



# STRATEGIC TRANSFORMATION STEADILY UPWARD



**广发银行 | CGB**

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

## Introduction

Established in July 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 pursuing around-the-clock time efficiency and striving 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 national commercial bank with strong competitiveness and influence. In 2013, the Bank was ranked 118th by Tier-1 capital among the world's 1,000 largest banks by the British magazine *The Banker*.

By the end of 2013, the assets of the Bank reached RMB1.47 trillion, with its network expanded to include 34 branches, 661 business outlets, 114 Small Enterprises Banking Centers and 13 smart banks in 71 cities at prefecture level or above in 16 provinces (municipalities and autonomous regions), including Beijing, Tianjin, Liaoning, Heilongjiang, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Henan, Hubei, Hunan, Guangdong, Sichuan, Yunnan and Xinjiang, and the Macau Special Administrative Region. The Bank has over 9 million e-banking customers, over 27 million credit cards issued and correspondent bank partnerships with 1,687 bank headquarters and their branches in more than 128 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 Executives 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 2013 of China Guangfa Bank Co., Ltd.* was reviewed and approved by the Third Meeting of the Seventh Board of Directors of the Bank. Director Chen Yisong authorized Director Li Zimin in writing to exercise the right to vote on his behalf, Director Wang Fenghua authorized Director Zhang Xifang in writing to exercise the right to vote on his behalf, Independent Director Zhu Ning authorized Independent Director Lin Jiaorong in writing to exercise the right to vote on his behalf, Director Zhang Shengman authorized Director Morris Li in writing to exercise the right to vote on his behalf. The remaining Directors attended and voted in person at the meeting.
- KPMG Huazhen Certified Public Accountants (Special General Partnership) had audited the Bank's 2013 Financial Statements compiled in accordance with the PRC Accounting Standards, and has issued unqualified audit report. At the same time, KPMG had audited the Bank's 2013 Financial Statements compiled in accordance with International Accounting Standards and the Generally Accepted Accounting Principles of the United States of America (US GAAP), and had issued unqualified audit report respectively.
- This report is prepared in both Chinese and English. In the case of any discrepancies, the Chinese version shall prevail.
- Forward-looking statements relating to the Bank's future financial position, operating results, business development and business plan in this report do not constitute any substantive commitments. The Bank's future performance and development may vary due to various factors and uncertainties.

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

Chairman Dong Jianyue, President Morris Li, Vice 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 2013.

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# Awards List

	<b>Financial Times</b> The Most Innovative Bank (2013) The Internet Financial Innovation Bank (2013)
	<b>The Economic Observer</b> China's Most Innovative Enterprise in 2013 The Annual Excellent Trade Financing Bank
	<b>The Asian Banker</b> The Award for China's Best Retail Outlet Innovation in 2013
	<b>Securities Times</b> The Most Growable Bank in Investment Banking The Best E-banking Service Innovation Bank
	<b>China Business Journal</b> The Award for Innovative Financial Product Brand with Excellent Competitiveness in 2013 The E-Bank with Excellent Competitiveness in 2013
	<b>China Business News</b> The Award for China's Excellent Corporate Social Responsibility Practitioner in 2013 The Best Personal Loan Service Brand Bank
	<b>Money Week</b> China's Best Wealth Management Bank Brand in 2013 The Best Credit Service Innovation Bank in 2013 The Best Mobile Financial Bank in 2013
	<b>Nanfang Daily</b> Southern Tribute – Charitable Enterprise Innovation Award for 2013 The Best SME Financial Service Provider in 2013



**National Business Daily**  
Excellent Micro Enterprise Financial Brand



**eastmoney.com**  
The Best Assets Custody Bank in 2013

China Information World



**China Information World Office**  
The Award for Outstanding Contribution to Individual Information Protection in China's Financial Industry in 2013



**China Financial Certification Authority (CFCA)**  
The Award for Best E-finance Innovation in 2013

香港客戶中心協會  
HK Call Centre Association



**Hong Kong Call Center Association (HKCCA)**  
The Best Call Centre in Quality Assurance (Gold Award)



**League of American Communications Professionals (LACP)**  
Golden Prize in 2012 Vision Awards  
Top 50 in Asia Pacific Region for Annual Report 2012 in 2012 Vision Awards  
Top 50 for Annual Report 2012 in Chinese in 2012 Vision Awards



**Research Centre of Peking University Corporate Social Responsibility and Employer Brand Promotion, zhaopin.com**  
The Award for China's Best Employers in 2013



**Chinahr.com**  
The Best Employer for Chinese College Students  
The Best Employer in National Banking Industry



In 2013, the Bank celebrated the 25th anniversary of its founding. Over the past 25 years, the Bank experienced tests of structural reform and reorganization as well as market-oriented reform. By adhering to its development strategies of serving the real economy, creating value for shareholders and performing corporate social responsibilities, the Bank continued to improve its corporate governance mechanism and enhance its operation management, leading to significant improvement in risk control and prevention capability, overall competitiveness, corporate image and brand value. Recently, in alignment with its five-year development strategy, the Bank stepped up its efforts to accelerate transformation and enhance innovation-driven growth, thus reaching another milestone in building itself into a first-class commercial bank.

Over the past year, the global economy experienced a slow recovery, with slightly improved momentum in developed countries and slowdown in emerging economies. China's economy experienced faster structural adjustment and showed a trend of stable and positive growth. In order to cope with new changes and challenges in the midst of financial reform and market competition, the Bank concentrated on strategic transformation, reform and innovation, and enhanced risk management and internal control, resulting in further improvement in business

operation. As at the end of the year, total assets and shareholders' equity of the Bank amounted to RMB1.47 trillion and RMB73.291 billion, representing an increase of 25.83% and 15.37% over the previous year, respectively. The Bank recorded net profit of RMB11.583 billion for the year. Earnings per share and net assets per share were RMB0.75 and RMB4.76, respectively. The Bank was ranked 118th, its best ranking in history, in terms of Tier-1 capital among the world's 1,000 largest banks by the British magazine *The Banker*.

# Chairman's Statement

## Enhancing corporate governance and reinforcing development foundation

The Bank worked tremendously hard to improve its corporate governance, and aimed to build itself as a best practice for listing standards and corporate governance. Focused on the core elements and systems of corporate governance, the Bank successfully resolved a number of major issues arising from its transition into a listed bank through certain important initiatives, including adjustments and amendments to reorganization agreements and arrangements and optimizing the framework of the Board of Directors. Following the re-election of members of the Board of Directors and the senior management, the proportion of Independent Directors in the total number of Directors of the Seventh Board of Directors increased to 40%. In addition, the Bank made significant amendments to its Articles of Association and the rules of procedures for the Board of Directors, Board of Supervisors and General Meeting, thereby laying a solid foundation for its sustained and healthy development in future.

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere gratitude to our former Directors Mr. Wan Feng, Mr. Pu Jian, Mr. Gai Yongguang, Mr. Weber Lo, Mr. Li Dianjun, Mr. Chan Tai Loi, Mr. Zong Lexin and Mr. James Morrow for their hard work and remarkable contribution to the development of the Bank.

## Strengthening strategic support and accelerating transformation

In addition to posting better corporate governance, greater corporate value and enhanced investor confidence, the Bank also made aggressive reforms and investment in human resources, information technology (IT) and services innovation so as to provide a solid foundation for strategic transformation.

In 2013, the Bank continued to cooperate with the Central Party School and the University of Cambridge (U.K.) as well as other prestigious institutions to organize various advanced training courses for our senior and middle-level management. The Bank launched the *CHU YING XU HANG (Flying Eyas)* and *JING YING LING HANG (Elite at the Helm)* training programs tailored to promote the development of young employees and organized diversified trainings to improve employees' overall skills and expertise through professional courses available on our online E-Learning system and from our main business lines, thereby providing strong intellectual and talent support for our business development.

The past year also saw rapid development of our IT applications. During the year, we implemented a total of 386 key R&D projects, of which 314 projects were put into operation, and achieved significant progress and breakthroughs in supporting the business development of *Two Cards and One Center* (i.e. credit card, *Sheng Yi Ren Card* and *Small Enterprise Banking Center*), construction of an IT system for risk management, optimization of electronic channels and application architecture and data governance. We will actively keep pace with the application development of cloud computing, search engines, big data and other information technologies to help make scientific business decisions, provide sophisticated services and achieve efficient transaction.

The Bank made outstanding achievements in branch network expansion. In particular, the Bank established a Tier-1 branch in Fuzhou, and the number of newly opened outlets for the year hit a record high, thereby further optimizing network footprint. Meanwhile, the Bank forcefully built new models of electronic and intelligent financial services by taking such steps as speeding up the development of *24-hour financial convenience stores*, successfully opening 13 smart banks in China, and further improving the electronic service channels including online banking, mobile banking, telephone banking, WeChat banking and self-service banking, among which personal online banking customers and mobile

banking customers reached over 9 million and 2.5 million, respectively, and more than 90% of business conducted on the counters were able to be replaced by e-channel. Therefore, the efficiency and range of financial services of the Bank were significantly expanded.

## Sticking to the worst-case thinking to manage the challenges of various risks

The Board exercised extreme caution against the challenges of risks and pressures arising from the *shift in economic growth rate and painful structural adjustments* of the nation's economy. In response, the Board followed the worst-case thinking to guide and supervise the management in enhancing the prevention against and control over significant risks and key sectors, considered and approved risk appetite policy, studied and formulated the compliance plan of capital adequacy ratio for the next five years, delegated the senior management to make more efforts on the collection, disposal of and write-off of non-performing assets, thereby realizing the established target of controlling non-performing assets. In addition, through constantly innovating the model of non-performing assets management and strengthening the collection and disposal of existing and new non-performing assets through diversified methods, the Bank managed to maintain asset quality and kept various risks under control. As a result, the Bank's non-performing loan ratio decreased to 0.87% and its loan provision coverage ratio increased to 180.17% as at the end of the year.

## Fulfilling social responsibilities and enhancing brand value

As a responsible corporate citizen, the Bank followed its great tradition of showing concern for social well-being and giving back to the society. In 2013, the Bank donated RMB5 million to support the reconstruction of the earthquake-stricken area in Ya'an, Sichuan Province, and RMB1 million for the improvement of living conditions and production conditions in poverty-stricken areas of Guangdong Province. CGB Hope Charity Fund donated RMB8 million to help the schools and students in impoverished areas, and launched the Sixth CGB Charity Campaign. Our excellent management, thoughtful customer services and consistent social responsibility practices have won high esteem for the Bank from both the market and society. Our brand value and market influence continued to rise, and the Bank has been presented a number of awards such as *China's Most Innovative Enterprise in 2013*, *Award for China's Excellent Corporate Social Responsibility Practitioner*, *Award for Best Internet Finance Innovation in 2013*, *Best SME Financial Service Provider in 2013*, *Excellent Micro Enterprise Financial Brand*, and *Award for China's Best Employers in 2013* from a number of authoritative organizations and mainstream media.

2014 is the first year since the Seventh Board of Directors took office. With a strong sense of responsibility and commitment, we will work together to promote the transformation of our business development and profit-making model, continue to develop the small enterprise financial service, retail finance and Internet Finance, so as to strengthen our core competitiveness. We firmly believe that, with the support of our customers, shareholders and the general public, CGB will surely be able to make a great leap forward with its strategic transformation!



Chairman



2013 was a year of expediting restructuring of the Chinese economy and promoting strategic transformation of the Chinese banking industry. Facing with complicated and volatile economic environment and increasingly fierce market competition, the management of the Bank firmly adhered to national macroeconomic policies and regulatory requirements, strictly implemented the decisions of the Board of Directors, and insisted on coordinated and innovation-driven development characterized by efficient capital utilization, unique business offering and refined management, thus making significant progress in building the Bank into a first-class commercial bank.

As at the end of the period, total assets, total liabilities and shareholder's equity of the Bank amounted to RMB1,469.850 billion, RMB1,396.558 billion and RMB73.291 billion, representing an increase of 25.83%, 26.43% and 15.37% over the beginning of the period, respectively. The balance of loans totalled RMB714.711 billion and the balance of deposits stood at RMB994.927 billion, representing an increase of 16.07% and 16.21% over the beginning of the period, respectively. The balance of NPLs amounted to RMB6.201 billion, representing a decrease of RMB2.910 billion over the beginning of the period; the NPL ratio was 0.87%, representing a decrease of 0.61 percentage point over the beginning of the period. Net profit for the year hit a record high of RMB11.583 billion.

**A journey of a thousand miles begins with a single step.** In 2013, the Bank, by adhering to the corporate spirit of *racing against time and striving for perfection* and the principles of strategy-guided, market-oriented, reform-driven and customer-centric, took solid steps to push forward various tasks with effective implementation of strategies, further system reform, strengthened risk management and control and innovative business development.

**Better implementation of strategies, higher efficiency of resources allocation and faster transformation and development of businesses.** The Bank strengthened the holistic strategic management process, enhanced its capability in promoting endogenous and sustained

# President's Statement

business growth, focused on the development of products and services which have low capital demand, less risk exposure, huge market potential and high customer loyalty, and vigorously promoted the scientific development of *Two Cards and One Center* (i.e. credit card, *Sheng Yi Ren Card* and *Small Enterprise Banking Center*), thus optimizing its profit structure and diversifying the sources of revenues. As a result, the Bank's fee and commission income for the year amounted to RMB9.057 billion, representing a year-on-year increase of 54.21%; the revenues from retail banking accounted for 44.00% of the total, representing a year-on-year increase of 6.40 percentage points. By proactively employing mobile Internet technologies and applying various new marketing tools such as WeChat and QR-Code, the Bank launched personalized services and enhanced the experience of its credit card customers. The Bank issued 5,000,000 new credit cards which brought its total number to 27,930,000. Through further reform of personal finance and focusing on promotion of *Sheng Yi Ren Card*, the Bank has issued an aggregate of 43,300 *Sheng Yi Ren Card* with total disbursed loan amounts of RMB30.800 billion to its existing loan account holders, driving the balance of business loans to RMB34.619 billion, representing a year-on-year increase of 85.34%. Likewise, the Bank invested more resources to improve the development of its Small Enterprise Banking Center, established the small enterprise banking service system, innovated a number of featured products and services such as *Jie Suan Tong Card* and *Small Enterprise Banking Express*. As at the end of the period, the number of micro enterprise customers getting loans from the Bank was 9,345, representing an increase of 72.91% over the beginning of the period; while the balance of general loans granted to micro enterprise customers amounted to RMB99.083 billion, representing an increase of 21.38% over the beginning of the period.

**Offering featured and specialized financial services, exploring new markets and raising financial service quality.** The Bank revamped its corporate business management model, perfected the management of core customer relationships and enhanced the profitability of its investment banking business. The Bank promoted key trade financing products to cater for its core corporate customers and launched new products and services such as forex reserve trust loans, NRA trade financing, import factoring and resale of forfeiting under credit insurance. The Bank stepped up efforts in innovation of its inter-bank business, promoted construction of its interbank business platform, proactively performed its duties as a key player in the financial market, thus exerting its market influence significantly. The Bank continued to increase its underwriting and sub-underwriting volume in the debt capital market by successfully issuing 49 debt financing instruments, representing a year-on-year increase of 48.86% in cumulative underwriting volume. By seizing market opportunities, optimizing top-level designs and accelerating the development of Internet Finance, the Bank was the first among its peers to launch self-service machines such as *Fast Cash* and *Off-bank 24H Smart Banking*, and the first joint-stock commercial bank in the nation to obtain the qualification for distribution of savings treasury bonds through personal online banking which has more than 460 functions. The Bank also penetrated into the field of mobile payments, becoming one of the first batches of banks in China providing mobile payments through three largest domestic mobile operators. The mobile banking service has more than 350 functions which are best-in-class in terms of the variety of functions among those of domestic banks.

**Reforming operating management system, making innovations in internal management model and enhancing refined management.** In response to changes in economic and financial environment, the Bank proactively vitalized existing resources and made good use of newly acquired funds, balanced the allocation of credit resources, optimized business structure, enhanced loan pricing, and effectively increased overall yield. In response to interest rate liberalization, the Bank set limit for market risk, enhanced system building for interest rate risk, strengthened

measurement techniques for liquidity risk, and completed the stress tests of liquidity risk under different scenarios. Moreover, the Bank devoted to explore its internal potential, constantly increased the percentage of non-interest income, so as to enhance the capacity for endogenous capital. The Bank reinforced and optimized its comprehensive risk management system, enhanced management and control on key credit areas, identified weaknesses in risk management, so as to ensure the steady and healthy development of our business. Adhering to its established strategies, the Bank allocated its human resources in a scientific manner, so as to support its development of branches in strategic areas and areas with potentials. The Bank promoted the establishment of a new position system, and adopted a position employment system for all staff. Furthermore, the Bank adhered to the principles of efficiency first and fairness at the same time, emphasizing market-oriented allocation mechanism, thereby, it established a staff remuneration system with salary mainly tied to staff's performance, and thus received the title of *Best Employer of the Year* by renowned authorities for three consecutive years.

**Planning the operation and development of technologies, accelerating the branch footprint and devoting to building a solid foundation for development.** The Bank increased investment in technologies, strengthened key engineering projects of IT system, so as to ensure the safety and steady operation of information system. The Bank also proactively promoted the construction of Nanhai Information Center, launched new core system engineering project and new core system development for credit card, completed the development of retail credit management system, new cash management system and corporate service system, and financial IC card system officially commenced operation. The Bank successfully passed IT services management system (ISO20000) certification, a symbol that the information technology services management system of the Bank had satisfied international standards, and its level of standardization had taken a leading position among other financial institutions. Moreover, the Bank promoted and carried out the *Year of Enhancing Operating Efficiency* activity, changed its management ideas, introduced Six-Sigma lean management, and established standardized operating process, so as to enhance operating efficiency of branches. Adhering to the strategic guidance in channel development, the Bank constantly optimized the network of its branches. In 2013, a Tier-1 branch was established in Fuzhou, and 9 Tier-2 branches were established in Jiaxing, Zhenjiang, etc. As at the end of the reporting period, the Bank had a total of 34 Tier-1 branches and 661 outlets, which covered principally the developed regions and certain central and western provinces and cities in China.

Looking back on the development of the previous year, we sincerely felt that no achievement would be made by the Bank without the support and help from our shareholders, customers, colleagues and friends. Therefore, I would like to take this opportunity to express my gratitude to them on behalf of the management.

Great ambition makes great contribution, due diligence brings due achievements. **2014 is the first year of China to deepen reform in a comprehensive manner, and also a crucial year for the Bank to promote its Five-Year Strategic Plan. This year, the Bank will adhere to its reform and innovation ideas, thereby promoting transformation through development, and vice versa, devoting itself to expanding market, and pushing through various tasks, so as to write a new chapter in the growth history of China Guangfa Bank.**



President

# Corporate Profile

## STATUTORY NAMES

Chinese Name: 广发银行股份有限公司  
(Abbreviation: 广发银行)  
English name: China Guangfa Bank Co., Ltd.  
(Abbreviation: China Guangfa Bank, CGB or Guangfa Bank)

## BUSINESS PHILOSOPHY AND BUSINESS SCOPE

**Business Philosophy:** Conduct various commercial banking businesses in line with the principles of equality, willingness, fairness and honesty; promote and support the development of national economy and the overall prosperity of the society; and maximize our Shareholders' value.

The Bank shall regard safety, mobility and profitability as the principles for 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 card 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.

## LEGAL REPRESENTATIVE: Dong Jianyue

## SECRETARY TO THE BOARD OF DIRECTORS: Zhu Yingyu

(he will formally assume duties upon approval of his qualification by the regulatory authority)

## 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](http://www.cgbchina.com.cn)

## PLACE FOR OBTAINING ANNUAL REPORT

Office of Board of Directors of the Bank

## 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 the  
People's Republic of China

Registered capital: RMB15,402,397,264

Corporate business license number: 440000000046541

Financial institution license No.: B0012H144010001

Organization code: 19033642-8

Tax registration No.: Yue Guo Shui Zi 440101190336428  
Yue Di Shui Zi 440102190336428



## 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

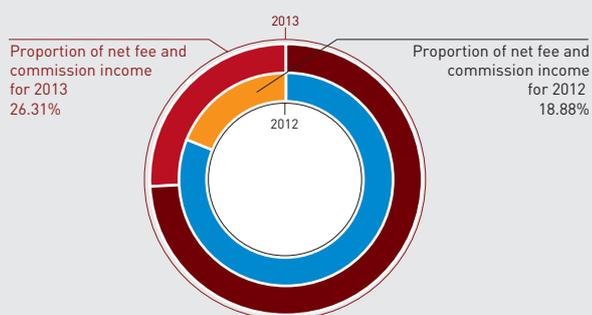
**This report was prepared in accordance with the requirements of *Measures on Information Disclosure of Commercial Banks* and the *Notice of CBRC on Regulating the Contents of Annual Reports of Join-stock Commercial Banks* Promulgated by CBRC.**

# Financial Highlights

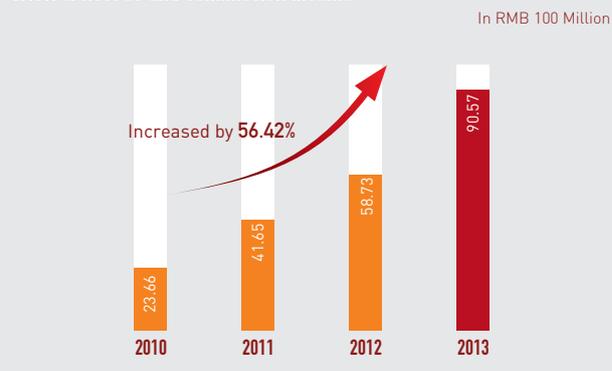
## FINANCIAL DATA

Item	2013	2012	2011
<b>Annual business results (In RMB Thousand)</b>			
Net interest income	<b>26,002,534</b>	24,596,078	23,708,838
Net fee and commission income	<b>9,056,712</b>	5,872,840	4,164,539
Operating income	<b>34,425,263</b>	31,104,615	28,172,779
Operating and administrative expenses	<b>(14,429,926)</b>	(12,699,202)	(11,250,816)
Allowances for asset impairment	<b>(2,424,805)</b>	(1,292,952)	(2,510,662)
Operating profit	<b>14,403,101</b>	14,498,575	12,246,597
Gross profit	<b>14,455,054</b>	14,663,618	12,381,548
Net profit	<b>11,583,481</b>	11,219,859	9,585,734
Net profit attributing to shareholders of ordinary shares	<b>11,583,481</b>	11,219,859	9,585,734
Net profit attributing to shareholders of ordinary shares after deducting non-recurring profit and loss <sup>1</sup>	<b>11,507,662</b>	11,020,956	9,434,731
Net cash flows from operating activities	<b>95,600,553</b>	19,824,958	(15,811,219)

### Structure of Operating Income

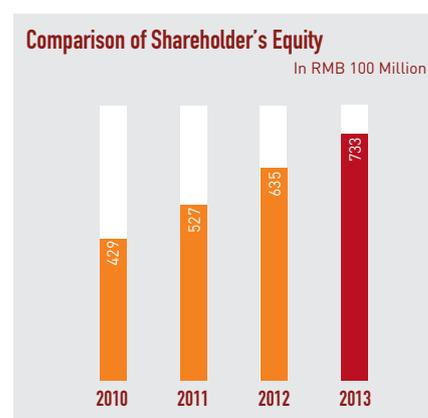
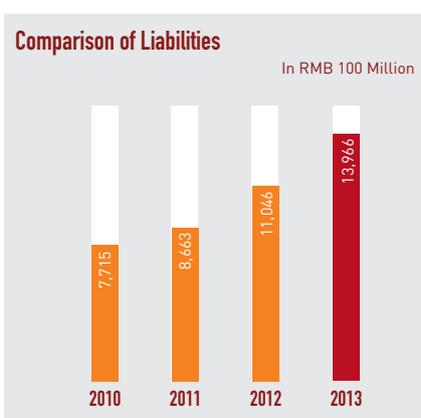
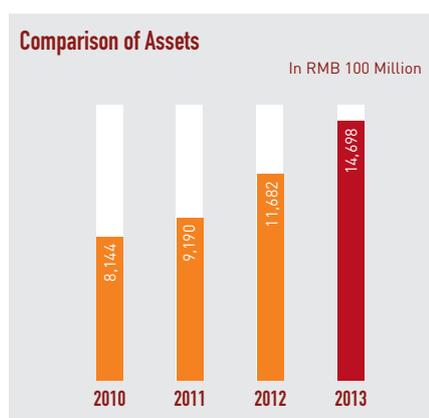


### CAGR of Net Fee and Commission Income



Item	2013	2012	2011
<b>End of reporting period (In RMB Thousand)</b>			
Total assets	<b>1,469,849,931</b>	1,168,149,863	918,981,819
Total loans and advances to customers	<b>714,711,095</b>	615,749,510	540,163,069
Loan impairment allowances	<b>(11,171,700)</b>	(15,488,721)	(16,718,163)
Net investment	<b>225,840,162</b>	98,477,482	66,698,278
Total liabilities	<b>1,396,558,457</b>	1,104,621,776	866,275,839
Deposits from customers	<b>994,926,969</b>	856,166,035	742,537,945
Deposits from banks and non-bank financial institutions	<b>270,858,620</b>	144,474,115	67,125,703
Placements from banks and non-bank financial institutions	<b>40,836,441</b>	34,146,596	9,886,198
Shareholder's equity	<b>73,291,474</b>	63,528,087	52,705,980
<b>Data for per share (RMB)</b>			
Net assets per share <sup>2</sup>	<b>4.76</b>	4.12	3.42
Basic earnings per share <sup>1</sup>	<b>0.75</b>	0.73	0.62
Diluted earnings per share <sup>1</sup>	<b>0.75</b>	0.73	0.62
Basic earnings per share after deducting non-recurring profit and loss <sup>1</sup>	<b>0.75</b>	0.72	0.61
Net cash flow from operating activities per share	<b>6.21</b>	1.29	(1.03)

- 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 number of shares outstanding at the end of the period.



## Financial Highlights

### FINANCIAL RATIOS

Item	2013	2012	2011
<b>Profitability ratios (%)</b>			
ROAA <sup>1</sup>	<b>0.88</b>	1.08	1.11
Weighted average return on net assets <sup>2</sup>	<b>16.93</b>	19.31	20.06
Weighted average return on net assets after deducting non-recurring profit and loss <sup>2</sup>	<b>16.82</b>	18.96	19.74
Net interest spread <sup>3</sup>	<b>1.84</b>	2.31	2.78
Net interest margin <sup>4</sup>	<b>2.01</b>	2.52	2.93
Fee and commission income ratio	<b>26.31</b>	18.88	14.78
Cost to income ratio <sup>5</sup>	<b>41.92</b>	40.83	39.94
<b>Asset quality ratios (%)</b>			
Non-performing loan ratio (NPL ratio) <sup>6</sup>	<b>0.87</b>	1.48	1.34
Loan provision coverage ratio <sup>7</sup>	<b>180.17</b>	170.00	231.21
Loan loss reserve/total ratio <sup>8</sup>	<b>1.56</b>	2.52	3.10
<b>Capital adequacy ratios (%)</b>			
Core Tier-1 capital adequacy ratio <sup>9</sup>	<b>7.50</b>	N/A	N/A
Tier-1 capital adequacy ratio <sup>9</sup>	<b>7.50</b>	N/A	N/A
Capital adequacy ratio <sup>9</sup>	<b>9.00</b>	11.27	11.10

- Notes:
1. Net profit divided by the average balance of total assets at the beginning and 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 interest-earning assets yield minus average interest 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. NPL balance divided by total loans and advances to customers.
  7. Balance of loan impairment allowances divided by NPL balance.
  8. Balance of loan impairment allowances divided by total loans and advances to customers.
  9. Data for 2013 were calculated in accordance with relevant regulations like *the Measures for Management of Capital of Commercial Banks (Trial)*. Data for 2012 and 2011 were calculated in accordance with relevant regulations like *Measures for Management of Capital Adequacy Ratios of Commercial Banks*.

## SUPPLEMENTARY FINANCIAL RATIOS

Unit: %

Key indicator		Regulatory indicators	End of 2013	End of 2012	End of 2011
Loan-to-deposit ratio	Converted into RMB	≤ 75	<b>71.73</b>	71.67	71.64
Liquidity ratio	Converted into RMB	≥ 25	<b>49.63</b>	44.52	50.75
Proportion of call loans	Called-in RMB	≤ 4	<b>2.23</b>	3.52	1.00
	Called-out RMB	≤ 8	<b>2.10</b>	1.82	2.00
Proportion of loans to the largest borrower to net capital		≤ 10	<b>4.03</b>	4.10	4.91
Proportion of loans to the top 10 borrowers to net capital			<b>22.41</b>	22.71	27.25

## CHANGES IN SHAREHOLDERS' EQUITY

In RMB Thousand

Item	31 December 2013	Increase during the reporting period	Decrease during the reporting period	31 December 2012
Paid-up share capital	<b>15,402,397</b>			15,402,397
Capital reserve	<b>9,807,717</b>		1,818,682	11,626,399
Statutory general reserve	<b>17,180,172</b>	3,689,584		13,490,588
Surplus reserves	<b>4,743,050</b>	1,158,348		3,584,702
Retained earnings	<b>26,209,817</b>	11,583,481	4,847,932	19,474,268
Foreign currency translation reserve	<b>(51,679)</b>		1,412	(50,267)
Total shareholders' equity	<b>73,291,474</b>	16,431,413	6,668,026	63,528,087

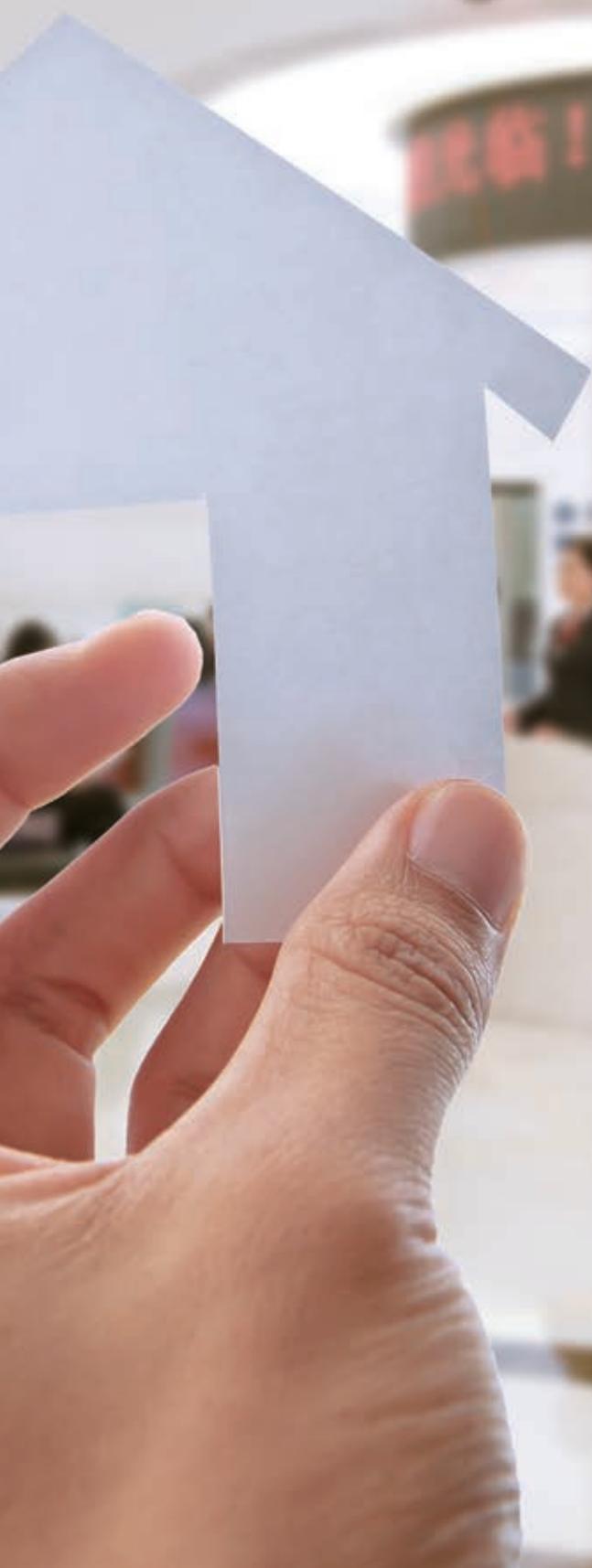
Notes: Main reasons of changes in shareholders' equity:

- Capital reserve change in current period refer mainly to the decrease in fair value change reserve of financial assets available for sale.
- The Bank allocated 10% of net profit of the current year to statutory surplus reserve.
- The Bank allocated 1.5% of the balance of the Bank's risk assets as at 31 December 2013 (before impairment allowance) to the statutory general reserve.



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# Management Discussion and Analysis

## ECONOMIC, FINANCIAL AND MACROECONOMIC POLICY

### Influence of Domestic and Overseas Economic Situation

In 2013, the global economy warmed up somewhat, albeit at a slow pace. Especially in the first half of 2013 when the economic situation was grim, developed economies staggered to recover amid stability. According to the forecast by IMF in its *World Economic Outlook* in January 2014, the global economic growth of 2013 was about 3.0%, slightly slower than that of 3.1% in 2012. In recent years, the developed countries in Europe and the US successively rolled out a series of countermeasures to cope with the debt crisis, forming the overlapped effects, which enhanced the internal momentum for global economic recovery since the second half of 2013. The US economy posted continued growth momentum as driven by the marked rise in the stock market and the rebound in the real estate market. Meanwhile, the Federal Reserve claimed it will taper QE. As the negative influence of the EU debt crisis mitigated, the probability of occurrence of systematic risk decreased significantly, and the economy in the Eurozone started to rally after several consecutive quarters of decline. Japan saw modest economic pick-up, with the inflation rate edging up. Emerging economies continued to grow but diverged to some extent.

Since the start of 2013, domestic economy was under great downward pressure. End demand remained weak, industrial production slowed down somewhat, and PMI lingered around the vicissitudes line. In this context, the Chinese Government, under the general tone of making progress while maintaining stability, seized the overall economic situation, stayed focused on control, stuck to the bottom-line thinking, and fulfilled various duties in the principle that the macroeconomic policies should be stable, microeconomic policies should be flexible, and social policies should meet people's basic needs, contributing to the stable but faster, upbeat development momentum for the economy in full-year 2013. Based on the preliminary estimates by the National Bureau of Statistics, the GDP of 2013 was RMB56.88 trillion, representing an increase of 7.7% from the previous year based on comparable prices, and the growth remained flat versus 2012. CPI remained basically stable, with the full-year reading rising 2.6% YoY. PPI decreased 1.9% YoY. The government made positive headway in economic restructuring, and the industrial structure further improved, with the percentage of the tertiary industry increasing to 46.1%, outstripping that of the secondary industry for the first time.



In 2013, China rolled out a series of important measures to push through the reforms on economic and administrative systems, including: speeding up the reforms in tax, finance, investment and price; establishing China (Shanghai) Pilot Free Trade Zone, exploring the administration approach for investors with pre-entry national treatment plus negative list, deepening promoting the reform on administrative approval system, expediting the functional transformation of the government, and facilitating trade and investment to explore new ways and accumulate new experience for promoting reforms and opening-up. In November 2013, the decision on major issues concerning the promoting of reforms reviewed and approved at the 3rd plenary session of the 18th CPC Central Committee provided a guiding instrument for promoting reforms in a new situation. In particular, economic restructuring dominated the comprehensive in-depth reforms, with core issues concerning how to strike a balance between the role of the government and that of the market, so that the market can play a decisive role in resource allocation.

## Influence of Macroeconomic Policy and Financial Market

In 2013, the Chinese Government implemented proactive fiscal policy and prudent monetary policy. Regarding the fiscal policy, efforts were made to expand the pilot program of levying VAT in lieu of business tax to build an upgraded version of *change from business tax to VAT* and relieve the tax burden on small-scale taxpayers (including numerous Individual industrial and commercial households); and to actively adjust the fiscal expenditure structure, with a focus on guaranteeing and improving people's living standards and highlighting the investment in key construction projects including urban and rural infrastructure, *agriculture, farmers and rural areas*, social security and employment, environmental protection, energy conservation and other weak links in the economic and social development, so as to lend support to national economic restructuring. In respect of the monetary policy, a relatively stable monetary and financial environment for economic development was created by insisting on the prudent monetary policy, strengthening the macro-prudential management, innovating the macro control idea and method, and making moderate fine-tuning at appropriate time. As at the end of December 2013, the M2 balance reached RMB110.65 trillion, up by 13.6% YoY. Market-oriented reform of interest rates accelerated markedly by promoting interest rate liberalization and lifting control on the loan interest rate of financial institutions, thus promoting the development and transformation of commercial banks. Efforts were made to promote the banking institutions to *vitalize the existing money and make good use of the incremental money*, support key infrastructure construction projects, strategic emerging industries, technology culture, modern service industry, new urbanization and other key areas and links, compress severe surplus capacity, eliminate outdated capacity and aggressively promote the economic restructuring.

In 2013, the Chinese financial market became more volatile amid a general stability. Interest rate of the money market swung significantly. In early and mid June and mid December, overnight and 7-day SHIBOR posted significant fluctuation, posting higher demands for the liquidity management of commercial banks. The bond market plunged across the board, with China Bond Assembled Index (net price) slipping 4.65% throughout the year, representing the largest annual fall since 2002. The total annual size of issue of the bond market slowed down, and the trading became less active. The stock index waned. In particular, the Shanghai Stock Exchange Composite Index recorded a 6.75% annual decline in 2013, significantly underperforming the global market. The amount of money raised through issuance of shares in 2013 decreased YoY. RMB continued to appreciate, with the central parity of RMB against the U.S. dollar hitting 6.0969 at the year end, up by 3.00% as compared with that at the

end of 2012, placing China among the top emerging market players across the globe in terms of currency appreciation. In the meantime, China actively promoted the financial reform through gradual opening up of the financial industry, increased innovation in the financial market, integration of Internet Finance and accelerated reform of foreign exchange rates and interest rates, which brought about new opportunities and challenges to the operation and development of commercial banks.

In 2013, China continued to improve its financial regulatory policy. The government leveraged the synergy of financial policy, fiscal policy and industrial policy to create a new development pattern for Micro Enterprises underpinned by various parties; guided commercial banks to strengthen capital management and maintain the stable operation of the banking system; forcibly prevented and controlled systematic and regional risks, enhanced risk management associated with loans granted to government financing platform, and key sectors such as real estate development and those with overcapacity; intensified administration of investment and operation of wealth management funds, defined the concept, scope and regulatory responsibility of shadow banking, regulated the operation of financing guarantee companies and guided the standard development of new business modes. Besides, the People's Bank of China regulated inter-bank negotiable certificate of deposit (NCD) business, expanded financing channels for deposit-taking banking institutions, and promoted the development of the money market.

## Economic Outlook for 2014

In 2014, the global economy will continue to recover, and show a stronger growth momentum, but with some unstable and uncertain factors. Emerging economies need to pay particular attention to changes in the monetary policies, trade and investment patterns and commodity prices of advanced economies, and guard against international capital flow due to complete exit of the U.S. QE policy. According to the *World Economic Outlook* released by IMF in January 2014, the global growth is projected at around 3.7% in 2014, a marked improvement compared to 3.0% growth in 2013. Specifically, the U.S. job market and real estate market look poised to pick up continuously, contributing to 2.8% economic growth in 2014; the Eurozone will be at a turning point from recession to recovery, and its economic growth is expected to speed up to 1.0%; Japan will log a 1.7% economic growth; China will achieve a 7.5% economic growth, topping the other BRICS countries.

## Management Discussion and Analysis

### OPERATIONS REVIEW

#### The Profile of the Overall Business Operation

In 2013, sticking to the principle of *controllable risks and balanced development*, the Bank reaped an improved operating revenue and customer structure with consistent investment in strategic transformation, thus all its businesses grew steadily. As at the end of 2013, the Bank recorded total assets of RMB1,469.850 billion, total liabilities of RMB1,396.558 billion and shareholders' equity of RMB73.291 billion, up by 25.83%, 26.43% and 15.37% respectively. Profitability of the Bank remained stable: Annual net profit amounted to RMB11.583 billion, up by 3.24% from the previous year. Asset quality was improved: NPL balance reached RMB6.201 billion, down RMB2.910 billion YoY, and NPL ratio was 0.87%, down by 0.61 percentage point YoY. Loan provision coverage ratio increased to 180.17%, up by 10.17 percentage points YoY. During the reporting period, the Bank formulated Capital Adequacy Ratio Planning for the next five years and actively promoted capital replenishment, so that major capital adequacy indicators would meet the regulatory requirements for transitional period as specified in the *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)* issued by CBRC. At the end of the reporting period, the capital adequacy ratio was 9.00%, and the adequacy ratio of core Tier-1 capital was 7.50%.

#### The Status of the Business Operation

##### *Deepening Holistic Strategic Management and Accelerating Reform and Transformation*

In 2013 which marked a crucial period for implementing the five-year development strategy, the Bank strengthened holistic strategic management across the bank, improved efficiency of resource allocation, intensified strategy implementation, and actively promoted the development of key businesses, further revealing the effects of strategic transformation. At the end of the reporting period, relevant loans of the credit card, *Sheng Yi Ren Card* and *Small Enterprises Banking Center (Two Cards and One Centre)* increased by more than RMB92 billion, accounting for over 94.3% in the growth of loans, effectively promoted structural adjustment and earnings growth. The net fee and commission income of the Bank accounted for 26.31% (up by 7.43 percentage points YoY) in revenues, versus 44.00% (up by 6.40 percentage points YoY) for retail business. The number of customers of e-banking and mobile banking topped 9 million and 2.5 million respectively, and over 90% businesses were able to be conducted through e-channels. In the meantime, the Bank promoted business reform in large companies, strengthened the strategic position of small enterprises in financial service, leveraged the synergy of Global Transaction Services (GTS for short), and intensified innovation in interbank business,



thus effectively improving the overall market competitiveness of corporate banking. The Bank sped up personal banking business reform, sharpened its advantage in credit card business, accelerated in developing Internet Finance, won the market with its distinctive products and services, thus expanding profit sources of the Bank. The Bank strengthened proprietary trading and agency business in financial markets, and diversified product lines, thus achieving steady growth in revenues while ensuring liquidity safety.

*Operating and Managing Carefully and Promoting Healthy and Sustained Development of Businesses*

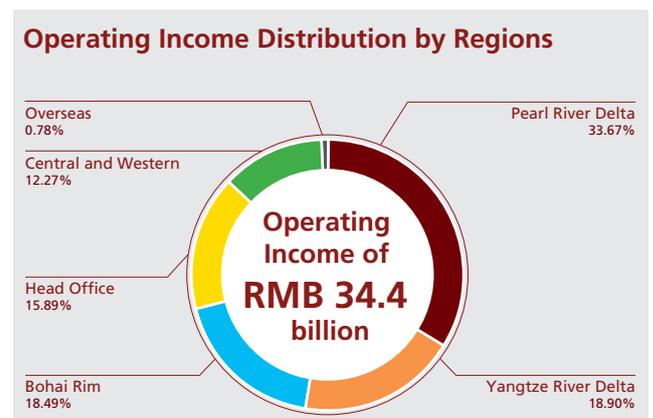
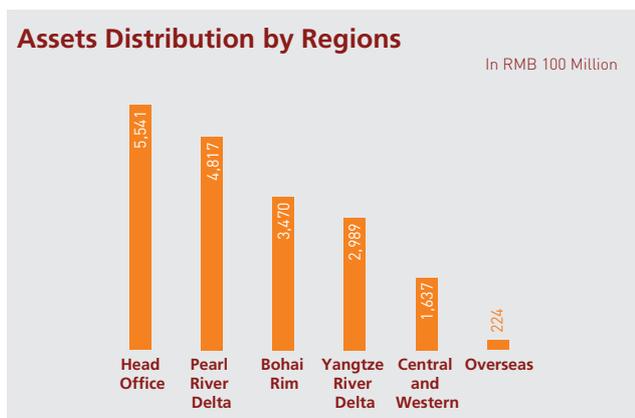
The Bank strengthened assets and liabilities management, scientifically allocated credit resources, intensified cost control, and improved the ability for refined management according to strategic planning and key operations of the year; consolidated and optimized the building of comprehensive risk management system, strengthened the management and control on key fields, key accounts and key branches, recognized vulnerabilities in risk management, and effectively supported the sound development of various businesses by improving the quality and efficiency of risk management; strictly managed the objectives for asset quality control, and reinforced efforts in controlling asset quality; actively coped with interest rate liberalization reform, formulated market risk limits, reinforced interest rate risk analysis via various quantitative methods, improved technology of calculating liquidity risks, and effectively managed market and liquidity risks; improved internal control mechanism, refined approaches for compliance management, fostered a good compliance culture in the Bank, deepened and broadened audit inspections and improved overall quality of audits.

*Reinforcing the Building of Strategic Support System, Sustaining Development and Enhancing Endogenous Dynamics*

The Bank fully increased its investment in technology resources, actively promoted the building of significant technology projects including Nanhai Information Center, the new generation core banking system project and the new core system for credit card, focused on supporting the development of competitive businesses such as *Two Cards and One Center*, and enhanced the role of IT in supporting the Bank's business expansion and service improvement in the future while ensuring stable operation of IT system; effectively improved operation and management by guiding branches to change their management ideas and optimizing business process of outlets; scientifically allocated human resources, directing resources to strategic priorities and potential regions, promoted the building of a new position system, fully implemented the all-member position recruitment system, optimized and improved the performance appraisal system, and established market-oriented framework of employee remuneration focusing on the job performance and salary system.

*Highlighting the Strategic Role of Channels and Accelerating the Outlet Expansion*

In 2013, the Bank established a Tier-1 branch (Fuzhou), nine Tier-2 branches (Jiaxing, Zhenjiang, Huaian, Jining, Changde, Sanmenxia, Honghe, Kashgar and Qiqihar). As the end of the reporting period, the Bank had established 34 Tier-1 branches, 661 outlets, with presence in major economically developed regions and some central and western provinces and cities in China.



## Management Discussion and Analysis

### FINANCIAL STATEMENT ANALYSIS

#### Income Statement Analysis

In 2013, after-tax profit was RMB11.583 billion, an increase of RMB364 million, or 3.24% over the previous year. The Bank boosted profitability by constantly promoting strategic transition, continuously optimizing business structure, steadily expanding property scale, and further strengthening cost management.

*In RMB Thousand*

Item	2013	2012
Revenues	<b>34,425,263</b>	31,104,615
Including: Net interest income	<b>26,002,534</b>	24,596,078
Net fee and commission income	<b>9,056,712</b>	5,872,840
Other non-interest income	<b>(633,983)</b>	635,697
Business taxes and surcharges	<b>(3,166,899)</b>	(2,612,793)
Operating and administrative expenses	<b>(14,429,926)</b>	(12,699,202)
Allowances for asset impairment	<b>(2,424,805)</b>	(1,292,952)
Other operating costs	<b>(532)</b>	(1,093)
Net amount of non-operating revenues and expenses	<b>51,953</b>	165,043
Profit before tax	<b>14,455,054</b>	14,663,618
Income tax expense	<b>(2,871,573)</b>	(3,443,759)
Net profit	<b>11,583,481</b>	11,219,859

#### *Net Interest Income*

In 2013, net interest income increased by RMB1.407 billion, or 5.72% over the previous year, mainly driven by the growth in interest earning assets.

## Interest-earning Assets and Interest-bearing Liabilities

In RMB Thousand

Item	2013			2012		
	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	662,951,821	42,898,728	6.47	563,295,020	38,498,551	6.83
Investment	162,658,211	6,299,125	3.87	78,421,548	2,964,512	3.78
Deposits with central banks	176,349,801	2,683,071	1.52	147,786,917	2,257,651	1.53
Deposits and placements with banks and other financial institutions <sup>1</sup>	294,129,663	13,861,419	4.71	186,365,704	8,389,509	4.50
<b>Total interest earning assets</b>	<b>1,296,089,496</b>	<b>65,742,343</b>	<b>5.07</b>	<b>975,869,189</b>	<b>52,110,223</b>	<b>5.34</b>
Liabilities						
Deposits from customers	897,634,046	24,745,311	2.76	734,452,208	19,745,299	2.69
Deposits and placements from banks and other financial institutions <sup>2</sup>	320,481,693	14,244,138	4.44	162,432,660	7,165,362	4.41
Subordinated bonds <sup>3</sup>	12,771,507	750,360	5.88	10,049,180	603,484	6.01
<b>Total interest-bearing liabilities</b>	<b>1,230,887,246</b>	<b>39,739,809</b>	<b>3.23</b>	<b>906,934,048</b>	<b>27,514,145</b>	<b>3.03</b>
Net interest income		26,002,534			24,596,078	
Net interest spread			1.84			2.31
Net interest margin			2.01			2.52

- Notes: 1. Deposits and placements with banks and other financial institutions mainly include deposits with banks and non-bank financial institutions, placements with banks and non-bank financial institutions, financial assets held under resale agreements.
2. Deposits and placements from banks and other financial institutions mainly include deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, financial assets sold under repurchase agreements.
3. The interest payment ratio of subordinated bonds of 2012 has been re-stated due to changes in disclosure standard.

## Management Discussion and Analysis

### Net Interest Income and Changes of Size and Interest Rate

In RMB Thousand

	Causes for change (2013 versus 2012)		Net increase/ (decrease)
	Size	Interest rate	
<b>Assets</b>			
Loans and advances to customers	6,811,071	(2,410,894)	<b>4,400,177</b>
Investment	3,185,475	149,138	<b>3,334,613</b>
Deposits with central banks	436,338	(10,918)	<b>425,420</b>
Deposits and placements with banks	5,135,445	336,465	<b>5,471,910</b>
<b>Change of interest income</b>	<b>15,568,329</b>	<b>(1,936,209)</b>	<b>13,632,120</b>
<b>Liabilities</b>			
Deposits from customers	4,387,045	612,967	<b>5,000,012</b>
Deposits and placements from banks	7,112,501	(33,725)	<b>7,078,776</b>
Subordinated bonds	163,484	(16,608)	<b>146,876</b>
<b>Change of interest expense</b>	<b>11,663,030</b>	<b>562,634</b>	<b>12,225,664</b>
<b>Change of net interest income</b>	<b>3,905,299</b>	<b>(2,498,843)</b>	<b>1,406,456</b>

Note: The change of size was measured based on the change of average balance, the change of interest rate was measured based on the change of average interest rate. The change derived from both size and interest rate was allocated in the change of interest rate.

### Net Interest Spread and Net Interest Margin

Net interest spread in 2013 was 1.84%, down by 47 basis points compared to the previous year, largely because average yield rate of interest-earning assets declined from 5.34% in 2012 to 5.07% in 2013, down by 27 basis points, and interest payment rate of interest-bearing liabilities rose from 3.03% in 2012 to 3.23% in 2013, up by 20 basis points.

Net interest margin in 2013 was 2.01%, down by 51 basis points compared to the previous year, mainly due to such major factors as intensified interest rate liberalization, changes in the Bank's structure of assets and liabilities and re-pricing of the Bank's assets and liabilities which came after adjustment to central banks' benchmark interest rate in 2012.

Item	2013 (%)	2012 (%)	Change (basis points)
Yield rate of interest-earning assets	5.07	5.34	(27)
Interest rate of interest-bearing liabilities	3.23	3.03	20
Net interest spread	1.84	2.31	(47)
Net interest margin	2.01	2.52	(51)

### Interest Income

Interest income of the Bank in 2013 increased by RMB13.632 billion or 26.16% YoY, mainly driven by the growth in interest income from loans, interest income from financial assets held under resale agreement, and interest income from investments.

*In RMB Thousand*

Item	2013		2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Interest income from loans and advances to customers	42,898,728	65.25	38,498,551	73.88
Including: Corporate loans and advances	27,767,095	42.23	25,868,786	49.64
Personal loans and advances	13,732,007	20.89	10,717,617	20.57
Discounted bills	1,399,626	2.13	1,912,148	3.67
Interest income from investments	6,299,125	9.59	2,964,512	5.69
Interest income from deposits with central banks	2,683,071	4.08	2,257,651	4.33
Interest income from placements with banks and other financial institutions	1,080,772	1.64	583,928	1.12
Interest income from financial assets held under resale agreement	11,097,497	16.88	6,275,296	12.04
Interest income from deposits with banks and other financial institutions	1,683,150	2.56	1,530,285	2.94
Total	65,742,343	100.00	52,110,223	100.00

## Management Discussion and Analysis

### Interest Expense

Interest expenses of the Bank in 2013 increased by RMB12.226 billion, or 44.43% over the previous year, mainly attributable to the growth in deposit interest expenses and interest expenses of deposit from banks and other financial institutions.

*In RMB Thousand*

Item	2013		2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Deposit interest expenses	24,745,311	62.27	19,745,299	71.77
Bond interest expenses	750,360	1.89	603,484	2.19
Interest expenses of deposits from banks and other financial institutions	11,767,728	29.61	5,706,216	20.74
Interest expenses of placements from banks and other financial institutions	813,264	2.04	511,704	1.86
Interest expenses of financial assets sold under repurchase agreement	1,663,146	4.19	947,442	3.44
Total	39,739,809	100.00	27,514,145	100.00

### Non-interest Income

In 2013, non-interest income of the Bank increased by RMB1.914 billion, or 29.41% over the previous year, largely driven by the increases in fee and commission income. In 2013, the Bank undertook a foreign exchange swap transaction for position management and therefore gains from changes in fair value was offset by increase in net interest income.

*In RMB Thousand*

Item	2013	2012
Net fee and commission income	9,056,712	5,872,840
Investment gain	(15,680)	132,697
Gain arising from changes in fair value	(969,667)	106,416
Foreign exchange gain	326,781	371,944
Other operating income	24,583	24,640
Total	8,422,729	6,508,537

## Breakdown of net fee and commission income

In RMB Thousand

Item	2013	2012	Increase/ (decrease)	Growth rate (%)
Fee and commission income:				
Remittance and settlement	571,561	520,196	51,365	9.87
Agency service	400,043	484,203	(84,160)	(17.38)
Bank card	6,996,845	4,549,207	2,447,638	53.80
Consulting fees	497,418	353,000	144,418	40.91
Assets custody	249,180	123,599	125,581	101.60
Guarantees and commitment	406,764	364,322	42,442	11.65
Wealth management business	968,425	363,797	604,628	166.20
Bond underwriting	209,144	184,125	25,019	13.59
Others	35,743	26,804	8,939	33.35
Subtotal	10,335,123	6,969,253	3,365,870	48.30
Deduct: Fee and commission expenses	(1,278,411)	(1,096,413)	(181,998)	16.60
Net fee and commission income	9,056,712	5,872,840	3,183,872	54.21

*Operating and Administrative Expenses*

Operating and administrative expenses in 2013 increased by RMB1.731 billion, or 13.63% over the previous year.

Primary reasons for the increase in operating and administrative expenses are: (i) business development needs contributed to increased number of staff, and correspondingly increased HR costs and other supporting expenses; (ii) the Bank intensified its efforts in channel and IT infrastructure building, resulting in increased rental fees and depreciation expense.

## Management Discussion and Analysis

*In RMB Thousand*

Item	2013		2012	
	Amount	Percentage (%)	Amount	Percentage (%)
HR costs	7,806,069	54.10	6,810,879	53.63
Rental and property management fee	1,406,678	9.74	1,122,593	8.84
Repair and maintenance fee	630,203	4.37	550,416	4.33
Depreciation	659,474	4.57	563,243	4.44
Others	3,927,502	27.22	3,652,071	28.76
<b>Total</b>	<b>14,429,926</b>	<b>100.00</b>	<b>12,699,202</b>	<b>100.00</b>

### *Allowances for Asset Impairment*

In 2013, allowances for asset impairment increased by RMB1.132 billion, or 87.54% over the previous year.

*In RMB Thousand*

Item	2013		2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Impairment losses on loans and advances to customers	2,403,353	99.12	1,305,702	100.99
Others	21,452	0.88	(12,750)	(0.99)
<b>Total</b>	<b>2,424,805</b>	<b>100.00</b>	<b>1,292,952</b>	<b>100.00</b>

## Segment Reporting

### Segment Operating Results by Regions

*In RMB Thousand*

<b>Region</b>	<b>Total assets</b>	<b>Operating income</b>	<b>Gross profit</b>
Head Office	554,067,222	5,471,728	1,952,279
Yangtze River Delta	298,862,621	6,506,940	73,912
Pearl River Delta	481,692,825	11,590,915	6,404,286
Bohai Rim	347,000,668	6,365,558	3,595,270
Central and Western	163,685,015	4,223,212	2,257,454
Overseas	22,395,624	266,910	171,853
Elimination among regions	397,854,044		
<b>Total</b>	<b>1,469,849,931</b>	<b>34,425,263</b>	<b>14,455,054</b>

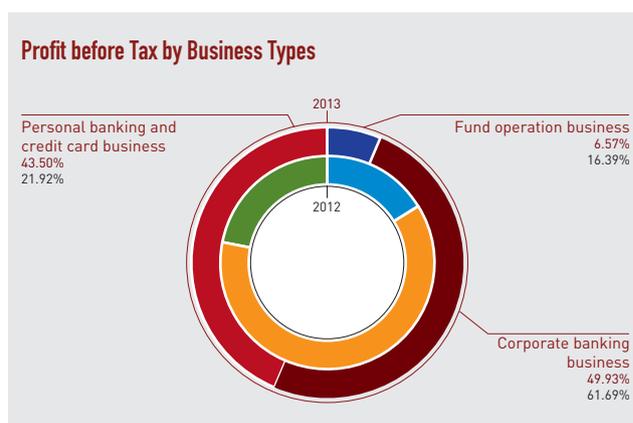
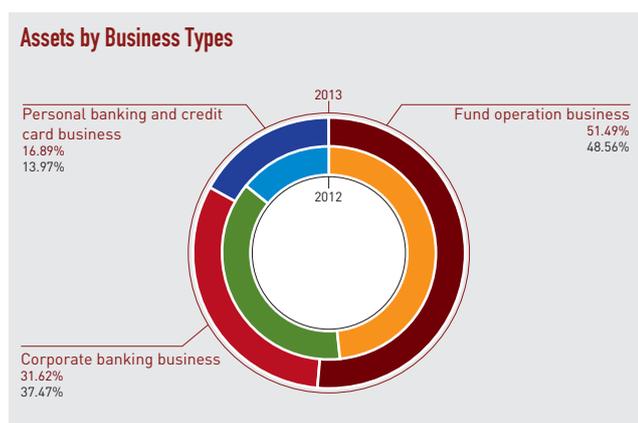


# Management Discussion and Analysis

## Segment Operating Results by Business Types

*In RMB Thousand*

Business type	Total assets	Operating income	Profit before tax
Corporate banking business	464,758,348	17,247,127	7,217,374
Personal banking and credit card business	248,268,575	15,147,918	6,287,298
Fund operation business	756,823,008	2,030,218	950,382
Total	1,469,849,931	34,425,263	14,455,054



## Balance Sheet Analysis

### Assets

Total assets of the Bank at the end of 2013 amounted to RMB1,469.850 billion, up by RMB301.700 billion or 25.83% over the previous year, mainly driven by the growth in loans and advances to customers, financial assets held under resale agreement and investments.

*In RMB Thousand*

Item	31 December 2013		31 December 2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Total loans and advances to customers	<b>714,711,095</b>	<b>48.62</b>	615,749,510	52.71
Deduct: Loan impairment allowances	<b>(11,171,700)</b>	<b>(0.76)</b>	(15,488,721)	(1.32)
Loans and advances to customers, net	<b>703,539,395</b>	<b>47.86</b>	600,260,789	51.39
Net investment	<b>225,840,162</b>	<b>15.37</b>	98,477,482	8.43
Cash and deposits with central banks	<b>196,972,297</b>	<b>13.40</b>	180,776,125	15.48
Net deposits and placements with banks and non-bank financial institutions	<b>49,264,018</b>	<b>3.35</b>	90,356,649	7.73
Financial assets held under resale agreement	<b>264,653,728</b>	<b>18.01</b>	177,482,650	15.19
Others	<b>29,580,331</b>	<b>2.01</b>	20,796,168	1.78
<b>Total assets</b>	<b>1,469,849,931</b>	<b>100.00</b>	1,168,149,863	100.00

### Loans and Advances to Customers

Total loans of the Bank as of the end of 2013 amounted to RMB714.711 billion, up by RMB98.962 billion or 16.07% over the previous year.

## Management Discussion and Analysis

### Loans Classified by Business Type

*In RMB Thousand*

<b>Business type</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Corporate loans	<b>459,727,676</b>	423,060,566
Personal loans	<b>246,538,096</b>	164,129,128
Discounted bills	<b>8,445,323</b>	28,559,816
<b>Total</b>	<b>714,711,095</b>	615,749,510

In 2013, the Bank gradually adjusted its business structure and accelerated the development of retail banking business. At the end of 2013, personal loans accounted for 34.49%, up by 7.84 percentage points from the beginning of the year; corporate loans accounted for 64.33%, a drop of 4.38 percentage points from the beginning of the year.

### Loans Classified by Regions

*In RMB Thousand*

<b>Region</b>	<b>Loan balance</b>	<b>Percentage (%)</b>
Pearl River Delta	214,383,827	30.00
Yangtze River Delta	143,437,649	20.07
Bohai Rim	119,954,083	16.78
Head Office	127,299,815	17.81
Central and Western	94,290,754	13.19
Overseas	15,344,967	2.15
<b>Total</b>	<b>714,711,095</b>	<b>100.00</b>

### Categories, Average Daily Balance and Average Annual Interest Rate of Loans

*In RMB Thousand*

<b>Item</b>	<b>Average daily balance</b>	<b>Average annual interest rate (%)</b>
Loans and advances to customers	661,191,795	6.49
Including: Loans and advances to customers (excluding discounted bills)	636,433,421	6.52
Discounted bills	24,758,373	5.65

## Structure of Corporate Loans Classified by Tenor

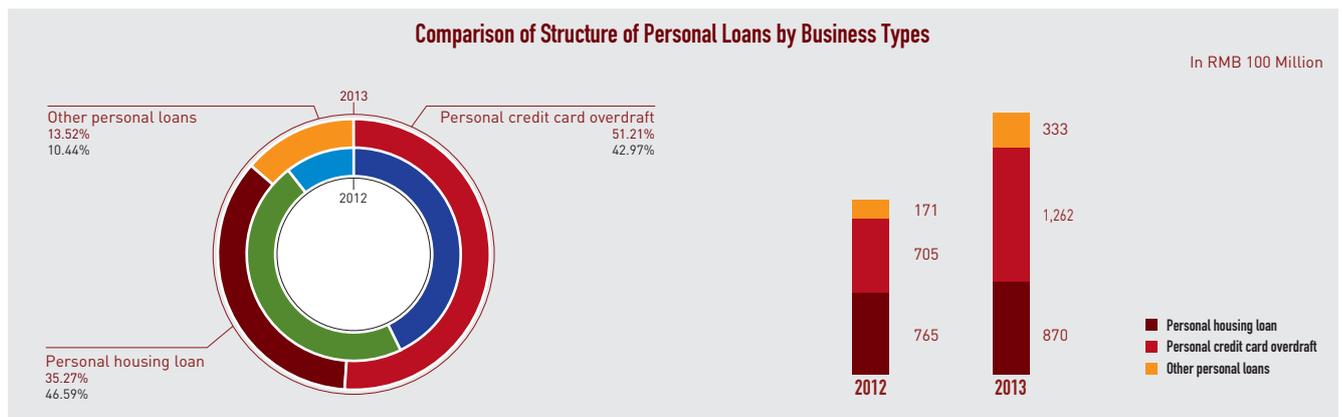
In RMB Thousand

Item	31 December 2013		31 December 2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Short-term corporate loan	320,030,474	69.61	292,441,252	69.13
Mid and long-term corporate loan	139,697,202	30.39	130,619,314	30.87
Total	459,727,676	100.00	423,060,566	100.00

## Structure of Personal Loans Classified by Product Type

In RMB Thousand

Item	31 December 2013		31 December 2012	
	Loan balance	Percentage (%)	Loan balance	Percentage (%)
Personal housing loan	86,957,832	35.27	76,460,051	46.59
Personal credit card overdraft	126,248,253	51.21	70,525,724	42.97
Other personal loans	33,332,011	13.52	17,143,353	10.44
Total	246,538,096	100.00	164,129,128	100.00



In 2013, the Bank accelerated strategic transformation, optimized and adjusted asset structure, further intensified credit card development, and focused on supporting personal business loans. As a result, the balance of personal loans grew by 50.21%, and the proportion of credit card and other personal loans all recorded an increase.

## Management Discussion and Analysis

### Breakdown of Loans by Types of Collateral

*In RMB Thousand*

Type of collateral	31 December 2013		31 December 2012	
	Loan balance	Percentage (%)	Loan balance	Percentage (%)
Unsecured loans	221,514,780	30.99	162,076,012	26.32
Guaranteed loans	164,230,395	22.98	164,002,236	26.64
Loans secured by mortgages	252,585,325	35.34	207,642,828	33.72
Loans secured by pledges	76,380,595	10.69	82,028,434	13.32
Total	714,711,095	100.00	615,749,510	100.00

### Top 10 Loan Clients

*In RMB Thousand*

Top 10 borrower	Loan balance	Percentage of net capital (%)	Percentage of total end-of-period loan balance (%)
Client 1	3,499,306	4.03	0.49
Client 2	2,668,898	3.07	0.37
Client 3	2,220,000	2.55	0.31
Client 4	2,217,546	2.55	0.31
Client 5	1,705,304	1.96	0.24
Client 6	1,500,000	1.73	0.21
Client 7	1,500,000	1.73	0.21
Client 8	1,432,000	1.65	0.20
Client 9	1,338,400	1.54	0.19
Client 10	1,331,145	1.53	0.19
Total	19,412,599	22.34	2.72

### Investment

Investment in securities and other financial assets include financial assets at fair value through profit or loss, available-for-sale financial assets, investment classified as receivables, held-to-maturity investment and long-term equity investment.

## Classification by Accounting Items

In RMB Thousand

Item	31 December 2013		31 December 2012	
	Balance	Percentage (%)	Balance	Percentage (%)
Financial assets at fair value through profit or loss	9,520,236	4.22	6,446,558	6.55
Available-for-sale financial assets	69,670,891	30.85	52,414,719	53.23
Investment classified as receivables	92,373,660	40.90	6,678,444	6.78
Held-to-maturity investment	54,273,572	24.03	32,935,919	33.44
Long-term equity investment	1,803	0.00	1,842	0.00
Total	225,840,162	100.00	98,477,482	100.00

In 2013, to cope with the complicated interest rate environment, the Bank continued to increase the proportions of available-for-sale and held to-maturity financial assets. At the same time, it expanded its investment scope, with an increase in the proportion of investment classified as receivables.

## Classification by Issuers

In RMB Thousand

Category	31 December 2013		31 December 2012	
	Balance	Percentage (%)	Balance	Percentage (%)
Government bonds	91,593,867	40.55	49,144,357	49.91
Bills of central banks and financial bonds	27,318,662	12.10	31,433,601	31.92
Other bonds	16,190,851	7.17	12,460,185	12.65
Other investments	90,734,979	40.18	5,437,497	5.52
Long-term equity investments	1,803	0.00	1,842	0.00
Total	225,840,162	100.00	98,477,482	100.00

In 2013, the overall investment scale of the Bank increased significantly compared with 2012. In particular, the bond investment was dominated by additional holding of government bonds and reduced positions in bills of the central banks and financial bonds. In 2013, the Bank continued to optimize its asset structure and expand the investment scope, resulting in rapid growth in other investment. During the reporting period, the Bank paid close attention to the movements of market interest rates, and strengthened internal fund management, thus improving the overall gains on bond investments while keeping reasonable control over their liquidity and safety.

## Management Discussion and Analysis

### Investment Distribution by Remaining Maturity

*In RMB Thousand*

Remaining maturity	31 December 2013		31 December 2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Undated	240,612	0.11	189,124	0.19
Within 3 months	50,063,920	22.17	10,262,770	10.42
3-12 months	57,244,363	25.35	9,708,017	9.86
1-5 years	76,198,525	33.74	45,609,888	46.32
Over 5 years	42,092,742	18.63	32,707,683	33.21
Total	225,840,162	100.00	98,477,482	100.00

### Long-term Equity Investment

In 1994, the Bank invested RMB4.1 million (41% in equities) to establish the Guangdong Guangfa International Finance Consultancy Co., Ltd. During the reporting period, the said investment was accounted for using the equity method. As at the end of 2013, the balance of equity investment by the Bank in Guangdong Guangfa International Finance Consultancy Co., Ltd. was RMB1.80 million.



## Liabilities

Total liabilities of the Bank as at the end of 2013 amounted to RMB1,396.558 billion, representing an increase of RMB291.937 billion or 26.43% over the previous year. The deposit balance of the Bank as at the end of 2013 reached RMB994.927 billion, representing an increase of RMB138.761 billion or 16.21% over the previous year.

### Composition of Liabilities

*In RMB Thousand*

Item	31 December 2013		31 December 2012	
	Balance	Percentage (%)	Balance	Percentage (%)
Deposits from customers	994,926,969	71.24	856,166,035	77.51
Deposit from banks and non-bank financial institutions	270,858,620	19.39	144,474,115	13.08
Financial assets sold under repurchase agreements	51,445,496	3.69	36,756,613	3.33
Issuance of bonds	9,500,000	0.68	14,500,000	1.31
Other liabilities	69,827,372	5.00	52,725,013	4.77
Total	1,396,558,457	100.00	1,104,621,776	100.00

### Main Deposit Types, Average Daily Balance and Average Annual Interest Rate of Deposit

*In RMB Thousand*

Item	Average daily balance	Average annual interest rate (%)
Corporate demand deposits	222,495,150	0.61
Corporate time deposits	515,511,030	3.81
Personal demand deposits	62,273,437	0.31
Personal time deposits	97,354,429	3.62

## Management Discussion and Analysis

### Deposits Distribution by Business Type

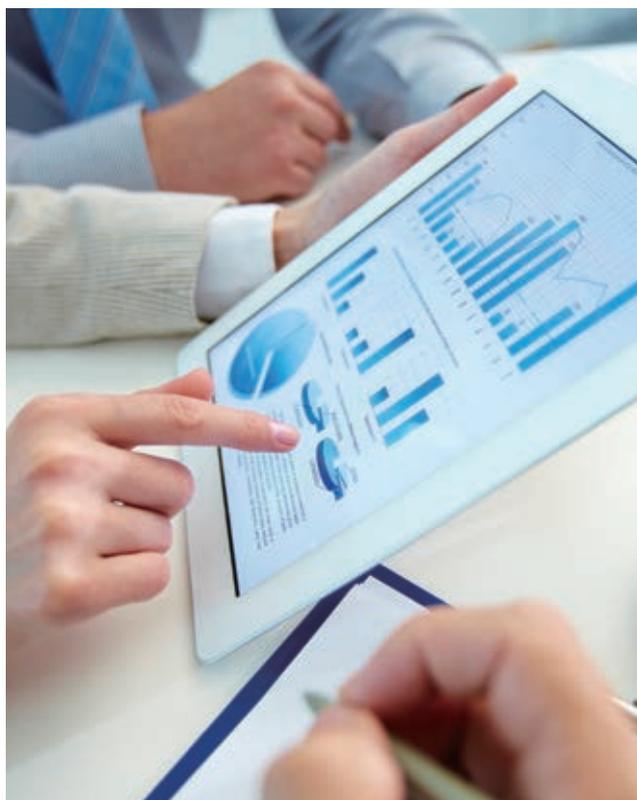
*In RMB Thousand*

Item	31 December 2013		31 December 2012	
	Balance	Percentage (%)	Balance	Percentage (%)
Demand deposits	334,742,858	33.64	318,625,155	37.22
Including: Corporate	255,733,299	25.70	246,570,598	28.80
Personal	79,009,559	7.94	72,054,557	8.42
Time deposits	658,592,194	66.20	536,219,183	62.63
Including: Corporate	550,664,849	55.35	454,592,684	53.10
Personal	107,927,345	10.85	81,626,499	9.53
Other deposits	1,591,917	0.16	1,321,697	0.15
Total	994,926,969	100.00	856,166,035	100.00

### Deposits Distribution by Remaining Maturity

*In RMB Thousand*

Remaining maturity	31 December 2013		31 December 2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Demand/Spot	352,053,149	35.38	331,007,117	38.66
Within 3 months	215,927,420	21.70	162,036,555	18.93
3-12 months	263,146,299	26.45	199,635,966	23.32
1-5 years	160,450,090	16.13	159,296,413	18.60
Over 5 years	3,350,011	0.34	4,189,984	0.49
Total	994,926,969	100.00	856,166,035	100.00



## Cash Flow Statement Analysis

As at the end of 2013, cash and equivalents balance of the Bank totalled RMB81.510 billion, down by RMB37.130 billion, or 31.30% over the previous year.

The net cash inflow from operating activities amounted to RMB95.601 billion, up by 382.22% over the previous year, largely driven by growth in deposits and deposit taken from banks and other financial institutions during the year.

The net cash outflow from investment activities amounted to RMB126.663 billion, up by 294.50% over the previous year, largely because the increase in cash amount paid for investment exceeded the increase in cash amount received from disposal of investment.

The net cash outflow from fund raising activities amounted to RMB5.846 billion, down by 250.67% over the previous year, mainly because the Bank redeemed RMB5 billion of subordinated debts in 2013.

## Financial Position and Operating Performance of the Bank

### *Changes of the Main Financial Indicators and Corresponding Reasons*

*In RMB Thousand*

Item	31 December 2013	Increase/ decrease over the end of the previous year (%)	Brief reasons
Total assets	1,469,849,931	25.83	Growth in loan and investment
Total liabilities	1,396,558,457	26.43	Growth in deposit and interbank liabilities
Shareholder's equity	73,291,474	15.37	Profit earned in the year
Net profit	11,583,481	3.24	Healthy development of business

## Management Discussion and Analysis

### Major Items Changing 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*

Main items	31 December 2013	Change over the end of the previous year (%)	Brief reasons
Financial assets held under resale agreements	264,653,728	49.12	Increase in volume of bills purchased under resale agreements
Financial assets classified as receivables	92,373,660	1283.16	Increased investment in beneficial interest for Asset Management Plans
Deposits from banks and non-bank financial institutions	270,858,620	87.48	Increase in deposits from other banks
Interest expense	39,739,809	44.43	Increase in deposits and placements from bank and non-bank financial institutions
Fee and commission income	10,335,123	48.30	Rapid growth in fee-based business
Allowances for asset impairment loss	2,424,805	87.54	Increase in allowances for asset impairment losses

### Other Financial Information

#### Financial Assets and Financial Liabilities Held at the End of Reporting Period

*In RMB Thousand*

Item	Opening balance	Profit or loss on changes in fair value of the period	Accumulative changes in fair value included in equity	Impairment allowance in the period	Ending amount
Financial assets					
Including: 1. Financial assets at fair value through profit and loss	8,568,179	2,018,848	22,561	–	13,656,181
Including: Derivative financial assets	2,121,621	2,022,950	22,561	–	4,135,945
2. Financial assets classified as receivables	6,678,444	–	–	–	92,373,660
3. Available-for-sale financial assets	52,414,719	–	(2,410,455)	–	69,670,891
4. Held-to-maturity investment	32,935,919	–	–	–	54,273,572
Subtotal of financial assets	100,597,261	2,018,848	(2,387,894)	–	229,974,304
Financial liabilities	1,990,965	2,988,515	(19,082)	–	5,321,110

Note: There is no articulation in this table.

*Major Off-balance Sheet Items**In RMB Thousand*

<b>Item</b>	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>Increase/ (decrease)</b>	<b>Growth rate (%)</b>
Loan commitments	<b>3,995,890</b>	5,974,418	(1,978,528)	(33.12)
Bank acceptances	<b>236,551,544</b>	229,475,297	7,076,247	3.08
Letter of guarantee issuance	<b>35,833,148</b>	15,757,001	20,076,147	127.41
Letter of credit issuance	<b>35,092,449</b>	17,185,609	17,906,840	104.20
Financial derivative instruments	<b>447,805,762</b>	229,873,482	217,932,280	94.81
Operating lease commitments	<b>5,851,361</b>	4,356,281	1,495,080	34.32
Capital expenditures commitments	<b>3,279,245</b>	3,931,117	(651,872)	(16.58)
Unused overdraft limit of credit card	<b>134,759,923</b>	92,700,387	42,059,536	45.37
Commitment of bond acceptance	<b>3,069,899</b>	3,372,859	(302,960)	(8.98)

*Change in Interest Receivables of On-balance Sheet and Off-Balance Sheet**In RMB Thousand*

<b>Item</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
On-balance sheet interest receivables	5,606,527	3,625,776
Off-balance sheet interest receivables	2,085,759	2,139,062

The Bank did not make bad debt provision for interest receivable on loans except for those on credit card, since they are subject to off-balance sheet accounting if they are not recovered within 90 days after falling due.

## Management Discussion and Analysis

### BUSINESS OVERVIEW

#### Corporate Finance Business

In 2013, the Bank proactively promoted corporate banking operations and management model reform, greatly expanded industry finance, continuously improved the key customer financial service model and in turn created a unique and competitive financial services model integrating on/off-balance sheet credit, trade financing, investment banking, assets custody, wealth management, settlement and cash management. At the end of the reporting period, the Bank's corporate customers surpassed 240,000, further strengthening the customer base. With the improving customer structure, the Bank built up more competitive advantages in corporate banking.

#### Corporate Deposits and Loans Business

In response to the changes in operating environment and policies, the Bank continuously optimized the asset portfolio, improved resources efficiency, intensified reform in the key account financial service model, and enhanced industry financial service capability, which contributed to steady growth in corporate deposits and loans. At the end of the reporting period, the balance of corporate loans in RMB and foreign currencies reached RMB468.173 billion, up by RMB16.553 billion or 3.67% from the beginning of 2013. The balance of corporate deposits in RMB and foreign currencies stood at RMB807.990 billion, up by RMB105.505 billion or 15.02% from the beginning of 2013.

The Bank made active efforts to restructure the asset and liability mix, and effectively increased the percentage of high-yield assets through optimal allocation of resources brought by credit assets transfer. It enhanced organization and management of customer service teams, built the core Customer Relationship Index (CRI) with EVA and RAROC to improve the customer structure; promoted development of the industry financial service model, and improved the ways that industry financial services were provided, with priority given to the customers which have prominent principal businesses, standardised management, stable financial status and upbeat operating results and prospects.

#### Small Enterprise Financial Service Business

According to China's policies, regulatory provisions and the Bank's strategic objective of becoming the most efficient SME bank, the Bank constantly expanded resource investment for small enterprises, kept improving the independent small enterprise organizational structure and operation mechanism, and innovated on small enterprise financial products and services. In this context, the Bank's small enterprise financial service maintained its rapid and healthy development. At the end of the reporting period, the Bank had set up 114 *Small Enterprise Banking Centres* in 34 branches, and had built the financial service network covering key development areas for small enterprises across the country. The number of Micro Enterprise customers with valid credit stood at 9,345, up by 72.91%; gross loan balance in RMB and foreign currencies of small enterprises was RMB99.083 billion, up by RMB17.451 billion or 21.38% from the beginning of 2013, which ensured that the 2 *no-lower-than* regulatory requirement was achieved.

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The Bank built a centralized, vertical and efficient management and operation framework by establishing a quasi-business unit structure. During the reporting period, the Bank renamed *SME Financial Department* as *Small Enterprise Financial Department*, and also set up the Small Enterprise Credit Management Department, comprehensively promoted the *Project 103* (credit factory), reinforced building and professional operation of the *Small Enterprise Financial Centres*, and built a CGB small enterprise financial service system characterized by *Six point specialized framework*, and realized efficient and independent approvals for small enterprise credit.

The Bank innovated the marketing management model, enhanced a unique product offering focusing on standard products and special products, formulated special financial service schemes targeted at small enterprise customers with mutual interest and risk characteristics in the marketing spirit of *well-planned wholesale development* and based on the plans for target markets to meet differentiated financial service demands of customers from different industries and regions. The Bank also improved the product applicability and customer experience in all dimensions by constantly optimizing standard products including *Hao Rong Tong*, *Kuai Rong Tong* and *Shi Chang Dai*. The Bank rolled out *Jie Suan Tong Card* – a corporate settlement tool for small enterprises, with over 10,000 cards issued in four months, which satisfied small enterprise customers' demands for differentiated financial services.

The Bank continued to improve brand management. In the spirit of providing *professional, dedicated and efficient* services, the Bank launched the *Small Enterprise Financial Express* and widely promoted the new brand on CCTV and mainstream newspapers, radio stations and websites, which further enhanced the brand image. In 2013, the brand was awarded *Excellent Micro Enterprise Financial Brand* by *National Business Daily*.

### *Global Transaction Services Business*

In 2013, the Bank leveraged the overall advantage of Global Transaction Services (GTS), developed products well-aligned with the market demand, made positive efforts to improve customer service experience and provided a comprehensive

array of services. During the reporting period, the fee and commission income of GTS reached RMB1.751 billion, accounting for 67.56% of the fee and commission income of the Bank's corporate businesses; assets custody business posted a two-fold growth to RMB344.500 billion.

In 2013, the Bank's GTS service won various awards including *2013 Excellently Competitive Supply Chain Financial Service Bank*, *Annual Excellent Trade Financing Bank*, *Best Transaction Bank*, *Best Pharmaceutical Industry Service Bank*, *China's Leading E-banking User Experience among E-banking Enterprises in 2013*, *Best Assets Custody Bank* and other awards by *Institute of Industrial Economics of CASS*, *China Business*, the *Economic Observer* and other institutions.

### *Trade Financing Business*

Based on the customers' demands and the development trend of supply chain finance, the Bank actively boosted product R&D and innovation, and designed financing product solutions for core customers; constantly improved the international trade financing product system under the cross-border RMB-denominated businesses by fully leveraging the cross-border RMB reform policy; integrated product portfolio schemes under capital, trade or non-trade projects, and provided more flexible and tailored products to meet customers' demands for different services. During the reporting period, the Bank innovated the acquisition and credit extension models by launching new products including NRA trade financing, import factoring, resale of forfeiting under credit insurance, bank policy, domestic factoring for buyers and improving business models including channel financing, thus diversifying the GTS product system, with international settlement businesses coming to US\$81 billion, up by 39% year-on-year.

The Bank was the first among domestic Chinese-funded banks to build the service centre for corporate customers and to launch online query on trade business, which provides customers with telephone banking services including information query, business consulting and business acceptance, covering 9 types of corporate businesses, such as trade financing, cash management, assets custody and corporate credit, thus meeting corporate customers' demands and improving the service experience.

## Management Discussion and Analysis

### Cash Management Business

During the reporting period, the Bank further integrated three corporate business E-channels, i.e., bank-corporate express, cash management and corporate E-banking, strengthened the R&D and launch of new cash management products. The number of cash management customers and its transaction volume registered fast growth. The cash management product framework transformed from provision of basic settlement and collection and payment management services to package solutions covering the provision of account management, collection and payment management, liquidity management, and investment and financing management services. Thanks to its excellent channel platforms, the Bank established the cash management partnership with industry leaders including Suning Commerce Group, Alipay, Guangdong Medicine Exchange, Yunnan Hongta Tobacco Group and other core enterprises in the supply chain.

In 2013, thanks to the launch of the cash management system 2.0, the Bank has realized two innovative functions in cross-bank account management and multi-level account books, which helped corporate customers to manage, control and use their money more efficiently. At the end of the reporting period, the number of customers using the cash management system reached 1,085, up by 85.79% year-on-year, and there were 1.03 million transactions, up by 89.79% year-on-year.

During the reporting period, the Bank officially launched the new corporate E-banking service with various innovative functions, including the industry-pioneering navigation design and unique three-step operations, simplifying the frequently-used corporate E-banking functions, such as query and transfer while launching new functions in fund collection, investment and wealth management, financing service, transaction reservation services; meanwhile, the security system was upgraded as protected by the second-generation Key Shield. As at the end of the reporting period, the number of corporate E-banking users exceeded 100,000, with a transaction replacement ratio of over 87%.

### Assets Custody Business

During the reporting period, the Bank achieved leapfrog development in assets custody business. Public offering funds custody grew rapidly, with 12 public offering funds of major product types under custody. The Bank saw rapid growth in insurance asset custody. Leveraged on the Internet Finance custody service, the Bank created unique custody product lines, built competitive edges of unique products, became the supervisor bank of *Tenpay* of Tencent and *Yifubao* of Suning Commerce, provided comprehensive value added services for fund companies and third-party payment organizations, and secured a leading market position, laying a solid foundation for subsequent integration of products and channels. During the reporting period, the Bank achieved cross-border development in assets custody business, with QDII custody reaching RMB2.799 billion.

Assets custody business continued to see an improved brand image. In June 2013, the Bank's assets custody released its main visual image of *your dream under our custody*; in October, the independently developed product *Tuo Fu Tong* was released, with *safe, efficient and value-added product* as the main visual image.

### Financial Institution Business

During the reporting period, centring on customers and driven by innovation, the Bank kept expanding the dimensions of business cooperation with financial institutional customers and realized growth in both business volume and profits. Through dedicating more credit resources to key customers, the Bank recorded balanced development of FI assets, liabilities, and fee and commission business. Substantial progress was made in credit extension to peers including asset management companies, auto finance companies and financial leasing companies. The Bank improved the channel marketing capability, stepped up the brokerage services for managing various assets of financial institutions and made active efforts to sell its financial products and services to peers.

In 2013, daily average balance of FI deposits reached RMB243.783 billion, up by 121.29% year-on-year. As driven by the expansion in FI customer base, the number of financial institutional customers with comprehensive credit reached 378; the Bank signed third-party depository management cooperation agreements with 57 securities firms, established correspond bank relationship with head offices and branch offices of 1,687 banks from 128 countries and regions across the globe; signed strategic cooperation agreements with China Huarong Asset Management Co., Ltd., Guangfa Fund Management Company Limited, Anbang Insurance Group Co., Ltd. and other non-bank financial institutions.



### *Investment Banking Business*

The Bank seized the opportunity of domestic financial reform, posted profits through management and innovative services, and actively promoted innovation and development of investment banking products, with growing business volume and income. The Bank entered into intensive cooperation with other financial institutions, including trust companies, securities companies, financial leasing companies and subsidiaries of fund companies, with highlights on such services and products as structured financing, asset securitization, corporate wealth management and asset management-related products. During the reporting period, the Bank's fee and commission income from investment banking was RMB756 million, up by RMB559 million or 283.76% from 2012.

### **Retail Finance Business**

The Bank's retail financial service provides individual clients with diversified products and services, mainly including deposits in RMB and foreign currencies, bank card, payment and settlement, personal loan, personal finance and wealth management. To become the *best retail bank*, the Bank continuously intensified personal finance reform, steadily promoted new channels and basic supporting system, and constantly built up the brand recognition and customer satisfaction and made substantial breakthrough in business development through strengthened professional marketing teams, upgraded wealth management and innovation in retail financial products. In 2013, the Bank posted revenues from retail finance of RMB15.148 billion, up by 29.51% from 2012, accounting for 44.00% of the total revenues; in particular, net fee and commission income reached RMB6.435 billion, up by 57.59%.

During the reporting period, the Bank continuously enhanced the brand marketing and service upgrade, and won titles such as *2013 Best Wealth Management Bank Brand* and *2013 Best Credit Service Innovation Bank* by *Money Week*, *Best Personal Loan Service Brand Bank* by *China Business News*, *2013 Best Wealth Management Bank* by *China Times* and *China Money*, *Award of Customer Satisfaction for Wealth Management Product* by *Yinhang.com*, and *Excellent Institution in Data Quality of Personal Credit System* by the People's Bank of China.

## Management Discussion and Analysis

### Savings Deposits

The Bank vigorously promoted innovation in savings products during 2013. It was among the first three banks that issued standard China UnionPay multi-currency debit IC card, provided customers with convenient and flexible wealth management and consumption services by launching *Zhi Neng Jin (smart gold account)*, rolled out the industry leading comprehensive service package of agent salary payment *Guangfa Salary Manager*, and developed the supply chain service platform based on the China UnionPay supply chain management platform, providing the supply chain customers with integrated services in China.

At the end of the reporting period, the Bank reported balance of savings deposits of RMB186.937 billion, up by 21.64% year-on-year. The daily average savings deposits were RMB159.628 billion, up by 23.32% year-on-year. *Li Cai Tong* debit cards in circulation came to 22.6 million with annual cards issued reaching 2.95 million.

### Retail Loans

The Bank optimized the retail credit mix, and strengthened innovation in business procedure and significantly enhanced procedure efficiency and customer service quality through launching services and products such as *Sui Shen Dai* and the industry leading *Sheng Yi Ren Card*. At the end of the reporting period, the balance of personal loans (excluding credit card) stood at RMB120.290 billion, up by 28.51% year-on-year, contributing to an interest income of RMB6.914 billion, up by 22.10% year-on-year.

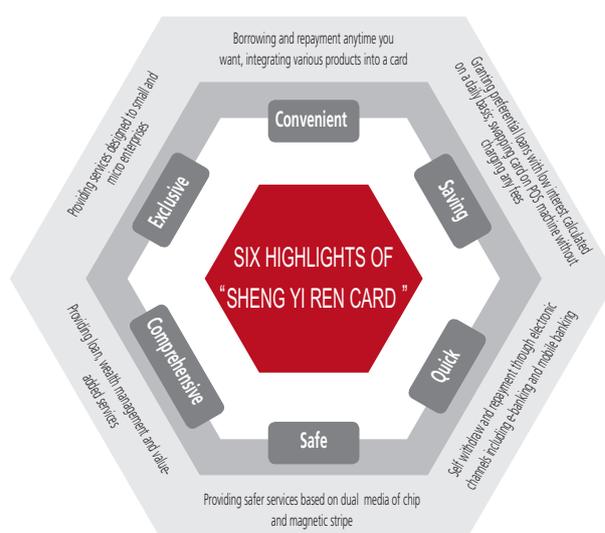
In light of the financing characteristics of Micro Enterprises, the Bank developed and launched package of integrated financial solutions for Micro Enterprises – *Sheng Yi Ren Card* during the reporting period to improve financing services provided to Micro Enterprises and support development of the real economy. The *Sheng Yi Ren Card* covers not only flexible and varied financing functions, but also financing services such as cash flow management, payment and settlement, and personal comprehensive wealth management. The card is characterized by *one-time approval, revolving facility, borrowing and repayment anytime you*

*want, interest calculated on a daily basis*, which can provide one-stop diversified and personalized financial services to Micro Enterprises. The *Sheng Yi Ren Card* is tremendously popular among Micro Enterprises clients. During the reporting period, the Bank cumulatively issued 43,300 cards for customers, with total amount disbursed of RMB30.800 billion, driving the balance of business loans to RMB34.619 billion, up by 85.34% year-on-year. The *Sheng Yi Ren Card* recorded interest income of nearly RMB500 million in the year it was launched, representing 7.22% of total interest income of overall retail loans (excluding credit card).

### Three Services Provided through *Sheng Yi Ren Card*

Finance services	Settlement services	Value-added services
<ul style="list-style-type: none"> <li>• Revolving loans</li> <li>• Unsecured loans</li> <li>• Loans secured by tangible assets other than monetary assets</li> <li>• Jointly-guaranteed loans</li> <li>• POS Loans</li> </ul>	<ul style="list-style-type: none"> <li>• Transfer payment through electronic channels</li> <li>• POS settlement services</li> <li>• IC card security technology</li> </ul>	<ul style="list-style-type: none"> <li>• Cash management</li> <li>• Wealth management services</li> <li>• VIP value-added services</li> </ul>

### Six Highlights of *Sheng Yi Ren Card*



### Personal Wealth Management

The Bank emphasised the idea of diversified asset allocation to provide differentiated wealth management services for customers with different appetite for risks. In 2013, the Bank launched wealth management products such as *Everyday Profit*, *Day by Day Profit*, and *Monthly Salary*, and provided customized wealth management services for private banking customers. During the reporting period, the Bank cumulatively issued 2,466 self-developed wealth management products, up by 72.69% year-on-year.

### Premier Banking

Committed to acquiring high-quality customers, the Bank constantly consolidated its customer base. In 2013, the Bank officially launched *CGB Private Banking* business, upgraded premier banking, kept integrating platforms like telephone banking, online banking and mobile banking, and established 24 hour *remote-banking* service channels for prospective VIP customers, with increasingly improved customer satisfaction. At the end of the reporting period, the Bank had approximately 400,000 medium and high-end customers, up by 28.43% year-on-year. In particular, the number of VIP customers grew by 41.97% year-on-year, and that of private banking customers increased by 35.73% year-on-year.

### Credit Card Business

For the credit card business, the Bank in 2013 accelerated product innovation, promoted business transformation, optimized customer base structure and thereby achieved healthy and rapid business development. At the end of the reporting period, the Bank cumulatively issued 27.93 million credit cards, with overdraft balance of RMB126.248 billion, up by 79.01% year-on-year, achieving total revenue of RMB14.019 billion, up by 44.07% year-on-year, and the new loss ratio was controlled at a low level of 0.60%, indicative of improvement of both business scale and quality. The Bank led among the joint-stock banks in the total card issuance volume and overdraft amount, and maintained its leadership in core indicators such as credit card activation rate, active rate, recycling rate and average card overdraft.

The Bank accelerated channel reform to promote the transformation of credit card business. The Bank strengthened the application of Mobile Internet technology, established WeChat service platform, supported mobile payment, and became the first bank to launch Yi Xin and issue SD-mall mobile credit card; strengthened the development of self-service channels such as E-banking, mobile banking and SMS to provide customers with more convenient self-services; consolidated *project card issuing* model and promoted the second transformation that highlighted *data marketing*. At the end of the reporting period, the official micro-blog of CGB credit card had a total of 2.5 million followers, its influence ranking among the top 5 in Sina Weibo official financial sector.



The ceremony for the launch of the co-branded cards with Air China.



The ceremony for the launch of the co-branded cards with Mannings.

## Management Discussion and Analysis

The Bank continued product innovation; improved market segmentation; optimized target customer bases, with proportion of platinum card segment increasing to 11.0%; launched co-branded cards with Mannings, Air China and vip.com to meet consumption needs of different customers; and launched DIY card which entitles users to rapid bonus points in the targeted segment of young urban white-collar customers.

The Bank strengthened risk management and improved quality of customer bases. In light of the changing economic situation, the Bank dynamically adjusted its efforts in risk control; credit decision-makings were more rational, and risk evaluation was more accurate as metrics used for risk rating on new customers were shifted from one-dimensional to multi-dimensional. The Bank also managed to make customer service more real-time and intelligent, and achieved real-time decision-making of customer credit management and examination and approval of products by instalment, which greatly improved the customer experience.

The Bank made efforts in charitable donations and provided quality services to improve the brand image of CGB card. During the reporting period, the Bank carried out CGB Hope Charity Fund Hunan Charity Campaign, during which the Bank contributed RMB2 million for the building of 25 charity kitchens and other facilities, and funded about 600 impoverished students. The Bank also rolled out *Guangfa Joy Day* campaign by cooperating with many well-known brands across multiple industries at home and abroad and thereby established a good reputation among target customer bases such as white-collar segments.

In 2013, the Bank's *Building CGB Card Excellent Service Platform* project won the second prize in China Quality Technical Award, making it the first bank winning such an award, which was the best ever result in the financial industry. The Call Centre of CGB Card won the 2012-2013 *Best Call Centre Award* and *Best Call Centre Management Team Award* in the election of the best call centre in China jointly hosted by China Information Industry Association and China Association of Trade in Services, as well as the *Best Call Centre in Quality Assurance Gold Award* in the call centre competition held by HK Call Centre Association. Representing Hong Kong and South China, the Call Centre won the *APCCAL Recognition Award* again on the APCCAL EXPO.



The Bank was granted the *Best Call Centre in Quality Assurance (Gold Award)* by Hong Kong Call Center Association (HKCCA).

### Financial Market Business

The Bank's financial market business covers treasury operation, proprietary market-making and trading, design and management of wealth management products, debt capital market, customer trading solutions, etc. In 2013, against the backdrop of increasingly fierce competition and rising cost of funding, the Bank, committed to prudence and diversification, coordinated treasury operations among interbank market, money market, bill market and bond market, intensified fund allocation and proper arrangement of maturity, and achieved the right balance of liquidity and profitability. At the end of the reporting period, the assets of the financial market line owned by the Bank totalled RMB542.300 billion, up by 43.7% year-on-year.

#### *Trading in Financial Markets*

The Bank continued to carry out spot, forward and swap market-making and proprietary trading in RMB foreign exchange market, and carry out proprietary trading in G7 currencies and precious metals, and RMB bonds market-making and proprietary trading. During the reporting period, the Bank topped the joint-stock banks in RMB bonds market-making and book-entry treasury bonds underwriting in interbank market. As a result, the Bank further consolidated its status as one of the major dealers in financial market by being a primary dealer in open market, a member of the SHIBOR quotation team, IRS fixing curves quotation team, RMB bonds market-maker, a leading underwriting group for government and financial bonds, a market-maker for RMB foreign exchange transactions, etc.

### Debt Financing Instruments

In 2013, the Bank kept expanding underwriting and sub-underwriting in debt capital market, thus posting rapid growth in lead underwriting business. Consequently, the Bank recorded RMB33.028 billion in lead underwriting business, a year-on-year growth of 48.86%, and successfully issued 49 debt financing instruments. Projects that the Bank underwrote won prizes such as the *Best Medium Term Note Project*, *Best Short Term Financing Bond Project* and *Most Growable Bank in Investment Banking* rated by *Securities Times*.

### Research and Development of Wealth Management Products

The Bank made efforts in enriching and improving its wealth management products, and promoting rapid development of retail wealth management. The Bank multiplied the size and issuance of the wealth management products that it independently developed, and sold 5,170 (up by 160.58% year-on-year) wealth management products accumulatively, contributing to a sales volume of RMB624.000 billion (up by 139.56% year-on-year), with related fee and commission income rising 166.20% from the previous year. During the reporting period, thanks to its consistent excellent performance in the wealth management business, the Bank won the *Fulong Award* for Banks with Best Potential rated by Lujiazui Research Base of the Chinese Academy of Social Sciences.

### Solutions for Customer Transactions

Focused on customer investment, financing and risk management needs, the Bank kept promoting transaction solutions for customers with traditional exchange rate products, foreign exchange options, and products combining exchange rate and interest rate. During the reporting period, the Bank promoted innovative products including gold lease, range forward, foreign currency deposits earning, and commodity derivatives transactions on commission, thereby diversifying product lines for customer transactions, further meeting customers' demand for hedging. In the meantime, the Bank tapped into favourable opportunities for market transactions, and provided customers with individualized transaction solutions.

### Internet Finance Business

As Internet Finance is emerging, the Bank actively explored ways for e-bank transformation, kicked-off top-level design for Internet Finance, and prioritized Internet Finance as one of the strategic businesses of the Bank. During the reporting period, the Bank intensified reform and development, renamed *E-banking Department* of the Head Office as *Internet Finance Department*, adjusted organization structures and functions of departments, established professional teams, adhered to the idea of *open, mobile and interconnected* while consolidating its traditional advantage in e-banking, consistently deepened e-financing business innovation, and steadily promoted the building of Internet Finance system.

The Bank devoted itself to delivering convenient diversified financial services, and continuously optimized Internet Finance service platform. As its personal e-banking launched cross-platform and cross-browser services that are compatible to Windows operating system and mainstream browsers. It is the first bank that supports Apple Mac digital certificate verification. The Bank has over 460 functions for personal e-banking and over 350 functions for mobile banking, ranking among the top performers in the industry. It originated 26 new e-banking businesses, and outran all national joint-stock commercial banks in obtaining the qualification for selling electronic savings treasury bonds. At the end of the reporting period, the Bank recorded 9.2264 million (a CAGR of about 60% for the recent 6 years) personal e-banking customers, contributing to 166.74 million (up by 85.28% year-on-year) accumulative financial transactions, and a transaction volume of RMB1.17 trillion (up by 36.21% year-on-year). The Bank had 2.5131 million mobile banking customers, doubled that of a year ago, contributing to 10.19 million (up by 302.37% year-on-year) accumulative financial transactions and RMB36.500 billion (up by 400.23%) transaction volume.

## Management Discussion and Analysis

The Bank accelerated layout and expansion of mobile financial services and stepped up layout of emerging financial service models. It pioneered in launching WeChat Service Hall and Yi Xin Service Hall with Internet giants such as Tencent and NetEase, and joined Alipay public platform in response to market changes. The Bank established a mobile financial marketing system centred on short URL and QR code, further enhanced efficient coordination among different E-channels so as to achieve organic channel integration and provide customers with scenario-based financial services for smooth and convenient experience. Through cooperation with third-party payment agencies, the Bank made breakthrough in key business links like payment with the cards of other banks, which laid a solid foundation for Internet Financial Product sales in the future.

The Bank leveraged the advantages of online and offline channels to step up smart bank development. Positioned to be a community financial convenience store, the Bank sped up the establishment of smart banks in important cities such as Beijing, Shanghai, Guangzhou, Nanjing and Jinan, with a total of 13 smart banks in operation. It was the first in the industry to launch such products and services as self-service *Fast Cash* and *Off-bank 24H Smart Bank*. At the end of the reporting period, the Bank had set up 947 self-service banks, 13 smart banks and 3,671 cash-based self-service devices (ATM&CRS), and recorded 81.09 million (up by 15.05% year-on-year) financial transactions, involving a transaction volume of RMB171.800 billion (up by 34.66% year-on-year).

E-banking not only helped the Bank redirect counter services and reduce operating costs but also played a bigger part in marketing. Counter replacement ratio in respect of e-banking has exceeded 90%, and the bank-wide e-banking channel contributed a sales volume of over RMB110 billion from personal wealth management products for the year. In respect of Internet Finance service, the Bank won 27 industry awards granted by authoritative media and institutions such as *The Asian Banker* and China Internet Finance Work Committee, including *China's Internet Finance Star of Tomorrow in 2013*, *Award for Best Internet Finance Innovation*, *Award for China's Best Retail Outlet Innovation in 2013* and *Best Mobile Financial Bank in 2013*.

### Information Technology and R&D

During the reporting period, the Bank increased resource investment, accelerated the development of key technology projects, and actively explored the application of financial IT to emerging areas so that IT could better facilitate business development and innovation.

The Bank steadily pushed forward infrastructure building and core optimization of systems. According to the plan of *Two Locations and Three Centres*, the Bank continued to carry forward IT infrastructure development of Nanhai Information Centre, so as to lay a foundation for expanding capacity in data centres and building a more efficient and powerful operating back-office. Meanwhile, the Bank started to develop a new generation core banking system centred on customers and based on large mainframes, which would improve the system's service capability from various aspects such as product modelling, process-oriented businesses, systematic risk control, and integration of domestic and overseas services.

The Bank was committed to positive interaction and in-depth integration between business and technology, and gave priorities to the development of key and competitive businesses such as *Two Cards and One Centre* of the Bank; completed the building of the support system of *Sheng Yi Ren Card* as quickly as practicable and realized T+0 transformation of POS machine for Sheng Yi Ren Card; set up the marketing management system of credit card and started the development of core application system on credit card mainframe platform, creating more possibilities for business development; finished the building of retail credit management system and small enterprise pre-loan marketing system, realized integrated management of the holistic process of retail credit businesses and further improved the efficiency of examining and approving credit to Micro Enterprises.

The Bank actively promoted the research and application of emerging technology to drive business innovation; kept improving the financial service terminal solutions of *CGB 24H Smart Banks* after Virtual Teller Machine (VTM) was launched; explored the leadership of technology, intensified efforts in R & D of mobile financial technology, pioneered WeChat and Yi Xin banks, joined Alipay's public platform, vigorously developed NFC and QR code technologies, endeavoured to build technical advantages, improved user experience; optimized the infrastructure building of e-banking service for individual and corporate customers, so as to create more opportunities for business, service and management innovation. The Bank actively promoted application of virtualization technology, improved the flexibility of IT resources allocation, and enhanced the convenience and security of mobile office in order to realize more intelligent cloud-based management for infrastructure.

## Outlet Setup

At the end of the reporting period, the Bank had established 661 outlets in 71 cities at prefecture level or above in 16 provinces (including autonomous regions and municipalities directly under the Central Government) in Mainland China, including Beijing, Tianjin, Liaoning, Heilongjiang, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Henan, Hubei, Hunan, Guangdong, Sichuan, Yunnan and Xinjiang, and 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.

In 2013, the Bank set up one Tier-1 branch directly managed by the Head Office (Fuzhou Branch) and nine Tier-2 branches (Jiaxing, Zhenjiang, Huaian, Jining, Changde, Sanmenxia, Honghe, Kashgar and Qiqihar). The 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.

## Human Resources Management

### *Reform in Human Resources Management*

In consistency with its strategies, the Bank worked out scientific plan for human resources across the Bank, continuously advanced the reform in human resources management so as to provide an extensive platform for the comprehensive growth of employees. At the end of the reporting period, the Bank had essentially set up a standardized position system, and established three specialized teams on *Operational Management*, *Professional Expertise* and *Skill Performance*. The Bank comprehensively implemented the *Employment System*, tried to appoint employees on their merits and achieved person-post matching.

Meanwhile, the Bank further promoted and perfected the performance management system centred on value creation and with *Balanced Score Card* as the core concept, and steadily implemented the employee remuneration framework focusing on the post performance and salary, so as to achieve more efficient performance management process and steady improvement in employee performance.

### *Talent Training and Development*

During the reporting period, the Bank conducted various training and development programs by different levels and main points. In the critical period of reform and development, to improve the professionalism and management of the middle and senior executives, the Bank organized a series of advanced training programs such as the *Party School of the Central Committee of C.P.C – CGB Senior Executives Training Class*, *University of Cambridge – Leadership Improvement Program for CGB Senior Executives*, *University of Cambridge – Advanced Training Class for CGB Marketing Directors*, *Training Class for Risk Management Directors* and *Advanced Training Class for Chief Financial Officers*; to enrich knowledge of employees, the Bank organized several *CGB Forums*, as well as lectures themed on financial research, management exploration, economic outlook, etc.; regarding the characteristics of young employees in work, the Bank launched the *Flying Eyas* training program to improve their professional mentality, knowledge base and ability.

## Management Discussion and Analysis

While emphasizing the all-round quality development, the Bank actively organized professional and technical training sessions for various business lines covering retail, corporate, risk, operation and compliance in order to constantly enhance talents' competence for their positions and professional skills.

At the moment, the Bank has established a multi-layered three-dimensional training network combining the Head Office's overall training and branches' independent training, training organized by the HR Department and that organized by business lines, on-site classroom training and remote online training so as to effectively improve employees' skills and professionalism. During the reporting period, the Bank in total organized 8,347 sessions of training for 270,000 participants.

By making full use of remote training, the Bank offered various training courses concerning such topics as financial fundamentals, quality services, marketing management, professional skills and professionalism through the E-learning system, effectively improving training coverage and efficiency. E-learning platform has provided 107 training courses for 507,000 participants.

### *Remuneration and Welfare Management*

The Bank focused on the role of remuneration and benefit management in supporting key strategic regions and businesses while giving priority to its Five-year Strategic Development Plan and human resources management reform. During the reporting period, the Bank basically established and implemented the employee remuneration framework focusing on the post performance and salary system and gradually implemented market-oriented remuneration package while strengthening the incentive role of remuneration and welfare to improve employee satisfaction.

### *Talent Recruitment and Brand Building*

In recent years, the Bank has, through all its outlets, organized campus recruitment and non-exclusionary and professional recruitment via multiple channels in order to attract multi-level and high-quality talents. We have attracted tens of thousands of college students at home and abroad via annual campus recruitment as well as diversified talents of different levels in the industry from different regions via continuous professional recruitment, therefore bringing vitality to the Bank, enriching the knowledge base and enhancing expertise of our employees. In 2013, the Bank won the *Award for China's Best Employer in 2013* organized by domestic authority for the third consecutive year; and was awarded the *Best Employer for Chinese College Students* again and the *Best Employer in National Banking Industry*.



The Bank won the *Award for China's Best Employers in 2013* and received the *Best Employer for the Year* for three consecutive years.

## Brand and Services

### Brand Building

In 2013, the Bank established the brand philosophy of *Enterprising to Discover Value*, launched the new slogan of *Smart banking for smart you*, and organized promotion campaigns to celebrate *the 25th anniversary of CGB* throughout the year, thus improving brand image by various means and in an all-round way.

The Bank took the opportunity of its 25th anniversary to look back on and showcase its development course with a view to building a corporate image of *Most Efficient SME Partner, Best Retail Bank and Driver for Economic Development*. The Bank leveraged national key media and local mainstream media to promote its financial services for Micro Enterprises, business product innovation, Internet Finance development, superb service experience, public financial education, and social responsibility initiatives, in order to highlight its important role in economic development and its services to society and the general public in reform and opening up, and disseminate its positive efforts for seeking innovation, serving real economy and promoting social development; tried to further improve public satisfaction with its service and build up the brand image of a *First-Class Commercial Bank*.

The Bank organized a wide array of brand promotion campaigns, and made full use of media such as television, outdoor media, print media, Internet and radio stations and its own channels to disseminate the new philosophy and image of *Smart Finance, CGB China*; launched new advertisements at government-sponsored media such as CCTV, CNR, People.cn and Xinhuanet.com, and outdoor media such as major airports to enhance brand image; showed brand image and business innovation by virtue of national key print media and Internet media; demonstrated its new brand image via official website and self-service machines in all the outlets in order to promote brand penetration; started using official Weibo and WeChat and used its own new media for publicity and promotional campaigns so as to enhance its brand presence.

The Bank was widely recognized and well-received by the general public in respect of brand building, and was honoured the *Most Innovative Bank (2013)*, and *2013 China Business News – China Excellent Corporate Social Responsibility Practitioner* by *Financial Times* and *China Business News* respectively. Chairman Dong Jianyue won the title of the *Top 10 Economic Persons of the Year 2013 in Guangdong* and the *Southern Finance Leadership Award of the Year 2013*.



Chairman Dong Jianyue won the title of the Top 10 Economic Persons of the Year 2013 in Guangdong.

## Management Discussion and Analysis

### Service Management

During the reporting period, the Bank, adhering to the service philosophy of *Customer First, Sincere Service* and corporate mission of *Providing Excellent Experience and Creating More Values*, kept improving the core service supporting systems such as service standard system, service training system and service monitoring system, so as to set up the system of protecting the rights and interests of financial customers, making sure that every key point in customer service is perfectly implemented, managed, monitored and evaluated.

## RISK MANAGEMENT

### Risk Management Overview

In recent years, the Bank has been pushing forward construction of the comprehensive risk management system, building a centralized, vertical and independent risk management framework, thus improving the risk management system involving credit, liquidity, market, operational, compliance, IT, reputation and country risks and has built a risk control framework matching various business lines including corporate credit, retail credit, credit card, financial institution and financial market. In 2013, upon active study and close attention to the trend of national economic policy, the Bank improved the comprehensive risk management capability, strengthened risk prevention and control in key areas, and became more active, far-sighted and effective in risk management.

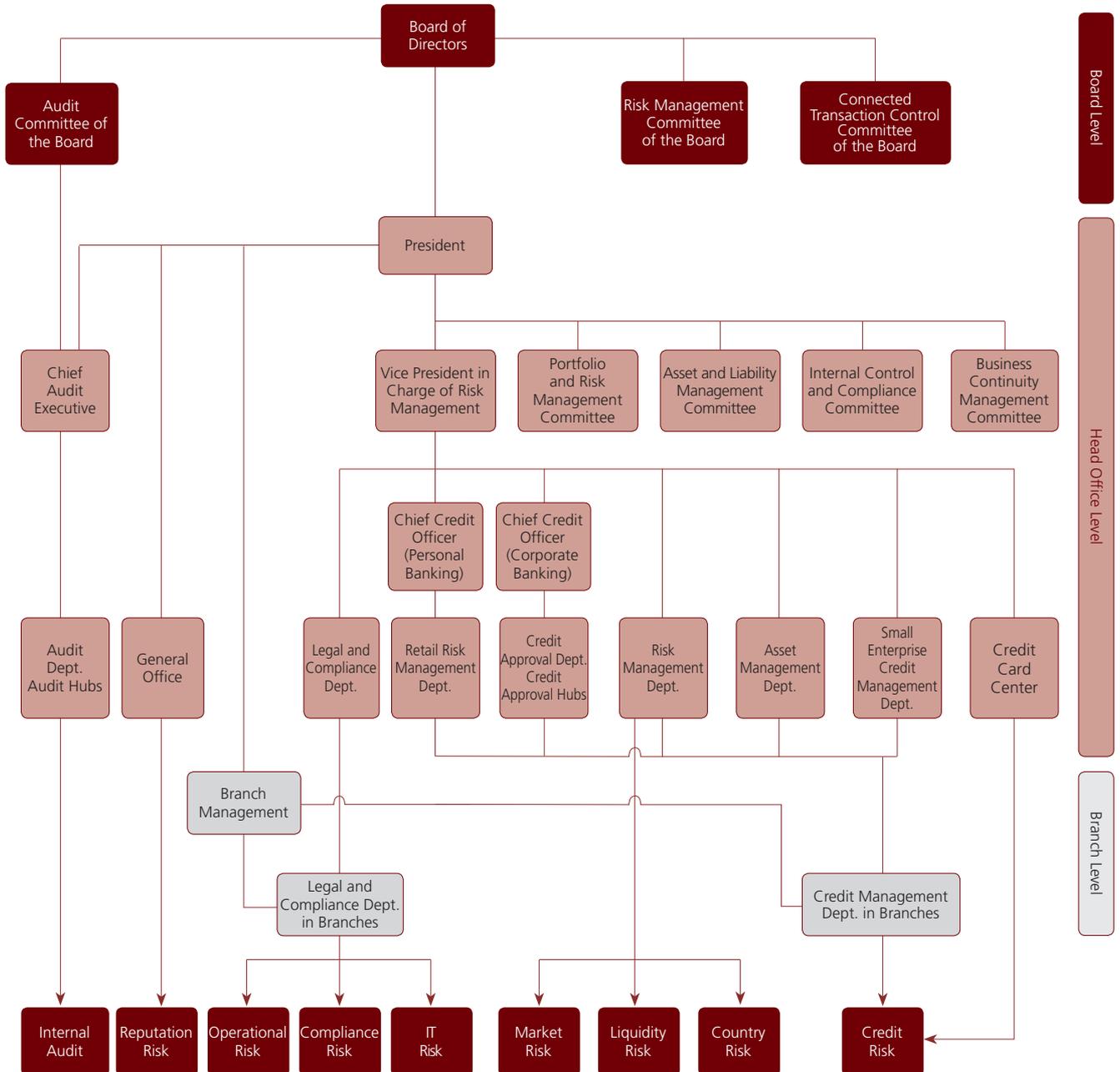
The Board assumes final responsibility for the Bank's risk management, and is responsible for determining the Bank's general risk appetite and tolerance as well as reviewing and approving the Bank's key risk management objectives, strategies, policies and procedures. The Risk Management Committee of the Board is responsible for reviewing risk policies and internal control plans, evaluating the Bank's risk management capability and reviewing the risk management strategies for credit, market, operational, liquidity and compliance risks. The Bank's Vice President in charge of risk management assists the President in comprehensive risk management. The Portfolio and Risk

Management Committee, Asset and Liability Management Committee, Internal Control, Compliance Committee and Business Continuity Management Committee of the Senior Management are responsible for studying strategies, guidelines and policies for preventing credit, market, liquidity, operational and compliance risks, 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, Small Enterprise Credit Management Department and three regional Credit Approval Hubs are responsible for formulation, implementation and management of the Bank's credit risk management systems. The Risk Management Department is responsible for formulation, implementation and management of the Bank's management systems for market and liquidity risks; the Legal and Compliance Department is responsible for formulation, implementation and management of the Bank's management systems for operational and compliance risks; the Audit Department is responsible for independent review, supervision and evaluation of the Bank's business operations and risk control. Decisions on all risks of the Board, the Risk Management Committee of the Board and the Senior Management are implemented by branch offices under the direction of the departments concerned.



On 6 March 2013, the relevant regulatory authority held a meeting on prudent supervision for 2012 in the Bank, which was attended by the representatives of substantial shareholders, independent directors, external supervisor representatives and the management of the Bank.

### CGB Risk Management Organization Chart



## Management Discussion and Analysis

### Risks Encountered by the Bank and Corresponding Countermeasures

#### Credit Risk

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

In 2013, despite complex macroeconomic environment and intensive occurrence of some regional and industry risks, the Bank constantly enhanced study and pre-judgment of various credit risks, promptly adjusted and improved various credit policies, stepped up credit restructuring, strengthened risk monitoring and control in key areas, optimized credit delegation and approval procedure, intensified system building and technical support and innovated the non-performing assets collection and disposal model. The Bank's NPL balance and ratio both decreased as at the end of the reporting period.

#### Corporate Credit Risk Management

The building of the credit system was driven steadily to further improve the credit policy system. According to changes in the macroeconomic situation and regulatory requirements, the Bank formulated corporate credit and industry credit policies and guidelines, improved the management systems for risks of trade financing, indirect financing, cross-region credit extension and wealth management products, reformulated detailed products and customer credit policies and promoted credit restructuring.

The Bank continuously optimized holistic risk management to improve the risk management level, optimized credit approval procedures and group customer credit approval procedures, strengthened standardized management of disbursement review and built a risk monitoring and pre-warning system covering management by objective, hierarchical monitoring, oriented report and individual responsibility to improve the capability of identification, early warning, prevention and control of corporate credit risk.

The Bank constantly stepped up risk management of key accounts, key branches and key areas including steel trade enterprises, government financing platforms, real estate loan and industries with high energy consumption, high pollution

or overcapacity according to national policies and regulatory requirements to prevent systematic risks, strengthened risk monitoring of branches as well as key accounts and key areas in high-risk industries, implemented credit strategy classification management and built the credit entry-exit mechanism.

The Bank intensified building of the risk management system to improve risk management capability, continuously optimized Credit Management System (CMS) and risk monitoring system, put into operation modules of risk monitoring, early-warning, classification of credit compliance supervision and credit extension strategies, strengthened management of credit risk monitoring and early warning and credit compliance; promoted building of *New Capital Accord* related systems, including the roll-out and optimization of collateral system, rating system and FMS; further improved risk quantification capability, advanced building of ORR and FRR, developed and rolled out models of Probability of Default (PD)/scoring card, Loss Given Default (LGD) and Exposure at Default (EAD), built corporate customer related early warning model and improved stress testing.

#### Small Enterprise Portfolio Risk Management

The Bank built a holistic management and control system for small enterprise business risk to comprehensively improve risk management level. In 2013, in response to the strategic shift towards small enterprise business, the Bank set up the Small Enterprise Credit Management Department consisting of risk control professionals, simplified the approval procedures by optimizing the small enterprise credit approval system, built the holistic risk management system for parallel operation and further enhanced management efficiency of small enterprise business risk.

The Bank improved small enterprise credit policy and system, specified credit entry standard for small enterprise customers, regulated operation of small enterprise credit extension and promoted the small enterprise development and approval model focusing on batch approval, supplemented by individual approval, enhanced onsite inspection on key branches, areas, and industries, promoted development and implementation of small enterprise early warning system, regularly monitored overdue small enterprise customers, early-warning customers and non-performing customers, promptly monitored risk changes, prevented risks in the early stage and continuously intensified effective and far-sighted small enterprise credit risk management.

### Retail Loan Credit Risk Management

The Bank strengthened building of the retail risk management system, made strict customer credit entry standard, leveraged such tools as scoring card to conduct segmented customer management, formulated special policy tailored to regional characteristics and established a standard and differentiated policy system.

The Bank built the centralized approval system for personal loans, improved the retail credit approval model backed by standard and efficient credit operation procedure, and effectively prevented and controlled risks in various processes of review and approval through multiple anti-fraud and detection means.

With the advanced retail credit management system, the Bank further optimized retail-banking business procedures, gradually established a holistic standard procedure management system from front-end marketing, review and approval, post-loan management, collection management to asset disposal, continuously improved risk early warning data-driving model, regulated retail business limit approval procedure and standard, defined formulation procedure for regional credit policies, intensified customer segmenting management and effectively prevented retail credit risk while improving approval efficiency.

### Credit Risk Management for Credit Card Business

In respect of credit card risk management, the Bank introduced the decision-making concept of customer value model, focused on developing core customer segments on the basis of mass-decentralization customer research, supported various links such as marketing, credit approval, customer maintenance and post-loan management based on data mining and model analysis, and kept optimizing customer segment structure with a view to achieving refined management of business risks.

The Bank strengthened macro risk assessment and early warning mechanism, strictly controlled the credit entry criteria for credit card customers in high-risk areas and industries with excess capacity, enhanced credit limit control, made special collection policies, and monitored and controlled credit risks from various dimensions; set up special risk control models for Mobile Internet customers in Internet Finance, and reinforced risk management especially over certain customer segment.

The Bank upgraded efficient decision-support systems, leveraged the holistic work order system (SMART-E platform) to gradually integrate internal and external big data resources, and established and improved the holistic risk management system for credit card business. The Bank further enhanced economic capital management, intensified data infrastructure, completed model development and system implementation of credit card products by taking advanced measurement approach for credit risks under the *New Capital Accord*, and provided data support and preparations for the application of advanced measurement approach in credit entry, loan pricing and post-loan management.

## Management Discussion and Analysis

### Five-category Loan Classification and NPL Changes

#### Five-category Loan Classification and Loss Provision for Each Category

In RMB Thousand

Item	2013	Percentage (%)	2013
	Year-end Balance		Year-end Loan Loss Provision Balance
Pass	692,884,524	96.95	4,249,997
Special-mentioned	15,625,907	2.19	2,714,828
Sub-standard	3,047,584	0.43	1,407,585
Doubtful	1,451,672	0.20	1,097,882
Loss	1,701,408	0.24	1,701,408
Total	714,711,095	100.00	11,171,700

### NPL Changes

In RMB Thousand

Item	31 December 2012		Increase/(Decrease)		31 December 2013	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Sub-standard	3,953,030	0.64	(905,446)	(0.21)	3,047,584	0.43
Doubtful	3,996,767	0.65	(2,545,095)	(0.45)	1,451,672	0.20
Loss	1,161,288	0.19	540,120	0.05	1,701,408	0.24
Total	9,111,085	1.48	(2,910,421)	(0.61)	6,200,664	0.87

### Major Management Policies, Measures and Outcome on Non-performing Assets

The Bank puts efforts to collect and dispose of existing and newly-added non-performing assets by various means to effectively improve the quality of bank assets and reduce non-performing assets. In 2013, the Bank recovered and disposed of full-criteria non-performing assets of RMB12.412 billion, including NPL principal of RMB11.804 billion.

The Bank classified credit business risks in accordance with the standards and methods for loan risk classification issued by CBRC, and has set aside provisions for expected loan losses, based on ongoing pre-warning and post-loan examination.

The Bank vigorously collect and disposed of non-performing assets by various means such as cash collection, transfer of creditor's rights, DPC and write-off of bad debts. The Bank developed new methods to dispose of non-performing assets, and disposal of non-performing assets was done via the asset transaction platform on principle of *Fairness, Impartiality and Openness* in order to maximize the value of assets and realize high disposal efficiency. The Bank set up a Special Asset Disposal Center, and implemented centralized management over assets in some industries so as to realize intensive and professional collection and effectively improved disposal efficiency.

The Bank conducted on-site inspection and off-site monitoring on non-performing assets, enhanced comprehensive supervision and management over non-performing asset business of the branches so as to discover

and rectify defects and vulnerability in a timely manner. The Bank implemented the system of special management officers for non-performing asset collection programs and intensified the accountability mechanism for non-performing assets.

#### Structure of Loans and NPL Classified by Business Type

*In RMB Thousand*

Item	31 December 2013			31 December 2012		
	Loan Balance	Percentage (%)	NPL Ratio (%)	Loan Balance	Percentage (%)	NPL Ratio (%)
Corporate loans (including discounted bills)	468,172,999	65.51	0.84	451,620,382	73.34	1.69
Personal loans	246,538,096	34.49	0.91	164,129,128	26.66	0.91
Including: credit card overdraft	126,248,253	17.66	1.35	70,525,724	11.45	1.50
Total	714,711,095	100.00	0.87	615,749,510	100.00	1.48

At the end of 2013, total loans of the Bank grew by 16.07% year-on-year, among which personal loans grew by 50.21%. The growth of personal loans was mainly driven by personal business loans and credit card overdrafts, mainly due to

the Bank's commitment to adjusting and optimizing the overall retail credit asset structure, vigorously developing and supporting personal business loans, and actively promoting high-yield credit card installment business.

#### Structure of Corporate Loans (excluding discounted bills) and NPL Classified by Industry

*In RMB Thousand*

Industry	31 December 2013			31 December 2012		
	Loan Balance	Percentage (%)	NPL Ratio (%)	Loan Balance	Percentage (%)	NPL Ratio (%)
Manufacturing	138,470,203	30.12	1.26	130,251,226	30.79	3.16
Wholesale and retail	126,069,719	27.42	1.46	104,780,915	24.77	2.66
Energy and materials	42,939,995	9.34	0.16	53,328,561	12.61	0.00
Transportation	23,150,335	5.04	0.03	27,216,057	6.43	0.08
Real estate	56,628,084	12.32	0.00	39,580,691	9.36	0.09
Tourism and services	17,882,553	3.89	0.27	18,197,343	4.30	1.42
Construction and installation	33,210,271	7.22	0.07	31,767,710	7.51	0.19
Financial services	1,273,199	0.28	0.00	3,366,462	0.79	0.00
Postal and telecommunication	4,159,144	0.90	0.74	3,798,727	0.90	0.51
Others	15,944,173	3.47	0.04	10,772,874	2.54	0.18
Total	459,727,676	100.00	0.82	423,060,566	100.00	1.73

## Management Discussion and Analysis

The Bank focuses on strengthening the formulation of industry credit policy so as to provide guidance for optimizing the credit structure of the whole Bank. The Bank positions its credit policies to support those industries and customers with mature products and technology, sound management as well as booming market; the Bank develops entry criteria for customers in industries with high energy consumption, high pollution and over capacity, such as non-ferrous metals, iron and steel, building materials, chemicals, textiles, chemical fiber and papermaking. Furthermore, the Bank actively

supports the credit needs of environment-friendly enterprises; properly controls the proportion of industries with high energy consumption and high pollution; strengthens the research on strategic emerging industries so as to optimize industry mix; and restricts its involvement in those enterprises with environmental non-compliance or outdated product or technology. In 2013, the Bank's NPL ratio of manufacturing, wholesale and retail industries, as well as real estate declined compared to 2012.

### Accrual and Writing-off of Loan Loss Provision

*In RMB Thousand*

Item	Loan Loss Provision
Opening balance	(15,488,721)
Provisions for the year	(5,478,467)
Release during the year	3,075,114
Unwinding of discount	145,199
Recoveries	(267,595)
Write-offs	6,842,770
Closing balance	(11,171,700)

### Risk Management of Credit Extension to Group Customers

The Bank attaches great importance to the management of credit extension to group customers. It optimized the process for examination of the connected party relationship with group customers, delegation control and approval of the credit limit and reinforced the maintenance of credit management system in order to continuously improve risk management of group customers.

The Bank further refined and regulated management over group customers in such perspectives as overall structure, assignment of responsibility, business process and management requirements concerning credit-granting management of group customers; approved the unified credit limit to group customers, controlled the total portfolio

risks of group customers in the Bank, and followed the unified credit extension principles to manage group customers; clearly specified the responsibilities of the main control unit, secondary control unit and main responsible controller for risk management, and the Head Office directly managed the Bank's key group accounts so as to improve the comprehensive income and management level of credit approval to group customers. The Bank tightened the credit entry for group customers, and conducted review according to group customers' loan purpose, credit limit and connected party relationship; strengthened management over payment of loans of internally connected enterprises of group customers and clearly defined the payment rules for parent company and subsidiaries of the group; and established the off-site risk monitoring system and enhanced post-loan inspection.

## Basic Information of Repossessed Assets

In RMB Thousand

Item	31 December 2013	31 December 2012
Reposessed assets	<b>334,053</b>	161,123
Including: Houses and Buildings	<b>318,493</b>	144,006
Land use right	<b>9,162</b>	17,117
Others	<b>6,398</b>	0
Less: Provision for impairment	<b>(22,701)</b>	(24,328)
Net value of reposessed assets	<b>311,352</b>	136,795

*Liquidity Risk*

Liquidity risk refers to the risk that a commercial bank is unable to obtain sufficient funds or is unable to promptly obtain sufficient funds at a reasonable cost in order to deal with the increase of assets or pay the matured debts although it has solvency.

The strategies of the Bank's liquidity risk management mainly include: setting appropriate risk tolerance, improving financing capacity, keeping proper assets liquidity, continuously evaluating the cashability of assets, paying attention to the impact of various risks on liquidity, attaching importance to the application of liquidity risk stress testing and evaluating the influences of its limitations on practical application.

As for liquidity risk management, the Bank adopted parallel liquidity management strategies for both assets and liabilities. Meanwhile, the Bank paid high attention to cash flow and liquidity limit management methods, and effectively controlled liquidity risk in accordance with the

external regulatory indicators, internal liquidity indicators and stress testing technology. The strategies of the Bank's asset liquidity management include asset diversification, improving the cashability of assets and building liquidity asset portfolio. The strategies of liability liquidity management include maintaining the stability of liabilities, increasing the proportion of core deposits in liabilities and keeping good market financing capability.

In 2013, the interbank market fell into a temporary liquidity shortage under the impact of multiple factors. The Bank paid close attention to market trends and PBOC's monetary policies and monitored the changes of large-denomination funds so as to set aside proper provisions. In the liquidity squeeze of the banking industry in June 2013, the Bank adopted effective measures to meet regulatory requirements on liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). In 2013, the Bank achieved consistency between assets and liabilities in maturity and structure, met major liquidity regulatory indicators, and posted good liquidity conditions and low and controllable liquidity risks.

## Management Discussion and Analysis

The Bank also paid high attention to the changes of domestic and international macroeconomic environment and influences of interest rate liberalization and financial disintermediation, positively developed new products to improve customer stickiness and stability of liabilities, reasonably adjusted the asset-liability structure, fortified holistic management of credit assets, and kept an eye on the influence of credit risks resulting from change in real economy on liquidity risks.

The Bank made multi-level liquidity reserves to diversify financing sources and steadily improve financing capability. In management of bond investment portfolios and bills asset portfolios, the Bank took full consideration into many factors such as liquidity risk, credit risk and market risk, and kept optimizing the internal fund transfer pricing mechanism and full-amount fund management modes so as to ensure the implementation of the Bank's liquidity risk management strategies.

The Bank strengthened liquidity risk monitoring, frequently monitored the regulatory indicators for liquidity risks and liquidity gap, strictly controlled the maturity mismatch gap between interbank and wealth management assets and liabilities, rationally lowered the leverage ratio, paid high attention to regular statistics of the important regulatory indicators (LCR and NSFR), promptly adjusted the mitigation measures for liquidity risks, conducted regular liquidity risk scenario analysis and stress tests, developed the liquidity risk measurement technique and perfected liquidity risk management contingency plans.

The Bank promoted the development of the management system of liquidity risks and interest rate risks of banking book (IRRBB) under the *New Capital Accord*, integrated liquidity management concept and mature techniques into the advanced system platform, and improved the automation, monitoring frequency, accuracy and prospectiveness of risk management in order to effectively deal with the changes of financial environment caused by interest rate liberalization. During the reporting period, the Bank put data mart and financial statement functions into operation.

### *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 a commercial bank caused by the adverse change of market price (including interest rate, exchange rate, stocks and commodity). The Bank's market risks are mainly sourced by the risks of interest rate and exchange rate, and are basically unrelated to stocks and commodity. Regarding complicated derivative products, market risks must be completely hedged in the market.

The Bank's market risk management refers to the whole process of identifying, measuring, monitoring, and reporting market risk exposure level. By market risk management, the Bank, in accordance with its capital strength and risk appetite, aimed to control market risk within a tolerable range and maximize revenues after risk adjustment.

Based on the classification of different business trading book and banking book, the Bank adopted different methods or models to measure various kinds of risks. For market risk management of trading book, the Bank mainly set limits for market risk of trading book, i.e. exchange rate sensitivity limit, interest rate sensitivity limits and stop loss limit, daily market-to-market revaluation on the position of trading book, and exercised sensitivity analysis and stress tests to measure market risk on a periodic basis. For market risk management of banking book, the Bank focused on management of interest rate and exchange rate, and adopted duration monitoring, exposure analysis, sensitivity analysis, scenario analysis, etc. to identify, measure and monitor market risks in various businesses. Meanwhile, the Bank continuously evaluated the mismatch of interest rate sensitive assets and liabilities, and adjusted and hedged against it in time.

During the reporting period, as to Internal Model Approach consulting and building project, the Bank began to implement the *New Basel Capital Accord*, built a complete framework for market risk management, and improved various systems and processes gradually to enhance risk identification, measurement, monitoring and control capabilities. The Bank strengthened the control over market risks in treasury business and new wealth management products, and regulated the management of hedging transactions.

The Bank built the market risk and fund middle-office management system, and established a market risk limit system with interest rate and exchange rate sensitivity indicators as its main components. The Bank regularly calculated VaR of trading book by product, and conducted the stress testing of market risks. The Bank gradually established middle-office product control functions for the exchange exposure and reconciliation of profits and losses between the front and back offices. The Bank strengthened verification on the trading price of bonds, conducted internal self-inspection on bond trading, and adjusted tolerance level of price deviation range.

### *Operational Risk*

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

During the reporting period, the Bank, taking the implementation of the *New Basel Capital Accord* as an opportunity, kept improving the management system for operational risks to enhance the operational risk management level, and achieved good results in operational risk control.

In 2013, the Bank promoted the improvement of management system for operational risks and development of management tools, and developed and launched IT systems for internal control and operational risk management to effectively support the bank-wide implementation of the management tools for operational risks. In the meantime, management tools for operational risks such as RCSA, KRI and LDC were developed, which provided unified method and procedure for identifying, evaluating, monitoring, mitigating and reporting operational risks, and improved our bank's awareness and capability to manage and control operational risks.

To enhance the development of IT systems and IT risk management, the Bank further improved the automation of business management to reduce manual handling and strengthen the capability to control operational risks. The Bank strengthened the stress testing on the capabilities of IT systems and intensified the holistic performance testing of critical applications before they are put into production to avoid sudden performance failures of IT systems. The Bank kept improving IT management system and framework, established business continuity management organizational structure, and actively promoted the development of business continuity management system.

The Bank continued to organize diversified and content-rich professional trainings to improve professional skills and risk control capability. The Bank continuously strengthened the publicity and education of operational risk management, and enhanced the capability of employees at all levels to identify, manage and control operational risks. For businesses prone to operational risks in operation and management, the Bank further defined and improved relevant rules and regulations and operating procedures, and provided clear policies and guidelines in various areas.

### *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, administrative laws and regulations, departmental rules and other normative documents, and industry standards, code of conduct and professional ethics of self-regulatory organizations.

During the reporting period, the Bank strengthened compliance audit against the new products, new businesses and rules and regulations, continuously improved the standardized and regulated management of compliance audit, assisted the Senior Management in fully and accurately identifying, evaluating and effectively preventing compliance risks ensuring synchronization of business innovation and compliance management. The Bank kept tracking the latest development of laws and regulations and regulatory policies, made an analysis and interpretation of the laws and regulations having significant influence on our bank, accurately understood the regulatory policies and compliance requirements, promptly reported to the management and relevant business lines, and urged the business lines to take measures to prevent compliance risks.

## Management Discussion and Analysis

The Bank took various measures to promote compliance culture, and continued to enhance the compliance awareness of grass-roots employees. The Bank established a working mechanism of compliance morning meetings in sub-branches to constantly improve the effectiveness of compliance morning meeting and raise compliance awareness of front-line employees. The Bank held the second *CGB Compliance Day* initiative, and explained the regulatory requirements of compliance sales via the platform of compliance morning meeting. The platform of compliance morning meeting and *CGB Compliance Day* initiative became important and regular ways of our bank to promote compliance culture.

To implement regulatory requirements, the Bank organized rectification to *continue to govern unreasonable service charge in banking industry, regulate marketing of financial products, improve quality of credit card services and protect customers' legitimate rights and interests*, successfully completed the integrated piloting for the reporting of large-amount and suspicious transactions and established a new risk-oriented model of suspicious transaction data report for anti-money laundering.

### Information Technology Risk

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

During the reporting period, based on the best practice of international IT service management system, the Bank organized and implemented ISO20000IT service management system certification and successfully passed it, therefore effectively improving overall IT service management. The Bank kept optimizing and improving information security management mechanisms and passed the annual review of information security management system (ISO27001).

Regarding management and technology, the Bank made risk assessment on information security in an all-round way, covering system security, network security, physical security, information security and operation and maintenance

management. The Bank conducted technology risk inspection through special inspection and on-site inspection to promptly find out and rectify risk vulnerabilities, and implemented a code of conducts for information security so as to prevent and control risks.

According to national regulations and regulatory requirements, the Bank comprehensively sorted out classification and record of classified protection of information systems that have been put into operation and authorized a third-party evaluation agency registered upon approval by the public security authorities to conduct classified evaluation on 20 systems including all the important information systems, so as to specify the security technology level that the system should reach and ensure that the Bank's information system conformed to national standards for classified security protection.

The Bank further improved the disaster backup system, covering core banking business, credit card core system, Internet banking system, teller terminal system, gold trading system, and cash management system, payment and settlement and major channel systems, so as to meet the Bank's demand for business continuity. The Bank regularly carried out disaster recovery drills and emergency exercise for important system switching, led national commercial banks to successfully implement practical drills for cross-district switching operation of credit card core systems for disaster backup, so as to improve the Bank's ability to guarantee business continuity, especially the ability of core business systems to resist major risks.

The Bank strictly implemented CBRC's guidelines and requirements for IT outsourcing risk, issued IT outsourcing strategy, and standards for internal control and risk management of off-site outsourcing service and for identifying key outsourcing service providers and institution concentration outside providers. The Bank worked out a plan for on-site inspection of key outsourcing service providers and procedures for emergency response in case of unexpected termination of outsourcing agreements or services, effectively supervised outsourcing service providers, and specified responsibility in order to improve the capability of emergency response.

### Reputation Risk

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

The Bank took the initiative to improve reputation risk management mechanism, enhanced training on reputation risk management, set up a professional team, inspected and potential risks with early warning signals, raised all employees' awareness of reputation risk prevention and explored to establish a long-term prevention mechanism. Meanwhile, the Bank proactively responded to reputation risk events and endeavoured to protect the good reputation of the Bank.

### 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 extension, international capital market business, overseas institutions, correspondent banks, and outsourcing services provided by overseas service providers.

According to regulatory requirements, the Bank continued to strengthen country risk management. In 2013, the Bank's country risks were limited in scope.

### Internal Control

In strict accordance with the *Commercial Bank Law*, *Basic Norm for Enterprise Internal Control and Guidelines for Internal Control of Commercial Banks* and other regulatory laws and regulations, the Bank kept improving the modern corporate governance structure, promoted corporate culture building, strengthened internal control management measures, optimized information exchange and feedback mechanism, and made greater efforts for risk and control

self-assessment, hence promoting its internal control effectively and ensuring steady and healthy development of all businesses.

The corporate governance structure and internal management framework, and organizational framework 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, featuring *clearly defined rights and responsibilities, effective check and balance, and coordinated operation*, laying a solid foundation for further internal control building of the Bank. During the reporting period, the Bank successfully completed election upon expiration of the Board of Directors and Senior Management according to regulatory requirements for listed banks. As a result, the Bank made a new breakthrough in corporate governance pattern. On that basis, the Bank further improved the vertical and independent audit system reporting to the Board of Directors, and kept optimizing the organizational structure for internal control and improving the framework of the Risk Management Department. In 2013, the Bank established Small Enterprise Credit Management Department and Wuhan Audit Hub, and further regulated and optimized the responsibilities and organizational setup of the Head Office Credit Approval Department, Audit Department, and the Legal and Compliance Department.

The Bank strengthened corporate culture building and optimized internal control environment. The Bank always paid high attention to corporate culture building. In 2013, the Bank held the activity of *Corporate Culture Year*, released song of the Bank of *Open Arms*, held a meeting for award and celebration of the 25th anniversary of CGB, and launched *CGB Volunteer Day* in order to push forward the idea of compliance culture. The Bank adopted various means to promote compliance culture, leveraged E-learning platform to upload legal and compliance training course materials and offered online training for employees at all levels in the Bank. During the process of promoting corporate culture, the Bank highlighted the philosophy of *compliance operation and coordinated development* so as to effectively promote compliance awareness among employees at all levels and constantly optimize the internal control environment.

## Management Discussion and Analysis

The Bank improved the effectiveness of internal control through refined policies. It formulated, printed and distributed a wide variety of policies and systems that covered all businesses, operation and management activities, and constantly improved all policies and systems. It formulated *Basic Provisions for Internal Control* to specify organizational structure, assignment of responsibility and overall requirements for internal control management; it also formulated *Administrative Measures on Rules and Regulations* to optimize internal control process and risk prevention and control mechanism, strengthen early risk recognition and assessment, guarantee legality and compliance at the system level and further improve internal control management. Various business lines revised relevant management policies according to external regulatory requirements and internal management needs, and constantly supplemented and improved internal control measures in all business sectors by releasing regulatory highlights, risk prompts, etc.

The Bank optimized information exchange and feedback mechanisms, so as to ensure effective communication of internal control information. The Bank constantly improved Business Risk, Compliance and Control Committee (BRCC) mechanism; strengthened the exchange and rectification of problems discovered in audits and promoted the prompt solution of cross-business line and systematic problems by making use of the audit work group (AWG) meeting mechanism; improved the information sharing platform and the process for follow-up management of problem rectification, and promoted constant follow-up of problems discovered in inspections. Bank-wide mechanisms such as BRCC, audit working group and correction tracking served as an effective management platform for accelerating notification of internal control risk information, promptly handling risk events, and intensifying problem rectification, thus further improving the Bank's ability in internal control management, risk prevention and response.

The Bank established the Risk and Control Self-Assessment (RCSA) to strengthen internal supervision. In order to further strengthen internal control and risk management of bank-wide business lines and prevent potential risks, the Bank established the RCSA mechanism in 2013. Relevant business lines organized and carried out self-assessment, the Legal and Compliance Department checked the self-assessment of various business lines, urged the rectification of problems discovered in the assessment, and constantly promoted the implementation of risk and control self-assessment by various business lines. In the meantime, the Head Office and branches reported RCSA to the BRCC at their levels. In this way, the interactive self-assessment and reporting mechanisms facilitated the discovery of business risks and the rectification of problems.

The Bank has established a fairly complete, rational and effective internal control system, and will constantly improve it in the practice based on business and external environment development.

### Audit System

In 2013, the Bank blazed new trails in audit in a pragmatic and enterprising spirit. Centering on the development strategy of the Bank and the risk-oriented principle, the Bank increased the frequency and efforts of on-site inspections, actively promoted off-site audit, optimized audit process and method, improved audit and rectification follow-up system, strengthened constant internal control on quality, thereby striving to build a refined and professional audit supervision system.

The Bank constantly expanded and intensified audit inspections. Oriented to risks and centering on highlights with a holistic approach, the Bank strengthened audit in new and key businesses as well as key branches, carried out surprise inspections on internal control management with priorities on high-risk and risk-prone fields, thereby earnestly improving internal control management and case prevention of the Bank.

The Bank constantly optimized audit means and methods. Regarding on-site audit, the Bank formulated and improved audit program and audit report template, and proposed mandatory and guiding opinions and requirements on audit sampling principle, method and size, and reflected universal and systematic problems. It also optimized audit management system functions, standardized audit inspection process and method, improved the form of soliciting opinions for audit report, thus making audit and rectification more effective. Regarding off-site audit, the Bank constantly promoted building of management structure and working mechanism, promptly updated off-site audit system, striving to build a highly efficient audit control platform; it also constantly expanded data source of off-site audit system, thoroughly carried out data analysis and risk inspection; therefore, in this way, audit was carried out not only in post-business inspection but also in monitoring and early warning during and before businesses to ensure more specific and proactive audits.

The Bank improved effective audit and rectification follow-up. It constantly followed up the problems discovered in audit inspections by making use of audit management system, and tested the effect of audit and rectification through on-site verification and off-site interview; regularly attended BRCC of branches, and provided monthly comments on audit and rectification; organized departments at the Head Office and relevant branches to convene AWG meetings to discuss rectification plan and implementation procedures, and promptly reported significant audit discoveries and rectification to BRCC of the Head Office, the Audit Committee of the Board and the Board of Supervisors, thereby promoting effective top-down rectification at different levels.

The Bank improved the overall quality of its audit. It formally established a quality assessment group to actively explore and carry out audit quality control according to the management idea of standardization and refinement. It formulated internal audit measures for capital management, established audit checkpoints on major risk fields, constantly improved the knowledge base of audit policies and audit management system, constantly summed up and improved audit standard and content, carried out quality control targeting at audit projects, strengthened process management and real-time monitoring on audit projects, established regular meeting mechanism for the persons in charge, summed up and analyzed existing problems in depth and constantly improved them, thus ensuring more efficient and effective audits.

The Bank strengthened the building of audit institutions and teams. Pursuant to the new situation and requirements, the Bank established Wuhan Audit Hub as a supplement to the Beijing, Shanghai, and Guangzhou Audit Hubs, so as to strengthen the audit coverage in regional branches and improve the model of auditing and managing overseas institutions. It actively planned and allocated auditors, constantly carried out recruitment, training and performance management, strengthened experience exchanges with other financial institutions, thereby constantly improving professionalism of auditors.

## CAPITAL MANAGEMENT

As the objective of the Bank's capital management is to maximize shareholders' value and boost the Bank's value,

the Bank strengthened capital constraint and improved capital allocation and utilization efficiency, in order to realize scientific and dynamic capital management. Moreover, the Bank actively expanded sources of replenishing capital, endeavored to build a long-term mechanism for replenishing capital and ensured that the total capital and capital adequacy ratio could satisfy business development needs and regulatory requirements.

In 2013, the Bank, in accordance with *Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*, earnestly implemented various capital management policies and formulated *2013 – 2018 Capital Adequacy Ratio Planning* and *2013 Evaluation Report on Internal Capital Adequacy*.

The Bank kept optimizing asset structure and promoting business transformation. Guided by the five-year development strategy, the Bank put efforts into developing Micro Enterprise financial services, retail financial services and financial market services, worked out a reasonable plan for the growth of risk-weighted assets and constantly increased the returns on risk-weighted assets. In addition, the Bank positively explored new capital instruments, strived to expand capital replenishment channels; reinforced capital performance management, deepened business reform and promoted strategic transformation through risk-adjusted performance appraisal, so as to realize the organic consistency of capital constraint, risk prevention and business development.

## Economic Capital Allocation and Management

Centered 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 adequacy ratio planning.

In terms of performance appraisal, the Bank further built up capital constraint concept and adopted the performance appraisal and evaluation system with EVA and RAROC as the benchmark to balance profits and risk, and increase capital allocation efficiency and capital returns. Moreover, 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, product 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.

## Management Discussion and Analysis

### Capital Adequacy Ratio

*Calculated as per Measures for the Management of Capital Adequacy Ratios of Commercial Banks*

Item	31 December 2013	31 December 2012
Core capital adequacy ratio	7.49%	8.37%
Capital adequacy ratio	8.97%	11.27%

Note: 2012 year-end figures were data reported to regulatory authorities.

*Calculated as per Administrative Measures for the Capital of Commercial Banks (for Trial Implementation)*

*In RMB Thousand*

Item	31 December 2013
Total core Tier-1 capital:	73,291,474
Paid-up capital	15,402,397
Counted part of capital reserves	9,807,717
Surplus reserves	4,743,050
General risk reserves	17,180,172
Undistributed profits	26,209,817
Others	(51,679)
Adjustment of core Tier-1 capital:	(869,397)
Other intangible assets (excluding land use right)	(869,397)
Net core Tier-1 capital	72,422,077
Net Tier-1 capital	72,422,077
Tier-2 capital:	14,471,036
Tier-2 capital instrument and counted part of its premium	9,500,000
Surplus loan loss provision	4,971,036
Total net capital	86,893,113
Total risk-weighted assets	965,192,684
Adequacy ratio of core Tier-1 capital	7.50%
Adequacy ratio of Tier-1 capital	7.50%
Capital adequacy ratio	9.00%

According to the *Regulatory Requirements on Commercial Bank Information Disclosure of Capital Formation* issued by CBRC, please refer to the investor relations column on the Bank's website ([www.cgbchina.com.cn](http://www.cgbchina.com.cn)) for more information about capital management.

## Capital Financing Management

The Bank made capital planning and met capital adequacy ratio under the main guideline of *accumulating endogenous capital and replenishing with necessary exogenous capital*. First, it increased capital mainly by raising profitability and accumulating more endogenous capital. Then, it made replenishment with exogenous capital when necessary so as to meet the need of sustained business growth of the Bank.

In 2013, the Bank steadily improved its profitability, endeavoured to reinforce its capital endogenous ability, actively sought innovation of capital instruments and spared no efforts to replenish capital through multiple channels, including equity and debt financing instruments. During the reporting period, the Bank's plan for issuance of eligible capital instrument with the write-down feature of not more than RMB10 billion was deliberated and approved by the Ninth Meeting of the Sixth Board of Directors and the 2012 General Meeting of Shareholders. It has yet to be approved by the regulatory authorities for implementation.

## Implementation of 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 worked out an implementation plan and advanced the *New Basel Capital Accord* steadily. In 2013, the Bank, in accordance with the implementation plan of New Basel Capital Accord, comprehensively promoted the implementation of 11 sub-projects including project group management, credit risk, market risk, operational risk, liquidity risk, interest rate risk, ICAAP and risk-weighted asset calculation. At the end of the reporting period, the Bank had initially completed the development of retail and non-retail credit risk models, VAR calculation of market risks, promotion of operational risk management tools, etc. and put six systems into operation, including corporate client rating system, market risk and fund middle-office risk management system, and operational risk management system, boosting refined capital management in an all-round way and further improving risk measurement and management.

## STRATEGIC COOPERATION WITH MAJOR SHAREHOLDERS

The Bank and its major shareholders have common strategic interests, and complement each other's advantages and achieve win-win development by strengthening quality resource sharing and comprehensive business cooperation. In 2013, the Bank maintained close strategic partnership with its major shareholders including Citigroup, China Life Insurance Company Limited, State Grid Yingda International Holdings Co., Ltd., CITIC Trust Co., Ltd., etc., so as to gain remarkable achievements in technology cooperation and market development.

The Bank fully exploited Citigroup's advantages in international settlement and financial market transaction to vigorously conduct cooperation in international settlement, trade service settlement, interbank market transaction and wealth management businesses. In the meantime, the Bank continued to deepen technical cooperation and training exchanges with Citigroup in respect of implementation of *New Basel Capital Accord*, risk management, asset allocation, channel expansion, etc.. During the reporting period, the Bank settled US\$19.783 billion through Citigroup, representing a 24.48% year-on-year growth; and with Citigroup, jointly conducted 35 training sessions for over 1,000 persons.

As China's largest life insurance company and a significant interbank market fund provider, China Life Insurance Company Limited (China Life) renewed the *Comprehensive Strategic Cooperation Agreement* with the Bank in 2012 and signed *Framework Agreement on Daily Connected Transactions* with the Bank in 2013, so as to lend substantial support to the development of the Bank's deposit and non-deposit intermediary businesses. At the end of the reporting period, China Life maintained a balance of RMB24 billion in various deposit accounts with the Bank and the Bank collected insurance premiums of RMB294 million from sale of various insurance products on behalf of China Life.

Given strong economic strength and huge business network of its parent company (State Grid Corporation of China) and through its subsidiaries such as Yingda Asset Management Co., Ltd., Yingda International Trust Co., Ltd., Yingda Securities Co., Ltd., Yingda Taihe Life Insurance Co., Ltd., Yingda Taihe Property Insurance Co., Ltd. and Yingda International Leasing Co., Ltd., State Grid Yingda International Holdings Co., Ltd. actively launched comprehensive and mutual-benefit cooperation with the Bank in such aspects as deposit and loan businesses, sales agency, assets custody, and payment and settlement. During the reporting period, the Bank acted as the joint lead underwriter of the offering

## Management Discussion and Analysis

of RMB10 billion short-term notes for State Grid Corporation in 2013. State Grid Yingda International Holdings Co., Ltd. and its affiliated companies subsequently opened long-term, stable special deposit accounts with the Bank to support the Bank's business development.

Under the framework agreement with intention of collaboration on the consignment of trust plans and based on its strong asset management volume and overall business strength, CITIC Trust Co., Ltd. continued to reinforce comprehensive business cooperation with the Bank in various fields, including investment banking, product innovation and channel development, effectively increasing the Bank's competitiveness in non-conventional areas. In addition, the Bank continued to conduct business cooperation with CITIC Group and its affiliated companies, expanded and deepened business contacts through direct bank-company connection.

### FORWARD-LOOKING STATEMENTS

2014 is the first year for China to carry out comprehensive and intensive reform. The central government explicitly put forward the overall thought of *Making Progress in Stability*. China will continue to focus on improvement of economic quality and returns, strive to generate positive reform-driven outcomes, stimulate the market's vitality and social creativity, and effectively reduce enterprise operating costs in order to promote economic development amid stability. Given complex and volatile external environment and accelerated reshaping of domestic economic and financial patterns, China has witnessed substantial breakthroughs in financial reform, gradual implementation of piloting of privately-owned banks, accelerated interest rate liberalization and RMB internationalization, and cross-industry development of Internet and financial industries, posing new challenges and opportunities to commercial banks.

In 2014, the Bank will, in line with the new trends and changes of economic and financial operation around the world, actively promote the development of small enterprise financial service, retail finance and Internet Finance, vigorously boost the fee-based businesses and exert efforts to improve business returns and development quality and develop core competitive edges, so as to increase revenues, make profits, improve quality and efficiency and comprehensively advance strategic transformation.

### Deepening Reform of Business Lines and Enhancing Core Competitiveness for Sustained Development

The Bank will continue to implement the strategy of *Two Cards with One Center*, improve the output efficiency of resources by enhancing self-replenishing ability in liabilities and effectively develop core competitiveness to support the Bank's sustained development, so as to ensure its leading position in the industry in respect of strategic businesses; intensify integration of personal banking resources, promote refined management of the back offices with focus on development of front-line professional teams, and build a specialized and efficient marketing team with seamless collaboration with each other; accelerate development of *Small Enterprise Banking Center*, conduct separate accountings for Small Enterprises based on management accounting platform, distribute credit quota, expenses and human resources for them based on input-output efficiency; actively boost business transformation and upgrading of large companies, provide a full package of services covering financing, wealth management and settlement agency and increase the overall returns for core customers; endeavour to enhance featured businesses such as investment banking, financial market, financial institution, trade finance and assets custody, in order to effectively improve its ability to actively acquire customers, generate revenues and improve efficiency in respect of Internet Finance.

### Establishing an Efficient Risk Management System and Soundly Monitoring Asset Quality

The Bank will regulate risk management and control in such processes as customer entry, post-loan inspection, process examination and approval, and pre-loan monitoring, strictly control risks in key regions and industries, effectively control credit entry, and set up a holistic risk management mechanism focusing on pre-loan prevention; implement specialized and refined management over various risks such as credit risk, liquidity risk, market risk, operational risk, compliance risk and reputation risk, monitor the Bank's business process from various dimensions, and set up a comprehensive risk management system centered on credit risk. Regarding handling of material risk events, the Bank will implement the policies of same responsibilities between business lines and risk lines, between branches and the Head Office's line management departments, and between handlers and managers, further enhance the risk management awareness of the Head Office, branches and sub-branches, as well as front, middle and back offices, and build up an across-the-board risk management culture of emphasizing clear responsibilities.

## Strengthening Business Appraisal Mechanism and Optimizing Internal Resource Allocation

The Bank will integrate highly-correlated appraisal indicators according to actual business conditions, and improve the flexibility and initiative of business development while understanding core mission; intensify accountability system, and impose compulsory constraints of demotion or dismissal on the managers who perform poorly in case prevention and control in their related offices or lines; based on comprehensive consideration of indicators such as deposit cost, interest spreads of deposit and loan and loan-to-deposit ratio, the Bank will explore to establish a linkage mechanism of funding cost triggering FTP adjustment, and keep improving asset pricing and internal resource allocation abilities.

## Diversifying Revenue Sources and Energetically Developing New Advantages

The Bank will strengthen linkage between the Head Office and branches, carefully explore emerging and capital-efficient businesses with strong growth potentials, and endeavor to develop new profit growth drivers. The Bank will focus on developing investment banking business, and try to revitalize existing loans, meet customers' financing demands and enrich the Bank's wealth management products through investment banking wealth management; enhance integration and application of instruments for avoiding interest rate and exchange rate risks and those for debt market, and improve the Bank's influence in the financial market; advance the establishment of global business system, and accelerate the development of GTS businesses including cross-border RMB business, supply chain financing and finance leasing; vigorously develop emerging fields such as Internet Finance, transaction platform and futures margin, and promote leapfrog development of custody business volume and commission income.

## Intensifying Cross-selling and Improving Diversified Service Ability

The Bank will increase big data application. By gathering, sharing and analyzing customers' data, the Bank will conduct precision marketing, tap into existing customer resources, and keep improving customer experience and service quality, in order to effectively integrate and upgrade customer resources. Guided by the overall development strategy and based on information technology, the Bank will, keep promoting process optimization and centralized business operation, reinforce linkage mechanism and improve diversified service ability across markets and businesses by making full use of its brand, customers, networks, resources and other channels.







# Changes in Shareholding and Shareholders' Profile

## CHANGES IN SHAREHOLDING

Unit: share

Nature of shares	Before the change	Shareholding (%)	Increase/Decrease	After the change	Shareholding (%)
State-owned shares	53,564,763	0.348	(213,822)	<b>53,350,941</b>	<b>0.346</b>
Shares held by State-owned legal persons	11,059,013,174	71.801	831,026	<b>11,059,844,200</b>	<b>71.806</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	640,637,943	4.159	(617,204)	<b>640,020,739</b>	<b>4.156</b>
Total	15,402,397,264	100.000	0	<b>15,402,397,264</b>	<b>100.000</b>

## NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS

At the end of the reporting period, the Bank had 464 Shareholders holding a total of 15,402,397,264 shares of the Bank.

## PROFILE OF TOP 10 SHAREHOLDERS

Unit: share

Name of Shareholder	Increase/decrease in the reporting period	Number of shares held	Shareholding (%)
CITIGROUP INC.	–	3,080,479,452	20.000
China Life Insurance Company Limited	–	3,080,479,452	20.000
State Grid Yingda International Holdings Co., Ltd.	–	3,080,479,452	20.000
CITIC Trust Co., Ltd.	–	3,080,479,452	20.000
IBM CREDIT LLC	–	567,797,193	3.686
Guangdong Finance Investment Holdings Co., Ltd.	–	316,906,594	2.058
Shanghai Shenhua Holdings Co., Ltd.	–	223,596,793	1.452
Jiangsu Suzhou Iron & Steel Group Co., Ltd.	–	222,777,231	1.446
HeungKong Group Co., Ltd.	1,269,604	148,544,461	0.964
Beijing Energy Investment (Group) Co., Ltd.	–	133,349,884	0.866
Total	1,269,604	13,934,889,964	90.472

- Notes: 1. There are no hypothecated or frozen shares for single Shareholder holding over 5% of the Bank's shares.  
2. The shares held by the ninth largest Shareholder HeungKong Group Co., Ltd. increased due to purchasing shares from other Shareholders.

## INTRODUCTION OF SHAREHOLDERS HOLDING OVER 5% OF THE BANK'S SHARES

### Citigroup Inc.

Citigroup, a leading global financial institution, has approximately 200 million customer accounts and conducts businesses in more than 160 countries and jurisdictions. Citigroup 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.

### China Life Insurance Company Limited

China Life Insurance Company Limited is a life insurance company incorporated in Beijing, China on 30 June 2003 pursuant to the *Company Law of the People's Republic of China* and was successfully listed on New York Stock Exchange, Hong Kong Stock Exchange and Shanghai Stock Exchange on 17 and 18 December 2003, and 9 January 2007, respectively. The company's registered capital is RMB28,264,705,000. China Life Insurance Company Limited 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), with the broadest distribution network comprising insurance sellers, group insurance sellers and dedicated and non-dedicated agencies 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. It is a leading provider of life insurance and annuity products for both individuals and groups, and a leading provider of accident and health insurance in China.

### State Grid Yingda International Holdings Co., Ltd.

State Grid Yingda International Holdings Co., Ltd. is one of the wholly-owned subsidiaries of State Grid Corporation of China with registered capital of RMB19 billion. As the core enterprise of State Grid Yingda Group, it performs duties of operation and management upon the group's affiliated companies in accordance with relevant laws.

### 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. As the chairman unit of China Trustee Association, it has the largest scale of assets under management and is one of the leading players in China's trust industry in terms of comprehensive operation strength. Its registered capital is RMB1.200 billion (including the value converted from US\$23 million) and Shareholders are CITIC Limited and CITIC Industrial Investment Group Corp., Ltd. respectively.

## Changes in Shareholding and Shareholders' Profile

### CONNECTED TRANSACTIONS

#### Brief on Connected Transactions

Pursuant to the *Administrative Measures for the Connected Transactions between the Commercial Banks and Their Insiders or Shareholders* 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 unified accounting policies and relevant banking regulatory rules; (II) comply with the principles of honesty, credibility and fairness; (III) keep to commercial principles and carry out the connected transactions with terms not superior to those for non-connected parties. The Bank's General Meeting 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; the Connected Transaction Control Committee under the Board of Directors performs the duties of connected transaction management and supervision; Senior Management is responsible for guiding and coordinating connected transaction management of the Bank.

#### Information on Substantial Connected Transactions

During the reporting period, in strict conformity with the regulatory provisions and relevant systems, the Bank underwrote short-term financing bonds (totaling RMB4.500 billion) of the State Grid Corporation of China for the first phase in 2013. State Grid Corporation of China 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.

#### NPL Balance of Connected Transactions

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

# Directors, Supervisors, Senior Executives and Employees

## DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES

Name	Title	Gender	Age	Appointment Date
Dong Jianyue	Chairman of the Board of Directors, Executive Director and Secretary of the CPC Committee of the Bank	Male	52	22 June 2009
Morris Li	Executive Director, President	Male	57	18 June 2010
Zhang Fengming	Executive Director, Vice President	Male	48	6 August 2013
Wang Fenghua	Non-executive Director	Male	60	18 December 2006
Liu Jiade	Non-executive Director	Male	50	18 December 2006
Chen Yisong	Non-executive Director	Male	45	4 March 2014
Li Zimin	Non-executive Director	Male	42	26 June 2007
Zhang Xifang	Non-executive Director	Male	41	17 February 2012
Zhang Shengman	Non-executive Director	Male	56	20 September 2007
Wang Zhenzhong	Independent Non-executive Director	Male	64	24 February 2014
Frederick Ip	Independent Non-executive Director	Male	66	16 November 2012
Zhu Ning	Independent Non-executive Director	Male	40	11 March 2014
Song Fengming	Independent Non-executive Director	Male	67	28 February 2014
Lin Jiaorong	Independent Non-executive Director	Female	61	25 February 2014
Alvin Chua	Independent Non-executive Director	Male	55	From the date of approval from the regulatory authority
Li Jinsheng	Chairman of the Board of Supervisors, Employee Representative Supervisor	Male	57	20 April 2009
Deng Jianhua	Shareholder Representative Supervisor	Male	52	26 June 2007
Zhai Meiqing	Shareholder Representative Supervisor	Female	49	26 June 2007
Zhai Feng	Shareholder Representative Supervisor	Male	46	30 June 2011
Zheng Lanping	External Supervisor	Female	58	30 June 2011
Tan Jinsong	External Supervisor	Male	48	26 June 2007
Fan Junxiong	Employee Representative Supervisor	Male	51	13 October 2011
Gu Xuejin	Employee Representative Supervisor	Male	50	13 October 2011
Zong Lexin	Vice President	Male	48	18 June 2010
Wang Guizhi	Vice President	Female	53	3 June 2013
James Morrow	Vice President	Male	58	23 March 2010
Zheng Lianming	Vice President	Male	53	30 January 2007
Edward Chou	Vice President	Male	48	18 December 2006
Wang Bing	Vice President	Male	47	From the date of approval from the regulatory authority
Zheng Xiaolong	Chief Audit Executive	Male	50	From the date of approval from the regulatory authority
Zhu Yingyu	Secretary to the Board of Directors	Male	38	From the date of approval from the regulatory authority

Note: According to the regulation, Mr. Alvin Chua, Mr. Wang Bing, Mr. Zheng Xiaolong and Mr. Zhu Yingyu will formally assume duties upon approval of their qualification by the regulatory authority.

## Directors, Supervisors, Senior Executives and Employees

### MAIN WORKING EXPERIENCE AND INCUMBENCY OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES



**Dong Jianyue**

*Chairman of the Board, Executive Director and Secretary of the CPC Committee of the Bank*

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



**Morris Li**

*Executive Director and President of the Bank*

Mr. Li graduated from Department of Economics of the National Taiwan University. He served as Executive Director and President of the Bank since June 2010. Before joining China Guangfa Bank, Mr. Li served successively as Country Officer of Citi Taiwan and Chairman of the Board of Citibank Taiwan, Ltd. Mr. Li joined Citi in 1989 and took various senior positions in Taipei and Hong Kong for Citi, including Treasury Marketing Unit Head, FX Sales and Derivatives Head and Financial and Capital Markets Head. He also served as Country Treasurer of Citi Taiwan, and Head of Financial Market Sales and Structuring for Greater China. Mr. Li once joined CTBC, one of the largest local banks in Taiwan, as Senior EVP in charge of the bank's capital markets and treasury businesses. As Country Officer of Citi 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.



**Zhang Fengming**

*Executive Director and Vice President of the Bank*

Mr. Zhang holds a Master's degree of Economics and an MBA degree. He served successively as the Secretary (Director level) of the General Office of the People's Bank of China and the Secretary of General Office of the State Council; General Manager of Fund Planning Department of China Minsheng Bank, President and the Secretary of the CPC Committee in Guangzhou Branch of China Minsheng Bank; General Manager of New Product R&D Center of China Minsheng Bank (Hong Kong); President Assistant, Vice President, and member of CPC Committee of China Life Asset Management Company Limited.



### Wang Fenghua

*Non-Executive Director of the Bank*

Mr. Wang is the Consultant of State Grid Corporation of China.

Mr. Wang holds a Master's degree and is a Senior Economist. He served successively as Deputy Director and Director of Dezhou Electric Power Bureau; Director 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 of the CPC Committee and Deputy General Manager of GD Power Development Co., Ltd.; General Manager, Chairman and Secretary of the CPC Committee of China Power Finance Co., Ltd.; General Manager Assistant, Deputy Chief Economist and Director of Financial Asset Management Department of State Grid Corporation of China; Chairman and Secretary of the CPC Committee of Yingda International Holdings Group Co., Ltd..



### Liu Jiade

*Non-Executive Director of the Bank*

Mr. Liu is the Vice President of China Life Insurance Company Limited, Director of China Life Asset Management Company Limited, Director of China Life Property & Casualty Insurance Company Limited, Director of China Life Pension Company Limited and Director of China Life Franklin Asset Management Company Limited.

Mr. Liu holds a Bachelor's degree. He served successively as Deputy Director and Director of Finance Division of Commercial Finance Department of Ministry of Finance, Deputy Chief of the People's Government of Guantao County in Hebei Province, Director of Division of General Affairs of Treasury Bond Finance Department of the Ministry of Finance from 1998 to 2000, and Deputy Director of Finance Department of the Ministry of Finance from 2000 to 2003. During his tenure of office at the Ministry of Finance, Mr. Liu was mainly engaged in administration of assets, finance and taxation of insurance companies, banks, trust companies and securities institutions.



### Chen Yisong

*Non-Executive Director of the Bank*

Mr. Chen is the Vice Chairman, General Manager, Deputy Secretary of the CPC Committee of CITIC Trust Co., Ltd. and General Manager of CITIC Kingview Capital Management Co., Ltd.

Mr. Chen holds a Master's degree of economics. He served successively as Dealer, Deputy Section Chief and Section Chief of Treasury Department of CITIC Industrial Bank; Secretary of Deputy General Manager of CITIC Group; Deputy Director and Director of President Office of CITIC Securities Co., Ltd.; Secretary to the Board of Directors of Great Wall Technology Co., Ltd.; President Secretary and Deputy Director of President Office of China Construction Bank; Deputy General Manager, General Manager, Director and member of CPC Committee of CITIC Trust Co., Ltd.

## Directors, Supervisors, Senior Executives and Employees

### MAIN WORKING EXPERIENCE AND INCUMBENCY OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES



**Li Zimin**

*Non-Executive Director of the Bank*

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

Mr. Li holds an MBA degree and is a Senior Economist. He served successively as Project Director of Assets Preservation Department and Investment Management Department of CITIC Industrial Trust Investment Co., Ltd.; Project Manager, Corporation Expert and officer in charge of Comprehensive Financial Service Unit of CITIC Trust Co., Ltd.; General Manager of Investment Banking Department I, and Chief Business Officer of CITIC Trust Co., Ltd.



**Zhang Xifang**

*Non-Executive Director of the Bank*

Mr. Zhang is the Deputy General Manager and member of the CPC Committee of Yingda International Holdings Group Co., Ltd.

Mr. Zhang holds an MBA degree and is a Senior Economist. He served successively as Deputy Manager of Investment and Development Department, Manager Assistant of Investment Banking Department, and Head of Corporate Financing Department of China Power Trust Investment Co., Ltd.; Manager of Corporate Financing Department, Manager of Organizational Management Department, Director of Directly Affiliated Organizations Management Department and Director of Development Planning Department of China Power Finance Co., Ltd.; Director and Deputy Director of the Operation Division of Financial Assets Management Department of State Grid Corporation of China; Deputy General Manager and member of the CPC Committee of State Grid Asset Management Co., Ltd.



**Zhang Shengman**

*Non-Executive Director of the Bank*

Mr. Zhang is the Chairman of Asia Pacific Region of Citigroup and Independent Director of Fosun International Limited.

Mr. Zhang holds a Master's degree of Public Administration. He served successively as Division Director and Deputy Director-General of Ministry of Finance of PRC; Executive Director for China, Vice President and Secretary General, Senior Vice President and Managing Director of the World Bank. He chaired the Operations Committee, the Sanctions Committee, the Crisis Management Committee and the Corporate Committee on Fraud and Corruption Policy of the World Bank.



### **Wang Zhenzhong**

*Independent Non-Executive Director of the Bank*

Mr. Wang is a Research Fellow and Doctoral Supervisor of the Institute of Economics of the Chinese Academy of Social Sciences. He concurrently serves as Vice President of Chinese Association of Foreign Economics, Vice Chairman of Chinese Capital Research Association, Chairman of the Academic Committee of Center for Political Economy at Tsinghua University.

Mr. Wang holds a Doctor's degree of Economics and is a Research Fellow. He was a visiting scholar in the Centre for National Development Studies of Australian National University; and served as Deputy Director of the Institute of Economics of the Chinese Academy of Social Sciences, and Editor-in-Chief of Economic Perspectives.



### **Frederick Ip**

*Independent Non-Executive Director of the Bank*

Mr. Ip graduated from the Management Department of University of East Asia, Macau, and was an Associate of the Institute of Canadian Bankers. As early as 1965, he began to work for financial institutions, including Citibank Hong Kong, European Asian Bank (now Deutsche Bank) Hong Kong Branch, and Royal Bank of Canada Toronto Branch. 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 and Head of Global Financial Institutions (concurrently served as Head of Global Transaction Services for two years) of Citibank Hong Kong Branch; and he took the position of a member of its Management Committees for Hong Kong and China for over 10 years, and also deputized 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 held the directorship of a number of companies in Hong Kong.



### **Zhu Ning**

*Independent Non-Executive Director of the Bank*

Mr. Zhu is the Vice President and Tenured Professor of Finance in Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University; Professor and Research Fellow of International Finance Center of Yale University, USA; Distinguished Professor of Finance and Lifetime Professor of Finance at University of California, USA.

Mr. Zhu holds a Doctor's degree of Finance. He once worked as Associate Professor, Finance Assistant Professor and Assistant Professor in University of California, USA.

## Directors, Supervisors, Senior Executives and Employees

### MAIN WORKING EXPERIENCE AND INCUMBENCY OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES



**Song Fengming**

*Independent Non-Executive Director of the Bank*

Mr. Song is a Professor and Doctoral Supervisor of Tsinghua University School of Economics and Management. He serves concurrently as Deputy Secretary General, Managing Director, Principal Member of Financial Engineering Committee of China Society for Finance and Banking, Chairman of Board of Supervisors of Tsinghua Holdings Co., Ltd., Independent Director of China Huarong Asset Management Co., Ltd., etc..

Mr. Song was a Postdoctoral Researcher at University of California USA. He holds a Doctor's degree of Systems Engineering of Tsinghua University and is a Professor. He has served successively as a Lecturer and Director of Management Department of Jiangsu University of Science and Technology; Associate Professor, Director of Teaching and Research Office for International Trade and Finance of School of Economics and Management of Tsinghua University; Director of International Trade and Finance Department in School of Economics and Management of Tsinghua University; Co-Director of China Center for Financial Research of Tsinghua University. He has worked as Independent Non-Executive Director and Supervisor for China Construction Bank.



**Lin Jiaorong**

*Independent Non-Executive Director of the Bank*

Ms. Lin is a college graduate and a Senior Engineer. Ms. Lin worked as Director of General Office, Director of Planning Division and Deputy Director-General of Fisheries Bureau of Ministry of Agriculture; Deputy General Manager of Credit Department at Head Office, Deputy General Manager of Corporate Business Department of Agricultural Bank of China, Head Office's Commissioner to the Audit Office in Shanxi Branch, Secretary of the CPC Committee and President of Liaoning Branch, Head Office's Commissioner to the Audit Offices in Beijing Branch and Tianjin Branch, Deputy Director of the Audit Office in the Head Office of Agricultural Bank of China.



**Alvin Chua**

*Independent Non-Executive Director of the Bank (he will formally assume duties upon approval of his qualification by the regulatory authority)*

Mr. Chua is an Executive Director and President for Asia of UK F&C Asset Management Asia Limited.

Mr. Chua obtained an MBA degree from the University of Chicago. He is a US registered Certified Public Accountant (CPA) and Certified Management Accountant (CMA). Mr. Chua joined Merrill Lynch & Co Inc., New York in 1987, operating US government bonds and relevant futures and options. In 1991, he joined Lehman Brothers Inc., New York, and held various positions, responsible for fixed-income sales, product management and business in emerging markets. In August 1997, he was posted to Hong Kong as the Head of the Credit Products and Emerging Markets Business of Lehman Brothers Asia Ltd. In 1999, he joined JP Morgan Chase to head Greater China fixed-income distribution. In 2001, he joined Bank of America in Hong Kong to head fixed-income sales for Asia ex-Japan. In 2003, he headed Fixed Income Trading and Syndicate Debt Department at Bank of America, and in 2004, he became the Global Co-Head of Central Banking and Sovereign Wealth Fund business. From April 2009 to December 2011, he served as Senior Managing Director of Cantor Fitzgerald, in charge of fixed-income sales and trading in Asia.



### **Li Jinsheng**

*Chairman of the Board of Supervisors and Employee Representative Supervisor of the Bank*

Mr. Li is a member of CPC Committee of China Guangfa Bank.

Mr. Li obtained a PhD degree in Economics from Southwestern University of Finance and Economics and is a Senior Economist. Mr. Li worked successively as a 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 Vice President (in charge of overall administration), Branch President and Secretary of CPC Committee; Chief Audit Executive, member of CPC Committee of Guangdong Development Bank and Chairman of its Fourth Board of Supervisors.



### **Deng Jianhua**

*Shareholder Representative Supervisor of the Bank*

Mr. Deng is the General Manager of Guangdong Finance Asset Management Co., Ltd..

Mr. Deng holds a Master's degree of Economics. He served successively as Accountant in charge of Finance Section of Jiangxi Chemical Experiment Plant, Chief of Industry and Transport Division of Jiangxi Provincial Audit Department, Deputy Manager of Audit Department of Guangdong Finance Trust and Investment Co., Ltd., General Manager of Auditing 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 Executive Deputy General Manager of Guangdong Finance Asset Management Co., Ltd..



### **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 CPPCC, Member of the Standing Committee of All-China Women's Federation, Deputy President of China Association for the Promotion of Industry Development, 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.

## Directors, Supervisors, Senior Executives and Employees

### MAIN WORKING EXPERIENCE AND INCUMBENCY OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES



**Zhai Feng**

*Shareholder Representative Supervisor of the Bank*

Mr. Zhai is a Director, Vice President and Secretary to the Board of Directors of Shanghai Shenhua Holding Co., Ltd., Chairman of the Board of Shanghai Hua'an Investment Co., Ltd., Chairman of the Board of Shanghai Shenhua Finance Building Limited Company, Vice Chairman of the Board of Shanghai Shenhua Wind-powered New Energy Co., Ltd., Director of Shenhua Dongtou New Energy Investment Co., Ltd., Director of Shanghai Baohe Auto Investment Co., Ltd., Director of Shanghai Shenhua Real Estate Development Co., Ltd., Director of Hunan Shende Industrial Development Co., Ltd etc..

Mr. Zhai obtained a Bachelor's degree of Business Law from Fudan University and an EMBA degree from Peking University. He is a senior Economist, lawyer and legal advisor for enterprises. He also worked as President Assistant of Shanghai Shenhua Holdings Co., Ltd. and Director of Jinbei Automotive Company Limited.



**Zheng Lanping**

*External Supervisor of the Bank*

Ms. Zheng is Vice President of Phoenix Metropolis Media under Phoenix Television.

Ms. Zheng obtained a Bachelor's degree of Law from Tsinghua University. She served successively as Director of the Secretariat of General Office and Deputy Director of General Office of the Supreme People's Procuratorate, a departmental level officer, second grade senior public procurator, Assistant-to-President of Phoenix Metropolis Media under Phoenix Television. During her service 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 the Supreme People's Procuratorate, and undertook secretarial work for the CPC Committee of the Ninth, Tenth and Eleventh Supreme People's Procuratorate.



**Tan Jinsong**

*External Supervisor of the Bank*

Mr. Tan is Secretary General of the CPC Committee and Professor of the School of Business of Sun Yat-sen University, Commissioner of National MPAcc Education Steering Committee, 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.



### **Fan Junxiong**

*Employee Representative Supervisor of the Bank*

Mr. Fan is the Director of Supervision Department (Discipline Supervision Office) of China Guangfa Bank.

Mr. Fan holds a title of Political Affairs Specialist. He worked successively as a teacher at the Training Center of Guangzhou Maritime Transport Co., Ltd.; teacher, instructor and Deputy Manager of Training Division of Guangzhou Maritime Technical School; deputy section level Discipline Supervisor and section level Discipline Supervisor, and Head of Case Handling 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.; Manager, Deputy Director, Director, and Interim Head of Supervision Department (Discipline Supervision Office) of China Guangfa Bank.



### **Gu Xuejin**

*Employee Representative Supervisor of the Bank*

Mr. Gu is the President and Secretary of CPC Committee of Zhengzhou Branch of China Guangfa Bank.

Mr. Gu obtained an MBA degree from Peking University and is an Economist. He worked successively as a member and the Deputy Chief of Savings Division of ICBC Zhejiang Branch, Principal Member of Industrial and Commercial Credit Division of ICBC Zhejiang Branch, Deputy General Manager of First Credit Department of Hangzhou Branch of Guangdong Development Bank, General Manager of Credit Department of Hangzhou Branch of Guangdong Development Bank, President and Secretary of CPC Committee of Foshan Branch of Guangdong Development Bank.



### **Zong Lexin**

*Vice President of the Bank*

Mr. Zong holds an MBA degree. He has served successively as Assistant Vice President of the Settlement Department of New York Branch, Bank of Communications Co., Ltd.; Manager of the Operations Department and Vice President of Dalian Branch, Industrial Bank of Japan; 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, and President of SPDB Shenzhen Branch; Executive Director and Vice President of China Guangfa Bank. Mr. Zong was also responsible for the operation of SPDB Hong Kong representative office during his work with the System Reform Office and in Shenzhen.

## Directors, Supervisors, Senior Executives and Employees

### MAIN WORKING EXPERIENCE AND INCUMBENCY OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES



**Wang Guizhi**

*Vice President and member of CPC Committee of the Bank*

Ms. Wang holds an MBA degree and is a Senior Economist. She served successively as Deputy Director and Director of Teaching and Research Office for Credit and Investment and Deputy Director of Department of Finance in Henan Finance Management Cadre Institute; General Manager Assistant and General Manager of Securities Business Department of China Rural Development Trust & Investment Corporation Zhengzhou Branch; General Manager of Treasury Department of Zhengzhou Branch of the Bank, General Manager of Planning and Management Department of the Head Office of China Guangfa Bank; President and Secretary of CPC Committee of Nanjing Branch of China Guangfa Bank; member of CPC Committee of Head Office of China Guangfa Bank and secretary of CPC Committee and President of Guangzhou Branch of China Guangfa Bank; member of CPC Committee, President Assistant and Vice President of Head Office of China Guangfa Bank.



**James Morrow**

*Vice President of the Bank*

Mr. Morrow holds an MBA degree. He served successively 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, Executive Director, Vice President and Chief Risk Officer of China Guangfa Bank.



**Zheng Lianming**

*Vice President and member of CPC Committee of the Bank*

Mr. Zheng graduated from the school of economics of Peking University and holds a MBA degree. He is a Senior Economist. He served successively as Deputy Director of System Reform and Legal Affairs Department and Policy Research Center under the State Development Planning Commission (in charge of daily operations); Deputy General Manager of General Office, Deputy General Manager and General Manager of International Business Department, President Assistant of Head Office and President of Foshan Branch, member of CPC Committee and Vice President of the Head Office of China Guangfa Bank.



**Edward Chou**

*Vice President of the Bank*

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Mr. Chou holds a Master's degree 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.



**Wang Bing**

*Vice President of the Bank (he will formally assume duties upon approval of his qualification by the regulatory authority)*

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Mr. Wang holds a Master's degree and is a Senior Engineer. He has served successively as a Member, Principal Staff Member, Deputy Director of Operation Division of Technology Department in the Head Office of Industrial and Commercial Bank of China (ICBC); Deputy Director of the System Division; Deputy Director (in charge of daily operations); Director; Deputy General Manager and member of CPC Committee of Data Center (Beijing) of ICBC; Chief Information Officer of China Guangfa Bank.

## Directors, Supervisors, Senior Executives and Employees

### MAIN WORKING EXPERIENCE AND INCUMBENCY OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES



**Zheng Xiaolong**

*Chief Audit Executive of the Bank (he will formally assume duties upon approval of his qualification by the regulatory authority)*

Mr. Zheng holds a Master's degree of Economics. He worked as a teacher in Electronic Industry Management Cadre College and served in Everbright International Leasing Co., Ltd.. In 1996, he participated in China Guangfa Bank's acquisition of Zhong Yin Trust & Investment Co., Ltd.. From 1997, he served as the Vice President of China Guangfa Bank's Huizhou Branch, responsible for its operations. In 2001, he assumed the position of General Manager of the Planning and Management Department of China Guangfa Bank, Head Office, and concurrently served as the Head of China Guangfa Bank's Restructuring and Development Office. From December 2006 to December 2013, he served as Secretary to the Board of Directors of China Guangfa Bank.



**Zhu Yingyu**

*Secretary to the Board of Directors of the Bank (he will formally assume duties upon approval of his qualification by the regulatory authority)*

Mr. Zhu is the General Manager of Strategic Management Department of the Bank and Chief Representative of the Bank's Hong Kong Representative Office.

Mr. Zhu obtained a Master's degree of Economics from Nanjing University. He has served successively as Deputy Director 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; Deputy General Manager in General Office of Beijing Branch of Bank of China; General Manager of Strategic Management Department of China Guangfa Bank and Supervisor of China Guangfa Bank.

## SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES

At the end of the reporting period, none of Directors, Supervisors and Senior Executives of the Bank held the Bank's shares.

## ANNUAL REMUNERATION AND INCENTIVES FOR DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES

During the reporting period, the remuneration of the Non-executive Directors and Non-employee Representative 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 Representative Supervisors of China Guangfa Bank Co., Ltd.* The specific standards are as follows:

The remuneration of the Bank's Non-executive Directors and Non-employee Representative Supervisors comprises four parts, i.e. basic allowance, committee allowance, meeting fee and research subsidy: (1) The basic allowance of a Director is RMB200,000/year and that of a Supervisor is RMB160,000/year; (2) the committee allowance of an ordinary member of the Board of Directors is RMB35,000/year and that of a principal member is RMB50,000/year; the committee allowance of an ordinary member of the Board of Supervisors is RMB28,000/year and that of a principal member is RMB40,000/year. Special committee allowances payable to Directors and Supervisors who participate in various committees are paid based on the number of committees that they are serving at; (3) meeting fee is a subsidy for any Director or Supervisor to participate or attend as non-voting attendee any general meetings, and on-site meetings of the Board of Directors and Board of Supervisors, and their special

committees (including teleconferences and videoconferences) and the standard rate of which is RMB5,000/person/time; and (4) research subsidy is a subsidy for Directors and Supervisors to participate in work inspections, research, training sessions, etc. organized by the Bank and relevant authorities and organizations and in activities related to the performance of duties, and the standard rate of which is RMB5,000/person/time.

The Employee Representative Supervisors of the Bank shall receive remuneration based on their positions served within the Bank and will not be entitled to any extra allowance, meeting allowance or subsidy.

Multi-dimensional measurement indicators are involved in the Senior Executives' performance appraisal, such as fulfillment of annual operation plans, work and performance evaluation based on the job responsibilities and the relevant scope of management, evaluation of the satisfactory degree of performance and work reports, etc. Relevant appraisal results form the major basis for the allocation of the Senior Executives' remuneration. After approval upon consideration by the HR & Remuneration Committee of the Board of Directors, the proposal for the performance appraisal and the allocation of remuneration in connection with the Senior Executives shall be submitted to the Board of Directors for approval before being implemented. The payment of part of the performance-related remuneration to Senior Executives will be deferred according to relevant regulatory requirements.

The total remuneration paid to the Directors, Supervisors and Senior Executives in 2013 was RMB21 million, and the total remuneration of the Senior Executives in 2013 is pending final confirmation.

The Bank has taken out liability insurance for Directors, Supervisors and Senior Executives. No incentive options have been granted to Directors, Supervisors and Senior Executives by the Bank.

## Directors, Supervisors, Senior Executives and Employees

### CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR EXECUTIVES

#### Directors

On 22 March 2013, the resignation of Mr. Zheng Yong to serve as Executive Director and Member of the Risk Management Committee of the Board of Directors, and the appointment of Mr. Zhang Fengming to serve as Executive Director of the Sixth Board of Directors and Member of the Risk Management Committee of the Board of Directors, were approved at the Eighth meeting of the Sixth Board of Directors.

On 12 April 2013, Mr. Zhang Fengming was elected to serve as Director of the Sixth Board of Directors at the First Extraordinary General Meeting of the Bank of 2013.

On 23 December 2013, the Seventh Board of Directors was elected at the Third Extraordinary General Meeting of the Bank of 2013. Mr. Wang Fenghua, Mr. Wang Zhenzhong, Mr. Frederick Ip, Mr. Liu Jiade, Mr. Zhu Ning, Mr. Chen Yisong, Mr. Li Zimin, Mr. Morris Li, Mr. Song Fengming, Mr. Zhang Fengming, Mr. Zhang Xifang, Ms. Lin Jiaorong, Mr. Zhang Shengman, Mr. Dong Jianyue and Mr. Alvin Chua were elected as Directors of the Seventh Board of Directors of the Bank.

Of which, Mr. Alvin Chua will formally assume duties upon approval of his qualification for serving as an Independent Director by the regulatory authority.

On 23 December 2013, Mr. Dong Jianyue was elected as Chairman of the Seventh Board of Directors and legal representative of the Bank at the First meeting of the Seventh Board of Directors of the Bank.

#### Supervisors

On 23 December 2013, Mr. Zhu Yingyu resigned to serve as Employee Representative Supervisor of the Fifth Board of Supervisors of the Bank due to his work arrangements.

#### Senior Executives

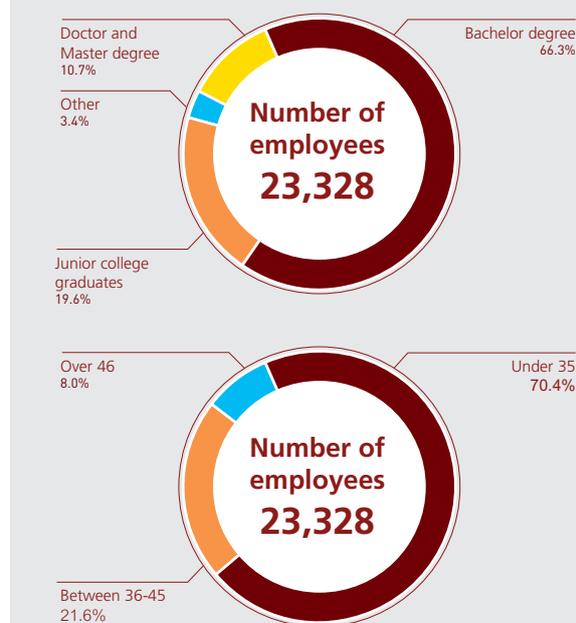
On 22 March 2013, the Bank held the Eighth Meeting of the Sixth Board of Directors, at which the resignation of Mr. Zheng Yong and Ms. Amy Choi as Vice Presidents of the Bank, and the appointment of Mr. Zhang Fengming and Ms. Wang Guizhi as Vice Presidents of the Bank, were approved. The qualifications of Mr. Zhang Fengming and Ms. Wang Guizhi for serving as Vice Presidents have been approved by the regulatory authority.

On 23 December 2013, the Bank held the First Meeting of the Seventh Board of Directors, at which the appointment of Mr. Morris Li as President, the appointment of Mr. Zong Lexin, Ms. Wang Guizhi, Mr. Zhang Fengming, Mr. James Morrow, Mr. Zheng Lianming, Mr. Edward Chou and Mr. Wang Bing as Vice Presidents, the appointment of Mr. Zheng Xiaolong as Chief Audit Executive and the appointment of Mr. Zhu Yingyu as Secretary to the Board of Directors, were approved. Mr. Wang Bing, Mr. Zheng Xiaolong and Mr. Zhu Yingyu will formally assume their respective duties upon approval of their qualifications by the regulatory authority.

### EMPLOYEES

As at the end of the reporting period, the number of contract employees of the Bank was 23,328, representing an increase of 2,003 employees from the previous year. Of which, employees with doctoral or master degree accounted for 10.7%, those with bachelor degree accounted for 66.3%, junior college graduates accounted for 19.6% and employees with other educational qualification accounted for 3.4%; employees aged 35 or below accounted for 70.4%, those aged between 36 and 45 accounted for 21.6% and those aged 46 or above accounted for 8.0%. In addition, the Bank had 941 former and retired employees.

#### Composition of Employees



# Corporate Governance



## ABOUT CORPORATE GOVERNANCE

Good corporate governance is the key to commercial banks' sound operation and sustainable development. The Bank continuously improved the corporate governance mechanism of scientific decision-making, rigorous enforcement and effective supervision. During the reporting period, the Bank, pursuant to relevant laws, regulations, financial regulatory requirements and listing standards, with a view to good corporate governance, and based on its practical experience in corporate governance, optimized corporate governance structure, improved corporate governance system, accelerated strategic transformation, continuously reinforced comprehensive risk management and internal control, earnestly planned and managed capital, thereby improving corporate governance of the Bank in an all-round way.

### Adjusting and Optimizing Structure of the Board of Directors by Taking Advantage of Transition of the Board of Directors

The term of office of the Sixth Board of Directors of the Bank expired in 2013. With an eye to meeting listing requirement and combining the strengths of different sessions of the Board of Directors, the Bank successfully completed election of the Board of Directors after extensive search and scientific selection in strict accordance with relevant laws, regulations,

the latest regulatory requirements, and procedures of election and appointment for corporate governance. The new Board of Directors consists of 15 people (vs. 17 formerly), of whom 9 were reappointed consecutively, 6 were newly appointed, and 6 (vs. 3 formerly) are Independent Non-Executive Directors. As a result, the Bank met the relevant provisions of the listing rules requiring the number of independent Directors accounting for 1/3 of the Board of Directors. The new Board of Directors comprises major leaders of well-known large enterprises with rich working experience and profound management experience, seniors specialized in accounting and auditing, and Senior Executives familiar with commercial bank operation. In this way, the Bank kept the Board of Directors stable and continual, enabled the Board of Directors to be more professional, independent and diversified, thus laying a solid foundation for the Board of Directors' scientific decision-making and effective operation in the future. The Board of Directors, according to functions of special committees under it, allocated the specialized Directors to relevant special committees, ensured Independent Non-Executive Directors to be in the majority and act as principal members of HR & Remuneration Committee, Audit Committee, and Connected Transaction Control Committee. In this way, special committees will be more professional and independent to forcefully support the smooth progress of various works of the Board of Directors.

## Corporate Governance

### Continuously Improving Rules and Regulations System on Corporate Governance to Provide System Assurance for Corporate Governance and Regulated Operation

The Bank revised the Articles of Association twice during the reporting period in order to facilitate the listing process of the Bank and the renewal of the Board of Directors pursuant to the law and regulations and make the Bank meet the needs of corporate governance after IPO. Firstly, the Bank revised the prevailing Articles of Association in a bid to promote capital replenishment and optimize corporate governance structure. Secondly, in accordance with relevant laws, regulations and listing rules at home and abroad, laying emphasis on forward looking and feasibility, with a view to better corporate governance and regulated operation of the Bank, based on the actual conditions of the Bank, referring to and quoting various guidelines recently introduced by regulatory authorities, drawing on the advanced experience and best practices of listed banks, the Bank revised the basic rules on corporate governance such as the Articles of Association, rules of procedure for general meetings, and rules of procedure for Board meetings, improved relevant governance rules and decision-making procedures, thereby laying a solid system foundation for coordinating the interests of the main bodies of corporate governance and for regulated and highly efficient operation of the Bank after it is listed.

### Reinforcing Intelligent Financial System and Actively Promoting Strategic Transformation and Structure Adjustment

The Board of Directors and the Strategy Committee under it strengthened discussion, study and scientific decision-making on significant problems concerning strategies implementation of the Bank, paid close attention to the implementation of strategic plans, reinforcing especially intelligent financial system, thus promoting the Bank to make breakthroughs in multi-dimensional transformation in business development pattern, overall business structure, internal management, etc. The Bank promoted supply chain financing of the industry in depth, focused on our key and core accounts, improved its ability to provide customers with comprehensive financial service and fully develop potential customers; accelerated development of key strategic businesses such as service for Micro Enterprises, retail and financial market and e-financing,

actively expanded market sectors with huge growth potentials such as investment banking, private banking, financial institutions and asset custody, and achieved continuous optimizing of business and income structures; improved strategic supporting system, deeply tapped management potential, and had its management more professional, refined and technology-based continuously.

### Improving Comprehensive Risk Management and Internal Control System to Ensure Sound Operation of the Bank

In 2013, the Board of Directors paid high attention to risks, challenges and pressure that came with China's economic transition, and made solid progress in improving comprehensive risk management and internal control system. The Bank studied and formulated risk appetite policies of CGB and specified the Bank's bottom line in preventing risks according to regulatory requirements and in view of the changes in external economic situation and actual development of the Bank; promoted the reform of specialized risk management structure, established Retail Risk Management Department and Small Enterprise Credit Approval Department, carried out effective risk control on retail credit risks and Small Enterprise credit business in an all-round manner with regards to system improvement, team building, approval process, post-disbursement management, etc., thus continuously improving the vertically administered, professional, comprehensive and independent risk management system; promoted the implementation of the *New Basel Capital Accord*, improved scientific and quantitative risk management tools system, strengthened risk IT system developing, continuously enhanced its ability for risk identification and measurement; optimized and adjusted customer structure, reinforced loan concentration management, strengthened inspections on risks of key sectors including high-energy-consuming and high-emission industries and overcapacity industries, real estate, and governmental financing platforms, and did a good job in risk alert; improved the efficiency in disposing of non-performing assets in innovative approaches while making full use of fiscal and taxation policies, thus making the Bank more capable in risk prevention; intensified the role of accountability mechanism, and enhanced responsibility awareness in risk management. The Bank further improved its internal control system building, formulated a range of basic rules like Basic Provisions for Internal Control, organized and carried out self-appraisal on internal control, engaged accounting firms to assist in internal control evaluation and problems rectification, strengthened the role of internal auditing in independent supervision, review and appraisal, thereby improving the Bank's compliance management on internal control in an all-round way.

## Carrying Out Performance Appraisal on Directors, Supervisors and Senior Executives, and Effectively Implementing Incentive and Restraint Mechanisms

In order to bring the supervision function of the Board of Supervisors into full play, improve the restraint and supervision mechanism for Directors, Supervisors and Senior Executives, and urge them to maintain safe and sound operation of the Bank diligently and conscientiously, the Board of Supervisors, in accordance with regulatory requirements and Articles of Association of the Bank, formulated the *2012 Implementation Plan for Comprehensive Appraisal on the Performance of Directors, Supervisors and Senior Executives Conducted by the Board of Supervisors of China Guangfa Bank Co., Ltd.*, and carried out the 2012 performance comprehensive appraisal pursuant to the Plan. Through daily supervision and consulting duty performance archives, the Board of Supervisors drew up its comprehensive appraisal reports on performance of Directors, Supervisors and Senior Executives respectively in 2012 by quantitative analysis based on extensive performance information, and notified and informed the Board of Directors, Directors, Supervisors and Senior Executives upon deliberation and approval, and reported the appraisal results to the general meeting and regulatory authorities.

## Accelerating Listing Process by Improving Capital Management System

The Bank further improved its capital management based by formulating plans and perfecting systems. The Bank formulated *2013-2018 Capital Adequacy Ratio Planning of China Guangfa Bank Co., Ltd.*, specified the basic ideas on capital management in the next five years; actively promoted implementation of internal capital adequacy evaluation project in the *New Basel Capital Accord*, promoted economic capital management, refined its capital management;

reinforced capital constraint, optimized capital allocation, guided business to be more capital-intensive; explored innovation in capital instruments in depth, considered and issued eligible capital instruments with write-down feature in an amount of no more than RMB10 billion so as to replenish bank capital. In the meantime, the Bank made great efforts to promote listing, and strived to establish a long-term capital replenishment mechanism as soon as possible.

## Standardizing Information Disclosure and Improving the Management of Investor Relations

The Bank actively performed its information disclosure obligation, and truthfully transmitted information about the Bank to the market and investors through issuing annual reports and announcements and updating its official website in a timely manner. In respect of the annual reports, while meeting the statutory disclosure requirements relating to banking industry made by regulatory authorities, the Bank continued to adhere to the information disclosure requirements of listed companies with a view to continuously making information disclosure more initiative and transparent. Annual reports of the Bank won awards in the selection events organized by League of American Communications Professionals (LACP) for four consecutive years: the Gold Award, Top 50 in Asia Pacific Region for Annual Report 2012, Top 50 for Annual Report 2012 in Chinese. The Bank strengthened daily equity management, sorted out and perfected various archives and data of shareholders, established special archives for significant equity projects; solved key and difficult problems in the work on equity in line with the listing progress, thus effectively meeting the requirements of the listing rules on defined equity. The Bank improved communication with the external community by intensifying exchange with internationally well-known rating agencies and listed banks, so as to broaden its working mind and improved its working method.

## Corporate Governance

### **Continuously Improving Performance of Directors and Supervisors by Intensifying Research, Training and Special Inspections on Them**

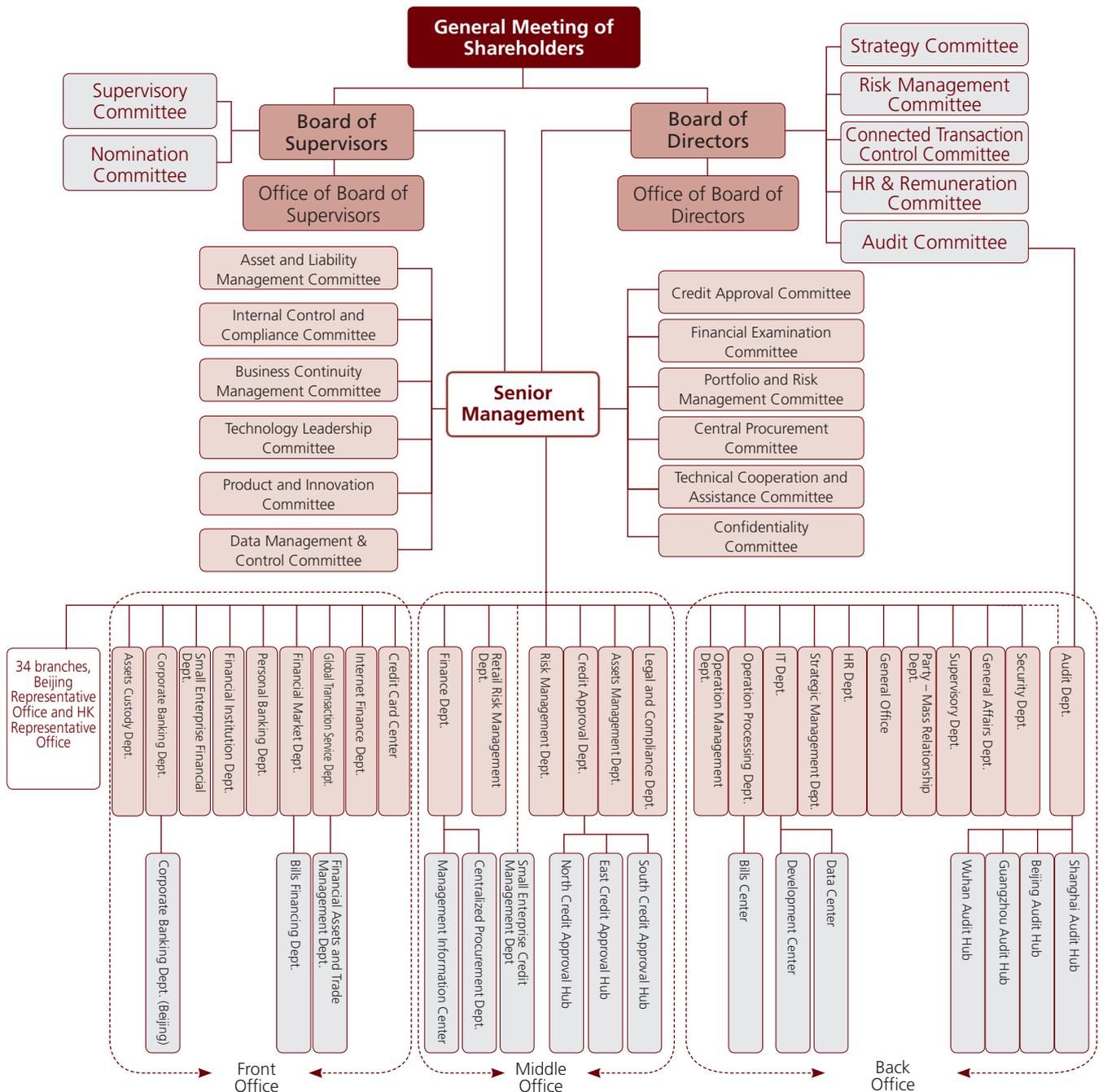
In 2013, the Bank, through organizing Directors and Supervisors to participate in regulators' trainings and special training on the *Measures for the Capital Management of Commercial Banks*, carrying out on-spot researches on multiple branch offices, and holding seminars with departments, strengthened the communication and connection of Directors and Supervisors with the Senior

Management and relevant departments, deepened the understanding of the trend of financial regulatory requirements, development of the banking industry and operation and management of the Bank, and continuously improved the awareness on duty fulfillment and performance, thus laying a solid foundation for playing the Board of Directors' role of scientific decision-making and the Board of Supervisors' role of effective supervision. The Board of Supervisors, centering on the implementation of the Five-year Strategic Plan and risk management and internal control, conducted special inspections on some branches, drew up special inspection reports, thereby putting forward opinions upon supervision for promoting healthy business development.



# ORGANIZATIONAL STRUCTURE

## CGB ORGANIZATIONAL STRUCTURE



## Corporate Governance

### BOARD OF DIRECTORS AND SPECIAL COMMITTEES UNDER BOARD OF DIRECTORS

#### Composition of the Board of Directors

The Bank's Board of Directors has 15 Directors in total, including six (40%) Independent Non-Executive Directors and three Executive Directors. Non-executive Directors are all important leaders in well-known large enterprises at home and abroad with profound management experience; Executive Directors are well experienced in banking and financial industries; Independent Non-Executive Directors are all senior experts in economic and financial fields with good professional background and vocational skills, of whom two reside in Hong Kong and are familiar with International Financial Reporting Standards and Hong Kong capital market rules.

The specialized, diversified and internationalized Board members bring the Bank diversified visions, multi-dimensional thinking and multi-channel experience, which will help make the Board of Directors' decision-making more scientific and effective.

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

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

- Convening general meetings and reporting work to general meetings;
- Executing resolutions of general meetings;
- 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;
- Listening to the work report of the Bank's President and examining 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 powers stipulated by laws, regulations and Articles of Association of the Bank, or granted by the Bank's General Meeting.

#### Special committees under Board of Directors

Five special committees were setup 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 Non-Executive Directors; in the Audit Committee, Connected Transaction Control Committee, and HR & Remuneration Committee, Independent Non-Executive Directors account for more than half of the committee members. All special committees, according to the Articles of Association and working rules, and division of duties, earnestly performed their duties with their professionalism highlighted and played their role of giving advice on decision making by actively helping the Board of Directors in its work.

##### *Strategy Committee*

Strategy Committee under Board of Directors is consisted of seven Directors, of whom Mr. Dong Jianyue is the principal member. Other members include Mr. Wang Zhenzhong, Mr. Liu Jiade, Mr. Chen Yisong, Mr. Zhang Xifang, Mr. Zhang Shengman and Mr. Alvin Chua. Mr. Alvin Chua will formally assume duties upon approval of his qualification for serving as an Independent Director by the regulatory authority. The primary responsibilities of Strategy Committee are: researching and studying out operation objectives and medium- to long-term development strategies for the Bank; supervising and evaluating the implementation process of the Bank's strategies; supervising, examining and evaluating the implementation of annual operation plans and investment proposals, and so on.

### *Audit Committee*

Audit Committee under Board of Directors is consisted of five Directors, of whom Mr. Alvin Chua is the principal member. Other members include Mr. Wang Fenghua, Mr. Zhu Ning, Mr. Chen Yisong and Ms. Lin Jiaorong. Mr. Alvin Chua will formally assume duties upon approval of his qualification for serving as an Independent Director by the regulatory authority. The primary responsibilities of Audit Committee are: examining the Bank's accounting policies, financial position and financial reporting procedures; examining risk profile and legal compliance profile; 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 six Directors, of whom Mr. Frederick Ip is the principal member. Other members include Mr. Zhu Ning, Mr. Li Zimin, Mr. Morris Li, Mr. Zhang Fengming and Mr. Zhang Xifang. The primary responsibilities of Risk Management Committee are: evaluating and discussing risk management strategies, risk management policies, material risk management matters and material asset disposal projects 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 four Directors, of whom Mr. Song Fengming is the principal member. Other members include Mr. Frederick Ip, Mr. Li Zimin and Ms. Lin Jiaorong. The primary responsibilities of the Committee are: managing the connected transactions of the Bank; auditing and supervising the formulation and implementation of administrative measures on connected transactions; supervising the establishment and improvement of management system of connected transactions; examining and evaluating connected transactions and controlling risks associated with connected transactions, and so on.

### *HR & Remuneration Committee*

HR & Remuneration Committee under Board of Directors is consisted of seven Directors, of whom Mr. Wang Zhenzhong

is the principal member. Other members include Mr. Wang Fenghua, Mr. Zhu Ning, Mr. Liu Jiade, Mr. Song Fengming, Mr. Zhang Shengman and Mr. Alvin Chua. Mr. Alvin Chua will formally assume duties upon approval of his qualification for serving as an Independent Director by the regulatory authority. The primary responsibilities of the Committee are: formulating procedures and standards of electing Directors and Senior Executives; conducting preliminary review of the qualification of Director and Senior Executive candidates; formulating evaluation system, payment policy and motivation scheme for Directors and Senior Executives; supervising implementation of the said policies and scheme, and so on.

## **BOARD OF SUPERVISORS AND SPECIAL COMMITTEES UNDER BOARD OF SUPERVISORS**

### **Structure of Board of Supervisors**

At present, there are eight members in Board of Supervisors, of whom three 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 of the Bank. Three Employee Representative Supervisors have been engaged in bank operations management for a long time and have extensive professional experience in finance; three Shareholder Representative Supervisors assumed important posts in domestic well-known companies, with plentiful corporate governance experience and professional finance and accounting expertise; two External Supervisors are professionals in accounting and legal affairs.

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

Board of Supervisors is the supervisory organization of the Bank and responsible for the general meeting. According to the Articles of Association of the Bank, the functions and powers of the Board of Supervisors are as follows:

- Supervising duty performance of the Board of Directors and Senior Executives;

## Corporate Governance

- Supervising duty performance of Directors, Chairman of the Board of Directors and Senior Executives;
- Requiring Directors, Chairman of the Board of Directors and Senior Executives to rectify his/her breaching behavior when such behaviours hurts the Bank's interest, if any;
- Auditing Directors and Senior Executives when such persons are to leave their posts;
- Examining and supervising financial activities of the Bank;
- Inquiring Directors, Chairman of the Board of Directors and Senior Executives when necessary;
- Auditing operation decisions, risk management issues and internal control of the Bank and guiding Audit Department of the Bank in work if necessary;
- Attending meetings held by the Board of Directors;
- Proposing to convene extraordinary general meetings;
- Formulating and amending rules of procedure for meetings of the Board of Supervisors;
- Other functions and powers stipulated by laws, regulations and Articles of Association of the Bank, or granted by the Bank's general meeting.

### Special Committees under the Board of Supervisors

The Nomination Committee and Supervisory Committee were set up under the Board of Supervisors of the Bank, both of which are chaired by External Supervisors.

#### *Nomination Committee*

Nomination Committee consists of four Supervisors, of whom External Supervisor Zheng Lanping is the principal member. Other three Supervisors include Zhai Meiqing, Zhai Feng and Gu Xuejin. The primary responsibilities of Nomination Committee are: studying out procedures and standards of electing and appointing Supervisors; conducting preliminary review of the qualifications 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 candidates to special committees; searching eligible Supervisor candidates from a broad perspective.

#### *Supervisory Committee*

Supervisory Committee consists of five Supervisors, of whom External Supervisor Tan Jinsong is the principal member and other four Supervisors are Li Jinsheng, Zhai Meiqing, Deng Jianhua and Fan Junxiong. The primary responsibilities of Supervisory Committee are: studying out supervisory scheme for the Board of Supervisors to supervise the duty fulfillment of the Board of Directors and Senior Management; studying out supervisory scheme for the Board of Supervisors to supervise the duty fulfillment of Directors, Chairman and Senior Executives; studying out audit scheme for the Board of Supervisors to audit Directors and Senior Executives when they are to leave their posts; studying out schemes for the Board of Supervisors to check and supervise financial activities of the Bank; studying out 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 of the Bank prepared by the Board of Directors and profit distribution schemes formulated by the Board of Directors, and giving its own audit opinions to the Board of Supervisors in written form.

## SENIOR MANAGEMENT AND SPECIAL COMMITTEES UNDER SENIOR MANAGEMENT

President of the Bank is responsible for the Board of Directors and is under the supervision of the Board of Supervisors. Vice Presidents and other Senior Executives shall assist President in work. The power and authority of Senior Management and the Board of Directors are divided strictly in accordance with corporate governance documents of the Bank, such as Articles of Association.

The special committees under Senior Management of the Bank include: Asset and Liability Management Committee, Internal Control and Compliance Committee, Business Continuity Management 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, and Confidentiality Committee.

# Summary of the General Meeting

In 2013, the Bank held four general meetings, including the annual general meeting and three 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 its legal opinions. The details are as follows:

## INFORMATION ON THE ANNUAL GENERAL MEETING

On 21 June 2013, the 2012 Annual General Meeting of the Bank was held in Guangzhou.

72 Shareholders and proxies were present, representing 13.546 billion shares, accounting for 87.95% of the total shares of the Bank.

The meeting deliberated each proposal and approved the following by ballot: *Proposal on the 2012 Annual Work Report of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Annual Work Report of the Fifth Board of Supervisors of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Final Financial Report of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Preliminary Profit Distribution Plan of China Guangfa Bank Co., Ltd.*, *Proposal on the 2013 Financial Budget of China Guangfa Bank Co., Ltd.*, *Proposal on Issuing Eligible Capital Instruments with Write-down Feature and Equivalent Value of No More Than RMB10 billion Before the End of 2014*, *Proposal on the*

*Postponed Reelection of the Board of Directors of China Guangfa Bank Co., Ltd.*, and *Proposal on Requesting the General Meeting to Authorize the Board of Directors to Buy Director Liability Insurance* and related resolutions were duly passed.

At the meeting, *the Circular of the Results of the 2012 Overall Performance Evaluation of Directors, Supervisors and Senior Executives of China Guangfa Bank Co., Ltd. by the Board of Supervisors* was also heard.

## INFORMATION ON THE EXTRAORDINARY GENERAL MEETINGS

### First Extraordinary General Meeting of 2013

On 12 April 2013, the First Extraordinary General Meeting of 2013 was held in Guangzhou.

92 Shareholders and proxies were present, representing 14.075 billion shares, accounting for 91.38% of the total shares of the Bank.

## Summary of the General Meeting

The meeting deliberated each proposal and approved the following by ballot: *Proposal on the Compliance Plan of Capital Adequacy Ratio for 2013-2018 of China Guangfa Bank Co., Ltd.*, *Proposal on the IPO and Listing Scheme of China Guangfa Bank Co., Ltd.*, *Proposal on Requesting the General Meeting to Authorize the Board of Directors to Handle Matters Relating to the IPO and Listing*, and *Proposal on Electing Mr. Zhang Fengming as Director of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, and related resolutions were duly passed.

### Second Extraordinary General Meeting of 2013

On 25 October 2013, the Second Extraordinary General Meeting of 2013 was held in Guangzhou.

62 Shareholders and proxies were present, representing 13.551 billion shares, accounting for 87.98% of the total shares of the Bank.

The meeting deliberated each proposal and approved the following by ballot: *Proposal on the Amendment of the current "Articles of Association of China Guangfa Bank Co., Ltd."*, *Proposal on Confirming Promoters of China Guangfa Bank Co., Ltd.*, and *Proposal on the Amendment of "Articles of Association of China Guangfa Bank Co., Ltd." (Applicable to H Shares)*, and related resolutions were duly passed.

### Third Extraordinary General Meeting of 2013

On 23 December 2013, the Third Extraordinary General Meeting of 2013 was held in Guangzhou.

44 Shareholders and proxies were present, representing 13.084 billion shares, accounting for 84.95% of the total shares of the Bank.

The meeting deliberated each proposal and approved the following by ballot: *Proposal on Electing the Directors of the Seventh Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on the Amendment of "Rules of Procedure for General Meetings of China Guangfa Bank Co., Ltd." (Applicable to H Shares)*, *Proposal on the Amendment of "Rules of Procedure for Board Meetings of China Guangfa Bank Co., Ltd." (Applicable to H Shares)*, and *Proposal on the Amendment of "Rules of Procedure for Meetings of the Board of Supervisors of China Guangfa Bank Co., Ltd." (Applicable to H Shares)*, and related resolutions were duly passed.

# Report of the Board of Directors

## MEETINGS CONVENED BY BOARD OF DIRECTORS AND ITS SPECIAL COMMITTEES

In 2013, the Bank held a total of ten Board Meetings, including a meeting convened by the new Board of Directors upon election by the General Meeting on 23 December 2013. The table below shows Directors' attendance rate at Board Meetings during the reporting period:

<b>Member of the Board of Directors</b>	<b>Attendances (attendance by proxy)/ required attendances</b>	<b>Attendance rate</b>
Dong Jianyue	10/10	100%
Morris Li	10/10	100%
Zhang Fengming	7/7	100%
Wang Fenghua	10/10	100%
Liu Jiade	10/10	100%
Li Zimin	10/10	100%
Zhang Xifang	10/10	100%
Zhang Shengman	10/10	100%
Frederick Ip	10/10	100%
<b>Retired Directors</b>		
Wan Feng	9/9	100%
Weber Lo	9/9	100%
Li Dianjun	9/9	100%
Chan Tai Loi	9/9	100%
Zong Lexin	9/9	100%
Gai Yongguang	9/9	100%
Pu Jian	9/9	100%
James Morrow	9/9	100%

- Note:
- On 23 December 2013, Wang Fenghua, Wang Zhenzhong, Frederick Ip, Zhu Ning, Liu Jiade, Li Zimin, Chen Yisong, Song Fengming, Morris Li, Zhang Fengming, Zhang Xifang, Lin Jiaorong, Zhang Shengman, Dong Jianyue and Alvin Chua were elected as members of the Seventh Board of Directors of the Bank at the General Meeting. In particular, Mr. Chen Yisong, Mr. Wang Zhenzhong, Mr. Zhu Ning, Mr. Song Fengming, Ms. Lin Jiaorong and Mr. Alvin Chua are new Directors and shall perform their duties after their qualifications being approved by the regulatory authority.
  - Please refer to *Changes of Directors, Supervisors and Senior Executives* for more details on changes of Directors.

## Report of the Board of Directors

On 7 January 2013, at the 2013 First Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on the Institutional Development Plan 2013 of China Guangfa Bank* was passed by voting via correspondence, and related resolutions were duly passed.

On 22 February 2013, at the 2013 Second Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on Lead-Underwriting Short-term Financing Bonds of State Grid Corporation Totalling RMB4.500 billion of China Guangfa Bank Co., Ltd.* was passed by voting via correspondence, and related resolutions were duly passed.

On 22 March 2013, the Bank held the Eighth Meeting of the Sixth Board of Directors, and the following proposals were deliberated: *Proposal on the 2012 Final Financial Report of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Preliminary Profit Distribution Plan of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Audit Report of China Guangfa Bank Co., Ltd.*, *Proposal on the 2013-2018 Capital Adequacy Ratio Planning of China Guangfa Bank Co., Ltd.*, *Proposal on the IPO and Listing Scheme of China Guangfa Bank Co., Ltd.*, *Proposal on Requesting the General Meeting to Authorize the Board of Directors to Handle Matters Relating to the IPO and Listing*, *Proposal on the Board of Directors to Delegate Authorization to Specified Persons Concerning Matters Relating to the IPO and Listing*, *Proposal on Establishment of the Fund Management Company of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Annual Report of China Guangfa Bank Co., Ltd.*, *Proposal on the 2013 Business Plan and Financial Budget of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Annual Work Report of the Sixth Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on the Performance Evaluation of Directors and Senior Executives in 2012*, *Proposal on the Performance Evaluation and Remuneration Distribution of Senior Executives in 2012*, *Proposal on the 2013 Stress Testing Report of China Guangfa Bank Co., Ltd.*, *Proposal on*

*the Market Risk Limits of the Head Office Financial Marketing Department and Macau Branch in 2013*, *Proposal on the Risk Appetite Policy of China Guangfa Bank Co., Ltd.*, *Proposal on Signing of "Daily Connected Transaction Framework Agreement" by China Guangfa Bank Co., Ltd. and China Life Insurance Company Limited*, *Proposal on the 2013 Technical Cooperation and Assistance Plan*, *Proposal on Ms. Amy Choi Resigning as Vice President of China Guangfa Bank Co., Ltd.*, *Proposal on Appointing Ms. Wang Guizhi as Vice President of China Guangfa Bank Co., Ltd.*, *Proposal on Appointing Mr. Zhang Fengming as Executive Director of the Sixth Board of Directors and Vice President of China Guangfa Bank Co., Ltd.* and *Proposal on Convening the 2013 First Extraordinary General Meeting of China Guangfa Bank Co., Ltd.*, and related resolutions were duly passed.

On 22 May 2013, at the 2013 Third Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on Donation to Earthquake-struck Ya'an, Sichuan* and *Proposal on Authorizing the Senior Executives to Review and Approve the Handling of Single Corporate NPL* were passed by voting via correspondence, and related resolutions were duly passed.

On 30 May 2013, the Bank held the Ninth Meeting of the Sixth Board of Directors, and the following proposals were deliberated: *Proposal on Issuing Eligible Capital Instruments with Write-down Feature and Equivalent Value of No More Than RMB10 billion Before the End of 2014*, *Proposal on Requesting the General Meeting to Authorize the Board of Directors to Maintain Director Liability Insurance*, *Proposal on the Postponed Re-election of the Board of Directors of China Guangfa Bank Co., Ltd.*, *Proposal on the Continued Performance of Duties by Senior Executives of China Guangfa Bank Co., Ltd. during the Period of Postponed Re-election*, and *Proposal on Convening the 2012 General Meeting of China Guangfa Bank Co., Ltd.*, and related resolutions were duly passed.

On 15 July 2013, at the 2013 Fourth Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on Lead-Underwriting Short-term Financing Bonds of State Grid Corporation Totalling RMB4.200 billion of China Guangfa Bank Co., Ltd.* was passed by voting via correspondence, and related resolutions were duly passed.

On 30 August 2013, at the 2013 Fifth Extraordinary Meeting of the Sixth Board of Directors of the Bank, *Proposal on Renewal Scheme of Liability Insurance for Directors, Supervisors and Senior Executives in 2013/2014* was passed by voting via correspondence, and related resolutions were duly passed.

On 11 October 2013, the Bank held the Tenth Meeting of the Sixth Board of Directors, and the following proposals were deliberated: *Proposal on Determining the Place of the IPO and Listing, Proposal on Agreeing to Amend or Terminate Related Agreements on the Red Cotton Project, Proposal on Confirming Promoters of China Guangfa Bank Co., Ltd., Proposal on the Amendment of "Articles of Association of China Guangfa Bank Co., Ltd." (Applicable to H Shares), Proposal on the Amendment of the Prevailing "Articles of Association of China Guangfa Bank Co., Ltd.", Proposal on the RE-Election Implementation Scheme of the Board of Directors of China Guangfa Bank Co., Ltd. in 2013, Proposal on Engaging Financial Auditing Accountants for the IPO and Listing, Proposal on the Application of Guangfa Bank for Establishing Shanghai Free Trade Zone Branch, and Proposal on Convening the 2013 Second Extraordinary General Meeting of China Guangfa Bank Co., Ltd.*, and related resolutions were duly passed.

On 5 December 2013, the Bank held the Eleventh Meeting of the Sixth Board of Directors, and the following proposals were deliberated: *Proposal on the List of Candidates for the Seventh Board of Directors of China Guangfa Bank Co., Ltd., Proposal on the Amendment of "Rules of Procedure for General Meetings of China Guangfa Bank Co., Ltd." (Applicable to H Shares), Proposal on the Amendment of*

*"Rules of Procedure for Board Meetings of China Guangfa Bank Co., Ltd." (Applicable to H Shares), Proposal on Appointment of an Accounting Firm for 2013, Proposal on the Package Sales of Certain Corporate NPLs of Hangzhou Branch, Proposal on the Board of Directors Authorizing the Senior Management to Review and Approve the Package Sales of Corporate NPLs, Proposal on Increasing RMB DV01 Limit of Bank Accounts and Proposal on Convening the 2013 Third Extraordinary General Meeting of China Guangfa Bank Co., Ltd.*, and related resolutions were duly passed.

On 23 December 2013, the Bank held the First Meeting of the Seventh Board of Directors, and the following proposals were deliberated: *Proposal on Electing the Chairman of the Seventh Board of Directors of China Guangfa Bank Co., Ltd., Proposal on Appointing the President of China Guangfa Bank Co., Ltd., Proposal on Appointing the Secretary to the Seventh Board of Directors of China Guangfa Bank Co., Ltd. and Proposal on Appointing Vice Presidents and Other Senior Executives of China Guangfa Bank Co., Ltd.*, and related resolutions were duly passed.

In 2013, the special committees under the Board of Directors held 20 meetings in total, deliberating the proposals on the appointment of the accounting firm, 2013 audit plan, 2012 audit report and annual report, replacement of Directors and Senior Executives, performance evaluation and remuneration distribution of Senior Executives in 2012, purchase of Director liability insurance, re-election of the Board of Directors, capital adequacy ratio planning, listing related matters, establishment of a fund management company, amendment to the Articles of Association, 2013 technical cooperation and assistance plan, major connected transactions, market risk limits, stress testing report, authorization to the senior executives to dispose of non-performing assets, etc., and listening to the auditor's audit plan, 2012 annual audit summary, and reports on key audit findings, comprehensive risk management, anti-money laundering policy, data control and standardization, strategy execution, connected transaction management, etc.

## Report of the Board of Directors

### EXECUTION OF RESOLUTIONS MADE AT THE GENERAL MEETING BY THE BOARD OF DIRECTORS

During the reporting period, the Board of Directors, in strict accordance with relevant laws and regulations and financial regulatory requirements, faithfully implemented various resolutions made at the general meeting, e.g. 2013-2018 capital adequacy ratio planning, listing related matters, issuance of eligible capital instruments with the write-down feature, re-election of the Board of Directors, twice amendments to the Articles of Association and amendments to supporting corporate governance mechanisms. The Board of Directors also made steady headway in the accumulation of endogenous capital and improved refined capital management to ensure that the capital adequacy ratio meets the regulatory standards and business development needs. Meanwhile, it also accelerated the progress of listing and issuance of capital instruments to stabilise capital base. According to relevant resolutions election of the Board of Directors as considered and approved by the general meeting, the Board of Directors carried out the regulatory approval and registration of the six new Directors. Upon approval of the regulatory authority, the Board of Directors completed amendments to the current Articles of Association of the Bank, and submitted the Articles of Association required for listed companies to the regulatory authority for examination and approval, to lay a solid system foundation for the regulated corporate governance of the Bank after listing.

### INDEPENDENCY AND DUTY PERFORMANCE BY INDEPENDENT DIRECTORS

At present, there are six Independent Non-Executive Directors in the Board of Directors, which meets the requirements of regulatory authorities for the qualification, number and proportion of Independent Non-Executive Directors. Independent Non-Executive Directors of the Bank do not have any business or financial benefits in the Bank, nor do they assume any managerial post in the Bank, which effectively guarantees their independency. Independent Non-Executive Directors are the majority and act as principal members in committees under the Board of Directors, including Audit Committee, Connected Transaction Control Committee and HR & Remuneration Committee. They also act as principal members in the Risk Management Committee under the Board of Directors.

During the reporting period, Independent Non-Executive Directors of the Bank earnestly fulfilled their own duties and attended in person all Board meetings and meetings held by special committees, with working hours in the Bank complying with relevant regulatory requirements. They fully exerted their own professional skills to actively participate in the preparation, consideration and decision-making of proposals on the Board meeting, and put forward special opinions on important matters like connected transactions by conducting field research, listening to keynote reports, attending forums, etc.. Independent Directors enhanced communication with Senior Executives and relevant departments to get adequately informed of the operation and management and risk prevention and control of the Bank, so as to help the Board of Directors improve the scientific decision-making capability.

### PRELIMINARY PLAN FOR 2013 PROFIT DISTRIBUTION

10% of the profit after tax of RMB11.583 billion as stated in the audited financial statements of the Bank for 2013, amounting to RMB1.158 billion, was appropriated to the statutory surplus reserve. 1.5% of the balance of risk assets, amounting to RMB3.690 billion, was appropriated to the general reserve. Profit distributable to shareholders for the year was RMB26.210 billion. Having taking into consideration the regulatory guiding opinions and the Bank's demand for capital replenishment, the Bank proposed not to distribute any profit to its shareholders for 2013.

The above profit distribution plan is subject to approval at the 2013 Annual General Meeting of the Bank.

# Report of the Board of Supervisors

## MEETINGS CONVENED BY THE BOARD OF SUPERVISORS AND ITS SPECIAL COMMITTEES DURING THE REPORTING PERIOD

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

On 8 March 2013, at the First Extraordinary Meeting of the Fifth Board of Supervisors in 2013, the *Proposal on Off-office Auditing of Vice President Amy Choi* was deliberated by means of voting via correspondence, and related resolutions were duly passed.

On 20 March 2013, at the Second Extraordinary Meeting of the Fifth Board of Supervisors in 2013, the *Proposal on Off-office Auditing Report of Vice President Amy Choi of CGB* was deliberated by means of voting via correspondence, and related resolutions were duly passed.

On 22 March 2013, the Bank convened the Third Extraordinary Meeting of the Fifth Board of Supervisors in 2013, at which the *Proposal on the 2012 Annual Work Report of the Board of Supervisors of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Preliminary Profit Distribution Plan of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Audit Report of China Guangfa Bank Co., Ltd.* and *Proposal on the 2012 Annual Report of China Guangfa Bank Co., Ltd.* were deliberated, and related resolutions were duly passed.

On 1 April 2013, at the Fourth Extraordinary Meeting of the Fifth Board of Supervisors in 2013, the *Proposal on Off-office Auditing of Vice President Zheng Yong* was deliberated by means of voting via correspondence, and related resolutions were duly passed.

On 16 April 2013, at the Fifth Extraordinary Meeting of the Fifth Board of Supervisors in 2013, the *Proposal on Off-office Auditing Report of Vice President Zheng Yong of CGB* and *Proposal on the 2012 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 duly passed.

On 31 July 2013, at the Sixth Extraordinary Meeting of the Fifth Board of Supervisors in 2013, the *Proposal on the 2013 Special Inspection Working Plan of the Board of Supervisors of China Guangfa Bank Co., Ltd.* was deliberated by means of voting via correspondence, and related resolutions were duly passed.

On 29 November 2013, the Bank convened the Seventh Extraordinary Meeting of the Fifth Board of Supervisors in 2013, at which the *Proposal on the Amendment of <Rules of Procedure for Meetings of the Board of Supervisors>* and *Proposal on Implementation Rules of Measures for the Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.* were deliberated, and related resolutions were duly passed.

During the reporting period, the Nomination Committee of the Board of Supervisors of the Bank convened two meetings, at which the *Proposal on the 2012 Overall Performance Evaluation Report of the Board of Supervisors of China Guangfa Bank Co., Ltd. on Directors, Supervisors and Senior Executives* and *Proposal on Implementation Rules of Measures for the Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.* were deliberated, and related resolutions were duly passed.

## Report of the Board of Supervisors

During the reporting period, the Supervisory Committee of the Board of Supervisors of the Bank convened six meetings, at which *Proposal on Off-office Auditing of Vice President Amy Choi*, *Proposal on Off-office Auditing Report of Vice President Amy Choi of CGB*, *Proposal on the 2012 Preliminary Profit Distribution Plan of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Audit Report of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Annual Report of China Guangfa Bank Co., Ltd.*, *Proposal on Off-office Auditing of Vice President Zheng Yong*, *Proposal on Off-office Auditing Report of Vice President Zheng Yong of CGB* and *Proposal on the 2013 Special Inspection Working Plan of the Board of Supervisors of China Guangfa Bank Co., Ltd.* were deliberated, and related resolutions were duly passed.

### PERFORMANCE OF EXTERNAL SUPERVISORS

The Board of Supervisors of the Bank currently has two external supervisors. Both Nomination and Supervisory Committees of the Board of Supervisors are headed by external supervisors. During the reporting period, in light of relevant laws and regulations and the Articles of Association of the Bank, the Bank's external supervisors worked diligently, gave full play to their specialized skills, attended meetings of the Board of Supervisors and its special committees actively, deliberated all proposals carefully, gave their independent opinions; performed their duties as principal members of the special committees carefully, and convened meetings of the special committees timely, playing an active role in promoting efficient performance of the Board of Supervisors and improving the corporate governance of the Bank.

### WORK OF THE BOARD OF SUPERVISORS

#### Convening and Attending Relevant Meetings, Deliberating Significant Matters and Conducting Supervision according to Laws

*Convening Meetings of the Board of Supervisors and Its Special Committees, Deliberating Significant Matters and Listening to Relevant Reports*

In 2013, in accordance with the Articles of Association of the Bank and *Rules of Procedure for Meetings of the Board of Supervisors*, the Board of Supervisors convened seven meetings of the Board of Supervisors, deliberated and passed 12 proposals, listened to seven on-site reports and reviewed three written reports. The Nomination Committee of the Board of Supervisors convened two meetings and the Supervisory Committee of the Board of Supervisors convened six meetings.

In respect of self-construction, the Board of Supervisors deliberated and passed *Proposal on the 2012 Annual Work Report of the Board of Supervisors of China Guangfa Bank Co., Ltd.*, *Proposal on the Amendment of Rules of Procedure for Meetings of the Board of Supervisors* and *Proposal on Implementation Rules of Measures for the Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.*

In respect of financial supervision, the Board of Supervisors deliberated and passed *Proposal on the 2012 Preliminary Profit Distribution Plan of China Guangfa Bank Co., Ltd.*, *Proposal on the 2012 Audit Report of China Guangfa Bank Co., Ltd.* and *Proposal on the 2012 Annual Report of China Guangfa Bank Co., Ltd.*, reviewed the special reports on the Bank's management of assets and liabilities and financial position and listened to on-site reports.

Regarding risk management and internal control supervision, the Board of Supervisors deliberated and passed *Proposal on the 2013 Special Inspection Working Plan of the Board of Supervisors of China Guangfa Bank Co., Ltd.*, reviewed several special reports on risk management, asset management, compliance risks, connected transaction management and audit management and listened to on-site reports.

Regarding performance supervision, the Board of Supervisors deliberated and passed *Proposal on the 2012 Overall Performance Evaluation Report of the Board of Supervisors of China Guangfa Bank Co., Ltd. on Directors, Supervisors and Senior Executives*, *Proposal on Off-office Auditing of Vice President Amy Choi*, *Proposal on Off-office Auditing Report of Vice President Amy Choi of CGB*, *Proposal on Off-office Auditing of Vice President Zheng Yong* and *Proposal on Off-office Auditing Report of Vice President Zheng Yong of CGB*.

### **Attending Relevant Meetings, Keeping Informed of Operational Management Information and Performing Supervisory Duty**

In 2013, the Supervisors of the Bank attended all the general meetings, all the Board meetings, relevant regulatory meetings and meetings of the Senior Management according to laws. By attending the aforesaid meetings, the Board of Supervisors not only supervised the convocation procedures and voting process of relevant meetings, but also kept updated on information about operational management, finance, risks and internal control of the Bank, and oversaw the performance of the Board of Directors, Senior Management and its members.

## **Improving Performance Evaluation System, and Regulating Performance Supervision and Evaluation Process**

In 2013, the Board of Supervisors of the Bank continued to explore ways of performance evaluation suited the Bank's practical conditions, formulated Implementation Rules for Performance Evaluation in light of the latest regulatory requirements, improved performance evaluation system, enriched the contents of evaluation, and optimized evaluation process.

The Board of Supervisors started 2012 overall performance evaluation in January 2013 in accordance with provisions and arrangements in the *Measures for the Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.* and the *Implementation Plan for the 2012 Overall Performance Evaluation of Directors, Supervisors and Senior Executives* by the Board of Supervisors of China Guangfa Bank Co., Ltd.. By sorting out and analysing files about performance, and based on information from daily supervision, inspection and investigation as well as evaluation results from various links, the Board of Supervisors made objective and impartial evaluations on Directors, Supervisors and Senior Executives in respect of their compliance with laws and regulations and Articles of Association of the Bank, exercise of functions and powers, performance of obligations, implementation of resolutions, etc., and drafted the *2012 Overall Performance Evaluation Report of the Board of Supervisors of China Guangfa Bank Co., Ltd. on Directors, Supervisors and Senior Executives*. After the performance evaluation report was deliberated and passed at the Fifth Extraordinary Meeting of the Fifth Board of Supervisors in 2013, the Board of Supervisors circulated the performance evaluation results to each evaluated person, reported the evaluation results of Directors and Senior Executives to the Board of Directors, submitted the evaluation results and bases to regulatory authorities for filing and made a special report to the 2012 Annual General Meeting.

## Report of the Board of Supervisors

### Conducting Off-office Auditing on Senior Executives, and Strengthening Supervision and Restraint Mechanism

Pursuant to the Articles of Association of the Bank and the *Measures for Off-office Auditing of Senior Executives of China Guangfa Bank Co., Ltd.*, the Board of Supervisors of the Bank normatively and orderly conducted off-office auditing on former Vice Presidents Ms. Amy Choi and Mr. Zheng Yong, and made objective evaluations on the Senior Executives who have left their posts in respect of their compliance with laws and regulations during duty performance, accomplishment of business objectives, working performance, participation in decision-making and approval of important matters relating to operational management, etc. during their term of office, further improving the internal supervision and restraint mechanism.

### Launching Special Inspections and Investigations, and Giving Supervision Opinions and Suggestions

In 2013, the Board of Supervisors of the Bank, focusing on strategic transformation of the Bank, continued to deepen its supervision function through special inspections and investigations and provided valuable suggestions for sustained and steady development of the Bank.

From September to November 2013, members of the Board of Supervisors made on-site inspections and investigations on seven branches in Wuhan, Zhengzhou, Urumqi, Chengdu, Dalian, Harbin and Dongguan, respectively, and learned about their advancement of strategic transformation; meanwhile, regarding the problems and suggestions raised by branches, the Board of Supervisors organized the Head Office Investigation Meeting on Special Inspections, and further communicated with relevant Senior Executives and 12 front, middle and back offices of the Head Office. After that, based on all the information, the Board of Supervisors drafted the report on annual special inspection and branch investigation, reminded the Board of Directors and Senior Management to pay attention to some major problems during operational management and brought forward its supervision opinions and suggestions.

### Improving the System of Rules and Regulations and Regulating Governance of the Board of Supervisors

The Board of Supervisors formulated the *Implementation Rules of Measures for the Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.* In accordance with relevant laws and regulations and the *Measures for the Performance Evaluation of Directors, Supervisors and Senior Executives by the Board of Supervisors of China Guangfa Bank Co., Ltd.*, and based on performance evaluations conducted in the past few years, the Board of Supervisors worked out the *Implementation Rules of 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 passed at the Seventh Extraordinary Meeting of the Fifth Board of Supervisors in 2013, improving the performance evaluation system and regulating the performance evaluation process.

The Board of Supervisors amended the *Rules of Procedure for Meetings of the Board of Supervisors of China Guangfa Bank Co., Ltd.* According to listing arrangements and the latest regulatory guidelines and based on amendments to Articles of Association of the Bank, the Board of Supervisors amended the original *Rules of Procedure for Meetings of the Board of Supervisors*, which was deliberated and adopted at the Seventh Extraordinary Meeting (in 2013) of the Fifth Board of Supervisors, thereby further improving corporate governance system and laying a system foundation for the regulated operation of the Bank after listing.

### Improving Performance of the Board of Supervisors through Self-improving

The Board of Supervisors strengthened interactions with industry counterparts. The Board of Supervisors of the Bank actively interacted with Board of Supervisors of other banks, communicated and discussed in depth on key and difficult issues of common concern including responsibility positioning, method of supervision, performance evaluation

and supervisory inspection of the Board of Supervisors, enabling it to think creatively for continuously improving works of the Board of Supervisors of the Bank.

The Board of Supervisors intensified training on its members. The Board of Supervisors organized some supervisors to participate in the Senior Workshop for Compliance Risk Management of Commercial Banks held by China Banking Association, whereby they heard important analysis on compliance management, case prevention, control and inspection of banking industry at home and abroad, and compliance risk management and practice of commercial bank, thus improving performance of supervisors, and bringing the supervision function of the Board of Supervisors into full play.

## **INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS OF THE BANK**

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

### **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.

### **Financial Reporting**

KPMG Huazhen and KPMG audited the 2013 Financial Reports prepared by the Bank in accordance with the Chinese

Accounting Standards, International Accounting Standards and US GAAP, and issued a unqualified standard audit report. The financial reports of the Bank reflected the Bank's financial position and business performance during the reporting period truthfully, fairly and completely.

### **Acquisition and Sales 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.

### **Connected Transactions**

During the reporting period, the connected transactions of the Bank were in compliance with the national laws and regulations, the Articles of Association of the Bank and other rules, the transactions were conducted fairly and justly, and no conduct was discovered to be against the fairness principle or to undermine the Bank's or its shareholders' interest.

### **Implementation of the Resolutions of General Meetings**

During the reporting period, the Board of Supervisors had no objections 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.

### **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

## CHANGE OF TOP 10 SHAREHOLDERS DURING THE REPORTING PERIOD

During the reporting period, among the top 10 Shareholders, HeungKong Group Co., Ltd. accepted 1,269,604 shares transferred from other Shareholders, with its shareholding in the Bank increasing to 148,544,461.

## INCREASING OR DECREASING REGISTERED CAPITAL

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

## ACQUISITION, SALES OF ASSETS, MERGER AND OTHERS

During the reporting period, the Bank had no significant acquisition, sales of assets or merger.

## MATERIAL LAWSUIT AND ARBITRATION

During the reporting period, the Bank experienced no material lawsuit or arbitration. As of 31 December 2013, the Bank was still involved as defendant in the pending action involving about RMB734 million. The Bank had accrued corresponding provision for the estimated loss of the involved lawsuit cases and disputes. Such matters will not have a material adverse effect on the financial position or operating performance of the Bank.

## MATERIAL EVENTS CONCERNING CUSTODY, GUARANTEES, COMMITMENTS, ENTRUSTMENT OF ASSET MANAGEMENT DURING THE REPORTING PERIOD

### Material Custody, Contract and Lease

During the reporting period, 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 the business scope as approved by CBRC.

### Material Guarantees

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

### Material Entrustment of Asset Management

During the reporting period, there were no material events concerning entrustment of asset management.

## PENALTIES OF THE COMMERCIAL BANK, ITS DIRECTORS AND SENIOR EXECUTIVES BY RELEVANT REGULATORY AND JUDICIARY AUTHORITIES

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

## ENGAGEMENT AND DISENGAGEMENT OF ACCOUNTING FIRMS

In accordance with the resolution of the Eleventh 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 the Bank's 2013 Financial Statements which were compiled by the Bank in accordance with China's Accounting Standards, International Accounting Standards and US GAAP, and issue audit report.

# Corporate Social Responsibility

Adhering to practicing the responsibility commitment to care for people's development and realize harmonious and win-win outcomes, the Bank integrates corporate social responsibility with development strategy, operation and management, stakeholders relationship management and brand building, helps Micro Enterprises finance and improves personal banking service to build a convenient smart bank, deeply carries out a series of social responsibility activities, such as public welfare activities, poverty alleviation, donation to victims, education help and spread of financial knowledge, and strives to realize co-existing, win-win and mutual development with all stakeholders.

During the reporting period, the Bank won the *Best Social Responsibility Practice Award of the year*, *Excellent Charity Project Award of the year*, *Bank of Social Responsibility* and other honors granted by China Banking Association, *China Business News*, *Nanfang Daily*, *Sina.com.cn* and other authorities and media, and Chairman Dong Jianyue of the Bank was awarded *Top 10 Economic Persons of the Year 2013 in Guangdong* and *Outstanding Chinese Entrepreneur of Social Responsibility of the Year 2013*. The Bank won wide recognition in practicing social responsibilities.



Various charitable activities sponsored by Guangfa Hope Charity Fund.

## Corporate Social Responsibility



CGB volunteers visited impoverished students with charitable donations.

### LEVERAGING FINANCIAL STRENGTH AND SERVING SOCIAL ECONOMIC DEVELOPMENT

Under the guideline of the Five-year Strategic Plan and with focus on transformation toward *Two Cards and One Centre*, the Bank optimized and regulated key business areas, promoted the reform of internal mechanism, perfected the system of internal risk control, improved operating effectiveness and realized coordinated development of effectiveness, quality and scale.

The Bank positively carried out regional coordinated development policies of the state, further optimized institutional layout and sped up outlet building in areas like Central and Western China lacking in financial institutions and financial services. According to local regional economic features, industry features and operation of industrial cluster and enterprises and centering on financing demand of the industrial cluster, the Bank actively explored new financing methods including supply chain and capital pool, innovated flexible and diversified mortgage, pledge and other guarantee methods, developed the *Sheng Yi Ren Card* which satisfied the short-term, frequent, emergent and small-size financing demand of Micro Enterprises of independent innovation and lent strong support to local economic construction and regional economic coordinated development.

Considering that Micro Enterprises engage in a wide range of industries with remarkable differentiated features, the Bank built a one-stop and all-round service platform backed by the pioneering characteristic small enterprise six special services system, i.e., special institutions, special teams, special products, special procedures, special systems and special resources. Meanwhile, the Bank reformed and optimized the approval procedure for special small enterprise businesses, established Small Enterprise Credit Approval Department at the Head Office to coordinate the small enterprise credit risk policy management across the bank, further enhanced review and approval efficiency and improved capability of serving SMEs.



China Guangfa Bank proactively supported the construction of Songshanhu Science & Technology Park in Dongguan and the ecological development, so as to promote the harmonious economic, social and environmental development.

## ECO-FRIENDLY PRACTICE TO BUILD THE IMAGE OF GREEN BANK

The Bank pays attention to the harmonious development between nature and man and is dedicated to promoting energy conservation, emission reduction and environmental protection. And as a determined promoter and executor of green credit, the Bank strives to boost the sustainable development of social economy.

Through improving the *Guideline of Green Credit Policy*, regulating the bank-wide credit strategies and leading capital to eco-friendly industries, enterprises and projects, the Bank further strengthened credit support to strategic emerging industries, especially to the industry of energy conservation and emission reduction, promoted the development of low-carbon industries, eco-friendly industries and innovative industries; expanded credit support to enterprises with core technologies, actively supported enterprises to upgrade technologies and eliminate outdated capacity; made stricter credit access policy, and prohibited blind loan extension to enterprises and projects involving industries defined by the state as severe overcapacity industries and to unqualified newly-started projects, so as to comprehensively and dynamically embody the green credit commitment in the Bank's credit business.

In answer to the call of environmental protection and energy conservation, the Bank practiced low-carbon philosophy. The Bank further promoted and adopted eco-friendly measures and technologies, such as paperless office, electronic bills and teleconference and video conference, conducted activities relating to water, electricity and paper conservation, took the initiative to reduce energy consumption and carbon emission in daily office work, background job and other operation links, continuously improved the environment management level and the overall operating result, gave full play to the bank's special role and influence as platform, advertised energy conservation and emission reduction concepts through participating in social public welfare activities relating to environmental protection, organizing the Day of Bicycle and encouraging employees to walk and plant trees, and directed employees, customers and the public to attend the public welfare activities, so as to build a green homeland.

## Corporate Social Responsibility

### IMPROVING CUSTOMER EXPERIENCE AND CREATING GREATER VALUE

Centering on customers and focusing on customers' modern financial demand, the Bank is committed to providing customers with smart, convenient, safe and high-efficient financial services with strong service awareness, scientific service procedure, first-rate professional quality and advanced service methods to guarantee and appreciate the value of customers' wealth and lead the fashionable consumption style.

Oriented to the market, the Bank accelerated financial innovation, stepped up promotion of *Sheng Yi Ren Card* and *Smart Gold Account*, provided the public with quality financial services in respect of consumption, wealth management and business establishment, improved personal E-banking, mobile banking, WeChat banking and other service channels, built online business hall, diversified and optimized the product portfolio and provided customers with comfortable, convenient and safe services. In the meantime, the Bank launched more 24-hour smart banks and developed more self-service functions to provide 24-hour services and shorten the time for handling businesses.

Centering on customers' demand, the Bank fulfilled service contracts and service commitments, improved the service quality and fully guaranteed the rights and interests of financial consumers. The Bank also stepped up dissemination and publicity of financial knowledge, carried out financial knowledge-themed activities in the streets, communities and campus, advertised financial knowledge by website, self-service equipment and other channels, enhanced customers' financial security awareness, and won *Best Innovation Award of Educating Publics on Financial Knowledge in China Banking Industry* granted by China Banking Association.

### EMPLOYEE FIRST AND RESPECTING AND CARING FOR EMPLOYEES

Employees are the intelligence guarantee for an enterprise's sustainable development. The Bank is devoted to the comprehensive development of employees. With focus on building three teams, the Bank further promoted the human resources management reform centering on title management, performance management and remuneration management and attached importance to providing employees with a broad platform to realize their value and display their talent, 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 the best employer evaluation activity jointly organized by Peking University Corporate Social Responsibility and Employer Brand Communication Research Center and other authorities, the Bank recorded an annual rise in the ranking of the employer brand building and was awarded *Best Employer Award 2013*, *Best Employer for Chinese College Students* and *Best Employer in National Banking Industry*.

In strict accordance with *Labour Law*, *Labour Contract Law* and other laws and regulations, the Bank adheres to employment equality and guarantees that employees are entitled to legal rights and interests including paid leaves. The Bank paid attention to humanistic concern and employees' feeling, cared for and helped special employee groups including sick and handicapped employees and female employees and retired employees, and held diversified employees' cultural activities to create a positive and relaxing atmosphere.

The Bank continued to engage Aon Hewitt as third-party institution to conduct independent and objective employee satisfaction investigation, so as to truly record the Bank's growth, promptly learn about employees' job morale and create a favorable internal working environment. In the meantime, the investigation result can provide reference for the Bank's reform and development and help the Bank enhance employee satisfaction.

## CARING FOR THE SOCIETY AND PEOPLE'S LIVELIHOOD AND CARRYING OUT SUNSHINE CHARITY

It is one of the Bank's aims of fulfilling social responsibility to care for people's livelihood and social groups and flourish together with communities. For years, the Bank made positive contribution to solving social problems and building a beautiful homeland through helping people in distress, providing student-aid services and disseminating financial knowledge, and made unremitting efforts to promote the harmonious development of the society.

After a powerful earthquake measuring 7.0 on the Richter scale shook Ya'an, Sichuan, on 20 April, the Bank swiftly got together its staff to donate money to the Ya'an earthquake stricken area, and held donation ceremony on 22 April. Dong Jianyue, Chairman of the Bank, announced to donate RMB5 million to the stricken area on behalf of CGB at the donation ceremony, in a bid to assist victims in earthquake disaster and support disaster relief and home reconstruction, and help students go back to school. Further more, as a support to *Guangdong Poverty Alleviation Day (30 June)*, the Bank donated RMB1 million to help impoverished areas improve living conditions and production levels.

The Bank established *CGB Hope Charitable Fund* together with China Youth Development Foundation to pool resources in and outside the Bank and gather social strength to promote philanthropy. In 2013, CGB Hope Charitable Fund raised money of RMB9.09 million, donated RMB8.07 million, built 125 charity kitchens, 20 seismic-resistant classrooms, 9



CGB made a donation to Ya'an earthquake stricken area.



Volunteers from CGB participated in the volunteer activity with the theme of *CGB Rewarding the Society* to help impoverished students in Zhangtiankeng, Matou Town, Xinfeng County, Shaoguan City.

## Corporate Social Responsibility



The Bank launched *Guangdong to Learn from Lei Feng* Volunteer Service Action Month campaign with the slogan of *Voluntary Services for Happiness*.



The Bank launched the “Financial Knowledge Publicity Service Month” campaign.



The Bank launched the *Community Service Events*.

libraries, etc., and helped extraordinarily impoverished students. At the end of the reporting period, CGB Hope Charitable Fund had benefited over 30,000 children. Moreover, the Bank strived to make its charities transparent: Acceptant to supervision of society and customers by proactively disclosing the utilization of donations on its official website and Sina Weibo @CGB Hope Charitable Fund.

On Learn from Lei Feng Day (5 March) and CGB Volunteers Day (8 September), the Bank organized young volunteers of its branch offices to carry out a variety of substantial activities, thereby making contributions to society and serving the people with practical actions. For example, on Concentrated Action Day (5 March) in *Guangdong to Learn from Lei Feng* Volunteer Service Action Month campaign with the slogan of *Voluntary Services for Happiness*, the Bank, aiming at popularizing financial knowledge, publicized financial knowledge relating to anti-counterfeit money, anti-money laundering, preventing financial fraud, and new business products of banks, which was highly appreciated by leaders such as Lin Shaochun, Vice Governor of Guangdong province. On the CGB Volunteers Day (8 September), the Bank carried out a volunteer activity themed on Responsible and Grateful, the Bank passed on the Chinese traditional value of social commitment, carried forward new customs, disseminated the Bank’s idea of caring for human development by subsidizing impoverished students, caring for social vulnerable groups, promoting healthy and environment friendly life style, and publicizing financial knowledge.

# Written Confirmation of the Annual Report 2013 by Directors and Senior Executives of the Bank

We, in the capacity of Directors and Senior Executives of China Guangfa Bank Co., Ltd., after a full understanding and review of the Annual Report 2013 of the Bank, give the following opinions:

- I. The Bank operates in strict accordance with the Accounting Standards for Enterprises, Accounting System for Enterprises, Financial Firms Accounting System and their relevant guidelines; the Annual Report 2013 of the Bank gives a fair view of the financial position and operating results of the Bank during the reporting period.
- II. KPMG Huazhen Certified Public Accountants (Special General Partnership) had audited the Bank's 2013 Financial Statements in accordance with China's Accounting Standards, and had issued unqualified audit report.
- III. We believe that the information contained in the Annual Report 2013 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	Name	Title
Dong Jianyue	Chairman of the Board of Directors, Executive Director and Secretary of the CPC Committee of the Bank	Morris Li	Executive Director, President
Zhang Fengming	Executive Director, Vice President	Wang Fenghua	Non-Executive Director
Liu Jiade	Non-Executive Director	Chen Yisong	Non-Executive Director
Li Zimin	Non-Executive Director	Zhang Xifang	Non-Executive Director
Zhang Shengman	Non-Executive Director	Wang Zhenzhong	Independent Non-Executive Director
Frederick Ip	Independent Non-Executive Director	Zhu Ning	Independent Non-Executive Director
Song Fengming	Independent Non-Executive Director	Lin Jiaorong	Independent Non-Executive Director
Zong Lexin	Vice President	Wang Guizhi	Vice President
James Morrow	Vice President	Zheng Lianming	Vice President
Edward Chou	Vice President		





Three stylized person icons in a row, representing a team or group of people.

Three circles of varying shades and a bar chart with four bars of increasing height.

A bar chart with four bars of increasing height and the date "22.02.35.2" below it.

A stylized person icon in a suit, representing a user or employee.

A bar chart with four bars of increasing height, representing data trends.

A network diagram showing a central node connected to several peripheral nodes, representing a system or organization.

A tree diagram with three levels of nodes, representing a hierarchical structure.

Manufacturing  
Supply chain  
Product  
Cargo  
Customer  
Delivery  
Inventory  
Management  
Freight.

A line graph with two data points and a value of 33.2.55.33.

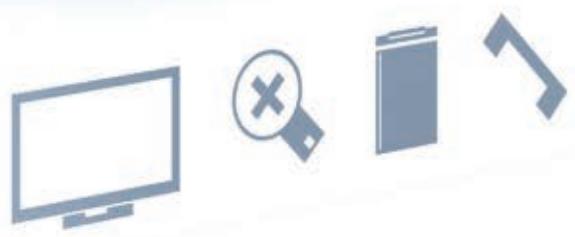
A stylized cloud icon with a downward-pointing arrow, representing cloud storage or services.

Four interlocking gears of different sizes, representing machinery or a process.

Innovation  
Branding  
Solution  
Marketing  
Analysis  
Success  
Management

Two interlocking gears of different sizes.

A stylized world map with several location pins, representing global reach or international operations.



# Internal Control Assessment Report



## Special Report on 2013 Internal Control and Risk Management System Assessment Report of China Guangfa Bank Co., Ltd.

毕马威华振专字第1400286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 for the year of 2013, included the balance sheet as at 31 December 2013, the comprehensive income statement, the cash flow statement, the statement of changes in shareholders’ equity for the year 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* promulgated by the Ministry of Finance of the People’s Republic of China, and issued this unqualified audit report on 20 March 2014. 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 assess 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, walk through 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 2013 Internal Control and Risk Management System Assessment Report of China Guangfa Bank Co., Ltd. (continued)

毕马威华振专字第1400286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 *2013 Internal Control and Risk Management System Assessment Report of China Guangfa Bank Co., Ltd.* which is prepared by the Bank.

We have read the *2013 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 *2013 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 Annual Report 2013 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

20 March 2014

# Financial Statements



## AUDITORS' REPORT

毕马威华振审字第1400633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 256, which comprise the balance sheet as at 31 December 2013, the comprehensive 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.

## AUDITORS' REPORT (continued)

毕马威华振审字第1400633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 2013, 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

20 March 2014



# Balance sheet

as at 31 December 2013

*(Expressed in thousands of Renminbi unless otherwise stated)*

	Note	2013 31 December	2012 31 December
<b>Assets</b>			
Cash and deposits with central banks	5	<b>196,972,297</b>	180,776,125
Deposits with banks and non-bank financial institutions	6	<b>29,140,322</b>	64,121,338
Placements with banks and non-bank financial institutions	7	<b>20,123,696</b>	26,235,311
Financial assets at fair value through profit or loss	8	<b>9,520,236</b>	6,446,558
Derivative financial assets	9	<b>4,135,945</b>	2,121,621
Financial assets held under resale agreements	10	<b>264,653,728</b>	177,482,650
Interest receivable	11	<b>5,606,527</b>	3,625,776
Loans and advances to customers	12	<b>703,539,395</b>	600,260,789
Available-for-sale financial assets	13	<b>69,670,891</b>	52,414,719
Held-to-maturity investments	14	<b>54,273,572</b>	32,935,919
Financial assets classified as receivables	15	<b>92,373,660</b>	6,678,444
Long term equity investments	16	<b>1,803</b>	1,842
Fixed assets	17	<b>7,864,670</b>	7,124,576
Intangible assets	18	<b>1,208,779</b>	823,114
Deferred tax assets	19	<b>4,400,872</b>	3,408,666
Other assets	20	<b>6,363,538</b>	3,692,415
<b>Total assets</b>		<b>1,469,849,931</b>	1,168,149,863

The notes on pages 135 to 256 form part of these financial statements.

## Balance sheet (continued)

as at 31 December 2013

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2013 31 December	2012 31 December
<b>Liabilities and shareholders' equity</b>			
<b>Liabilities</b>			
Deposits from banks and non-bank financial institutions	22	270,858,620	144,474,115
Placements from banks and non-bank financial institutions	23	40,836,441	34,146,596
Financial liabilities at fair value through profit or loss	24	306,982	–
Derivative financial liabilities	9	5,014,128	1,990,965
Financial assets sold under repurchase agreements	25	51,445,496	36,756,613
Deposits from customers	26	994,926,969	856,166,035
Accrued staff costs	27	1,449,043	1,838,714
Taxes payable	28	2,875,260	1,650,120
Interest payable	29	14,829,357	10,877,092
Provisions	30	20,652	24,297
Subordinated bonds	31	9,500,000	14,500,000
Other liabilities	32	4,495,509	2,197,229
Total liabilities		1,396,558,457	1,104,621,776

The notes on pages 135 to 256 form part of these financial statements.

## Balance sheet (continued)

as at 31 December 2013

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2013 31 December	2012 31 December
<b>Liabilities and shareholders' equity (continued)</b>			
<b>Shareholders' equity</b>			
Share capital	33	15,402,397	15,402,397
Capital reserve	34	9,807,717	11,626,399
Surplus reserve	35	4,743,050	3,584,702
General reserve	36	17,180,172	13,490,588
Retained earnings	37	26,209,817	19,474,268
Foreign currency translation reserve		(51,679)	(50,267)
Total shareholders' equity		73,291,474	63,528,087
<b>Total liabilities and shareholders' equity</b>		<b>1,469,849,931</b>	1,168,149,863

These financial statements have been approved by the Board of Directors of the Bank on 20 March 2014.

\_\_\_\_\_  
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 135 to 256 form part of these financial statements.

# Comprehensive income statement

for the year ended 31 December 2013

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2013	2012
<b>Operating income</b>			
Interest income		65,742,343	52,110,223
Interest expense		(39,739,809)	(27,514,145)
Net interest income	38	26,002,534	24,596,078
Fee and commission income		10,335,123	6,969,253
Fee and commission expense		(1,278,411)	(1,096,413)
Net fee and commission income	39	9,056,712	5,872,840
Investment (loss)/gain	40	(15,680)	132,697
– Share of (losses)/gains of an associate		(39)	84
(Losses)/Gains arising from changes in fair value	41	(969,667)	106,416
Foreign exchange gain		326,781	371,944
Other operating income		24,583	24,640
<b>Operating income</b>		<b>34,425,263</b>	<b>31,104,615</b>
<b>Operating expenses</b>			
Business taxes and surcharges	42	(3,166,899)	(2,612,793)
Operating and administrative expenses	43	(14,429,926)	(12,699,202)
Impairment losses	44	(2,424,805)	(1,292,952)
Other operating costs		(532)	(1,093)
<b>Operating expenses</b>		<b>(20,022,162)</b>	<b>(16,606,040)</b>

The notes on pages 135 to 256 form part of these financial statements.

## Comprehensive income statement (continued)

for the year ended 31 December 2013

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2013	2012
<b>Operating profit</b>		<b>14,403,101</b>	14,498,575
Add: Non-operating income	45	<b>133,869</b>	242,927
Less: Non-operating expenses	46	<b>(81,916)</b>	(77,884)
<b>Gross profit</b>		<b>14,455,054</b>	14,663,618
Less: Income tax expense	47	<b>(2,871,573)</b>	(3,443,759)
<b>Net profit</b>		<b>11,583,481</b>	11,219,859
Earnings per share			
– Basic and diluted earnings per share (in RMB)		<b>0.75</b>	0.73

The notes on pages 135 to 256 form part of these financial statements.

## Comprehensive income statement (continued)

for the year ended 31 December 2013

(Expressed in thousands of Renminbi unless otherwise stated)

	2013	2012
<b>Other comprehensive income:</b>		
<b>Items that are or may be reclassified subsequently to profit and loss</b>		
Investment revaluation reserve (available-for-sale financial assets):		
– Net change in fair value	<b>(2,437,354)</b>	(374,009)
– Amortisation arising from reclassification to held-to-maturity investments	<b>(41,085)</b>	(67,301)
– Net amount transferred to profit or loss on disposal	<b>26,900</b>	(55,503)
Sub-total	<b>(2,451,539)</b>	(496,813)
Cash flow hedges		
– Effective portion of changes in fair value	<b>(292,292)</b>	(37,600)
– Net amount transferred to profit or loss	<b>333,934</b>	29,587
Income tax relating to hedging instruments	<b>(10,411)</b>	2,003
Income tax relating to components of other comprehensive income	<b>601,626</b>	104,211
Foreign currency translation differences	<b>(1,412)</b>	860
<b>Other comprehensive income, net of tax</b>	<b>(1,820,094)</b>	(397,752)
<b>Total comprehensive income</b>	<b>9,763,387</b>	10,822,107

These financial statements have been approved by the Board of Directors of the Bank on 20 March 2014.

\_\_\_\_\_  
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 135 to 256 form part of these financial statements.

# Cash flow statement

for the year ended 31 December 2013

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2013	2012
<b>Cash flow from operating activities:</b>			
Net increase in deposits from customers and from banks and non-bank financial institutions		<b>268,429,395</b>	191,139,733
Net increase in placements from non-bank financial institutions		<b>21,378,728</b>	45,326,181
Interest and fees and commission received		<b>70,029,889</b>	56,103,781
Cash received from other operating activities		<b>323,208</b>	574,235
Sub-total of cash inflows		<b>360,161,220</b>	293,143,930
Net increase in loans and advances to customer		<b>(106,207,450)</b>	(78,094,442)
Net increase in deposits with central banks and with banks and non-bank financial institutions		<b>(7,672,470)</b>	(50,350,769)
Net increase in placements with banks and non-bank financial institutions		<b>(93,082,780)</b>	(99,344,693)
Interest and fees and commission paid		<b>(36,214,774)</b>	(25,284,908)
Cash paid for all types of staff cost		<b>(8,195,740)</b>	(6,957,876)
Cash paid for all types of taxes		<b>(5,214,323)</b>	(6,787,756)
Cash paid for other operating activities		<b>(7,973,130)</b>	(6,498,528)
Sub-total of cash outflows		<b>(264,560,667)</b>	(273,318,972)
Net cash inflow from operating activities	48(1)	<b>95,600,553</b>	19,824,958

The notes on pages 135 to 256 form part of these financial statements.

## Cash flow statement (continued)

for the year ended 31 December 2013

(Expressed in thousands of Renminbi unless otherwise stated)

	2013	2012
<b>Cash flow from investing activities:</b>		
Proceeds from disposal of investments	<b>380,493,254</b>	485,289,995
Dividends received	<b>4,023</b>	3,634
Interest received from debt securities	<b>5,586,128</b>	2,580,586
Net proceeds received from disposal of fixed assets and other assets	<b>120,285</b>	71,283
Sub-total of cash inflows	<b>386,203,690</b>	487,945,498
Payments on acquisition of investments	<b>(510,195,895)</b>	(517,501,241)
Payments on acquisition of fixed assets, intangible assets and other assets	<b>(2,670,606)</b>	(2,551,373)
Sub-total of cash outflows	<b>(512,866,501)</b>	(520,052,614)
Net cash outflow from investing activities	<b>(126,662,811)</b>	(32,107,116)

The notes on pages 135 to 256 form part of these financial statements.

## Cash flow statement (continued)

for the year ended 31 December 2013

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2013	2012
<b>Cash flows from financing activities:</b>			
Proceeds from subordinated bonds issued		–	4,482,000
Sub-total of cash inflows		–	4,482,000
Dividends paid		(425)	(31)
Payment from subordinated bonds redeemed		(5,000,000)	–
Interest paid on subordinated bonds issued		(845,449)	(601,951)
Sub-total of cash outflows		(5,845,874)	(601,982)
Net cash (outflow)/inflow from financing activities		(5,845,874)	3,880,018
Effect of foreign exchange rate changes on cash and cash equivalents		(222,104)	(61,828)
Net decrease in cash and cash equivalents	48(2)	(37,130,236)	(8,463,968)
Add: Cash and cash equivalents at the beginning of the year		118,639,751	127,103,719
Cash and cash equivalents at the end of the year	48(3)	81,509,515	118,639,751

These financial statements have been approved by the Board of Directors of the Bank on 20 March 2014.

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The notes on pages 135 to 256 form part of these financial statements.

# Statement of changes in shareholders' equity

for the year ended 31 December 2013

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	Capital reserve				Surplus reserve	General reserve	Foreign currency translation reserve	Retained earnings	Total
		Share capital	Share premium	Fair value reserve	Hedge reserve					
Balance at 1 January 2013		15,402,397	11,550,819	82,002	(6,422)	3,584,702	13,490,588	(50,267)	19,474,268	63,528,087
Changes in equity for the year:										
1. Net profit		-	-	-	-	-	-	-	11,583,481	11,583,481
2. Other comprehensive income	34	-	-	(1,849,913)	31,231	-	-	(1,412)	-	(1,820,094)
Sub-total of 1 and 2		-	-	(1,849,913)	31,231	-	-	(1,412)	11,583,481	9,763,387
3. Appropriation of profit:										
- Appropriation to surplus reserve	35/37	-	-	-	-	1,158,348	-	-	(1,158,348)	-
- Appropriation to general reserve	37	-	-	-	-	-	3,689,584	-	(3,689,584)	-
Balance at 31 December 2013		15,402,397	11,550,819	(1,767,911)	24,809	4,743,050	17,180,172	(51,679)	26,209,817	73,291,474

The notes on pages 135 to 256 form part of these financial statements.

## Statement of changes in shareholders' equity (continued)

for the year ended 31 December 2012

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	Capital reserve				Surplus reserve	General reserve	Foreign currency translation reserve	Retained earnings	Total
		Share capital	Share premium	Fair value reserve	Hedge 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	34	-	-	(392,602)	(6,010)	-	-	860	-	(397,752)
Sub-total of 1 and 2		-	-	(392,602)	(6,010)	-	-	860	11,219,859	10,822,107
3. Appropriation of profit:										
- Appropriation to surplus reserve	35/37	-	-	-	-	1,121,986	-	-	(1,121,986)	-
- Appropriation to general reserve	37	-	-	-	-	-	6,432,784	-	(6,432,784)	-
Balance at 31 December 2012		15,402,397	11,550,819	82,002	(6,422)	3,584,702	13,490,588	(50,267)	19,474,268	63,528,087

These financial statements have been approved by the Board of Directors of the Bank on 20 March 2014.

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China Guangfa Bank  
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The notes on pages 135 to 256 form part of these financial statements.

# 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 People’s Republic of China (“PRC”) on 8 September 1988 with the approval of the State Council of the PRC and the People’s Bank of China (“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 China Banking Regulatory Commission (“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 2013, apart from the Head Office, the Bank has 34 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, Fuzhou and Macao Special Administration Region of the People’s Republic of China (“Macau”) respectively. In addition, the Bank has representative offices in Beijing and Hong Kong Special Administration Region of the People’s Republic of China (“Hong Kong”).

The Bank’s principal activities are the provision of corporate and retail deposits, loans and advance, settlement treasure 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.

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### **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 the Accounting Standards for Business Enterprises (ASBE) issued by the Ministry of Finance (MOF) of the People's Republic of China. These financial statements truly and completely present the Bank's financial position as at 31 December 2013 and operating results and cash flows for the year then ended.

#### **(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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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 as 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 as at the balance sheet date. 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 as 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 as at the end of the relevant periods. The equity items, excluding "retained earnings", are translated to Renminbi at the spot exchange rates as 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 on 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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 balance sheet 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;

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

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

- 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 deductions for transactions costs that may occur on sale, and changes therein are recognised in profit or loss.

##### 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

###### 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 financial assets 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 an 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.

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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

###### 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(14), subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

##### (b) 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 as 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 and recognized in profit or loss. 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.

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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

###### 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.

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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

###### Loans and receivables (continued)

###### Collective assessment (continued)

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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

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

###### 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.

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 without control or joint control or significant influences on the investee, and with no quotation in the active market and whose fair value cannot be reliably measured, 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

##### (c) 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 actual 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 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.

##### (d) 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

##### (e) 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. The underlying assets held under resale agreements are not recognised but recorded in the off-balance-sheet. The underlying 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.

##### (f) 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.

##### (g) 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.

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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

##### (g) Hedge accounting (continued)

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

For a cash flow hedge of a recognised asset or liability, the associated cumulative gain or loss is reclassified from the hedge 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 hedge 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 the hedge 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

##### (g) 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 recognised 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 an 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.

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### **3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)**

#### **(4) Long-term equity investments (continued)**

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).

#### **(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 for 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (5) Fixed assets and construction in progress (continued)

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%	2.7% – 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (6) Intangible assets

Impairment losses on intangible assets 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).

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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 in an associate
- 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, asset group or set of asset groups is the higher of its fair value less costs to sell and its present value of expected future cash flows. The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from the continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

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.

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### **3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)**

#### **(10) Fair value measurement**

Unless otherwise stated, the Bank measures fair value according to the following principle:

Fair value is the price that a market participant may receive from selling an asset, or that it needs to pay for transferring a liability, in an orderly transaction occurred on the measurement date.

In estimating fair value, the Bank takes into account the characteristics of an asset or liability (including the asset's condition and location, restrictions on its disposal or use, and etc.) under consideration by a market participant when pricing the underlying asset or liability on the measurement date. The Bank also adopts a valuation technique applicable under the present circumstances on the back of adequate, available data and other information. Existing valuation techniques mainly include market, income and cost approaches.

#### **(11) Operating leases**

##### **(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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (12) Employee benefits

##### (a) Short-term employee benefits

During the accounting period in which employees render services, the Bank recognises wages and bonuses incurred and social insurance (including medical insurance, work-related injury insurance and maternity insurance) and housing fund contributions (made at the statutory benchmarks and rates for the benefit of its employees) as a liability. They are charged to profit or loss. Where the liability is expected not to be fully paid within twelve months of the end of an annual reporting period in which employees render services and has material financial implications, it will be measured at a discounted amount.

##### (b) Post-employment benefits: defined contribution plans

The Bank is involved in defined contribution plans as legally required in China. Its employees participate in basic pension insurance under the social insurance system established and managed by government organisations, while basic pension insurance contributions are made at the statutory benchmarks and rates. During the accounting period in which employees render services, the Bank recognises contributions payable as a liability and charges them to profit or loss.

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.

##### (c) Termination benefits

When the Bank terminates employment relationship with employees before their employment contracts expire, or provides compensation as an offer to encourage them to accept voluntary redundancy, a provision for the termination benefits is recognised in profit or loss on the earlier of the following conditions:

- the Bank is not allowed to withdraw from termination plans or redundancy offers unilaterally, or
- restructuring costs involving payment of termination benefits are recognised

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### **3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)**

#### **(12) Employee benefits (continued)**

##### **(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.

#### **(13) 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, unless the possibility of an outflow of resources embodying economic benefits is remote.

#### **(14) 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(13)).

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (15) 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.

#### (16) Income recognition

Income is the gross inflow of economic benefits 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 the 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 actual terms of the financial instrument (for example, prepayment, call and similar options) but not 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (16) Income recognition (continued)

##### (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.

##### (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.

#### (17) 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.

As at the balance sheet date, 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (17) Income tax expense (continued)

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.

As at the balance sheet date, 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 as 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.

As at the balance sheet date, deferred tax assets and liabilities are offset if both 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.

#### (18) 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.

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (19) 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.

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### **3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)**

#### **(20) 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.

Two or more operating segments may be aggregated into a single operating segment if the segments have the 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (21) 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 financial assets classified as receivables

The Bank reviews the portfolios of loans and advances, available-for-sale financial assets, held-to-maturity debt investments, and financial assets 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 measured at fair value 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (21) Significant accounting estimates and judgements (continued)

##### (b) Fair value of financial instruments

For financial instruments without observable market prices 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 of 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.

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (21) Significant accounting estimates and judgements (continued)

##### (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 cash generating units (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 or the asset group 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.

##### (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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (22) Changes in accounting policies

##### (a) Description of and reasons for changes in accounting policies

From 1 January 2013, the Bank has applied the MOF's newly-issued/amended ASBE as follows:

- Amendments to ASBE 9, *Employee benefits*
- Amendments to ASBE 30, *Presentation of financial statements*
- Amendments to ASBE 33, *Consolidated financial statements*
- ASBE 39, *Fair value measurement*
- ASBE 40, *Joint arrangements*

The significant accounting policies applicable to the Bank under the above ASBE are summarised in Note 3.

Major impacts of the Bank's adoption of the above ASBE are discussed below:

##### (i) *Employee benefits*

In accordance with the accounting requirements of the amendments to ASBE 9 for the classification, recognition and measurement of short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits, the Bank has changed related accounting policies by re-modifying its existing employee benefits. The adoption of the amendments to ASBE 9 has not made a significant impact on the Bank's financial position and operating results.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (22) Changes in accounting policies (continued)

##### (a) Description of and reasons for changes in accounting policies (continued)

Major impacts of the Bank's adoption of the above ASBE are discussed below (continued):

##### (ii) *Presentation of financial statements*

As required under the amendments to ASBE 30, the Bank has modified the presentation of financial statements by, among others, separately presenting the items of other comprehensive income in the comprehensive income statement that would be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss if certain conditions are met.

The presentation of comparative figures has been modified accordingly.

##### (iii) *Consolidated financial statements*

ASBE 33 has introduced a single control model to determine whether an investee should be consolidated, by focusing on whether the Bank has power over the investee, rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. As a result of the adoption of the amendments to ASBE 33, the Bank has changed its accounting policy with respect to determining whether it has control over an investee and whether the latter should be consolidated.

The adoption does not change the Bank's scope of consolidated financial statements as at 1 January 2013.

##### (iv) *Fair value measurement*

ASBE 39 re-defines fair value, sets up a standard fair value measurement regime and stipulates disclosure requirements for fair value measurement. The adoption of ASBE 39 has not made a significant impact on the Bank's fair value measurement in respect of its assets and liabilities.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 3 SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

#### (22) Changes in accounting policies (continued)

##### (a) Description of and reasons for changes in accounting policies (continued)

Major impacts of the Bank's adoption of the above ASBE are discussed below: (continued)

##### (v) *Joint arrangements*

Before the adoption of ASBE 40, the Bank divided joint arrangements into jointly controlled operations, jointly controlled assets and joint ventures. Under ASBE 40, the Bank divides joint arrangements into joint operations and joint ventures based on the structure, legal form, contractual terms and other factors under joint arrangements.

As a result of the adoption of ASBE 40, the Bank has changed its accounting policy with respect to its interests in joint arrangements, and re-assessed its involvement in joint arrangements. The adoption of ASBE 40 has not made a significant impact on the Bank's financial position and operating results.

##### (b) Effects of changes in accounting policies on the financial statements

The said changes in accounting policies have no material implications for the Bank's financial statements for the years ended 31 December 2013 and 2012.

### 4 TAXATION

The Bank's main applicable taxes and tax rates are as follows:

Tax types	Tax rates
Business tax	5% of taxable income
City construction tax	1% to 7% of business tax
Education surcharge	3% of business tax
Local education surcharge	2% of business tax
Corporate income tax	25% of taxable income

The statutory income tax rate is 25%, which is applicable to the Bank for the year ended 2013 (2012: 25%).

The local education surcharges are collected in all cities in Mainland China, and the surtax rate is standardised to be 2% of business tax paid.

Taxation on Macau branch is charged according to the relevant local tax ruling.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 5 CASH AND DEPOSITS WITH CENTRAL BANKS

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Cash	<b>5,165,153</b>	4,705,943
Deposit with central banks		
– Statutory deposit reserves (i)	<b>163,355,408</b>	139,331,205
– Surplus deposit reserves (ii)	<b>28,188,154</b>	35,885,070
– Fiscal deposits	<b>263,582</b>	853,907
Sub-total	<b>191,807,144</b>	176,070,182
Total	<b>196,972,297</b>	180,776,125

- (i) The Bank places statutory deposit reserves with the PBOC and the Monetary Authority of Macau. Pursuant to relevant laws and regulations, 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:

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Reserve ratio for Renminbi deposits	<b>18.0%</b>	18.0%
Reserve ratio for foreign currency deposits	<b>5.0%</b>	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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 6 DEPOSITS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

Analysed by type of financial institutions and geographical location

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Banks operating in mainland China	<b>23,344,459</b>	61,589,834
Non-bank financial institutions operating in mainland China	<b>42,740</b>	23,660
Sub-total	<b>23,387,199</b>	61,613,494
Banks operating outside mainland China	<b>5,753,123</b>	2,507,844
Total	<b>29,140,322</b>	64,121,338

### 7 PLACEMENTS WITH BANKS AND NON-BANK FINANCIAL INSTITUTIONS

Analysed by type of financial institutions and geographical location

	Note	<b>2013</b>	2012
		<b>31 December</b>	31 December
Banks operating in mainland China		<b>1,064,696</b>	17,984,167
Non-bank financial institutions operating in mainland China		<b>19,060,000</b>	7,030,000
Sub-total		<b>20,124,696</b>	25,014,167
Banks operating outside mainland China		-	1,222,144
Total		<b>20,124,696</b>	26,236,311
Less: Allowance for impairment losses	21	<b>(1,000)</b>	(1,000)
Net balance		<b>20,123,696</b>	26,235,311

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 31 December	2012 31 December
Analysed by type of debt securities and geographical location		
<i>Unlisted</i>		
Issued by entities in mainland China		
– Government bonds	917,278	239,080
– Policy banks bonds	9,733	–
– Commercial banks and non-bank financial institutions bonds	635,830	31,822
– Corporate bonds	7,957,395	6,175,656
Total	9,520,236	6,446,558

There is no significant restriction on the realisation of the investments above.

### 9 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

Derivatives are off-balance sheet financial instruments which include forward, swap and option transactions undertaken by the Bank in the foreign exchange and interest rate markets. All of the group's derivative financial instruments are traded over the counter.

The Bank enters into financial derivative transactions for treasury business and its assets and liabilities management purpose. Derivative financial instruments include but are not limited to foreign exchange swaps, forward foreign exchange trading, currency swaps, forward rate agreements, interest rate swaps, interest rate options, interest rates and credit derivatives. The Bank's derivative financial instruments can be divided into trading derivative financial instruments and cash flow hedge financial instruments according to the purposes of holding.

The Bank will choose appropriate hedging strategies and tools in light of the risk profile of interest/exchange rates of its assets and liabilities, as well as its analyses and judgments regarding future interest/exchange rate movements.

The Bank is exposed to risk on assets or liabilities denominated in foreign currencies as their value may fluctuate due to changes in exchange rates. Such risk can be offset through the use of forward foreign exchange contracts or foreign exchange option contracts.

The following tables provide an analysis of the notional amounts and the corresponding fair values of derivatives of the Bank at the end of the reporting period. The notional amounts of the derivatives indicate the transaction volume outstanding at the end of the reporting period; they do not represent amounts at risk.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 9 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

#### (1) Analysed by type of derivative contracts

	As at 31 December 2013		
	Notional amounts	Assets	Liabilities
<i>Derivatives held for trading</i>			
<i>Foreign currency derivatives</i>			
Forward and swap contracts	226,853,602	1,025,570	(2,006,897)
Foreign currency option bought	7,844,920	183,607	–
Foreign currency option sold	14,579,971	–	(183,085)
Sub-total	249,278,493	1,209,177	(2,189,982)
<i>Interest rate derivatives</i>			
Swap contracts	99,142,439	1,026,485	(948,767)
Interest rate option bought	10,611,897	311,287	–
Interest rate option sold	10,611,897	–	(311,287)
Sub-total	120,366,233	1,337,772	(1,260,054)
<i>Other derivatives</i>			
Gold option bought	20,797,910	875,923	–
Gold option sold	20,797,910	–	(875,923)
Cross-currency swap contract	1,339,265	2,540	(21,329)
Stock (linked) option bought	16,753,694	661,047	–
Stock (linked) option sold	16,753,694	–	(661,047)
Commodity forward contract	568,563	16,407	(5,793)
Sub-total	77,011,036	1,555,917	(1,564,092)
<i>Cash flow hedge</i>			
Swap contracts	1,150,000	33,079	–
Total	447,805,762	4,135,945	(5,014,128)

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 9 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

#### (1) Analysed by type of derivative contracts (continued)

	As at 31 December 2012		
	Notional amounts	Assets	Liabilities
<i>Derivatives held for trading</i>			
<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)
Sub-total	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)
Sub-total	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)
Sub-total	55,074,159	968,519	(973,225)
<i>Cash flow hedge</i>			
Swap contracts	400,000	10,519	–
Cross-currency swap contract	19,736,470	–	(19,082)
Sub-total	20,136,470	10,519	(19,082)
Total	229,873,482	2,121,621	(1,990,965)

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 9 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

#### (2) Analysed by credit risk-weighted amounts

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.

- (i) According to "Regulation Governing Capital of Commercial Banks (provisional)", credit risk-weighted assets for over-the-counter (OTC) derivatives ratio are summation of default risk-weighted assets and credit value adjustment (CVA).

	<b>2013</b>
	<b>31 December</b>
Default risk-weighted asset	
Foreign currency derivatives	<b>1,303,709</b>
Interest rate derivatives	<b>377,393</b>
Other derivatives	<b>319,081</b>
Credit value adjustment	<b>563,981</b>
<b>Total</b>	<b>2,564,164</b>

- (ii) The Bank calculates the credit risk-weighted assets for over-the-counter (OTC) derivatives ratio as at 31 December 2012 in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and relevant requirements promulgated by the CBRC, which were abolished since 1 January 2013.

	2012
	31 December
Foreign currency derivatives	1,435,322
Interest rate derivatives	827,253
Other derivatives	1,235,030
<b>Total</b>	<b>3,497,605</b>

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 10 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

#### (1) Analysed by type of security

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Debt securities		
– Government bonds	<b>11,730,089</b>	8,889,016
– PBOC bills	–	39,600
– Policy banks bonds	<b>3,669,191</b>	1,323,824
– Commercial banks and non-bank financial institutions bonds	<b>8,627,056</b>	5,546,335
	<b>24,026,336</b>	15,798,775
Bills	<b>222,377,729</b>	161,518,536
Beneficial interests (i)	<b>18,220,000</b>	–
Receivables	<b>29,663</b>	165,339
Total	<b>264,653,728</b>	177,482,650

(i) Beneficial interests are mainly beneficial interests of trust investment plans issued by commercial banks and other financial institutions, and of asset management plans entrusted to asset management companies.

#### (2) Analysed by type and location of counterparty

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Issued by entities in mainland China		
– Banks	<b>261,267,929</b>	169,474,591
– Non-bank financial institutions	<b>3,385,799</b>	8,008,059
Total	<b>264,653,728</b>	177,482,650

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 11 INTEREST RECEIVABLE

Analysed by type of interest generating financial assets

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Loans and advances to customers	<b>2,671,741</b>	1,830,902
Investment securities	<b>2,307,410</b>	1,459,875
Placements with banks and non-bank financial institutions	<b>209,760</b>	25,207
Deposits with banks and non-bank financial institutions	<b>204,372</b>	230,286
Financial assets held under resale agreements	<b>90,024</b>	7,403
Deposits with central banks	<b>83,634</b>	71,942
Others	<b>39,586</b>	161
Total	<b>5,606,527</b>	3,625,776

The overdue interest receivable is no more than 3 months.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 12 LOANS AND ADVANCES TO CUSTOMERS

#### (1) Analysed by nature

	Note	2013 31 December	2012 31 December
Corporate loans and advances		<b>459,727,676</b>	423,060,566
Residential mortgage		<b>86,957,832</b>	76,460,051
Credit cards		<b>126,248,253</b>	70,525,724
Other personal loans		<b>33,332,011</b>	17,143,353
Personal loans and advances		<b>246,538,096</b>	164,129,128
Discounted bills		<b>8,445,323</b>	28,559,816
Gross loans and advances to customers		<b>714,711,095</b>	615,749,510
Less: Allowances for impairment losses	21		
– individual assessment		<b>(2,051,826)</b>	(4,816,580)
– collective assessment		<b>(9,119,874)</b>	(10,672,141)
Total allowances for impairment losses		<b>(11,171,700)</b>	(15,488,721)
Loans and advances to customers, net		<b>703,539,395</b>	600,260,789

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### (2) Analysed by type of collateral

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Loans secured by monetary assets	<b>76,380,595</b>	82,028,434
Loans secured by tangible assets other than monetary assets	<b>252,585,325</b>	207,642,828
Guaranteed loans	<b>164,230,395</b>	164,002,236
Unsecured loans	<b>221,514,780</b>	162,076,012
Gross loans and advances to customers	<b>714,711,095</b>	615,749,510
Less: Allowances for impairment losses		
– individual assessment	<b>(2,051,826)</b>	(4,816,580)
– collective assessment	<b>(9,119,874)</b>	(10,672,141)
Total allowances for impairment losses	<b>(11,171,700)</b>	(15,488,721)
Loans and advances to customers, net	<b>703,539,395</b>	600,260,789

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### (3) Analysed by economic sector

	As at 31 December 2013			As at 31 December 2012		
	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	138,470,203	19.38	23.99	130,251,226	21.15	23.67
– Wholesale and retail trade	126,069,719	17.64	27.40	104,780,915	17.02	29.25
– Real estate	56,628,084	7.92	91.14	39,580,691	6.43	91.55
– Energy and raw materials	42,939,995	6.01	14.77	53,328,561	8.66	12.67
– Construction and installation	33,210,271	4.65	26.26	31,767,710	5.16	21.78
– Transportation	23,150,335	3.24	13.38	27,216,057	4.42	8.98
– Tourism and service sector	17,882,553	2.50	34.57	18,197,343	2.95	31.62
– Postal and telecommunication services	4,159,144	0.58	38.25	3,798,727	0.62	31.90
– Financial services	1,273,199	0.18	20.59	3,366,462	0.55	10.34
– Others	15,944,173	2.23	20.02	10,772,874	1.75	9.48
Corporate loans and advances	459,727,676	64.33	32.36	423,060,566	68.71	28.88
Personal loans and advances	246,538,096	34.49	42.11	164,129,128	26.65	52.08
Sub-total	706,265,772	98.82	35.76	587,189,694	95.36	35.36
Discounted bills	8,445,323	1.18	0.00	28,559,816	4.64	0.00
Gross loans and advances to customers	714,711,095	100.00	35.34	615,749,510	100.00	33.72
Less: Allowances for impairment losses						
– Individually assessed	(2,051,826)			(4,816,580)		
– Collectively assessed	(9,119,874)			(10,672,141)		
Total allowances for impairment losses	(11,171,700)			(15,488,721)		
Net loans and advances to customers	703,539,395			600,260,789		

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### (4) Analysed by geographical sector

	As at 31 December 2013			As at 31 December 2012		
	Gross balance	Percentage	Collateralised loans as a % of gross loan balances	Gross balance	Percentage	Collateralised loans as a % of gross loan balances
Pearl River Delta	214,383,827	30.00	56.93	182,032,880	29.56	50.86
Yangtze River Delta	143,437,649	20.07	37.26	151,172,574	24.55	34.08
Head Office	127,299,815	17.81	0.00	82,236,449	13.36	0.00
Bohai Rim	119,954,083	16.78	36.76	114,367,322	18.57	31.16
Central and Western	94,290,754	13.19	33.91	81,393,193	13.22	32.31
Overseas	15,344,967	2.15	8.32	4,547,092	0.74	35.58
<b>Total</b>	<b>714,711,095</b>	<b>100.00</b>	<b>35.34</b>	<b>615,749,510</b>	<b>100.00</b>	<b>33.72</b>
Less: Allowances for impairment losses						
– Individually assessed	(2,051,826)			(4,816,580)		
– Collectively assessed	(9,119,874)			(10,672,141)		
Total allowances for impairment losses	(11,171,700)			(15,488,721)		
Net loans and advances to customers	<b>703,539,395</b>			<b>600,260,789</b>		

#### (5) Overdue loans and advances analysed by type of collateral and overdue period

	Year ended 31 December 2013				
	Overdue between 1 day and 90 days (inclusive)	Overdue between 90 days and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Loans secured by monetary assets	333,314	105,570	120,375	7,707	566,966
Loans secured by tangible assets other than monetary assets	3,012,728	1,016,122	789,903	82,930	4,901,683
Guaranteed loans	2,429,819	853,053	953,314	65,678	4,301,864
Unsecured loans	6,750,430	1,956,049	177,913	6,117	8,890,509
<b>Total</b>	<b>12,526,291</b>	<b>3,930,794</b>	<b>2,041,505</b>	<b>162,432</b>	<b>18,661,022</b>

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### (5) Overdue loans and advances analysed by type of collateral and overdue period (continued)

	Year ended 31 December 2012				Total
	Overdue between 1 day and 90 days (inclusive)	Overdue between 90 days and one year (inclusive)	Overdue between one year and three years (inclusive)	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
<b>Total</b>	<b>10,642,281</b>	<b>5,322,714</b>	<b>1,170,490</b>	<b>2,418,124</b>	<b>19,553,609</b>

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.

#### (6) Analysed by assessment method of allowances for impairment losses

	Year ended 31 December 2013				Total	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		
Gross balances of loans and advances						
– Financial institution	2,370,922	–	–	2,370,922	0.00	
– Non-financial institution	706,139,509	2,247,020	3,953,644	712,340,173	0.87	
	708,510,431	2,247,020	3,953,644	714,711,095	0.87	
Less: Allowances for Impairment losses						
– Financial institution	(12,985)	–	–	(12,985)		
– Non-financial institution	(6,951,840)	(2,155,049)	(2,051,826)	(11,158,715)		
	(6,964,825)	(2,155,049)	(2,051,826)	(11,171,700)		
Net balances of loans and advances						
– Financial institution	2,357,937	–	–	2,357,937		
– Non-financial institution	699,187,669	91,971	1,901,818	701,181,458		
	701,545,606	91,971	1,901,818	703,539,395		

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### (6) Analysed by assessment method of allowances for impairment losses (continued)

	Year ended 31 December 2012				
	Loans and advances for which allowances for impairment losses are collectively assessed	Impaired loans and advances		Total	Impaired loans and advances as a % of total loans and advances
		for which allowances for impairment losses are collectively assessed	for which allowances for impairment losses are individually assessed		
Gross balances of loans and advances					
– Financial institution	7,382,482	–	–	7,382,482	0.00
– 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
Less: 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	

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)(b).

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;

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 12 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

#### (7) Movements of allowance for impairment losses

	2013			Total
	Allowances for impairment losses which are collectively assessed	Allowances for impaired loans and advances		
		which are collectively assessed	which are individually assessed	
Opening balance	(9,254,093)	(1,418,048)	(4,816,580)	(15,488,721)
Charge for the year	–	(1,057,186)	(4,421,281)	(5,478,467)
Release during the year	2,289,268	–	785,846	3,075,114
Unwinding of discount	–	–	145,199	145,199
Recoveries	–	(161,897)	(105,698)	(267,595)
Write-offs	–	482,082	6,360,688	6,842,770
Closing balance	(6,964,825)	(2,155,049)	(2,051,826)	(11,171,700)

	2012			Total
	Allowances for impairment losses which are collectively assessed	Allowances for impaired loans and advances		
		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)

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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:

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Land, properties and buildings	<b>1,183,125</b>	1,485,332
Other assets	<b>131,571</b>	392,785
Total	<b>1,314,696</b>	1,878,117

Fair values of collaterals for overdue but not impaired corporate loans as at balance sheet date:

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Land, properties and buildings	<b>4,530,878</b>	3,128,395
Other assets	<b>626,693</b>	667,784
Total	<b>5,157,571</b>	3,796,179

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 lands, buildings and equities, etc.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Analysed by type of investment and geographical location

	2013 31 December	2012 31 December
Debt securities investments		
<i>Unlisted</i>		
Issued by entities in mainland China		
– Government bonds	49,965,687	35,443,374
– PBOC bills	–	9,987
– Policy banks bonds	900,845	1,499,647
– Commercial banks and non-bank financial institutions bonds	12,211,078	10,670,202
– Corporate bonds	6,112,667	4,463,630
Issued by entities outside mainland China		
– Corporate bonds	15,572	79,879
<i>Listed</i>		
Issued by entities outside mainland China		
– Corporate bonds	226,233	60,718
Total debt securities investments (i)	69,432,082	52,227,437
Equity investments		
<i>Unlisted equity investments</i>		
– Measured by cost (ii)	90,923	90,929
– Measured by fair value	147,886	96,353
Total equity investments	238,809	187,282
Total	69,670,891	52,414,719

- (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 2013, the carrying amount of available-for-sale investments measured at fair value includes financial instruments which are individually assessed to be impaired. As at 31 December 2013, the above financial instruments were fully impaired and the accumulated impairment loss was RMB58.38 million (2012: RMB60.71 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 14 HELD-TO-MATURITY INVESTMENTS

Analysed by type of debt securities and geographical location

	<b>2013</b>	2012
	<b>31 December</b>	31 December
<i>Unlisted</i>		
Issued by entities in mainland China		
– Government bonds	<b>40,353,124</b>	12,553,606
– PBOC bills	–	2,769,772
– Policy banks bonds	<b>1,030,197</b>	1,681,171
– Commercial banks and non-bank financial institutions bonds	<b>10,971,955</b>	14,226,311
– Corporate bonds	<b>1,849,828</b>	1,629,834
Issued by entities outside mainland China		
– Policy banks bonds	–	24,756
– Commercial banks and non-bank financial institutions bonds	<b>39,312</b>	–
Sub-total	<b>54,244,416</b>	32,885,450
<i>Listed</i>		
Issued by entities outside mainland China		
– Corporate bonds	<b>29,156</b>	50,469
Total	<b>54,273,572</b>	32,935,919

### 15 FINANCIAL ASSETS CLASSIFIED AS RECEIVABLES

Analysed by type of debt securities and geographical location

	<b>2013</b>	2012
	<b>31 December</b>	31 December
<i>Unlisted</i>		
Issued by entities in mainland China		
– Government bonds	<b>357,778</b>	908,296
– Financial institutions bonds	<b>1,519,712</b>	519,933
– Wealth management products	<b>13,867,982</b>	5,010,715
– Beneficial interests	<b>76,628,188</b>	239,500
Total	<b>92,373,660</b>	6,678,444

Receivables are unlisted bearer's national bonds issued by the PRC government, subordinated bonds, wealth management products and beneficial interests of trust investment plans issued by commercial banks and other financial institutions, beneficial interests of asset management plans entrusted to asset management companies.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 16 LONG TERM EQUITY INVESTMENTS

#### (1) The movement of the Bank's investment in associate is as follows:

	2013 31 December	2012 31 December
As at 1 January	1,842	1,758
Share of (losses)/profits	(39)	84
As at 31 December	1,803	1,842

#### (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 held by the Bank	% of direct 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:

	2013 31 December	2012 31 December
Operating income	804,117	624,684
Net (losses)/gains	(97)	205

	2013 31 December	2012 31 December
Total assets	13,283	10,748
Total liabilities	(8,886)	(6,255)
Total shareholders' equity	4,397	4,493

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 17 FIXED ASSETS

	Properties and buildings	Construction in progress	Electronic equipment	Transportation and other equipment	Total
Costs:					
1 January 2012	4,572,299	504,123	2,289,165	473,792	<b>7,839,379</b>
Additions	73,136	2,134,041	388,451	122,731	<b>2,718,359</b>
Transfers in/(out) of construction in progress	225,632	(225,632)	–	–	–
Transfers in repossessed assets	803	–	–	–	<b>803</b>
Disposals	(32,919)	–	(143,122)	(33,781)	<b>(209,822)</b>
31 December 2012	4,838,951	2,412,532	2,534,494	562,742	<b>10,348,719</b>
1 January 2013	4,838,951	2,412,532	2,534,494	562,742	<b>10,348,719</b>
Additions	17,566	738,584	525,782	209,462	<b>1,491,394</b>
Transfers in/(out) of construction in progress	1,041,361	(1,041,361)	–	–	–
Disposals	(53,676)	–	(210,656)	(44,032)	<b>(308,364)</b>
31 December 2013	5,844,202	2,109,755	2,849,620	728,172	<b>11,531,749</b>
Accumulated depreciation:					
1 January 2012	(1,056,159)	–	(1,272,059)	(243,674)	<b>(2,571,892)</b>
Charge for the year	(157,535)	–	(335,652)	(70,056)	<b>(563,243)</b>
Disposals	14,386	–	130,399	26,115	<b>170,900</b>
31 December 2012	(1,199,308)	–	(1,477,312)	(287,615)	<b>(2,964,235)</b>
1 January 2013	(1,199,308)	–	(1,477,312)	(287,615)	<b>(2,964,235)</b>
Charge for the year	(182,028)	–	(393,451)	(83,995)	<b>(659,474)</b>
Disposals	17,599	–	194,960	4,171	<b>216,730</b>
31 December 2013	(1,363,737)	–	(1,675,803)	(367,439)	<b>(3,406,979)</b>

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 17 FIXED ASSETS (CONTINUED)

	Properties and buildings	Construction in progress	Electronic equipment	Transportation and other equipment	Total
Allowances for impairment losses (Note 21):					
1 January 2012	(270,332)	–	–	–	<b>(270,332)</b>
Additions	(240)	–	–	–	<b>(240)</b>
Disposals	10,664	–	–	–	<b>10,664</b>
31 December 2012	(259,908)	–	–	–	<b>(259,908)</b>
1 January 2013	(259,908)	–	–	–	<b>(259,908)</b>
Additions	(192)	–	–	–	<b>(192)</b>
Disposals	–	–	–	–	<b>–</b>
31 December 2013	(260,100)	–	–	–	<b>(260,100)</b>
Net carrying value:					
31 December 2012	3,379,735	2,412,532	1,057,182	275,127	<b>7,124,576</b>
31 December 2013	4,220,365	2,109,755	1,173,817	360,733	<b>7,864,670</b>

- (i) As at 31 December 2013, the Bank was in the process of completing the ownership documentation of certain properties and buildings with a net carrying value of RMB345 million (31 December 2012: RMB396 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 2013, 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 RMB260 million (31 December 2012: RMB260 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 2013, the net carrying value of properties and buildings under operating lease amounted to RMB188 million (31 December 2012: RMB189 million).

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 18 INTANGIBLE ASSETS

	Land use rights	Software	Others	Total
Costs:				
1 January 2012	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>
1 January 2013	421,720	982,178	34,374	<b>1,438,272</b>
Additions	–	588,100	–	<b>588,100</b>
Disposals	–	–	–	<b>–</b>
31 December 2013	421,720	1,570,278	34,374	<b>2,026,372</b>
Accumulated amortisation:				
1 January 2012	(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>
1 January 2013	(68,235)	(512,629)	(34,294)	<b>(615,158)</b>
Charge for the year	(14,103)	(188,296)	(36)	<b>(202,435)</b>
Disposals	–	–	–	<b>–</b>
31 December 2013	(82,338)	(700,925)	(34,330)	<b>(817,593)</b>
Net carrying value:				
31 December 2012	353,485	469,549	80	<b>823,114</b>
31 December 2013	339,382	869,353	44	<b>1,208,779</b>

As at 31 December 2013, the Bank was in the process of completing the ownership documentation of certain land use rights with a net carrying value of approximately RMB5.00 million (2012: RMB5.24 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 19 DEFERRED TAX

#### (1) Analysed by nature

	As at 31 December 2013				
	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	9,929,148	2,482,287	–	–	2,482,287
Fair value change of financial instruments	3,398,696	849,674	(240)	(60)	849,614
Provisions for litigation	43,284	10,821	–	–	10,821
Deferred interest income of discounted bills	2,945,872	736,468	–	–	736,468
Accrued salary	1,122,020	280,505	–	–	280,505
Others	164,708	41,177	–	–	41,177
<b>Total</b>	<b>17,603,728</b>	<b>4,400,932</b>	<b>(240)</b>	<b>(60)</b>	<b>4,400,872</b>

	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>

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 19 DEFERRED TAX (CONTINUED)

#### (2) Movements of deferred tax

	2013			
	As at 1 January	Recognised in comprehensive income statement	Recognised in equity	As at 31 December
Allowances for impairment losses on loans, other assets and advances to customers	2,496,229	(13,942)	–	2,482,287
Fair value change of financial instruments	(6,793)	265,192	591,215	849,614
Provision for Litigation	17,398	(6,577)	–	10,821
Deferred interest income of discounted bills	484,906	251,562	–	736,468
Accrued salary	381,240	(100,735)	–	280,505
Others	35,686	5,491	–	41,177
<b>Net balance</b>	<b>3,408,666</b>	<b>400,991</b>	<b>591,215</b>	<b>4,400,872</b>

	2012			
	As at 1 January	Recognised in comprehensive income statement	Recognised in equity	As at 31 December
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
<b>Net balance</b>	<b>3,627,232</b>	<b>(324,780)</b>	<b>106,214</b>	<b>3,408,666</b>

In accordance with the accounting policy set out in Note 3(17), as at 31 December 2013, the Bank has not recognised deferred tax assets of RMB91 million (31 December 2012: RMB341 million) in respect of the allowances for impairment losses on loans and advances to customers amounting to RMB364 million (31 December 2012: RMB1,365 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 20 OTHER ASSETS

	Note	2013 31 December	2012 31 December
Suspense account for clearing		2,352,582	1,350,865
Long-term deferred expenses		1,637,971	1,302,433
– Leasehold improvement expenditure		1,181,729	862,515
– Other long-term deferred expenses		456,242	439,918
Receivables on transfer of credit assets		1,187,204	186,001
Repossessed assets	(i)	334,053	161,123
Prepaid rental		192,496	78,368
Prepayment for purchase of fixed assets		61,364	65,546
Others		712,668	660,181
Total		6,478,338	3,804,517
Less: Allowances for impairment losses	21	(114,800)	(112,102)
Net balances		6,363,538	3,692,415

(i) Repossessed assets

Analysed by type

	2013 31 December	2012 31 December
Properties and buildings	318,493	144,006
Land	9,162	17,117
Others	6,398	–
Gross balance	334,053	161,123
Less: Allowances for impairment losses	(22,701)	(24,328)
Net balance	311,352	136,795

The Bank did not transfer repossessed assets to fixed assets during 2013 (2012: RMB0.8 million). The Bank disposed RMB9.72 million repossessed assets during 2013 (2012: RMB4.85 million).

The Bank intends to dispose of repossessed assets as at 31 December 2013 through various methods including auction, competitive bidding and disposal.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 21 MOVEMENTS OF ALLOWANCES FOR IMPAIRMENT LOSSES

		2013					
	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	(15,488,721)	(5,478,467)	3,075,114	145,199	6,575,175	(11,171,700)
Fixed assets	17	(259,908)	(192)	-	-	-	(260,100)
Other assets	20	(112,102)	(60,774)	39,514	-	18,562	(114,800)
<b>Total</b>		<b>(15,861,731)</b>	<b>(5,539,433)</b>	<b>3,114,628</b>	<b>145,199</b>	<b>6,593,737</b>	<b>(11,547,600)</b>

		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)
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>

### 22 DEPOSITS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

	2013 31 December	2012 31 December
Banks operating in mainland China	<b>168,078,278</b>	96,036,402
Non-bank financial institutions operating in mainland China	<b>100,797,413</b>	48,437,055
Sub-total	<b>268,875,691</b>	144,473,457
Banks operating outside Mainland China	<b>1,982,929</b>	658
<b>Total</b>	<b>270,858,620</b>	144,474,115

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 23 PLACEMENTS FROM BANKS AND NON-BANK FINANCIAL INSTITUTIONS

	2013 31 December	2012 31 December
Banks operating in mainland China	40,836,441	34,146,596

### 24 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013 31 December	2012 31 December
Short position in gold	306,982	–

### 25 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Analysed by pledged security held

	2013 31 December	2012 31 December
Issued by entities in mainland China		
Debt securities		
– Government bonds	36,950,800	15,101,283
– PBOC bills	–	754,600
– Policy banks bonds	1,320,800	2,130,100
– Commercial banks and non-bank financial institutions bonds	12,861,500	17,924,500
– Corporate bonds	–	332,200
Bills	312,396	513,930
Total	51,445,496	36,756,613

Analysed by counterparties

	2013 31 December	2012 31 December
Issued by entities in mainland China		
– Banks	51,035,100	35,007,400
– Non-bank financial institutions	98,000	1,235,283
– PBOC	312,396	513,930
Total	51,445,496	36,756,613

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 26 DEPOSITS FROM CUSTOMERS

	<b>31 December 2013</b>	31 December 2012
Demand deposits		
– Corporate customers	<b>255,733,299</b>	246,570,598
– Personal customers	<b>79,009,559</b>	72,054,557
Sub-total	<b>334,742,858</b>	318,625,155
Time deposits (include notice deposits)		
– Corporate customers	<b>550,664,849</b>	454,592,684
– Personal customers	<b>107,927,345</b>	81,626,499
Sub-total	<b>658,592,194</b>	536,219,183
Others	<b>1,591,917</b>	1,321,697
Total	<b>994,926,969</b>	856,166,035
The deposits above include:		
(1) Pledged deposits for		
– Acceptance	<b>99,676,773</b>	92,737,092
– Guarantee	<b>11,864,909</b>	4,329,423
– Letters of credit	<b>4,621,778</b>	5,501,644
– Others	<b>74,744,790</b>	18,257,139
Total	<b>190,908,250</b>	120,825,298
(2) Outward and inward remittance	<b>1,429,005</b>	978,184

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 27 ACCRUED STAFF COSTS

	2013			
	As at 1 January	Accrued during the year	Payments made	As at 31 December
Salaries, bonuses and allowances	1,541,683	4,459,727	(4,869,954)	1,131,456
Basic retirement insurance and annuity	4,788	648,855	(649,300)	4,343
Social insurance and welfare	1,684	499,659	(499,084)	2,259
Housing fund	13,712	468,206	(465,510)	16,408
Labour union expenses and employee education expenses	22,582	163,283	(168,548)	17,317
Staff termination costs	–	1,703	(1,703)	–
Outsourcing expenses	254,265	1,564,636	(1,541,641)	277,260
<b>Total</b>	<b>1,838,714</b>	<b>7,806,069</b>	<b>(8,195,740)</b>	<b>1,449,043</b>

	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
<b>Total</b>	<b>1,985,711</b>	<b>6,810,879</b>	<b>(6,957,876)</b>	<b>1,838,714</b>

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 27 ACCRUED STAFF COSTS (CONTINUED)

- (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 2013, the bank made annuity contribution amounted to RMB190 million (2012: RMB168 million).

- (iii) No wage arrears is included in the above-mentioned salary payable.

### 28 TAXES PAYABLE

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Corporate income tax	<b>1,765,625</b>	749,035
Business tax	<b>930,967</b>	764,521
City construction tax	<b>62,590</b>	49,649
Education surcharge	<b>45,501</b>	36,023
Individual income tax	<b>47,051</b>	37,083
Others	<b>23,526</b>	13,809
Total	<b>2,875,260</b>	1,650,120

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 29 INTEREST PAYABLE

Analysed by type of financial liabilities

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Deposits from customers	<b>12,544,057</b>	9,688,550
Deposits from banks and non-bank financial institutions	<b>1,997,043</b>	784,892
Subordinated bonds issued	<b>130,024</b>	230,845
Placements from banks and non-bank financial institutions	<b>102,548</b>	86,771
Financial assets sold under repurchase agreements	<b>41,283</b>	50,298
Others	<b>14,402</b>	35,736
<b>Total</b>	<b>14,829,357</b>	10,877,092

### 30 PROVISIONS

	<b>2013</b>	2012
	<b>31 December</b>	31 December
As at 1 January	<b>24,297</b>	58,545
Charge for the year	<b>9,174</b>	4,323
Release during the year	<b>(9,187)</b>	(3,048)
Payments made during the year	<b>(3,632)</b>	(35,523)
<b>As at 31 December</b>	<b>20,652</b>	24,297

As at 31 December 2013, the Bank was the defendant in certain pending litigations, with gross claims of RMB889 million (2012: RMB770 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 31 SUBORDINATED BONDS ISSUED

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Subordinated fixed interest rate bonds (Note (i))	<b>9,500,000</b>	13,800,000
Subordinated floating interest rate bonds (Note (ii))	–	700,000
Total	<b>9,500,000</b>	14,500,000

- (i) The Bank issued 10-year subordinated fixed interest rate bonds with face value of RMB1.6 billion on 25 July 2008. The coupon interest rate per annum is 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 rate of the bonds will increase to 9.30% per annum from the sixth year for the next five years till maturity. The Bank had exercised the redemption right on 28 July 2013 according to its announcement notice made in 2008.

The Bank issued 10-year subordinated fixed interest rate bonds with face value of RMB2.7 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 had exercised the redemption right on 25 September 2013 according to its announcement notice made in 2008.

The Bank issued 10-year subordinated fixed interest rate bonds with face value RMB3.0 billion on 28 June 2011 and RMB2.0 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 RMB4.5 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 RMB0.7 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. The Bank had exercised the redemption right on 28 July 2013 according to its announcement notice made in 2008.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 32 OTHER LIABILITIES

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Deferred income	<b>1,280,371</b>	756,659
Suspense account for clearing	<b>1,249,347</b>	147,260
Accrued expenses	<b>872,945</b>	574,613
Payable to wealth management product	<b>283,116</b>	9,451
Dormant accounts of deposits from customers	<b>107,576</b>	116,784
Payables for purchase of fixed assets	<b>52,473</b>	53,078
Payables for fund subscription	<b>48,278</b>	26,404
Loan repayments pending settlement	<b>44,739</b>	55,473
Payables arising from the transferred non-performing assets	<b>21,542</b>	14,357
Dividend payable	<b>5,539</b>	5,964
Others	<b>529,583</b>	437,186
Total	<b>4,495,509</b>	2,197,229

### 33 SHARE CAPITAL

The capital structure of the Bank at balance sheet date is as follows:

	<b>No. of share</b>	Amount
	<b>'000</b>	<b>'000</b>
Registered and paid-in share capital (Ordinary shares with par value RMB1 each) At 31 December 2012 and 31 December 2013	<b>15,402,397</b>	15,402,397

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 34 CAPITAL RESERVE

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Shares premium	<b>11,550,819</b>	11,550,819
Fair value reserve (i)	<b>(1,767,911)</b>	82,002
Hedge reserve (ii)	<b>24,809</b>	(6,422)
<b>Total</b>	<b>9,807,717</b>	11,626,399

Movement of capital reserve:

	<b>Share premium</b>	<b>Fair value reserve</b>	<b>Hedge reserve</b>	<b>Total</b>
At 1 January 2012	11,550,819	474,604	(412)	<b>12,025,011</b>
– Other comprehensive income	–	(392,602)	(6,010)	<b>(398,612)</b>
At 31 December 2012	11,550,819	82,002	(6,422)	<b>11,626,399</b>
At 1 January 2013	11,550,819	82,002	(6,422)	<b>11,626,399</b>
– Other comprehensive income	–	(1,849,913)	31,231	<b>(1,818,682)</b>
At 31 December 2013	11,550,819	(1,767,911)	24,809	<b>9,807,717</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)(g).

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 35 SURPLUS RESERVE

	2013	2012
As at 1 January	3,584,702	2,462,716
Appropriation for the year	1,158,348	1,121,986
As at 31 December	4,743,050	3,584,702

The Bank is required to appropriate 10% of its net profit, as determined under the China Accounting Standards for Business Enterprises (2006) and other relevant regulations issued by the MOF, to the statutory surplus reserve until the balance reaches 50% of the registered capital.

Subject to the approval of shareholders, statutory surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

### 36 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 set aside a general reserve of 1.5% of the ending balance of gross risk-bearing assets at 31 December 2013 (31 December 2012: 1.5%).

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## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### 37 APPROPRIATION OF PROFITS

(a) In accordance with the resolution of the Bank's 2013 Annual Board of Directors Meeting on 20 March 2014, the profit appropriations resolution for the year ended 31 December 2013 is:

- Appropriate statutory surplus reserve amounted to RMB1,158 million, based on 10% of the net profit of the Bank;
- Appropriate general reserve amounted to RMB3,690 million;
- Distributed no cash dividend to shareholders.

The profit appropriation resolution mentioned above is yet to be passed by the Bank's shareholders' meeting.

(b) In accordance with the resolution of the Bank's 2012 Annual General Meeting on 21 June 2013, the shareholders approved the following profit appropriations for the year ended 31 December 2012:

- Appropriate statutory surplus reserve amounted to RMB1,122 million, based on 10% of the net profit of the Bank;
- Appropriate general reserve amounted to RMB6,433 million;
- Distributed no cash dividend to shareholders.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 38 NET INTEREST INCOME

	2013	2012
<b>Interest income arising from</b>		
Deposits with central banks	2,683,071	2,257,651
Deposits with banks and non-bank financial institutions	1,683,150	1,530,285
Placements with banks and non-bank financial institutions	1,080,772	583,928
Financial assets held for trading	175,925	126,623
Financial assets held under resale agreement	11,097,497	6,275,296
Loans and advances to customers (i)		
– Corporate loans and advances	27,767,095	25,868,786
– Personal loans and advances	13,732,007	10,717,617
– Discounted bills	1,399,626	1,912,148
Investment securities and receivables (ii)	6,123,200	2,837,889
Total interest income	65,742,343	52,110,223
<b>Interest expense arising from</b>		
Deposits from banks and non-bank financial institutions	(11,767,728)	(5,706,216)
Placements from banks and non-bank financial institutions	(813,264)	(511,704)
Financial assets sold under repurchase agreement	(1,663,146)	(947,442)
Deposits from customers	(24,745,311)	(19,745,299)
Subordinated bond issued (iii)	(750,360)	(603,484)
Total interest expense	(39,739,809)	(27,514,145)
Net interest income	26,002,534	24,596,078

(i) Interest income from impaired financial assets is listed as follows:

	2013	2012
Interest income arising from impaired loans and advances	145,199	91,044

(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 financial assets classified as receivables.

(iii) Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on subordinated debts issued.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 39 NET FEE AND COMMISSION INCOME

	2013	2012
<b>Fee and commission income:</b>		
Bank card fees	<b>6,996,845</b>	4,549,207
Consultancy and advisory fees	<b>497,418</b>	353,000
Settlement and clearing fees	<b>571,561</b>	520,196
Agency services fees	<b>400,043</b>	484,203
Guarantee and commitment fees	<b>406,764</b>	364,322
Commission on wealth management products	<b>968,425</b>	363,797
Bond underwriting fees	<b>209,144</b>	184,125
Commissions on trust and fiduciary activities	<b>249,180</b>	123,599
Others	<b>35,743</b>	26,804
<b>Total</b>	<b>10,335,123</b>	6,969,253
<b>Fee and commission expense:</b>		
Bank card fees	<b>(946,759)</b>	(816,747)
Settlement fees	<b>(121,709)</b>	(111,363)
Agency expenses	<b>(34,236)</b>	(67,458)
Others	<b>(175,707)</b>	(100,845)
<b>Total</b>	<b>(1,278,411)</b>	(1,096,413)
<b>Net fee and commission income</b>	<b>9,056,712</b>	5,872,840

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 40 INVESTMENT (LOSSES)/GAINS

	2013	2012
Net gain and loss on trade of debt securities		
– Derivatives	<b>85,557</b>	41,023
– Trading debt investments	<b>(15,005)</b>	8,489
– Financial liabilities at fair value through profit or loss	<b>(16,909)</b>	–
– Available-for-sale securities investments	<b>(73,307)</b>	79,467
Dividend income	<b>4,023</b>	3,634
Share of (losses)/gains of an associate	<b>(39)</b>	84
Total	<b>(15,680)</b>	132,697

There is no significant restriction on remitting back the investment income of the Bank that realised outside mainland China.

### 41 (LOSSES)/GAINS ARISING FROM CHANGES IN FAIR VALUE

	2013	2012
Financial assets at fair value through profit or loss	<b>(4,102)</b>	(15,071)
Financial liabilities at fair value through profit or loss	<b>5,315</b>	–
Derivative financial instruments	<b>(970,880)</b>	121,487
Total	<b>(969,667)</b>	106,416

### 42 BUSINESS TAXES AND SURCHARGES

	2013	2012
Business taxes	<b>2,828,061</b>	2,333,177
City construction tax	<b>197,439</b>	162,965
Education surcharge	<b>141,399</b>	116,651
Total	<b>3,166,899</b>	2,612,793

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 43 OPERATING AND ADMINISTRATIVE EXPENSES

	2013	2012
Employee compensation	7,806,069	6,810,879
Premises and equipment expenses		
– Depreciation charges	659,474	563,243
– Rent and property management expenses	1,406,678	1,122,593
– Maintenance	630,203	550,416
Sub-total	2,696,355	2,236,252
Amortisation expenses	485,149	359,924
Others	3,442,353	3,292,147
Total	14,429,926	12,699,202

### 44 IMPAIRMENT LOSSES

	2013	2012
Loans and advances to customers	2,403,353	1,305,702
Available-for-sales investment securities	–	7,941
Fixed assets	192	240
Repossessed assets	–	(1,352)
Other assets	21,260	(19,579)
Total	2,424,805	1,292,952

### 45 NON-OPERATING INCOME

	2013	2012
Gains on disposal of fixed assets	45,677	49,104
Write back of long-term payables	899	13,104
Gains on disposal of repossessed assets	5,580	38,201
Others	81,713	142,518
Total	133,869	242,927

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 46 NON-OPERATING EXPENSES

	2013	2012
Losses on disposal of fixed assets	12,187	8,705
(Write back)/Charge of litigation provision	(13)	1,275
Losses on disposal of repossessed assets	306	722
Contribution	4,974	6,872
Others	64,462	60,310
<b>Total</b>	<b>81,916</b>	<b>77,884</b>

### 47 INCOME TAX EXPENSE

#### (1) Income tax for the Relevant Periods:

	Note	2013	2012
Income tax for the year			
– Mainland China		3,327,680	3,193,451
– Macau, PRC		10,603	8,597
Sub-total		3,338,283	3,202,048
Deferred tax	19	(400,991)	324,780
Adjustment for prior years		(65,719)	(83,069)
<b>Income tax expense</b>		<b>2,871,573</b>	<b>3,443,759</b>

#### (2) Reconciliation between income tax expense and income tax calculated at statutory tax rate:

	Note	2013	2012
Profit before tax		14,455,054	14,663,618
Expected income tax expense at statutory tax rate of 25%		3,613,764	3,665,905
Non-deductible expenses	(i)	314,927	173,499
Income tax adjustment for non-taxable income	(ii)	(695,617)	(273,752)
Effect of different tax rate applicable to different location of operation		–	647
Adjustment for prior years		(65,719)	(83,069)
Others		(295,782)	(39,471)
<b>Income tax expense</b>		<b>2,871,573</b>	<b>3,443,759</b>

(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 PRC government bonds.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 48 NOTES TO THE CASH FLOW STATEMENT

#### (1) Reconciliation of net profit to cash flow from operating activities:

	2013	2012
Net profit	11,583,481	11,219,859
Add: Provision for asset impairment losses	2,424,805	1,292,952
Depreciation of fixed assets and amortisation of intangible assets and long-term deferred expenses	1,144,623	923,167
Net gains on disposal of fixed assets and intangible assets	(35,890)	(42,799)
Interest income from debt securities	(6,299,125)	(2,964,512)
Investment losses/(gains)	15,641	(132,613)
Share of losses/(gains) of an associate	39	(84)
Net losses/(gains) on fair value movement	969,667	(106,416)
Interest expenses on issued subordinated bonds	750,360	603,484
Net (increase)/decrease of deferred tax asset	(400,991)	324,780
Increase in operating receivables	(208,259,032)	(223,504,201)
Increase in operating payables	293,706,975	232,211,341
Net cash inflow from operating activities	95,600,553	19,824,958

#### (2) Net decrease in cash and cash equivalents:

	2013	2012
Cash and cash equivalents at the end of the year	81,509,515	118,639,751
Less: Cash and cash equivalents at the beginning of the year	(118,639,751)	(127,103,719)
Net decrease in cash and cash equivalents	(37,130,236)	(8,463,968)

#### (3) Analysis of cash and cash equivalents:

	2013 31 December	2012 31 December
Cash	5,165,153	4,705,943
Surplus deposit reserve with central banks	28,188,154	35,885,070
With original maturity with or within 3 months:		
– Deposits with banks and non-bank financial institutions	13,896,161	33,072,587
– Placements with banks and non-bank financial institutions	2,630,818	20,022,540
– Financial assets under resale agreements	31,629,229	24,953,611
Total	81,509,515	118,639,751

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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.

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.

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Loan commitments (with an original maturity of one year or over)	<b>3,995,890</b>	5,974,418
Credit card unused overdraft limit	<b>134,759,923</b>	92,700,387
Sub-total	<b>138,755,813</b>	98,674,805
Bank acceptances	<b>236,551,544</b>	229,475,297
Letters of credit	<b>35,092,449</b>	17,185,609
Financial guarantees	<b>9,260,913</b>	5,755,746
Non-financing guarantees	<b>26,572,235</b>	10,001,255
Sub-total	<b>307,477,141</b>	262,417,907
Total contract value	<b>446,232,954</b>	361,092,712

Credit risk-weight amount:

	<b>2013</b>
	<b>31 December</b>
Contingent liabilities and commitments	<b>166,314,181</b>

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 49 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

#### (1) Credit commitments (continued)

- (i) The credit risk-weighted amount refers to the amount calculated in accordance with the guidelines issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights used range from 0% to 100%, for contingent liabilities and commitments.
- (ii) The Bank's credit risk weighted amount of contingent liabilities and commitments as at 31 December 2012 stood at RMB178.97 billion, calculated in accordance with "Regulations Governing Adequacy of Commercial Banks" and relevant requirements promulgated by CBRC, which were abolished since 1 January 2013.

#### (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:

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Within one year	<b>1,116,599</b>	918,449
After one year but within two years	<b>947,453</b>	745,522
After two years but within three years	<b>841,321</b>	603,159
After three years but within five years	<b>1,383,019</b>	965,175
After five years	<b>1,562,969</b>	1,123,976
Total	<b>5,851,361</b>	4,356,281

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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:

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Contracted for	<b>2,283,668</b>	1,508,430
Authorised but not contracted for	<b>995,577</b>	2,422,687
Total	<b>3,279,245</b>	3,931,117

#### (4) 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:

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Redemption obligations	<b>3,069,899</b>	3,372,859

#### (5) Provision against contingent liabilities

Note 30 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 50 TRANSACTIONS ON BEHALF OF CUSTOMERS

#### (1) Entrusted lending 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:

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Entrusted loans	<b>32,670,490</b>	27,776,145
Entrusted loan funds	<b>(32,670,490)</b>	(27,776,145)

#### (2) Wealth management services

The Bank's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes, entrusted loans and IPO shares. The investment risks associated with these products are borne by the customers who invest in these products. The Bank only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the statement of comprehensive income as commission income.

The wealth management products and funds obtained are not assets and liabilities of the Bank and are not recognised in the balance sheet.

As at balance sheet date, the Funds received from customers under wealth management services were as follows:

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Funds received from customers under wealth management services	<b>35,962,034</b>	22,096,980

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 51 PLEDGED ASSETS

#### (1) Assets pledged as collaterals

The related secured liabilities are recorded as financial assets sold under repurchase agreements at the end of the relevant periods (see Note 25). 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

	2013 31 December	2012 31 December
Government bonds	36,237,506	14,891,619
PBOC bills	–	769,939
Debt securities issued by policy banks	1,293,465	2,146,924
Debt securities issued by commercial banks and non-bank financial institutions	12,440,336	17,856,316
Corporate bonds	–	328,362
Discounted bills	312,396	513,930
Total	50,283,703	36,507,090

#### (b) Carrying value of pledged assets analysed by balance sheet classification

	2013 31 December	2012 31 December
Available-for-sale financial assets	23,503,700	19,746,111
Held-to-maturity investments	26,467,607	16,247,049
Discounted bills	312,396	513,930
Total	50,283,703	36,507,090

#### (2) Collateral accepted for financial assets held under resale agreements

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 2013, 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 RMB223.6 billion (2012: RMB161.7 billion). The Bank is obligated to return the collaterals on the promissory resale date.

As at balance sheet date, the collateral accepted discussed above has not been sold or repledged.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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 6.769 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 Holdings Corporation, Ltd. (Formerly Yingda International Holding Group Limited)	Beijing	RMB 16.000 billion	20.00%	Investment consultant, property management and custody	Shareholder	State-own company	Han Jun
CITIC Trust Co., Ltd.	Beijing	RMB 1.200 billion	20.00%	Funds investment, trust, consultant, bonds underwrite etc.	Shareholder	Limited company	Pu Jian

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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 RMB	Ratio %	Amount RMB	Ratio %	Amount RMB	Ratio %	Amount RMB	Ratio %
At 1 January 2013 and 31 December 2013	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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 52 RELATED PARTIES AND TRANSACTIONS (CONTINUED)

#### (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).

#### (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 Holdings corporation 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 2013:</i>								
Interest income	-	104,865	28,456	1,874	-	-	135,195	0.21%
Fee and commission income	8,442	166	19,523	-	-	-	28,131	0.27%
Interest expense	(1,373,512)	(84,420)	(355,207)	-	(40)	(11,265)	(1,824,444)	4.59%
Fee and commission expenses	(8,017)	-	-	-	-	-	(8,017)	0.63%
Operating and administrative expenses	(15,848)	-	-	(16,946)	(894,149)	-	(926,943)	6.42%

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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 Holdings corporation 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 2013:</i>								
Deposits with banks and non-bank financial institution	-	-	469,435	1,967,663	-	-	2,437,098	8.36%
Interest receivable	-	6,994	5,772	-	-	-	12,766	0.23%
Derivative financial assets	-	-	62,390	683,037	-	-	745,427	18.02%
Financial assets held under resale agreements	-	-	590,000	-	-	-	590,000	0.22%
Available-for-sale financial assets	-	511,000	500,000	-	-	-	1,011,000	1.45%
Held-to-maturity investments	-	1,600,000	-	-	-	-	1,600,000	2.95%
Deposits from banks and non-bank financial institutions	-	(6,944)	(20,174,459)	-	-	-	(20,181,403)	7.45%
Placements from banks and non-bank financial institutions	-	-	(304,845)	-	-	-	(304,845)	0.75%
Derivative financial liabilities	-	-	(129,924)	(97,651)	-	-	(227,575)	4.54%
Financial assets sold under repurchase agreements	-	-	(990,000)	-	-	-	(990,000)	1.92%
Deposits from customers	(28,070,205)	(1,544,949)	(776,643)	-	(13,812)	(203,533)	(30,609,142)	3.08%
Interest payable	(672,453)	(61,341)	(146,925)	-	(2)	(8,031)	(888,752)	5.99%
Other liabilities	-	-	-	(18,055)	-	-	(18,055)	0.40%
<i>Significant off balance sheet items related parties as at 31 December 2013:</i>								
Bank acceptances	-	3,550	-	-	-	-	3,550	0.00%

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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 Holdings corporation 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 and administrative expenses	(99)	–	(350)	(11,560)	(711,876)	–	(723,885)	5.70%

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

**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 Holdings corporation 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>								
Deposits with banks and non-bank financial institution	-	-	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 held 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%
Placements 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%
Interest payable	(411,708)	(57,480)	(10,511)	-	(1)	(1)	(479,701)	4.41%
Other liabilities	-	-	-	(21,113)	-	-	(21,113)	0.96%
<i>Significant off balance sheet items related parties:</i>								
<i>as at 31 December 2012:</i>								
Bank acceptances	-	50	-	-	-	-	50	0.00%
Financing guarantees	-	52,580	-	-	-	-	52,580	0.91%

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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 52 RELATED PARTIES AND TRANSACTIONS (CONTINUED)

#### (4) Transactions with key management personnel

The remuneration of directors and other key members of management during the relevant periods were as follows:

	2013	2012
Key management personnel remuneration (Note)	21 million	33 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 2013 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 2013.

Note: The final compensation for above key management personnel for the year ended 31 December 2012 has been restated according to actual confirmed figures in 2013.

During 2013 and 2012, 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 2013 and 2012.

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 2013, the bank made annuity contributions of RMB190 million (2012: RMB168 million). The annuity scheme is managed by China life Pension Company Limited.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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 business

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 loans, deposit products, 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 net interest income". 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 53 OPERATING SEGMENTS (CONTINUED)

#### (1) Segment results, assets and liabilities

	2013			
	Corporate Banking	Retail Banking and Credit cards Business	Treasury Business	Segment Total
External net interest income	7,489,948	10,031,500	8,481,086	26,002,534
Inter-segment interest income/ (expense)	8,404,888	(1,320,907)	(7,083,981)	–
Net interest income	15,894,836	8,710,593	1,397,105	26,002,534
Net fee and commission income	1,348,776	6,434,534	1,273,402	9,056,712
Investment loss	–	–	(15,680)	(15,680)
Gains arising from changes in fair value	–	–	(969,667)	(969,667)
Foreign exchange gain	–	–	326,781	326,781
Other operating income	3,515	2,791	18,277	24,583
Operating income	17,247,127	15,147,918	2,030,218	34,425,263
Business taxes and surcharges	(1,653,238)	(1,172,259)	(341,402)	(3,166,899)
Operating and administrative expenses	(6,082,611)	(7,623,637)	(723,678)	(14,429,926)
Impairment losses	(2,323,222)	(71,213)	(30,370)	(2,424,805)
Other operating costs	(255)	(117)	(160)	(532)
Operating expenses	(10,059,326)	(8,867,226)	(1,095,610)	(20,022,162)
Operating profit	7,187,801	6,280,692	934,608	14,403,101
Add: Non-operating income	78,689	29,142	26,038	133,869
Less: Non-operating expenses	(49,116)	(22,536)	(10,264)	(81,916)
Gross profit	7,217,374	6,287,298	950,382	14,455,054
Segment assets	464,758,348	248,268,575	756,823,008	1,469,849,931
Segment liabilities	(822,126,813)	(192,355,667)	(382,075,977)	(1,396,558,457)
Supplementary information:				
Credit commitments	311,473,030	134,759,924	–	446,232,954
Depreciation and amortisation	361,480	192,307	590,836	1,144,623
Capital expenditure	845,561	451,689	1,376,933	2,674,183

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 53 OPERATING SEGMENTS (CONTINUED)

#### (1) Segment results, assets and liabilities (continued)

	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
Gains 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)
Impairment losses	(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

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### 53 OPERATING SEGMENTS (CONTINUED)

#### (2) Geographical information

The Bank operates principally in Mainland China. Except for the Head Office, it has 34 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, Fuzhou 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, non-current 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 and Fujian 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, Yunnan Province, Sichuan Province and Xinjiang Uygur Autonomous Region;
- Head Office; and
- Overseas.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

## 53 OPERATING SEGMENTS (CONTINUED)

## (2) Geographical information (continued)

	2013						
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	Total
External net interest income/ (expense)	4,622,847	6,300,521	(571,121)	2,716,886	12,965,184	(31,783)	26,002,534
Internal net interest income/ (expense)	1,183,201	4,067,240	6,058,192	1,022,587	(12,560,893)	229,673	-
Net interest income	5,806,048	10,367,761	5,487,071	3,739,473	404,291	197,890	26,002,534
Net fee and commission income	618,627	972,683	776,694	457,660	6,165,364	65,684	9,056,712
Investment gain	-	-	-	-	(15,669)	(11)	(15,680)
Gain/(loss) arising from changes in fair value	15,330	(52)	(4,286)	3,632	(984,241)	(50)	(969,667)
Foreign exchange gain/(loss)	66,675	234,689	104,280	21,554	(103,805)	3,388	326,781
Other operating income	260	15,834	1,799	893	5,788	9	24,583
Operating income	6,506,940	11,590,915	6,365,558	4,223,212	5,471,728	266,910	34,425,263
Business taxes and surcharges	(582,746)	(860,596)	(492,234)	(355,385)	(875,938)	-	(3,166,899)
Operating and administrative expenses	(2,230,465)	(3,926,707)	(2,272,179)	(1,504,798)	(4,428,275)	(67,502)	(14,429,926)
Allowances for asset impairment	(3,615,981)	(463,357)	(8,533)	(106,200)	1,797,111	(27,845)	(2,424,805)
Other operating cost	(4)	(240)	(5)	-	(283)	-	(532)
Operating expenses	(6,429,196)	(5,250,900)	(2,772,951)	(1,966,383)	(3,507,385)	(95,347)	(20,022,162)
Operating profit	77,744	6,340,015	3,592,607	2,256,829	1,964,343	171,563	14,403,101
Add: Non-operating income	18,197	92,789	8,722	6,811	6,420	930	133,869
Less: Non-operating expenses	(22,029)	(28,518)	(6,059)	(6,186)	(18,484)	(640)	(81,916)
Gross profit	73,912	6,404,286	3,595,270	2,257,454	1,952,279	171,853	14,455,054

	2013						
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	Total
Segment assets	298,862,621	481,692,825	347,000,668	163,685,015	554,067,222	22,395,624	1,867,703,975
Elimination							(397,854,044)
Total assets							1,469,849,931
Segment liabilities	(298,808,358)	(475,420,053)	(343,440,974)	(161,444,154)	(493,033,053)	(22,265,909)	(1,794,412,501)
Elimination							397,854,044
Total liabilities							(1,396,558,457)
Supplementary information:							
Credit commitments	89,858,703	80,279,981	66,474,590	72,410,489	134,781,745	2,427,446	446,232,954
Depreciation and amortisation	153,387	311,761	156,086	103,452	412,814	7,123	1,144,623
Capital expenditure	495,523	378,260	259,796	218,418	1,275,874	46,312	2,674,183
Non-current assets	1,886,522	2,422,805	1,140,491	805,161	2,773,926	44,544	9,073,449

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 53 OPERATING SEGMENTS (CONTINUED)

#### (2) Geographical information (continued)

	2012						
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	Total
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

	2012						
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central and Western	Head Office	Overseas	Total
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
Non-current assets	1,609,703	2,464,025	1,142,671	761,621	1,921,672	47,998	7,947,690

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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 Connected Transaction Control 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 Connected Transaction Control 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 Vice President in charge of risk 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, Retail Risk Management Department, Small Enterprise Credit Management Department and the Three Regional Credit Approval Department are responsible for the enactment, 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (1) Credit risk (continued)

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;
- 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-stock and corporate restructuring process, or make terms with the Bank.

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.

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### 54 RISK MANAGEMENT (CONTINUED)

#### (1) Credit risk (continued)

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. President in charge of risk is responsible for all the operations regarding the Bank's risk management, and also leading relevant departments to formulate the credit policies and standards 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.

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.

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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (1) Credit risk (continued)

The Bank has individually established a range of risk management policies and adopted different methods to mitigate credit risk. A critical method for the Bank's control of its credit risks is to acquire collateral, security deposits and guarantees from enterprises or individuals. The Bank has specified acceptable types of collaterals, mainly including the following:

- Real estate and land use rights
- Machinery and equipment
- Right to receive payments and accounts receivable
- Financial instruments such as time deposits, debt securities and equities.

In order to minimise its credit risk, once an indication of impairment has been identified with an individual loan, the Bank will seek additional collateral from counterparties or require additional guarantors.

#### (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:

	<b>2013</b>	2012
	<b>31 December</b>	31 December
Financial guarantees and other credit related contingent liabilities	<b>307,477,141</b>	262,417,907
Loan commitments and other credit related commitments	<b>138,755,813</b>	98,674,805
Maximum exposure to credit risk	<b>446,232,954</b>	361,092,712

The carrying amount of financial instruments best represents the maximum exposure to credit risk on balance sheet.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (1) Credit risk (continued)

#### (b) Financial assets analysed by credit quality are summarised as follows:

	As at 31 December 2013				
	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	3,953,644	1,000	–	58,381	115,987
Allowances for impairment losses	(2,051,826)	(1,000)	–	(58,381)	(92,099)
Sub-total	1,901,818	–	–	–	23,888
Collectively assessed gross amount	2,247,020	–	–	–	–
Allowances for impairment losses	(2,155,049)	–	–	–	–
Sub-total	91,971	–	–	–	–
Overdue but not impaired					
Gross amount					
Less than 3 months	12,442,800	–	–	–	–
More than 3 months but not more than 6 months	31,566	–	–	–	–
More than 6 months but not more than one year	74,643	–	–	–	–
	12,549,009	–	–	–	–
Allowances for impairment losses					
Less than 3 months	(1,571,587)	–	–	–	–
More than 3 months but not more than 6 months	(3,353)	–	–	–	–
More than 6 months but not more than one year	(6,812)	–	–	–	–
	(1,581,752)	–	–	–	–
Sub-total	10,967,257	–	–	–	–
Neither overdue nor impaired					
Gross amount	695,961,422	49,264,018	264,653,728	225,599,550	13,856,258
Allowances for impairment losses	(5,383,073)	–	–	–	–
Sub-total	690,578,349	49,264,018	264,653,728	225,599,550	13,856,258
Book value	703,539,395	49,264,018	264,653,728	225,599,550	13,880,146

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (1) Credit risk (continued)

#### (b) Financial assets analysed by credit quality are summarised as follows (continued):

	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)
<b>Impaired</b>					
Individually assessed gross amount	7,625,016	1,000	–	60,714	96,636
Allowances for impairment losses	(4,816,580)	(1,000)	–	(60,714)	(87,774)
Sub-total	2,808,436	–	–	–	8,862
<b>Collectively assessed gross amount</b>	1,486,069	–	–	–	–
Allowances for impairment losses	(1,418,048)	–	–	–	–
Sub-total	68,021	–	–	–	–
<b>Overdue but not impaired</b>					
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	–	–	–	–
<b>Neither overdue nor impaired</b>					
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

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (1) Credit risk (continued)

#### (b) Financial assets analysed by credit quality are summarised as follows (continued):

- (i) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets (excluded equity investment), held-to-maturity investments and financial assets classified as receivables.
- (ii) Others comprise derivative financial assets, interests receivable, receivables on transfer of credit assets, suspense account for clearing, 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 rate 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:

	2013 31 December	2012 31 December
Impaired		
Individually assessed Gross amount	58,381	60,714
Allowances for impairment losses	(58,381)	(60,714)
Sub-total	-	-
Neither overdue nor impaired		
Bloomberg Composite		
AA- to AA+	-	19,081
A- to A+	30,538	138,452
Lower than A-	109,345	29,347
	139,883	186,880
Other agency ratings		
AAA	32,608,172	31,353,965
AA- to AA+	94,948,342	56,932,199
A- to A+	6,284,874	2,854,413
	133,841,388	91,140,577
Unrated	1,122,109	1,710,686
Sub-total	135,103,380	93,038,143
Total	135,103,380	93,038,143

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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 the interest rate risk due to 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 President in charge of risk, 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.

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### 54 RISK MANAGEMENT (CONTINUED)

#### (2) Market risk (continued)

##### (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.

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:

- (i) 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;
- (ii) Constraint of investment trade by risk benchmark. This is followed by regular reassessment;
- (iii) Modification of investment portfolio and financing structure on the market expectation;
- (iv) Establishment of authorisation limit on Renminbi deposit and loan interest rate system; and
- (v) Establishment of assets and liabilities management and internal transfer pricing system and control interest rate risk exposure by various financial tools.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (2) Market risk (continued)

##### (a) Interest rate risk (continued)

The interest rate risk management of the Bank mainly includes:

- (i) 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;
- (ii) 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
- (iii) 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.

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 Bank's net profit and equity with an assumption that all other variables held constant.

	Sensitivity of net profit	
	2013 31 December	2012 31 December
Change in basis points		
+100 basis points	620,456	945,485
-100 basis points	(620,456)	(945,485)

	Sensitivity of equity	
	2013 31 December	2012 31 December
Change in basis points		
+100 basis points	(1,408,093)	(1,153,489)
-100 basis points	1,494,639	1,230,449

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (2) Market risk (continued)

##### (a) Interest rate risk (continued)

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.

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 profit and equity resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (2) Market risk (continued)

##### (a) Interest rate risk (continued)

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.

	31 December 2013						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	1.52%	5,428,735	191,543,562	-	-	-	196,972,297
Deposits and placements with banks and non-bank financial institutions	3.82%	-	30,411,521	18,752,497	100,000	-	49,264,018
Financial assets held under resale agreements	5.00%	-	159,736,551	98,307,177	6,610,000	-	264,653,728
Loans and advances to customers	6.47%	-	456,858,443	206,447,521	39,258,833	974,598	703,539,395
Investments (ii)	3.87%	238,809	58,241,011	66,652,990	64,035,941	36,669,608	225,838,359
Others		29,582,134	-	-	-	-	29,582,134
<b>Total assets</b>		<b>35,249,678</b>	<b>896,791,088</b>	<b>390,160,185</b>	<b>110,004,774</b>	<b>37,644,206</b>	<b>1,469,849,931</b>
<b>Liabilities</b>							
Deposits and placements from banks and non-bank financial institutions	4.48%	-	(229,702,797)	(80,651,662)	(1,340,602)	-	(311,695,061)
Financial assets sold under repurchase agreements	4.21%	-	(51,425,115)	(20,381)	-	-	(51,445,496)
Deposits of customers	2.76%	(1,591,916)	(566,388,653)	(263,146,299)	(160,450,090)	(3,350,011)	(994,926,969)
Subordinated bonds	5.88%	-	-	-	(5,000,000)	(4,500,000)	(9,500,000)
Others		(28,683,949)	(306,982)	-	-	-	(28,990,931)
<b>Total liabilities</b>		<b>(30,275,865)</b>	<b>(847,823,547)</b>	<b>(343,818,342)</b>	<b>(166,790,692)</b>	<b>(7,850,011)</b>	<b>(1,396,558,457)</b>
<b>Liquidity gap</b>		<b>4,973,813</b>	<b>48,967,541</b>	<b>46,341,843</b>	<b>(56,785,918)</b>	<b>29,794,195</b>	<b>73,291,474</b>

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (2) Market risk (continued)

##### (a) Interest rate risk (continued)

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.

	31 December 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%	-	403,063,156	168,465,718	27,504,335	1,227,580	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>758,386,763</b>	<b>278,566,077</b>	<b>70,931,445</b>	<b>33,720,436</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	6.01%	-	-	(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>89,804,422</b>	<b>39,713,153</b>	<b>(97,664,968)</b>	<b>25,030,452</b>	<b>63,528,087</b>

(i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.

(ii) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and financial assets classified as receivables.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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	
	2013 31 December	2012 31 December
Change in foreign currency exchange rate		
Appreciation against RMB by 1%	(3,936)	(3,320)
Depreciation against RMB by 1%	3,936	3,320

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 and forward foreign currency exposures.

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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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:

	31 December 2013				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Others RMB equivalent	
<b>Assets</b>					
Cash and balances with central banks	194,709,955	1,736,915	268,255	257,172	196,972,297
Deposits and placements with banks and non-bank financial institutions	42,125,809	5,525,803	906,070	706,336	49,264,018
Financial assets held under resale agreements	264,653,728	–	–	–	264,653,728
Loans and advances to customers	662,130,003	38,192,332	2,223,675	993,385	703,539,395
Investments(i)	218,100,698	5,185,004	39,312	2,513,345	225,838,359
Others	27,609,365	1,851,576	43,722	77,471	29,582,134
<b>Total assets</b>	<b>1,409,329,558</b>	<b>52,491,630</b>	<b>3,481,034</b>	<b>4,547,709</b>	<b>1,469,849,931</b>
<b>Liabilities</b>					
Deposits and placements from banks and non-bank financial institutions	(205,983,308)	(89,547,450)	(3,535,678)	(12,628,625)	(311,695,061)
Financial assets sold under repurchase agreements	(51,445,496)	–	–	–	(51,445,496)
Deposits from customers	(949,899,134)	(36,706,381)	(6,417,731)	(1,903,723)	(994,926,969)
Subordinated bonds issued	(9,500,000)	–	–	–	(9,500,000)
Others	(26,127,991)	(2,361,838)	(198,743)	(302,359)	(28,990,931)
<b>Total liabilities</b>	<b>(1,242,955,929)</b>	<b>(128,615,669)</b>	<b>(10,152,152)</b>	<b>(14,834,707)</b>	<b>(1,396,558,457)</b>
<b>Net position of assets/(liabilities)</b>	<b>166,373,629</b>	<b>(76,124,039)</b>	<b>(6,671,118)</b>	<b>(10,286,998)</b>	<b>73,291,474</b>
Off-balance sheet position:					
Credit commitments	417,857,497	25,362,390	668,584	2,344,483	446,232,954
Derivative financial instruments (ii)	(93,151,542)	75,119,824	6,577,064	10,305,157	(1,149,497)

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (2) Market risk (continued)

##### (b) Foreign currency risk (continued)

	31 December 2012				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Others RMB equivalent	
<b>Assets</b>					
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(i)	98,191,001	284,639	–	–	98,475,640
Others	20,344,653	367,652	14,256	71,449	20,798,010
<b>Total assets</b>	<b>1,121,583,347</b>	<b>40,739,515</b>	<b>3,640,817</b>	<b>2,186,184</b>	<b>1,168,149,863</b>
<b>Liabilities</b>					
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	(16,673,552)	(1,749,907)	(136,943)	(18,015)	(18,578,417)
<b>Total liabilities</b>	<b>(1,037,636,629)</b>	<b>(54,635,906)</b>	<b>(6,303,080)</b>	<b>(6,046,161)</b>	<b>(1,104,621,776)</b>
<b>Net position of assets/(liabilities)</b>	<b>83,946,718</b>	<b>(13,896,391)</b>	<b>(2,662,263)</b>	<b>(3,859,977)</b>	<b>63,528,087</b>
Off-balance sheet position:					
Credit commitments	347,400,302	11,750,652	101,061	1,840,697	361,092,712
Derivative financial instruments (ii)	(19,848,989)	15,181,497	1,367,087	3,798,258	497,853

(i) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, financial assets classified as receivables;

(ii) Derivative financial instruments reflect the net notional amounts of derivatives.

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### 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 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 core liabilities-assets ratio 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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:

	31 December 2013							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	
<b>Assets:</b>								
Cash and deposits with central bank	163,618,990	33,353,307	-	-	-	-	-	196,972,297
Deposits and placements with banks and non-bank financial institutions	-	6,838,787	7,586,516	15,986,218	18,752,497	100,000	-	49,264,018
Financial assets held under resale agreements	-	-	82,670,361	77,066,190	98,307,177	6,610,000	-	264,653,728
Loans and advances to customer (i)	3,335,632	125,361,320	29,134,227	74,345,186	265,255,549	95,183,288	110,924,193	703,539,395
Investments (ii)	238,809	-	26,381,028	23,682,892	57,244,363	76,198,525	42,092,742	225,838,359
Other assets	13,788,009	1,035,411	4,785,755	2,442,912	4,815,948	2,370,844	343,255	29,582,134
<b>Total assets</b>	<b>180,981,440</b>	<b>166,588,825</b>	<b>150,557,887</b>	<b>193,523,398</b>	<b>444,375,534</b>	<b>180,462,657</b>	<b>153,360,190</b>	<b>1,469,849,931</b>
<b>Liabilities:</b>								
Deposits and placements from banks and non-bank financial institutions	-	(14,216,837)	(114,924,473)	(100,561,488)	(80,651,661)	(1,340,602)	-	(311,695,061)
Financial assets sold under repurchase agreements	-	-	(48,894,461)	(2,530,654)	(20,381)	-	-	(51,445,496)
Deposits from customers	-	(352,053,149)	(61,236,836)	(154,690,584)	(263,146,299)	(160,450,090)	(3,350,011)	(994,926,969)
Subordinated bonds issued	-	-	-	-	-	(5,000,000)	(4,500,000)	(9,500,000)
Other liabilities	-	(2,590,181)	(5,048,630)	(4,960,793)	(12,938,316)	(3,140,689)	(312,322)	(28,990,931)
<b>Total liabilities</b>	<b>-</b>	<b>(368,860,167)</b>	<b>(230,104,400)</b>	<b>(262,743,519)</b>	<b>(356,756,657)</b>	<b>(169,931,381)</b>	<b>(8,162,333)</b>	<b>(1,396,558,457)</b>
<b>Long/(short) position</b>	<b>180,981,440</b>	<b>(202,271,342)</b>	<b>(79,546,513)</b>	<b>(69,220,121)</b>	<b>87,618,877</b>	<b>10,531,276</b>	<b>145,197,857</b>	<b>73,291,474</b>
<b>Notional amounts of derivative</b>								
- Foreign currency contracts	-	-	75,960,163	67,960,468	103,505,039	3,185,708	6,380	250,617,758
- Interest rate instruments	-	-	11,789,699	11,747,186	57,336,931	40,392,417	250,000	121,516,233
- Other derivatives	-	-	10,203,456	18,365,774	47,102,541	-	-	75,671,771
	-	-	97,953,318	98,073,428	207,944,511	43,578,125	256,380	447,805,762

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (3) Liquidity risk (continued)

##### (a) Maturity analysis (continued)

	31 December 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	
<b>Assets:</b>								
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>
<b>Liabilities:</b>								
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>
<b>Notional amounts of derivative</b>								
- Foreign currency contracts	-	-	21,327,764	18,930,546	50,841,036	1,089,418	-	92,188,764
- Interest rate instruments	-	-	8,201,384	11,474,669	38,117,101	27,803,018	-	85,596,172
- Other derivatives	-	-	7,737,300	8,248,260	35,962,586	140,400	-	52,088,546
	-	-	37,266,448	38,653,475	124,920,723	29,032,836	-	229,873,482

(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 financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and financial assets classified as receivables.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

## 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 financial assets and liabilities, loans commitments and credit card commitments of the Bank as at the balance sheet date. The Bank's expected cash flows on these instruments may vary significantly from this analysis.

	31 December 2013								
	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
<b>Non-derivative financial assets:</b>									
Cash and balances with central bank	196,972,297	196,972,297	163,618,990	33,353,307	-	-	-	-	-
Deposits and placements with banks and non-bank financial institutions	49,264,018	50,390,679	-	6,838,787	7,691,373	16,257,109	19,496,390	107,020	-
Financial assets held under resale agreements	264,653,728	268,495,744	-	-	82,756,115	77,977,805	100,721,131	7,040,693	-
Loans and advances to customer	703,539,395	804,843,906	3,340,234	125,361,908	29,221,867	75,092,750	275,573,125	113,431,963	182,822,059
Investments (i)	225,838,359	253,875,497	238,809	-	26,954,208	24,993,749	62,133,533	91,262,852	48,292,346
Other financial assets	10,022,545	10,022,545	2,336	1,035,411	4,344,986	1,757,095	2,636,399	197,048	49,270
<b>Total financial assets</b>	<b>1,450,290,342</b>	<b>1,584,600,668</b>	<b>167,200,369</b>	<b>166,589,413</b>	<b>150,968,549</b>	<b>196,078,508</b>	<b>460,560,578</b>	<b>212,039,576</b>	<b>231,163,675</b>
<b>Non-derivative financial liabilities:</b>									
Deposits and placements from banks and non-bank financial institutions	(311,695,061)	(315,368,780)	-	(14,216,837)	(115,890,366)	(101,754,766)	(82,086,950)	(1,419,861)	-
Financial assets sold under repurchase agreements	(51,445,496)	(51,550,128)	-	-	(48,975,241)	(2,554,343)	(20,544)	-	-
Deposits from customers	(994,926,969)	(1,014,226,960)	-	(352,053,149)	(62,645,023)	(157,010,325)	(269,260,525)	(169,676,776)	(3,581,162)
Subordinated bonds issued	(9,500,000)	(12,667,100)	-	-	-	-	(551,700)	(6,355,400)	(5,760,000)
Other financial liabilities	(22,696,432)	(22,696,432)	-	(1,897,877)	(4,228,707)	(3,786,371)	(10,148,414)	(2,322,984)	(312,079)
<b>Total financial liabilities</b>	<b>(1,390,263,958)</b>	<b>(1,416,509,400)</b>	<b>-</b>	<b>(368,167,863)</b>	<b>(231,739,337)</b>	<b>(265,105,805)</b>	<b>(362,068,133)</b>	<b>(179,775,021)</b>	<b>(9,653,241)</b>
Loan commitments and credit card commitments		138,755,813	-	134,819,818	-	294,696	823,021	723,957	2,094,321
<b>Derivative financial instruments:</b>									
Derivative financial instruments settled on gross basis of which									
- Total inflow		229,317,055	-	-	71,389,712	62,133,973	92,598,807	3,188,177	6,386
- Total outflow		(230,891,990)	-	-	(71,885,479)	(62,764,307)	(93,021,326)	(3,214,464)	(6,414)
Derivative financial instruments settled on net basis		(30,714)	-	-	6,386	(7,119)	(30,507)	739	(213)
		(1,605,649)	-	-	(489,381)	(637,453)	(453,026)	(25,548)	(241)

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (3) Liquidity risk (continued)

##### (b) Contractual undiscounted cash flow (continued)

	31 December 2012								
	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
<b>Non-derivative financial assets:</b>									
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	164,003,349
Investments (i)	98,475,640	113,139,052	187,282	-	1,881,274	8,499,067	13,031,796	53,296,563	36,243,070
Other financial assets	5,880,805	5,880,805	2,804	1,325,459	2,079,835	875,682	773,809	500,349	322,867
<b>Total financial assets</b>	<b>1,153,232,658</b>	<b>1,262,778,366</b>	<b>144,584,404</b>	<b>133,497,020</b>	<b>109,781,871</b>	<b>142,947,897</b>	<b>383,527,905</b>	<b>147,869,983</b>	<b>200,569,286</b>
<b>Non-derivative financial liabilities:</b>									
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)	(4,471,760)
Subordinated bonds issued	(14,500,000)	(18,512,550)	-	-	-	-	(5,845,450)	(6,907,100)	(5,760,000)
Other financial liabilities	(15,830,793)	(15,830,793)	-	(1,854,744)	(2,661,251)	(3,111,811)	(6,536,832)	(1,605,854)	(60,301)
<b>Total financial liabilities</b>	<b>(1,101,874,152)</b>	<b>(1,124,584,171)</b>	<b>-</b>	<b>(343,118,346)</b>	<b>(181,997,450)</b>	<b>(156,217,794)</b>	<b>(256,128,164)</b>	<b>(176,830,356)</b>	<b>(10,292,061)</b>
Loan commitments and credit card commitments		98,674,805	-	92,700,387	40,000	481,190	359,439	1,227,133	3,866,656
<b>Derivative financial assets:</b>									
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)	-

- (i) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and financial assets classified as receivables.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (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.

#### (5) Capital management

The Bank's objectives on capital management are:

- Maintaining reasonable capital adequacy ratio to continue to meet regulatory rules and policy requirement on capital, and keeping stable capital base to ensure the Bank's business growth and the implementation of its business development and strategic plan and to achieve comprehensive, coordinated and sustainable development;
- Complying with laws and regulations regarding capital, gradually adopting the advanced capital measurement approach, improving the internal assessment procedures for capital adequacy, disclosing information on capital management, covering all types of risk, and ensuring the secure operation of the Bank;
- Applying quantified results of various risks, establishing a bank value management system centering around economic capital, improving the policy, process and application management system, strengthening the capital constraint and incentive mechanism, enhancing the Bank's product pricing and decision-making capabilities, and improving the capital allocation efficiency; and
- Making reasonable use of various capital instruments, continuously enhancing capital strength, refining capital structure, improving capital quality, reducing capital cost, and generating maximum return to shareholders.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust its profit distribution policy, issue or redeem own shares, other Tier-one capital instruments, qualifying Tier-two capital instruments and convertible bonds, etc.

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### 54 RISK MANAGEMENT (CONTINUED)

#### (5) Capital management (continued)

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management based on regulations issued by the CBRC. The required information is filed with the CBRC by the Bank semi-annually and quarterly.

On 1 January 2013, the Bank started computing the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations promulgated by the CBRC. As at 31 December 2012, the Bank had been computing the capital adequacy ratios in accordance with "Regulations Governing Capital Adequacy of Commercial Banks" and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the core Tier-one capital adequacy ratio, Tier-one capital adequacy ratio and capital adequacy ratio not below the minimum of 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for core Tier-one capital adequacy ratio, Tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

Credit risk-weighted assets included on-balance sheet risk-weighted assets, off-balance sheet assets and counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives. The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The capital adequacy ratios and related components of the Bank are computed in accordance with the statutory financial statements of the Bank prepared under PRC GAAP. Pursuant to the Notification on Matters Related to the Implementation of the Rules Governing Capital Management of Commercial Banks (provisional) in Transitional Period, the CBRC requires that the capital adequacy ratio, Tier-one capital adequacy ratio and core Tier-one capital adequacy ratio for commercial banks shall not fall below 8.5%, 6.5% and 5.5% respectively for the year ended December 31, 2013. The Bank is in full compliance with all relevant regulatory requirements.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 54 RISK MANAGEMENT (CONTINUED)

#### (5) Capital management (continued)

The Bank calculates the capital adequacy ratios in accordance with “Regulation Governing Capital of Commercial Banks (provisional)” and relevant requirements promulgated by the CBRC as follows:

	As at December 2013
<b>Core Tier-one capital</b>	<b>73,291,474</b>
Core Tier-one capital deductions	(869,397)
Other intangible assets other than land use right (net of related deferred tax liability)	(869,397)
<b>Net core Tier-one capital</b>	<b>72,422,077</b>
<b>Net Tier-one capital</b>	<b>72,422,077</b>
Tier-two capital	14,471,036
<b>Net capital base</b>	<b>86,893,113</b>
<b>Total risk-weighted assets</b>	<b>965,192,684</b>
– Credit risk-weighted assets	898,548,471
– Market risk-weighted assets	7,976,252
– Operating risk-weighted assets	58,667,961
<b>Core Tier-one capital adequacy ratio</b>	<b>7.50%</b>
<b>Tier-one capital adequacy ratio</b>	<b>7.50%</b>
<b>Capital adequacy ratio</b>	<b>9.00%</b>

The Bank’s capital adequacy ratio and core capital adequacy ratio, which were calculated in accordance with the Regulation Governing Capital Adequacy of Commercial Banks (商业银行资本充足率管理办法) and relevant requirements promulgated by the CBRC, are as follows:

	As at December 2012
Total capital	85,294,627
Including: net core capital	63,360,048
Net risk-weighted assets (i)	756,592,367
Capital adequacy ratio	11.27%
Core capital adequacy ratio	8.37%

(i) The balances of net risk-weighted assets include an amount equal to 12.5 times the Bank’s market risk-weighted assets.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 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, financial assets and liabilities 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, financial assets 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, 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) Financial assets and liabilities 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.
- (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 is 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 financial assets 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 55 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### (2) Financial instruments carried at other than fair value

Except the following items, there is no other financial instrument carried at other than fair value with significant difference between the carrying value and fair value.

	Carrying value	
	2013 31 December	2012 31 December
Financial assets		
Debt securities classified as receivables	92,373,660	6,678,444
Held-to-maturity investments	54,273,572	32,935,919
	<b>146,647,232</b>	39,614,363
Financial liabilities		
Subordinated bonds issued	9,500,000	14,500,000
	Fair value	
	2013 31 December	2012 31 December
Financial assets		
Debt securities classified as receivables	92,320,096	6,709,316
Held-to-maturity investments	52,063,492	32,885,530
	<b>144,383,588</b>	39,594,846
Financial liabilities		
Subordinated bonds issued	8,903,579	14,662,509

## Notes on the financial statements (continued)

*(Expressed in thousands of Renminbi unless otherwise stated)*

### 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.

## Notes on the financial statements (continued)

(Expressed in thousands of Renminbi unless otherwise stated)

### 55 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### (3) Financial instruments carried at fair value (continued)

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
<b>31 December 2013</b>				
Available-for-sale financial assets (i)	226,233	69,353,735	–	69,579,968
Financial assets at fair value				
through profit or loss	–	9,520,236	–	9,520,236
Derivative financial assets	–	4,135,945	–	4,135,945
	226,233	83,009,916	–	83,236,149
Financial liabilities at fair value				
through profit or loss	(306,982)	–	–	(306,982)
Derivative financial liabilities	–	(5,014,128)	–	(5,014,128)
	(306,982)	(5,014,128)	–	(5,321,110)
	Level 1	Level 2	Level 3	Total
<b>31 December 2012</b>				
Available-for-sale financial assets (i)	60,718	52,263,072	–	52,323,790
Financial assets at fair value				
through profit or loss	–	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)

(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.

### 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 Province

Telephone: 020-38322888 (switchboard)

Facsimile: 020-87310779

Postcode: 510080

Quantity of Institution: 1

## Beijing Branch

---

Address: No.2 A East Chang'an Avenue, Dongcheng District,  
Beijing

Telephone: 010-65283775

Facsimile: 010-65266728

Postcode: 100005

Quantity of Institution: 47

## Tianjin Branch

---

Address: Tianjin Mansion, Jiefangnan Road,  
Hexi District, Tianjin

Telephone: 022-58566111, 58566188

Facsimile: 022-58566229

Postcode: 300042

Quantity of Institution: 9

## Shenyang Branch

---

Address: No. 227 Qingnian Street, Shenhe District,  
Shenyang, Liaoning

Telephone: 024-23985789

Facsimile: 024-31303301

Postcode: 110016

Quantity of Institution: 19

## Dalian Branch

---

Address: No. 3 Zhongshan Plaza, Zhongshan District,  
Dalian, Liaoning

Telephone: 0411-82553888

Facsimile: 0411-82553258

Postcode: 116001

Quantity of Institution: 17

## Harbin Branch

---

Address: No. 4 West Dazhi Street, Nangang District,  
Harbin, Heilongjiang

Telephone: 0451-85872906

Facsimile: 0451-85872982

Postcode: 150001

Quantity of Institution: 15

## Shanghai Branch

---

Address: No. 555 Xujiahui Road, Shanghai

Telephone: 021-63022233 (switchboard)

Facsimile: 021-63901929

Postcode: 200023

Quantity of Institution: 30

## Nanjing Branch

---

Address: No. 238 Jiangdong Middle Road, Jianye District,  
Nanjing, Jiangsu

Telephone: 025-66108888 (switchboard)

Facsimile: 025-66108207, 025-66108201

Postcode: 210009

Quantity of Institution: 32

## Hangzhou Branch

---

Address: No. 516 Yan'an Road, Hangzhou, Zhejiang

Telephone: 0571-87019888 (switchboard)

Facsimile: 0571-87917852

Postcode: 310006

Quantity of Institution: 53

## Fuzhou Branch

---

Address: 1. 4/F, Shenfa Mansion, No. 132 Shuguang Road,  
Taijiang District, Fuzhou, Fujian

Telephone: 0591-28082766

Facsimile: 0591-28083903

Postcode: 350009

Quantity of Institution: 1

## Directory of Branches and Subsidiaries

### Jinan Branch

Address: CGB Building, No. 15 Jingsi Road,  
Jinan, Shandong  
Telephone: 0531-66669201  
Facsimile: 0531-66669900  
Postcode: 250001  
Quantity of Institution: 4

### Zhengzhou Branch

Address: No. 10, CBD Waihuan Road,  
Zhengdong New District, Zhengzhou, Henan  
Telephone: 0371-68599907  
Facsimile: 0371-68599908  
Postcode: 450046  
Quantity of Institution: 31

### Wuhan Branch

Address: Sanxiahuan Building, No. 8 Xinhua Road,  
Jiangnan District, Wuhan, Hubei  
Telephone: 027-85354567  
Facsimile: 027-85354848  
Postcode: 430015  
Quantity of Institution: 17

### Changsha Branch

Address: Xinhua Building, No. 826, Wuyi Road,  
Changsha, Hunan  
Telephone: 0731-88336789  
Facsimile: 0731-88335788  
Postcode: 410005  
Quantity of Institution: 10

### 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: 58

### 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: 31

### Zhuhai Branch

Address: No. 68 Jingshan Road, Jida, Zhuhai, Guangdong  
Telephone: 0756-3250900 (switchboard)  
Facsimile: 0756-3250700  
Postcode: 519015  
Quantity of Institution: 14

### 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

## Directory of Branches and Subsidiaries

### 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 (switchboard)  
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

### 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

## Directory of Branches and Subsidiaries

### 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: 2

### Kunming Branch

---

Address: No. 2 Dianchi Road, Kunming, Yunnan

Telephone: 0871-64192153

Facsimile: 0871-64177444

Postcode: 650034

Quantity of Institution: 21

### 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: 3

### 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

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