial institutions	784,892	496,073
Subordinated bonds issued	230,845	228,962
Placements from banks and non-bank financial institutions	86,771	11,224
Financial assets sold under repurchase agreements	50,298	26,084
Others	35,736	8,605
Total	10,877,092	8,153,043

### 29 Provisions

Movement of provisions for litigation

	2012	2011
As at 1 January	58,545	84,254
Charge for the year	4,323	21,167
Release during the year	(3,048)	(36,623)
Payments made during the year	(35,523)	(10,253)
As at 31 December	24,297	58,545

As at 31 December 2012, the Bank was the defendant in certain pending litigations, with gross claims of RMB 770 million (2011: RMB 926 million). Based on the opinions of the Bank's internal and external lawyers, provision has been made for the estimated losses of these litigations and disputes. Management of the Bank are of the view that the provision made is reasonable and adequate.

## Financial Statements

**30 Subordinated bonds issued**

	2012	2011
Subordinated fixed interest rate bonds (Note (i))	<b>13,800,000</b>	9,300,000
Subordinated floating interest rate bonds (Note (ii))	<b>700,000</b>	700,000
Total	<b>14,500,000</b>	10,000,000

- (i) The Bank issued 10-year subordinated fixed interest rate bonds with face value of RMB 1.6 billion on 25 July 2008. The coupon interest rate per annum is 6.3%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest rate of the bonds will increase to 9.3% per annum from the sixth year for the next five years till maturity.

The Bank issued 10-year subordinated fixed interest rate bonds with face value of RMB 2.7 billion on 23 September 2008. The coupon interest rate per annum is 5.85%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest rate of the bonds will increase to 8.85% per annum from the sixth year for the next five years till maturity.

The Bank issued 10-year subordinated fixed interest rate bonds with face value RMB 3.0 billion on 28 June 2011 and RMB 2.0 billion on 6 September 2011 respectively. The coupon interest rate per annum is 5.79% and 6.30%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest margin of the bonds will remain from the sixth year for the next five years till maturity.

The Bank issued 15-year subordinated fixed interest rate bonds with face value RMB 4.5 billion on 28 December 2012. The coupon interest rate per annum is 5.60%. The Bank has an option to redeem the bonds at the end of the tenth year. If the Bank does not exercise the option of redemption, the interest margin of the bonds will remain from the eleventh year for the next five years till maturity.

- (ii) The Bank issued 10-year subordinated floating interest rate bonds with face value RMB 0.7 billion on 25 July 2008. The coupon interest rate per annum is the one-year fixed deposit rate set by the PBOC on the annual interest re-set date, plus an interest margin of 2%. The Bank has an option to redeem the bonds at the end of the fifth year. If the Bank does not exercise the option of redemption, the interest margin of the bonds will increase by 3% per annum from the sixth year for the next five years till maturity.

## Financial Statements

### 31 Other liabilities

	2012	2011
Deferred commission income	756,659	355,322
Accrued expenses	574,613	617,216
Suspense account for clearing	147,260	527,595
Dormant accounts of deposits from customers	116,784	131,369
Loan repayments pending settlement	55,473	12,061
Payables for purchase of fixed assets	53,078	33,713
Payables for fund subscription	26,404	1,588
Payables arising from the transferred non-performing assets (i)	14,357	15,062
Payable to wealth management product	9,451	766
Dividend payable	5,964	5,995
Inward remittance	3,989	3,584
Import bills refinancing pending for settlement	-	5,413,192
Others	433,197	637,571
<b>Total</b>	<b>2,197,229</b>	<b>7,755,034</b>

(i) Payables arising from the transferred non-performing assets

According to the non-performing assets transfer agreement with GFH, the risk and rewards associated with the non-performing assets were transferred to GFH after the transfer cut-off date. At the end of the relevant periods, the balances represent the amounts collected on behalf of GFH that have not yet been paid to GFH.

### 32 Share capital

	No. of share '000	Amount '000
Registered and paid-in share capital (Ordinary shares with par value RMB 1 each) At 31 December 2011 and 31 December 2012	15,402,397	15,402,397

### 33 Capital Reserve

	2012	2011
Shares premium	11,550,819	11,550,819
Fair value reserve (i)	82,552	474,604
Hedge reserve (ii)	(6,972)	(412)
<b>Total</b>	<b>11,626,399</b>	<b>12,025,011</b>

## Financial Statements

**33 Capital Reserve (continued)**

Movement of capital reserve:

	Share premium	Fair value reserve	Hedge reserve	Total
At 1 January 2011	11,550,819	236,378	-	<b>11,787,197</b>
- Other comprehensive income	-	238,226	(412)	<b>237,814</b>
At 31 December 2011	11,550,819	474,604	(412)	<b>12,025,011</b>
- Other comprehensive income	-	(392,052)	(6,560)	<b>(398,612)</b>
At 31 December 2012	11,550,819	82,552	(6,972)	<b>11,626,399</b>

- (i) Fair value reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.
- (ii) The hedge reserve comprises the effective portion of the cumulative net change (after tax) in the fair value of hedging instruments used in cash flow hedges (Note 9), and the related cash flow hedged is determined in accordance with the accounting policy adopted for cash flow hedges in note 3(3) (h).

**34 Surplus reserve**

	2012	2011
As at 1 January	<b>2,462,716</b>	1,504,142
Appropriation for the year	<b>1,121,986</b>	958,574
As at 31 December	<b>3,584,702</b>	2,462,716

All the surplus reserve is statutory surplus reserve by the end of 31 December 2012. The Bank is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of the registered capital.

**35 Statutory general reserve**

Pursuant to relevant regulations issued by the MOF, the Bank is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets at the end of the year. In principle, the general reserve balance should not be lower than 1.5% (2011: 1%) of the ending balance of gross risk-bearing.

## Financial Statements

### 36 Appropriation of profits

#### (1) Appropriation to surplus reserve

Surplus reserve includes statutory surplus reserve and discretionary surplus reserve.

The Bank appropriates 10% of 2012 net profit to the statutory surplus reserve. By the end of 31 December 2012, the balance of surplus reserve has not reach 50% of the registered capital.

#### (2) Dividends of ordinary shares declared during the year

No cash dividend was declared to the Company's ordinary shareholders (2011: Nil).

#### (3) Appropriation to statutory general reserve

Prior to 1 July 2012, the Bank pursuant to relevant regulations issued by the MOF is required to set aside a general reserve through appropriations of profit after tax according to a certain provision ratio of the ending balance of gross risk-bearing assets to cover potential losses against their assets. In principle, the general reserve balance should not be lower than 1% of the ending balance of gross risk-bearing assets.

With effect from 1 July 2012, pursuant to the "Administrative Measures on Accrual of Provisions by Financial Institutions" issued by the MOF in March 2012, the Bank is required, in principle, to set aside a general reserve not lower than 1.5% of the ending balance of its gross risk-bearing assets.

The Bank had fulfilled the requirement in accordance with the above notices and appropriated to the statutory general reserve equivalent to 1.5% of aggregate amount of risk-bearing assets, before allowances for impairment, at 31 December 2012, which amounted to RMB 6,433 million (2011: RMB 364 million).

## Financial Statements

**37 Net interest income**

	2012	2011
Interest income arising from		
Deposits with central banks	<b>2,257,651</b>	1,778,271
Deposits with banks and non-bank financial institutions	<b>1,530,285</b>	886,483
Placements with banks and non-bank financial institutions	<b>583,928</b>	492,581
Financial assets held for trading	<b>126,623</b>	139,509
Financial assets held under resale agreement	<b>6,275,296</b>	4,649,944
Loans and advances to customers (i)		
- Corporate loans and advances	<b>25,868,786</b>	23,396,296
- Personal loans and advances	<b>10,717,617</b>	8,359,463
- Discounted bills	<b>1,912,148</b>	672,232
Investment securities and receivables (ii)	<b>2,837,889</b>	2,197,326
Total interest income	<b>52,110,223</b>	42,572,105
Interest expense arising from		
Deposits from banks and non-bank financial institutions	<b>(5,706,216)</b>	(3,490,780)
Placements from banks and non-bank financial institutions	<b>(511,704)</b>	(214,514)
Financial assets sold under repurchase agreement	<b>(947,442)</b>	(1,045,774)
Deposits from customers	<b>(19,745,299)</b>	(13,689,872)
Subordinated bond issued (iii)	<b>(603,484)</b>	(422,327)
Total interest expense	<b>(27,514,145)</b>	(18,863,267)
Net interest income	<b>24,596,078</b>	23,708,838

(i) Interest income from impaired financial assets is listed as follows:

	2012	2011
Interest income arising from impaired loans and advances	<b>170,723</b>	182,194
Total	<b>170,723</b>	182,194

(ii) Interest income from investment securities and receivables represented interest income from mainly unlisted debt securities which are not at fair value through profit or loss, including securities classified as held-to-maturity investments, available-for-sale financial assets and debt securities, investment in wealth management products classified as receivables.

(iii) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on subordinated debts issued.

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### 38 Net fee and commission income

	2012	2011
Fee and commission income:		
Bank card fees	4,549,207	3,092,290
Consultancy and advisory fees	353,000	535,244
Settlement and clearing fees	520,196	467,644
Agency service fees	484,203	346,144
Guarantee and commitment fees	364,322	231,667
Commission on wealth management products	363,797	129,105
Bond underwriting fees	184,125	79,939
Others	150,403	70,646
Total	6,969,253	4,952,679
Fee and commission expense:		
Bank card fees	(816,747)	(511,269)
Settlement fees	(111,363)	(102,831)
Agency expenses	(67,458)	(35,869)
Others	(100,845)	(138,171)
Total	(1,096,413)	(788,140)
Net fee and commission income	5,872,840	4,164,539

### 39 Investment gain/(loss)

	2012	2011
Net gain and loss on trade of debt securities		
- Derivatives	41,023	(22,380)
- Trading debt investments	8,489	(18,657)
- Financial instruments designated at fair value through profit or loss	-	39
- Available-for-sale securities investments	79,467	(45,148)
Dividend income	3,634	4,182
Share of gains/(losses) of associate	84	(2,342)
Total	132,697	(84,306)

There is no significant restriction on remitting back the investment income of the Bank that realized outside mainland China.

## Financial Statements

**40 Gain arising from changes in fair value**

	2012	2011
Financial instruments designated at fair value through profit or loss		
- Financial assets	-	(10,948)
- Financial liabilities	-	10,948
Trading financial instruments	(15,071)	11,462
Derivative financial instruments	121,487	104,042
Total	106,416	115,504

**41 Business taxes and surcharges**

	2012	2011
Business taxes	2,333,177	1,934,118
City construction tax	162,965	135,084
Education surcharge	116,651	92,606
Others	-	2
Total	2,612,793	2,161,810

**42 Operating and administrative expenses**

	2012	2011
Employee compensation	6,810,879	6,432,588
Premises and equipment expenses		
- Depreciation charges	563,243	489,827
- Rent and property management expenses	1,122,593	851,678
- Maintenance	550,416	490,216
Subtotal	2,236,252	1,831,721
Amortisation expenses	359,924	267,456
Others	3,292,147	2,719,051
Total	12,699,202	11,250,816

**43 Allowances for asset impairment**

	2012	2011
Loans and advances to customers	1,305,702	2,488,651
Available-for-sales investment securities	7,941	13,976
Fixed assets	240	-
Repossessed assets	(1,352)	(16,384)
Other assets	(19,579)	24,419
Total	1,292,952	2,510,662



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### 44 Non-operating income

	2012	2011
Gain on disposal of fixed assets	49,104	40,001
Write back of long-term payables	13,104	101,750
Gain on disposal of repossessed assets	38,201	221
Gain on disposal of intangible assets	2,400	2,400
Others	140,118	57,108
Total	242,927	201,480

### 45 Non-operating expenses

	2012	2011
Loss on disposal of fixed assets	8,705	9,807
Write back of litigation provision	(1,275)	(15,456)
Loss on disposal of repossessed assets	722	2,463
Contribution	6,872	3,465
Others	62,860	66,250
Total	77,884	66,529

### 46 Income tax expense

	2012	2011
Income tax for the year		
- Mainland China	3,193,451	3,652,028
- Macau, PRC	8,597	9,093
Sub-total	3,202,048	3,661,121
Deferred tax (Note 19)	324,780	(602,494)
Adjustment for prior years	(83,069)	(262,813)
Income tax expense	3,443,759	2,795,814

Reconciliation between income tax expense and income tax calculated at statutory tax rate:

	2012	2011
Profit before tax	14,663,618	12,381,548
Expected income tax expense at statutory tax rate of 25%	3,665,905	3,095,387
Non-deductible expenses (i)	173,499	148,425
Income tax adjustment for non-taxable income (ii)	(273,752)	(133,807)
Effect of different tax rate applicable to different location of operation (iii)	647	(2,947)
Adjustment for prior years	(83,069)	(262,813)
Others	(39,471)	(48,431)
Income tax expense	3,443,759	2,795,814

## Financial Statements

**46 Income tax expense (continued)**

- (i) These amounts primarily represent staff costs in excess of the statutory deductible threshold, non-deductible entertainment expenses and impairment losses not approved by the tax authorities.
- (ii) These amounts primarily represent interest income from China government bonds.
- (iii) According to tax legislations and detailed rules of implementation in the relevant operating location, income taxes on profits generated in different locations are payable at different tax rates and tax basis. The income tax rate for Shenzhen Special Economic Zone is 25% for 2012 (2011: 24%).

**47 Other comprehensive income**

	2012	2011
Changes in fair value of available-for-sale financial assets:		
- Fair value changes recognised in other comprehensive income	(373,459)	433,124
- Amortisation arising from reclassification to held-to-maturity	(67,301)	(124,965)
- Transfer to profit and loss on disposal	(55,503)	49,701
Subtotal	(496,263)	357,860
The effective portion of the cash flow hedging fair value change	(8,563)	(550)
Cash flow hedge	2,003	-
Income tax relating to components of other comprehensive income	104,211	(119,496)
Foreign currency translation differences	860	835
Total	(397,752)	238,649

**48 Notes to the cash flow statement****(a) Reconciliation of net profit and cash flow from operating activities:**

	2012	2011
Net profit	11,219,859	9,585,734
Add: Provision for asset impairment losses	1,292,952	2,510,662
Depreciation of fixed assets and amortisation of intangible assets and long-term deferred expenses	923,167	757,283
Net gain on disposal of fixed assets and other long-term assets	(42,799)	(32,594)
Interest income from debt securities	(2,964,512)	(2,336,835)
Investment (gains)/losses	(132,613)	81,964
Share of (gains)/losses of associate	(84)	2,342
Net gains on fair value movement	(106,416)	(115,504)
Net (gains)/losses arising from foreign currency dealing	(13,772)	49,041
Interest expenses on issued subordinated bonds	603,484	422,327
Net decrease/(increase) of deferred tax asset	324,780	(602,494)
Increase in operating receivables	(223,653,888)	(117,232,681)
Increase in operating payables	232,374,800	91,099,536
Net cash (outflow)/inflow from operating activities	19,824,958	(15,811,219)

## Financial Statements

### 48 Notes to the cash flow statement (continued)

#### (b) Net increase in cash and cash equivalents:

	2012	2011
Cash and cash equivalents at the end of the year	<b>118,639,751</b>	127,103,719
Less: Cash and cash equivalents at the beginning of the year	<b>(127,103,719)</b>	(137,003,070)
Net decrease in cash and cash equivalents	<b>(8,463,968)</b>	(9,899,351)

#### (c) Analysis of cash and cash equivalents:

	2012	2011
Cash	<b>4,705,943</b>	3,842,674
Surplus deposit reserve with central banks	<b>35,885,070</b>	29,646,388
With original maturity with or within 3 months:		
- Deposits with banks and non-bank financial institutions	<b>33,072,587</b>	40,908,575
- Placements with banks and non-bank financial institutions	<b>20,022,540</b>	14,747,548
- Financial assets under resale agreements	<b>24,953,611</b>	37,958,534
Total	<b>118,639,751</b>	127,103,719

### 49 Commitments and contingent liabilities

#### (1) Credit commitments

Facilities, including unused loan facilities and unused overdraft limit of credit cards, committed by the Bank for designated customers may be drawn on request. The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon.

The Bank provides financial guarantees and letters of credit to ensure customers fulfil their obligations to third parties. The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed completely to perform as contracted. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers.

## Financial Statements

**49 Commitments and contingent liabilities (continued)****(1) Credit commitments (continued)**

As the facilities may expire without being drawn upon, the total of the contractual amounts set out in the following table is not representative of expected future cash outflows.

	2012	2011
Loan commitments (with an original maturity of one year or over)	5,974,418	7,007,319
Credit card unused overdraft limit	92,700,387	58,387,555
Sub-total	98,674,805	65,394,874
Bank acceptances	229,475,297	189,852,432
Letters of credit	17,185,609	21,672,540
Financial guarantees	5,755,746	34,985,262
Non-financing guarantees	10,001,255	9,723,045
Sub-total	262,417,907	256,233,279
Total contract value	361,092,712	321,628,153

Credit risk-weighted amount

	2012	2011
Contingent liabilities and commitments	178,967,948	146,329,120

The credit risk-weighted amount refers to the amount calculated in accordance with the guidelines issued by the CBRC and is dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100%, for contingent liabilities and commitments.

**(2) Operating lease commitments**

The Bank leases certain properties, vehicles and electronic equipment under operating leases, which typically run for an initial period of one to twenty years and may include an option to renew the lease when all terms are renegotiated. As at the end of the relevant periods, the Bank's future minimum lease payments under non-cancellable operating leases for properties, vehicles and electronic equipment were as follows:

	2012	2011
Within one year	918,449	719,879
After one year but within two years	745,522	612,631
After two years but within three years	603,159	498,112
After three years but within five years	965,175	749,326
After five years	1,123,976	899,435
Total	4,356,281	3,479,383

## Financial Statements

### 49 Commitments and contingent liabilities (continued)

#### (3) Capital commitments

The Bank had the following authorised capital commitments for purchasing fixed assets and intangible assets, and making leasehold improvements at the balance sheet date:

	2012	2011
Contracted for	1,508,430	2,620,808
Authorised but not contracted for	2,422,687	1,783,998
Total	3,931,117	4,404,806

#### (4) Underwriting obligations for debt securities

	2012	2011
Underwriting obligations	-	-

#### (5) Securities redemption obligations

As an underwriting agent of PRC government bonds, the Bank has the responsibility to buy back those bonds should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date.

The redemption obligations below represent the nominal value of PRC government bonds underwritten and sold by the Bank but not yet matured at the balance sheet date:

	2012	2011
Redemption obligations	3,372,859	4,437,187

#### (6) Provision against contingent liabilities

Note 29 sets out the gross amount of claims on the Bank and the related to litigation provision at the end of the relevant periods, arising from litigations whereby the Bank acted as defendants.

## Financial Statements

**50 Entrusted loan business**

The Bank provides entrusted lending business services to government agencies and corporations. All entrusted loans are made under the instruction or at the direction of these entities and are funded by entrusted funds from them. Income related to these services is included in the statement of comprehensive income as fee income.

Entrust assets and the corresponding liabilities are not assets and liabilities of the Bank and are not recognised in the statement of financial position. However, if the amount of the entrusted loan funds is greater than that of the entrusted loans, the relevant surplus funding is accounted for as deposits from customers.

At the end of the relevant periods, the entrusted assets and liabilities were as follows:

	2012	2011
Entrusted loans	27,776,145	23,599,680
Entrusted loan funds	(27,776,145)	(23,599,680)

**51 Pledged assets****(1) Assets pledged as security**

The related secured liabilities are recorded as financial assets sold under repurchase agreements with similar carrying values at the end of the relevant periods (see Note 24). These transactions are conducted under usual and customary terms of regular type money market takings. At the end of the relevant periods, the guarantee periods are within 12 months:

**(a) Carrying value of pledged assets analysed by asset type**

	2012	2011
Government bonds	14,891,619	5,900,011
PBOC bills	769,939	2,699,777
Debt securities issued by policy banks	2,146,924	1,006,937
Debt securities issued by commercial banks and non-bank financial institutions	17,856,316	6,123,044
Corporate bonds	328,362	78,866
Discounted bills	513,930	18,400
Total	36,507,090	15,827,035

**(b) Carrying value of pledged assets analysed by balance sheet classification**

	2012	2011
Available-for-sale financial assets	19,746,111	6,104,927
Held-to-maturity investments	16,247,049	9,703,708
Discounted bills	513,930	18,400
Total	36,507,090	15,827,035

## Financial Statements

### 51 Pledged assets (continued)

#### (2) Collateral accepted as securities for assets

The Bank conducts resale agreements under usual and customary terms of placements, and holds collateral for these transactions. For the carrying amount of the financial assets held under resale agreements, please see Note 10. As at 31 December 2012, the Bank holds collaterals for resale agreements which it was permitted to sell or repledge in the absence of default for the transactions, its fair value amounted to RMB 161.7 billion (2011: RMB 64.9 billion). The Bank is obligated to return the collaterals on the promissory resale date.

By Balance Sheet day, the collateral accepted discussed above has not been sold or repledged.

### 52 Related parties and transactions

#### (1) Major shareholders and their group companies

Since the Bank does not have controlling shareholders, the following shareholding companies refer to shareholders having 5% or more of the Bank's equity:

##### *Material related parties information*

Company name	Registered location	Issued and fully paid capital	Proportion of the bank held by the company	Business	The relationship with the bank	Legal form	Legal representative
CITIGROUP INC.	USA	USD 2.592 billion	20.00%	Financial service	Shareholder	Foreign-capital financial institution	Michael E. O'Neill
China Life Insurance Company Ltd.	Beijing	RMB 28.265 billion	20.00%	Life, accident insurance, health insurance etc	Shareholder	Limited company	Yang Mingsheng
State Grid Yingda International Holding Group Limited (Formerly Yinda International Holding Group Limited)	Beijing	RMB 16.000 billion	20.00%	Investment consultant, property management and custody	Shareholder	State-own company	Wang Fenghua
CITIC Trust Co., Ltd.	Beijing	RMB 1.200 billion	20.00%	Funds investment, trust, consultant, bonds underwrite etc.	Shareholder	Limited company	Pu Jian

## Financial Statements

**52 Related parties and transactions (continued)****(1) Major shareholders and their group companies (continued)***The change of proportion of the Bank held by the shareholders*

	China Life Insurance Company Ltd.		State Grid Yingda International Holding Group Ltd.		CITIC Trust Co., Ltd.		CITIGROUP INC.	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	RMB	%	RMB	%	RMB	%	RMB	%
At 1 January 2011 and 31 December 2011	3,080,479,452	20	3,080,479,452	20	3,080,479,452	20	3,080,479,452	20
At 1 January 2012 and 31 December 2012	3,080,479,452	20	3,080,479,452	20	3,080,479,452	20	3,080,479,452	20

The transactions and balances with major shareholders and the subsidiaries of shareholders' group are summarised in Note 52(3).

The subsidiaries of major shareholders' group of the bank include the companies controlled or jointly controlled by the Bank's major shareholders, the parents of the Bank's major shareholders and the companies controlled or jointly controlled by the parents.

**(2) Associate**

The information of the associate of the Bank is disclosed in Note 16.

The transactions and balances with associate are summarised in Note 52(3).



## Financial Statements

### 52 Related parties and transactions (continued)

#### (3) Transactions with related parties

The material transactions and balances with major shareholders' group and other related parties are summarised as follows:

	China Life Insurance Company Ltd. and its group	State Grid Yingda International Holding Group Ltd. and its group	CITIC Trust Co., Ltd. and its group	CITIGROUP INC. and its group	Guangfa International Finance & Consulting Co., Ltd.	Other related parties	Total	Percentage
<i>Transactions with related parties for year ended 31 December 2012:</i>								
Interest income	-	82,040	2,483	368	-	4,183	89,074	0.17%
Fee and commission income	15,567	960	6,819	-	-	-	23,346	0.33%
Interest expense	(1,003,576)	(79,049)	(15,386)	-	(28)	(412)	(1,098,451)	3.99%
Fee and commission expenses	(1,911)	-	-	-	-	-	(1,911)	0.17%
Operating expenses	(168,529)	-	(350)	(11,560)	(711,876)	-	(892,315)	7.03%

	China Life Insurance Company Ltd. and its group	State Grid Yingda International Holding Group Ltd. and its group	CITIC. Trust Co., Ltd. and its group	CITIGROUP INC. and its group	Guangdong Guangfa International Finance & Consulting Co., Ltd.	Other related parties	Total	Percentage
<i>Balances with related parties as at 31 December 2012:</i>								
Deposit with banks and non-bank financial institutions	-	-	662,966	582,844	-	-	1,245,810	1.94%
Placements with banks and non-bank financial institutions	-	-	50,000	-	-	-	50,000	0.19%
Loans and advances to customers	-	200,877	-	-	-	120,000	320,877	0.05%
Interest receivable	-	11,207	1,060	-	-	220	12,487	0.34%
Derivative financial assets	-	-	16,246	26,199	-	-	42,445	2.00%
Financial assets under resale agreements	-	-	500,000	-	-	-	500,000	0.28%
Held-to-maturity investments	-	2,931,000	-	-	-	-	2,931,000	8.90%
Deposits from banks and non-bank financial institutions	-	-	(85,452)	-	-	-	(85,452)	0.06%
Takings from banks and non-bank financial institutions	-	-	(2,000,000)	-	-	-	(2,000,000)	5.86%
Derivative financial liabilities	-	-	(21,964)	(41,691)	-	-	(63,655)	3.20%
Financial assets sold under repurchase agreements	-	-	(50,000)	-	-	-	(50,000)	0.14%
Deposits from customers	(22,200,748)	(1,846,589)	(769,144)	-	(12,480)	(5,313)	(24,834,274)	2.90%
Interests payable	(411,708)	(57,480)	(10,511)	-	(1)	(1)	(479,701)	4.41%
Other liabilities	-	-	-	(21,113)	-	-	(21,113)	0.96%

## Financial Statements

**52 Related parties and transactions (continued)****(3) Transactions with related parties (continued)**

The material transactions and balances with major shareholders' group and other related parties are summarised as follows (continued):

	China Life Insurance Company Ltd. and its group	State Grid Yingda International Holding Group Ltd. and its group	CITIC Trust Co., Ltd. and its group	CITIGROUP INC. and its group	Guangfa International Finance & Consulting Co., Ltd.	Other related parties	Total	Percentage
<i>Transactions with related parties for year ended 31 December 2011:</i>								
Interest income	-	80,312	6,033	28	-	5,276	91,649	0.22%
Fee and commission income	10,652	3,512	-	-	-	-	14,164	0.29%
Interest expense	(830,165)	(75,557)	(52,939)	-	(25)	(532)	(959,218)	5.09%
Fee and commission expenses	(4,549)	-	-	-	-	-	(4,549)	0.58%
Operating expenses	(190,110)	-	(3,486)	(11,560)	(530,887)	-	(736,043)	6.54%

	China Life Insurance Company Ltd. and its group	State Grid Yingda International Holding Group Ltd. and its group	CITIC Trust Co., Ltd. and its group	CITIGROUP INC. and its group	Guangdong Guangfa International Finance & Consulting Co., Ltd.	Other related parties	Total	Percentage
<i>Balances with related parties as at 31 December 2011:</i>								
Deposit with banks and non-bank financial institutions	-	-	10,157	345,763	-	-	355,920	0.78%
Loans and advances to customers	-	40,000	23,750	-	-	90,000	153,750	0.03%
Interest receivable	-	94	59	-	-	158	311	0.01%
Derivative financial assets	-	-	10,371	23,674	-	-	34,045	8.63%
Held-to-maturity investments	-	1,600,000	-	-	-	-	1,600,000	5.18%
Takings from banks and non-bank financial institutions	-	-	(5,000,000)	-	-	-	(5,000,000)	50.58%
Derivative financial liabilities	-	-	(7,359)	(33,762)	-	-	(41,121)	10.92%
Financial assets sold under repurchase agreements	-	-	(2,090,000)	-	-	-	(2,090,000)	13.32%
Deposits from customers	(19,500,566)	(1,612,389)	(547,537)	-	(9,272)	(60,371)	(21,730,135)	2.93%
Interests payable	(427,666)	(41,542)	(8,786)	-	-	(9)	(478,003)	5.86%
Other liabilities	-	-	-	(23,799)	-	-	(23,799)	0.31%

Exclude the above balances, the Bank have no other amounts refer to shareholders having 5% or more of the Bank's equity. The directors are of the opinion that the Bank's material related-party transactions (include terms of receive and pay) were all entered into on normal commercial terms.

## Financial Statements

### 52 Related parties and transactions (continued)

#### (4) Key management personnel

The remuneration of directors and other key members of management during the relevant periods were as follows:

	2012	2011 (restatement)
Key management personnel remuneration (Note)	25 million	23 million

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including Directors, Supervisors and Senior Management.

The total compensation package for these key management personnel for the year ended 31 December 2012 has not yet been finalised in accordance with regulations of the PRC relevant authorities. And it is not expected to have significant impact to the financial statements for the year ended 31 December 2012.

Note: The final compensation for above key management personnel for the year ended 31 December 2011 has been restated according to actual confirmed figures in 2012.

During 2012 and 2011, there were no amounts paid or payable by the Bank to the Directors, Supervisors, Senior Management, or any of the highest paid individuals as an inducement to join or upon joining the Bank or as a compensation for loss of office. There was no arrangement under which a director, supervisor or senior management has waived or agreed to waive any emoluments during 2012 and 2011.

The Bank's management is of the opinion that the transactions with key management personnel, their close relatives and the enterprises that they have any control or significant influence over are conducted in the normal course of business, at relevant market rates at the time of transactions and in accordance with normal business procedures. In addition, other than the aggregate emoluments for the key management personnel disclosed above, loans and advances granted to entities controlled by the directors and supervisors and relevant interest income earned in Note 52 (3)/(4), the Bank has not disclosed the details of other transactions as the amounts are insignificant.

#### (5) Annuity

During 2012, the bank made annuity contributions of RMB 168 million (2011: RMB 190 million). The annuity scheme is managed by China Life Pension Company Limited.

## Financial Statements

### 53 Operating segments

The Bank manages its business by business lines and geographical areas. The Bank has presented the operating segments in a manner consistent with the way in which information is reported internally to the Bank's chief operating decision maker for the purposes of resource allocation and performance assessment. The Bank defines reporting segments based on the following business operating segments:

#### Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans, trade financing, deposit products, agency services, cash management services, finance consulting and advisory services, remittance and settlement services, custody services and guarantee services.

#### Retail banking and Credit Card business

The retail banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, personal wealth management services, remittance services, securities agency services and credit cards services.

#### Treasury business

This segment covers inter-bank money market transactions, repurchase transactions, debt security investments, derivatives, equity investments and foreign currency trading. It also covers the management of the Bank's overall liquidity position, including the issuance of debts.

Measurement of segment assets and liabilities and segment income and expenses is based on the Bank's accounting policies.

Transactions between segments are conducted under normal commercial terms and conditions. Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external interest income/expense". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "inter-segment interest income/expense".

Segment incomes, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets, and liabilities are determined before intra-bank balances and intra-bank transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the relevant periods to acquire fixed assets, intangible assets, construction in process and other long-term assets.

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### 53 Operating segments (continued)

#### (1) Business operating segment

	2012			
	Corporate Banking	Retail Banking and Credit cards Business	Treasury Business	Segment Total
External net interest income	9,622,921	7,642,928	7,330,229	24,596,078
Inter-segment interest income/(expense)	5,535,722	(127,026)	(5,408,696)	-
Net interest income	15,158,643	7,515,902	1,921,533	24,596,078
Net fee and commission income	1,169,476	4,175,923	527,441	5,872,840
Investment gain	-	-	132,697	132,697
Gain arising from changes in fair value	-	-	106,416	106,416
Foreign exchange gain	-	-	371,944	371,944
Other operating income	6,765	4,217	13,658	24,640
Operating income	16,334,884	11,696,042	3,073,689	31,104,615
Business taxes and surcharges	(1,540,019)	(872,731)	(200,043)	(2,612,793)
Operating and administrative expenses	(5,707,474)	(6,485,699)	(506,029)	(12,699,202)
Allowances for asset impairment	(143,651)	(1,164,591)	15,290	(1,292,952)
Other operating costs	(619)	(247)	(227)	(1,093)
Operating expenses	(7,391,763)	(8,523,268)	(691,009)	(16,606,040)
Operating profit	8,943,121	3,172,774	2,382,680	14,498,575
Add: Non-operating income	149,196	59,632	34,099	242,927
Less: Non-operating expenses	(46,517)	(18,615)	(12,752)	(77,884)
Gross profit	9,045,800	3,213,791	2,404,027	14,663,618
Segment assets	437,722,046	163,165,743	567,262,074	1,168,149,863
Segment liabilities	(721,515,216)	(153,229,059)	(229,877,501)	(1,104,621,776)
Supplementary information:				
Credit commitments	268,392,325	92,700,387	-	361,092,712
Depreciation and amortisation	345,458	128,569	449,140	923,167
Capital expenditure	1,279,415	476,916	1,658,047	3,414,378

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**53 Operating segments (continued)****(1) Business operating segment (continued)**

	2011			
	Corporate Banking	Retail Banking and Credit cards Business	Treasury Business	Segment Total
External net interest income	11,118,046	6,504,669	6,086,123	23,708,838
Inter-segment interest income/(expense)	4,640,136	(255,251)	(4,384,885)	-
Net interest income	15,758,182	6,249,418	1,701,238	23,708,838
Net fee and commission income	1,165,095	2,774,700	224,744	4,164,539
Investment loss	-	-	(84,306)	(84,306)
Gain arising from changes in fair value	-	-	115,504	115,504
Foreign exchange gain	-	-	243,147	243,147
Other operating income	2,949	3,997	18,111	25,057
Operating income	16,926,226	9,028,115	2,218,438	28,172,779
Business taxes and surcharges	(1,390,484)	(678,143)	(93,183)	(2,161,810)
Operating and administrative expenses	(5,598,083)	(5,081,815)	(570,918)	(11,250,816)
Allowances for asset impairment	(1,304,357)	(1,160,461)	(45,844)	(2,510,662)
Other operating costs	(1,329)	(610)	(955)	(2,894)
Operating expenses	(8,294,253)	(6,921,029)	(710,900)	(15,926,182)
Operating profit	8,631,973	2,107,086	1,507,538	12,246,597
Add: Non-operating income	75,358	67,003	59,119	201,480
Less: Non-operating expenses	(30,930)	(23,121)	(12,478)	(66,529)
Gross profit	8,676,401	2,150,968	1,554,179	12,381,548
Segment assets	393,335,251	138,079,824	387,566,744	918,981,819
Segment liabilities	(632,907,961)	(139,117,106)	(94,250,772)	(866,275,839)
Supplementary information:				
Credit commitments	263,240,598	58,387,555	-	321,628,153
Depreciation and amortisation	323,471	113,603	320,209	757,283
Capital expenditure	739,844	259,721	728,996	1,728,561

## Financial Statements

### 53 Operating segments (continued)

#### (2) Geographical information

The Bank operates principally in Mainland China. Except for the Head Office, it has 33 branches in Beijing, Shanghai, Dalian, Shenyang, Zhengzhou, Nanjing, Hangzhou, Kunming, Guangzhou, Shenzhen, Dongguan, Zhuhai, Shantou, Meizhou, Huizhou, Shaoguan, Qingyuan, Zhongshan, Foshan, Jiangmen, Zhaoqing, Yangjiang, Zhanjiang, Wuhan, Maoming, Heyuan, Changsha, Tianjin, Harbin, Jinan, Urumqi, Chengdu and Macau respectively. In addition, the Bank has representative offices in Beijing and Hong Kong.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches that generate the income. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical areas, as defined for management reporting purposes, are as follows:

- “Yangtze River Delta” refers to the following areas serviced by branches of the Bank: Shanghai Municipality, Jiangsu Province and Zhejiang Province;
- “Pearl River Delta” refers to the following areas serviced by branches of the Bank: Guangdong Province;
- “Bohai Rim” refers to the following areas serviced by branches of the Bank: Beijing Municipality, Tianjin Municipality, Liaoning Province, Heilongjiang Province and Shandong Province;
- “Central and Western” region refers to the following areas serviced by branches of the Bank: Henan Province, Hubei Province, Hunan Province, and Yunnan Province, Sichuan Province and Xinjiang Uygur Autonomous Region;
- Head Office; and
- Overseas.

## Financial Statements

## 53 Operating segments (continued)

## (2) Geographical information (continued)

	2012						Total
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	
External net interest income	4,188,325	3,872,642	675,959	2,055,700	13,794,881	8,571	24,596,078
Internal net interest income/(expense)	934,025	3,872,019	3,142,137	967,272	(8,987,610)	72,157	-
Net interest income	5,122,350	7,744,661	3,818,096	3,022,972	4,807,271	80,728	24,596,078
Net fee and commission income	453,830	614,824	354,959	362,426	4,059,232	27,569	5,872,840
Investment gain	-	-	-	-	132,633	64	132,697
Gain/(Loss) arising from changes in fair value	3,623	38,758	5,918	(1,103)	59,171	49	106,416
Foreign exchange gain/(loss)	76,063	190,181	83,463	13,903	(2,041)	10,375	371,944
Other operating income	200	18,434	1,627	868	3,504	7	24,640
Operating income	5,656,066	8,606,858	4,264,063	3,399,066	9,059,770	118,792	31,104,615
Business taxes and surcharges	(551,649)	(694,065)	(406,044)	(290,351)	(670,684)	-	(2,612,793)
Operating and administrative expenses	(2,156,976)	(3,698,123)	(2,027,616)	(1,312,949)	(3,439,802)	(63,736)	(12,699,202)
Allowances for asset impairment	(2,175,987)	(580,557)	(410,401)	26,713	1,843,277	4,003	(1,292,952)
Other operating cost	(4)	(304)	(449)	(219)	(117)	-	(1,093)
Operating expenses	(4,884,616)	(4,973,049)	(2,844,510)	(1,576,806)	(2,267,326)	(59,733)	(16,606,040)
Operating profit	771,450	3,633,809	1,419,553	1,822,260	6,792,444	59,059	14,498,575
Add: Non-operating income	9,956	142,782	8,075	21,237	60,590	287	242,927
Less: Non-operating expenses	(9,359)	(28,657)	(3,614)	(5,901)	(30,301)	(52)	(77,884)
Gross profit	772,047	3,747,934	1,424,014	1,837,596	6,822,733	59,294	14,663,618
Segment assets	249,270,092	376,718,813	255,254,221	147,946,522	480,407,467	9,785,527	1,519,382,642
Elimination							(351,232,779)
Total assets							1,168,149,863
Segment liabilities	(248,522,117)	(374,394,468)	(253,864,433)	(146,124,312)	(423,357,053)	(9,592,172)	(1,455,854,555)
Elimination							351,232,779
Total liabilities							(1,104,621,776)
Supplementary information:							
Credit commitments	94,210,562	64,152,225	49,452,251	59,617,823	92,700,785	959,066	361,092,712
Depreciation and amortisation	120,750	279,908	142,897	74,374	298,803	6,435	923,167
Capital expenditure	796,625	1,099,056	230,674	486,175	790,694	11,154	3,414,378



## Financial Statements

### 53 Operating segments (continued)

#### (2) Geographical information (continued)

	2011						Total
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	
External net interest income	3,632,825	4,358,675	2,295,057	2,430,710	10,900,339	91,232	23,708,838
Internal net interest income/(expense)	1,321,399	3,391,232	1,609,980	542,022	(6,873,731)	9,098	-
Net interest income	4,954,224	7,749,907	3,905,037	2,972,732	4,026,608	100,330	23,708,838
Net fee and commission income	367,180	583,223	243,157	263,493	2,681,073	26,413	4,164,539
Investment loss	-	-	-	-	(83,755)	(551)	(84,306)
Gain arising from changes in fair value	11,458	12,873	12,657	1,170	77,346	-	115,504
Foreign exchange gain/(loss)	60,321	180,669	75,557	15,995	(87,172)	(2,223)	243,147
Other operating income	1	18,506	2,612	873	3,058	7	25,057
Operating income	5,393,184	8,545,178	4,239,020	3,254,263	6,617,158	123,976	28,172,779
Business taxes and surcharges	(482,939)	(584,895)	(361,280)	(252,726)	(479,970)	-	(2,161,810)
Operating and administrative expenses	(1,919,452)	(3,353,177)	(1,666,225)	(1,112,730)	(3,142,863)	(56,369)	(11,250,816)
Allowances for asset impairment	(194,276)	(347,288)	4,894	(100,421)	(1,873,536)	(35)	(2,510,662)
Other operating cost	(382)	(442)	(212)	(138)	(721)	(999)	(2,894)
Operating expenses	(2,597,049)	(4,285,802)	(2,022,823)	(1,466,015)	(5,497,090)	(57,403)	(15,926,182)
Operating profit	2,796,135	4,259,376	2,216,197	1,788,248	1,120,068	66,573	12,246,597
Add: Non-operating income	4,041	127,915	13,652	10,457	44,778	637	201,480
Less: Non-operating expenses	(27,073)	(4,779)	2,118	(5,616)	(31,120)	(59)	(66,529)
Gross profit	2,773,103	4,382,512	2,231,967	1,793,089	1,133,726	67,151	12,381,548
Segment assets	216,585,933	321,988,187	194,270,588	106,720,290	344,956,010	5,588,210	1,190,109,218
Elimination							(271,127,399)
Total assets							918,981,819
Segment liabilities	(212,370,535)	(315,706,883)	(190,975,626)	(104,109,029)	(308,868,096)	(5,373,069)	(1,137,403,238)
Elimination							271,127,399
Total liabilities							(866,275,839)
Supplementary information:							
Credit commitments	103,258,962	57,227,359	45,120,718	56,552,269	58,408,370	1,060,475	321,628,153
Depreciation and amortisation	90,155	251,198	115,950	56,029	240,516	3,435	757,283
Capital expenditure	384,459	307,312	203,285	109,342	724,163	-	1,728,561

## Financial Statements

### 54 Risk management

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital.

#### Risk management framework

The board of directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board of directors has established the Risk Management Committee and Related Party Transaction Management Committee. The Risk Management Committee is responsible for evaluating and discussing risk management strategies, risk management policies, grand issues on risk management and grand projects of assets disposition of the Bank; controlling, managing, evaluating and supervising risks of the Bank. The Related Party Transaction Management Committee is responsible for supervising and reviewing material related party transactions; monitoring the establishment and enhancement of related party transaction management framework; conducting inspections; managing the risk control over related party transactions.

To identify, evaluate, monitor and manage risk, the Bank has designed a comprehensive governance framework, internal control policies and procedures. The Chief Risk Officer is responsible for the Bank's overall risk management. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and standardised and procedural management, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank defined the responsibilities of internal departments for monitoring financial risks as follows: The board of directors authorised to set up the Portfolio and Risk Management Committee, Asset Management Committee and Internal control and Compliance Committee under the management, to review the policies of managing credit risk, market risk, liquidity risk and operational risk; evaluate the effectiveness of the internal control policies; supervise the implementation of the policies; identify deficiencies and sort out follow-up solutions. The Risk Management Department, Credit Approval Department, Asset Management Department and the Three Regional Credit Approval Department are responsible for the implementation and management of the Bank's internal control policies on credit risk; and the Risk Management Department is responsible for the implementation and management of the Bank's internal control policies on market risk and liquidity risk. Taking the role as a leading department, the Legal and Compliance Department is responsible for leading the day-to-day management of operational risk. The relevant departments are responsible for instructing operating units on the implementation of credit risk, market risk, liquidity risk and operational risk management, in accordance with the decisions made by the board of directors and its Risk Management Committee as well as senior management.

## Financial Statements

### 54 Risk management (continued)

#### (1) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor to meet its obligation or commitment to the Bank. It arises primarily from the Bank's credit asset portfolios.

The Bank classifies the loans into five categories based on their credit risk, which are pass, special mention, substandard, doubtful and loss; and loans in the substandard, doubtful and loss categories are considered as non-performing loans ("NPLs"). The definitions of these five categories are as follows:

Pass:	The debtors can honour their obligations under the loan contract. There is no reason to doubt their ability to repay the principal and interest in full on a timely basis.
Special mention:	The debtors are able to service their loans currently. However there are adverse factors by which repayment may be adversely affected.
Substandard:	The debtors' abilities to service their loans are in question, and they are unable to repay the principal and interest in full with the operating income generated from the normal course of business. Losses may incur even when the guarantees are invoked.
Doubtful:	The debtors cannot repay the principal and interest in full and significant losses will incur even when the guarantees are invoked.
Loss:	Only a small portion of or none of the principal and interest can be recovered even after taking all possible measures and exhausting all legal remedies.

To classify the categories of loans, the following factors will generally be considered:

- Basic information, including usage of loans, sources of repayment, turnover of assets, and records of repayment etc;
- Repayment ability of debtor, including cash flow of debtors, financial position analysis;
- Guarantee for loans; and
- Other non-financial factors affecting the possibility of repayment, such as willingness of debtor's repayment, legislation of loan repayment, conditioning of credit management.

To classify loans as NPLs, the following factors will generally be considered:

- Misappropriation of the source of planned repayment of the loan; delay to repay the principle amount and loan interests; fail to repay restructured loan; fail to repay the judgement debt or significant default in repayment of loan interests; no significant improvement of repayment conditions;
- The debtor experiences significant financial difficulties, such as material cash flow problems; significant difficulties in liquidity, operation and acquiring new capital; the debtor's normal income from its business is lower than prospective prediction; in deteriorated trend or with substantial drop in key financial indicators, ability to repay a substantial decline; debt continues to grow, and cannot be repaid on schedule;

## Financial Statements

### 54 Risk management (continued)

#### (1) Credit risk (continued)

- The debtor has to repay from realising pledge or collateral due to the normal income from debtor's business is impossible to repay the principle and interest of loan; the debtor is unable to repay the principal or interest and other related costs after realised pledges, loss might incur even when the guarantee invoked; the guarantor is unable to repay the loans; collateral procedure might incur a legal dispute, which results in large losses; and
- Internal management problem of debtor is not resolved or involved in economic dispute litigations; corporation representative or management have been prosecuted, arrested, or wanted by police which may cause losses of the business; the debtor is unable to repay judgement debt and impede the repayment on time; the debtor deceives loans through inappropriate approaches such as hiding the facts; failure to implement debt through the restructure procedure of merger, separation, contracting, leasing, joint-venture, or make terms with the bank from financing, an adverse change in the business environment.

Concentration of credit risk: When a certain number of customers conduct the same operating activities, are situated in the same geographical location or their industries have similar economic characteristics, their ability to honour their contracts would be influenced by the same economic change. Concentration of credit risk reflects the sensitivity of the Bank's results to a specific industry or geographical location. The Bank establishes the target of credit assets limit management by types of economic sector and credit facility based on the principle of credit assets portfolio management. The principal place of business of the Bank is Mainland China. However, Mainland China covers a wide range of land with specific characteristics developed for the economy of each region (e.g. some regions are designated by the central government as special economic zones to attract investment). As a result, the risks among regions differ.

To identify, evaluate, monitor and manage credit risk, the Bank designs reporting structure, credit policies and processes required for effective credit risk management and implements systematic control procedures. As approved by the board of Directors, the Bank optimises its credit approval process, in which both management and control of credit risks are reinforced while function and responsibilities of credit approval section are further specified. Chief Risk Officer is responsible for all the operations regarding the Bank's risk management, and also leading relevant departments to formulate the credit policies, management framework and marketing strategies from time to time, to analyse the development of lending businesses and the level of risk management, and to approve loans with amounts not exceeding the authorised limit in accordance with relevant rules, regulations and monetary policies in the PRC and the Bank's business strategy. To mitigate risk, the Bank may obtain collaterals and guarantees from customers where appropriate.

With respect to the credit risk management of corporate and institutional business, the Bank refines the industry-specific guideline and credit policy baseline for credit approval, improving policies of credit client acceptance and decline, and optimising its economic capital management and credit risk limit management, which facilitates the improvement in asset quality. The Bank manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the personal credit business, the Bank relies on credit assessment of applicants as the basis for loan approval. Assessment on the income level, credit history, and repayment ability of the applicant is required. The Bank monitors borrowers' repayment ability, the status of collateral and any changes to collateral's value. Once a loan becomes overdue, the Bank starts the recovery process according to standard personal loan recovery procedures.

## Financial Statements

### 54 Risk management (continued)

#### (1) Credit risk (continued)

To mitigate risks, where appropriate, the Bank requests customers to provide collateral and guarantees. It also sets guidelines as to the use and suitability of specific types of collateral. Collateral structures and legal covenants are regularly reviewed to ensure that they still serve their intended purposes and conform to market practices.

In respect of the loan portfolio, the Bank adopts a risk based loan classification methodology. The Bank classifies the loans into five categories, with more detailed classification on performing loans. The loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

#### (a) Maximum exposure

Maximum exposure to credit risk at the end of the relevant periods without taking into consideration any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	2012	2011
Deposits with central banks	176,070,182	146,101,332
Deposits with banks and non-bank financial institutions	64,121,338	45,358,675
Placements with banks and non-bank financial institutions	26,235,311	18,711,998
Trading financial assets	6,446,558	2,293,364
Derivative assets held for trading	2,121,621	394,458
Financial assets held under resale agreements	177,482,650	93,391,188
Interest receivable	3,625,776	2,879,241
Loans and advances to customers	600,260,789	523,444,906
Available-for-sale debt securities	52,227,437	31,786,504
Held-to-maturity investments	32,935,919	30,890,846
Debt securities classified as receivables	6,678,444	1,565,453
Others	2,080,860	6,634,847
Sub-total	1,150,286,885	903,452,812
Loan commitments and other credit related commitments	98,674,805	65,394,874
Financial guarantees and other credit related contingent liabilities	262,417,907	256,233,279
Sub-total	361,092,712	321,628,153
Maximum exposure to credit risk	1,511,379,597	1,225,080,965

## Financial Statements

**54 Risk management (continued)****(1) Credit risk (continued)****(b) Financial assets analysed by credit quality are summarised as follows:**

As at 31 December 2012					
	Loans and advances	Deposits/ placements with banks and non-bank financial institutions	Financial assets held under resale agreements	Investments (i)	Others (ii)
Impaired					
Individually assessed					
gross amount	7,625,016	1,000	-	60,714	96,637
Allowances for impairment losses	(4,816,580)	(1,000)	-	(60,714)	(87,775)
Sub-total	2,808,436	-	-	-	8,862
Collectively assessed					
gross amount	1,486,069	-	-	-	-
Allowances for impairment losses	(1,418,048)	-	-	-	-
Sub-total	68,021	-	-	-	-
Overdue but not impaired					
Gross amount					
Less than 3 months	10,379,155	-	-	-	-
More than 3 months but not more than 6 months	137,304	-	-	-	-
More than 6 months but not more than one year	47,050	-	-	-	-
	10,563,509	-	-	-	-
Allowances for impairment losses					
Less than 3 months	(1,355,968)	-	-	-	-
More than 3 months but not more than 6 months	(17,372)	-	-	-	-
More than 6 months but not more than one year	(5,953)	-	-	-	-
	(1,379,293)	-	-	-	-
Sub-total	9,184,216	-	-	-	-
Neither overdue nor impaired					
Gross amount	596,074,916	90,356,649	177,482,650	98,288,358	7,819,395
Allowances for impairment losses	(7,874,800)	-	-	-	-
Sub-total	588,200,116	90,356,649	177,482,650	98,288,358	7,819,395
Book value	600,260,789	90,356,649	177,482,650	98,288,358	7,828,257

## Financial Statements

### 54 Risk management (continued)

#### (1) Credit risk (continued)

#### (b) Financial assets analysed by credit quality are summarised as follows (continued):

	As at 31 December 2011				
	Loans and advances	Deposits/ placements with banks and non-bank financial institutions	Financial assets held under resale agreements	Investments (i)	Others (ii)
Impaired					
Individually assessed					
gross amount	6,047,080	1,000	-	60,335	853,089
Allowances for impairment losses	(4,125,570)	(1,000)	-	(52,774)	(71,872)
Sub-total	1,921,510	-	-	7,561	781,217
Collectively assessed					
gross amount	1,183,770	-	-	-	216,371
Allowances for impairment losses	(1,133,666)	-	-	-	(62,692)
Sub-total	50,104	-	-	-	153,679
Overdue but not impaired					
Gross amount					
Less than 3 months	6,133,883	-	-	-	-
More than 3 months					
but not more than 6 months	13,428	-	-	-	-
More than 6 months					
but not more than one year	281	-	-	-	-
	6,147,592	-	-	-	-
Allowances for impairment losses					
Less than 3 months	(1,173,741)	-	-	-	-
More than 3 months					
but not more than 6 months	(2,569)	-	-	-	-
More than 6 months					
but not more than one year	(54)	-	-	-	-
	(1,176,364)	-	-	-	-
Sub-total	4,971,228	-	-	-	-
Neither overdue nor impaired					
Gross amount	526,784,627	64,070,673	93,391,188	66,528,606	8,973,650
Allowances for impairment losses	(10,282,563)	-	-	-	-
Sub-total	516,502,064	64,070,673	93,391,188	66,528,606	8,973,650
Book value	523,444,906	64,070,673	93,391,188	66,536,167	9,908,546

## Financial Statements

**54 Risk management (continued)****(1) Credit risk (continued)****(b) Financial assets analysed by credit quality are summarised as follows (continued):**

- (i) Investments comprise trading financial assets, available-for-sale financial assets (excluded equity investment), held-to-maturity investments and debt securities classified as receivables.
- (ii) Others comprise derivative financial assets, interests receivable, receivables on transfer of non-performing assets, advances and receivables for wealth management products, suspense account for clearing, import bills refinancing pending for settlement, other receivables (excluded related allowances for impairment losses).

**(c) Credit rating**

The Bank adopts a credit rating approach to manage the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	2012	2011
Impaired		
Individually assessed		
Gross amount	60,714	60,335
Allowances for impairment losses	(60,714)	(52,774)
Sub-total	-	7,561
Neither overdue nor impaired		
Bloomberg Composite		
AA- to AA+	19,081	20,055
A- to A+	138,452	157,000
Lower than A-	29,347	29,829
	186,880	206,884
Other agency ratings		
AAA	31,353,965	61,397,651
AA- to AA+	56,932,199	759,216
A- to A+	2,854,413	3,878,032
	91,140,577	66,034,899
Unrated	1,710,686	286,823
Sub-total	93,038,143	66,528,606
Total	93,038,143	66,536,167



## Financial Statements

### 54 Risk management (continued)

#### (2) Market risk

Market risk is the risk of potential loss for the Bank arising from adverse movements of market price (such as interest rates, foreign exchange rates, commodity price, stock price and other price). The market risk of the Bank primarily arises from its participation in the market activities of various asset and liabilities related business and products.

The Bank has established a market risk management system framework according to the “Commercial Bank Market Risk Management Guidance” issued by the CBRC. With the approval of the board of Directors, the Bank has established Risk Management Committee and Connected Transaction Control Committee to lead the market risk management of the Bank. The Bank nominates a Chief Risk Officer, who is authorised by the board of Directors to establish, periodically review and monitor policies, procedures and detailed operational regulations of credit management, supervise and evaluate comprehensive market risk management. The Risk Management Department is responsible for managing and monitoring market risk, and reporting to Senior Management and Risk Management Committee independently.

The Bank’s risk control methods includes, to identify, measure and monitor market risk through a long period of monitoring, exposure analysis, sensitivity analysis, and scenario analysis; to set up market risk limiting system, which mainly consists of interest sensitivity indicators, and to monitor the usage status of market risk limits. By performing deliberation procedures on new products and complicated transactional business, the Bank will ensure that market risks of new business will be identified and assessed as early as possible. The Bank has executed the pressure test for market risk in accordance with CBRC’s requirements under prudent condition. The Bank has applied new asset-liability management information system in order to manage the items on the assets and liabilities, including bank accounts and trading accounts.

#### (a) Interest rate risk

Interest rate risk is the likelihood of loss that may arise from movements in market interest rate. The Bank predicts interest rate risk exposure by studying future interest rate movements with various macroeconomic indicators, and predicts future funding movements and trends within the Bank by referring to the Bank’s funding costs, capital adequacy ratios, growth of loans and deposits and other factors, so as to study the interest rate risk appetite of the Bank.

The Bank mainly manages interest rate risks with asset portfolio. Asset portfolio aims at diversifying risks and improves profitability with diversification of assets.

## Financial Statements

**54 Risk management (continued)****(2) Market risk (continued)****(a) Interest rate risk (continued)**

At present the Renminbi interest rate risk mainly represents risk arising from interest rate policy fluctuations and the mismatch of interest sensitive assets and liabilities. The Renminbi interest rate risk management of the Bank mainly includes:

- (1) Interest rate trend expectation. The Bank closely reviews the interest rate policies to identify the interest rate risks in order to justify interest rate risk limit and the control of risk exposure;
- (2) Constraint of investment trade by risk benchmark. This is followed by regular reassessment;
- (3) Modification of investment portfolio and financing structure on the market expectation;
- (4) Establishment of authorisation limit on Renminbi deposit and loan interest rate system; and
- (5) Establishment of assets and liabilities management and internal transfer pricing system and control interest rate risk exposure by various financial tools.

The interest rate risk management of the Bank mainly includes:

- (1) Interest rate risk measurement. Currently, the Bank has realised the precise measurement of interest rate risk for Head Office treasury and investment. The independent middle process of market risk management has commenced timely monitoring on open interest rate risk. The interest rate risk management system for deposit and loans accounts, i.e. Asset-Liability Management System is already in use;
- (2) Ascertaining the interest rate risk quota, i.e. adopting the appropriate open interest rate according to the transaction development and affordability of the Bank; and
- (3) The judgment of staffs that are responsible for operation on the trend of interest rate of international major currencies is reflected in Head Office's treasury and investment portfolio. The long term foreign currency loan balance of the Bank remains insignificant. The increased foreign currency loan business mainly consists of trade finance, and the terms do not exceed 1 year, which is nearly equivalent with the period of foreign currency capital.

## Financial Statements

### 54 Risk management (continued)

#### (2) Market risk (continued)

##### (a) Interest rate risk (continued)

The Bank uses sensitivity analysis to measure the potential effect of changes in interest rates on the Bank's net profit and equity. The following table sets forth the results of the Bank's interest rate sensitivity analysis on the assets and liabilities with an assumption that all other variables held constant.

	Sensitivity of net profit	
	2012	2011
Change in basis points		
+100 basis points	454,760	492,839
-100 basis points	(454,760)	(492,839)

	Sensitivity of equity	
	2012	2011
Change in basis points		
+100 basis points	(1,153,489)	(454,608)
-100 basis points	1,230,449	475,372

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Bank's assets and liabilities within a year, on annualised net profit and equity. The analysis is based on the following assumptions:

- (i) All assets and liabilities that reprice or are due within one year reprice or are due at the beginning of the respective periods;
- (ii) There is a parallel shift in the yield curve and in interest rates; and
- (iii) There are no other changes to the portfolio.

The sensitivity of the net profit is the effect of the assumed changes in interest rates on the net interest income, based on the financial assets and financial liabilities held at year end subject to re-pricing within the coming year and the fair value change on fixed income trading securities.

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at year end for the effects of the assumed changes in interest rates.

## Financial Statements

**54 Risk management (continued)****(2) Market risk (continued)****(a) Interest rate risk (continued)**

The interest rate sensitivities set out in the tables above are for illustration only and are based on simplified scenarios. The figures represent the effect of the pro forma movements in net profit and equity based on the projected yield curve scenarios and the Bank's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of this interest rate risk. The projections above also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net profit and equity of some rates changing while others remain unchanged.

Based on the above assumptions, actual changes in the Bank's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

The following tables indicate the effective interest rates for the respective year, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities as at the end of the relevant periods.

	2012						Total
	(i) Effective interest rate	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	
<b>Assets</b>							
Cash and balances with central banks	1.53%	5,559,850	175,216,275	-	-	-	180,776,125
Deposits and placements with banks and non-bank financial institutions	3.56%	-	57,563,869	32,792,780	-	-	90,356,649
Financial assets held under resale agreements	4.94%	-	111,622,944	65,830,043	29,663	-	177,482,650
Loans and advances to customers	6.83%	-	272,601,121	327,659,668	-	-	600,260,789
Investments (ii)	3.78%	187,282	10,920,519	11,477,536	43,397,447	32,492,856	98,475,640
Others		20,798,010	-	-	-	-	20,798,010
<b>Total assets</b>		<b>26,545,142</b>	<b>627,924,728</b>	<b>437,760,027</b>	<b>43,427,110</b>	<b>32,492,856</b>	<b>1,168,149,863</b>
<b>Liabilities</b>							
Deposits and placements from banks and non-bank financial institutions	4.52%	-	(140,103,753)	(38,516,958)	-	-	(178,620,711)
Financial assets sold under repurchase agreements	3.82%	-	(36,756,613)	-	-	-	(36,756,613)
Deposits of customers	2.69%	(1,321,697)	(491,721,975)	(199,635,966)	(159,296,413)	(4,189,984)	(856,166,035)
Subordinated bonds	5.98%	-	-	(700,000)	(9,300,000)	(4,500,000)	(14,500,000)
Others		(18,578,417)	-	-	-	-	(18,578,417)
<b>Total liabilities</b>		<b>(19,900,114)</b>	<b>(668,582,341)</b>	<b>(238,852,924)</b>	<b>(168,596,413)</b>	<b>(8,689,984)</b>	<b>(1,104,621,776)</b>
<b>Liquidity gap</b>		<b>6,645,028</b>	<b>(40,657,613)</b>	<b>198,907,103</b>	<b>(125,169,303)</b>	<b>23,802,872</b>	<b>63,528,087</b>

## Financial Statements

### 54 Risk management (continued)

#### (2) Market risk (continued)

##### (a) Interest rate risk management (continued)

	2011						Total
	(i) Effective interest rate	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	
Assets							
Cash and balances							
with central banks	1.52%	4,333,294	145,610,712	-	-	-	149,944,006
Deposits and placements							
with banks and non-bank financial institutions	3.89%	-	57,788,511	5,282,162	1,000,000	-	64,070,673
Financial assets held							
under resale agreements	5.46%	-	59,839,065	33,442,763	109,360	-	93,391,188
Loans and advances to							
customers	6.43%	-	227,644,227	295,800,679	-	-	523,444,906
Investments (ii)	3.52%	160,353	4,308,701	14,131,113	37,077,157	11,019,196	66,696,520
Others		16,021,334	4,292,323	1,120,869	-	-	21,434,526
Total assets		20,514,981	499,483,539	349,777,586	38,186,517	11,019,196	918,981,819
Liabilities							
Deposits and placements							
from banks and non-bank financial institutions	4.53%	-	(35,543,709)	(35,387,226)	(6,080,966)	-	(77,011,901)
Financial assets sold under							
repurchase agreements	4.57%	-	(15,690,830)	-	-	-	(15,690,830)
Deposits of customers	2.13%	(1,233,169)	(454,751,211)	(163,135,041)	(116,668,706)	(6,749,818)	(742,537,945)
Subordinated bonds	6.01%	-	-	(700,000)	(9,300,000)	-	(10,000,000)
Others		(15,621,973)	(4,292,323)	(1,120,867)	-	-	(21,035,163)
Total liabilities		(16,855,142)	(510,278,073)	(200,343,134)	(132,049,672)	(6,749,818)	(866,275,839)
Liquidity gap		3,659,839	(10,794,534)	149,434,452	(93,863,155)	4,269,378	52,705,980

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) Investments comprise trading financial assets, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

## Financial Statements

**54 Risk management (continued)****(2) Market risk (continued)****(b) Foreign currency risk**

The Bank's reporting currency is Renminbi. Some transactions involve the U.S. dollar and Hong Kong dollars and few of other currency transactions. The Bank's foreign currency risk comprises exposures that arise from foreign currency portfolio originated from daily treasury business and loans and advances to customers, balances from financial institutions, investments and deposits from customers.

The foreign currency risks of the trading book include the risks arising from foreign currency transactions on behalf of the customers and the corresponding squared transactions, as well as proprietary short term foreign currency transactions. The Bank manages the foreign currency risk mainly by imposing quota on the transaction (including the quota on the exposure and stop loss). The Bank evaluates the currency risk with quarterly pressure test. The retail foreign currency businesses are operated on an automated trading system. The Bank can monitor the exposure timely. The treatment of transactions and risk management system in the Head office of the Bank are able to measure and monitor the currency position created by various transactions timely. Besides, the Bank manages its foreign currency risk through matching the spot and forward transaction in foreign currency of financial assets and paired liabilities, and manages its foreign currency assets liabilities portfolio and structured position with using derivative appropriately such as FX swap contracts and FX interest rate swap.

The Bank uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Bank's net profit or loss and equity. The following table sets forth, as at the end of the relevant periods, the results of the Bank's exchange rates sensitivity analysis on the assets and liabilities at the same date with an assumption that all other variables held constant.

	Sensitivity of net profit	
	2012	2011
Change in foreign currency exchange rate		
Appreciation against RMB by 1%	(139,997)	933
Depreciation against RMB by 1%	139,997	(933)

	Sensitivity of equity	
	2012	2011
Change in foreign currency exchange rate		
Appreciation against RMB by 1%	2,306	1,160
Depreciation against RMB by 1%	(2,306)	(1,160)

## Financial Statements

### 54 Risk management (continued)

#### (2) Market risk (continued)

##### (b) Foreign currency risk (continued)

The analysis is based on the following assumptions:

- (i) the foreign currency sensitivity is the gain or loss recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against Renminbi at the end of the year;
- (ii) the exchange rates against Renminbi for all foreign currencies change in the same direction simultaneously; and
- (iii) the foreign currency exposures calculated include both spot foreign currency exposures, forward foreign currency exposures.

The sensitivity analysis on net profit illustrates the potential impact of an appreciation of Renminbi against other foreign currencies based on the net foreign currency exposure and the fair value change on Renminbi foreign currency derivative. The effects on equity are based on the exchange differences of off-shore financial statement booked by foreign currency convert to Renminbi and the exchange differences of non-monetary available-for-sale equity convert to Renminbi.

Sensitivity analysis is based on the static structure of exchange rate of assets and liabilities as above, but it is not taken into account that the Bank might adopt strategies of eliminating negative effects on profits from foreign currency position. Therefore, the estimation of above may be different with the actual situation.

## Financial Statements

**54 Risk management (continued)****(2) Market risk (continued)****(b) Foreign currency risk (continued)**

The Bank's currency exposure at the balance sheet date was as follows:

	2012				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Others RMB equivalent	
Assets					
Cash and balances with central banks	179,224,766	1,010,086	252,749	288,524	180,776,125
Deposits and placements with banks and non-bank financial institutions	68,419,026	19,589,697	1,192,377	1,155,549	90,356,649
Financial assets held under resale agreements	177,482,650	-	-	-	177,482,650
Loans and advances to customers	577,921,251	19,487,441	2,181,435	670,662	600,260,789
Investments	98,191,001	284,639	-	-	98,475,640
Others	20,242,573	469,732	14,256	71,449	20,798,010
Total assets	1,121,481,267	40,841,595	3,640,817	2,186,184	1,168,149,863
Liabilities					
Deposits and placements from banks and non-bank financial institutions	(143,473,278)	(30,764,629)	(429,360)	(3,953,444)	(178,620,711)
Financial assets sold under repurchase agreements	(36,756,613)	-	-	-	(36,756,613)
Deposits from customers	(826,233,186)	(22,121,370)	(5,736,777)	(2,074,702)	(856,166,035)
Subordinated bonds issued	(14,500,000)	-	-	-	(14,500,000)
Others	(18,015,386)	(417,348)	(113,264)	(32,419)	(18,578,417)
Total liabilities	(1,038,978,463)	(53,303,347)	(6,279,401)	(6,060,565)	(1,104,621,776)
Net position of assets/(liabilities)	82,502,804	(12,461,752)	(2,638,584)	(3,874,381)	63,528,087
Notional amount of exchange rate derivatives					
Forward purchase	30,182,511	30,708,594	2,121,137	6,659,298	69,671,540
Forward sale	(28,524,204)	(37,435,992)	(727,259)	(2,892,943)	(69,580,398)
	1,658,307	(6,727,398)	1,393,878	3,766,355	91,142



## Financial Statements

### 54 Risk management (continued)

#### (2) Market risk (continued)

##### (b) Foreign currency risk (continued)

	2011				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Others RMB equivalent	
Assets					
Cash and balances with central banks	149,003,330	539,827	217,787	183,062	149,944,006
Deposits and placements with banks and non-bank financial institutions	58,602,519	4,499,423	701,024	267,707	64,070,673
Financial assets held under resale agreements	93,391,188	-	-	-	93,391,188
Loans and advances to customers	510,288,022	10,808,405	2,043,409	305,070	523,444,906
Investments	66,224,030	472,490	-	-	66,696,520
Others	16,933,937	2,192,519	1,656,296	651,774	21,434,526
<b>Total assets</b>	<b>894,443,026</b>	<b>18,512,664</b>	<b>4,618,516</b>	<b>1,407,613</b>	<b>918,981,819</b>
Liabilities					
Deposits and placements from banks and non-bank financial institutions	(74,201,712)	(2,340,685)	(464,601)	(4,903)	(77,011,901)
Financial assets sold under repurchase agreements	(15,690,830)	-	-	-	(15,690,830)
Deposits from customers	(727,699,614)	(9,097,535)	(4,349,152)	(1,391,644)	(742,537,945)
Subordinated bonds issued	(10,000,000)	-	-	-	(10,000,000)
Others	(15,247,031)	(5,504,849)	(118,335)	(164,948)	(21,035,163)
<b>Total liabilities</b>	<b>(842,839,187)</b>	<b>(16,943,069)</b>	<b>(4,932,088)</b>	<b>(1,561,495)</b>	<b>(866,275,839)</b>
Net position of assets/(liabilities)	51,603,839	1,569,595	(313,572)	(153,882)	52,705,980
Notional amount of exchange rate derivatives					
Forward purchase	16,088,426	15,153,069	2,340,312	635,652	34,217,459
Forward sale	(14,807,363)	(18,362,331)	(676,066)	(316,611)	(34,162,371)
	1,281,063	(3,209,262)	1,664,246	319,041	55,088

## Financial Statements

**54 Risk management (continued)****(3) Liquidity risk**

Liquidity risk is the risk that the Bank will encounter difficulties with reasonable cost in meeting demands associated with its due payables, new granted loans and reasonable financing that can be settled by financial assets.

The Head Office supervises the liquidity risk of the whole bank, and the management is carried out from top to down and on a hierarchy management sequence. At the Head Office level, liquidity is managed and coordinated by the Assets and Liabilities Management Committee. The Assets and Liabilities Management Committee is responsible for formulation of liquidity policies in accordance with the regulatory requirements and monthly supervision of the liquidity risk ratio. The Finance Department monitors the liquidity according to the specified policies and liquidity risk ratio monthly. In order to ensure the liquidity of the Bank, the Treasury Department is responsible for day to day executing the liquidity management through reasonable assets and liabilities matching and inter-bank market placement. The Risk Management Department is responsible for managing the Bank's liquidity as a whole.

The liquidity policies for the Bank include: projecting the fund inflow and outflows according to the market to maintain adequacy of the fund; supervising the liquidity ratio such as the proportion of fund and the changed structure of cash and other interest generating assets to fulfil the need of future liquidity requirement; establishing the multi-layer liquidity measures; establishing sound foundation of liability business, increasing the proportion of core deposit to maintain the good financing ability; building sound credit risk management; establishing the liquidity risk warning system and emergency plan; execute periodic pressure test of liquidity risk to identify the indicators which might bring up liquidity risk.

## Financial Statements

### 54 Risk management (continued)

#### (3) Liquidity risk (continued)

##### (a) Maturity analysis

The following tables provide an analysis of the assets and liabilities of the Bank based on the remaining periods to repayment at the balance sheet date:

	2012							Total
	Undated	Overdue/ repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years	
Assets:								
Cash and deposits with central bank	140,185,112	40,591,013	-	-	-	-	-	180,776,125
Deposits and placements with banks and non-bank financial institutions	-	21,409,430	34,948,779	1,205,660	32,792,780	-	-	90,356,649
Financial assets held under resale agreements	-	-	46,066,135	65,556,809	65,830,043	29,663	-	177,482,650
Loans and advances to customer (i)	4,205,303	70,170,980	24,554,603	65,521,098	258,744,742	78,148,849	98,915,214	600,260,789
Investments (ii)	187,282	-	1,787,557	8,475,213	9,708,017	45,609,888	32,707,683	98,475,640
Other assets	12,358,470	1,325,459	2,323,311	1,149,087	2,150,226	1,168,590	322,867	20,798,010
<b>Total assets</b>	<b>156,936,167</b>	<b>133,496,882</b>	<b>109,680,385</b>	<b>141,907,867</b>	<b>369,225,808</b>	<b>124,956,990</b>	<b>131,945,764</b>	<b>1,168,149,863</b>
Liabilities:								
Deposits and placements from banks and non-bank financial institutions	-	(10,256,485)	(72,106,896)	(57,740,372)	(38,516,958)	-	-	(178,620,711)
Financial assets sold under repurchase agreements	-	-	(33,328,536)	(3,428,077)	-	-	-	(36,756,613)
Deposits from customers	-	(331,007,117)	(72,411,287)	(89,625,268)	(199,635,966)	(159,296,413)	(4,189,984)	(856,166,035)
Subordinated bonds issued	-	-	-	-	(5,000,000)	(5,000,000)	(4,500,000)	(14,500,000)
Other liabilities	-	(2,341,610)	(2,931,286)	(3,527,846)	(7,892,971)	(1,823,668)	(61,036)	(18,578,417)
<b>Total liabilities</b>	<b>-</b>	<b>(343,605,212)</b>	<b>(180,778,005)</b>	<b>(154,321,563)</b>	<b>(251,045,895)</b>	<b>(166,120,081)</b>	<b>(8,751,020)</b>	<b>(1,104,621,776)</b>
<b>Long/(short) position</b>	<b>156,936,167</b>	<b>(210,108,330)</b>	<b>(71,097,620)</b>	<b>(12,413,696)</b>	<b>118,179,913</b>	<b>(41,163,091)</b>	<b>123,194,744</b>	<b>63,528,087</b>
Notional amounts of derivative								
- Foreign currency contracts	-	-	21,013,490	38,572,733	29,156,060	460,868	-	89,203,151
- Interest rate instruments	-	-	8,201,384	11,474,669	38,117,101	27,803,018	-	85,596,172
- Other derivatives	-	-	8,051,574	8,342,543	37,911,092	768,950	-	55,074,159
	-	-	37,266,448	58,389,945	105,184,253	29,032,836	-	229,873,482

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**54 Risk management (continued)****(3) Liquidity risk (continued)****(a) Maturity analysis (continued)**

	2011							Total
	Undated	Overdue/ repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years	
Assets:								
Cash and deposits with central bank	116,454,944	33,489,062	-	-	-	-	-	149,944,006
Deposits and placements with banks and non-bank financial institutions	-	3,844,175	48,059,809	5,884,527	5,282,162	1,000,000	-	64,070,673
Financial assets held under resale agreements	-	-	40,153,175	19,685,890	33,442,763	109,360	-	93,391,188
Loans and advances to customer (i)	2,361,367	48,639,518	22,127,372	43,688,626	223,062,539	82,059,844	101,505,640	523,444,906
Investments (ii)	160,353	-	1,163,031	1,569,029	13,150,500	37,965,784	12,687,823	66,696,520
Other assets	10,116,483	914,130	3,186,280	4,233,744	2,126,878	837,337	19,674	21,434,526
<b>Total assets</b>	<b>129,093,147</b>	<b>86,886,885</b>	<b>114,689,667</b>	<b>75,061,816</b>	<b>277,064,842</b>	<b>121,972,325</b>	<b>114,213,137</b>	<b>918,981,819</b>
Liabilities:								
Deposits and placements from banks and non-bank financial institutions	-	(10,586,769)	(17,736,598)	(7,220,342)	(35,387,226)	(6,080,966)	-	(77,011,901)
Financial assets sold under repurchase agreements	-	-	(15,683,430)	(7,400)	-	-	-	(15,690,830)
Deposits from customers	-	(312,590,559)	(68,469,168)	(74,924,653)	(163,135,041)	(116,668,706)	(6,749,818)	(742,537,945)
Subordinated bonds issued	-	-	-	-	-	(10,000,000)	-	(10,000,000)
Other liabilities	-	(3,685,780)	(3,872,511)	(4,159,112)	(8,054,857)	(1,148,871)	(114,032)	(21,035,163)
<b>Total liabilities</b>	<b>-</b>	<b>(326,863,108)</b>	<b>(105,761,707)</b>	<b>(86,311,507)</b>	<b>(206,577,124)</b>	<b>(133,898,543)</b>	<b>(6,863,850)</b>	<b>(866,275,839)</b>
<b>Long/(short) position</b>	<b>129,093,147</b>	<b>(239,976,223)</b>	<b>8,927,960</b>	<b>(11,249,691)</b>	<b>70,487,718</b>	<b>(11,926,218)</b>	<b>107,349,287</b>	<b>52,705,980</b>
Notional amounts of derivative								
- Foreign currency contracts	-	-	12,374,556	13,236,838	16,868,351	121,744	-	42,601,489
- Interest rate instruments	-	-	2,817,203	3,979,749	5,115,000	6,138,380	200,000	18,250,332
- Other derivatives	-	-	796,000	2,038,734	200,000	-	-	3,034,734
	-	-	15,987,759	19,255,321	22,183,351	6,260,124	200,000	63,886,555

- (i) For loans and advances to customers, the “indefinite period” represents the balance being impaired or overdue for more than one month. The balance not impaired and overdue within one month is included in “overdue/repayable” on demand. They are disclosed with net value measured at cost less impairment losses.
- (ii) Investments comprise trading financial assets, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables.

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### 54 Risk management (continued)

#### (3) Liquidity risk (continued)

##### (b) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial assets and liabilities of the Bank at the balance sheet date. The Bank's expected cash flows on these instruments may vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stably increasing balance.

	2012							
	Carrying amount	Gross nominal cash inflow/ (outflow)	Overdue/ repayment on demand	Within 1 months	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years
Non-derivative instrument cash flow:								
Financial assets:								
Cash and balances with central bank	180,776,125	180,776,125	140,185,112	40,591,013	-	-	-	-
Deposits and placements with banks and non-bank financial institutions	90,356,649	91,490,184	-	21,409,430	35,092,805	1,443,541	33,544,408	-
Financial assets held under resale agreements	177,482,650	179,051,956	-	-	46,115,459	66,000,885	66,905,470	30,142
Loans and advances to customer	600,260,789	692,440,244	4,209,206	70,171,118	24,612,498	66,128,722	269,272,422	94,042,929
Investments (i)	98,475,640	113,139,052	187,282	-	1,881,274	8,499,067	13,031,796	53,296,563
Other financial assets (ii)	7,320,033	7,320,033	1,002,114	1,325,459	2,079,835	878,445	773,809	937,504
Total assets	1,154,671,886	1,264,217,594	145,583,714	133,497,020	109,781,871	142,950,660	383,527,905	148,307,138
Non-derivative instrument cash flow:								
Financial liabilities:								
Deposits and placements from banks and non-bank financial institutions	(178,620,711)	(179,776,036)	-	(10,256,485)	(72,499,050)	(58,222,751)	(38,797,750)	-
Financial assets sold under repurchase agreements	(36,756,613)	(36,758,847)	-	-	(33,329,791)	(3,429,056)	-	-
Deposits from customers	(856,166,035)	(873,705,945)	-	(331,007,117)	(73,507,358)	(91,454,176)	(204,948,132)	(168,317,402)
Subordinated bonds issued	(14,500,000)	(18,512,550)	-	-	-	(5,845,450)	(7,159,100)	(5,508,000)
Other financial liabilities (iii)	(16,587,452)	(16,587,452)	-	(2,341,610)	(2,690,515)	(3,295,026)	(6,569,293)	(1,629,972)
Total liabilities	(1,102,630,811)	(1,125,340,830)	-	(343,605,212)	(182,026,714)	(156,401,009)	(256,160,625)	(177,106,474)
Derivative cash flow:								
Derivative financial instruments settled on gross basis								
of which - Total inflow		70,049,114	-	-	21,252,420	18,710,931	29,559,112	526,651
- Total outflow		(69,961,208)	-	-	(21,247,153)	(18,674,284)	(29,512,421)	(527,350)
Derivative financial instruments settled on net basis		(11,470)	-	-	-	84,481	103,909	(199,860)
		76,436	-	-	5,267	121,128	150,600	(200,559)

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**54 Risk management (continued)****(3) Liquidity risk (continued)****(b) Contractual undiscounted cash flow (continued)**

	2011								
	Carrying amount	Gross nominal cash inflow/ (outflow)	Undated	Overdue/ repayment on demand	Within 1 months	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	More than 5 years
Non-derivative instrument cash flow:									
Financial assets:									
Cash and balances with central bank	149,944,006	149,944,006	116,454,944	33,489,062	-	-	-	-	-
Deposits and placements with banks and non-bank financial institutions	64,070,673	64,503,716	-	3,844,175	48,232,600	5,968,593	5,457,366	1,000,982	-
Financial assets held under resale agreements	93,391,188	94,493,920	-	-	40,202,967	19,851,938	34,325,327	113,688	-
Loans and advances to customer	523,444,906	608,153,000	2,469,555	48,647,140	22,182,015	44,116,827	231,713,888	97,801,501	161,222,074
Investments (i)	66,696,520	74,342,123	160,353	-	1,242,569	1,616,609	15,249,373	42,228,711	13,844,508
Other financial assets (ii)	11,677,530	11,845,432	753,945	914,130	3,090,763	4,268,643	2,005,975	792,760	19,216
<b>Total assets</b>	<b>909,224,823</b>	<b>1,003,282,197</b>	<b>119,838,797</b>	<b>86,894,507</b>	<b>114,950,914</b>	<b>75,822,610</b>	<b>288,751,929</b>	<b>141,937,642</b>	<b>175,085,798</b>
Non-derivative instrument cash flow:									
Financial liabilities:									
Deposits and placements from banks and non-bank financial institutions	(77,011,901)	(78,354,903)	-	(10,586,769)	(17,974,653)	(7,654,682)	(35,996,620)	(6,142,179)	-
Financial assets sold under repurchase agreements	(15,690,830)	(15,691,211)	-	-	(15,683,811)	(7,400)	-	-	-
Deposits from customers	(742,537,945)	(753,569,843)	-	(312,590,559)	(69,171,558)	(76,074,910)	(166,409,693)	(122,213,878)	(7,109,245)
Subordinated bonds issued	(10,000,000)	(12,093,000)	-	-	-	-	(297,250)	(11,795,750)	-
Other financial liabilities (iii)	(20,658,437)	(20,678,120)	-	(3,685,780)	(3,786,751)	(4,061,512)	(7,967,302)	(1,065,430)	(111,345)
<b>Total liabilities</b>	<b>(865,899,113)</b>	<b>(880,387,077)</b>	<b>-</b>	<b>(326,863,108)</b>	<b>(106,616,773)</b>	<b>(87,798,504)</b>	<b>(210,670,865)</b>	<b>(141,217,237)</b>	<b>(7,220,590)</b>
Derivative cash flow:									
Derivative financial instruments settled on gross basis									
of which - Total inflow		34,222,487	-	-	9,911,195	8,257,580	15,931,675	122,037	-
- Total outflow		(34,164,915)	-	-	(9,898,100)	(8,250,340)	(15,898,255)	(118,220)	-
Derivative financial instruments settled on net basis		(66,690)	-	-	-	(18,508)	(9,971)	(38,211)	-
		(9,118)	-	-	13,095	(11,268)	23,449	(34,394)	-

## Financial Statements

### 54 Risk management (continued)

#### (3) Liquidity risk (continued)

##### (b) Contractual undiscounted cash flow (continued)

- (i) Investments comprise trading financial assets, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables.
- (ii) Other financial assets comprise interest receivable and other assets.
- (iii) Other financial liabilities comprise accrued staff costs, tax payable, interest payable, provisions and other liabilities.

##### (c) Analysis of credit commitment by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of commitments.

	Repayable on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
31 December 2012							
- credit commitments	97,576,736	37,397,932	88,332,364	126,957,341	6,954,988	3,873,351	<b>361,092,712</b>
31 December 2011							
- credit commitments	65,440,278	34,236,412	87,626,332	124,396,555	6,191,366	3,737,210	<b>321,628,153</b>

#### (4) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The Bank manages this risk through an internal control-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer system applications and management, safeguarding of assets and legal affairs. The Bank relies on the above to identify and monitor the operational risk inherent in all key products, activities, processes and systems.

## Financial Statements

### 54 Risk management (continued)

#### (5) Capital management

The Bank's capital management aims to optimise the shareholder's equity through structuring the proper asset management system, and it includes optimisation of asset structure and asset allocation between different business lines, which can be further specified as: (1) Developing schemes for asset supplement and optimising asset structure in order to fulfill the funding needs of different business; (2) Building up concept of asset constraint and allocating assets appropriately in order to enhance operating efficiency of assets; (3) Introducing review system with respect to asset efficiency to constrain the expanding ambition of the branches; (4) Improving risk management system in order to reduce the fund occupancy by risk-bearing assets; (5) Building up advanced enterprise culture and code of conduct including "Optimisation of Shareholder's Equity" and "Risk Covered by Fund".

The Bank calculates capital adequacy ratio in accordance with the guidelines issued by the CBRC. The capital of the Bank is analysed into core capital and supplementary capital.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while subordinated liabilities included in the supplementary capital shall not exceed 50% of the core capital.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects the Bank's sound operations and risk management capability. The Bank's capital adequacy ratio management objectives are to meet the legal and regulatory requirements and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading banks in the market and the Bank's operating situations.

The Bank predicts, plans, and manages the capital adequacy ratio by using scenario models and stress tests based on its strategic development plans, business expansion needs, and risk exposure trends.

#### Capital allocation

Maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular businesses or activities. It's also taken into account the synergies with other businesses and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the board of Directors.

The amount of capital allocated to each business or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles. The process of allocating capital to specific businesses and activities is undertaken by the Financial Department.



## Financial Statements

### 54 Risk management (continued)

#### (5) Capital management (continued)

##### Capital allocation (continued)

The Bank's regulatory capital positions calculated in accordance with the guidance issued by the CBRC (CBRC [2007] No. 11) is as follows:

	2012 (RMB Million)	2011 (RMB Million)
Total capital	85,295	72,023
Including: net core capital	63,360	52,224
Net risk-weighted assets	756,592	648,878
Capital adequacy ratio	11.27%	11.10%
Core capital adequacy ratio	8.37%	8.05%

### 55 Fair value of financial instruments

#### (1) Methods for fair value measurement

The Bank's financial assets and liabilities mainly include cash and deposits with central banks, deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions, trading financial assets, financial assets designated at fair value through profit or loss, derivative financial assets, financial assets held under resale agreements, loans and advances to customers, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables, deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements, deposits from customers, financial liabilities designated at fair value through profit or loss, derivative financial liabilities and subordinated bonds.

- (i) Financial assets including cash and deposits with central banks, deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions, financial assets held under resale agreements, and financial liabilities including deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying values approximate the fair values.
- (ii) Trading financial assets, financial assets and liabilities designated at fair value through profit or loss, derivative financial assets and liabilities and available-for-sale financial assets are stated at fair value unless the fair value is unable to be measured. For the financial instruments in active open market, the Bank adopts market price or market rate as the best estimate for their fair value. For the financial instruments without market price or market rate, the Bank determines the fair value of these financial assets and financial liabilities by discounted cash flow or other valuation methods.

## Financial Statements

**55 Fair value of financial instruments (continued)****(1) Methods for fair value measurement (continued)**

- (iii) The fair values of held-to-maturity investments and subordinated bonds are determined with reference to the available market value or quoted from brokers or agents. If market value does not have a quoted market price in an active market and whose fair value cannot be reliably measured, refer to yield of the product with similar characteristics such as credit risk and maturity, to estimate the fair value based on pricing model or discounted cash flow.
- (iv) The fair value of debt securities classified as receivables is priced by discounting cash flow based on maturity yield in accordance with similar financial instruments.
- (v) Loans and advances to customers are disclosed with net value measured at cost less impairment losses, and mostly priced at floating rates. Once PBOC's benchmark rate changes, loans and advances to customers will be repriced accordingly. Therefore, their carrying values approximate the fair values.
- (vi) Deposits from customers are mostly current account or saving deposits within one year, priced at floating rates approximating PBOC rates and due within one year. Accordingly, the carrying values approximate the fair values.

**(2) Financial instruments carried at other than fair value**

Except the following items, there is no other financial instruments carried at other than fair value with significant difference between the book value and fair value.

	Book value	
	2012	2011
Financial assets		
Debt securities classified as receivables	<b>6,678,444</b>	1,565,453
Held-to-maturity investments	<b>32,935,919</b>	30,890,846
	<b>39,614,363</b>	32,456,299
Financial liabilities		
Subordinated bonds issued	<b>14,500,000</b>	10,000,000

	Fair value	
	2012	2011
Financial assets		
Debt securities classified as receivables	<b>6,709,316</b>	1,625,042
Held-to-maturity investments	<b>32,885,530</b>	30,875,042
	<b>39,594,846</b>	32,500,084
Financial liabilities		
Subordinated bonds issued	<b>14,662,509</b>	10,067,684

## Financial Statements

### 55 Fair value of financial instruments (continued)

#### (3) Financial instruments carried at fair value

##### Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy. The difference levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

The table below analyses financial instruments, measured at fair value at the end of the relevant periods, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	Total
31 December 2012				
Available-for-sale financial assets (i)	60,718	52,263,072	-	52,323,790
Financial assets held for trading	-	6,446,558	-	6,446,558
Derivative financial assets	-	2,121,621	-	2,121,621
	60,718	60,831,251	-	60,891,969
Derivative financial liabilities	-	(1,990,965)	-	(1,990,965)
	-	(1,990,965)	-	(1,990,965)

	Level 1	Level 2	Level 3	Total
31 December 2011				
Available-for-sale financial assets (i)	61,296	31,794,632	-	31,855,928
Financial assets held for trading	-	2,293,364	-	2,293,364
Derivative financial assets	-	394,458	-	394,458
	61,296	34,482,454	-	34,543,750
Derivative financial liabilities	-	(376,726)	-	(376,726)
	-	(376,726)	-	(376,726)

## Financial Statements

**55 Fair value of financial instruments (continued)****(3) Financial instruments carried at fair value (continued)****Fair value hierarchy (continued)**

- (i) The amount excluded unlisted equity investments measured at cost.
- (ii) There was no significant transfer between level 1 and level 2 for the year.

The following table shows a reconciliation from the ending balances for fair value measurement in level 3 of the fair value hierarchy:

**Available-for-sale debt securities**

	2012	2011
At 1 January	-	165,556
Total loss recorded in profit or loss	-	(6,683)
Total gains recorded in other comprehensive income	-	-
Redeemed by issuer	-	(158,873)
At 31 December	-	-
Total gains or losses for the year/period included in profit or loss for assets and liabilities held at the end of the year/period	-	-

In level 3 of the fair value hierarchy, total gains or losses included in profit or loss for the year in the above table are presented in net gain arising from investment securities in the other comprehensive income (Note 47).

**56 Events after the reporting period**

There are no significant events after the reporting period.

# Directory of Branches and Subsidiaries

## Head Office

---

Address: Guangfa Bank Building, No. 713,  
Dongfengdong Road, Yuexiu District,  
Guangzhou, Guangdong  
Telephone: 020-38322888 (switchboard)  
Facsimile: 020-87310779  
Postcode: 510080  
Quantity of Institution: 1

## Beijing Branch

---

Address: No. 2 Dahua Road, Dongcheng District,  
Beijing  
Telephone: 010-65283775  
Facsimile: 010-65266728  
Postcode: 100005  
Quantity of Institution: 39

## Tianjin Branch

---

Address: Tianjin Mansion, Jiefangnan Road,  
Hexi District, Tianjin  
Telephone: 022-58566111, 58566188  
Facsimile: 022-58566229  
Postcode: 300042  
Quantity of Institution: 7

## Shenyang Branch

---

Address: No. 227 Qingnian Street, Shenhe District,  
Shenyang, Liaoning  
Telephone: 024-23985789  
Facsimile: 024-31303301  
Postcode: 110016  
Quantity of Institution: 17

## Dalian Branch

---

Address: No. 3 Zhongshan Plaza, Zhongshan District,  
Dalian, Liaoning  
Telephone: 0411-82553888  
Facsimile: 0411-82553258  
Postcode: 116001  
Quantity of Institution: 15

## Harbin Branch

---

Address: No. 4 West Dazhi Street, Nangang District,  
Harbin, Heilongjiang  
Telephone: 0451-85872906  
Facsimile: 0451-85872982  
Postcode: 150001  
Quantity of Institution: 10

## Shanghai Branch

---

Address: No. 555 Xujiahui Road, Shanghai  
Telephone: 021-63022233 (switchboard)  
Facsimile: 021-63901929  
Postcode: 200023  
Quantity of Institution: 28

## Nanjing Branch

---

Address: No. 47 Hunan Road, Gulou District,  
Nanjing, Jiangsu  
Telephone: 025-83305888 (switchboard)  
Facsimile: 025-83244601  
Postcode: 210009  
Quantity of Institution: 26

## Hangzhou Branch

---

Address: No. 516 Yan'an Road, Hangzhou, Zhejiang  
Telephone: 0571-87019888 (switchboard)  
Facsimile: 0571-87917852  
Postcode: 310006  
Quantity of Institution: 44

## Jinan Branch

---

Address: CGB Building, No. 15 Jingsi Road,  
Jinan, Shandong  
Telephone: 0531-66669201  
Facsimile: 0531-66669900  
Postcode: 250001  
Quantity of Institution: 1

## Zhengzhou Branch

---

Address: No. 10, CBD Waihuan Road,  
Zhengdong New District, Zhengzhou, Henan  
Telephone: 0371-68599907  
Facsimile: 0371-68599908  
Postcode: 450046  
Quantity of Institution: 29

## Wuhan Branch

---

Address: Sanxiahuanban Building,  
No. 8 Xinhua Road, Jiangnan District,  
Wuhan, Hubei  
Telephone: 027-85354567  
Facsimile: 027-85354848  
Postcode: 430015  
Quantity of Institution: 15

## Directory of Branches and Subsidiaries

### Changsha Branch

Address: Xinhua Building, No. 826, Wuyi Road,  
Changsha, Hunan  
Telephone: 0731-88336789  
Facsimile: 0731-88335788  
Postcode: 410005  
Quantity of Institution: 7

### Guangzhou Branch

Address: 1st and 24-28th/F, Nanyazhonghe Plaza,  
No. 57 Linjiangda Road,  
Pearl River New Town, Tianhe District,  
Guangzhou, Guangdong  
Telephone: 020-38988800  
Facsimile: 020-83503050  
Postcode: 510623  
Quantity of Institution: 57

### Shenzhen Branch

Address: 19-22/F West Block, Shopping Plaza,  
No. 123 Shennan East Road, Shenzhen,  
Guangdong  
Telephone: 0755-82380036  
Facsimile: 0755-82380002  
Postcode: 518001  
Quantity of Institution: 30

### Zhuhai Branch

Address: No. 68 Jingshan Road, Jida, Zhuhai,  
Guangdong  
Telephone: 0756-3250900 (switchboard)  
Facsimile: 0756-3250700  
Postcode: 519015  
Quantity of Institution: 13

### Shantou Branch

Address: 1-4/F, Chaoshanxinghe Building,  
Jinhuan Road, Shantou, Guangdong  
Telephone: 0754-88262689  
Facsimile: 0754-88262489  
Postcode: 515041  
Quantity of Institution: 28

### Foshan Branch

Address: CGB Building, No. 29 Jihua 5th Road,  
Foshan, Guangdong  
Telephone: 0757-83357698  
Facsimile: 0757-83359356  
Postcode: 528000  
Quantity of Institution: 37

### Dongguan Branch

Address: No. 6 Dongcheng Xi Road, Dongguan,  
Guangdong  
Telephone: 0769-22477888 (switchboard)  
Facsimile: 0769-22456654  
Postcode: 523008  
Quantity of Institution: 54

### Zhongshan Branch

Address: No. 55 Huabai Road, Shiqi District,  
Zhongshan, Guangdong  
Telephone: 0760-88861998 (switchboard)  
Facsimile: 0760-88861968  
Postcode: 528403  
Quantity of Institution: 15

### Jiangmen Branch

Address: Block 5, No. 49 Jianshe Road, Jiangmen,  
Guangdong  
Telephone: 0750-3288388  
Facsimile: 0750-3354276  
Postcode: 529000  
Quantity of Institution: 20

### Huizhou Branch

Address: No. 19 Xiapu Avenue, Huizhou, Guangdong  
Telephone: 0752-2119898 (switchboard)  
Facsimile: 0752-2119888  
Postcode: 516001  
Quantity of Institution: 19

### Zhaoqing Branch

Address: No. 75 Tianningbei Road, Duanzhou District,  
Zhaoqing, Guangdong  
Telephone: 0758-2313023  
Facsimile: 0758-2313013  
Postcode: 526040  
Quantity of Institution: 17

## Directory of Branches and Subsidiaries

### Yangjiang Branch

Address: No. 38 Jinghu Building, Dongfeng 3rd Road,  
Yangjiang, Guangdong  
Telephone: 0662-3367692  
Facsimile: 0662-3367627  
Postcode: 529500  
Quantity of Institution: 5

### Shaoguan Branch

Address: Block 41, Huiminnan Road, Shaoguan,  
Guangdong  
Telephone: 0751-8177989  
Facsimile: 0751-8763208  
Postcode: 512025  
Quantity of Institution: 2

### Heyuan Branch

Address: Youli Building, No. 19 Jianshe Avenue (West),  
Heyuan, Guangdong  
Telephone: 0762-3168600 (switchboard)  
Facsimile: 0762-3168604  
Postcode: 517000  
Quantity of Institution: 7

### Meizhou Branch

Address: No. 101 Jiangnan Binfang Avenue, Meizhou,  
Guangdong  
Telephone: 0753-2313068  
Facsimile: 0753-2243595  
Postcode: 514021  
Quantity of Institution: 5

### Qingyuan Branch

Address: CGB Building, Beijiang 3rd Road,  
Zone 3 Xinchengxi, Qingyuan, Guangdong  
Telephone: 0763-3855009  
Facsimile: 0763-3855010  
Postcode: 511515  
Quantity of Institution: 6

### Maoming Branch

Address: No. 159 Yingbin Road, Maoming,  
Guangdong  
Telephone: 0668-2880579  
Facsimile: 0668-2286313  
Postcode: 525000  
Quantity of Institution: 14

### Zhanjiang Branch

Address: No. 22 Zhongshan 1st Road, Chikan,  
Zhanjian, Guangdong  
Telephone: 0759-3366558  
Facsimile: 0759-3313285  
Postcode: 524032  
Quantity of Institution: 13

### Chengdu Branch

Address: 1-2/F & 19-21/F, North Tower,  
Sichuan Investment Building,  
No. 112 Tiantai Road,  
Chengdu High-tech Development Zone,  
Chengdu, Sichuan  
Telephone: 028-80587920  
Facsimile: 028-80587932  
Postcode: 610041  
Quantity of Institution: 1

### Kunming Branch

Address: No. 2 Dianchi Road, Kunming, Yunnan  
Telephone: 0871-64192153  
Facsimile: 0871-64177444  
Postcode: 650034  
Quantity of Institution: 20

### Urumqi Branch

Address: No. 480 Renmin Road, Tianshan District,  
Urumqi, Xinjiang Uygur Autonomous Region  
Telephone: 0991-2953320  
Facsimile: 0991-2953321  
Postcode: 830001  
Quantity of Institution: 1

### Macau Branch

Address: 18th/F, Guanghui (Group) Building,  
Song Yusheng Square, New Port, Macau  
Telephone: 00853-28750328 (switchboard)  
Facsimile: 00853-28750728  
Quantity of Institution: 5

### Hong Kong Representative Office

Address: Room 3002, 9 Queen's Road, Central,  
Hong Kong  
Telephone: 00852-28101213  
Facsimile: 00852-25300123

### Beijing Representative Office

Address: No. 2 Dahua Road, Dongcheng District,  
Beijing  
Telephone: 010-65266741  
Facsimile: 010-65266742  
Postcode: 100005







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