



# 2013

ANNUAL REPORT

---

HUA XIA BANK CO., LIMITED



Chairman of the Board: Wu Jian



President: Fan Dazhi



## CONTENTS

1	Important Notice, Contents and Definitions
4	Corporation Information
5	Highlights of Accounting Data and Financial Indicators
9	Report of the Board of Directors
53	Significant Events
57	Details of Changes in Share Capital and Shareholders
64	Basic Information on Directors, Supervisors, Senior Management Members and Employees
77	Corporate Governance
83	Internal Control
85	Financial Statements
86	Written Confirmation of the Annual Report 2013 by Directors and Senior Management Members of Hua Xia Bank Co., Limited
88	Audit Report

## IMPORTANT NOTICE

---

i. The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management members of Hua Xia Bank Co., Limited (the “Company”) undertake that the information in this report contains no false record, misleading statement or material omission, and assume joint and several liabilities to the authenticity, accuracy and completeness of the information in this report.

ii. The *Annual Report 2013 of Hua Xia Bank Co., Limited* and its Summary were reviewed and approved at the Third Meeting of the Seventh Board of Directors of the Company on 16 April 2014. 17 out of the 19 Directors that should attend the meeting were present actually. Director Li Jianbo and Independent Director Zeng Xiangquan entrusted Chairman Wu Jian and Independent Director Yu Changchun to exercise the voting right on their behalf respectively. Four Supervisors of the Company attended the meeting as non-voting delegates.

iii. Profit distribution plan for the reporting period reviewed by the Board of Directors:

With 8,904,643,509 shares outstanding of the Company at the end of 2013 as the base number, cash dividends will be distributed to all of the shareholders at RMB4.35 (before tax) per 10 shares.

For details, please refer to “Section IV Report of the Board of Directors”.

iv. The 2013 financial statements of the Company have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with Chinese auditing standards, with standard unqualified auditor’s report being issued.

v. Wu Jian, Chairman of the Board of Directors of the Company, Fan Dazhi, President of the Company, Guan Wenjie, Principal of Financial Affairs of the Company, and Fu Shengfeng, Person-in-charge of the Accounting Department of the Company, hereby warrant that the financial statements contained in the Annual Report are authentic and complete.

vi. This report contains future plans and other forward-looking statements, which do not constitute the Company’s material undertakings to the investors. Please be cautious of investment risks.

Should there be any discrepancy between the English version and the Chinese version, the latter shall prevail.

## DEFINITIONS

In this Annual Report, unless the context otherwise requires, the following terms shall have the meanings set out below:

the Group	Hua Xia Bank Co., Limited and its subsidiaries
the Company, the Bank, Hua Xia Bank	Hua Xia Bank Co., Limited
CBRC	China Banking Regulatory Commission
CSRC	China Securities Regulatory Commission
MOF	Ministry of Finance of the People's Republic of China
SHIBOR	Shanghai Interbank Offered Rate launched by National Interbank Funding Center on 4 January 2007
Yuan	RMB
Daxing Hua Xia Village Bank	Daxing Hua Xia Village Bank Co., Ltd.
Chenggong Hua Xia Village Bank	Kunming Chenggong Hua Xia Village Bank Co., Ltd.
Jiangyou Hua Xia Village Bank	Sichuan Jiangyou Hua Xia Village Bank Co., Ltd.

**Important risk notice:** The Company has described the risks that may adversely affect the fulfillment of the Company's future development strategies and business objectives. Please refer to risk-related part in Section IV "Report of the Board of Directors".

## CORPORATION INFORMATION

- I. Legal name in Chinese: 华夏银行股份有限公司  
Chinese name in short: 华夏银行  
Legal name in English: Hua Xia Bank Co., Limited
- II. Legal representative: Wu Jian
- III. Secretary to the Board of Directors: Zhao Junxue  
Securities affairs representative: Jiang Zhenfeng  
Address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing  
Postal code: 100005  
Tel: 010-85238570, 85239938  
Fax: 010-85239605  
Email: <mailto:zhdb@hxb.com.cn>
- IV. Registered address: 22 Jianguomennei Street, Dongcheng District, Beijing  
Business address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing  
Postal code: 100005  
Websites: <http://www.hxb.com.cn>; <http://www.95577.com.cn>  
Email: [zhdb@hxb.com.cn](mailto:zhdb@hxb.com.cn)
- V. Newspaper designated for disclosure of information: China Securities Journal, Shanghai Securities News and Securities Times  
Website designated by CSRC for publication of the annual report: <http://www.sse.com.cn>  
Location where copies of this annual report are kept: Office of the Board of Directors of the Company
- VI. Place where shares are listed: Shanghai Stock Exchange  
Stock name: Hua Xia Bank  
Stock code: 600015
- VII. Change of registration during the reporting period:
  - i. Basic information  
Date of initial registration: 18 March 1998  
Place of initial registration: State Administration for Industry and Commerce, PRC  
Corporate banking license number: 100000000029676  
Tax registration certificate number: J.S.Z.Z. No. 11010210112001X  
Organizational code: 10112001-X
  - ii. Change of principal operation since listing  
The Company's principal operation has never changed since listing.
  - iii. Change of controlling shareholder since listing  
The Company has no controlling shareholder.
- VIII. Other relevant information:  
Name of depositary of shares of the Company: Shanghai Branch of China Securities Depository and Clearing Co., Ltd.  
Name of accounting firm the Company engaged: Deloitte Touche Tohmatsu Certified Public Accountants LLP  
Business address: 30/F Bund Center, 222 Yan An Road East, Shanghai, China  
Signed CPAs: Lv Jing & Zhang Junfeng

## HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

# HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

## I. MAJOR PROFIT INDICATORS OF THE YEAR

(Unit: RMB1 million)

Item	2013
Gross profit	20,705
Net profit attributable to shareholders of listed company	15,506
Net profit attributable to equity holders of the listed company after deduction of extraordinary profit and loss	15,477
Operating profit	20,660
Return on investment	-116
Net income from non-operating activities	45
Net cash flows from operating activities	80,731
Net increase in cash and cash equivalents	71,182

Note: The extraordinary profit and loss are identified and calculated in accordance with the *Explanatory Notice on Information Disclosure by Companies that Offer Securities to the Public No.1 – Extraordinary Profit and Loss (2008)*, and the deducted extraordinary profit and loss items and amounts involved are as follows:

### Extraordinary Profit and Loss Items and Amounts

(Unit: RMB1 million)

Extraordinary profit and loss item	Amount in 2013	Amount in 2012	Amount in 2011
(Profit)/loss on disposal of non-current assets	-5	-8	-11
(Profit)/loss from contingencies irrelevant to the normal operation of the Company	–	-1	-6
(Profit)/loss on changes in fair value of held-for-trading financial assets and held-for-trading financial liabilities excluding effective hedging transaction related to the Company's normal operation	–	9	-14
Return on investment from the disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets	–	33	-30
Other non-operating income and expenses except for the above items	50	59	21
Total extraordinary profit and loss	45	92	-40
Less: Income tax influence of extraordinary profit and loss	15	24	-7
Extraordinary profit and loss, net	30	68	-33
Less: Influence of extraordinary profit and loss attributable to minority shareholders of the Company, net (after-tax)	1	–	–
Extraordinary profit and loss attributable to ordinary shareholders of the Company	29	68	-33



## II. MAIN ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PAST THREE YEARS AT THE END OF THE REPORTING PERIOD

(Unit: RMB1 million)

Main accounting data	2013	2012	Change compared with last year (%)	2011
Operating income	45,219	39,778	13.68	33,544
Operating profit	20,660	17,202	20.10	12,524
Gross profit	20,705	17,252	20.02	12,527
Net profit attributable to shareholders of listed company	15,506	12,797	21.17	9,222
Net profit attributable to shareholders of the listed company after deduction of extraordinary profit and loss	15,477	12,729	21.59	9,255
Net cash flows from operating activities	80,731	94,844	-14.88	79,027
	At the end of 2013	At the end of 2012	Change compared with last year (%)	At the end of 2011
Total assets	1,672,447	1,488,860	12.33	1,244,141
Total liabilities	1,586,428	1,414,137	12.18	1,180,211
Owner's equity attributable to shareholders of the listed company	85,420	74,694	14.36	63,901
Total share capital	8,905	6,850	30.00	6,850

Main financial indicator	2013	2012	Change compared with last year (%)	2011
Basic earnings per share (in RMB)	1.74	1.44	20.83	1.04
Diluted earnings per share (in RMB)	1.74	1.44	20.83	1.04
Earnings per share after deduction of extraordinary profit and loss (in RMB)	1.74	1.43	21.68	1.04
Weighted average return on equity (%)	19.30	18.50	Up 0.80 percentage point	17.44
Weighted average return on net assets after deduction of extraordinary profit and loss (%)	19.27	18.41	Up 0.86 percentage point	17.50
Net cash flow per share from operating activities (in RMB)	9.07	10.65	-14.84	8.87
	At the end of 2013	At the end of 2012	Change compared with last year (%)	At the end of 2011
Net assets per share attributable to shareholders of the listed company (in RMB)	9.59	8.39	14.30	7.18
Liability/asset ratio (%)	94.86	94.98	Down 0.12 percentage point	94.86

## HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

### Supplementary financial ratios

Item	2013	2012	2011
Net interest spread (%)	2.50	2.52	2.63
Net interest margin (%)	2.67	2.71	2.81

Notes:

1. Relevant indicators are calculated according to the *Explanatory Notice on Information Disclosure by Companies that Offer Securities to the Public No.1 – Extraordinary Profit and Loss (2008)*, the *Standards Concerning the Contents and Formats of Information Disclosure by Companies that Offer Securities to the Public No. 2 – Contents and Formats of Annual Reports (Revision 2012)*, and the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010)*. During the reporting period, the Company's capital base was strengthened with capital reserve. Therefore, net assets per share attributable to shareholders of the listed company, earnings per share and net cash flow per share from operating activities during each periods of comparison were recalculated based on the adjusted number of shares.

2. Liability/asset ratio = total liabilities/total assets.

3. Net interest spread is the spread between yield on average balance of interest-generating assets and cost on average balance of interest-bearing liabilities.

4. Net interest margin is calculated by dividing net interest income by the average balance of interest-generating assets.

## III. SCHEDULES TO THE INCOME STATEMENT

According to the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010)*, the return on net assets and earnings per share in 2013 are as follows:

Profit of the reporting period	Weighted average return on equity (%)	Earnings per share (in RMB)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	19.30	1.74	1.74
Net profit attributable to ordinary shareholders of the Company after deducting extraordinary profit and loss	19.27	1.74	1.74

## IV. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD

(Unit: RMB1 million)

Item	Share capital	Capital reserve	General reserve	Surplus reserve	Retained profit	Minority shareholders' equity	Total shareholders' equity
Opening balance	6,850	32,309	12,949	4,585	18,001	29	74,723
Increase during the period	2,055	-1,520	–	–	15,506	570	16,611
Decrease during the period	–	2,096	–	–	3,219	–	5,315
Closing balance	8,905	28,693	12,949	4,585	30,288	599	86,019

### Reasons for changes in shareholders' equity:

1. The increase of “share capital” is due to the strengthening of capital base with capital reserve during the reporting period.

2. The increase of “capital reserve” is due to the investment by minority shareholders at a premium and the amount (after tax) affected by the changes in fair value of available-for-sale financial assets during the reporting period; the decrease during the period is due to the strengthening of capital base with capital reserve and the profit and loss amount (after tax) transferred from the changes in fair value of available-for-sale financial assets during the reporting period.

3. The increase of “retained profit” is due to the increase of net profit during the reporting period and the decrease is due to the distribution of dividends for 2012.

4. The decrease of “minority shareholders' equity” is due to net profit earned by the Group's non-wholly-controlled subsidiary during the reporting period.

## VI. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

(Unit: RMB1 million)

Item	Balance at the beginning of the period	Balance at the end of the period	Change during the period	Effect on profit of the period
Held-for-trading financial assets	9,757	8,699	-1,058	-25
Available-for-sale financial assets	59,166	65,134	5,968	–
Derivative financial instruments	12	-14	-26	-25
Total	68,935	73,819	4,884	-50

## REPORT OF THE BOARD OF DIRECTORS

### I. DISCUSSION AND ANALYSIS OF THE BOARD OF DIRECTORS ON THE COMPANY'S OPERATION DURING THE REPORTING PERIOD

#### i. Business overview

During the reporting period, the Company persisted in making progress while maintaining stability, accelerated operation transformation, strengthened regulated operation and improved service quality and efficiency, in line with the target tasks specified in the *Development Program of Hua Xia Bank 2013-2016*. The Company made every effort to implement the strategy of "SME financial service provider", continuously cultivated the "Hua Xia Service" brand, and fully achieved the annual business objectives determined by the Board of Directors.

#### 1. Steady expansion of asset scale

At the end of the reporting period, the Group's total assets reached RMB1,672,447 million, an increase of RMB183,587 million or 12.33% over the beginning of the year; total loans increased by RMB103,001 million or 14.30% to RMB823,169 million; total deposits increased by RMB141.592 million or 13.67% to RMB1,177,592 million, 1.34 percentage points higher than the asset growth rate.

#### 2. Continuous improvement of profitability

During the reporting period, net profit attributable to the shareholders of the listed company stood at RMB15,506 million, an increase of RMB2,709 million or 21.17% compared with the previous year, 8.84 percentage points higher than the asset growth rate. Fee-based business income increased by RMB2,192 million or 45.29% to RMB7,032 million, 35.22 percentage points higher than the growth rate of net interest income. Return on assets was 0.98%, an increase of 0.04 percentage points. Return on equity was 19.30%, up 0.80 percentage points.

#### 3. Continuous improvement of business structure

First, asset and liability structure tended to be steadily getting better. The Company strived to stabilize and increase deposits. The average daily growth of general deposits was faster than that of balance, and the average daily growth of savings deposits faster than that of corporate deposits, showing a sound deposit structure and sound stability. The Company continued exit from low-quality and inefficient customers to improve the utilization efficiency of credit resources. Small enterprise loans and personal loans maintained a rapid growth, which were 10.84 and 27.51 percentage points higher than the growth of whole loans respectively. Second, cost and income structure kept improving. The proportion of fee-based business income reached 15.55%, an increase of 3.38 percentage points compared with the previous year. Cost-to-income ratio was 38.93%, down 1.02 percentage points.

#### 4. Further improvement of service quality and efficiency

First, the marketing mechanism construction was deepened. The Company further subdivided layered customer management and layered services, pushed forward sub-branch transformation and actively explored the development of community sub-branches. Second, customer base was continuously broadened. Through popularizing the marketing template, the Company further solidified customer base and improved low-efficiency customers. The number of corporate customers and personal customers increased by 12.36% and 13.72% respectively over the year beginning, and that of corporate and personal internet banking customers rose by 31.83% and 43.05% respectively. Third, promotion of innovative products was strengthened. The Company actively popularized the "Platform Finance" business mode and developed and promoted a host of unique products such as "Small Enterprise Internet Loan" in line with the changes in market and customer needs. Fourth, service methods were innovated. The Company extended business hours in some outlets on a trial basis and provided door-to-door services for the customers with special difficulties.

## 5. Steady promotion of regulated operation

First, comprehensive risk management was enhanced. The Company initiated the perfection of comprehensive risk management framework and pushed forward credit risk management under unified arrangements; improved the ability in actively responding to liquidity risk, bettered liquidity risk management rules and measures, strengthened the whole bank's fund allocation under unified arrangements, and maintained overall stability of liquidity; improved the market risk management system and operational risk monitoring indicator system, and developed business continuity management system. Second, case prevention, security and stability work was carried out in a down-to-earth manner. Third, the Company further strengthened IT management and built the local and nonlocal disaster backup centers of the Head Office. A general framework of "Three Centers in Two Places" has taken shape. Fourth, operation management was further refined. According to the new regulatory requirements on capital, the Company actively advanced the building of the internal rating system, gradually promoted the economic capital management and improved the resources utilization and allocation efficiency.

### ii. Analysis of principal operation

During the reporting period, the Group recorded an operating income of RMB45,219 million, an increase of 13.68% year on year, and an operating profit of RMB20.66 billion, an increase of 20.10% year on year. The growth was mainly attributed to the continuous expansion of business scale, in-depth adjustment of business structure and effective control of costs and expenses.

#### 1. Analysis of major indicators

(Unit: RMB1 million)

Item	2013	2012	Change (%)
Operating income	45,219	39,778	13.68
Operating profit	20,660	17,202	20.10
Net profit attributable to shareholders of listed company	15,506	12,797	21.17
Net increase in cash and cash equivalents	71,182	19,298	268.86

#### 2. Breakdowns by geographical area

(Unit: RMB1 million)

Geographical area	Operating income	Change compared with previous year (%)	Operating profit	Change compared with previous year (%)
Northern China and Northeastern China	18,305	15.17	10,322	115.31
Eastern China	11,023	8.56	2,319	-52.50
Central China and Southern China	8,928	18.38	3,961	4.48
Western	6,965	12.56	4,058	8.65
Inter-segment set-off	-2	N/A.	-	N/A.
Total	45,219	13.68	20,660	20.10

## REPORT OF THE BOARD OF DIRECTORS

### 3. Changes in operating income

(Unit: RMB1 million)

Business category	2013	Percentage (%)	2012	Increase/decrease compared with the same period of previous year (%)
Interest income from loans and advances	50,100	60.28	45,478	10.16
Interest income from financial assets held under resale agreements	11,298	13.59	14,567	-22.44
Interest income from held-to-maturity investments	4,424	5.32	4,215	4.96
Interest income on due from central banks	3,334	4.01	2,892	15.28
Interest income from available-for-sale financial assets	3,139	3.78	2,043	53.65
Interest income from deposits in other financial institutions	1,951	2.35	2,444	-20.17
Interest income from placements with banks and other financial institutions	975	1.17	1,264	-22.86
Interest income from investment receivables	550	0.66	–	N/A.
Interest income from held-for-trading financial assets	482	0.58	492	-2.03
Fee income	6,861	8.25	4,444	54.39
Others	5	0.01	388	-98.71
Total	83,119	100.00	78,227	6.25

### 4. Explanations on reasons for major changes in profit composition, principal operation and structure, profitability of principal operation from the previous reporting period

During the reporting period, the Group's profit composition, principal operation and structure and profitability of principal operation did not change substantially from the previous reporting period.

### 5. Analysis on cash flows of the Company

During the reporting period, net flow of cash and cash equivalents of the Group was RMB71,182 million of net cash inflows. Among them, net cash inflow from operating activities was RMB80,731 million, which was mainly attributed to the strengthening of liquidity risk management and smooth operation of deposits, loans and other asset and liability services. Investments resulted in a net cash outflow of RMB6,465 million, which was mainly due to an increase in investments. Financing activities resulted in a net cash outflow of RMB3,078 million, which was mainly due to distribution of dividends for 2012.

### iii. Analysis of changes in financial indicators

#### 1. Changes in major financial indicators and the reasons

(Unit: RMB1 million)

Major financial indicator	At the end of the reporting period	Increase/decrease compared with the end of previous year (%)	Main reason
Total assets	1,672,447	12.33	Increase of asset-based business such as loans
Total Liabilities	1,586,428	12.18	Increase of liability-based business such as deposits
Owner's equity attributable to shareholders of the listed company	85,420	14.36	Increase of net profit
Major financial indicator	Reporting period	Year-on-year increase/decrease (%)	Main reason
Operating income	45,219	13.68	Business size expansion and income growth
Operating profit	20,660	20.10	Expansion of business size and improvement of profitability
Net profit attributable to shareholders of listed company	15,506	21.17	Expansion of business size and improvement of profitability

## REPORT OF THE BOARD OF DIRECTORS

### 2. Items with over 30% changes in the comparative accounting statements

(Unit: RMB1 million)

Major accounting item	At the end of the reporting period	Increase/decrease compared with the end of previous year (%)	Main reason
Due from banks and other financial institutions	40,204	-54.00	Due from banks and other financial institutions decreased
Placements with banks and other financial institutions	21,606	-31.27	Placements with banks and other financial institutions decreased
Derivative financial assets	531	210.53	Derivative financial assets increased
Financial assets held under resale agreements	327,447	36.94	Financial assets held under resale agreements increased
Investment receivable	11,573	1,057.30	Investment receivable increased
Investment property	–	-100.00	Investment property decreased
Deferred income tax assets	4,475	34.71	Deferred income tax assets increased
Other assets	4,840	64.29	Other assets increased
Placements from banks and other financial institutions	35,538	-50.51	Placements from banks and other financial institutions decreased
Derivative financial liabilities	545	242.77	Derivative financial liabilities increased
Estimated liabilities	2	-50.00	Estimated liabilities decreased
Deferred income tax liabilities	–	-100.00	Deferred income tax liabilities decreased
Share capital	8,905	30.00	Capital base was strengthened with capital reserve
Retained profit	30,288	68.26	Net profit increased
Minority shareholders' equity	599	1,965.52	Minority shareholders' equity increased
Major accounting item	Reporting period	Increase/decrease compared with the previous year (%)	Main reason
Fee and commission income	6,861	54.39	Fee-based business income increased
Fee and commission expenses	549	37.94	Fees increased
Gain/(Loss) on investments	-116	-582.35	Gain on investment decreased
Gain/(Loss) on the changes in fair value	-50	-655.56	Changes in fair value
Other business income	22	-88.04	Other business income decreased
Minority shareholders' gain/loss	5	600.00	Minority shareholders' gain/loss increased



## iv. Analysis of major income statement items

## 1. Interest income

(Unit: RMB1 million)

Item	2013		2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans and advances	42,604	55.87	39,999	54.50
Personal loans and advances	7,100	9.31	5,111	6.96
Discounted bills	396	0.52	368	0.50
Financial assets held under resale agreements	11,298	14.82	14,567	19.85
Held-to-maturity investments	4,424	5.80	4,215	5.74
Balances with central banks	3,334	4.37	2,892	3.94
Available-for-sale financial assets	3,139	4.12	2,043	2.79
Due from banks and other financial institutions	1,951	2.56	2,444	3.33
Placements with banks and other financial institutions	975	1.28	1,264	1.72
Investment receivable	550	0.72	–	–
Held-for-trading financial assets	482	0.63	492	0.67
Total	76,253	100.00	73,395	100.00

## 2. Interest expense

(Unit: RMB1 million)

Item	2013		2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Customer deposits	23,209	62.14	21,523	56.56
Due to banks and other financial institutions	10,247	27.44	9,159	24.07
Repurchase agreements	1,835	4.91	5,048	13.27
Placements from banks and other financial institutions	1,570	4.20	1,439	3.78
Bonds payable	423	1.13	871	2.29
Others	67	0.18	11	0.03
Total	37,351	100.00	38,051	100.00

## REPORT OF THE BOARD OF DIRECTORS

### 3. Fee and commission income

(Unit: RMB1 million)

Item	2013		2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Wealth management service	2,157	31.44	1,274	28.67
Credit commitments	1,580	23.03	1,186	26.69
Agency business	1,471	21.44	734	16.52
Custodian and other fiduciary services	489	7.13	268	6.03
Bank card service	486	7.08	330	7.42
Consulting service	122	1.78	307	6.91
Settlement and clearing business	45	0.65	46	1.03
Others	511	7.45	299	6.73
Total	6,861	100.00	4,444	100.00

### 4. Operation and administrative expenses

(Unit: RMB1 million)

Item	2013		2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Staff remuneration and welfare	8,906	50.59	7,857	49.44
Business expenses	6,525	37.07	6,177	38.87
Depreciation and amortization	2,173	12.34	1,858	11.69
Total	17,604	100.00	15,892	100.00

### 5. Income tax expenses

(Unit: RMB1 million)

Item	2013	2012
Pre-tax profit	20,705	17,252
Income tax at statutory tax rate of 25%	5,176	4,313
Adjustment of current-period income tax during previous periods	4	-213
Plus: Tax effect of non-deductable expense	727	967
Less: Tax effect of tax-exempt income	713	611
Total	5,194	4,456

## v. Analysis of assets

## 1. Loan extensions

## (1) Loan extensions by industry

(Unit: RMB1 million)

Industry	At the year-end		At the year-beginning	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Manufacturing	212,017	25.75	202,638	28.14
Wholesale and retail trade	128,655	15.63	112,267	15.59
Real estate	71,924	8.74	68,032	9.45
Leasing and commercial services	64,265	7.81	52,679	7.31
Construction	61,471	7.47	52,430	7.28
Transportation, storage and postal services	42,622	5.18	45,147	6.27
Mining	25,122	3.05	22,704	3.15
Production and supply of electric power, heat, gas and water	22,561	2.74	23,926	3.32
Other corporate industries	46,510	5.65	37,073	5.15
Discounted bills	5,268	0.64	2,605	0.36
Personal loans	142,754	17.34	100,667	13.98
Total	823,169	100.00	720,168	100.00

During the reporting period, the Group earnestly implemented the country's macro-control policy and regulatory policies and requirements, strengthened management of risks arising from key industries, actively promoted and channeled more credit resources to key areas, real economy and advantageous industries, and continued to adjust and control the loan proportion of industries with excess capacity or high risks or those greatly affected by the macro-control. The Group has basically realized the balanced growth and healthy development of industrial credit structure.

## (2) Loan extensions by geographical area

(Unit: RMB1 million)

Geographical area	At the year-end		At the year-beginning	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Northern and Northeastern China	289,957	35.22	250,050	34.72
Eastern China	245,089	29.77	224,428	31.16
Southern and Central China	167,916	20.40	140,345	19.49
Western China	120,207	14.61	105,345	14.63
Total	823,169	100.00	720,168	100.00

## REPORT OF THE BOARD OF DIRECTORS

### (3) Particulars of top 10 loan customers

(Unit: RMB1 million)

	Balance	Percentage (%)
Loans to top 10 customers	25,181	3.06

During the reporting period, the Group strictly controlled the loan concentration risk. The total balance of top 10 loan customers amounted to RMB25,181 million, accounting for 3.06% of loan balance and 23.84% of net capital at the end of the period, respectively, which were controlled within the regulatory requirements.

### (4) Classification of loan guarantee methods and percentages

(Unit: RMB1 million)

Guarantee method	At the year-end		At the year-beginning	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Unsecured loans	120,630	14.66	111,247	15.45
Guaranteed loans	268,952	32.67	233,980	32.49
Collateral loans	433,587	52.67	374,941	52.06
– Mortgage loans	335,152	40.71	263,213	36.55
– Pledge loans	98,435	11.96	111,728	15.51
Total	823,169	100.00	720,168	100.00

During the reporting period, the Group continuously improved loan guarantee structure and attached importance to the increase of collaterals to mitigate loan risks. The percentage of unsecured loan balance continued decreasing, while that of mortgage and pledge loans continued increasing.

## 2. Major loans and interest rates

### (1) Major loans and interest rates by business type

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
Corporate loans	651,644	43,000	6.60
Retail loans	120,638	7,100	5.89
Total	772,282	50,100	6.49

Note: According to the *Notice of China Banking Regulatory Commission on 2014 Offsite Regulatory Statements* and other relevant regulations, the loans on which interest has ceased to accrue shall not be included in the interest-earning assets, and the average balance of loans excludes the loans on which interest has ceased to accrue (same as below).

**(2) Major loans and interest rates by term**

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
General short-term loans	419,345	26,678	6.36
Medium and long-term loans	352,937	23,422	6.64
Total	772,282	50,100	6.49

Note: General short-term loans include discounted bills.

**3. Financial assets held under resale agreements**

(Unit: RMB1 million)

Item	End of 2013		End of 2012	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	38,072	11.63	2,000	0.84
Bills	117,022	35.74	237,109	99.16
Beneficial rights of assets	172,353	52.63	–	–
Total	327,447	100.00	239,109	100.00

**vi. Analysis of liabilities****1. Due to customers**

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
Corporate time deposits	330,217	2,480	0.75
Corporate time deposits	572,651	17,254	3.01
Savings demand deposits	52,580	202	0.38
Savings time deposits	111,187	3,273	2.94
Total	1,066,635	23,209	2.18

## REPORT OF THE BOARD OF DIRECTORS

### 2. Financial assets sold under repurchase agreements

(Unit: RMB1 million)

Item	End of 2013		End of 2012	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	59,669	99.64	7,001	14.76
Bills	215	0.36	40,421	85.24
Total	59,884	100.00	47,422	100.00

### 3. Due to banks and other financial institutions

(Unit: RMB1 million)

Item	End of 2013		End of 2012	
	Balance	Percentage (%)	Balance	Percentage (%)
Due to domestic banks	177,377	63.58	161,718	70.54
Due to overseas banks	7,911	2.83	10,909	4.76
Due to other domestic financial institutions	93,698	33.59	56,628	24.70
Total	278,986	100.00	229,255	100.00

### vii. Determination of fair value and items related to fair value measurement

During the reporting period, the Company measured held-for-trading financial assets and available-for-sale financial assets at fair value, which were determined by means of quotation, transaction price or yield curve. The yield curve published by China Government Securities Depository Trust & Clearing Co., Ltd. was used as the RMB-denominated bond yield curve, and the yield curve provided by the Bloomberg system was adopted as foreign currency-denominated bond yield curve.

#### Items related to Fair Value Measurement<sup>1</sup>

(Unit: RMB1 million)

Item	At the beginning of the period	Changes at fair value through profit or loss during the period	Accumulated changes at fair value through equity	Provision for impairment during the period	At the end of the period
Held-for-trading financial assets	9,757	-25	-	-	8,699
Derivative financial assets	171	360	-	-	531
Available-for-sale financial assets	59,166	-	-1,850	-	65,134
Total financial assets	69,094	335	-1,850	-	74,364
Financial liabilities <sup>2</sup>	159	-385	-	-	545

Notes:

1. There is no necessary articulation in the table. 2. Financial liabilities include derivative financial liabilities.

## viii. Analysis of core competitiveness

Faced with the complicated economic and financial situations and business environment during the reporting period, the Company accelerated business transformation, enhanced regulated operation and continuously improved development quality and efficiency.

### 1. Accelerate strategic transformation and strengthen innovative development capability

The Company firmly implements the strategy of “SME Financial Service Provider” and its “Dragon Boat Plan” with the characteristics of “small, quick and flexible” has built a “quality and efficient” brand image in the market. Relying on its own “Payment & Financing System”, the Company was the first among all banks to launch the “platform finance” business mode, and successfully popularized it in nine fields, including core enterprises, bulk commodity market, business circle of the market and e-commerce, and realized online credit product marketing and customer services to provide small enterprises of the platform with efficient and quick financial services.

### 2. Cultivate the “Hua Xia Service” brand and enhance customer service capacity

The Company continuously cultivated the “Hua Xia Service” brand and deepened customer services. The Company improved marketing service mechanism, furthered service mode innovation and continuously enhanced customer service capacity. The Company opened the product research and development center and introduced such innovative products as online small enterprise lending, mining right mortgage financing and bonded warehouse receipt financing. The popularity of such business brands as “Longying Wealth Management” and “Hua Xia E-Bank” kept improving.

### 3. Steadily push forward comprehensive risk management and enhance compliant operation capability

The Company has set out to improve a comprehensive risk management framework. It pushed forward credit risk management under unified arrangements, strengthened credit facility due diligence and rectification of problems found in internal and external inspections, and went all out to recover and solve problematic loans. The Company kept improving internal control compliance system, and strengthened monitoring and inspection of key areas, key business and key links to ensure stable operation.

### 4. Steadily push forward refined management and enhance comprehensive control capability

The Company pushed forward the building of capital management platform and economic capital management, improved resources allocation mechanism, gave priority to directing resources to low-consumed business, the branches with more than average return on risk assets, and new products and new services, in an effort to improve resources utilization and allocation efficiency. The Company improved branch assessment by category and group and strengthened differentiated assessment. The Company endeavored to reduce costs and improve efficiency and promote comprehensive cost management. Cost-to-income ratio kept decreasing, and return on assets and return on equity both increased.

### 5. Strengthen IT building and improve technical support capacity

The Company established the local and nonlocal disaster backup centers of the Head Office and implemented the actual switch of local disaster backup centers of core system for the first time. An overall architecture of “Three Centers in Two Places” has basically taken shape. The Company continuously improved the three-dimensional monitoring system of information systems and preliminarily realized the discovery and addressing of information security events as early as practicable. The “Isolation of Three Networks” has been fully completed. Six IT projects of the Company have been successively recognized by PBC and CBRC, making it the sole bank concurrently receiving the first and second prizes from CBRC and the sole joint-stock commercial bank receiving the first prize.

## REPORT OF THE BOARD OF DIRECTORS

### ix. Analysis of investments

#### 1. Outward equity investments

##### (1) Holding in other listed companies

(Unit: RMB1 million)

Stock code	Stock abbreviation	Initial investment	Shareholding proportion (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
V	Visa Inc.	1	0.0003	1	0.02	–	Long-term equity investment	Membership fees converted to shares

##### (2) Holdings in unlisted financial enterprises and companies to be listed

(Unit: RMB1 million)

Name	Initial investment	Number of shares held (1 million shares)	Shareholding proportion (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
China UnionPay Co., Ltd	81	62.50	2.13	81	2.50	–	Long-term equity investment	Own fund
Daxing Hua Xia Village Bank Co., Ltd.	100	100	80	100	–	–	Long-term equity investment	Own fund
Kunming Chenggong Hua Xia Village Bank Co., Ltd.	35	35	70	35	–	–	Long-term equity investment	Own fund
Sichuan Jiangyou Hua Xia Village Bank Co., Ltd.	35	35	70	35	–	–	Long-term equity investment	Own fund
Huaxia Financial Leasing Co., Ltd.	2460	2460	82	2460	–	–	Long-term equity investment	Own fund

Note: The cost method was adopted for accounting of the Group's long-term equity investments above. Except actual payments upon investment or announced cash dividends not distributed in consideration or profits, cash dividends announced by investees for distribution or profits were recognized as return on investment into current-period profit or loss.



## 2. Analysis of major subsidiaries and equity participation companies

### i. Daxing Hua Xia Village Bank

The bank with a registered capital of RMB125 million started operation in December 2010, in which the Company holds an 80% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB714,873,400 and RMB126,989,800 respectively. The deposit balance increased by 14.43% year on year to RMB579,182,500; the loan balance rose by 34.53% year on year to RMB426,225,900. During the reporting period, the bank generated a net profit of RMB5,068,200 thanks to good business growth. Daxing Hua Xia Village Bank made a non-public additional offering of 25 million shares in 2013, increasing its registered capital to RMB125 million from originally RMB100 million.

### ii. Chenggong Hua Xia Village Bank

The bank with a registered capital of RMB50 million started operation in September 2011, in which the Company holds a 70% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB382,242,800 and RMB50,054,500 respectively. The deposit balance decreased by 7.34% year on year to RMB297,474,200; the loan balance rose by 15.07% year on year to RMB275,615,000. During the reporting period, the bank generated a net profit of RMB2,856,000 thanks to good business growth.

### iii. Jiangyou Hua Xia Village Bank

The bank with a registered capital of RMB50 million started operation in December 2011, in which the Company holds a 70% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB515,869,400 and RMB53,314,600 respectively. The deposit balance increased by 37.35% year on year to RMB428,036,600; the loan balance rose by 59.02% year on year to RMB270,365,200. During the reporting period, the bank generated a net profit of RMB5,792,700 thanks to good business growth.

### iv. Huaxia Financial Leasing Co., Ltd.

The company with a registered capital of RMB3 billion started operation in May 2013, in which the Company holds an 82% stake. At the end of the reporting period, the company's total assets, total liabilities and net assets were RMB12,352 million, RMB9.34 billion and RMB3,012 million respectively. The company generated a profit of RMB11,588,000 thanks to good business growth.

### x. Special purpose vehicles controlled by the Company

Not applicable.

### xi. Business review

#### 1. Corporate banking

During the reporting period, the corporate banking line actively responded to the changes in internal and external business situations, strived for innovative development and achieved remarkable results.

Corporate deposits were effectively organized with a view to reducing costs and improving efficiency. At the end of the reporting period, the Company recorded corporate deposits of RMB972,781 million, an increase of RMB99,084 million or 11.34% compared with last year; average daily corporate deposits reached RMB901,677 million, up RMB123,575 million or 15.88%. Meanwhile, interest costs were well controlled, and interest rate of corporate deposits decreased by 0.18 percentage point during the reporting period.

The Company made efforts to promote the three modes such as longitudinal chain-based development and horizontal sector development and fund source development, developed customers in batches and activated inactive customers by application of supply chain finance and other products and business modes. At the end of the reporting period, the Company's corporate customers numbered 283,900, an increase of 31,200 or 12.36% over the beginning of the year.

The Company devoted great energies to new product R&D and promotion in line with market changes and customer needs. Taking the opportunity of urbanization in China, the Company took the lead among domestic banks in launching urbanization loan products. The Company actively built a three-in-one supply chain financial business platform comprising institutions, products and electronic systems, energetically promoted the modes of specialized institutions, exclusive business operation and special mechanism, and realized the computerized management of supply chain finance and rapid development of business. During the reporting period, the Company's supply chain finance volume reached RMB386.7 billion, an increase of nearly one fold over the previous year. The Company was awarded the "2013 Excellent Supply Chain Finance Bank in China" by the *Business Times*, the "2013 Best Supply Chain Finance" by *caijing.com.cn*, and the "2013 Best Supply Chain Finance Growth" by *ifeng.com*.

The Company earnestly performed its social responsibility and actively promoted green credits. The long-term green credit policy was formulated, increasing credit resources by 10% every year to the areas of energy conservation and emission reduction, with project finance of RMB35,528 million. The Company actively participated in the green credit on-lending of the World Bank, French Development Agency and other foreign governments, completed the on-lending of USD90.7 million for the World Bank and EUR60 million for the French Development Agency, provided supporting funds of RMB1,236 million, supported 38 energy conservation and emission reduction projects of 29 enterprises, benefited the environment of 14 provinces and municipalities, including Hebei, Inner Mongolia, Shanxi and Shandong, and achieved sound economic and social benefits.

International banking showed a robust growth momentum. The growth of international settlement volume was 11 percentage points higher than that of the country's imports and exports, and topped USD100 billion for the first time. The customer base of international banking was further enlarged with the number of international settlement customers exceeding 14,000 and that of trade finance customers increasing by over 40% year on year to over 7,200. The Company boasted high quality of trade finance assets and a presence of over 1,437 correspondent banks in 329 cities of 115 countries and regions in the five continents. The new international settlement system was successfully gone alive, effectively improving the professional management and risk prevention capability. During the reporting period, the Company vigorously developed key products such as import L/C, foreign exchange settlement and sale, domestic L/C, cross-border RMB settlement, two-factor export factoring and forfaiting, and further enriched and improved international business product mix. "Huanqiu Zhiying" international business product comprised nearly 100 items in eight major categories, effectively driving the customer marketing and business growth. The Company was successively awarded the "2012 Best International Business Bank" by the *Trade Finance* magazine and sinotf.com and the "2013 International Business Bank with Excellent Competitiveness" by the *China Business Journal*.

## 2. Small enterprise business

During the reporting period, the Company actively responded to the changes in market demand, strengthened innovative business R&D and application, accelerated transformation of business development mode and improved small enterprise service quality and business quality. At the end of the reporting period, the total number of small enterprise customers of the Company exceeded 230,000, and that of loan customers exceeded 19,400; the balance of small enterprise loans reached RMB164.08 billion, with a growth higher than a year earlier and a growth rate faster than that of the entire loans, fulfilling the target of "no less than two thresholds". The balance proportion added by two percentage points compared with last year.

The Company continuously enriching the "Dragon Boat Plan", an exclusive financial service brand for small enterprises, and developed the offline to online (O2O) unique product mix with small, quick and flexible features. At the end of the reporting period, the number of small enterprise unique products reached 27, with outstanding loans exceeding 80% of the total small enterprise loans. The combined online and offline product mix has become one of the major factors driving small enterprise credit growth.

Depending on internet technology, the Company was the first among domestic banks to launch the platform finance business mode, which maintained a sound development momentum, kept expanding business scope and has developed certain scale preliminarily. By connecting it with platform customer system which mainly targets medium customers, the Company provided numerous small enterprises in the platform with precise services and effectively alleviated financing difficulties and reduced financing costs.

By the end of the reporting period, the "platform finance" business mode had been quickly promoted among core enterprises, bulk commodity markets and business circle of the market; the number of online platform customers and small enterprise customers reached 230 and 8,887, with outstanding loans of RMB2,154 million. The accumulated transaction volume reached 241,800, with an accumulated transaction value of RMB8,789 million; a total of 18,600 loans valued at RMB6,258 million were granted accumulatively, with an average amount of RMB337,000 per loan; 25,900 loans valued at RMB3,836 million were repaid, with an average amount of RMB148,000 per loan; average loan time was around 55 days per loan, representing the "small, rapid and flexible" advantages.

## REPORT OF THE BOARD OF DIRECTORS

The Company continuously furthered the building of the exclusive mechanism for small enterprises. During the reporting period, 33 tier-1 branches and 14 tier-2 branches established regional sub-departments of small and medium enterprise credit departments, and small enterprise exclusive service network had basically covered the whole Bank; Shaoxing and Changzhou branches with small enterprise service features achieved a remarkable progress in development of marketing mechanism, and Changzhou Branch was awarded the “Bank Team with Outstanding Performance in Small and Micro Enterprise Financial Services in 2012” by CBRC; the Company urged Hangzhou, Shanghai, Chengdu, Qingdao, Suzhou and Wuxi branches to steadily improve marketing mechanism development and promotion, in a bid to motivate more sub-branches to be transformed into service providers for small enterprises and individual customers.

During the reporting period, the Company was awarded the “Bank with Outstanding Performance in Small and Micro Enterprise Financial Services among Beijing Banking Financial Institutions in 2012” by CBRC Beijing Office.

### 3. Personal banking

The Company made great efforts to enhance core competitiveness in personal banking, strengthened customer service capability and kept improving personal banking support for the whole Bank’s development. At the end of the reporting period, the balance of the Company’s personal deposits (including current savings deposits, time savings deposits and personal structured deposits) reached RMB203,507 million, an increase of RMB42,343 million or 26.27% over the previous year; average daily personal deposits stood at RMB163,572 million, an increase of RMB29,545 million or 22.04%.

In respect of personal loan business, the Company always pays attention to customers’ consumption needs and improves their living standard. Its three business lines, i.e. dwelling, working and living, have been highly accepted by the market. Personal loan business grew steadily after the Company took various measures such as building marketing platform, increasing project reserve, implementing personal loan customer multiplication plan, strengthening product innovation and promotion and improving business process. At the end of the reporting period, the balance of personal loans of the Company reached RMB142,441 million, an increase of RMB41,994 million or 41.81% over the previous year.

The Company continuously increased input in personal wealth management business and pushed forward the development of a one-stop financial service platform by building the “Longying Wealth Management” investment platform, researching and developing unique products, improving management process, enhancing professionalism of groups and expanding service channels. Personal wealth management business developed in a sound and sustainable manner. At the end of the reporting period, sales volume of personal wealth management products arrived at RMB669,698 million, an increase of 75.84% year on year. Personal wealth management business had a balance of RMB105,694 million. During the reporting period, 1,507 close-end wealth management products were honored with an amount of RMB362.073 million, up 82.67% year on year. All the products were honored normally and stably.

The Company was awarded the “Annual Best Wealth Management Bank” in the selection of 2013 Chinese Wealth Management “Golden Finger Award”; it was awarded the “2013 Best Earnings Performance Bank” in the selection of the Sixth Chinese Asset Management “Golden Shell Award” hosted by the *21st Century Business Herald*; it was awarded the “2013 Most Respectable Bank in China”, “2013 Best Bank Wealth Management Product in China” and “Best Bank Wealth Management Brand in China” in the selection of the Sixth Most Respectable Bank and Best Retail Bank in China in 2013 hosted by the *Moneyweek*.

Hua Xia debit card business sustained rapid development. At the end of the reporting period, Hua Xia debit cards issued accumulated to 25,424,600. During the reporting period, consumption amount of debit cards increased by 90.10% year on year. During the reporting period, the Company issued financial IC debit cards. The Company has issued Hua Xia ETC card series products in Beijing, Tianjin, Guangzhou, Shijiazhuang, Ji'nan and Zhengzhou branches. The issuance of Hua Xia ETC debit cards maintained rapid growth by 60.83% year on year. The Business Trip Card and Sinobeauty Card kept a sound development momentum with the brands further enhanced. The Company was conferred with the Award for UnionPay Card Cooperation and Innovation Contribution 2013 and the Outstanding Award for UnionPay Card Channel Promotion 2013 by China UnionPay.

In respect of credit card business, the Company adhered to “profitable growth and quality development”, grasped the development trend of internet finance, improved product structure and accelerated the development of whole business. In respect of product innovation, the Company further improved product mix, and launched such innovative IC card products as Platinum IC card, SMART IC card, Hua Xia Elite Deluxe Platinum IC card. In respect of innovative payment and internet finance, the Company successfully launched credit card public Wechat account, e-shop and Shang Lu Tong (a business trip financial product) and other online platform services, and strengthened the close tie between credit card business and mobile internet. In respect of customer service, the Company strengthened refined management, launched Plus Club star-level member services to provide cardholders with value-added services and further improve their card use frequency and loyalty. An efficient and quality operation and customer service platform has been built to strengthen risk management and improve asset quality. At the end of the reporting period, 4.2 million Hua Xia credit cards were issued accumulatively. During the reporting period, the Company's credit card business was conferred with the Award for UnionPay Card Best Promotion 2013 and the Outstanding Award for UnionPay Card Product Cooperation and Promotion 2013 by China UnionPay.

#### 4. Financial market business

During the reporting period, the Company was an active player in the national inter-bank market, cumulatively completing bond repurchases in RMB worth RMB1.09 trillion and inter-bank lending transactions in RMB of RMB3.06 trillion. The Company further improved its bond structure by adopting a prudent bond investment strategy, actively studying the market and timing the market.

The Company's RMB interest swap transactions, RMB foreign exchange transactions, G7 foreign exchange transactions and precious metal transactions amounted to RMB2,083,102 million, a year-on-year increase of 24%. As a member of SHIBOR quotation group, the Company completed RMB interest swap transactions with a nominal principal of RMB39.25 billion in 2013, up 86.46%. As a RMB and foreign exchange spot market maker and one of the first batch of forward and swap market markers in the inter-bank foreign exchange market, the Company recorded foreign exchange treasury transactions of USD333,979 million (equivalent to RMB2,037,272 million), up 23%. As a financial member of Shanghai Gold Exchange, the Company registered a domestic precious metal transaction scale of RMB2,387 million.

## REPORT OF THE BOARD OF DIRECTORS

The Company participated in 78 debt financing instruments projects of over RMB84 billion for non-financial enterprises as a lead underwriter.

The Company strengthened peer credit management and further broadened the cooperation channel of financial market business. The Company further improved wealth management business by strengthening the marketing of wealth management products and developing wealth management and investment management system. Its wealth management business achieved rapid development in 2013. At the end of the reporting period, the balance of institutional wealth management products reached RMB137,071 million, an increase of 38.5% year on year.

During the reporting period, the Company obtained the spot and first-batch forward and swap trading qualifications in the inter-bank gold inquiry market of Shanghai Gold Exchange. The Company was awarded the “Most Influential Investment Bank”, the “Best Short-term Financing Note Project” and the “Best SME Collective Bill Project” in the selection of outstanding investment banks in China by the *Securities Times* in 2013.

### 5. E-banking

During the reporting period, the Company continuously intensified the building of “Hua Xia Dragon Network”, a comprehensive e-banking service brand, and accelerated e-banking product innovation, application and promotion, and received a good development momentum of e-banking.

The Company continuously improved and upgraded e-banking products towards the objective of making customers dare and be ready and willing to use them, and kept enriching the brand connotation of “Hua Xia Dragon Network”. The Company met the industrial standards specified in the *General Specification of Information Security for Internet Banking System* and completed upgrading two years ahead of schedule, making it the first bank meeting the enhanced security specification for internet banking. The Company developed such smart e-banking series products as smart internet banking and smart customer services, launched the functions such as smart search, smart menu and smart matching in the internet banking products, and rendered intelligent robot voice recognition and intelligent retrieval of full text of services, online interactive response to customer questions and other intelligent services in 95577 telephone banking products. The Company successfully launched mobile banking products compatible with Android system and iOS system, which can be used in both mobile phones and tablet computers. The products have such unique financial functions as card-free withdrawal from ATM, remittance according to mobile phone number and centralized management of cross-bank accounts and such unique service functions as ETC recharging, agency payment of transportation fines and 0 yuan shopping rush at the weekend. During the reporting period, “Hua Xia Dragon Network” won eight awards, including the “Most Reliable Internet Banking Brand of Netizen” conferred by Xinhua News Agency, the “Best Chinese Internet Banking Security Award” by China Financial Certification Authority, and the “Best Enterprise Internet Banking” by *caijing.com.cn*.

During the reporting period, the Company strengthened marketing and promotion of products under the brand of “Hua Xia Dragon Network”, and developed and maintained 30,400 high-end customers by cross-bank express, direct-link express, centralized accounting express and e-shop express. The number of corporate internet banking customers was 135,600, an increase of 31.83% year on year; that of personal internet banking customers was 2,265,700, up 43.05%. The transaction volume of internet banking reached 49.25 million, an increase of 97.22% year on year, with a transaction value of RMB10.60 trillion, up 55.24%.

## II. DISCUSSION AND ANALYSIS OF THE BOARD OF DIRECTORS ON THE COMPANY'S FUTURE DEVELOPMENT

### i. Industry competitive pattern and development trend

In 2014, China's financial regime reform will be quickened, and the rapid development of internet finance, access of private capital to the banking industry, interest rate liberalization and subdivision of regulatory policy will bring about new opportunities and challenges to the banking industry. Domestic banking industry will show the development trend of intelligent operating activities, network-based operating mode, virtualized outlets, diversified business and concentrated organization system.

#### 1. Smooth macro-economic operation is conducive to banks' sustained and healthy development

China is undergoing an important strategic period full of opportunities. The continuous advance of industrialization and urbanization will lay a solid foundation for China's continuous economic growth at a medium to high speed.

#### 2. Acceleration of interest rate liberalization brings forward higher requirements on banking operation

Interest rate liberalization has higher requirements on not only liquidity management but also asset allocation of banks. Domestic banks will accelerate business transformation, further enhance refined management of deposit and loan pricing, and speed up infrastructure construction such as management accounting, fund transfer pricing and economic capital management.

#### 3. Market-oriented financial reform will further intensify competition

The access of private capital will result in fiercer market competition. The deposit insurance system is ready to be launched, which will cause uncertainties to banks' deposit stability, liquidity and business structure in a short term. While the country improves the market-oriented financial institution exit mechanism, some domestic banks are likely to go bankrupt, be merged or restructured. The country continuously strengthens and improves financial supervision and quickly promulgates some specific regulatory policies, bringing forward higher requirements on the regulated operation and refined management of commercial banks.

#### 4. Financial innovation provides room for emerging business development of banks

In recent years, China's financial innovation activities are very brisk. Business cooperation between banks and insurers, securities companies and insurers, and banks and trust companies is continuously intensified, and stock market and bond market will witness a rapid development. While the traditional business development room of banks is crowded out, emerging business will develop rapidly.

### 5. Booming internet finance brings challenges to traditional business of banks

Currently, internet finance develops swiftly, and third party payment companies, telecommunication operators, internet companies and e-business enterprises continuously innovate in business modes, enrich service methods, and penetrate into traditional banking business in respects of online shopping, e-payment, supply chain service and fund clearing where they are adept. The traditional intermediary payment functions of banks are affected and traditional deposit, loan and remittance business are challenged.

In the face of the influence of such factors, commercial banks' response capacity will become the key to success. The differentiated development of domestic banks will quicken up.

#### ii. The Company's development strategies

In 2014, the Company will continue to firmly implement the strategy of "SME Financial Service Provider" according to the requirements of the *Development Program of Hua Xia Bank 2013-2016*. It will quicken the business transformation, deepen structural adjustment, endeavor to reduce cost and increase efficiency, professionalize business, cultivate business brand and unique operation, refine management, develop "Hua Xia Service" brand, and become a modern commercial bank with distinct brand features.

During the planning period, the corporate banking will focus on the strategy of "SME Financial Service Provider". While solidifying traditional corporate businesses such as trade finance, the Company will energetically develop investment banking, corporate wealth management, asset custody, enterprise annuity and other emerging services, enhance comprehensive customer service capability, and drive the rapid development of traditional banking business. In respect of retail banking, aiming to become a "public wealth management bank", the Company will make efforts to take savings deposits, enhance core competitiveness of wealth management business, give priority to personal loan business, enhance payment and remittance service capability, expand personal customer scale, and increase the proportion and comprehensive contribution of retail banking. In respect of financial market business, it will take asset management as the tie to drive investment, financing and wealth management business, increase the proportion of business not occupying capital in the income and improve business profitability. In respect of e-banking, the Company will develop an e-banking integrated financial service platform and improve e-banking services. In respect of institution development, the Company will rely on existing branch network in developed regions, and give priority to business development in medium cities with due consideration to the central and western regions.



### iii. Operating plan

#### 1. Operating objectives for 2014

Total assets to reach RMB1,840 billion, an increase of more than 10% compared with last year.

NPL ratio to be kept below 1% at the end of the year.

#### 2. Main measures in 2014

In 2014, the Company will deeply study and implement the requirements of the Eighteen National Congress of the CPC, the Third Plenary Session of the Eighteenth CPC Central Committee and the Central Economic Work Conference, continue adhering to the general work arrangements of steady progress, earnestly fulfill the target tasks determined in the four-year development program, promote reform and innovation, push forward restructuring, improve service quality and efficiency, ensure smooth operation and fully complete the various tasks of the whole year.

##### **(1) Fully deepen mechanism, system reform and innovation**

– System reform. First, reform the comprehensive risk management system. Establish and operate an organizational framework for comprehensive risk management and ensure the risk management covers the whole Bank under unified arrangements. Second, reform the internal control compliance management system. Develop and improve comprehensive internal control compliance management system and reform the case prevention system. Third, push forward the reform of business operation system. Quicken the building of exclusive operation system of credit card center and explore the reform of exclusive operation system for small enterprise business. Steadily push forward the reform of wealth management business division system and inter-bank business exclusive operation department system. Fourth, reform the management and operation system. Implement various requirements of the new regulation governing capital, and firmly push forward Basel II&III project implementation.

– Mechanism innovation. First, establish the differentiated management mechanism of branches. Strengthen differentiated management in line with different development stages and conditions of branches. Take more pertinent and differentiated development strategies to quicken the development of branches in serving local economic development. Second, establish the mechanism of quickly responding to policy and market changes. Keep a closer eye on policy and market and strengthen study of them, and carry out work in a forward-looking manner. Closely follow the changes in local economic development, industrial adjustment and customer needs, timely follow up and improve service methods and accelerate featured development taking the opportunities of free trade zone, special economic development zone and new-style urbanization in each place.

### **(2) Continuously push forward restructuring and accelerate business transformation**

– Adjust and improve asset structure. First, manage asset allocation under unified arrangements, and strengthen comprehensive control oriented to capital and benefits. Second, strengthen asset pricing management and strive to control inefficient asset growth on the premise of effective risk control. Third, develop differentiated credit policies, scientifically set credit access standards, and give priority to strategic emerging industries, advanced manufacturing, modern IT and clean energy industries.

– Adjust and improve liability structure. First, continuously strengthen the organizing of deposits and low-cost funds and increase the total amount and proportion of general deposits. Second, strictly control capital consumption-type and high-cost deposits and market funds, take flexible pricing strategy and maintain reasonable scale and structure of high-cost deposits.

– Adjust and improve cost and income structure. First, continue to drive the fee-based business development, particularly fee-based business that does not occupy capital as well as emerging business. Second, strengthen planning and management of capital allocation, reasonably match fund sources and application, enhance fund management capability, continuously broaden fund application channels and improve fund utilization efficiency and profitability.

### **(3) Keep improving service quality and efficiency and drive operation development**

– Continuously enhance customer service capability. Improve customized marketing and services, and strengthen organizing and guidance for marketing services of branches and sub-branches. Improve integrated financial service plan, broaden financial service channel and enhance customer marketing maintenance and ability in rendering professional services in classified markets.

– Endeavor to build e-banking into “second bank”. Develop innovative e-banking business, accelerate the development of exclusive e-banking channels and innovation and promotion of exclusive products, strengthen promotion of “Hua Xia Dragon Network” products, improve services of customer service centers and prevent e-banking risks.

– Enhance the planning and organizing of product R&D and promotion. Improve pilot operation, summarized assessment and promotion of innovative products and other procedures. Popularize the “platform finance” business mode as early as practicable and build differentiated competitive advantages. Accelerate the development of supply chain finance, improve brand building of each business line and cultivate product brand in the industry.

– Establish and improve service standards and norms. Consolidate and improve civilized and standardized services of outlets, strengthen improvement and integration of service processes and improve service efficiency. Fully apply technical means and convenient measure to the Company's basic services and services for the special groups, improve and promote “extended services”, financial services for the elderly and other unique services, and build a service mode with exemplary effect that can be copied and promoted.

– Continuously push forward construction of branch offices. Make efforts to promote the construction of community sub-branches, improve financial services for the elderly, and set up outlets in communities, office buildings and other places where there are a large number of individual customers and small and micro enterprise customers.

#### **(4) Ensure safe and smooth operation and maintain healthy development**

– Strengthen credit risk management. Manage risks under unified arrangements, set defense lines in advance, implement differentiated policies, clarify risk prevention and control measures and strictly control loans to local government financing vehicles, real estate and industries with excess capacity. Continuously push forward risk early warning management and post-lending inspection management, strengthen NPL recovery and disposal and reduce existing NPLs while controlling new ones.

– Strengthen liquidity risk management. Strengthen position and fund allocation management, design scale and maturity structure, strictly monitor and control liquidity and strengthen active liability management.

– Strengthen IT risk management. Strive to push forward the development of independent, secure and controllable information systems, and strengthen the basic software and hardware edition management and configuration management of information systems.

– Strengthen market risk and operational risk management. Continuously improve market risk management mechanism and means, and strengthen analysis and prejudgment of interest rate and exchange rate movement and risk prevention and control. Build key indicator system for operational risk, deepen the long-acting business continuity mechanism and regulate outsourcing risk management.

#### **iv. Funds necessary for maintaining current business and completing ongoing investment projects**

Not applicable.

#### **v. Possible risks**

In 2014, the external business situations facing the Company will be still severe. The world economy will continue slow recovery but there are unstable and uncertain factors. Domestic economy is faced with shift of growth rate, throes of restructuring and counteraction of the adverse influence of previous stimulus policy. Financial reform and regulation will be continuously deepened. All these factors will challenge the Company's development and transformation in the following areas:

First, economic growth will slow down, industries with excess capacity will speed up restructuring, credit risk in some industries and regions will be gradually exposed, and the pressure of credit asset quality control is still big.

Second, reform will speed up in the fields such as interest rate liberalization, exchange rate formation mechanism, deposit insurance system and market exit mechanism, which will have a significant influence on banks' business structure, profitability and liquidity management and bring about higher requirements on the Company's transformation development and risk management.

Third, the pace of innovation in traditional financial business will quicken, and new financial industry, typically internet finance, will develop rapidly, thereby bringing challenges to the Company in accelerating innovation and employing emerging technical means to improve services.

### III. BANKING DATA

#### i. Major financial and accounting data in previous three years

(Unit: RMB1 million)

Item	End of 2013	End of 2012	End of 2011
Total assets	1,672,447	1,488,860	1,244,141
Total Liabilities	1,586,428	1,414,137	1,180,211
Owner's equity attributable to shareholders of the listed company	85,420	74,694	63,901
Total deposits	1,177,592	1,036,000	896,024
Incl.: Corporate demand deposits	393,615	353,087	309,828
Corporate time deposits	377,330	338,777	302,302
Savings demand deposits	83,613	60,424	57,641
Savings time deposits	113,110	100,961	84,968
Other deposits	209,924	182,751	141,285
Total loans	823,169	720,168	611,463
Incl.: Pass loans	815,726	713,829	605,863
NPL	7,443	6,339	5,600
Placements from banks and other financial institutions	35,538	71,815	26,958
Allowance for impairment losses on loans	22,443	20,307	17,259

## ii. Capital composition and its changes

### 1. Measured in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)*

(Unit: RMB1 million)

Item	2013	
	Consolidated	Unconsolidated
1. Net amount of aggregate capital	105,621	102,315
1.1 Core tier-1 capital	85,826	85,322
1.2 Core tier-1 capital deduction items	–	2,630
1.3 Net amount of core tier-1 capital	85,826	82,692
1.4 Other tier-1 capital	4	–
1.5 Other tier-1 capital deduction items	–	–
1.6 Net amount of tier-1 capital	85,830	82,692
1.7 Tier-2 capital	19,791	19,623
1.8 Tier-2 capital deduction items	–	–
2. Credit risk weighted assets	988,581	977,130
3. Market risk weighted assets	6,665	6,665
4. Operational risk weighted assets	74,210	74,029
5. Total risk weighted assets	1,069,456	1,057,824
6. Core tier-1 CAR (%)	8.03	7.82
7. Tier-1 CAR (%)	8.03	7.82
8. CAR (%)	9.88	9.67
9. Capital instruments enjoying preferential policy during the transitional period: According to relevant provisions of the <i>Regulation Governing Capital of Commercial Banks (Provisional)</i> , ineligible tier-2 capital instruments issued by commercial banks prior to 12 September 2010 are entitled to the preferential policy, i.e. reduction at an annual rate of 10% from 1 January 2013. At the end of 2012, the Company's ineligible tier-2 capital had a book value of RMB8.4 billion, which should be reduced at an annual rate of 10% since 2013. During the reporting period, the includible amount of the Company's ineligible tier-2 capital instruments was RMB7.56 billion.		

#### Notes:

1. According to the relevant provisions of Articles 174 and 175 of the *Regulation Governing Capital of Commercial Banks (Provisional)* (CBRC No. 1 Decree in 2012), "commercial banks shall measure and disclose consolidated and unconsolidated CAR in light of the *Regulation Governing Capital Adequacy Ratio of Commercial Banks* and this Regulation during the transitional period for reaching the standards", and clarify relevant information disclosures. The above are the data and information relating to the consolidated and unconsolidated CARs measured according to the *Regulation Governing Capital of Commercial Banks (Provisional)*.

2. Net amount of core tier-1 capital = Core tier-1 capital – core tier-1 capital deduction items.

3. Net amount of tier-1 capital = Net amount of core tier-1 capital + other tier-1 capital – other tier-1 capital deduction items.

4. Net amount of aggregate capital = Net amount of core tier-1 capital + tier-2 capital – tier-2 capital deduction items.

5. The *Regulation Governing Capital of Commercial Banks (Provisional)* takes effect as of 1 January 2013, and it is inapplicable in 2011 and 2012.

## REPORT OF THE BOARD OF DIRECTORS

2. Measured in accordance with the *Regulation Governing Capital Adequacy Ratio of Commercial Banks*

(Unit: RMB1 million)

Item	2013		2012	2011
	Consolidated	Unconsolidated	Consolidated	Consolidated
Net capital	105,969	102,623	94,708	83,139
Incl.: Core capital	82,058	81,471	71,464	62,063
Core capital deduction items	–	1,315	–	–
Net core capital	82,058	80,156	71,464	62,063
Supplementary capital	24,881	24,752	24,202	21,572
Total deduction items	970	3,600	958	496
Risk weighted assets and market risk capital adjustment	969,303	957,750	873,214	711,821
CAR (%)	10.93	10.72	10.85	11.68
Core CAR (%)	8.47	8.37	8.18	8.72

Notes:

1. According to the relevant provisions of Articles 174 and 175 of the *Regulation Governing Capital of Commercial Banks (Provisional)* (CBRC No. 1 Decree in 2012), “commercial banks shall measure and disclose consolidated and unconsolidated CAR in light of the *Regulation Governing Capital Adequacy Ratio of Commercial Banks* and this Regulation in the transition period for reaching the standards”, and clarify relevant information disclosures. The above are the data and information relating to the consolidated and unconsolidated CARs measured according to the *Regulation Governing Capital Adequacy Ratio of Commercial Banks*.

2. Net amount of core capital = Core capital – core capital deduction items.

3. Net capital = Core capital + supplementary capital – total deduction items.

3. According to the Regulatory Requirements on the Disclosure of Capital Composition Information by Commercial Banks promulgated by CBRC, please refer to the special column of investor relations in [www.hxb.com.cn](http://www.hxb.com.cn), the Company’s official website, for the details on major characteristics of capital composition and capital instruments of the Group.

## iii. Major financial indicators in previous three years

Major indicator (%)		Regulatory standard	2013	2012	2011
Return on assets			0.98	0.94	0.81
Return on capital			19.30	18.46	18.55
NPL ratio			0.90	0.88	0.92
Loan-to-deposit ratio	RMB		69.11	68.62	66.65
	Foreign currency		103.09	106.20	72.24
	Total	≤75%	69.90	69.51	66.72
Asset liquidity ratio	RMB		30.63	33.95	39.39
	Foreign currency		56.63	50.44	51.28
Percentage of loans to single largest borrower		≤10%	5.59	6.23	4.69
Percentage of loans to top 10 borrowers		≤50%	23.84	27.38	25.29
Allowance for impairment losses on loans to non-performing loans			301.53	320.34	308.21
Allowance for impairment losses on loans to total loans			2.73	2.82	2.82
Cost-to-income ratio			38.93	39.95	41.89

Note:

Percentage of loans to single largest borrower = Total loans to the largest borrower/net capital \* 100%

Percentage of loans to top 10 borrowers = Total loans to top 10 borrowers/net capital \* 100%

During the reporting period, net capital is measured according to the *Regulation Governing Capital of Commercial Banks (Provisional)* (CBRC No. 1 Decree in 2012); in and prior to 2012, net capital is measured according to the *Regulation Governing Capital Adequacy Ratio of Commercial Banks* (CBRC No. 11 Decree in 2007).

## Statement of migration ratio data

Item (%)	2013	2012	2011
Pass loan migration ratio	2.88	1.83	1.98
Special-mention loan migration ratio	23.17	13.70	18.02
Substandard loan migration ratio	91.73	78.28	55.83
Doubtful loan migration ratio	27.65	23.40	22.26

Note: Migration ratio was calculated according to relevant rule of CBRC. Loan migration ratio: pass = Downward migrating amount of pass loans at the beginning of the period/(balance of pass loans at the beginning of the period – decreased amount of pass loans during the period) × 100%; loan migration ratio: special mention = Downward migrating amount of special mention loans at the beginning of the period/(balance of special mention loans at the beginning of the period – decreased amount of special mention loans during the period) × 100%; loan migration ratio: sub-standard = Downward migrating amount of sub-standard loans at the beginning of the period/(balance of sub-standard loans at the beginning of the period – decreased amount of sub-standard loans during the period) × 100%; and loan migration ratio: doubtful = Downward migrating amount of doubtful loans at the beginning of the period/(balance of doubtful loans at the beginning of the period – decreased amount of doubtful loans during the period) × 100%.

## REPORT OF THE BOARD OF DIRECTORS

### iv. Interest-earning assets, interest-bearing liabilities and average interest rates

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
<b>Interest-earning assets:</b>			
Loans and advances to customers <sup>1</sup>	772,282	50,100	6.49
Balances with central banks	224,088	3,334	1.49
Peer assets	267,250	14,224	5.32
Bond investment	194,886	8,595	4.41
Total interest-earning assets	1,458,506	76,253	5.23
<b>Interest-bearing liabilities:</b>			
Deposits taken	1,066,635	23,209	2.18
Due to central banks	28	1	3.57
Peer liabilities	293,277	13,718	4.68
Bonds issued	8,400	423	5.04
Total interest-bearing liabilities	1,368,340	37,351	2.73

Note: 1. According to the *Notice of CBRC on 2014 Offsite Regulatory Statements* and other relevant regulations, the loans on which interest has ceased to accrue shall not be included in the interest-earning assets.

### v. Hierarchical management and number and regional distribution of branches during the reporting period

#### 1. Overview of hierarchical management

The Company focuses on economically central cities while radiates to the whole country. It conducts the institution planning and setup, routine operation and internal management in accordance with the three-level organizational management system consisting of the Head Office, branches and sub-branches.

At the end of the reporting period, the Company had 34 tier-one branches and 539 outlets in 78 cities above the prefecture level including Beijing, Nanjing, Hangzhou, Shanghai, Ji'nan, Kunming, Shenzhen, Shenyang, Guangzhou, Wuhan, Chongqing, Chengdu, Xi'an, Urumqi, Dalian, Taiyuan, Qingdao, Wenzhou, Shijiazhuang, Fuzhou, Hohhot, Tianjin, Ningbo, Shaoxing, Nanning, Changzhou, Suzhou, Wuxi, Changsha, Hefei, Xiamen, Changchun, Zhengzhou and Nanchang. 64 outlets were newly established during the reporting period.



## 2. Branches

Institution name	Business address	Number of outlets	Number of employees	Asset size (RMB1 million)
Head Office	22 Jianguomennei Street, Dongcheng District, Beijing		1453	519,868
Beijing Branch	11 Financial Street, Xicheng District, Beijing	56	2392	224,147
Nanjing Branch	81 Zhongshan Road, Nanjing	32	1426	99,352
Hangzhou Branch	73 Qingchun Road, Hangzhou	30	1345	81,716
Shanghai Branch	256 Pudong South Road, Shanghai	27	983	57,784
Ji'nan Branch	138 Weier Road, Ji'nan	33	1488	74,172
Kunming Branch	98 Weiyuan Road, Kunming	20	715	55,598
Shenzhen Branch	Nanguangjiejia Mansion, 3037 Shennan Middle Road, Futian District, Shenzhen	22	807	55,740
Shenyang Branch	51 Qingnian Street, Shenhe District, Shenyang	15	723	33,287
Guangzhou Branch	Nanyue Mansion, 13 Huaxia Road, Tianhe District, Guangzhou	19	872	65,726
Wuhan Branch	Huayin Mansion, 786 Minzhu Road, Wuchang District, Wuhan	20	903	53,773
Chongqing Branch	27 Jiangbeichengxi Street, Jiangbei District, Chongqing	17	717	78,561
Chengdu Branch	1 Hangkong Road, Wuhou District, Chengdu	18	730	44,445
Xi'an Branch	111 Chang'an North Road, Xi'an	13	517	31,541
Urumqi Branch	15 Dongfeng Road, Urumqi	7	311	12,935
Dalian Branch	25 Tongxing Street, Zhongshan District, Dalian	11	566	40,448
Qingdao Branch	5 Donghai West Road, Shinan District, Qingdao	20	926	35,221
Taiyuan Branch	113 Yingze Street, Taiyuan	16	900	62,502
Wenzhou Branch	Shenli Mansion, Chezhan Avenue, Wenzhou	15	624	25,593
Fuzhou Branch	Huaxia Mansion, 1 Gutian Zhilu, Gulou District, Fuzhou	12	480	19,260
Hohhot Branch	Capital Plaza, 1 Zhongshan West Road, Huimin District, Hohhot	9	513	24,012
Tianjin Branch	Tower E, Huanbohai Development Center, Zeng 9 Binshui Road, Hexi District, Tianjin	15	599	30,148

## REPORT OF THE BOARD OF DIRECTORS

Institution name	Business address	Number of outlets	Number of employees	Asset size (RMB1 million)
Shijiazhuang Branch	48 Zhongshan West Road, Shijiazhuang	27	1070	56,932
Ningbo Branch	366 Heyuan Road, Jiangdong District, Ningbo	8	381	30,737
Shaoxing Branch	260 Yan'an Road, Shaoxing	8	352	16,255
Nanning Branch	Tower B, Huarun Mansion, 136-2 Minzu Avenue, Nanning	9	428	24,434
Changzhou Branch	162 Heping North Road, Changzhou	9	363	17,797
Suzhou Branch	188 Xinghai Street, Suzhou Industrial Park, Suzhou	15	566	40,760
Wuxi Branch	105 Xinsheng Road, Chong'an District, Wuxi	14	520	46,526
Changsha Branch	Huameiou International Mansion, 389 Wuyi Road, Changsha	6	316	19,353
Hefei Branch	Building C, Wealth Plaza, 278 Suixi Road, Hefei	6	296	11,314
Xiamen Branch	Jianshe Keji Mansion, 62 Hubin South Road, Siming District, Xiamen	3	178	11,208
Changchun Branch	4888 Renmin Street, Nanguan District, Changchun	3	202	11,150
Zhengzhou Branch	29 Business Outer Ring Road, Zhengdong New District, Zhengzhou	3	233	12,102
Nanchang Branch	10 Binjiang Shoufu, Zhongshan West Road, Xihu District, Nanchang	1	148	6,674
Regional summarization adjustment				-368,809
Total		539	25043	1,662,262

## vi. Loan quality during the reporting period

## 1. Quality of loan assets

(Unit: RMB1 million)

Five-tier classification	Amount	Percentage (%)	Increase/decrease compared with the end of previous year (%)
Pass loans	803,432	97.61	14.15
Special mention loans	12,294	1.49	23.43
Sub-standard loans	1,710	0.21	-11.79
Doubtful loans	3,406	0.41	27.44
Loss loans	2,327	0.28	34.67
Total	823,169	100.00	14.30

During the reporting period, the Group was confronted with huge pressure of asset quality, due to the influence of slowdown of domestic economic growth and changes in external business environment. The Group actively and effectively responded to the changes in economic situation, kept improving credit asset structure, highlighted risk prevention and control in key areas, strengthened risk monitoring and early warning, enhanced problematic loan recovery and disposal, and basically maintained the stability of asset quality. At the end of the reporting period, the Group's NPL balance was RMB7,443 million, an increase of RMB1,104 million over the end of the previous year; NPL ratio increased by 0.02 percentage point to 0.90%; balance of special mention loans was RMB12,294 million, an increase of RMB2,334 million, with a percentage of 1.49%, up 0.11 percentage point.

## 2. Restructured loans and overdue loans

(Unit: RMB1 million)

Category	Balance at the beginning of the period	Balance at the end of the period	Percentage (%)
Restructured loans	6	24	0.00
Overdue loans	8,561	13,178	1.60

Note: Overdue loans include the loans with principal or interest overdue for one day or above. If the principal or interest of any phase of a loan is overdue for one day or more, the whole loan shall be classified as an overdue loan.

At the end of the reporting period, the balance of the Group's restructured loans amounted to RMB24 million, an increase of RMB18 million over the end of previous year.

During the reporting period, the balance and percentage of the Group's overdue loans both increased as affected by the continuous occurrence and accumulation of certain regional risks and industrial risks. At the end of the reporting period, the Group had outstanding overdue loans of RMB13,178 million, an increase of RMB4,617 million compared with the end of the previous year, accounting for 1.60% of all the loans, up 0.41 percentage point.

## REPORT OF THE BOARD OF DIRECTORS

### vii. Charge and write-off of allowance for impairment losses on loans

(Unit: RMB1 million)

Item	End of 2013
Balance at the beginning of the year	20,307
Charge for the year	3,634
Reversion of loans and advances that had been written off	145
Transfer-out caused by increase of discounted value	142
Write-offs in the year	1,498
Exchange differences	-3
Balance at the end of the year	22,443

Methods used in charge of allowance for impairment losses on loans:

The Company assessed the impairment losses on all loans on the balance sheet date based on two methods: individual assessment and collective assessment.

As to the single loan with a large amount, the Company applied the individual assessment method to test the impairment. If an objective evidence could indicate the loan had impairment loss, the loss amount shall be measured at the difference between the book value of the loan and the discounted value of estimated future cash flows and allowance for impairment loss on loans would be set aside and recognized in the loss of the period; the solvency of the borrower, reasonable value of the collateral, compensatory ability of the guarantor and other factors shall be fully considered in the impairment testing.

The single loan with a small amount and unimpaired loan tested by the individual assessment shall be included in the loan portfolio with similar characteristics. Their impairment losses shall be assessed collectively, and corresponding allowance for the impairment losses shall be recognized in the profit or loss.

### vii. Interest receivables and charge of allowance for bad debts

(Unit: RMB1 million)

Item	Balance at the beginning of the period	Increase during the period	Recovery during the period	Balance at the end of the period
Interest receivables	6,228	1,327,044	1,325,797	7,475

Charge of allowance for bad debts of interest receivables:

During the reporting period, as the Group inspected the interest receivables and there was no impairment, the allowance for bad debts was not set aside.

Writing-off procedures and policy of bad debts:

As for the items in line with the conditions of writing-off, the Company adopted the procedures of declaration by the branches and approval by the Head Office: the related departments of branches organized the declaration and review for the bad debts writing-off, submitted to the general manager meeting of branches for review and approval and then reported to the Head Office; after being reviewed by the related departments of the Head Office and approved by the Asset Risk Disposal Committee, the items were written off.

In the process of bad debts writing-off, the Company abided by the principle of strict writing-off conditions, providing definite evidences, seriously investigating responsibilities, reporting, reviewing and approving one by one and level by level, keeping confidential and "maintaining filing after writing-off". After the bad debts were written off, the management responsibility was strictly put into place and diversified methods were adopted in the continuing recourse.

#### ix. Repossessed assets

(Unit: RMB1 million)

Category	At the end of the period		At the beginning of the period	
	Amount	Allowance for impairment losses	Amount	Allowance for impairment losses
Premises	332	141	332	143
Others	39	32	49	49
Total	371	173	381	192

At the end of the reporting period, the book balance of the Group's repossessed assets was RMB371 million, of which, premises amounted to RMB332 million, accounting for 89.49% of the total; and others totalled RMB39 million, accounting for 10.51% of the total.

#### x. Financial bonds held

(Unit: RMB1 million)

Category	Amount
Policy financial bonds	36,410
Financial bonds of commercial banks	7,300
Financial bonds of international financial companies	50
Subordinated bonds of commercial banks	1,190
Subordinated bonds of insurance companies	3,100
Hybrid capital bonds of commercial banks	900
Total	48,950

## REPORT OF THE BOARD OF DIRECTORS

Of which, material financial bonds:

(Unit: RMB1 million)

Category	Par value	Annual interest rate (%)	Maturity date	Allowance for impairment losses (in original currency)
SPD Bank financial bonds Issue 1 of 2012	4,000	4.2	2017-2-28	–
CDB financial bonds Issue 45 of 2013	1,930	4.97	2018-10-24	–
CMBC financial bonds Issue 2 of 2012	1,500	4.39	2017-5-10	–
CMB financial bonds Issue 1 of 2012	1,000	R+0.95	2017-3-14	–
CDB financial bonds Issue 20 of 2008	1,000	3.42	2018-11-25	–
CDB financial bonds Issue 23 of 2011	710	R+0.75	2018-4-14	–
CDB financial bonds Issue 5 of 2009	620	S+0.3	2016-6-16	–
CDB financial bonds Issue 19 of 2011	620	R+0.72	2016-3-30	–
CDB financial bonds Issue 20 of 2011	620	4.5	2021-4-7	–
CDB financial bonds Issue 21 of 2011	610	S-0.15	2016-4-8	–

Note: R: Interest rate on one-year time deposits. S: Five-day average of three-month SHIBOR.

### xi. Development and profit/loss of finance business, asset securitization, custody, trust and wealth management during the reporting period

#### 1. Development and profit/loss of finance business during the reporting period

During the reporting period, the Company's finance business realized fast development and generated fee income of RMB2,157 million, a year-on-year increase of RMB883 million or 69.31%. All the matured finance products have been paid as scheduled.

#### 2. Development and profit/loss of asset securitization during the reporting period

Not applicable.

#### 3. Development and profit/loss of custody business during the reporting period

During the reporting period, the Company had 540 products under custody, covering securities investment funds, securities dealers' asset management schemes, banking wealth management, trust and insurance, with a total amount of RMB722,272 million, a year-on-year increase of 58.18%, and realized fee income of RMB477 million, up 78.13% compared with the previous year.

#### 4. Development and profit/loss of trust business during the reporting period

During the reporting period, the Company achieved fee income of RMB665,817 million from agency fund trust programs, and tracked projects normally within the duration.

#### 5. Development and profit/loss of wealth management business during the reporting period

At the end of the reporting period, the Company had 15 wealth management centers of branches. This year, the Company strengthened the building of finance manager teams, and improved VIP customer services in respects of finance manager training, and standardized and unique services for customers.

## xii. Derivative financial instruments held

(Unit: RMB1 million)

Category	Contractual/nominal amount	Fair value	
		Assets	Liabilities
Foreign exchange forwards	21,583	196	209
Foreign exchange swaps	78,269	330	332
Interest rate swaps	1,300	5	4
Option contracts	12,160	–	–
Total		531	545

Notes:

1. Nominal amount refers to the unfinished trade volume on the balance sheet date instead of the risk amount. Fair value refers to the amount of asset exchange or liability solvency conducted by the parties concerned that are familiar with the conditions in fair trade.

2. The Company used the financial instruments in the management of assets and liabilities, e.g., as for the structural deposits absorbed, the Company reduced the interest rate risk through interest rate swaps.

## xiii. Off-balance-sheet items that might have material impact on financial position and operating results

At the end of the reporting period, major off-balance-sheet items that might have material impact on financial position and operating results are as follows:

(Unit: RMB1 million)

Item	At the year-end	At the year-beginning
Credit commitments	387,967	373,869
Including:		
Irrevocable loan commitments	1,449	1,302
Bank acceptances	286,995	296,998
Letters of guarantee issued	12,272	9,658
Letters of credit issued	71,333	50,848
Lease commitments	5,042	4,155
Capital commitments	345	2,692

Note: Credit committee data exclude unused credit card limits.

The above-mentioned off-balance-sheet items might have impact on the Group's financial position and operating results, and their final results would be determined by whether the related matters will occur in the future. Under certain conditions in the future, they may be converted to the actual obligation of the Group in accordance with the recognition principle of contingencies.

### xiv. Risks and risk management

During the reporting period, the Company actively responded to the complicated and severe risk situations, continuously strengthened keen and practicable risk management, enhanced abilities in risk management, risk prevention and crisis response and firmly prevented and controlled risks. The Company's risk management capability kept improving and various business maintained smooth development.

#### 1. Status of credit risk

(1) Business activities incurring credit risk. Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Group mainly exists in the on and off-balance-sheet businesses including loans, inter-bank lending, bond investments, bill acceptance, L/C, and L/G.

(2) Organizational framework and division of responsibilities of credit risk management. The Company has established a mutually restricted credit risk management organizational framework with reasonable work division and definite responsibilities: the Related Party Transactions Control Committee and the Risk Management Committee are established under the Board of Directors to be responsible for the formulation of related party transactions management and bank-wide risk management strategy respectively; the Credit Policy Committee of the Head Office is responsible for the formulation, organization and implementation of material credit risk management policies; risk management and internal control committees of the Head Office and branches operate efficiently and arrange and coordinate risk management and internal control; the Credit Risk Management Department of the Head Office and regional credit risk management departments are respectively responsible for the credit risk management of the whole bank and local branches; according to the authorization system and business risk profile, the Company conducts professional approval of important industries and businesses and continues to expand professional approval scope; the Company strengthens functions of each link of credit business, and sets up mutually restricted positions with definite responsibilities and smooth operation.

(3) Credit risk management and control policy during the reporting period. During the reporting period, in order to actively respond to the complicated risk situation and growing asset management pressure, the Company continuously strengthened coordinated and refined management of various risks, improved risk management strategies, developed plan on unified management of credit risk, regularly assessed the overall situation of its risk management and internal control, and timely studied and solved the key and difficult problems on risk management and internal control; according to the changes in economic situation and requirements of macroeconomic policy, the Company strengthened credit policy research and business guidance, and kept improving asset structure with focus on quality control; with the theme of "checking problems, plugging the holes and strengthening management", the Company organized the credit business review activity, to find and rectify the deep-rooted problems that affects credit quality; the Company organized special risk assessment on new products and new businesses, fully strengthened industrial and regional risks control and strictly prevented systematic risks; the Company took the measures such as growth rate and total exposure control, list system management, centralization of approval authority and loan approval, and actively prevented and controlled risks in key areas such as industries with excess capacity, real estate and local government financing vehicles; the Company strengthened post-lending routine management, risk inspection and early warning, and actively



withdrew from low-quality and inefficient customers to prevent and mitigate potential risks; the Company strengthened recovery and disposal of problematic loans, actively took advantage of various recovery and disposal means, and continuously improved recovery and disposal efficiency; the Company strengthened the credit process training and compliance operation guidance for branches, highlighted management of credit process authenticity, built the concept of operation compliance, and strictly prevented process risk and cases.

(4) Credit asset risk classification procedures and methods Pursuant to the standards in the *Guidelines on Loan Risk Classification* by CBRC, the Company classified the credit assets by considering such non-financial factors as the solvency, willingness to repay, repayment records and guarantee condition of the borrowers and their internal management; credit asset risk classification of the Company followed the step-by-step classification and identification procedures: preliminary classification by the customer manager, review by the customer manager in charge, and then review, recheck and identification by the regional credit risk management departments.

(5) Basic information on credit risk

Credit exposure. At the end of the reporting period, without regard to the available collaterals or other credit enhancements, total on and off-balance-sheet credit exposure of the Group amounted to RMB2,042.79 billion, of which, on-balance-sheet risk exposure stood at RMB1,654,823 million, accounting for 81.01% of the total; off-balance-sheet risk exposure was RMB387,967 million, accounting for 18.99%.

Risk concentration. At the end of the reporting period, the balance of single largest legal-person customer loans of the Group was RMB5,900 million, accounting for 5.59% of net capital; the balance of top 10 single legal-person customer loans was RMB25,181 million, accounting for 23.84% of net capital.

For details of loan distribution by industry and geographical area, please refer to the “Loan Extension” of this Report.

Non-performing loan distribution by industry and geographical area. During the reporting period, the Group maintained a stable quality of loans to each industry. At the end of the reporting period, the industries with a NPL ratio in excess of the Company’s average (0.90%) were mainly scientific research and technical service (2.05), wholesale and retail (2.02%), neighborhood service, repair and other services (1.64%) and manufacturing (1.64%), of which NPL ratios of scientific research and technical service, neighborhood service, repair and other services were high due to their relatively small size; as affected by regional and industrial risks, the asset quality of wholesale and retail and manufacturing had huge pressure and high NPL ratios. Due to the impact of regional risk, NPL ratio of the Group from Eastern China reached 1.46%, higher than the Company’s average; NPL ratios of northern, northeastern, southern, central and western regions of China were lower than the Company’s average NPL ratio.

## REPORT OF THE BOARD OF DIRECTORS

(6) Credit risk management measures in 2014. In 2014, the overall operating and development environment of the Company will remain complex, and credit risk prevention and control tasks will be tougher. The Company will actively respond to the conditions, developed and implement a plan on improvement of comprehensive risk management organization framework, and effectively improve the unified management of comprehensive risks and refined management of various risks; the Company will fully strengthen credit investigation and approval management, and enhance its credit risk identification capability in an all-round way; the Company will further practice post-lending inspection and early warning, and ensure risks are found in time; the Company will fully sort out and optimize existing customers, and accelerate business structure adjustment and improvement; the Company will keep close watch on risks, implement classified policies, ensure risks in the overcapacity industries, real estate, local government financing vehicles and other key areas are controllable, strengthen management and control of risks arising from new products and new businesses, and strengthen supervision and control of key areas; the Company will continuously intensify the risk control for key fields such as small enterprise loans, improve risk management and control mechanism, and effectively strengthen its professional risk prevention and control capability; the Company will continue quickening recovery and disposal of problematic assets, and take advantage of collection, litigation, restructuring, repossession, write-off, market-oriented batch disposal and other means to ensure risks are tackled in time; the Company will keep strengthening basic management of credit business and strictly control process risks and cases.

### 2. Status of liquidity risk

Liquidity risk is the potential risk that commercial banks will be unable to raise funds at a reasonable cost to fund the asset growth or to settle liabilities as they fall due.

The Company attaches great importance to liquidity risk management and continuously strengthens initiative in liquidity risk management. During the reporting period, the Company kept improving asset and liability structure, further bettered liquidity assessment, stress test and emergency management mechanism, strengthened extension and spreading of liquidity management to branches and maintained reasonable excess reserves. In the year, the Company's liquidity remained stable as a whole, and the Company had no payment difficulties, default or deferred payment.

At the end of the reporting period, the liquidity ratios of RMB and foreign currency of the Group were 30.63% and 56.63% respectively, and the RMB and foreign currency loan-to-deposit ratio was 69.90%, all conforming to the regulatory requirements.

In 2014, the Company will improve its excess reserve strategy, maintain appropriate excess reserves, strengthen maturity gap limit management for peer business and wealth management business, reasonably design the scale and structure of various asset and liability businesses, and achieve a dynamic balance between liquidity and profitability.

### 3. Status of market risk

(1) Market risk management. During the reporting period, the Company continuously perfected market risk identification, measurement, monitoring and control means, managed market risk appetite, and improved graded early warning mechanism covering business resiliency limits; the Company continued strengthening limit monitoring, early warning and reporting and further improved market risk management. The Company furthered comprehensive management and control of market risk, strengthened management of market risk arising from branches and actively cultivated market risk culture. The Company made continuous efforts to analyze and prejudge market interest rate and exchange rate trend, deepen the mechanism for joint consultation of market risk and effectively implemented market risk management and control measures. Market risk measurement capability was enhanced and scenarios of stress test were more pragmatic.

(2) Interest risk status. In 2013, the process of interest rate liberalization picked up speed, interest rate market became more volatile, and some new market price formation mechanisms, including base interest rate on loans and issuance interest rate of peers' certificates of deposits were gradually established. The Company continuously and actively operated money market funds and strengthened maturity structure management. The Company actively adjusted the interest rate sensitivity gap of banking book, continuously adjusted deposit and loan structure, controlled interest rate risk in banking book and actively responded to the risks arising from hike of market interest rate and drastic fluctuation of interest rates in money market. At the end of the reporting period, the total gap of RMB and USD interest rate repricing period of the Company's banking book was RMB87,939 million. If the interest rate curve moves upwards 50 basis points, the Company's net interest income in the next year will decrease by RMB46 million.

(3) Exchange risk status. The exchange rate of RMB against USD appreciated 2.96% in 2013, with the intraday two-way floating band widening. The Company kept a close eye on the economic environment of external markets and the progress of RMB exchange rate reform, continuously strengthened the management of foreign exchange exposure and limits, adjusted and improved foreign exchange asset and liability structure and effectively controlled exchange rate risk. At the end of the reporting period, the Company's accumulated foreign exchange exposure accounted for 4.03% of its net capital.

### 4. Status of operational risk

#### (1) Operational risk management in 2013.

During the reporting period, the Company strengthened operational risk identification, monitoring and assessment as well as the management of business continuity and outsourcing risk, emphasized the cultivation of operational risk management culture and furthered the smooth business development. Operational risk was managed in a sound manner.

The Company improved the operational risk identification and monitoring mechanism, consolidated operational risk identification mechanism, identified operational risk pursuant to the regulatory guidelines, and tightened the requirements on identification of IT risk of business system. The Company perfected the operational risk monitoring mechanism, and expanded the monitoring scope of key risk indicators to cover 44 indicators.

## REPORT OF THE BOARD OF DIRECTORS

Business process assessment was carried out. The Company streamlined and analyzed the whole process of key business of sub-branches, brought forward reasonable suggestions on preventing risks, easing burden and improving efficiency, and controlled the operational risk arising from business development.

The management of outsourcing and business continuity risks was enhanced. The Company structured an organizational framework for outsourcing risk management, issued the measures for management of outsourcing risk and business continuity, established the business continuity management committee and developed a business continuity management system.

Cultivation of operational risk management culture was furthered. The Company issued the *Hua Xia Bank Operational Risk Management Policy (2013 Edition)*, and carried out various operational risk training and education activities, including elementary knowledge training, special anti-fraud assessment and “self-education activity”, in an effort to improve operational risk management.

### (2) Potential risk factors and operational risk management measures in 2014

In 2014, operational risk of commercial banks will still have the characteristics of a large number of external risk events and a wide coverage of business. The Company will continue strengthening operational risk identification, monitoring, early warning, collection and reporting; it will popularize the full business process streamlining and analysis methods, and push forward the solving of operational risk management difficulties; it will make efforts to reach the standards for Basel II&III operational risk compliance, strengthen the management of outsourcing risk and business continuity and strengthen the cultivation of operational risk culture and building of team.

## 5. Status of other risks

Other risks faced by the Company mainly consist of internal control & compliance risk, IT risk, reputational risk and country risk.

In respect of internal control & compliance risk, the Company continuously improved internal control in accordance with the *Basic Standard for Enterprise Internal Control* and supporting guidelines, subdivided and implemented the *Comprehensive Internal Control Program of Hua Xia Bank*, fully streamlined business process by self-assessment, upgrade and improvement of the *Hua Xia Bank Internal Control Manual*, and kept improving risk control measures. The Company established an internal control and compliance risk joint meeting mechanism, gave play to the role to the Risk Management and Internal Control Committee and further improved its internal control system. The Company perfected the management of rules and regulations to make them more compliant, concise and practicable. The Company also developed and rolled out compliance management system, strengthened the unified management of specialized inspection, enhanced guidance and training for grass-root outlets and kept improving specialized inspection quality and efficiency. Meanwhile, the Company reinforced the long-acting mechanism for problem rectification, improved compliance performance management, and urged all staff members to observe regulations on their own initiative and duly perform their duties so as to ensure operation compliance.

In respect of IT risk, the Company continuously improved IT risk management system and mechanism and IT risk management capability in light of various requirements of the country's regulatory authorities on IT risk management. The Company developed a three-tier disaster backup framework comprising the Head Office, branches and sub-branches and established the "Three Centers and Multiple Active" mode to solidify the foundation for the Company's continuous business operation; the Company innovated in the isomerized dual front-end application system architecture, enriched and improved operation maintenance and management means, monitored base value in an innovative manner, developed an integrated operation maintenance and management platform and network operation maintenance and management system, and ensured risks were found and tackled as early as possible; the Company strengthened outsourcing risk management, implemented general contract liability system for key systematic risks, and gradually gave scope to the three defense lines for technical risk, mainly including technology, risk and audit departments. So far the Company has developed a complete set of technical basic framework and scientific technical management system driving business development, and further enhanced its IT risk resistibility.

In respect of reputational risk, the Company continued to strengthen reputational risk management, ameliorated reputational risk and public opinion monitoring and management system, launched reputational risk training and emergency drills in response to public opinion risk, increased staff's awareness of reputational risk and further enhanced response to reputational risk.

With regard to country risk, the Company perfected country risk management rules and managed country risk in accordance with the CBRC's *Guidelines on Country Risk Management of Banking Financial Institutions*. The Company kept close watch on the country risk in the countries (regions) where it had credits, and continuously monitored, measured and reported on country risk. At the end of the reporting period, all the risk ratings of the countries (regions) where the Company had credits were relatively low, and the allowance for country risk made by the Company was equivalent to RMB55,114,500, meeting the regulatory requirements.

## xv. Innovative services and products

During the reporting period, the Company further strengthened product innovation in line with market change and customer demand, and developed 48 new products and improved and upgraded seven products. It took the lead among domestic banks in launching urbanization loan products and energetically supported the country's urbanization process. The Company launched the Auto Quan Lian Tong brand and product mix, and developed the five-in-one auto finance brand solution comprising "manufacturers, suppliers, distributors, consumers and auto finance companies". It has established business partnership with a host of quality core customers. The Company developed and improved 18 international banking products, including forfaiting, import Dai Li Tong and cross-border RMB Rong Zi Tong. The Company successfully launched mobile banking in line with the development trend of internet finance. The Company developed the super POS product to meet self-employed businesses' comprehensive business needs, such as daily inquiry, transfer, consumption and fund sweep; it also developed wealth management POS product to provide convenience for customers in buying the Company's wealth management products. In consideration of the huge fund pressure of small enterprises in the period of business startup and repayment of financing principal, the Company specially developed the business startup loans and annual review-based loans, representing its service concept of growing with enterprises.

#### IV. EXPLANATION ON THE NONSTANDARD AUDITOR'S REPORT

Not applicable.

#### V. PROFIT DISTRIBUTION PLAN AND PLAN ON STRENGTHENING OF CAPITAL BASE WITH CAPITAL RESERVE

##### i. Formulation, implementation and adjustment of cash dividend policy

According to the *Articles of Association of Hua Xia Bank Co., Limited*, the Company can distribute dividends in the form of cash or share or combination of both, and shall maintain the continuity and stability of profit distribution policy. The Company will give priority to the profit distribution in cash. Total profit distributed in the form of cash in the last three years is not less than 30% of the annual average distributable profit realized during the period.

The profit distribution plan for 2012 was reviewed and approved at the Annual General Meeting for 2012 and took effect on 30 July 2013. The distribution plan accorded with the Articles of Association, the distribution standard and proportion were definite and clear, and relevant decision-making procedures and mechanism were complete. Independent directors performed their duties and made their due contributions. Minority shareholders were provided with opportunities to fully express their opinions and appeals, and their legal rights and interests were sufficiently safeguarded. Total profit distributed in the form of cash in the last three years was not less than 30% of the annual average distributable profit realized during the period.

##### ii. Profit distribution plan and plan on strengthening of capital base with capital reserve in the recent three years (including the reporting period)

(Unit: RMB1 million)

Distribution year	Bonus shares distributed per ten shares	Dividends distributed per ten shares (RMB, before tax)	Shares recapitalized per ten shares	Cash dividend (before tax)	Net profit of the year	Percentage (%)
2013	–	4.35	–	3,874	15,485	25.02
2012	–	4.70	3	3,219	12,795	25.16
2011	–	2.50	–	1,712	9,227	18.56

According to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J. [2012] No. 20) released by the Ministry of Finance and the *Articles of Association of Hua Xia Bank Co., Limited*, the Company made statutory surplus reserve based on the net profit audited by the accounting firm, set aside general reserve from net profit at the end of the year to cover unidentified possible losses, and distributed ordinary share dividends to shareholders based on the distributable profit audited by the accounting firm. The Company's profit distribution plan for 2013 is set out below:

1. RMB1,548,541,908.89 is set aside as statutory surplus reserve at 10% of the net profit of RMB15,485,419,088.91 for 2013 as audited by the accounting firm.

2. Pursuant to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J. [2012] No. 20) released by MOF, the balance of general reserve shall not be less than 1.5% of the balance of assets exposed to risks and losses at the end of the period. Full amount shall be set aside in not more than five years. RMB4,151 million is to be set aside as general reserve for 2013.

3. Ordinary share dividends are to be distributed to shareholders in addition to statutory profit distribution in comprehensive consideration of return on shareholders' investments, regulatory requirement on capital adequacy ratio and better promotion of the Company's sustainable development. With 8,904,643,509 shares outstanding at the end of 2013 as the base, a total of RMB3,873,519,926.42 will be distributed in cash at RMB4.35 (before tax) per 10 shares. The retained profits of 2013 will be used in replenishing capital and distributed in coming years.

The foregoing profit distribution plan will be implemented within two months after being reviewed and passed at the Annual General Meeting for 2013.

## VI. FULFILLMENT OF SOCIAL RESPONSIBILITIES

Actively performing social responsibilities has become a part of the Company's corporate culture. During the reporting period, the Company kept improving its ideas on social responsibility work, strived to strengthen communications with interested parties and continuously pushed forward social responsibility work in line with the strategic objective and orientation of becoming a "SME financial service provider". It was the first among domestic banks to launch the "platform finance" business mode and such unique products for small enterprises, including "annual examination-based loans". It upgraded the "Hua Xia Star" charity campaigns in an effort to drive growth of small enterprises, and kept improving small enterprise service capacity to support the healthy and rapid development of the real economy. Aimed at building the "Hua Xia Service" brand and safeguarding customers' rights and interests, the Company listened to and analyzed customers' financial needs, launched innovative financial products, improved customer service system and constantly enhanced customer service capability. Four outlets of the Company won the title of "100 Best Model Institutions" of China's banking industry in terms of civilized and standardized services. The Head Office was conferred with the "Outstanding Contribution Award" in the selection of 100 best model institutions of China's banking industry in terms of civilized and standardized services in 2013. The Company made great efforts to develop the green credits with the theme of "energy saving, emission reduction, environmental protection and circular economy", continuously improved its IT-based service methods and means and pushed forward the low-consumption, efficient and sustainable development of itself and the society. The Company adhered to promote social harmony and prosperity, continuously and innovatively broadened services for the fields vital to the people's livelihood, and actively participated in the public benefit activities such as financial popularization education and education assistance and supporting, to share social value and enterprises' development achievements. During the reporting period, the Company won the awards including "Best Practice Award for Banking Financial Institution", "Award for Best Trade Finance Growth Bank" and "Award for Best Social Responsibility Practice Case".

For details on the Company's social responsibilities, please refer to the *2013 Social Responsibility Report of Hua Xia Bank Co., Limited*.

## SIGNIFICANT EVENTS

### I. MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

During the reporting period, the Company was not involved in any legal proceedings, arbitrations or media questions with a significant impact on its operating activities.

At the end of the reporting period, the Company had 141 pending lawsuits and arbitrations involving RMB10 million or above individually, totaling RMB37,492,726, of which five cases that involved RMB130,073,900 were brought against the Company. During the reporting period, the Company had made full provisions for anticipated liabilities that may arise from pending lawsuits and arbitrations against the Company.

### II. FUND OCCUPANCY AND RECOVERY IN 2013

During the reporting period, as audited and confirmed by Deloitte Touche Tohmatsu Certified Public Accountants LLP, no funds of the Company were occupied for non-operating purposes by controlling shareholder and other related parties.

### III. MATERIAL ASSET ACQUISITION, DISPOSAL AND MERGER

During the reporting period, the Company did not engage in any material asset acquisition, disposal or merger.

### IV. IMPLEMENTATION OF SHARE INCENTIVE SCHEME AND ITS EFFECTS

Not applicable.

### V. MATERIAL RELATED PARTY TRANSACTIONS

#### i. Loans to shareholders with a stake of 5% or higher

Loans to shareholders with a stake of 5% or higher in the Company at the end of the reporting period are shown below:

(Unit: RMB1 million)

Shareholder	Number of shares held	Outstanding loans at end of 2013	Outstanding loans at end of 2012
Shougang Corporation	1,805,506,536	5,900	5,900

#### ii. Material related party transactions

1. Outstanding loans to shareholders with a stake of 5% or higher in the Company and the related companies controlled by them at the end of the reporting period, with individual amounts of RMB30 million or above, are shown below (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds):

(Unit: RMB1 million)

Related party	Outstanding loans at end of 2013	% of total loans
Shougang Corporation	5,900	0.72
Guiyang Shougang Special Steel Co., Ltd.	100	0.01
Beijing Shougang Special Steel Co., Ltd.	118	0.01
Bazhou Kaihong Mining Co., Ltd.	195	0.02
Tonghua Iron and Steel Co., Ltd.	35	0.00
Kuche County Tianyuan Coking Co., Ltd.	140	0.02
Beijing Shougang Alliance of Xingang Science & Trade Co., Ltd.	49	0.01
State Grid Jilin Electric Power Company Limited	200	0.02



2. At the end of the reporting period, the Company held RMB1,550 million bonds of State Grid Corporation which was related to State Grid Yingda International Holdings Corporation, Ltd.

3. At the end of the reporting period, the Company issued non-financing guarantees worth RMB16,875,200, RMB144,600 and RMB297,400 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Shandong Electric Power Transmission & Substation Engineering Company, Shandong Luneng Software Technology Co., Ltd. and Shandong Luneng Intelligence Technology Co., Ltd. respectively, all of which were related to State Grid Yingda International Holdings Corporation, Ltd. Besides, the Company issued banker's acceptance bills of RMB80 million, RMB19.5 million and RMB4,443,000 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Shen Zhen Long Long International Trade Co., Ltd., Shandong Shougang Steel Trade Co., Ltd. and Beijing Shougang Alliance of Xingang Science & Trade Co., Ltd. respectively, all of which were related to Shougang Corporation. It also issued banker's acceptance bills of RMB30 million and RMB10,536,100 to CEPIC (Dalian) Coal Co., Ltd. and Shandong Luneng Intelligence Technology Co., Ltd. respectively, both of which were related to State Grid Yingda International Holdings Corporation, Ltd. The Company issued letters of credit equivalent to RMB182,884,800 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Tonggang Group Import & Export Co., Ltd. which was related to Shougang Corporation. It also issued letters of credit equivalent to RMB48,800,400 and RMB19,511,400 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to State Grid Corporation and CEPIC (Dalian) Coal Co., Ltd. respectively, both of which were related to State Grid Yingda International Holdings Corporation, Ltd. Lastly, the Company disbursed loans of RMB50 million and RMB285 billion to Hongta Tobacco (Group) Co., Ltd. and Yunnan Anjin Highway Development Co., Ltd. which was related to Hongta Tobacco (Group) Co., Ltd., representing 0.01% and 0.03% of total loans, respectively.

4. At the end of the reporting period, the Company disbursed loans of RMB7,072 million to its related companies, accounting for 0.86% of total loans. The Company's related loans had no overdue or default interest. Considering quantity, structure, quality and potential exposures of those related party transactions, the existing related loans would not exert material impact on the Company's normal operation.

### iii. Management, pricing principle and basis of related party transactions

During the reporting period, pursuant to the *Administrative Measures for Related party Transactions between Commercial Banks and Their Insiders or Shareholders* released by CBRC, the Company further tightened the management and control of related party transaction risks, reasonably controlled limits of related party transactions and proactively adjusted the transaction structures. These moves helped to further improve related party transaction management and effectively control related party transaction risks. The Company strictly implemented the CBRC's *Administrative Measures for Related party Transactions between Commercial Banks and Their Insiders or Shareholders*, and conducted related party transactions in accordance with the commercial principle and based on the pricing principle and basis that the condition is not lower than that of similar non-related party transactions.

## VI. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

### i. Custody, contract and lease

During the reporting period, the Company did not take custody of or contract assets of other companies, and no other companies took custody of, contract or rent assets of the Company.

### ii. Material guarantees

Except for financial guarantees within the business scope as approved by CBRC, the Company had no material guarantees to be disclosed during the reporting period.

### iii. Other material contracts

No material contract disputes arose during the reporting period.

## VII. INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON EXTERNAL GUARANTEES

Pursuant to applicable regulations and requirements of China Securities Regulatory Commission, Independent Directors of the Company reviewed the external guarantees of the Company in 2013 on a fair, impartial and objective basis. Specific review opinions are hereby given below:

The external guarantee service of the Company is a part of the ordinary banking services within the business scope of the Company as approved by the People's Bank of China and China Banking Regulatory Commission. At the end of the reporting period, outstanding guarantees of the Company amounted to RMB12,272 million, an increase of RMB2,614 million compared with the end of previous year.

The Company enhanced guarantee risk management by including guarantee activities in the scope of centralized credit facility management, conducting stringent credit facility investigation, approval and management, and strengthening risk identification, assessment, monitoring and control, which had effectively controlled guarantee risks. During the reporting period, external guarantee service of the Company was run normally without any advance payments or non-compliances.

## VIII. COMMITMENTS

i. During the reporting period, the Company or its shareholders having a stake of 5% or higher in the Company did not make any commitments that may impose any material impact on operating results or financial position of the Company.

ii. Shareholders of the Company, namely Shougang Corporation, State Grid Yingda International Holdings Corporation, Ltd. and Deutsche Bank Luxembourg S.A., committed not to transfer the Company's shares acquired at this offering within five years following the delivery date of the Company's non-public offering in 2011; share transfer upon maturity and qualifications of the transferee for shareholder shall be subject to the consent of regulators as per relevant laws and regulations.

Committed by	Shougang Corporation
	State Grid Yingda International Holdings Corporation, Ltd.
	Deutsche Bank Luxembourg S.A.
Commitment type	Restrictions on sales of shares of re-financing
Commitment	They committed not to transfer the Company's shares acquired at this offering within five years following the delivery date of the Company's non-public offering in 2011; and share transfer upon maturity and qualifications of the transferee for shareholder shall be subject to the consent of regulators as per relevant laws and regulations.
Commitment date	26 April 2011
Commitment term	Five years
Performance status	Under performance

## IX. ENGAGEMENT AND REMOVAL OF INTERMEDIARIES

During the reporting period, the Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the external auditor of the financial statements for 2013 with an audit fee of RMB4.38 million and as the auditor of internal controls in 2013 with an audit fee of RMB1.1 million. Deloitte Touche Tohmatsu Certified Public Accountants LLP has provided audit service for the Company for one year.

## X. PENALTY TO THE COMPANY, THE BOARD OF DIRECTORS AND DIRECTORS

During the reporting period, the Company, the Board of Directors and Directors did not receive any disciplinary inspection, administrative penalty or public criticism by CSRC or public censure by stock exchanges, or any punishment by other regulatory or judicial authorities.

## XI. INDEX OF INFORMATION DISCLOSURES

Event	Published in (journals)	Date of publication	Published on (website)
Announcement on Resolutions of the Sixteenth Meeting of the Sixth Board of Directors	China Securities Journal, Shanghai Securities News, and Securities Times	02 April 2013	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Announcement on Related Party Transactions	Ditto	02 April 2013	Ditto
Announcement on Resolutions of the Seventeenth Meeting of the Sixth Board of Directors	Ditto	26 April 2013	Ditto
Announcement on Resolutions of the Tenth Meeting of the Sixth Board of Supervisors	Ditto	26 April 2013	Ditto
Announcement on Notice about Holding the Annual General Meeting for 2012	Ditto	26 April 2013	Ditto
Annual Report 2012	Ditto	26 April 2013	Ditto
First Quarterly Report in 2013	Ditto	26 April 2013	Ditto
Announcement on CBRC Permitting the Opening of Huaxia Financial Leasing Co., Ltd.	Ditto	04 May 2013	Ditto
Announcement on Resolutions of the Twelfth Meeting of the Sixth Board of Supervisors	Ditto	24 May 2013	Ditto
Announcement on Advance Notice about the Explanation Session of Cash Dividend Distribution	Ditto	31 May 2013	Ditto
Announcement on Resignation of Director	Ditto	04 June 2013	Ditto
Announcement on Resolutions of Annual General Meeting for 2012	Ditto	19 June 2013	Ditto
Announcement on Implementation of Plan about Profit Distribution for 2012 and Strengthening of Capital Base with Capital Reserve	Ditto	18 July 2013	Ditto
Announcement on Resolutions of the Nineteenth Meeting of the Sixth Board of Directors	Ditto	09 August 2013	Ditto
Announcement on Resolutions of the Thirteenth Meeting of the Sixth Board of Supervisors	Ditto	09 August 2013	Ditto
Interim Report 2013	Ditto	09 August 2013	Ditto
Announcement on Resolutions of the Twentieth Meeting of the Sixth Board of Directors	Ditto	31 October 2013	Ditto
Third Quarterly Report in 2013	Ditto	31 October 2013	Ditto
Announcement on Resolutions of the Twenty-first Meeting of the Sixth Board of Directors	Ditto	09 November 2013	Ditto

## DETAILS OF CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### DETAILS OF CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

#### I. CHANGES IN SHARE CAPITAL

##### i. Changes in shares

##### 1. Table on Changes in Shares

(Unit: Share)

	Pre-change		Increase/ Decrease (+, -)	Post-change	
	Number	Percentage (%)	Share increase with capital reserve	Number	Percentage (%)
I. Shares subject to restrictions on sales	1,859,197,460	27.14	557,759,238	2,416,956,698	27.14
1. State-owned shares					
2. Shares held by state-owned corporations	1,344,510,738	19.63	403,353,222	1,747,863,960	19.63
3. Shares held by other domestic investors					
Of which:					
Shares held by domestic non-state-owned corporations					
Shares held by domestic natural persons					
4. Shares held by foreign investors	514,686,722	7.51	154,406,016	669,092,738	7.51
Of which:					
Shares held by foreign corporations	514,686,722	7.51	154,406,016	669,092,738	7.51
Shares held by foreign natural persons					
II. Shares not subject to restrictions on sales	4,990,528,316	72.86	1,497,158,495	6,487,686,811	72.86
1. RMB-denominated ordinary shares	4,990,528,316	72.86	1,497,158,495	6,487,686,811	72.86
2. Foreign shares listed domestically					
3. Foreign shares listed overseas					
4. Others					
III. Total number of shares	6,849,725,776	100.00	2,054,917,733	8,904,643,509	100.00

## 2. Notes to the changes in shares

In July 2013, with 6,849,725,776 shares outstanding as the base, the capital reserve was used to strengthen the capital base at three shares transferred per ten shares, resulting in an increase of 2,054,917,733 shares. The Company's total share capital was thus increased to 8,904,643,509 shares.

## 3. Influence of share changes on financial indicators including earnings per share and net assets per share in the past year and during the recent period

In July 2013, with 6,849,725,776 shares outstanding as the base, the capital reserve was used to strengthen the capital base at three shares transferred per ten shares, resulting in an increase of 2,054,917,733 shares. The Company's total share capital was thus increased to 8,904,643,509 shares. This had influence on the number of ordinary shares issued but did not affect the amount of owner's equity. At the end of 2012, calculated on the basis of pre-transfer share capital, basic earnings per share was RMB1.87 and net assets per share attributable to shareholders of the listed company amounted to RMB10.90; but if calculated on the basis of share capital following the transfer, the two figures became RMB1.44 and RMB8.39 respectively. At the end of 2013, basic earnings per share was RMB1.74 and net assets per share attributable to shareholders of the listed company amounted to RMB9.59. Basic earnings per share was calculated according to the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share* (Revision 2010).

### ii. Changes in shares subject to restrictions on sales

(Unit: Share)

Shareholder	Number of shares subject to restrictions on sales at the beginning of the year	Number of shares released from restrictions on sales during the year	Increase in the number of shares subject to restrictions on sales during the year (Refer to Note 2)	Number of shares subject to restrictions on sales at the end of the year	Reason for restrictions on sales	Date on which shares become tradable
Shougang Corporation	691,204,239	0	207,361,272	898,565,511	(Refer to Note 1)	–
State Grid Yingda International Holdings Corporation, Ltd.	653,306,499	0	195,991,950	849,298,449	(Refer to Note 1)	–
Deutsche Bank Luxembourg S.A.	514,686,722	0	154,406,016	669,092,738	(Refer to Note 1)	–
Total	1,859,197,460	0	557,759,238	2,416,956,698	–	–

#### Notes:

1. In April 2011, the Company privately placed 1,859,197,460 shares subject to restrictions on sales to Shougang Corporation, State Grid Yingda International Holdings Corporation, Ltd. and Deutsche Bank Luxembourg S.A., which subscribed 691,204,239 million shares, 653,306,499 million shares and 514,686,722 million shares respectively. The shares that the said investors subscribed are locked for 60 months from 26 April 2011. The Company will apply to Shanghai Stock Exchange for non-public offering of these shares on 26 April 2016.

2. In July 2013, with 6,849,725,776 shares outstanding as the base, the capital reserve was used to strengthen the capital base at three shares transferred per ten shares, resulting in an increase of 2,054,917,733 shares including 557,759,238 shares subject to restrictions on sales.

## DETAILS OF CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### II. SECURITIES ISSUE AND OFFERING

#### i. Securities issue in the previous three years

(Unit: Share)

Type of shares and derivative securities	Issuing date	Issuing price (RMB)	Volume	Offering date	Volume approved to be offered	Expiry date of offering
A Share	22 April 2011	10.87	1,859,197,460	26 April 2011	0	

Notes to the issue in the previous three years:

The Company issued 1,859,197,460 ordinary shares denominated in RMB (A share) to Shougang Corporation, State Grid Yingda International Holdings Corporation, Ltd. and Deutsche Bank Luxembourg S.A. at the price of RMB10.87 per share, raising a total of RMB20,209,476,389.00, as reviewed and approved by the First Extraordinary General Meeting of the Company in 2010, and approved in the *Reply of China Banking Regulatory Commission on Non-public Offering of RMB Ordinary Shares by Hua Xia Bank Co., Limited and Relevant Shareholders' Qualifications* (Y.J.F.(2010) No. 574) and the *Reply of China Securities Regulatory Commission on Approving Non-public Offering of Shares by Hua Xia Bank Co., Limited* (ZH.J.X.K (2011) No. 207). These shares are locked for 60 months from 26 April 2011. The Company will apply to SSE for the non-public offering of these shares on 26 April 2016.

#### ii. Changes in the total number of shares and shareholder structure as well as the Company's asset & liability structure

In July 2013, with 6,849,725,776 shares outstanding as the base, the capital reserve was used to strengthen the capital base at three shares transferred per ten shares, resulting in an increase of 2,054,917,733 shares. The Company's total share capital was thus increased to 8,904,643,509 shares. This did not change the shareholder structure and the asset & liability structure.

#### iii. Existing employee shares

The Company had no employee shares.

### III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER

#### i. Number of shareholders and shareholdings

(Unit: Share)

Total number of shareholders at the end of the reporting period	142,927	Total number of shareholders at the end of fifth trading day before disclosing date of this Annual Report				132,081	
Shareholdings of the top 10 shareholders							
Shareholder	Nature of shareholder	Percentage (%)	Number of shares held by shareholders	Increase/ decrease during the reporting period	Number of shares subject to restrictions on sales	Number of pledged or frozen shares	
						Share status	Number
Shougang Corporation	State-owned legal person	20.28	1,805,506,536	416,655,355	898,565,511	None	
State Grid Yingda International Holdings Corporation, Ltd.	State-owned legal person	18.24	1,623,994,960	374,768,068	849,298,449	None	
Deutsche Bank Luxembourg S.A.	Foreign legal person	9.28	826,392,738	190,706,016	669,092,738	None	
Deutsche Bank Aktiengesellschaft	Foreign legal person	8.21	731,085,499	168,712,038	0	None	
Hongta Tobacco (Group) Co., Ltd.	State-owned legal person	4.37	389,480,000	89,880,000	0	None	
Runhua Group Co., Ltd.	Domestic non-state-owned legal person	3.12	277,388,946	64,012,834	0	Pledged	277,343,000
SAL.OPPENHEIM JR. & CIE. KOMMANDITGESELLSCHAFT AUF AKTIEN	Foreign legal person	2.50	222,560,000	51,360,000	0	None	
Sino Life Insurance Co., Ltd.-Universal Insurance H	Other	1.77	157,823,090	157,823,090	0	None	
Beijing Sanjili Energy Co., Ltd.	State-owned legal person	1.58	140,435,034	20,908,085	0	Pledged	65,000,000
Shanghai Giant Lifetech Co., Ltd.	Domestic non-state-owned legal person	1.31	116,438,819	26,870,497	0	Pledged	48,037,860

## DETAILS OF CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Shareholdings of the top 10 shareholders not subject to restrictions on sales		
Shareholder	Number of shares not subject to restrictions on sales	Type of shares
Shougang Corporation	906,941,025	RMB-denominated ordinary shares
State Grid Yingda International Holdings Corporation, Ltd.	774,696,511	RMB-denominated ordinary shares
Deutsche Bank Aktiengesellschaft	731,085,499	RMB-denominated ordinary shares
Hongta Tobacco (Group) Co., Ltd.	389,480,000	RMB-denominated ordinary shares
Runhua Group Co., Ltd.	277,388,946	RMB-denominated ordinary shares
SAL.OPPENHEIM JR.& CIE.KOMMANDITGESELLSCHAFT AUF AKTIEN	222,560,000	RMB-denominated ordinary shares
Sino Life Insurance Co., Ltd.-Universal Insurance H	157,823,090	RMB-denominated ordinary shares
Deutsche Bank Luxembourg S.A.	157,300,000	RMB-denominated ordinary shares
Beijing Sanjili Energy Co., Ltd.	140,435,034	RMB-denominated ordinary shares
Shanghai Giant Lifetech Co., Ltd.	116,438,819	RMB-denominated ordinary shares
Remarks on the connected relation or concerted action of the above shareholders	<p>During the reporting period, Deutsche Bank Luxembourg S.A. was a wholly-owned subsidiary of Deutsche Bank Aktiengesellschaft. Deutsche Bank Aktiengesellschaft completed the delivery of 100% shares of Sal. Oppenheim jr. &amp; Cie. S.C.A. which holds 100% interests of Sal. Oppenheim jr. &amp; Cie. Kommanditgesellschaft auf Aktien on 15 March 2010. For details, please refer to the provisional announcement of the Company on 18 March 2010. The Company has no knowledge of any other connected relations among other shareholders.</p>	

Note: In September 2011, Deutsche Bank Aktiengesellschaft, a shareholder of the Company, acquired 171,200,000 shares held by Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien in the Company, and the shareholding transfer was approved by CBRC. At the end of the reporting period, the shareholding transfer registration was still under progress.



ii. Number of shares subject to restrictions on sales held by top ten shareholders and restrictions on sales

(Unit: Share)

No.	Shareholder subject to restrictions on sales	Number of shares subject to restrictions on sales	Particulars of trading of shares subject to restrictions on sales		Restrictions on sales
			Tradable date	Number of new tradable shares	
1	Shougang Corporation	898,565,511	2016.04.26	898,565,511	The Company privately offered 1,859,197,460 ordinary shares subject to restrictions on sales. The shares all investors subscribed to will be locked for 60 months from 26 April 2011. The Company will apply to SSE for trading of those privately offered shares from 26 April 2016.
2	State Grid Yingda International Holdings Corporation, Ltd.	849,298,449	2016. 04.26	849,298,449	The Company privately offered 1,859,197,460 ordinary shares subject to restrictions on sales. The shares all investors subscribed to will be locked for 60 months from 26 April 2011. The Company will apply to SSE for trading of those privately offered shares from 26 April 2016.
3	Deutsche Bank Luxembourg S.A.	669,092,738	2016. 04.26	669,092,738	The Company privately offered 1,859,197,460 ordinary shares subject to restrictions on sales. The shares all investors subscribed to will be locked for 60 months from 26 April 2011. The Company will apply to SSE for trading of those privately offered shares from 26 April 2016.

iii. Particulars of shareholders holding over 5% shares of the Company

The Company has no controlling shareholders or de facto controller. Shougang Corporation is the largest shareholder of the Company.

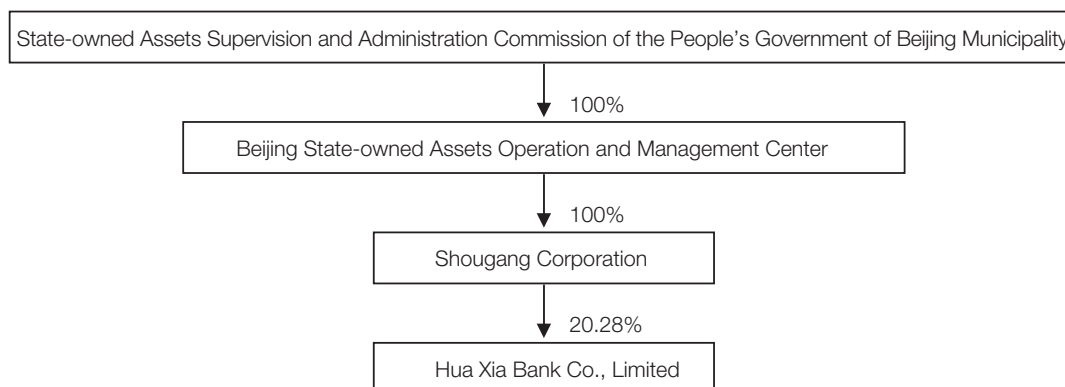
At the end of the reporting period, shareholders holding over 5% shares of the Company were Shougang Corporation (20.28%), State Grid Yingda International Holdings Corporation, Ltd. (18.24%), Deutsche Bank Luxembourg S.A. (9.28%) and Deutsche Bank Aktiengesellschaft (8.21%).

1. Shougang Corporation

Founded on 15 October 1992, Shougang Corporation grew out of Shijingshan Steel and Iron Works established in 1919 which was reorganized into Shougang Group in September 1996. As the parent company of Shougang Group, Shougang Corporation operated all the assets of Shougang Group. On 2 August 1999, Shougang Corporation, as a state-owned asset investment entity authorized by the People's Government of Beijing Municipality, was restructured into a solely state-owned company as approved by the State Economic and Trade Commission and the People's Government of Beijing Municipality. The organizational code was 10112000-1, registered capital was RMB7,263.94 million and Mr. Wang Qinghai was the legal representative. Shougang Corporation is a large enterprise group with the operation covering different industries, regions and countries. Its core businesses include manufacturing, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technology service, domestic commerce, public catering, material supply, warehouse, real estate, residential service, consultation, leasing, agriculture, forestry, husbandry, fishery (except for those without special license) and authorized state-owned asset management.

## DETAILS OF CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

The equity relationship between the Company and Shougang Corporation as the largest shareholder is illustrated below:



### 2. State Grid Yingda International Holdings Corporation, Ltd.

State Grid Yingda International Holdings Corporation, Ltd. (abbreviated as “State Grid Yingda Group Company” and formerly known as SGCC Asset Management Co., Ltd.), founded on 18 October 2007, is a wholly-owned subsidiary of State Grid Corporation of China with a registered capital of RMB16 billion and Han Jun as its legal representative. It mainly deals with investment and asset operation and management, asset custody; services in corporate restructuring, M&A, strategic placement, start-up business; investment advisory and consultation etc.

### 3. Deutsche Bank Luxembourg S.A.

Deutsche Bank Luxembourg S.A. was registered in Luxembourg as a limited liability company with a registered capital of EUR3,959.5 million. Its CEO is Ernst Wilhelm Contzen. This wholly-owned subsidiary of Deutsche Bank Aktiengesellschaft is mainly engaged in propriety and agency banking and financial services in Luxembourg or at abroad and provide insurance brokerage services and other directly or indirectly related businesses via officially licensed natural persons. It is also authorized to involve in equity participation and set up branches for other enterprises whose registered office is located in Luxembourg or overseas.

### 4. Deutsche Bank Aktiengesellschaft

Deutsche Bank Aktiengesellschaft, incorporated in Frankfurt, Germany, is a limited liability company, with a registered capital of EUR2,609.9 million. Mr. Jürgen Fitschen and Mr. Anshuman Jain serve as its CEO jointly. As a universal bank, Deutsche Bank is mainly engaged in banking businesses by itself or its subsidiaries or related companies, and provides services concerning capital, fund management, real estate finance, financing, research and consultation. As long as in compliance with the law, it is authorized to deal with various transactions, take all measures helpful to the realization of its objective, especially in respect of the purchase and assignment of real estate, establishment of branches both at home and abroad, purchase, management and sales of its interests in other enterprises and conclusion of agreements with them.

#### iv. Special explanation on the Company without controlling shareholder

The Company has no controlling shareholder. Shougang Corporation is the largest shareholder of the Company.

#### v. Special explanation on the Company without de facto controller

The Company has no de facto controller. Shougang Corporation is the largest shareholder of the Company.

## BASIC INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND EMPLOYEES

### I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

i. Changes in shares held by directors, supervisors and senior management members and their remunerations during the reporting period

Name	Position	Gender	Date of birth	Tenure	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Increase/decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period	Equity incentives granted by the Company during the reporting period
Wu Jian	Chairman	Male	1954	30 October 2010-27 February 2014	0	0	0	260	None
Fang Jianyi	Vice Chairman	Male	1953	30 October 2010-27 February 2014	0	0	0	7.8	None
Li Ruge	Vice Chairman	Male	1963	30 October 2010-27 February 2014	0	0	0	8.4	None
Sun Weiwei	Director	Female	1955	30 October 2010-31 May 2013	0	0	0	3.8	None
Ding Shilong	Director	Male	1963	30 October 2010-27 February 2014	0	0	0	8.4	None
Robert John Rankin	Director	Male	1963	30 October 2010-27 February 2014	0	0	0	7.8	None
Christian K. Ricken	Director	Male	1966	30 October 2010-27 February 2014	0	0	0	8.4	None
Zhang Meng	Director	Female	1958	30 October 2010-27 February 2014	0	0	0	7.2	None
Fan Dazhi	Director, President	Male	1964	30 October 2010-27 February 2014	0	0	0	260	None
Ren Yongguang	Director, Vice President	Male	1959	30 October 2010-27 February 2014	0	0	0	200	None
Zhao Junxue	Director Secretary to the Board	Male	1958	30 October 2010-27 February 2014	0	0	0	200	None
Sheng Jiemin	Independent Director	Male	1941	30 October 2010-27 February 2014	0	0	0	21.4	None
Luo Xiaoyuan	Independent Director	Female	1954	30 October 2010-27 February 2014	0	0	0	21.4	None
Lu Jianping	Independent Director	Male	1963	30 October 2010-27 February 2014	0	0	0	20.8	None
Xiao Weiqiang	Independent Director	Male	1954	30 October 2010-27 February 2014	0	0	0	21.4	None
Zeng Xiangquan	Independent Director	Male	1955	30 October 2010-27 February 2014	0	0	0	20.8	None
Yu Changchun	Independent Director	Male	1952	30 October 2010-27 February 2014	0	0	0	20.2	None
Pei Changhong	Independent Director	Male	1954	30 October 2010-27 February 2014	0	0	0	20.2	None
Cheng Yanhong	Chairman of the Board of Supervisors	Female	1958	29 October 2010-27 February 2014	0	0	0	260	None
Li Liangang	Supervisor	Male	1968	30 October 2010-27 February 2014	0	0	0	7.2	None
Tian Ying	Supervisor	Female	1965	30 October 2010-27 February 2014	0	0	0	8.4	None
Cheng Chen	Supervisor	Female	1975	30 October 2010-27 February 2014	0	0	0	4.8	None
Guo Jianrong	Supervisor	Male	1962	30 October 2010-27 February 2014	0	0	0	17.2	None
Liu Guolin	Supervisor	Male	1951	30 October 2010-27 February 2014	0	0	0	6.0	None
Gao Peiyong	External Supervisor	Male	1959	30 October 2010-27 February 2014	0	0	0	17.8	None
Qi Yudong	External Supervisor	Male	1966	30 October 2010-27 February 2014	0	0	0	17.2	None
Li Guopeng	Chairman of the Labor Union	Male	1955	From 13 October 2007	0	0	0	200	None
	Employee Supervisor			29 October 2010-27 February 2014					
Li Qi	Employee Supervisor	Male	1958	29 October 2010-27 February 2014	0	0	0	110	None
Zhang Guowei	Employee Supervisor	Male	1959	29 October 2010-27 February 2014	0	0	0	110	None
Wang Yaoting	Vice President	Male	1963	30 October 2010-27 February 2014	0	0	0	200	None
Li Xiang	Vice President	Male	1957	30 October 2010-27 February 2014	0	0	0	200	None
Huang Jinlao	Vice President	Male	1972	30 October 2010-27 February 2014	0	0	0	200	None
Song Jiqing	Principal of Financial Affairs	Male	1965	30 October 2010-27 February 2014	0	0	0	110	None
Total	/	/	/	/	/	/	/	2,586.6	/

## BASIC INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND EMPLOYEES

Notes:

1. The allowance in total remuneration obtained by directors and supervisors from the Company during the reporting period was determined according to the Regulations of *Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors*.

2. Pre-tax remunerations of the Chairman, presidents, Chairman of the Board of Supervisors, Employee Supervisors and other senior management members serving in the Company are under confirmation and will be disclosed thereafter.

The rest part of pre-tax remunerations for 2012:

Name	Position	The rest part of pre-tax remunerations for 2012 (RMB10,000)
Wu Jian	Chairman	21.02
Fan Dazhi	Director, President	21.02
Cheng Yanhong	Chairman of the Board of Supervisors	21.02
Ren Yongguang	Director, Vice President	20.02
Wang Yaoting	Vice President	20.04
Li Xiang	Vice President	19.21
Huang Jinlao	Vice President	20.85
Zhao Junxue	Director, Secretary to the Board	18.50
Li Guopeng	Chairman of the Labor Union, Employee Supervisor	19.77
Li Qi	Employee Supervisor	93.91
Zhang Guowei	Employee Supervisor	61.92
Song Jiqing	Principal of Financial Affairs	126.47

Notes:

1. The Annual Report 2012 has disclosed part of remunerations paid to the above persons during the reporting period. The rest part of pre-tax remunerations for 2012 is hereby disclosed.

2. Pursuant to relevant policy, risk security deposits of incumbent Chairman, Presidents, Chairman of the Board of Supervisors and other senior management members shall be delayed in payment. The total subject to delayed payment in 2012 is RMB8,124,500 and not paid to those individuals yet.

## ii. Positions of directors and supervisors in shareholder entities

Name	Shareholder entity	Position	Tenure
Fang Jianyi	Shougang Corporation	Director, Chief Accountant	Since June 1998
Li Ruge	State Grid Corporation	Party Group member, Chief Accountant	Since November 2007
Sun Weiwei	Shougang Corporation	Deputy General Manager	Since November 2003
Ding Shilong	State Grid Jibei Electric Power Company Limited	Party Group member, Deputy General Manager, Chief Accountant	Since December 2013
Robert John Rankin	Deutsche Bank	Member of Group Executive Committee, Co-Head of Corporate Banking & Securities and Head of Corporate Finance	Since June 2009
Christian K. Ricken	Deutsche Bank	Chief Operating Officer of Private & Business Clients, Member of Group Executive Committee	Since October 2008
Zhang Meng	Hongta Tobacco (Group) Co., Ltd.	CFO	December 2008-November 2013
Li Liangang	Runhua Group Co., Ltd.	Director	Since July 2009
Tian Ying	Beijing Sanjili Energy Co., Ltd.	Deputy General Manager & Chief Accountant	Since December 1999
Guo Jianrong	Baotou Huazi Industry Co., Ltd.	Assistant General Manager	Since February 2002

## iii. Professional experiences of directors, supervisors and senior management members and their positions or concurrent jobs in other institutions during the reporting period

Wu Jian, Chairman of the Board of Directors, male, was born in March 1954. He holds a bachelor's degree and is a senior administration engineer and senior economist. He previously served as Deputy Head of the Equipment Credit Division of Beijing Branch of Industrial and Commercial Bank of China ("ICBC"), Deputy Head and Head of Chaoyang District Office of Beijing Branch of ICBC, Deputy General Manager and Member of Leading Party Group and then General Manager and Secretary of Leading Party Group of Beijing Branch of Bank of Communications, Member of Leading Party Group, Head of Discipline Inspection Team, Vice President and Member of the Party Committee of Bank of Communications; and Director, President and Deputy Secretary of the Party Committee of Hua Xia Bank. He currently serves as Chairman and Secretary of the Party Committee of Hua Xia Bank.

Fang Jianyi, Vice Chairman, male, was born in July 1953. He holds a master's degree and is a professor-level senior engineer. He served as Assistant General Manager and Manager of the Financial Department of Shougang NEC Electronics Co., Ltd., Deputy Head of the Financial Division of Shougang International Economic and Trade Department, Deputy Head of the Financial Division of the Business Department of China Shougang International Trade & Engineering Corporation ("Shougang International"), Assistant to General Manager of Shougang International, Deputy General Manager of Shougang Shipping Company, Head of the Financing Division of the Finance and Accounting Department of Shougang's overseas Headquarter and Deputy Head of the Finance and Accounting Department of Shougang overseas Headquarter, Deputy Head of the Development Department, and Financial Assistant to General Manager and Chief Accountant of Shougang Corporation. He currently serves as Director and Chief Accountant of Shougang Corporation.

## **BASIC INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND EMPLOYEES**

Li Ruge, Vice Chairman, male, was born in August 1963. He holds a master's degree and is a senior accountant. He served as Deputy Director, Director and Member of the Party Committee of Shandong Heze Power Plant, General Manager and Member of the Party Committee of Shandong Power Supply Bureau Fuel Company, Head of the Financial Department of Shandong Power Supply Bureau, Vice Chief Accountant, Chief Accountant, Deputy General Manager and Member of the Party Committee of Shandong Power Group Corporation, Vice Chief Accountant of China Guodian Corporation, Chairman of State Grid Yingda International Trust Investment Corporation, Vice Chief Accountant, Head of the Financial Department and Head of the Fund Management Center of State Grid Corporation of China. He currently serves as Chief Accountant and Member of Leading Party Group of State Grid Corporation of China.

Sun Weiwei, Director, female, was born in June 1955. She holds a master's degree and is a senior accountant, certified public accountant and practicing certified tax agent. She served as Deputy Head and Head of the Financial Department, Deputy General Manager and Executive Deputy General Manager of Taiyuan Heavy Machinery Group Co., Ltd., and Assistant to General Manager of Shougang Corporation. She currently serves as Deputy General Manager of Shougang Corporation. She resigned as a Director of the Company on 31 May 2013.

Ding Shilong, Director, male, was born in July 1963. He is a PhD in management and senior accountant. He served as Deputy Chief and Chief of the General Financial Section of Henan Power Industry Bureau, Deputy Head of the Financial Division, Assistant Consultant (holding a temporary leading post) of Electric Regulation Division and State-owned Asset Supervision Division of the Electric Power Department and Associate Chief Accountant and Head of the Financial Division of Henan Power Company (Bureau). He later became Chief Accountant of Henan Power Company, Chairman of Henan Kaixiang Electric Power Industrial Holding Co., Ltd., Deputy Head of the Financial Asset Management Department of State Grid Corporation of China, Deputy General Manager and Member of Leading Party Group of SGCC Asset Management Co., Ltd., Deputy General Manager and Member of Leading Party Group of State Grid Yingda International Holdings Corporation, Ltd. He currently serves as Member of Leading Party Group, Deputy General Manager and Chief Accountant of State Grid Jibei Electric Power Company Limited.

Robert John Rankin, Director, male, Australian, was born in September 1963. He graduated from the University of Sydney and obtained a bachelor's degree in economics and law. He previously served as securities and M&A lawyer of Blake Dawson, and worked in United Bank of Switzerland AG (UBS) and its predecessor, including as member of UBS Investment Bank Board, Executive Director and Head of Investment Banking Asia Pacific in UBS. He currently serves as Member of Group Executive Committee, Co-Head of Corporate Banking & Securities and Head of Corporate Finance. He resigned as a Director of the Company on 27 February 2014.

Christian K. Ricken, Director, German, male, was born in December 1966. He is a PhD in political economy. He previously worked in financial department of Deutsche Bank and then served as Chief Director and Managing Director of Group Planning Division, Chief Director of Strategic and Controlling Division and Investment and Controlling Division, Global Director of Private & Business Clients (PBC) Finance Division, and Chief Financial Officer of PBC and acting Global Director of deposit & payment products. He currently serves as Chief Operating Officer of PBC as well as Member of PBC Executive Committee and Group Executive Committee.

Zhang Meng, Director, female, was born in October 1958. She holds a master's degree, and is an assistant accountant and IPO accountant. She served as Deputy Chief and Chief of the Industrial Finance Section, Associate Chief Accountant and Chief Financial Officer of Yuxi Hongta Tobacco (Group) Co., Ltd. She resigned as a Director of the Company on 27 February 2014.

Fan Dazhi, Director and President, male, was born in September 1964. He is a PhD and senior accountant. He previously served as a teacher of Dongbei University of Finance and Economics, General Manager of the Head Office of Investment Bank of Beijing International Trust and Investment Co, Ltd., Member of the Leading Party Group and Deputy Head of Beijing Overseas Financing and Investment Management Center, Member of the Leading Party Group, Director and Deputy General Manager of Beijing State-owned Assets Management Co., Ltd., Vice Secretary of the Party Committee, Director and General Manager of Beijing Securities Co., Ltd., Chairman of the Board of Supervisors of UBS Securities Company Limited, and Director, Deputy Secretary of the Party Committee, Vice President and Executive Vice President of Hua Xia Bank. He currently serves as Chairman, President and Deputy Secretary of the Party Committee of Hua Xia Bank.

Ren Yongguang, Director, Vice President, male, was born in December 1959. He holds a bachelor's degree, and is a senior economist. He used to be Deputy Head and Head of Foreign Fund Management Division, Head of Foreign Exchange Management Division, Director of Executive Office and Head of Plan Fund Division of Beijing Branch of the People's Bank of China ("PBOC"), Head of Credit Management Division of Business Management Department, Deputy Director and Member of Leading Party Group of Business Management Department of the PBOC, member of the Preparation Team for and Deputy Director General and Member of Leading Party Group of CBRC Beijing Office, Director, Vice President and Deputy Secretary of the Party Committee of Hua Xia Bank. He currently serves as Director, Vice President and Member of the Party Committee of Hua Xia Bank.

Zhao Junxue, Director, Secretary to the Board, male, was born in April 1958. He holds a master's degree, and is a senior economist. He served as Assistant to General Manager of South Branch of China National Packaging Corporation, Deputy General Manager and General Manager of Yuehai Finance Holding Co., Ltd., and Secretary of Leading Party Group and General Manager of Shenzhen Branch of Hua Xia Bank. He currently serves as Director and Secretary to the Board of Hua Xia Bank.

Sheng Jiemin, Independent Director, male, was born in March 1941. He has a bachelor's degree and a title of professor. He used to teach in East China University of Politics and Law, Shanghai Fudan University and the Law School of Peking University. He currently serves as Professor and tutor to PhD students of Peking University. He resigned as an Independent Director of the Company on 27 February 2014.

Luo Xiaoyuan, Independent Director, female, was born in January 1954. She has a bachelor's degree, and is a senior economist and (non-practicing) certified public accountant. She served as Associate Editor in Chief and Head of the Editorial Department of the Finance Research, Head of the Editorial Department of the Journal of Accounting Society of China and the Journal of The Chinese Institute of Certified Public Accountants, a member and Head of the General Office of the National Examination Commission of Certified Public Accountants, Chief Accountant and Head of the Registration Center of Chinese Institute of Certified Public Accountants, etc. She resigned as an Independent Director of the Company on 27 February 2014.

## **BASIC INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND EMPLOYEES**

Lu Jianping, Independent Director, male, was born in December 1963. He is a PhD, tutor to PhD students and professor. He served as a lecturer and associate professor of the Philosophy Department of Zhejiang University, Director of the Foreign Economic Law Research Institute of Zhejiang University, Dean and professor of the International Economic Law Department of Zhejiang University, Dean and professor of the Public Management Department of Zhejiang University, and Executive Head, professor and a tutor to PhD students of the Criminal Law Research Center of Renmin University of China. He currently serves as Deputy Dean, professor and a tutor to PhD students of the Criminal Law Science Research Institute of Beijing Normal University. He resigned as an Independent Director of the Company on 27 February 2014.

Xiao Weiqiang, Independent Director, male, was born in April 1954. He holds a bachelor's degree. He used to be Chief Partner of the Shanghai Office, Beijing Office and North China of KPMG Huazhen Certified Public Accountants. He resigned as an Independent Director of the Company on 27 February 2014.

Zeng Xiangquan, Independent Director, male, was born in November 1955. He is a PhD in economics, professor and tutor to PhD students. He has been Dean of the School of Labor and Human Resources of Renmin University of China since 2000.

Yu Changchun, Independent Director, male, was born in February 1952. He is a PhD and professor. He used to be associate professor, dean of the teaching-research section and Deputy Dean of the Accounting Department of Jilin Finance and Trade College; Dean, professor and MA student adviser of the Accounting Department of Changchun Taxation College; and Director of Teaching and Research Center of Beijing National Accounting Institute. He currently serves as Professor and tutor to PhD students of Beijing National Accounting Institute.

Pei Changhong, Independent Director, male, was born in May 1954. He is a PhD and researcher. He used to be Director of Beijing Municipal Institute of Rural Economy, Deputy Director, Member of Leading Party Group and senior economist of Beijing Municipal Research Center of Rural Economy, researcher and assistant to Deputy Director General of Institute of Finance and Trade Economics, Deputy Director and Director of Foreign Affairs Bureau, and tutor to PhD students of the Graduate School of the Chinese Academy of Social Sciences (CASS), and Director General of Institute of Finance and Trade Economics of CASS. He once held a temporary leading post of Vice Mayor of the People's Government of Hangzhou. He currently serves as Director General & Secretary of the Party Committee of the Institute of Economics of CASS.

Cheng Yanhong, Chairperson of the Board of Supervisors, female, was born in February 1958. She holds a bachelor's degree and a title of senior accountant. She served as Deputy Head of the General Affairs Division, Deputy Head and Head of the Debt Division, Member of Leading Party Group and Deputy Director General of Beijing Municipal Bureau of Finance, Secretary of the Party Committee and General Manager of Beijing Securities Co., Ltd., Deputy Secretary and Secretary of the Beijing Finance Working Committee, Head of the Finance Office of Beijing Municipal Government, Chairman of the Board of Supervisors, Deputy Secretary of the Party Committee and Secretary of the Party Discipline Committee of Hua Xia Bank. She currently serves as Chairman of the Board of Supervisors and Deputy Secretary of the Party Committee of Hua Xia Bank.



Li Liangang, Supervisor, male, was born in May 1968. He holds a bachelor's degree, and is a senior economist. He used to be Deputy General Manager of the Finance Department of Shandong Office, and General Manager of the Shandong Securities Operations Department of China New Technology Venture Capital Company, Head of the Corporate Banking Division of Jinan Branch of Hua Xia Bank Co., Limited, Deputy Director of the Board of Directors' Office, Director of the Board of Directors' Office and Director of the President's Office, Secretary of the Board of Directors and Chief Financial Officer of Runhua Group. He currently serves as Director of Runhua Group Co., Ltd.

Tian Ying, Supervisor, female, was born in April 1965. She holds a master's degree, and is a senior accountant. She served as teacher of Beijing Finance College and Manager of the Fund and Finance Department of Beijing Sanjili Energy Co., Ltd. She currently serves as Deputy General Manager and Chief Accountant of Beijing Sanjili Energy Co., Ltd.

Cheng Chen, Supervisor, female, was born in March 1975. She holds an EMBA degree. She previously served as Deputy General Manager of Shanghai Giant Biotech Co., Ltd. She currently serves as Vice President of Giant Investment Ltd.

Guo Jianrong, Supervisor, male, was born in August 1962. He holds a bachelor's degree, and is an economist. He served as an accountant of the savings bank, member of the Survey and Research Office, Deputy Chief of the Plan and Survey Section, Deputy Chief of the General Plan Section (in charge of daily operation) etc. of Baotou Branch of the People's Bank of China, and Principal of the Plan and Credit Department, Principal, Deputy Head and Head of the General Plan Division, Manager of the Savings Deposit Department, Manager of the Business Department etc. of Baotou Branch of Bank of Communications. He currently serves as Assistant to General Manager of Baotou Huazi Industry Co., Ltd. He resigned as a Supervisor of the Company on 27 February 2014.

Liu Guolin, Supervisor, male, was born in March 1951. He holds a bachelor's degree, and is a senior accountant. He served as Deputy Head and Head of the Finance and Accounting Division of Shanghai Construction Engineering Bureau, Director and Chief Accountant of Shanghai Construction (Group) Corporation and Chairman of the Board of Supervisors of Shanghai Jiangong Construction Material Co., Ltd. He resigned as a Supervisor of the Company on 27 February 2014.

Gao Peiyong, External Supervisor, male, was born in January 1959. He is a PhD and professor. He was once a lecturer and associate professor of the Finance Department of Tianjin University of Finance and Economics, Assistant to the President and professor of Renmin University of China, and Secretary of the Party Committee, Deputy Director General and professor of Institute of Finance and Trade Economics of the Chinese Academy of Social Sciences (CASS). He currently serves as Director of Institute of Finance and Trade Economics of CASS.

Qi Yudong, External Supervisor, male, was born in September 1966. He is a PhD, professor and tutor to PhD students. He once was a teacher of the Finance Department of Capital University of Economics and Business, Executive Associate Chief Editor of the Journal of Capital University of Economics and Business, Deputy Head of the Department of Enterprise Management, Executive Deputy Director of the MBA Education Center and Dean of the Business Administration College. He currently serves as Assistant to President of Capital University of Economics and Business

## **BASIC INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND EMPLOYEES**

Li Guopeng, Employee Supervisor, male, was born in February 1955. He holds a master's degree, and is a senior economist. He served as Deputy Director of the Financial Research Institute and Deputy Head of the Financial System Reform Office, Head of the Survey Information Division of Shandong Branch of the People's Bank of China, and Head of Tai'an Branch of PBOC and Director General and Secretary of Leading Party Group of Tai'an Branch of State Administrative of Foreign Exchange. He successively took several positions in Hua Xia Bank, including Secretary of Leading Party Group and General Manager of Ji'nan Branch, Assistant to President, Member of Leading Party Group, Vice President and Secretary of Leading Party Group of the Business Department of the Head Office, General Manager, Vice President and Member of the Party Committee. He currently serves as Employee Supervisor, Chairman of the Labor Union and Member of the Party Committee of Hua Xia Bank.

Li Qi, Employee Supervisor, male, was born in August 1958. He holds a bachelor's degree, and is a senior economist. He once was a teacher of the Law Department of Shandong University, Deputy General Manager of Rural Credit Cooperative of China in Shandong and Deputy General Manager of Shandong Yingtai Group Corporation. He took several positions in Hua Xia Bank, including Head of the Audit and Compliance Department of Ji'nan Branch, Member of the Discipline Inspection Committee, General Manager of the Legal Affairs Department and Special Assets Resolution Department, Secretary of the Party Committee and General Manager of Chongqing Branch as well as Employee Supervisor, General Manager of the Audit Department and Member of the Discipline Inspection Committee. He currently serves as Employee Supervisor, general manager candidate of the Audit Department and Member of the Discipline Inspection Committee of Hua Xia Bank.

Zhang Guowei, Employee Supervisor, male, was born in October 1959. He holds a bachelor's degree, and is a senior political engineer. He was once the Principal of Beijing Office, Deputy Head of the Fund and Credit Division and Head of Beijing Office of China Rural Area Development Trust and Investment Corporation Beihai Representative Office. He took several positions in Hua Xia Bank, including Deputy General Manager (in charge of daily operation) of Dongsi Sub-branch of the Beijing Management Department, Office Director of the Business Department of the Head Office and Head of the Security Department of the Head Office, Member of Leading Party Group, Head of the Discipline Inspection Team of Dalian Sub-branch, Deputy General Manager (in charge of daily operation) and General Manager of the Legal Affairs Department, General Manager of the Compliance Department, Employee Supervisor, Head and Secretary of the Party Committee of Urumchi Branch. He currently serves as Director of the Executive Office of Hua Xia Bank. He resigned as an Employee Supervisor of the Company on 27 February 2014.

Wang Yaoting, Vice President, male, was born in July 1963. He is a PhD and senior economist. He served as Deputy Head of the Teaching Materials Division of the Education Department of the People's Bank of China and previously took several positions in Hua Xia Bank, including Head of the Securities Department and General Manager of the Securities Business Department, Assistant to President and General Manager of the Business Department, General Manager and Secretary of the Party Committee of Hangzhou Branch, Assistant to President of Hua Xia Bank, Vice President and Member of Leading Party Group of Hua Xia Bank (& also General Manager of Information Technology Department and Director of Collective Project Development Office). He currently serves as Vice President and Member of the Party Committee of Hua Xia Bank.

Li Xiang, Vice President, male, was born in December 1957. He holds a master's degree, and is a senior economist. He served as Secretary of deputy division level of General Office of Jiangsu Provincial Government and took several positions in Hua Xia Bank, including Head of the Banking Department, Member of the Leading Party Group, Deputy General Manager, Secretary of the Leading Party Group (the Party Committee) and General Manager of Nanjing Branch, and Assistant to President (concurrently General Manager of the Corporate Banking Department) of Hua Xia Bank. He currently serves as Vice President and Member of the Party Committee of Hua Xia Bank.

Huang Jinlao, Vice President, male, was born in September 1972. He is a PhD and an expert receiving special allowance from the State Council. He previously served as Deputy Director of the Domestic Finance Research Office and Director of Research Office of the International Finance Research Institute of Bank of China (BOC), held a temporary leading post of Assistant to Governor of Yanbian Korean Autonomous Prefecture, Jilin Province, Chief Marketing Supervisor of the Personal Banking Department, Deputy Head of the Executive Office, and Chief Supervisor of Customer Relations Management of the Corporate Banking Unit of BOC. He currently serves as Vice President and Member of the Party Committee of Hua Xia Bank.

Song Jiqing, Principal of Financial Affairs, male, was born in January 1965. He is a PhD and senior economist. He served as assistant investigator of Beijing Municipal Bureau of Finance, Member of the Leading Party Group and Deputy Director General of Mentougou Local Taxation Bureau, Secretary of the Leading Party Group and Director General of Mentougou Finance Bureau and Secretary of Leading Party Group and Director General of Mentougou Local Taxation Bureau, Assistant to Head of Mentougou District, Member of Leading Party Group and Deputy Head of Mentougou District, Deputy Director of the Finance & Accounting Department, Deputy Director and Director of the General Office and Director of the Information Research Department of National Council for Social Security Fund, and Deputy Chief Financial Officer, Principal of Financial Affairs, Chief Financial Officer and General Manager of the Plan and Finance Department of Hua Xia Bank. He currently serves as CFO & General Manager of the Development Research Department, Hua Xia Bank. He resigned as the Principal of Financial Affairs of the Company on 27 February 2014.

Name	Position or concurrent position in other institutions excluding shareholder entities
Wu Jian	None
Fang Jianyi	Chairman of BWI Group
Li Ruge	None
Sun Weiwei	Vice Chairman of Beijing Internal Audit Association, Vice Chairman of Beijing Audit Association
Ding Shilong	Director of Huatai Insurance Group Co., Ltd., Director of China Power Finance Co., Ltd., Chairman of the Board of Supervisors of Yingda Taihe Property Insurance Co., Ltd., Director of Yingda Securities Co., Ltd. and Director of Yingda Commercial Service Co., Ltd.
Robert John Rankin	None
Christian K. Ricken	None
Zhang Meng	Director of Huatai Property Insurance Company Ltd., Yunnan Xinxing Investment Co., Ltd., St. Regis Hotel, Shanghai, Shenzhen Yicheng Investment Co., Ltd. and Hong Kong Yucheng Trade Development Co., Ltd.
Fan Dazhi	None
Ren Yongguang	Chairman of Huaxia Financial Leasing Co., Ltd.
Zhao Junxue	None

# BASIC INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND EMPLOYEES

Name	Position or concurrent position in other institutions excluding shareholder entities
Sheng Jiemin	Teacher of Peking University, Independent Director of Hualu Hengsheng, Tongli Cement, Xiangtan Electric Manufacturing Co., Ltd. and Sunvim Hometextiles Co., Ltd.
Luo Xiaoyuan	External Supervisor of China CITIC Bank
Lu Jianping	Executive Vice President of College for Criminal Law Sciences
Xiao Weiqiang	Independent Director of Beijing Hualian Supermarket Co., Ltd., Guoco Land (China) Limited and CITIC Pacific
Zeng Xiangquan	Dean of the School of Labor and Human Resources, Renmin University of China
Yu Changchun	Professor of Beijing National Accounting Institute, Independent Director of China National Heavy Duty Truck Group Co., Ltd. and Shandong Kingenta Ecological Engineering Co., Ltd.
Pei Changhong	Director General of the Institute of Economics of the Chinese Academy of Social Sciences; Independent Director of Hangzhou Silan Microelectronics Co., Ltd. and Tianjin Guangyu Development Co., Ltd.
Cheng Yanhong	None
Li Liangang	Director and Deputy General Manager of Shandong Synthesis Electronic Technology Co., Ltd.
Tian Ying	None
Cheng Chen	Vice General Manager of Giant Investment Co., Ltd., Director of Guangxi Beibu Gulf Bank Co., Ltd.
Guo Jianrong	None
Liu Guolin	Chairman of the Board of Supervisors of Shanghai Jiangong Construction Material Co., Ltd., Supervisor of Orient Securities Company Limited
Gao Peiyong	Director General of the Institute of Finance and Trade Economics of the Chinese Academy of Social Sciences; Independent Director of Yantai Wanhua Polyurethanes Co., Ltd. and Shougang Co., Ltd.
Qi Yudong	Assistant to the President of Capital University of Economics and Business, Director of China Center for the Research of Industrial Economics, Independent Director of Huaneng Power International Inc. and China Garments Co., Ltd.
Li Guopeng	None
Li Qi	Chairman of the Board of Supervisors of Daxing Hua Xia Village Bank, Chairman of the Board of Supervisors of Jiangyou Hua Xia Village Bank, Chairman of the Board of Supervisors of Chenggong Hua Xia Village Bank, Chairman of the Board of Supervisors of Huaxia Financial Leasing Co., Ltd.
Zhang Guowei	None
Wang Yaoting	None
Li Xiang	None
Huang Jinlao	None
Song Jiqing	None

#### iv. Remunerations to directors, supervisors and senior management members during the reporting period

##### 1. Decision-making procedures for remunerations to directors, supervisors and senior management members

The Remuneration and Assessment Committee of the Board of Directors examines annual allowances of directors and supervisors in accordance with the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors* and in combination with the annual duty performance of directors and supervisors. Relevant announcement is made after review and approval of the Board of Directors.

The Remuneration and Assessment Committee of the Board of Directors studies and proposes bonus allocation plan for senior management in accordance with the *Administrative Measures for Remunerations to Head Office-level Senior Management of Hua Xia Bank* and the *Working Process of Remunerations to and Annual Appraisals of Head Office-level Senior Management of Hua Xia Bank* and in combination with the completion of the Company's major business indicators and the annual appraisal results of senior management. Annual appraisal results of and remunerations to senior management members are announced after review and approval of the Board of Directors.

The Remuneration and Assessment Committee of the Board of Directors examined remuneration data of directors, supervisors and senior management members to be disclosed in the Annual Report 2013 of the Company. In the opinion of the committee, the remunerations of directors, supervisors and senior management members to be disclosed in the Annual Report 2013 of the Company complied with relevant assessment system and remuneration policy of the Company, remunerations were paid in overall consideration of the prevailing economic conditions, macro-control policy of China as well as actual operations of the Company and its peers, and the disclosure met requirements of relevant laws and regulations.

##### 2. Basis for determining remunerations to directors, supervisors and senior management members

Remunerations to directors and supervisors are determined on the basis of the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors* and remunerations to senior management members are determined on the basis of the *Administrative Measures for Remunerations to Head Office-level Senior Management of Hua Xia Bank*.

##### 3. Remunerations payable to all of the directors, supervisors and senior management members at the end of the reporting period

Please refer to the "Changes in shares held by directors, supervisors and senior management members and their remunerations" in this Section for details.

##### 4. Total remunerations actually paid to directors, supervisors and senior management members

At the end of the reporting period, RMB25,866,000 (before tax) was actually paid to all of the directors, supervisors and senior management members.

## **BASIC INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND EMPLOYEES**

### **v. Changes in directors, supervisors and senior management members**

On 31 May 2013, Ms. Sun Weiwei resigned as a Director of the Company due to work requirement.

In February 2014, the Employees' Congress of the Company in 2014 elected Cheng Yanhong, Li Guopeng, Li Qi and Wang Liying to be employee supervisors of the Seventh Board of Supervisors whose tenure started from 27 February 2014.

On 27 February 2014, the First Extraordinary Shareholders' General Meeting of the Company in 2014 reviewed and approved the *Proposal on Reelection of the Board of Directors* that elected those 19 persons, namely Fang Jianyi, Zou Libin, Li Ruge, Ding Shilong, Christian K. Ricken, Choo Nyen Fui, Li Jianbo, Wu Jian, Fan Dazhi, Liu Chunhua, Ren Yongguang, Zhao Junxue, Pei Changhong, Zeng Xiangquan, Yu Changchun, Xiao Wei, Chen Yonghong, Yang Delin and Wang Huacheng to be the members of the Seventh Board of Directors, and also reviewed and approved the Proposal on Reelection of the Board of Supervisors that elected Li Liangang, Tian Ying, Cheng Chen, Gao Peiyong, Qi Yudong, Lu Zhifang and Zhu Wei to be members of the Seventh Board of Supervisors.

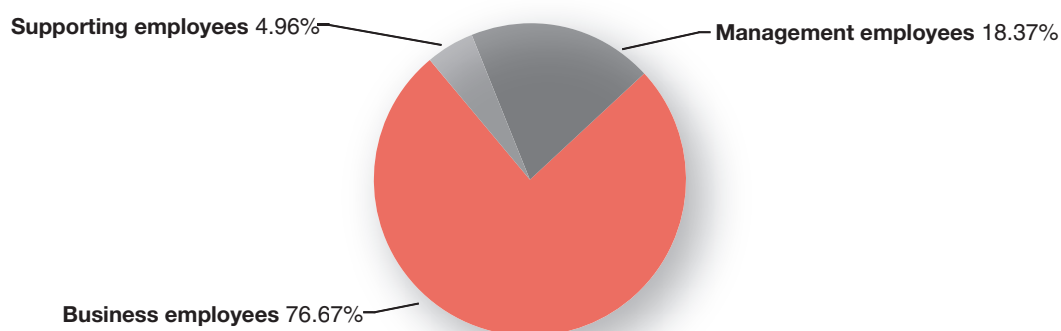
On 27 February 2014, the First Meeting of the Seventh Board of Supervisors of the Company elected Cheng Yanhong to be the Chairman of the Board of Supervisors.

On 27 February 2014, the First Meeting of the Seventh Board of Directors of the Company elected Wu Jian to be the Chairman of the Board of Directors, elected Fang Jianyi and Li Ruge to Vice Chairman, engaged Fan Dazhi to be President, Ren Yongguang, Wang Yaoting, Li Xiang and Huang Jinlao to be Vice President, Zhao Junxue to be the Secretary to the Board of Directors and Guan Wenjie to be the Principal of Financial Affairs.

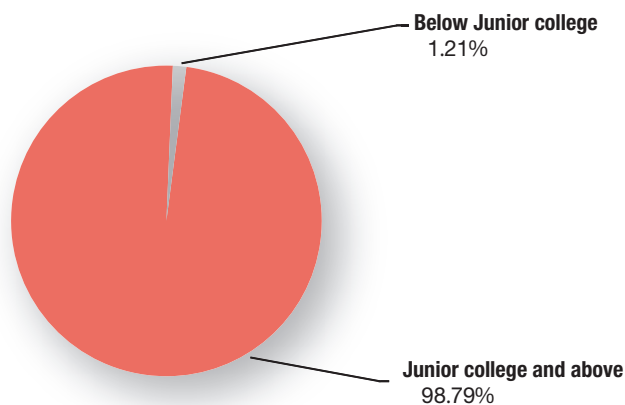
## II. EMPLOYEES

At the end of the reporting period, the Group had 25,200 serving employees, including 25,043 ones working in the Company and 157 ones working in the major subsidiaries. The Group paid for 234 retired employees.

### i. The Company's employees by professional field



### ii. The Company's employees by educational background



### iii. Remuneration policy and training plan of the Company

During the reporting period, centering on bank-wide development strategy and operation targets, the Company improved performance appraisal system by introducing economic value-added and return on economic capital, promoting restructuring and business transformation and strengthening asset quality and risk compliance management, which enhanced incentive and restrictive role of remuneration.

The Company attached great importance to employee training and constantly ameliorated the training management mechanism. As per bank-wide development planning, the Company advanced the building of the three teams on operation management, expertise and business operation, conducted tiered and professional training in various forms and made talent cultivation more targeted and effective, which helped to enhance the overall quality of employees.

## CORPORATE GOVERNANCE

### I. EXPLANATIONS ON CORPORATE GOVERNANCE AND REGISTRATION MANAGEMENT OF INSIDERS

The Company earnestly implements regulatory requirements related to corporate governance, makes continuous improvement in corporate governance framework, brings more discipline to the operation of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management in accordance with the *Company Law*, the *Commercial Bank Law*, the *Securities Law*, the *Governance Standards of Listed Companies*, the *Guidelines on Corporate Governance of Commercial Banks*, the *Guidelines on Due Diligence for Board of Directors of Joint-Stock Commercial Banks*, the *Guidelines on the Work of the Board of Supervisors of Commercial Banks* and other relevant laws and regulations. The core objective is to maximize long-term values for shareholders on the premise of respecting and protecting the interests of depositors. During the reporting period, the Company modified its rules and procedures such as the Articles of Association and further improved its corporate governance operation mechanism.

The Company formulated the *Registration Management System of Insiders of Hua Xia Bank Co., Limited*, providing for inside information, scope of insiders and registration and filing of insiders, which was revised in accordance with CSRC's relevant rules in 2011. The Company registered and filed insiders in strict compliance with pertinent laws and regulations as well as the *Registration Management System of Insiders of Hua Xia Bank Co., Limited*.

### II. BRIEFING OF THE SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company called and held one general meeting and adopted 17 resolutions in strict accordance with the *Rules on the Shareholders' General Meetings of Listed Companies*, the Articles of Association and the rules of procedure for the Shareholders' General Meeting of the Company. The Company established and improved effective communication channels with shareholders, increased representation of public shareholders at the general meetings and ensured equality of shareholders and their full exercise of rights, including the rights to be informed of, participate in and vote on significant matters of the Company.



General Meeting	Date	Proposal	Resolution	Website designated for resolution publication	Disclosure date
2012 Annual General Meeting for 2012	18 June 2013	Working Report of the Board of Directors of Hua Xia Bank Co., Limited in 2012, Work Report of the Board of Directors of Hua Xia Bank Co., Limited in 2012, Financial Accounts Report of Hua Xia Bank Co., Limited in 2012, Profit Distribution Plan of Hua Xia Bank Co., Limited for 2012, Financial Budget Report of Hua Xia Bank Co., Limited in 2013, Plan on the Strengthening of Capital Base with Capital Reserve of Hua Xia Bank Co., Limited in 2012, Proposal on Engagement of the Accounting Firm for 2013 and Its Remuneration, Report on Implementation of Related Party Transactions Management System and Related Party Transactions of Hua Xia Bank Co., Limited in 2012, Proposal on General Credit Facilities of Hua Xia Bank Co., Limited to Shougang Corporation and Its Related Companies, Proposal on General Credit Facilities of Hua Xia Bank Co., Limited to State Grid Yingda International Holdings Corporation, Ltd. and Its Related Companies, Proposal on General Credit Facilities of Hua Xia Bank Co., Limited to Deutsche Bank Aktiengesellschaft and Its Related Companies, Report on Assessment of Duty Performance of Directors in 2012 by the Board of Supervisors of Hua Xia Bank Co., Limited, Report on Assessment of Duty Performance of Supervisors in 2012 by the Board of Supervisors of Hua Xia Bank Co., Limited, Proposal on Amendments to the Articles of Association of Hua Xia Bank Co., Limited, Proposal on Amendments to the Rules of Procedures of the Board of Directors of Hua Xia Bank Co., Limited, Proposal on 2013-2018 Capital Planning of Hua Xia Bank Co., Limited and Proposal on Deferred Authorization to Bond Issuance.	Reviewed and approved the aforementioned proposals	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>	19 June 2013

### III. DUTY PERFORMANCE OF THE DIRECTORS

#### i. Attendance of directors at board meetings and General Meeting

Director	Independent Director (Yes or no)	Attendance at Board Meeting						Attendance at General Meeting
		Board meetings to be attended this year	Meetings attended in person	Meetings attended by correspondence	Meetings attended by proxy	Absence	Absent from two consecutive meetings (Yes or no)	General Meeting attended
Wu Jian	No	6	6	4	0	0	No	1
Fang Jianyi	No	6	5	4	1	0	No	1
Li Ruge	No	6	6	4	0	0	No	0
Sun Weiwei	No	3	3	2	0	0	No	0
Ding Shilong	No	6	6	4	0	0	No	0
Robert John Rankin	No	6	5	4	1	0	No	0
Christian K. Ricken	No	6	6	4	0	0	No	0
Zhang Meng	No	6	4	4	2	0	No	0
Fan Dazhi	No	6	6	4	0	0	No	1
Ren Yongguang	No	6	6	4	0	0	No	1
Zhao Junxue	No	6	5	4	1	0	No	1
Luo Xiaoyuan	Yes	6	6	4	0	0	No	1
Sheng Jiemin	Yes	6	6	4	0	0	No	1
Lu Jianping	Yes	6	6	4	0	0	No	0
Xiao Weiqiang	Yes	6	6	4	0	0	No	1
Zeng Xiangquan	Yes	6	6	4	0	0	No	0
Yu Changchun	Yes	6	5	4	1	0	No	0
Pei Changhong	Yes	6	5	4	1	0	No	0
Number of meetings of the Board held this year		6						
Of which: Number of onsite meetings		2						

#### ii. Dissents of Independent Directors on relevant issues of the Company

During the reporting period, Independent Directors did not raise any dissents on relevant issues of the Company.

During the reporting period, there were seven Independent Directors on the Board of Directors of the Company, accounting for over one third of its members. During the reporting period, Independent Directors adequately attended meetings and reviewed proposals, performed the role of conveners for the Risk Management Committee, the Related Party Transactions Control Committee, the Nomination Committee, the Remuneration and Assessment Committee and the Audit Committee and gave professional opinions on corporate governance and operational management activities in the interest of depositors and minority shareholders pursuant to laws, regulations and the Articles of Association.

#### IV. IMPORTANT OPINIONS AND SUGGESTIONS PROPOSED BY SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS IN THE PERFORMANCE OF THEIR DUTIES DURING THE REPORTING PERIOD

During the reporting period, all special committees of the Board of Directors operated in a well-disciplined manner and seriously performed their duties.

The Strategy Committee held one meeting, reviewing its annual work plan, the report on the implementation of the Company's development program 2008-2012, the outline of the Company's development program 2013-2016 and the proposal on 2013-2018 capital planning.

The Risk Management Committee held three meetings, reviewing its annual work plan, the Company's annual risk management report, the annual risk management strategy, the auditor's report on annual liquidity risk management, the proposal on the *Management Measures for Loan Loss Provisions of Hua Xia Bank Co., Limited*, the report on liquidity risk management in the first half year, the report on operational risk management in the first half year, the proposal on amendments to the *Management Measures for Bad Loan Write-off of Hua Xia Bank Co., Limited*, the proposal on amendments to three regulations including the *Liquidity Management Measures of Hua Xia Bank Co., Ltd.* and the proposal on the report on market risk management in the first three quarters.

The Related Party Transactions Control Committee held two meetings, reviewing its annual work plan, the auditors' report on the Company's related party transactions, the report on implementation of related party transactions management system and related party transactions and the proposals on general credit facilities to Shougang Corporation, Yingda International Holdings Corporation, Ltd., Deutsche Bank, Hongta Tobacco (Group) Co., Ltd. and their related companies as well as to Huaxia Financial Leasing Co., Ltd..

The Nomination Committee held two meetings, reviewing its annual work plan, the proposal on examination of CAO candidate qualification and the proposal on reelection of the Board of Directors and recommendation of director candidates.

The Remuneration and Assessment Committee held two meetings, reviewing its annual work plan, the Company's bonus pool for Head Office-level senior management members in 2012, the bonus allocation plan for Head Office-level senior management members in 2012 and the proposal on disclosure of remunerations to the Company's directors, supervisors and senior management members in the Annual Report 2012, assessing and commenting on duty performance of directors and senior management members in 2012 and bringing forward plans on assessing results of businesses/fields managed by senior management members for 2013.

The Audit Committee held six meetings, reviewing its annual work plan, the Company's regular reports, the final accounts report in 2012, the profit distribution plan in 2012, the budget plan for 2013, the plan on strengthening of capital base with capital reserve in 2012, the report on audit supervision in 2012, the assessment report on internal controls of the Company in 2012, the audit report on internal controls of the Company in 2012, the audit plan for 2013, the audit report on market risk management in 2012, the internal audit management measures, the detailed rules on CAO, the administrative measures for internal audit work plan, the proposal on adjustment of duties of internal audit and compliance departments, the auditor management measures, the proposal on qualification of CAO candidate, the proposal on examination of qualification of Audit Department General Manager Candidate, the proposal on amendments to the Working Rules of the Audit Committee of the Board of Directors of Hua Xia Bank Co., Limited, the report on audit performance in the first half year, the internal control assessment plan for 2013, the proposal on engagement of accounting firm for 2013, the 2013-2016 audit work development planning, the 2013 performance contract of the Audit Department and the administrative measures for internal audit information assurance. The Audit Committee held one seminar, listening to the report on the second round of field testing of the Company's internal control assessment.

## **V. EXPLANATION ON THE DETECTION OF THE COMPANY'S RISK EXPOSURES BY THE BOARD OF SUPERVISORS**

During the reporting period, the Board of Supervisors supervised duty performance of the Company's directors and senior management members, financial decisions and implementation, internal control construction and risk management, having no dissents on those matters under supervision.

During the reporting period, the Board of Supervisors held five meetings and adopted 17 resolutions covering the Company's regular reports, financial statements, special inspection reports, internal control assessment report and social responsibility report in accordance with the Articles of Association of the Company and the rules of procedure for the Board of Supervisors. The Board of Supervisors launched seven inspections and investigations, including discussion with the operation panel, supervision and inspection of duty performance of directors and senior management members, listening to the report on corporate banking structure adjustment and fee-based business development by the Budget and Finance Department of the Head Office, the report on the preparation and implementation of the Company's audit plan for 2013 by the Audit Department of the Head Office and the report on the Company's non-performing assets recovery and disposal in the past two years by the Asset Preservation Center of the Head Office, and made field investigations on risk management of wealth management service at the Head Office department and Suzhou Branch. All Supervisors adequately attended meetings as required, performed supervisory functions pursuant to laws, regulations and the Articles of Association, and organized and participated in special inspections with due diligence. External Supervisors adequately attended meetings, earnestly reviewed proposals and gave independent opinions with due diligence pursuant to laws, regulations and the Articles of Association. They played the role of convener for special committees and organized and participated in special inspections and investigations of the Board of Supervisors.

## **VI. EXPLANATION ON INABILITY TO ENSURE INDEPENDENCE OR INDEPENDENT OPERATION IN THE ASPECTS OF BUSINESS, PERSONNEL, ASSET, INSTITUTION AND FINANCE BETWEEN THE COMPANY AND ITS CONTROLLING SHAREHOLDER**

Not applicable.

## **VII. ASSESSMENT MECHANISM WITH RESPECT TO THE SENIOR MANAGEMENT MEMBERS AS WELL AS ESTABLISHMENT AND IMPLEMENTATION OF THE INCENTIVE MECHANISM DURING THE REPORTING PERIOD**

The Company engages senior management members through external recruitment and internal selection. Senior management members are appointed by the Board of Directors and their qualifications shall be submitted to CBRC for review. Senior management members are overseen in respect of any violation of laws, regulations or the Articles of Association or any misconduct against corporate interests. In addition to an order of correction issued, such violations and misconducts will be reported to the Shareholders' General Meeting or competent authorities of the State where necessary.

During the reporting period, the Remuneration and Assessment Committee of the Board of Directors assessed duty performance of senior management members in 2012 in accordance with the *Measures for Annual Assessment of Head Office-level Senior Management Members of Hua Xia Bank*, including fulfillment of main annual operating indicators of the Company determined by the Board of Directors, performance indicators of senior management members by business/field in charge and directors' appraisals. Senior management member assessment adhered to the following principles: ensuring realization of planned objectives under the guidance of the development program; combining quantitative and qualitative indicators based on key performance indicators; representing duty matching, deferred payment and risk deduction, considering both team and personal performance of the Senior Management. The Remuneration and Assessment Committee proposed bonus allocation plan for senior management in accordance with the *Administrative Measures for Remunerations to Head Office-level Senior Management Members of Hua Xia Bank*. Besides, the Board of Supervisors and its Audit Committee assessed performance of duties by senior management members in compliance with laws and regulations in 2012. Assessment results of the Remuneration and Assessment Committee and appraisals of the Board of Supervisors constitute an important basis for performance assessment of senior management members and incentive and restrictive decisions related to senior management members.

## **VIII. INFORMATION DISCLOSURE AND INVESTOR RELATIONS MANAGEMENT**

The Company regulates day-to-day information disclosures pursuant to the State's laws and regulations to effectively protect investors' right to know, ensure authenticity, accuracy, completeness and timeliness of the information disclosed and safeguard investors' interests. During the reporting period, the Company prepared and disclosed four regular reports and 15 interim reports and communicated to the investors such significant information as financial data, related party transactions and profit distribution plan on a timely basis.

During the reporting period, the Company further deepened investor relations management. It maintained routine contacts and communications with investors via telephone, fax and e-mail and held such activities as meetings for investors and analysts and special investigations of analysts to make the Company better known by the market and enhance investors' acceptance of the Company's values.

## **INTERNAL CONTROL**

### **I. STATEMENT OF THE BOARD OF DIRECTORS ON INTERNAL CONTROL RESPONSIBILITIES**

To establish, improve and effectively implement internal control, assess its effectiveness and truthfully disclose the internal control assessment report pursuant to the rules of the system of enterprise internal control standards are the responsibilities of the Board of Directors of the Bank. The Board of Supervisors supervises the internal control establishment and implementation by the Board of Directors. And the Management is responsible for organizing and leading day-to-day operation of the Company's internal control. The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management Members of the Company hereby guarantee that the Report contains no false records, misleading statements or major omissions, and agree to be individually and jointly responsible for the authenticity, accuracy and completeness of the Report.

The target for the internal control of the Company is to reasonably assure its operation and management are in compliance with relevant laws and regulations, its assets safety, as well as the authenticity and completeness of its financial reporting and relevant information, to enhance operation efficiency and effectiveness, and to facilitate the Company to achieve its development strategy. Due to inherent limitations of internal control, only reasonable assurance can be provided for the above target. Besides, to speculate the effectiveness of future internal control based on internal control assessment results is risky because situational changes may lead to inappropriate internal control or impair compliance with control policy or procedure.

### **II. INTERNAL CONTROL BASIS AND INTERNAL CONTROL SYSTEM CONSTRUCTION**

During the reporting period, the Company continued to promote internal control system construction. First, it developed the e-management platform of internal control policies to routinize the working procedures of policy drafting, issuing and assessment and also set up the platform for management of bank-wide internal control policies, the service platform for information communication and the database on inquiry of laws and regulations. Second, it streamlined business processes by breaking down operation requirements to specific posts and enabling each link to fulfill risk management and control with operation steps as the core, in order to processize policies and informatize processes. Third, it constantly pushed forward assessment of internal control policies, assessed the impacts of changes in regulatory rules, regulators' inspection findings, suggestions on policy improvement and customer complaints on policies, tried best to make internal control system ever better, reinforced risk prevention and enhanced the applicability of processes. At the end of the reporting period, the Company had developed more than 780 effective internal control policies, thus establishing a comprehensive internal control system covering all the businesses, products and risk points. And fourth, it set up a base of problems found in internal and external inspections, continuously tracked and oversaw rectification of internal control deficiencies and formulated a policy on point management of employees' wrong behaviors so as to make internal control system of the whole bank more effective.

### III. BASIS OF AND REPORT ON THE INTERNAL CONTROL SELF-ASSESSMENT

The Board of Directors assessed internal control over financial reporting including those of subsidiaries in line with the requirements of the *Basic Standard for Enterprise Internal Control and the Guideline for Enterprise Internal Control Assessment*.

During the reporting period, the Company prepared the *Internal Control Assessment Manual of Hua Xia Bank*, designed the assessment scheme, established and improved the internal control assessment system, paid more attention to high-risk areas, developed deficiency identification standards, carried out field tests and oversaw problem rectification. Besides meeting the requirement on internal control information disclosure by listed companies, internal control assessment effectively and increasingly lifted the Company's internal control management level.

Based on the identification of material deficiencies of internal control over the Company's financial reporting, the Company's financial reporting contained neither material internal control deficiencies as at the base date of Internal Control Assessment Report. In the opinion of the Board of Directors, the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the requirements of the system of enterprise internal control standards and relevant regulations. Based on the identification of material deficiencies of internal control over the Company's non-financial reporting, the Company did not discover any material internal control deficiencies in the non-financial reporting as at the base date of Internal Control Assessment Report. None factors that might jeopardize the above assessment conclusion of internal control effectiveness have occurred during the period from the base date of Internal Control Assessment Report to its issuance date. For details, please refer to the *2013 Internal Control Assessment Report of Hua Xia Bank Co., Limited* disclosed by the Company.

### IV. EXPLANATION ON AUDITOR'S REPORT ON INTERNAL CONTROL

The Company invited Deloitte Touche Tohmatsu Certified Public Accountants LLP to perform an audit of the effectiveness of internal control over financial reporting of the Company in accordance with the requirements of the *Basic Standard for Enterprise Internal Control* and the *Guideline for Enterprise Internal Control Audit*. The auditor deems that the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the *Basic Standard for Enterprise Internal Control* and relevant regulations. For details, please refer to the *Auditor's Report on Internal Control of Hua Xia Bank Co., Limited* disclosed by the Company.

### V. ESTABLISHMENT AND IMPLEMENTATION OF THE ACCOUNTABILITY SYSTEM FOR MATERIAL ERRORS IN THE ANNUAL REPORT

The Company developed the *System of Accountability for Material Errors in Annual Report Disclosures of Hua Xia Bank Co., Limited* providing for forms and varieties of accountability for material errors in annual report disclosures, which was reviewed and approved at the Third Meeting of the Sixth Board of Directors. During the reporting period, the Company made no correction to material accounting errors or supplementation to major information omissions.

## **FINANCIAL STATEMENTS**

**I. Auditor's Report (see Appendix)**

**II. Financial Statements (see Appendix)**

**III. Changes in Accounting Policies and Estimates and Corrections of Accounting Errors during the Reporting Period**

During the reporting period, the Company made no changes in accounting policies or estimates and no major corrections of errors in prior periods.

**IV. Business Merger and Consolidated Accounting Statements**

During the reporting period, compared with the previous year, Huaxia Financial Leasing Co., Ltd. was incorporated into the Company's consolidation scope.



## WRITTEN CONFIRMATION OF THE ANNUAL REPORT 2013 BY DIRECTORS AND SENIOR MANAGEMENT MEMBERS OF HUA XIA BANK CO., LIMITED

Pursuant to relevant provisions and requirements of the *Securities Law of the People's Republic of China* and the *Standards Concerning the Contents and Formats of Information Disclosure by Companies that Offer Securities to the Public No. 2 – Contents and Formats of Annual Reports* (Revision 2012), we, in the capacity of Directors and Senior Management Members of Hua Xia Bank Co., Limited, after a full review of the Annual Report 2013 of the Company and its summary, are in the opinion that:

1. The Company operates in strict compliance with the *Accounting Standards for Business Enterprises* and its application guidelines; the Annual Report 2013 of the Company and its summary present the financial position and operating results of the Company during the reporting period in a fair way.

2. The *Auditor's Report 2013 of Hua Xia Bank Co., Limited* issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP is true, objective and impartial.

We undertake that the information contained in the Annual Report 2013 of the Company and its summary is authentic, accurate and complete without any false record, misleading statement or material omission, and assume individual and joint and several liabilities to the authenticity, accuracy and completeness of the information herein.

16 April 2014

Name	Title	Signature
Wu Jian	Chairman	
Fang Jianyi	Vice Chairman	
Li Ruge	Vice Chairman	
Zou Libin	Director	
Ding Shilong	Director	
Christian K. Ricken	Director	
Choo Nyen Fui	Director	
Li Jianbo	Director	

**WRITTEN CONFIRMATION OF THE ANNUAL REPORT 2013 BY DIRECTORS  
AND SENIOR MANAGEMENT MEMBERS OF HUA XIA BANK CO., LIMITED**

<b>Name</b>	<b>Title</b>	<b>Signature</b>
Fan Dazhi	Director, President	
Liu Chunhua	Director, CAO	
Ren Yongguang	Director, Vice President	
Zhao Junxue	Director, Secretary to the Board	
Pei Changhong	Independent Director	
Zeng Xiangquan	Independent Director	
Yu Changchun	Independent Director	
Xiao Wei	Independent Director	
Chen Yonghong	Independent Director	
Yang Delin	Independent Director	
Wang Huacheng	Independent Director	
Wang Yaoting	Vice President	
Li Xiang	Vice President	
Huang Jinlao	Vice President	
Guan Wenjie	Principal of Financial Affairs	

# AUDIT REPORT

D.SH.B. (SH) Z. (14) No. P1112

**To the shareholders of Hua Xia Bank Co., Limited,**

We have audited the financial statements of Hua Xia Bank Co., Limited (the “Bank”), which comprise bank and consolidated balance sheet as at 31 December 2013, the bank and consolidated income statement, bank and consolidated statement of cash flows and bank and consolidated statement of changes in equity for the year then ended and notes to these financial statements.

**I. The Management’ Responsibility for the Financial Statements**

The Management of the Bank is responsible for the preparation and faire presentation of these financial statements. These responsibilities includes (1) preparing the financial statements that give a true and fair view in accordance with the Accounting Standard for Business Enterprises; and (2) designing, implementing and maintaining necessary internal control to ensure that financial statements are free from material misstatement, whether due to fraud or error.

**II. Certificated Public Accountants’ Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards for Chinese Certified Public Accountants. Those standards require us to comply with the ethical requirements set for Certified Public Accountants of Chinese Institute of Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing audit 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 on the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, certified public accountants consider internal control relevant to the institution’s preparation and fair presentation of financial statements in order to design appropriate audit procedures. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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.

**III. Audit Opinion**

In our opinion, the financial statements of the Bank comply with the requirements of the Accounting Standards for Business Enterprises in all material respects and present fairly the bank and consolidated financial position as at 31 December 2013 and the bank and consolidated operating results and cash flows for the year then ended.

Deloitte Touche Tohmatsu Certified Public Accountants LLP  
(special general partnership)

Certified Public Accountants  
Registered in China

Shanghai, China  
16 April 2014

Certified Public Accountants  
Registered in China

# BANK AND CONSOLIDATED BALANCE SHEET

31 December 2013

(In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note 8	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Assets					
Cash on hand and balances with central banks	1	262,227	227,152	262,020	226,959
Due from banks and other financial institutions	2	40,204	87,408	40,134	87,209
Placements with banks and other financial institutions	3	21,606	31,434	21,606	31,434
Held-for-trading financial assets	4	8,699	9,757	8,699	9,757
Derivative financial assets	5	531	171	531	171
Financial assets under reverse repurchase agreements	6	327,447	239,109	327,447	239,109
Interest receivable	7	7,475	6,228	7,468	6,227
Loans and advances to customers	8	800,726	699,861	789,119	699,144
Available-for-sale financial assets	9	65,134	59,166	65,134	59,166
Held-to-maturity investments	10	109,265	113,456	109,265	113,456
Investments classified as receivables	11	11,573	1,000	11,573	1,000
Long-term equity investments	12	82	82	2,712	252
Investment property		–	17	–	17
Fixed assets	13	8,072	7,659	8,060	7,648
Intangible assets	14	91	92	90	92
Deferred income tax assets	15	4,475	3,322	4,470	3,321
Other assets	16	4,840	2,946	3,934	2,929
Total assets		1,672,447	1,488,860	1,662,262	1,487,891

# BANK AND CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2013

(In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note 8	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Liabilities					
Due to central banks		30	30	–	–
Due from banks and other financial institutions	18	278,986	229,255	280,112	229,443
Placements from banks and other financial institutions	19	35,538	71,815	27,842	71,857
Derivative financial liabilities	5	545	159	545	159
Financial assets under repurchase agreements	20	59,884	47,422	59,884	47,422
Deposits from customers	21	1,177,592	1,036,000	1,176,288	1,034,862
Employees' compensation payable	22	5,178	4,181	5,155	4,179
Taxes and dues payable	23	3,750	3,602	3,739	3,601
Interest payable	24	11,634	9,185	11,581	9,181
Projected liabilities	25	2	4	2	4
Bonds payable	26	8,400	8,400	8,400	8,400
Deferred income tax liabilities	15	–	43	–	43
Other liabilities	27	4,889	4,041	3,308	4,038
<b>Total liabilities</b>		<b>1,586,428</b>	<b>1,414,137</b>	<b>1,576,856</b>	<b>1,413,189</b>
Equity					
Share capital	28	8,905	6,850	8,905	6,850
Capital reserve	29	28,693	32,309	28,692	32,309
Surplus reserve	30	4,585	4,585	4,585	4,585
General reserve	31	12,949	12,949	12,949	12,949
Retained profit	32	30,288	18,001	30,275	18,009
<b>Total equity attributable to shareholders of the parent company</b>		<b>85,420</b>	<b>74,694</b>	<b>85,406</b>	<b>74,702</b>
<b>Minority interests</b>		<b>599</b>	<b>29</b>	<b>–</b>	<b>–</b>
<b>Total shareholders' equity</b>		<b>86,019</b>	<b>74,723</b>	<b>85,406</b>	<b>74,702</b>
<b>Total liabilities and equity</b>		<b>1,672,447</b>	<b>1,488,860</b>	<b>1,662,262</b>	<b>1,487,891</b>

The accompanying notes are an integral part of these financial statements

The financial statements on pages 89-192 are signed by:

Legal representative

President:

Chief Financial Officer:

Seal

# BANK AND CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

(In RMB millions, unless otherwise stated)

	Note 8	The Group		The Bank	
		2013	2012	2013	2012
<b>I. Operating income</b>		<b>45,219</b>	<b>39,778</b>	<b>44,978</b>	<b>39,737</b>
Net interest income	33	38,902	35,344	38,703	35,304
Interest income		76,253	73,395	75,963	73,358
Interest expense		(37,351)	(38,051)	(37,260)	(38,054)
Net fee and commission income	34	6,312	4,046	6,268	4,045
Fee and commission income		6,861	4,444	6,813	4,443
Fee and commission expense		(549)	(398)	(545)	(398)
Investment gains/(losses)	35	(116)	(17)	(116)	(17)
Gains/(losses) from changes in fair value	36	(50)	9	(50)	9
Foreign exchange gains	37	149	212	149	212
Other operating income		22	184	24	184
<b>II. Operating expenses</b>		<b>(24,559)</b>	<b>(22,576)</b>	<b>(24,339)</b>	<b>(22,531)</b>
Business tax and surcharges	38	(3,246)	(2,843)	(3,235)	(2,842)
General and administrative expenses	39	(17,604)	(15,892)	(17,515)	(15,856)
Impairment losses on assets	40	(3,690)	(3,819)	(3,570)	(3,811)
Other operating costs		(19)	(22)	(19)	(22)
<b>III. Operating profit</b>		<b>20,660</b>	<b>17,202</b>	<b>20,639</b>	<b>17,206</b>
Plus: Non-operating income		70	78	58	72
Less: Non-operating expenses		(25)	(28)	(25)	(28)
<b>IV. Total profit</b>		<b>20,705</b>	<b>17,252</b>	<b>20,672</b>	<b>17,250</b>
Less: Income tax expense	41	(5,194)	(4,456)	(5,187)	(4,455)
<b>V. Net profit</b>		<b>15,511</b>	<b>12,796</b>	<b>15,485</b>	<b>12,795</b>
Net Profit attributable to the parent company		15,506	12,797	15,485	12,795
Minority interest		5	(1)	–	–
<b>VI. Earnings per share</b>					
Basic earnings per share (RMB yuan)	42	1.74	1.44		
<b>VII. Other comprehensive income</b>	43	<b>(1,562)</b>	<b>(291)</b>	<b>(1,562)</b>	<b>(291)</b>
<b>VIII. Total comprehensive income</b>		<b>13,949</b>	<b>12,505</b>	<b>13,923</b>	<b>12,504</b>
Total comprehensive income attributable to shareholders of the parent company		13,944	12,506	13,923	12,504
Total comprehensive income attributable to minority shareholders		5	(1)	–	–

The accompanying notes are an integral part of these financial statements

# BANK AND CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

(In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note 8	2013	2012	2013	2012
<b>Cash flows from operating activities</b>					
Net increase in customer deposits and due to banks and other financial institutions		191,323	233,810	192,095	233,074
Net increase in due to central banks		–	30	–	–
Net decrease in placements with banks and other financial institutions and financial assets under reverse repurchase agreements		33,906	–	34,105	–
Proceeds from interest and fee & commission		73,620	41,247	73,288	41,206
Other proceeds received related to operating activities		381	532	371	526
Sub-total of cash inflows from operating activities		299,230	275,619	299,859	274,806
Net increase in loans and advances to customers		(104,644)	(109,263)	(93,642)	(108,670)
Net decrease in placements from banks and other financial institutions and financial assets under reverse repurchase agreements		(23,815)	–	(31,553)	–
Net increase in balances with central banks and due from banks and other financial institutions		(29,128)	(14,177)	(29,285)	(14,164)
Net increase in placements with banks and other financial institutions and financial assets under reverse repurchase agreements		–	(35,647)	–	(35,647)
Cash paid as interest and fee & commission expenses		(35,026)	(398)	(34,980)	(398)
Cash paid to and for employees		(7,909)	(6,768)	(7,881)	(6,757)
Taxes and dues paid		(9,098)	(8,087)	(9,083)	(8,086)
Other cash paid related to operating activities		(8,879)	(6,435)	(9,526)	(6,431)
Sub-total of cash outflows from operating activities		(218,499)	(180,775)	(215,950)	(180,153)
<b>Net cash flows from operating activities</b>	45	<b>80,731</b>	<b>94,844</b>	<b>83,909</b>	<b>94,653</b>
<b>Cash flows from investing activities</b>					
Proceeds from disposal of investments		32,928	58,206	32,928	58,206
Investment gains received		8,132	–	8,132	–
Net gains on disposal of fixed assets, intangible assets and other long-term assets		8	–	8	–
Other proceeds received related to investing activities		–	1	–	1
Sub-total of cash inflows from investing activities		41,068	58,207	41,068	58,207
Acquisition of investments		(46,327)	(114,582)	(46,327)	(114,582)
Net cash paid for acquisition of subsidiaries and other operating entities		–	–	(2,460)	–
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(1,206)	(2,818)	(1,201)	(2,801)
Sub-total of cash outflows from investing activities		(47,533)	(117,400)	(49,988)	(117,383)
<b>Net cash flows from investing activities</b>		<b>(6,465)</b>	<b>(59,193)</b>	<b>(8,920)</b>	<b>(59,176)</b>

# BANK AND CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2013

(In RMB millions, unless otherwise stated)

	Note 8	The Group		The Bank	
		2013	2012	2013	2012
<b>Cash flows from financing activities</b>					
Proceeds from investors		566	–	–	–
Of which: Proceeds from subsidiaries' acquisition of equity-based investments from minority shareholders		566	–	–	–
Sub-total of cash inflows from financing activities		566	–	–	–
Repayment of debts		–	(13,620)	–	(13,620)
Cash paid for dividends and profit distribution or interest repayment		(3,644)	(1,712)	(3,644)	(1,712)
Other cash paid related to financing activities		–	(1,017)	–	(1,017)
Sub-total of cash outflows from financing activities		(3,644)	(16,349)	(3,644)	(16,349)
<b>Net cash flows from financing activities</b>		<b>(3,078)</b>	<b>(16,349)</b>	<b>(3,644)</b>	<b>(16,349)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(6)</b>	<b>(4)</b>	<b>(6)</b>	<b>(4)</b>
<b>Net increase in cash and cash equivalents</b>	45	<b>71,182</b>	<b>19,298</b>	<b>71,339</b>	<b>19,124</b>
<b>Plus: Opening balance of cash and cash equivalents</b>		<b>145,165</b>	<b>125,867</b>	<b>144,897</b>	<b>125,773</b>
<b>Closing balance of cash and cash equivalents</b>	44	<b>216,347</b>	<b>145,165</b>	<b>216,236</b>	<b>144,897</b>

The accompanying notes are an integral part of these financial statements



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

(In RMB millions, unless otherwise stated)

	Note 8	Equity attributable to shareholders of the parent company							Total
		Share capital	Capital reserve	Surplus reserve	General reserve	Retained profit	Sub-total	Minority interests	
<b>I. Balance as at 1 January 2013</b>		6,850	32,309	4,585	12,949	18,001	74,694	29	74,723
<b>II. Changes during the year</b>									
i. Net profit		-	-	-	-	15,506	15,506	5	15,511
ii. Other comprehensive income	43	-	(1,562)	-	-	-	(1,562)	-	(1,562)
Subtotal of the above i and ii		-	(1,562)	-	-	15,506	13,944	5	13,949
iii. Capital stock contributed by shareholders		-	1	-	-	-	1	565	566
iv. Profit distribution									
1. Surplus reserve withdrawn	32	-	-	-	-	-	-	-	-
2. General reserve withdrawn	32	-	-	-	-	-	-	-	-
3. Dividend distribution	32	-	-	-	-	(3,219)	(3,219)	-	(3,219)
v. Internal conversion of shareholders' equity									
1. Conversion of capital reserve into share capital	28	2,055	(2,055)	-	-	-	-	-	-
<b>III. Balance as at 31 December 2013</b>		<b>8,905</b>	<b>28,693</b>	<b>4,585</b>	<b>12,949</b>	<b>30,288</b>	<b>85,420</b>	<b>599</b>	<b>86,019</b>

# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

**For the year ended 31 December 2013**

**(In RMB millions, unless otherwise stated)**

	Note 8	Equity attributable to shareholders of the parent company							Total
		Share capital	Capital reserve	Surplus reserve	General reserve	Retained profit	Sub-total	Minority interests	
<b>I. Balance as at 1 January 2012</b>		6,850	32,600	3,305	9,793	11,352	63,900	30	63,930
<b>II. Changes during the year</b>									
i. Net profit		-	-	-	-	12,797	12,797	(1)	12,796
ii. Other comprehensive income	43	-	(291)	-	-	-	(291)	-	(291)
Subtotal of the above i and ii		-	(291)	-	-	12,797	12,506	(1)	12,505
iii. Profit distribution									
1. Surplus reserve withdrawn	32	-	-	1,280	-	(1,280)	-	-	-
2. General reserve withdrawn	32	-	-	-	3,156	(3,156)	-	-	-
3. Dividend distribution		-	-	-	-	(1,712)	(1,712)	-	(1,712)
<b>III. Balance as at 31 December 2012</b>		6,850	32,309	4,585	12,949	18,001	74,694	29	74,723

The accompanying notes are an integral part of these financial statements

# BANK STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

(In RMB millions, unless otherwise stated)

	Note 8	Share capital	Capital reserve	Surplus reserve	General reserve	Retained profit	Total
I. Balance as at 1 January 2013		6,850	32,309	4,585	12,949	18,009	74,702
II. Changes during the year							
i. Net profit		-	-	-	-	15,485	15,485
ii. Other comprehensive income	43	-	(1,562)	-	-	-	(1,562)
Subtotal of the above i and ii		-	(1,562)	-	-	15,485	13,923
iii. Profit distribution							
1. Surplus reserve withdrawn	32	-	-	-	-	-	-
2. General reserve withdrawn	32	-	-	-	-	-	-
3. Dividend distribution	32	-	-	-	-	(3,219)	(3,219)
iv. Internal conversion of shareholders' equity							
1. Conversion of capital reserve into share capital	28	2,055	(2,055)	-	-	-	-
III. Balance as at 31 December		8,905	28,692	4,585	12,949	30,275	85,406

# BANK STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2013

(In RMB millions, unless otherwise stated)

	Note 8	Share capital	Capital reserve	Surplus reserve	General reserve	Retained profit	Total
<b>I. Balance as at 1 January 2012</b>		6,850	32,600	3,305	9,793	11,362	63,910
<b>II. Changes during the year</b>							
i. Net profit		-	-	-	-	12,795	12,795
ii. Other comprehensive income	43	-	(291)	-	-	-	(291)
Subtotal of the above i and ii		-	(291)	-	-	12,795	12,504
iii. Profit distribution							
1. Surplus reserve withdrawn	32	-	-	1,280	-	(1,280)	-
2. General reserve withdrawn	32	-	-	-	3,156	(3,156)	-
3. Dividend distribution		-	-	-	-	(1,712)	(1,712)
<b>III. Balance as at 31 December</b>		6,850	32,309	4,585	12,949	18,009	74,702

The accompanying notes are an integral part of these financial statements

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2013 (Unit of amount is RMB1 million unless otherwise indicated)

### I. Profile of the Bank

Hua Xia Bank Co., Limited (the Bank), formerly known as Hua Xia Bank, was established as a nationwide commercial bank on 14 October 1992 with the approval of the People's Bank of China ("PBOC"). On 10 April 1996, Hua Xia Bank was approved by PBOC to be restructured as a joint-stock limited company by means of promoter incorporation, and then renamed as Hua Xia Bank Co., Limited. On 21 July 2003, the Bank obtained approval from China Securities Regulatory Commission ("CSRC") for offering of A shares. On 12 September 2003, the Bank was listed.

The Bank held the License for Financial Enterprises as a Legal Person (No. B10811000H0001) upon approval by the PBOC, and it acquired the Business License for Enterprises as a Legal Person (Registration No. 100000000029676) upon approval by the State Administration for Industry and Commerce.

On 21 May 2004, the Bank converted the capital reserve of RMB700,000,000 into share capital at a ratio of 2 for 10 shares on the basis of 3.5 billion of shares as at 31 December 2003. After the conversion, the registered capital reached RMB4,200,000,000, which has been specially verified by Beijing Jingdu Certified Public Accountants, with the Capital Verification Report (Beijing Jingdu Y.Z. (2004) No. 0017).

On 15 October 2008, with approval of CSRC, the Bank issued 790,528,316 RMB-denominated ordinary shares (A shares) in a non-public offering to three designated investors, namely Shougang Corporation, State Grid Corporation of China and DEUTSCHE BANK AKTIENGESELLSCHAFT. After the additional offering, the registered capital was RMB4,990,528,316. The newly increased capital was verified by Beijing Jingdu Certified Public Accountants which issued the Capital Verification Report (Beijing Jingdu Y.Z. (2008) No. 0085).

On 22 April 2011, with approval of CSRC, the Bank issued 1,859,197,460 RMB-denominated ordinary shares in a non-public offering to three designated investors, namely Shougang Corporation, Yingda International Holdings Corporation, Ltd. (renamed as SGCC Yingda International Holdings Corporation, Ltd. now) and DEUTSCHE BANK LUXEMBOURG S.A. After the additional offering, the registered capital was RMB6,849,725,776. The newly increased capital was verified by Grant Thornton Certified Public Accountants Co., Ltd. which issued the Capital Verification Report (Jingdu Tinwha Y.Z. (2011) No. 0044).

On 18 July 2013, the Bank converted the capital reserve of RMB2,054,917,733 into share capital at a ratio of 3 for 10 shares on the basis of 6.8 billion of shares as at 31 December 2012. After the conversion, the registered capital reached RMB8,904,643,509. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (13) No. 0577).

As at 31 December 2013, in addition to the Head Office, the Bank had established 34 tier-1 branches in Chinese Mainland, with outlets totaling 539.

The business scope of the Bank and its subsidiaries (collectively referred to as the "Group") covers: public deposit-taking, granting of short, medium and long-term loans; domestic and international settlement, bill acceptance and discount, issuance of financial bonds, issuance, encashment and underwriting of government bonds as an agent, trading of government bonds and financial bonds, inter-bank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, collection and payment service as an agent, safety box service, foreign exchange settlement and sale, sideline insurance agency, leasing service and other services approved by China Banking Regulatory Commission ("CBRC").

### II. Basis of preparation of financial statements

The Group follows the Accounting Standards for Business Enterprises and relevant rules (hereinafter referred to as "Accounting Standards for Business Enterprises") promulgated by the Ministry of Finance of PRC (the "MOF") on 15 February 2006. Besides, the Group also discloses relevant financial information in accordance with the *Rules for the Compilation and Submission of information Disclosure by Companies that Offer Securities to the Public No. 15 – General Provisions on Financial Report* (Revision 2010) issued by CSRC.

### III. Declaration on Compliance with the Accounting Standards for Business Enterprises

The financial statements prepared by the Group truly and fairly represent the bank and consolidated financial position of the Group as at 31 December 2013, and the bank and consolidated operating results and cash flows for the year then ended, in compliance with the Accounting Standards for Business Enterprises.

### IV. Major Accounting Policies and Accounting Estimates

#### 1. Accounting period

The accounting period of the Group begins on 1 January and ends on 31 December of the Gregorian calendar.

#### 2. Bookkeeping base currency

Renminbi is the functional currency in the major economic environments of the Group's operation and the Group takes Renminbi as the bookkeeping base currency. The Group adopts Renminbi in the preparation of these financial statements.

#### 3. Basis of Accounting and Measurement

The Group's accounting is on an accrual basis. Except some financial instruments that are measured at fair value, these financial statements are measured on the basis of historical costs. In case of impairment losses on assets, corresponding allowance for impairment losses shall be set aside according to relevant rules.

#### 4. Business combination

Business combination not under the same control

Combination cost is the fair value of the assets paid, liabilities occurred or assumed and equity instruments issued by the buyer for acquiring the control right of the acquiree. The buyer's relevant expenses arising from business combination shall be recorded into current profit or loss upon occurrence.

At the acquisition date, recognizable assets, liabilities or contingent liabilities of the acquiree acquired by the buyer in the business combination are measured at fair value. For the balance between the combination cost and the fair value of recognizable net assets of acquiree acquired during the business combination, it will be recognized into goodwill as an asset and initially measured at cost.

Goodwill arising from business combination will be separately presented in the consolidated financial statements, and will be measured at the amount generated from the cost deducting accumulative allowance for impairment losses. Impairment test shall be conducted for goodwill at the end of each year at least.

The impairment loss on goodwill will be recognized as current profit or loss upon occurrence and will not be reversed in the subsequent accounting periods.

#### 5. Preparation of consolidated financial statements

The consolidated scope of the consolidated financial statements shall be determined based on control. Control refers to the right of the Group to decide the financial affairs and operating policy of another enterprise and thereby obtain benefit from its operating activities.

For subsidiaries disposed of by the Group, operating results and cash flows prior to the disposal date (date of losing control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows.

For subsidiaries acquired by business combination under different control rights, operating results and cash flows as of the acquisition date (date of obtaining control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows, and the opening balance and comparison amount of the consolidated financial statements will not be adjusted.

The major accounting policies and accounting period adopted by subsidiaries shall be determined based on those uniformly prescribed by the Bank.

All material accounts and transactions between the Bank and a subsidiary and among subsidiaries shall be offset at the time of business combination.

The part of the owners' equity of the subsidiaries not attributable to the parent company will be recognized as minority interest and be presented as "minority interests" in the consolidated financial statements. The part of the current profit or loss of the subsidiaries recognized as minority interests shall be presented as "minority interests" under the "net profit" item in the consolidated income statement.

If the loss of a subsidiary borne by a minority shareholder exceeds its share of equity at the beginning of the period in this subsidiary, the balance will be written off against the minority interests.

## 6. Recognition of the Cash and Cash Equivalents

Cash refers to the company's cash on hand and deposits available for payment at any time. Cash equivalents refer to short-term investments with high liquidity held by the Group which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

## 7. Foreign currency transactions

In the initial recognition of foreign currency transactions, the spot exchange rate on the transaction date shall be adopted. On the balance sheet date, foreign currency items shall be translated to RMB amounts by the spot exchange rate. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and that in the initial recognition or prior to the balance sheet date is recorded into current profit or loss, except the following circumstances: (1) the balance of exchange arising from foreign currency borrowings eligible for capitalization is recognized into cost of relevant assets after capitalization during the capitalization period; (2) balance of exchange arising from hedging instruments that are used to avoid foreign exchange risks will be treated by the accounting treatment to hedging; (3) balance of exchange arising from changes in book balance other than the amortized cost of available-for-sale monetary items is recognized as other comprehensive income and recorded into capital reserve.

The foreign currency-denominated non-monetary items measured at historical cost shall be recorded by the amount presented in the bookkeeping base currency converted by the spot exchange rate on the transaction date. Foreign currency-denominated non-monetary items measured at fair value shall be converted by the spot exchange rate on the determination date of fair value.

## 8. Financial Instruments

Corresponding financial assets or financial liabilities shall be recognized when the Group becomes a party to a financial instrument contract.

### (1) Financial assets

Financial assets are classified into four categories at the initial recognition: financial assets measured at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification shall be determined based on the nature and purpose of the financial assets at the initial recognition. Initially recognized financial assets are measured at fair value. For financial assets measured at fair value through profit or loss, the transaction costs thereof are directly recorded through profit or loss; for other categories of financial assets, the transaction expenses thereof are included in the initially recognized amount. Financial assets traded in regular manner will be recognized or derecognized in line with the accounting treatment on the transaction date. Buying or selling a financial asset in regular manner means the financial asset traded is delivered within the time limit specified by market rules or practices.

### Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss include held-for-trading financial assets and those financial assets measured at fair value through profit or loss designated at the initial recognition.

Held-for-trading financial assets refer to financial assets meeting any of the following conditions:

- (i) the purpose of acquiring such financial assets is mainly for selling in a short term;
- (ii) they are part of the recognizable financial instrument portfolio under centralized management and there is objective evidence proving that the Group adopts the short-term profit-making method to manage the portfolio in the recent period;
- (iii) they belong to derivative instruments other than those designated as effective hedging instruments, those subordinated to financial guarantee contracts, and those linked with equity instruments that have no quotation in active markets and fair values of which cannot be reliably measured, and settled with the delivery of such equity instruments.

Financial assets meeting any of the following conditions can be designated as financial assets measured at fair value through profit or loss at the initial recognition.

(i) The designation can eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from different measurement bases of financial assets;

(ii) The official written documents on risk management or investment strategies of the Group have indicated that the financial assets portfolio or the portfolio of financial assets and liabilities of which the said financial asset is a component will be managed and evaluated on the basis of fair value and be reported to key management personnel;

(iii) Mixed instruments relating with embedded instruments and eligible for designating as financial assets measured at fair value through profit or loss according to the *Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*.

Financial assets measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value, as well as dividends and interest income relating to such financial assets will be recorded through current profit or loss.

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

Held-to-maturity investments refer to non-derivative financial assets that have a fixed maturity, fixed or determinable recoverable amount and that the Group has clear intent and ability to hold to maturity.

After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any impairment loss identified. Gains or losses are recognized into current profit or loss when such investments are derecognized, impaired or amortized. Effective interest method is the method of calculating amortized cost and interest income/expenses for various periods on the basis of the effective interest rate of the financial asset or financial liability (including a portfolio of financial assets or liabilities). Effective interest rate refers to the interest rate used when discounting the future cash flows of the financial assets or financial liabilities within the estimated renewal period or applicable shorter period into the current book value of the financial assets or financial liabilities.

While calculating the effective interest rate, the Group will estimate the future cash flows based on all the contract clauses of the financial assets or financial liabilities (without consideration of future credit losses), and will also consider various fees and transaction costs that are components of effective interest rate and paid or charged among all parties to the contract of financial assets or financial liabilities, as well as discount or premium etc.

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

The available-for-sale financial assets refer to the non-derivative financial assets that are defined as available for sale upon the initial recognition, as well as the financial assets other than the financial assets measured at fair value through gain or loss, loans, account receivables and held-to-maturity investments.

Available-for-sale financial assets are measured subsequently at fair value, and gains or losses arising from changes in fair value are recognized as other comprehensive income and recorded into capital reserve, which will be transferred out and recorded through current profit or loss when such financial assets are derecognized, except that impairment losses and exchange difference of foreign currency monetary financial assets relating with the amortized cost are recognized through current profit or loss.

Available-for-sale equity instruments that have no quotation in active markets and fair value of which cannot be measured on a reliable basis are measured at cost less any impairment loss identified at the end of the reporting period.

Interest obtained during the holding period of the available-for-sale financial assets and cash dividends announced and issued by the investee, are recorded into interest income and investment income respectively.

#### **Loans and receivables**

Loans and receivables refer to non-derivative financial assets with fixed or determinable recoverable amount that are not quoted in an active market. The Group's loans and receivables include balances with central banks, due to banks and other financial institutions, loans and advances, investment receivables, placements with banks and other financial institutions, and financial assets under reverse repurchase agreements etc., and they are measured at amortized cost using the effective interest rate method, less impairment loss. Gains or losses are recognized into current profit or loss when such loans and receivables are derecognized, impaired or amortized.



## (2) Impairment of financial assets

Except financial assets measured at fair value through profit or loss, the Group carries out an inspection on the book value of other financial assets on the balance sheet date. If there is objective evidence that one or more events affecting estimated future cash flows of the financial assets occur after the initial recognition of those assets, impairment losses shall be recognized and allowance be set aside.

Objective evidences on impairment of the financial assets include the following observable circumstances:

- (i) The issuer or debtor has serious financial difficulties;
- (ii) The debtor violates provisions of the contract, e.g. default on or overdue payment of interest or principal;
- (iii) The Group makes compromise to the debtor with financial difficulties due to consideration of economic or legal factors;
- (iv) The debtor may possibly go bankruptcy or be otherwise restructured financially;
- (v) The financial assets cannot be traded in the active market due to the material financial difficulties of the issuer;
- (vi) It is incapable to identify whether the cash flows of a portfolio of financial assets decrease or not, but after overall assessment based on the public data, it has been found that the estimated future cash flows of the portfolio of financial assets have witnessed measurable decrease since the initial recognition, including the following circumstances: the payment ability of the debtor of the financial assets has gradually worsened; the country or region where the debtor locates encounters economic situations where the portfolio of financial assets may not be paid;
- (vii) There are material unfavorable changes in the technological, market, economic or legal environments of the issuer of equity instruments, which possibly makes the equity instrument investors fail to recover its investment cost;
- (viii) At the end of the period, the fair value of the equity instrument decreased 50% or more over the cost, or the fair value had been decreasing for 12 months or more;
- (ix) Other objective evidences indicating impairment of the financial assets.

Firstly, the Group conducts separate impairment test on financial assets with significant single amount. For financial assets with insignificant single amount, it conducts separate impairment test or conducts the test in asset portfolios. For financial assets recognized with no impairment loss by separate test (including financial assets with significant or insignificant single amount), they will be included in the impairment test conducted on financial asset portfolio with similar credit risk features. For financial assets recognized with impairment loss by separate test, they will not be included in the impairment test conducted on financial asset portfolio with similar credit risk features.

**Impairment of financial assets measured at amortized cost**

If there is an objective evidence proving an financial asset measured at amortized cost is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (excluding future credit losses that haven't incurred) and will be recorded through current profit or loss. If the contract interest rate of the financial asset is a floating rate, then the discounting rate for determining the impairment loss shall be the current effective interest rate specified in the contract.

Whether the collateral is exercised or not, the present value of the future cash flows of financial asset with collateral will be estimated and calculated based on the exercise value of the collateral less the cost for acquiring and selling the collateral.

The financial assets shall be grouped by the similarity and relevance of their credit risk characteristics for combined assessment on impairment. These credit risk characteristics are generally related to the estimation of future cash flows of the examined assets, which reflects the debtor's ability to repay all due amount in accordance with contract clauses on these assets.

When a financial asset is not recoverable and all necessary procedures are executed and the loss amount determined, the Group will write down corresponding allowance for impairment loss against the financial asset and write it off. Amount recovered after the financial asset is written off shall be written down against the allowance for asset impairment of the current period.

In a subsequent period, if the allowance for impairment loss decreases and the decrease can be objectively related to an event occurring after the allowance is recognized (e.g. upgrading of the borrower's rating), the originally recognized impairment loss shall be reversed. Nevertheless, the reversed book value of the financial asset will not exceed the amortized cost of the financial asset on the date of reverse under the assumption that no allowance for impairment is set aside.

**Impairment of the available-for-sale financial assets**

When the available-for-sale financial asset is impaired, the accumulated losses arising from the decline of fair value that have been originally included in capital reserve will be transferred out and recorded through current profit or loss. The amount of accumulative losses to be reversed is the balance of initial acquisition cost of the financial asset less the principal recovered and amortized amount, the current fair value and the impairment loss recognized into profit or loss.

After the impairment loss of an available-for sale financial asset is recognized, if, in a subsequent period, there is any objective evidence proving that its value has been recovered, and it is objectively related to the event occurring after such loss is recognized, the impairment loss originally recognized will be reversed. The impairment loss of available-for-sale equity instrument investments will be reversed, recognized as other comprehensive income and recorded into capital reserve, and that of available-for-sale debt instruments will be reversed and recorded into current profit or loss. The impairment loss of available-for-sale equity instrument investments measured at cost will not be reversed.

**(3) Financial liabilities**

In the initial recognition, financial liabilities are classified into financial liabilities measured at fair value through profit or loss and other financial liabilities. Initially recognized financial liabilities are measured at fair value. For financial liabilities measured at fair value through profit or loss, the transaction expenses thereof are directly recorded through current profit or loss; for other categories of financial liabilities, the transaction expenses thereof are included in the initially recognized amount.

**Financial liabilities measured at fair value through profit or loss**

Financial liabilities measured at fair value through profit or loss include held-for-trading financial liabilities and those designated as financial liabilities measured at fair value through profit or loss.

The conditions for classifying financial liabilities into held-for-trading financial liabilities and those measured at fair value through profit or loss designated in the initial recognition are the same with the conditions for classifying financial assets into held-for-trading financial assets and those measured at fair value through profit or loss designated in the initial recognition.

Financial liabilities measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value as well as interest expenses relating to such financial liabilities will be recorded through current profit or loss.

**Other financial liabilities**

Financial liabilities other than financial guarantee contracts are subsequently measured at amortized cost based on effective interest rate method, and the gains or losses arising from derecognition or amortization are recorded through current profit or loss.

**Financial guarantee contracts**

Financial guarantee contract is the agreement between the guarantor and the creditor, according to which the guarantor shall fulfill the debt or assume responsibility when the debtor fails to fulfill the repayment obligation. For financial guarantee contracts that are not included in the designated financial liabilities measured at fair value through profit or loss, they are initially recognized by the fair value less direct transaction expenses. After the initial recognition, the subsequent measurement will be based on the amount determined according to the *Accounting Standards for Business Enterprises No. 13 – Contingent Matters* or the initially recognized amount less the accumulative amortized amount determined according to the *Accounting Standards for Business Enterprises No. 14 – Income*, whichever is higher.

#### (4) Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the signing date of relevant contract, and subsequently measured at fair value. Change in fair value of the derivative financial instruments is recognized into current profit or loss.

For mixed instruments with embedded derivative financial instruments, such as financial assets or financial liabilities not designated to be measured at fair value through profit or loss, embedded derivative financial instruments without close relation with the master contract in terms of economic features and risks but with same conditions as the embedded financial derivative instruments, and instrument as an independent unit meeting the definition of derivative financial instruments, the embedded derivative financial instruments shall be split from the mixed instruments and treated as an independent derivative financial instrument.

#### (5) Determination method of fair value

The fair value is the amount for which an asset could be exchanged, or a liability settled, between well-informed and willing parties in an arm's length transaction. As for the financial instruments with active market, the Group adopts the quotation on the active market to determine their fair value.

The quotation for the financial instruments on the active market refers to the price easily accessible from exchanges, industrial associations, pricing service institutions or regulatory institutions on a regular basis, which also represents the frequently executed market trading price in fair transactions. If the above conditions are not met, then it is a non-active market. Signs of a non-active market include: significant bid-ask spread, markedly expanding bid-ask spread or no existence of recent transactions.

As for the financial instruments without active market, the Group adopts valuation techniques to determine their fair value. Valuation techniques include reference to the prices recently used in market transactions between well-informed willing parties, reference to current fair value of financial instruments of the same nature, discounted cash flow method and option pricing model.

#### (6) Derecognition

##### **Derecognition of financial assets**

Where a financial asset meets any of the following conditions, it will be derecognized:

- (i) Where the contractual rights for collecting cash flows of the said financial asset are terminated;
- (ii) Where the financial asset has been transferred and nearly all of the risks and returns in connection with the ownership of the financial asset has been shifted to the transferee;
- (iii) Where the financial asset has been transferred and the Group has given up control over the financial asset, though it does not transfer or retain almost all of the risks and returns in connection with the ownership of the financial asset;

In case that the Group neither transfers nor retains almost all the risks and returns relevant to ownership of the financial asset and it does not waive control over the financial asset, it shall recognize the financial asset based on the degree of involvement and concurrently recognize the related liabilities.

When the overall financial assets are derecognized, the difference between the book value of the transferred financial assets and the sum of the consideration received due to transfer and the accumulated changes in fair value originally recorded into other comprehensive income will be recorded through profit or loss.

##### **Derecognition of financial liabilities**

When all existing obligations of a financial liability are relieved, cancelled or matured, the financial liability will be derecognized. Where the Group (debtor) and creditor sign an agreement to replace the existing financial liability by assuming new financial liability of which contract terms are different from those of existing financial liability in essence, the existing financial liability will be derecognized and the new financial liability will be recognized at the same time.

Where all the financial liability is derecognized, the difference between book value of the financial liability and consideration paid (including non-cash assets or new financial liability assumed) will be recorded through current profit or loss.

(7) Offset between financial assets and financial liabilities

When the two conditions below are met, the net amount after offset of the financial assets and the financial liabilities will be presented on the balance sheet:

- (i) The Group has the legal right to offset the recognized amount, and the right is executable at present;
- (ii) The Group plans to settle by netting or realize such financial assets and pay off such financial liabilities at the same time.

**9. Financial assets under reverse repurchase agreements and financial assets under repurchase agreements**

The securities, bills, loans and advances and other assets sold under repurchase agreement are presented by category of financial assets before the sale, and funds collected from counterparties are presented as financial assets under repurchase agreements. The consideration paid for purchasing securities, bills, loans and other assets under the reverse repurchase contract is presented as financial assets under reverse repurchase agreements. The bid-ask spread of reverse repurchase or repurchase business is amortized by the effective interest rate during the transaction period, and gains or losses arising thereof will be recorded through current profit or loss.

**10. Long-term equity investments**

A long-term equity investment is measured initially at cost. For long-term equity investment acquired by business combination not under the same control, the investment cost is the combination cost.

For long-term equity investments without joint control or material impact on the investee and without quotation in active markets or immeasurable fair value, the Group applies the cost method for accounting; and for long-term equity investments with joint control or material impact on the investee, the Group applies the equity method for accounting. For long-term equity investments with control over the investee, the cost method is applied for accounting in the financial statements of the bank.

Control refers to the right to decide the financial affairs and operating policy of an enterprise and thereby obtain benefit from its operating activities. Joint control means the joint control over some economic activity as contracted, and it only exists when the significant financial and operating decision-making relating to the economic activity needs to be unanimously agreed by the investors sharing the control right. Material impact means an entity has the power to participate in the financial affairs and operating policy of an enterprise but is unable to control or jointly control formulation of these policies together with other parties.

**Long-term equity investment by cost accounting**

When the cost method is adopted for accounting, the long-term equity investments are priced at the initial investment cost. The investment return for the current period is recognized based on cash dividend or profit announced to be distributed by the investee, except the actually paid amount in acquisition or announced but undistributed cash dividend or profit contained in the consideration.

**Long-term equity investment accounted by equity method**

When the equity method is adopted for accounting, for long-term equity investments with investment cost larger than the shares of the fair value of recognizable net assets of the investee during investment, the investment cost of long-term equity investments is not adjusted; and for long-term equity investments with investment cost smaller than the shares of the fair value of recognizable net assets of the investee during investment, the difference will be recorded through current profit or loss and the investment cost of the long-term equity investment will be adjusted.

When the equity method is adopted for accounting, investment gains or losses for the current period are the attributable share of net current profit or loss of the investee. The attributable share of the investee's net profit or loss shall be determined based on the fair value of recognizable assets of the investee at the time of acquisition, and recognized after adjustment to the net profit of the investee according to the Group's accounting policies and accounting period. The unrealized profit or loss of internal transactions of the Group with associates and joint ventures attributable to the Group is calculated and offset as per the shareholding proportion, and the investment gains or losses are recognized after the offset. The unrealized loss arising from internal transactions of the Group with the investee that is categorized as impairment loss on transferred assets shall not be offset. For changes in equity other than net profit or loss of the investee, the book value of the long-term equity investment shall be adjusted accordingly and the changes will be recognized as other comprehensive income and recorded into capital reserve.

The net loss of the investee to be shared will be to the extent that the book value of long-term equity investment and other long-term equity substantially constituting net investment to the investee are written down to zero. In addition, if the Group has the obligation to assume additional loss of the investee, the projected liabilities will be recognized based on the obligation to be assumed and recorded through current investment loss. If the investee realizes net profit in the following periods, the Group will resume recognition of the attributable income after the income offsets the unrecognized loss.

### Disposal of long-term equity investment

When the Group disposes of long-term equity investment, it records the difference between its book value and the actual acquisition cost through current profit or loss. When the equity method is adopted for accounting of long-term equity investments, the part originally recorded as shareholders' equity will be proportionally transferred to current profit or loss at the time of disposal.

### 11. Investment property

Investment property refers to the property held for collecting rent and/or capital appreciation.

An investment property is measured initially at its cost. Any subsequent expenditures related to the investment property is recognized as cost of the investment property when the future economic benefits associated with the investment property is very likely to flow to the entity and the cost of the investment property can be measured reliably. Other subsequent expenses are recognized into current profit or loss at the time of incurrence.

The Group subsequently measures the investment properties based on the cost method, and carries out depreciation or amortization as per the same policies for houses and buildings or land use right.

The balance of disposal income from sale, transfer, retirement or destruction of investment property deducting its book value and related taxes and dues shall be recorded through current profit or loss.

### 12. Fixed assets

The fixed assets of the Group refer to tangible assets held for rendering of labor service, lease or operating management whose useful life exceeds one accounting year.

Fixed assets are measured initially at cost. Depreciation of fixed assets will be set aside based on the straight-line method over the useful life starting from the month after the fixed assets reach their scheduled usable condition. The usable life, estimated residual rate and annual depreciation rate of all categories of fixed assets are shown as follows:

Category	Useful life	Estimated residual rate	Annual Depreciation Rate
Houses and buildings	15 to 35 years	5%	2.71% – 6.33%
Office supplies and electronic devices	5 – 8 years	5%	11.88% – 19.00%
Transportation facilities	5 – 10 years	5%	9.50% – 19.00%

Estimated residual value refers to the amount obtained by the Group from disposal of the asset deducting the estimated disposal expense, assuming that the fixed asset comes to the end of its estimated useful life at the expected status.

Any subsequent expenditure related to the fixed asset is recognized as cost of the fixed asset and the book value of the replaced part is derecognized in case that the future economic benefits associated with the asset is very likely to flow to the entity and the cost of the asset can be measured reliably. Other subsequent expenditures are recorded through current profit or loss at the time of occurrence.

At least at the end of every accounting year, the Group reviews the useful life, estimated residual value and depreciation methods for the fixed assets. Any changes will be treated as changes in accounting estimation.

The balance of disposal income from sale, transfer, retirement or destruction of fixed assets deducting their book value and related taxes and dues shall be recorded through profit or loss.

The cost of construction-in-process will be determined based on the actual expenditures of the project, including various project expenditures and other relevant expenses incurring during the construction period. Construction-in-process is converted into fixed asset when it reaches scheduled usable condition.

### 13. Intangible assets

Intangible assets refer to recognizable non-monetary assets with no physical form that are owned or controlled by the Group.

Intangible assets are measured initially at cost. For an intangible asset with a limited useful life, its original value will be amortized over its estimated useful life starting from its putting into use. Intangible assets with uncertain useful life will not be amortized.

Land use right obtained is generally treated as an intangible asset in accounting. For self-developed houses and buildings, relevant land use right expenditure and the construction cost will be treated as intangible asset and fixed asset in accounting, respectively. For purchased houses and buildings, the cost will be allocated between the land use right and the buildings. If it is hard to realize reasonable allocation, all the cost will be accounted as fixed asset.

At the end of the period, the Group reviews the useful life and amortization method of the intangible asset with a limited useful life. Any changes will be treated as changes in accounting estimation.

#### **14. Repossessed assets**

Repossessed assets are initially recognized at fair value, and subsequently measured at the book value or recoverable amount at the end of the period, whichever is lower. When the recoverable amount of the repossessed asset is lower than its book value, impairment reserve for the asset will be set aside.

Gains or losses from disposal of the repossessed asset are recorded through current profit or loss.

If the repossessed asset is shifted to private use, it shall be transferred by its book balance on the date of transfer. If impairment reserve for the repossessed asset is set aside, the reserve shall also be transferred.

#### **15. Impairment of non-financial assets**

At the end of the reporting period, the Group reviews the book value of long-term equity investments, investment property, fixed assets, construction-in-process and intangible assets, to confirm whether there is sign of impairment. If there is any sign of impairment, the asset's recoverable amount shall be estimated. The Group estimates the recoverable amount based on a single asset; if it is hard to estimate the recoverable amount of a single asset, that of the asset portfolio where the single asset belongs to will be measured. If the recoverable amount of the asset is lower than the book value, impairment reserve will be set aside based on the difference and be recorded through current profit or loss.

Recoverable amount is determined based on the fair value deducting disposal expense of the asset and present value of estimated future cash flows of the asset, whichever is higher. The fair value of assets is determined based on the price specified in the sales agreements of fair transactions; if there is active market but no sales agreement for the asset, its fair value will be determined based on the buyer's offer; if there is neither active market nor sales agreement, the fair value will be estimated based on the best information accessible. Disposal expenses include legal expense, taxes and carriage expense relating with the asset disposal as well as direct expenses for the asset to be available for sale. The present value of the estimated future cash flows of the assets will be determined based on the estimated future cash flows generated from continuous use and final disposal of the assets discounted by an appropriate discounting rate.

The above impairment loss of assets will not be reversed in the subsequent accounting periods once it is recognized.

#### **16. Employee compensation and benefits**

##### **Employee Compensation**

Except the compensation granted due to the termination of labor relation with employees, the Group recognizes employees' compensation payable as liabilities during the reporting periods when the employees render services.

##### **Social welfare**

The Group joins in the social security system for employees established by the government as required, including basic endowment insurance, medical insurance, housing provident fund and other social security systems, and corresponding expenses are recorded into current profit or loss upon occurrence.

##### **Annuity Plan**

In addition to basic endowment insurance, employees of the Bank also participate in the employee retirement benefits plan created by the Bank (hereinafter referred to as "Annuity Plan"). The Bank contributes fund to the Annuity Plan as per a certain percentage of wages, and the contributions are recognized into current profit or loss. The Bank contributes a fixed amount of fund to the Annuity Plan. However, if the Annuity Plan is not sufficient to pay employees' future retirement benefits, the Bank is not obliged to make fund injection.



## 17. Projected liabilities

If an obligation in connection with contingencies meets the following conditions, the Group will recognize it as a projected liability: (1) The obligation is a current obligation; (2) Performance of the obligation will likely cause outflow of the related economic benefit; (3) The amount of the obligation can be reliably measured.

The amount of recognized projected liabilities is the best estimation of the consideration to be paid for the failure in performing present obligation within the reporting period, giving consideration to the risks and uncertainties relating with the obligation. If the projected liabilities are measured by the estimated cash flows to be paid for fulfilling the present obligation, then the book value is the present value of the cash flows (where the time value is significant).

Where all or part expenses paid for the liquidation of projected liabilities are expected to be compensated by a third party, the compensation can only be separately recognized as an asset when it is basically confirmed to be recoverable. The recognized compensation amount should not exceed the book value of the projected liabilities.

## 18. Recognition of income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. The specific recognition principles are determined as follows by nature of the revenue:

### Interest income and expenses

The interest income and expenses are calculated by the effective interest rate method based on the amortized cost of relevant financial assets and financial liabilities and recorded into current profit or loss.

After the impairment losses on financial assets are confirmed, the interest income shall be recognized with discount rate applied in discounting the future cash flows on the basis of recognition of the impairment losses as the interest rate.

### Fee and commission income and expenses

The fee and commission income and expenses will be recognized on an accrual basis at the time of rendering or receiving services.

## 19. Income tax

### Current tax

On the balance sheet date, the income tax liabilities (or assets) that are formed during the current and previous periods shall be measured based on the amount of income tax that should be paid (or rebated) based on the tax law. The taxable income, namely the basis of current tax calculation, is obtained after the pre-tax accounting profit of the period is adjusted pursuant to the tax laws.

### Deferred income tax

For the difference between the book value and the tax base of some assets and liabilities and the temporary difference between the book value and tax base of items that are not recognized as assets and liabilities but whose tax base can be determined according to the tax law, the deferred income tax assets and liabilities will be recognized based on the balance sheet liability method.

For taxable temporary differences relating with the initial recognition of goodwill, or the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax liabilities will not be recognized. In addition, for taxable temporary differences in connection with investments in subsidiaries and associates, if the Group can control the time for the reversal of such temporary differences and the temporary differences are unlikely to be reversed in the foreseeable future, relevant deferred income tax liabilities will not be recognized. Except the above cases, the Group will recognize all deferred income tax liabilities generated from taxable temporary differences.

For deductible temporary differences relating with the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax liabilities will not be recognized. Besides, for deductible temporary differences in connection with investments in subsidiaries and associates, if temporary differences are not likely to be reversed in the foreseeable future and taxable income is not likely to be obtained in the future to offset deductible temporary difference, relevant deferred income tax assets shall not be recognized. Except the above case, the Group recognizes the deferred income tax assets arising from other deductible temporary difference based on the amount of taxable income that may be obtained in the future to offset the deductible temporary difference.

For deductible losses that could be carried forward to the following years and tax credits, the Group recognizes relevant income tax assets within the limit of future taxable income that is very likely to be obtained by the Group to offset deductible losses and tax credits.

On the balance sheet date, the deferred income tax assets and liabilities are measured based on the tax rate in the expected period to collect the assets or repay the liabilities, according to the tax law.

On the balance sheet date, the book value of the deferred income tax assets will be reviewed. In case that the Group is not likely to obtain adequate amount of taxable income in the future to offset the deferred income tax assets, the book value of the deferred income tax assets will be written down. When the Group is able to obtain an adequate amount of taxable income, the written-down amount will be reversed.

**Income tax expense**

Income tax expense includes the current income tax and the deferred income tax.

Except that current income tax and deferred income tax relating with transactions or events recognized into other comprehensive income or directly recorded as shareholders' equity are recognized as other comprehensive income or shareholders' equity, and that book value of the goodwill is adjusted for deferred income tax arising from business combination, all the other expenses or income from current income tax and deferred income tax will be recorded through current profit or loss.

**Offset of income tax**

When the Group has the statutory right to settle on a net basis, or intends either to settle on a net basis or realize assets and repay liabilities at the same time, its current income tax assets and liabilities will be presented by the net amount after offset.

The deferred income tax assets and liabilities of the Group will be presented by the net amount after offset in the case that the Group has the statutory right to settle the current income tax assets and liabilities on a net basis, and the deferred income tax assets and liabilities are related to the income tax levied from a single subject of taxation by a single taxation authority or related to the income tax levied from different subjects of taxation, but the subjects of taxation involved intend to settle the current income tax assets and liabilities on a net basis or realize assets and repay liabilities at the same time during a future period in which a significant deferred income tax asset and liability is reversed.

**20. Fiduciary business**

Generally, the Group manages assets on behalf of customers as the agent, trustee or other fiduciary capacities in accordance with the agent agreement concluded with securities investment fund, social security fund, insurance company, trust company and other institutions. The Group only provides services and charges fees according to the agent agreement and does not take risks and interests relating with the agency assets. The agency assets will not be recognized in the balance sheet of the Group.

The Group also engages in entrusted loans. The Group grants loans to borrowers as an intermediary based on the borrower, purpose, amount, interest rate and repayment plan determined by the principal, in accordance with the entrusted loan contract. The Group is responsible for granting and collecting entrusted loans and charges fees for services provided, but it does not take risks and interests relating with the entrusted loans. The entrusted loans and entrusted loan assets will not be recognized in the balance sheet of the Group.

**21. Leasing**

Financial lease is substantially a type of lease where all risks and compensations relating with the assets are transferred. Operating lease includes all leases other than the financial lease.

**The Group records operating lease as the leaser**

The rental income from operating lease is recognized as current profit or loss in each period of the lease term based on the straight-line method. The initial direct expenses with larger amount are capitalized at occurrence and recorded through current profit or loss over the whole lease period by phase according to the same basis as rental income recognition; other initial direct expenses with smaller amount are recorded through current profit or loss at occurrence. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.



### **The Group records financial lease as the leaser**

On the starting date of the financial lease, the sum of the minimum rental income and the initial direct expense will be posted as the financial lease receivable and recorded into loans and advances in the balance sheet. The unsecured balance will be recorded at the same time. The difference between the sum of minimum rental income, initial direct expense and unsecured balance and the present value thereof will be recognized as unrealized financing income. Within the lease period, the current interest income will be recognized based on the effective interest rate method. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

### **The Group records operating lease as the lessee**

The rental expenses for operating lease are recognized as current profit or loss in each period of the lease term based on the straight-line method. Initial direct expenses are recorded through profit or loss. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

In the case that the leaser offers incentives for the operating lease, all the preferential factors arising from the incentives will be deducted from the rental expenses based on the straight-line method.

## **V. Major judgments made in accounting policy application and key assumptions and uncertainties adopted in accounting estimation**

During the process of applying the accounting policies described in Note 4, the Group needs to make judgments, estimates and assumptions on the book value of statement items that cannot be measured accurately due to the inherent uncertainty of the operating activities. These judgments, estimates and assumptions are made based on the historical experience of the Management of the Group and other relevant factors, and therefore the actual results may be different from the estimates of the Group.

The Group regularly checks the foresaid judgments, estimates and assumptions on an ongoing basis. If the change in accounting estimates only has impact on the current period, it will be recognized in the current period; if it has impact on both the current period and future periods, it will be recognized in the current period and future periods.

On the balance sheet day, the Group needs to make judgments, estimates and assumptions on the amount of items in the financial statements in the following fields:

### **1. Impairment of loans and advances to customers**

The Group conducts assessment on the allowance for impairment losses on loans on each balance sheet date. The Group makes judgments on not only the impairment losses on loans that can be identified one by one, but also the signs for decrease in future cash flows of the loan portfolio. The signs for impairment losses on loans include deteriorated repayment capability of borrowers in the loan portfolio or default of borrowers in the loan portfolio due to changes in the economic environment of the country or region. The amount of impairment losses on loans and advances assessed individually is the difference between the present value of the future cash flows and the book value of the said loans. When impairment losses on loans are assessed in portfolio, the Group calculates the future cash flows of the loan portfolio based on the historical experience when assets with similar credit risk features proved to be impaired with objective evidences incur losses. The Group will regularly review the methods and assumptions used in estimating the amount and time of the future cash flows, to reduce the difference between the estimated impairment losses on loans and the actual ones.

### **2. Fair value of financial instruments**

As for the financial instruments without active market, the Group adopts various valuation methods to determine their fair value. These methods include model analysis of discounting cash flows, option pricing model and other valuation methods (if applicable). In practical application, the models generally adopt observable data. The Management needs to evaluate such areas as credit risk, market fluctuation and relevance of the Group and counterparties. These changes in related assumptions will influence the fair value of the financial instruments.

### **3. Held-to-maturity investments**

The Group classifies the non-derivative financial assets which have a fixed or determinable recoverable amount and fixed maturity and for which the Group has clear intent and ability to hold to maturity into held-to-maturity investments. Such classification work involves plenty of judgments. During the process of judgment, the Group will assess its willingness and ability to hold such investments to maturity. Except for the exceptional conditions (e.g. selling insignificant amount of investments close to the maturity date), if the Group fails to hold these investments to maturity, all such investments shall be reclassified as available-for-sale financial assets.

## 4. Impairment of the held-to-maturity investment

The Group depends on the judgments of the Management to a great extent for determining whether the held-to-maturity investments are impaired. The objective evidences for impairment include the situation where the financial assets cannot be traded in the active market and the contract can't be fulfilled (e.g. default on the payment of interest or principal) due to the material financial difficulties of the issuer.

During the process of judgment, the Group needs to assess the impact of objective evidences for impairment on the estimated future cash flows of the investment.

## 5. Impairment of the available-for-sale financial assets

The Group depends on the judgments of the Management to a great extent for determining whether the available-for-sale financial assets are impaired. During the process of judgment, the Group needs to assess the extent and duration of the investment of which fair value is lower than its cost, as well as the financial position and business outlook for a short term of the investee, including industry status, technological reform, credit rating, default rate and counterparty's risks.

## 6. Income tax

In the normal operating activities of the Group, there is uncertainty in the ultimate tax treatment and calculation of some transactions. Whether some items can be disbursed before tax is subject to the approval of the competent taxation authorities. If there is any difference between the ultimate determination result and the initially estimated amount of these tax items, the difference will pose impact on the current income tax and deferred income tax for the ultimate recognition period. At the same time, the Management of the Group needs to estimate the amount of deferred income tax assets that can be reversed in the future.

## VI. Major taxation items

### 1. Enterprise income tax

Subjects of taxation of the Group pay the enterprise income tax at 25% of the taxable income pursuant to the *Enterprise Income Tax Law of the People's Republic of China*.

### 2. Business tax

The Group pays the business tax at 5% of the taxable turnover. The business tax shall be paid locally, which means branches of the Group declare and pay the business tax to local taxation authorities.

### 3. VAT

According to the *Notice on Trial Implementation of Taxation Policy on Changing Business Tax to VAT in Transportation Industry and Some Modern Services Industries* (C.SH. [2013] No. 37), the Huaxia Financial Lease Co. Ltd., a subsidiary of the Group, has acted as a pilot enterprise for changing business tax to VAT in Kunming. As of August 1, 2013, the company has been paid VAT for tangible personal property at the rate of 17%.

### 4. Urban maintenance and construction tax

The Group calculates and pays the urban maintenance and construction tax at 5% or 7% of the business tax and VAT.

### 5. Education fee and surcharges

The Group calculates and pays the education fee and surcharges at 3% of the business tax and VAT.

## VII. Business Combination and Consolidated Financial Statements

### Subsidiaries acquired through establishment or investment

Name	Date of establishment	Register place	Registered Capital/ Paid-in capital	Shareholding percentage	Voting rights percentage	Minority interests	Business nature
				(%)	(%)		
Beijing Daxing Hua Xia Rural Bank Co., Ltd.	(1) 2010	Beijing	125	80.00	80.00	25	Bank
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	2011	Kunming	50	70.00	70.00	16	Bank
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	2011	Jiangyou	50	70.00	70.00	16	Bank
Hua Xia Financial Lease Co., Limited	(2) 2013	Kunming	3,000	82.00	82.00	542	Financial lease

(1) The original registered capital and paid-in capital of Beijing Daxing Hua Xia Rural Bank Co., Ltd. was RMB100 million. Its registered capital has been increased by RMB25 million according to the *Resolution of the Third Session of the Second Board of Directors of Beijing Daxing Hua Xia Rural Bank Co., Ltd. (D.J.Z. No.15), the revised Articles of Association and the Approval Document of CBRC Beijing Office on Capital Increase of Beijing Daxing Hua Xia Rural Bank Co., Ltd.* The capital increase was completed on December 25, 2013. After the injection, the registered capital and paid-in capital of the company is RMB125 million. The Bank has not made additional investment. Thus, its shareholding percentage changes from the original 100% to 80%.

(2) In May 2013, the Bank obtained the approval document numbered Y.J.F [2013] No. 206 from the China Banking Regulatory Commission and established Huaxia Financial Lease Co., Limited with the registered capital of RMB3 billion. Hua Xia Financial Lease Co., Limited has been opened for business in May 2013.

## VIII. Notes to Major Items in the Financial Statements

### 1. Cash on hand and balances with central banks

		The Group		The Bank	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
Cash on hand		3,548	3,714	3,538	3,703
Statutory reserves with central banks	(1)	207,782	183,441	207,615	183,316
Excess reserves with central banks	(2)	50,381	39,647	50,351	39,590
Other balances with central banks	(3)	516	350	516	350
<b>Total</b>		<b>262,227</b>	<b>227,152</b>	<b>262,020</b>	<b>226,959</b>

## AUDIT REPORT

(1) The Group deposits statutory reserves for general deposits with People's Bank of China as required. The percentage of reserves is specified below:

	December 31 2013	December 31 2012
RMB:		
The Bank	18.00%	18.00%
Beijing Daxing Hua Xia Rural Bank Co., Ltd.	14.00%	14.00%
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	14.00%	13.00%
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	14.00%	14.00%
Foreign currency:	5.00%	5.00%

(2) Excessive reserves with the central bank refer to the funds placed by the Group with the central bank in addition to the statutory reserves to ensure the withdrawal of deposits and business operations.

(3) Other funds placed with the central bank are deemed as fiscal deposits of the central bank, and the People's Bank of China (PBOC) pays no interest for the fiscal deposits.

### 2. Due from banks and other financial institutions

	The Group		The Bank	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Due from domestic banks and other financial institutions	36,768	84,580	36,698	84,381
Due from overseas banks and other financial institutions	3,483	2,853	3,483	2,853
Less: Allowance for impairment losses on due from banks and other financial institutions				
Individual assessment	(5)	(5)	(5)	(5)
Collective assessment	(42)	(20)	(42)	(20)
<b>Book value of due from banks and other financial institutions</b>	<b>40,204</b>	<b>87,408</b>	<b>40,134</b>	<b>87,209</b>

### 3. Placements with banks and other financial institutions

	The Group and the Bank	
	December 31 2013	December 31 2012
Placements with domestic banks and other financial institutions	20,511	24,562
Placements with other domestic financial institutions	1,209	6,992
Less: Individual assessment on allowance for impairment losses on placements with banks and other financial institutions	(114)	(120)
<b>Book value of placements</b>	<b>21,606</b>	<b>31,434</b>

## 4. Held-for-trading financial assets

	The Group and the Bank	
	December 31 2013	December 31 2012
Bonds of public entities and quasi-governments	961	–
Bonds of financial institutions	5	6
Corporate bonds	7,733	9,751
<b>Total</b>	<b>8,699</b>	<b>9,757</b>

## 5. Derivative financial instruments

Non-hedging instruments:

	The Group and the Bank		
	31 December 2013		
	Contractual/ nominal principal	Fair value Assets	Liabilities
Foreign exchange forward	21,583	196	209
Foreign exchange swap	78,269	330	332
Interest rate swap	1,300	5	4
Option agreement	12,160	–	–
<b>Total</b>		<b>531</b>	<b>545</b>

	The Group and the Bank		
	31 December 2012		
	Contractual/ nominal principal	Fair value Assets	Liabilities
Foreign exchange forward	9,515	68	52
Foreign exchange swap	22,004	102	106
Interest rate swap	450	1	1
Option agreement	1,180	–	–
<b>Total</b>		<b>171</b>	<b>159</b>

Contractual/nominal amount refers to the unfinished trade volume on the balance sheet date instead of the risk amount.

## 6. Financial assets under reverse repurchase agreements

	The Group and the Bank	
	December 31 2013	December 31 2012
Bonds	38,072	2,000
Bills	117,022	237,109
Beneficiary rights of assets	172,353	–
<b>Total</b>	<b>327,447</b>	<b>239,109</b>

## 7. Interest receivable

	The Group		The Bank	
	December 31 2013	December 31 2012	December 31 2013	December 31 2012
Interest of financial assets under reverse repurchase agreements	2,217	1,216	2,217	1,216
Interest of loans and advances to customers	1,968	1,960	1,963	1,959
Interest of held-to-maturity investment	1,379	1,525	1,379	1,525
Interest of available-for-sale financial assets	1,332	1,035	1,332	1,035
Interest of deposits and placements with banks and other financial institutions	324	434	322	434
Interest of investments classified as receivables	141	–	141	–
Interest of held-for trading financial assets	141	58	114	58
<b>Total</b>	<b>7,475</b>	<b>6,228</b>	<b>7,468</b>	<b>6,227</b>

On 31 December 2013 and 31 December 2012, the aging of interest receivable of the Group and the Bank was no more than one year.

## 8. Loans and advances to customers

(1) The Loans and advances are distributed to corporate and personal customers as follows:

	The Group		The Bank	
	December 31 2013	December 31 2012	December 31 2013	December 31 2012
Corporate loans and advances	680,415	619,501	669,000	618,995
Of which: Loans	667,773	607,361	656,373	606,938
Bills of exchange for imports/exports	7,374	9,535	7,374	9,535
Discounting	5,268	2,605	5,253	2,522
Personal loans and advances	142,754	100,667	142,441	100,447
Of which: Housing mortgage	97,398	72,793	97,395	72,772
Credit Cards	18,403	7,912	18,403	7,912
Others	26,953	19,962	26,643	19,763
Total loans and advances to customers	823,169	720,168	811,441	719,442
Less: Allowance for impairment losses on loans and advances	(22,443)	(20,307)	(22,322)	(20,298)
Of Which Individual assessment	(4,639)	(3,606)	(4,639)	(3,606)
Collective assessment	(17,804)	(16,701)	(17,683)	(16,692)
<b>Total</b>	<b>800,726</b>	<b>699,861</b>	<b>789,119</b>	<b>699,144</b>

(2) The loans and advances are presented as follows by assessment method:

The Group						
Impaired loans and advances identified (ii)						
	Loans and advances for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Individual assessment on allowance for impairment	Sub-total	Total	Percentage of impaired loans and advances identified in total loans and advances
31 December 2013						
Total loans and advances to customers	815,726	563	6,880	7,443	823,169	0.90%
Allowance for impairment losses on loans and advances	(17,404)	(400)	(4,639)	(5,039)	(22,443)	
<b>Book value of loans and advances to customers</b>	<b>798,322</b>	<b>163</b>	<b>2,241</b>	<b>2,404</b>	<b>800,726</b>	
31 December 2012						
Total loans and advances to customers	713,829	397	5,942	6,339	720,168	0.88%
Allowance for impairment losses on loans and advances	(16,464)	(237)	(3,606)	(3,843)	(20,307)	
<b>Book value of loans and advances to customers</b>	<b>697,365</b>	<b>160</b>	<b>2,336</b>	<b>2,496</b>	<b>699,861</b>	

The Bank						
Impaired loans and advances identified (ii)						
	Loans and advances for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Individual assessment on allowance for impairment	Sub-total	Total	Percentage of impaired loans and advances identified in total loans and advances
31 December 2013						
Total loans and advances to customers	803,999	563	6,879	7,442	811,441	0.92%
Allowance for impairment losses on loans and advances	(17,283)	(400)	(4,639)	(5,039)	(22,322)	
<b>Book value of loans and advances to customers</b>	<b>786,716</b>	<b>163</b>	<b>2,240</b>	<b>2,403</b>	<b>789,119</b>	
31 December 2012						
Total loans and advances to customers	713,103	397	5,942	6,339	719,442	0.88%
Allowance for impairment losses on loans and advances	(16,455)	(237)	(3,606)	(3,843)	(20,298)	
<b>Book value of loans and advances to customers</b>	<b>696,648</b>	<b>160</b>	<b>2,336</b>	<b>2,496</b>	<b>699,144</b>	

(i) Referring to loans and advances whose impairment is yet to be identified. The allowance will be set aside by collective method.

(ii) Impaired loans and advances identified include loans whose impairment is objectively evidenced and identified. The allowance for impairment on these loans can be assessed and set aside by individual or collective methods.



## (3) Allowance for impairment losses on loans and advances

The Group						
	2013			2012		
	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total
Opening balance	3,606	16,701	20,307	3,210	14,049	17,259
Charge for the year	2,519	1,115	3,634	1,159	2,652	3,811
Recovery of written-off loans and advances	130	15	145	142	–	142
Transfer-out due to increase of present value	(139)	(3)	(142)	(204)	–	(204)
Write-offs for the year	(1,477)	(21)	(1,498)	(692)	–	(692)
Transfer-out for the year	–	–	–	(9)	–	(9)
Exchange differences	–	(3)	(3)	–	–	–
<b>Ending balance</b>	<b>4,639</b>	<b>17,804</b>	<b>22,443</b>	<b>3,606</b>	<b>16,701</b>	<b>20,307</b>

The Bank						
	2013			2012		
	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total
Opening balance	3,606	16,692	20,298	3,210	14,048	17,258
Charge for the year	2,519	1,003	3,522	1,159	2,644	3,803
Recovery of written-off loans and advances	130	15	145	142	–	142
Transfer-out due to increase of present value	(139)	(3)	(142)	(204)	–	(204)
Write-offs for the year	(1,477)	(21)	(1,498)	(692)	–	(692)
Transfer-out for the year	–	–	–	(9)	–	(9)
Exchange differences	–	(3)	(3)	–	–	–
<b>Ending balance</b>	<b>4,639</b>	<b>17,683</b>	<b>22,322</b>	<b>3,606</b>	<b>16,692</b>	<b>20,298</b>

## 9. Available-for-sale financial assets

	The Group and the Bank	
	December 31 2013	December 31 2012
Government bonds	9,011	6,854
Bonds of public entities and quasi-governments	25,341	20,651
Corporate bonds	30,782	31,661
<b>Total</b>	<b>65,134</b>	<b>59,166</b>
Of which:		
Amortized cost of the available-for-sale financial assets	67,601	59,551
Changes in fair value recorded in other comprehensive income accumulatively	(2,467)	(385)
<b>Fair value of the available-for-sale financial assets</b>	<b>65,134</b>	<b>59,166</b>

## 10. Held-to-maturity investments

	The Group and the Bank	
	December 31 2013	December 31 2012
Government bonds	78,267	75,372
Bonds of public entities and quasi-governments	14,592	17,016
Bonds of financial institutions	9,439	13,768
Corporate bonds	6,967	7,300
<b>Total</b>	<b>109,265</b>	<b>113,456</b>

## 11. Investments classified as receivables

	The Group and the Bank	
	December 31 2013	December 31 2012
Government bonds	631	–
Bonds of financial institutions	3,100	–
Usufruct of assets	7,842	–
Trust assets held	–	1,000
<b>Total</b>	<b>11,573</b>	<b>1,000</b>

## 12. Long-term equity investments

	The Group		The Bank	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Subsidiaries				
– Hua Xia Financial Lease Co., Limited	–	–	2,460	–
– Beijing Daxing Hua Xia Rural Bank Co., Ltd.	–	–	100	100
– Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	–	–	35	35
– Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	–	–	35	35
Other equity investment				
– China UnionPay Co., Ltd. (1)	81	81	81	81
– Visa International Service Association (2)	1	1	1	1
<b>Total</b>	<b>82</b>	<b>82</b>	<b>2,712</b>	<b>252</b>

(1) At the end of 2013, the Group held a total of 62.5 million shares in China UnionPay Co. Ltd.

(2) At the end of 2013, the Group held a total of 1,999 shares in VISA International Service Association.

(3) As in the active market, there is no quotation of the equity instrument investments and the fair value can not be reliably measured, they are measured at cost. As at 31 December 2013, there was no impairment in the Group's long-term equity investments.

## 13. Fixed assets

	The Group				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction- in-process	Total
<b>Original value</b>					
1 January 2013	6,488	4,078	118	121	10,805
Acquisition in the year	133	804	15	270	1,222
Sale/disposal	–	(112)	(5)	(4)	(121)
<b>31 December 2013</b>	<b>6,621</b>	<b>4,770</b>	<b>128</b>	<b>387</b>	<b>11,906</b>
<b>Accumulative depreciation</b>					
1 January 2013	(1,088)	(2,014)	(44)	–	(3,146)
Charge for the year	(182)	(606)	(10)	–	(798)
Sale/disposal	–	105	5	–	110
<b>31 December 2013</b>	<b>(1,270)</b>	<b>(2,515)</b>	<b>(49)</b>	<b>–</b>	<b>(3,834)</b>
<b>Allowance for impairment losses</b>					
1 January 2013	–	–	–	–	–
<b>31 December 2013</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net amount</b>					
<b>1 January 2013</b>	<b>5,400</b>	<b>2,064</b>	<b>74</b>	<b>121</b>	<b>7,659</b>
<b>31 December 2013</b>	<b>5,351</b>	<b>2,255</b>	<b>79</b>	<b>387</b>	<b>8,072</b>

The Bank					
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction- in-process	Total
<b>Original value</b>					
1 January 2013	6,488	4,063	118	121	10,790
Acquisition in the year	133	801	14	270	1,218
Sale/disposal	–	(112)	(5)	(4)	(121)
<b>31 December 2013</b>	<b>6,621</b>	<b>4,752</b>	<b>127</b>	<b>387</b>	<b>11,887</b>
<b>Accumulative depreciation</b>					
1 January 2013	(1,088)	(2,010)	(44)	–	(3,142)
Charge for the year	(182)	(603)	(10)	–	(795)
Sale/disposal	–	105	5	–	110
<b>31 December 2013</b>	<b>(1,270)</b>	<b>(2,508)</b>	<b>(49)</b>	<b>–</b>	<b>(3,827)</b>
<b>Allowance for impairment losses</b>					
1 January 2013	–	–	–	–	–
<b>31 December 2013</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Net amount</b>					
<b>1 January 2013</b>	<b>5,400</b>	<b>2,053</b>	<b>74</b>	<b>121</b>	<b>7,648</b>
<b>31 December 2013</b>	<b>5,351</b>	<b>2,244</b>	<b>78</b>	<b>387</b>	<b>8,060</b>

As at 31 December 2013, the Group has houses and buildings worth RMB408 million (RMB874 million on 31 December 2012) that are in use but whose registration of title is in process. The Management of the Group expects that relevant formalities will neither affect the Group's succession of the asset rights nor cause adverse impact on its operation.

## 14. Intangible assets

	The Group	The Bank
<b>Original value</b>		
1 January 2013	96	96
Acquisition in the year	1	–
<b>31 December 2013</b>	<b>97</b>	<b>96</b>
<b>Accumulated amortization</b>		
1 January 2013	(4)	(4)
Charge for the year	(2)	(2)
<b>31 December 2013</b>	<b>(6)</b>	<b>(6)</b>
<b>Total book value of intangible assets, net</b>		
1 January 2013	92	92
<b>31 December 2013</b>	<b>91</b>	<b>90</b>
<b>Residual amortization life (year)</b>	<b>9-37</b>	<b>37</b>

Intangible assets include land use right and use right of computer software.

## 15. Deferred Taxation

	The Group		The Bank	
	December 31 2013	December 31 2012	December 31 2013	December 31 2012
Deferred income tax assets	4,475	3,322	4,470	3,321
Deferred income tax liabilities	–	(43)	–	(43)
<b>Total</b>	<b>4,475</b>	<b>3,279</b>	<b>4,470</b>	<b>3,278</b>

(1) Change in balance of deferred income tax

	The Group		The Bank	
	2013	2012	2013	2012
Opening balance	3,279	2,743	3,278	2,741
Recorded into gain/loss of the year	676	439	672	440
Recorded into other comprehensive income	520	97	520	97
<b>Ending balance</b>	<b>4,475</b>	<b>3,279</b>	<b>4,470</b>	<b>3,278</b>

## (2) Deferred income tax assets and liabilities

	The Group			
	31 December 2013		31 December 2012	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Allowance for impairment losses on loans	9,739	2,434	7,991	1,998
Wages set aside but not paid	5,045	1,261	4,089	1,022
Allowance for impairment losses on other assets	612	153	660	165
Changes in fair value of available-for-sale financial assets	2,467	617	385	97
Changes in fair value of held-for trading financial assets and derivative financial instruments	34	8	160	39
Others	6	2	4	1
<b>Sub-total</b>	<b>17,903</b>	<b>4,475</b>	<b>13,289</b>	<b>3,322</b>
	Temporary differences for tax payable	Deferred income tax liabilities	Temporary differences for tax payable	Deferred income tax liabilities
<b>Changes in fair value of held-for-trading financial assets</b>	<b>-</b>	<b>-</b>	<b>(172)</b>	<b>(43)</b>

	The Bank			
	31 December 2013		31 December 2012	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Allowance for impairment losses on loans	9,738	2,434	7,988	1,997
Wages set aside but not paid	5,024	1,256	4,088	1,022
Allowance for impairment losses on other assets	612	153	660	165
Changes in fair value of available-for-sale financial assets	2,467	617	385	97
Changes in fair value of held-for-trading financial assets and derivative financial instruments	34	8	160	39
Others	6	2	4	1
<b>Sub-total</b>	<b>17,881</b>	<b>4,470</b>	<b>13,285</b>	<b>3,321</b>
	Temporary differences for tax payable	Deferred income tax liabilities	Temporary differences for tax payable	Deferred income tax liabilities
<b>Changes in fair value of held-for-trading financial assets</b>	<b>–</b>	<b>–</b>	<b>(172)</b>	<b>(43)</b>

## 16. Other assets

		The Group		The Bank	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
Receivables and payment on account	(1)	2,908	1,015	2,019	1,012
Long-term prepaid expenses		1,152	1,109	1,135	1,095
Funds to be cleared		574	618	574	618
Reposessed assets to be disposed	(2)	198	189	198	189
Others		8	15	8	15
<b>Total</b>		<b>4,840</b>	<b>2,946</b>	<b>3,934</b>	<b>2,929</b>



## (1) Receivables and payment on account presented by aging

The Group								
Aging	31 December 2013				31 December 2012			
	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	1,910	55.39	(26)	1,884	457	29.35	(23)	434
1 – 2 years (inclusive)	453	13.14	(21)	432	298	19.14	(45)	253
2 – 3 years (inclusive)	293	8.50	(42)	251	90	5.78	(46)	44
More than 3 years	792	22.97	(451)	341	712	45.73	(428)	284
<b>Total</b>	<b>3,448</b>	<b>100.00</b>	<b>(540)</b>	<b>2,908</b>	<b>1,557</b>	<b>100.00</b>	<b>(542)</b>	<b>1,015</b>

The Bank								
Aging	31 December 2013				31 December 2012			
	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	1,013	39.71	(18)	995	454	29.21	(23)	431
1 – 2 years (inclusive)	453	17.76	(21)	432	298	19.18	(45)	253
2 – 3 years (inclusive)	293	11.49	(42)	251	90	5.79	(46)	44
More than 3 years	792	31.04	(451)	341	712	45.82	(428)	284
<b>Total</b>	<b>2,551</b>	<b>100.00</b>	<b>(532)</b>	<b>2,019</b>	<b>1,554</b>	<b>100.00</b>	<b>(542)</b>	<b>1,012</b>

## (2) Repossessed assets to be disposed

The Group and the Bank		
	December 31 2013	December 31 2012
Housing properties	332	332
Others	39	49
<b>Total</b>	<b>371</b>	<b>381</b>
Less: Allowance for impairment losses on repossessed assets to be disposed	(173)	(192)
<b>Net amount</b>	<b>198</b>	<b>189</b>

## 17. Allowance for impairment losses on assets

The Group						
2013						
	Opening balance	Charge/ (reversal) for the year	Recovery/ (transfer-out) for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks and other financial institutions	25	23	–	–	(1)	47
Placements with banks and other financial institutions	120	(6)	–	–	–	114
Loans and advances to customers	20,307	3,634	3	(1,498)	(3)	22,443
Reposessed assets to be disposed	192	6	(24)	–	(1)	173
Receivables and payment on account	542	26	–	(27)	(1)	540
Others	–	7	–	–	–	7
<b>Total</b>	<b>21,186</b>	<b>3,690</b>	<b>(21)</b>	<b>(1,525)</b>	<b>(6)</b>	<b>23,324</b>

The Group						
2012						
	Opening balance	Charge/ (reversal) for the year	Recovery/ (transfer-out) for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks and other financial institutions	5	20	–	–	–	25
Placements with banks and other financial institutions	123	(3)	–	–	–	120
Loans and advances to customers	17,259	3,811	(71)	(692)	–	20,307
Reposessed assets to be disposed	211	(19)	–	–	–	192
Receivables and payment on account	586	10	–	(54)	–	542
<b>Total</b>	<b>18,184</b>	<b>3,819</b>	<b>(71)</b>	<b>(746)</b>	<b>–</b>	<b>21,186</b>

The Bank						
2013						
	Opening balance	Charge/(reversal) for the year	Recovery/(transfer-out) for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks and other financial institutions	25	23	–	–	(1)	47
Placements with banks and other financial institutions	120	(6)	–	–	–	114
Loans and advances to customers	20,298	3,522	3	(1,498)	(3)	22,322
Reposessed assets to be disposed	192	6	(24)	–	(1)	173
Receivables and payment on account	542	18	–	(27)	(1)	532
Others	–	7	–	–	–	7
<b>Total</b>	<b>21,177</b>	<b>3,570</b>	<b>(21)</b>	<b>(1,525)</b>	<b>(6)</b>	<b>23,195</b>

The Bank						
2012						
	Opening balance	Charge/(reversal) for the year	Recovery/(transfer-out) for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks and other financial institutions	5	20	–	–	–	25
Placements with banks and other financial institutions	123	(3)	–	–	–	120
Loans and advances to customers	17,258	3,803	(71)	(692)	–	20,298
Reposessed assets to be disposed	211	(19)	–	–	–	192
Receivables and payment on account	586	10	–	(54)	–	542
<b>Total</b>	<b>18,183</b>	<b>3,811</b>	<b>(71)</b>	<b>(746)</b>	<b>–</b>	<b>21,177</b>

## 18. Due from banks and other financial institutions

	The Group		The Bank	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Due to domestic banks	177,377	161,718	177,704	161,906
Due to overseas banks	7,911	10,909	7,911	10,909
Due to other domestic financial institutions	93,698	56,628	94,497	56,628
<b>Total</b>	<b>278,986</b>	<b>229,255</b>	<b>280,112</b>	<b>229,443</b>

## 19. Placements from banks and other financial institutions

	The Group		The Bank	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Placements from domestic banks	25,545	64,119	17,849	64,161
Placements from overseas banks	9,093	7,696	9,093	7,696
Placements from other domestic financial institutions	900	–	900	–
<b>Total</b>	<b>35,538</b>	<b>71,815</b>	<b>27,842</b>	<b>71,857</b>

## 20. Financial assets under repurchase agreements

	The Group and the Bank	
	31 December 2013	31 December 2012
Bonds	59,669	7,001
Bills	215	40,421
<b>Total</b>	<b>59,884</b>	<b>47,422</b>

## 21. Deposits from customers

	The Group		The Bank	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Demand deposits				
Corporate deposits	393,615	353,087	392,924	352,474
Personal deposits	83,613	60,424	83,480	60,335
Time deposits				
Corporate deposits	377,330	338,777	377,238	338,599
Personal deposits	113,110	100,961	112,909	100,829
Security deposit received (1)	181,050	176,944	180,868	176,819
Structured deposits	26,616	3,715	26,616	3,715
Outward remittances and remittances outstanding	2,038	2,031	2,033	2,030
Others	220	61	220	61
<b>Total</b>	<b>1,177,592</b>	<b>1,036,000</b>	<b>1,176,288</b>	<b>1,034,862</b>

(1) Security deposit received is presented by item as follows:

	The Group		The Bank	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Security deposit for bank acceptance bills	137,135	141,806	137,013	141,731
Security deposit for L/C issuance	12,069	9,304	12,069	9,304
Security deposit for L/G issuance and Guarantee	2,486	2,908	2,486	2,908
Other security deposits	29,360	22,926	29,300	22,876
<b>Total</b>	<b>181,050</b>	<b>176,944</b>	<b>180,868</b>	<b>176,819</b>

## 22. Employees' compensation payable

The Group				
2013				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Salaries and bonuses	4,089	5,574	(4,618)	5,045
Employee welfare	–	769	(769)	–
Social insurance	16	1,149	(1,137)	28
Housing provident fund	32	577	(582)	27
Labor union funds and employee education expense	42	247	(213)	76
Others	2	590	(590)	2
<b>Total</b>	<b>4,181</b>	<b>8,906</b>	<b>(7,909)</b>	<b>5,178</b>

The Group				
2012				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Salaries and bonuses	3,018	5,131	(4,060)	4,089
Employee welfare	–	699	(699)	–
Social insurance	20	767	(771)	16
Housing provident fund	17	484	(469)	32
Labor union funds and employee education expense	38	209	(205)	42
Others	–	567	(565)	2
<b>Total</b>	<b>3,093</b>	<b>7,857</b>	<b>(6,769)</b>	<b>4,181</b>

<b>The Bank</b>				
<b>2013</b>				
	<b>Opening balance</b>	<b>Increase over the year</b>	<b>Decrease over the year</b>	<b>Ending balance</b>
Salaries and bonuses	4,088	5,535	(4,599)	5,024
Employee welfare	–	766	(766)	–
Social insurance	16	1,146	(1,135)	27
Housing provident fund	32	576	(581)	27
Labor union funds and employee education expense	41	246	(212)	75
Others	2	588	(588)	2
<b>Total</b>	<b>4,179</b>	<b>8,857</b>	<b>(7,881)</b>	<b>5,155</b>

<b>The Bank</b>				
<b>2012</b>				
	<b>Opening balance</b>	<b>Increase over the year</b>	<b>Decrease over the year</b>	<b>Ending balance</b>
Salaries and bonuses	3,017	5,123	(4,052)	4,088
Employee welfare	–	698	(698)	–
Social insurance	20	766	(770)	16
Housing provident fund	17	484	(469)	32
Labor union funds and employee education expense	38	207	(204)	41
Others	–	566	(564)	2
<b>Total</b>	<b>3,092</b>	<b>7,844</b>	<b>(6,757)</b>	<b>4,179</b>

### 23. Taxes and dues payable

	<b>The Group</b>		<b>The Bank</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Enterprise income tax	2,530	2,455	2,522	2,454
Business tax and surcharges	1,076	1,025	1,074	1,025
Others	144	122	143	122
<b>Total</b>	<b>3,750</b>	<b>3,602</b>	<b>3,739</b>	<b>3,601</b>

**24. Interest payable**

	<b>The Group</b>		<b>The Bank</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Interest of deposits from customers	9,931	7,604	9,926	7,599
Interest of due from banks and other financial institutions	1,218	744	1,217	744
Bond interest payable	281	283	281	283
Interest of placements from banks and other financial institutions	124	466	77	467
Interest of financial assets under repurchase agreements	80	88	80	88
<b>Total</b>	<b>11,634</b>	<b>9,185</b>	<b>11,581</b>	<b>9,181</b>

**25. Projected liabilities**

	<b>The Group and the Bank</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Pending legal proceedings	2	4

**26. Bonds payable**

	<b>The Group and the Bank</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Mixed capital bonds	(1) 4,000	4,000
Subordinated bonds	(2) 4,400	4,400
<b>Total</b>	<b>8,400</b>	<b>8,400</b>



## (1) Mixed capital bonds

As approved by the CBRC and PBOC, the Bank issued RMB4 billion of mixed capital bonds from 26 to 27 June 2007. The bonds have a term of 15 years; and the issuer has one option to redeem all or part of the bonds at face value at the end of the tenth year to the maturity.

This issue of the bonds consists of RMB2.4 billion with a fixed interest rate and RMB1.6 billion with floating interest rates; the initial issuing interest rate of the bonds with a fixed interest rate as determined through bookkeeping files is 5.89% and the initial interest margin of the bonds with floating interest rates is 2%.

The interest of the bonds with a fixed interest rate is paid on an annual basis. In case that the issuer does not exercise the advance redemption option on the last day of the tenth year, commencing from the 11th interest accrual year, the interest of the bonds shall increase by 300BPs on the basis of the initial issuing interest rate to 8.89%.

The annual interest rate of the bonds with floating interest rates is the sum of the benchmark interest rate and the basic interest margin. This benchmark interest rate is determined based on the interest rate of the one-year time savings deposits for lump-sum withdrawal published by the People's Bank of China applicable to the first issuing date and the value date of other interest accrual years. The basic interest margin of the first 10 years is 2%. In case that the issuer does not exercise the advance redemption option on the last day of the tenth year, commencing from the 11th interest year, the interest of the bonds shall increase by 100BPs on the basis of the initial issuing interest margin to 3%.

The value date of the bonds was 27 June 2007. In case that the issuer does not exercise the redemption option, the interest period of the bonds will be from 27 June 2007 to 26 June 2022. Otherwise, the honoring date of the bonds redeemed shall be the honoring date as determined in the redemption announcement.

## (2) Subordinated bonds

As approved by the CBRC and the PBOC, the Bank issued the subordinated bonds of Hua Xia Bank Co., Ltd. for 2010 from 26 February to 2 March 2010 and the final issuance volume was RMB4.4 billion. The bonds are 10-year subordinated bonds at a fixed interest rate, and at the end of the fifth year the issuer may exercise the redemption option to redeem all bonds at face value.

The coupon rate of the bonds for the first five interest accrual years is 4.55%, which is unchanged during the period; if the issuer does not exercise the redemption option, the coupon rate for the later five interest accrual years will be increased by 300 BPs based on the initial issuing interest rate to 7.55% from the sixth interest accrual year to the end of the term.

**27. Other liabilities**

	<b>The Group</b>		<b>The Bank</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Securities deposit for lease	1,188	—	—	—
Funds to be settled and cleared payable	1,122	1,191	1,122	1,191
On-lending	1,140	1,159	1,140	1,159
Others	1,439	1,691	1,046	1,688
<b>Total</b>	<b>4,889</b>	<b>4,041</b>	<b>3,308</b>	<b>4,038</b>

## 28. Share capital

	31 December 2013		31 December 2012	
	Total number of shares (million)	Nominal amount	Total number of shares (million)	Nominal amount
Has been registered, issued and paid in full amount				
A shares with par value of RMB1 per share	8,905	8,905	6,850	6,850

Note: A shares refer to ordinary shares domestically offered, and subscribed and traded in Renminbi.

According to the resolutions of the General Meeting of Shareholders of the Bank held on 18 June 2013 and the *Announcement on Implementing the Plan for 2012 Profit Distribution and Conversion of Capital Reserve to Share Capital of Hua Xia Bank Co., Limited* released on 18 July 2013, on 31 December 2012, the Bank converted the capital reserve into capital share at a ratio of 3 for 10 shares on the basis of 6,849,725,776 shares, and the registered capital was increased by RMB2,054,917,733. After the conversion, the registered capital was RMB8,904,643,509 and the total share capital was 8,904,643,509 shares with the value of RMB8,904,643,509. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (13) No. 0577).

On 31 December 2013, the Bank has restricted A shares of 2.417 billion (1.859 billion on 31 December 2012) with the par value of RMB1 per share.

## 29. Capital reserve

The Group				
2013				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	32,597	–	(2,055)	30,542
Investment by minority shareholders at premium	–	1	–	1
Net fair value changes of financial assets available for sale	(385)	(2,028)	(54)	(2,467)
Impact of changes in fair value of available- for-sale financial assets on income tax	97	507	13	617
<b>Total</b>	<b>32,309</b>	<b>(1,520)</b>	<b>(2,096)</b>	<b>28,693</b>

The Bank				
2013				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	32,597	–	(2,055)	30,542
Net fair value changes of financial assets available for sale	(385)	(2,028)	(54)	(2,467)
Impact of changes in fair value of available- for-sale financial assets on income tax	97	507	13	617
<b>Total</b>	<b>32,309</b>	<b>(1,521)</b>	<b>(2,096)</b>	<b>28,692</b>

The Group and the Bank				
2012				
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Capital premium	32,597	–	–	32,597
Net fair value changes of financial assets available for sale	3	(364)	(24)	(385)
Impact of changes in fair value of available- for-sale financial assets on income tax	–	91	6	97
<b>Total</b>	<b>32,600</b>	<b>(273)</b>	<b>(18)</b>	<b>32,309</b>

### 30. Surplus reserve

The Group and the Bank		
	31 December 2013	31 December 2012
Statutory surplus reserve	4,474	4,474
Discretionary surplus reserve	111	111
<b>Total</b>	<b>4,585</b>	<b>4,585</b>

According to relevant laws of the People's Republic of China, the Bank must appropriate statutory surplus reserve at 10% of the net profit based on the PRC GAAP until the statutory surplus reserve accumulated to 50% of the share capital. After the statutory surplus reserve is appropriated, the Bank can determine its amount of discretionary surplus reserve on its own upon approval by the General Meeting of Shareholders.

The appropriation plan for statutory surplus reserve for 2013 will be subject to the approval of the General Meeting of Shareholders. Please refer to Note 15 – Post Balance Sheet Date Events for particulars.

### 31. General reserve

The Group and the Bank		
	31 December 2013	31 December 2012
General reserve	12,949	12,949

As of July 1 2012, the Bank has set aside general reserve in accordance with the *Administrative Measures for Reserve Provisioning of Financial Enterprises* (C.J. [2012] No. 20). The general reserve is treated as profit distribution and its balance shall not be lower than 1.5% of the ending balance of risk assets in principle. It shall be in place within 5 year as of 1 July 2012.

The appropriation plan for general reserve for 2013 will be subject to the approval of the General Meeting of Shareholders. Please refer to Note 15 – Post Balance Sheet Date Events for particulars.

**32. Retained profit****(1) Profit distribution for 2012**

According to the resolutions of the General Meeting of Shareholders of the Bank held on 18 June 2013 and the *Announcement on Implementing the Plan for 2012 Profit Distribution and Conversion of Capital Reserve to Share Capital of Hua Xia Bank Co., Limited* released on 18 July 2013, the Bank has implemented its profit distribution plan. Particulars are as follows:

(i) Set aside statutory surplus reserve of RMB1,280 million. The statutory surplus reserve has been recorded in the balance sheet dated 31 December 2012.

(ii) Set aside general reserve of RMB3,156 million. The general reserve has been recorded in the balance sheet dated 31 December 2012.

(iii) Based on the total of 6,849,725,776 shares at the end of 2012, the Bank paid to shareholders on the register book on the equity right registration date (23 July 2013) cash dividends of RMB4.70 per ten shares (pre-tax), totaling RMB3,219 million.

(2) Please refer to Note 15 – Post Balance Sheet Date Events for the detailed profit distribution plan for 2013.

**33. Net interest income**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Interest income				
Loans and advances to customers	50,100	45,478	49,799	45,444
Of which: Corporate loans and advances	42,604	39,999	42,325	39,978
Personal loans and advances	7,100	5,111	7,078	5,099
Discounted bills	396	368	396	367
Financial assets under reverse repurchase agreements	11,298	14,567	11,298	14,566
Held-to-maturity investments	4,424	4,215	4,424	4,215
Balances with central banks	3,334	2,892	3,332	2,890
Available-for-sale financial assets	3,139	2,043	3,139	2,043
Due from banks and other financial institutions	1,951	2,444	1,964	2,444
Placements with banks and other financial institutions	975	1,264	975	1,264
Investments classified as receivables	550	–	550	–
Held-for-trading financial assets	482	492	482	492
<b>Sub-total</b>	<b>76,253</b>	<b>73,395</b>	<b>75,963</b>	<b>73,358</b>

	The Group		The Bank	
	2013	2012	2013	2012
Interest expense				
Deposits from customers	(23,209)	(21,523)	(23,198)	(21,512)
Due from banks and other financial institutions	(10,247)	(9,159)	(10,291)	(9,170)
Financial assets under repurchase agreements	(1,835)	(5,048)	(1,835)	(5,048)
Placements from banks and other financial institutions	(1,570)	(1,439)	(1,447)	(1,443)
Bonds payable	(423)	(871)	(423)	(871)
Others	(67)	(11)	(66)	(10)
<b>Sub-total</b>	<b>(37,351)</b>	<b>(38,051)</b>	<b>(37,260)</b>	<b>(38,054)</b>
<b>Net interest income</b>	<b>38,902</b>	<b>35,344</b>	<b>38,703</b>	<b>35,304</b>
Of which: Interest income from impaired financial assets identified	142	204	142	204

#### 34. Net fee and commission income

	The Group		The Bank	
	2013	2012	2013	2012
Fee and commission income				
Wealth management	2,157	1,274	2,157	1,274
Credit commitments	1,580	1,186	1,579	1,186
Agency service	1,471	734	1,471	734
Custody and other entrusted business	489	268	489	268
Bank card service	486	330	486	330
Consulting and advisory service	122	307	122	307
Settlement and clearing	45	46	45	46
Others	511	299	464	298
<b>Sub-total</b>	<b>6,861</b>	<b>4,444</b>	<b>6,813</b>	<b>4,443</b>
Fee and commission expense				
Fee expense	(549)	(398)	(545)	(398)
<b>Net fee and commission income</b>	<b>6,312</b>	<b>4,046</b>	<b>6,268</b>	<b>4,045</b>

Fee expenses mainly include expenses for UnionPay card services, agency settlement, international agency payment, etc.

**35. Investment gains/(losses)**

	<b>The Group and the Bank</b>	
	<b>2013</b>	<b>2012</b>
Investment gains/(losses) resulted from trading of the available-for-sale financial assets	(54)	(27)
Investment gains/(losses) resulted from trading of the held-for-trading financial assets	(48)	60
Others	(14)	(50)
<b>Total</b>	<b>(116)</b>	<b>(17)</b>

**36. Gains/(losses) from changes in fair value**

	<b>The Group and the Bank</b>	
	<b>2013</b>	<b>2012</b>
Held-for-trading financial assets	(25)	6
Derivative financial instruments	(25)	2
Others	–	1
<b>Total</b>	<b>(50)</b>	<b>9</b>

**37. Foreign exchange gains**

Foreign exchange gains mainly include income from foreign exchange differences and translation differences from foreign currency-denominated currency assets and liabilities.

**38. Business tax and surcharges**

	<b>The Group</b>		<b>The Bank</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Business tax	2,889	2,528	2,878	2,527
Urban maintenance and construction tax	201	177	201	177
Education surcharges and others	156	138	156	138
<b>Total</b>	<b>3,246</b>	<b>2,843</b>	<b>3,235</b>	<b>2,842</b>

## 39. General and administrative expenses

		The Group		The Bank	
		2013	2012	2013	2012
Employee compensation and benefits	(1)	8,906	7,857	8,857	7,844
Operating expense		6,525	6,177	6,492	6,166
Depreciation and amortization		2,173	1,858	2,166	1,846
<b>Total</b>		<b>17,604</b>	<b>15,892</b>	<b>17,515</b>	<b>15,856</b>

(1) Employee compensation and benefits

	The Group		The Bank	
	2013	2012	2013	2012
Salaries and bonuses	5,574	5,131	5,535	5,123
Employee welfare	769	699	766	698
Social insurance	1,149	767	1,146	766
Housing provident fund	577	484	576	484
Labor union funds and employee education expense	247	209	246	207
Others	590	567	588	566
<b>Total</b>	<b>8,906</b>	<b>7,857</b>	<b>8,857</b>	<b>7,844</b>

## 40. Impairment losses on assets

	The Group		The Bank	
	2013	2012	2013	2012
Loans and advances to customers	3,634	3,811	3,522	3,803
Receivables and payment on account	26	10	18	10
Due from banks and other financial institutions	23	20	23	20
Placements with banks and other financial institutions	(6)	(3)	(6)	(3)
Repossessioned assets to be disposed	6	(19)	6	(19)
Others	7	—	7	—
<b>Total</b>	<b>3,690</b>	<b>3,819</b>	<b>3,570</b>	<b>3,811</b>

## 41. Income tax expense

	The Group		The Bank	
	2013	2012	2013	2012
Current income tax expense	5,870	4,895	5,859	4,895
Deferred income tax expense	(676)	(439)	(672)	(440)
<b>Total</b>	<b>5,194</b>	<b>4,456</b>	<b>5,187</b>	<b>4,455</b>

Adjustments to income tax expense and accounting profit are presented as follows:

	The Group		The Bank	
	2013	2012	2013	2012
Total profit before tax	20,705	17,252	20,672	17,250
Income tax calculated at the statutory rate of 25%	5,176	4,313	5,168	4,313
Adjustment in respect of current income tax of prior years	4	(213)	4	(213)
Plus: tax effect of non-deductible expenses	727	967	727	966
Less: tax effect of non-taxable income	(713)	(611)	(712)	(611)
<b>Total</b>	<b>5,194</b>	<b>4,456</b>	<b>5,187</b>	<b>4,455</b>

## 42. Earnings per share

	2013	2012
Net profit attributable to shareholders of the parent company in the year	15,506	12,797
Weighted average ordinary shares in issue (million shares)	8,905	8,905
Basic earnings per share (RMB yuan)	1.74	1.44

The Bank's weighted average ordinary shares in issue in 2012 were 6,849,725,776 shares. According to the resolutions of the General Meeting of Shareholders of the Bank held on 18 June 2013 and the *Announcement on Implementing the Plan for 2012 Profit Distribution and Conversion of Capital Reserve to Share Capital of Hua Xia Bank Co., Limited* released on 18 July 2013, the Bank converted the capital reserve into capital share at a ratio of 3 for 10 shares for all shareholders on the register book on the equity right registration date (23 July 2013), on the basis of 6,849,725,776 shares recorded at the end of 2012. After the conversion, the share capital of the Bank increased by 2,054,917,733 shares to 8,904,643,509 shares. According to relevant rules, the Bank will re-calculate the weighted average and earnings per share of ordinary shares in issue over relevant periods after the conversion.

At the end of 2013, the Company had no potential diluted ordinary shares.



## 43. Other comprehensive income

	The Group and the Bank	
	2013	2012
Changes in fair value of available-for-sale financial assets	(2,082)	(388)
Impact of changes in fair value of available-for-sale financial assets on income tax	520	97
<b>Total</b>	<b>(1,562)</b>	<b>(291)</b>

## 44. Cash and cash equivalents

	The Group		The Bank	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Cash on hand	3,548	3,714	3,538	3,703
Balances with central banks	50,381	39,997	50,351	39,940
Due from banks, placements with banks and other financial institutions and financial assets under reverse repurchase agreements	162,418	101,454	162,347	101,254
<b>Total</b>	<b>216,347</b>	<b>145,165</b>	<b>216,236</b>	<b>144,897</b>

## 45. Supplementary information for the Statement of Cash Flows

	The Group		The Bank	
	2013	2012	2013	2012
<b>Net profit adjusted into cash flows from operating activities:</b>				
Net profit	15,511	12,796	15,485	12,795
Plus: Impairment losses on assets	3,690	3,819	3,570	3,811
Depreciation on fixed assets	798	686	795	683
Amortization of intangible assets	2	2	2	2
Amortization on long-term prepaid expenses	1,373	1,170	1,369	1,161
Interest income from investment securities	(8,595)	(6,750)	(8,595)	(6,750)
Loss/(gain) on disposal of fixed, intangible and other long-term assets	(6)	8	(6)	8
Loss/(gain) on changes in fair value	50	(9)	50	(9)
Investment loss/(gain)	116	17	116	17
Exchange loss	10	8	10	8
Deferred income tax	(676)	(439)	(672)	(440)
Interest income from impaired financial assets identified	(142)	(204)	(142)	(204)
Interest expense on bonds issued	423	871	423	871
Decrease/(increase) of operating receivables	(103,773)	(164,915)	(91,822)	(164,247)
Increase/(decrease) of business payables	171,950	247,784	163,326	246,947
<b>Net cash flows from operating activities</b>	<b>80,731</b>	<b>94,844</b>	<b>83,909</b>	<b>94,653</b>
<b>Net change of cash and cash equivalents:</b>				
Cash and cash equivalents at the end of the period	216,347	145,165	216,236	144,897
Less: Cash and cash equivalents at the beginning of the period	(145,165)	(125,867)	(144,897)	(125,773)
<b>Net increase in cash and cash equivalents</b>	<b>71,182</b>	<b>19,298</b>	<b>71,339</b>	<b>19,124</b>

## IX. Segment Report

The Group determines the operating segments according to the organizational framework, management requirement and internal reporting system, and on this basis, determines the reporting segments.

An operating segment refers to the component within the Group meeting the following conditions at the same time: (1) such component can generate income and incur expenses in the daily activities; (2) the management of the enterprise can regularly assess the operating results of the component to determine the resources allocated to it and assess its performance; (3) the enterprise can obtain the accounting information relating to the component's financial position, operating results and cash flows.

The Group's reporting segments include Northern and Northeastern China, Eastern China, Southern and Central China and Western China. Particularly speaking:

(1) Northern and Northeastern China: Beijing, Tianjin, Hebei, Shandong, Liaoning, Inner Mongolia and Jilin;

(2) Eastern China: Jiangsu, Shanghai, Zhejiang and Anhui;

(3) Southern and Central China: Guangdong, Guangxi, Hubei, Hunan, Shanxi, Fujian, Henan and Jiangxi; and

(4) Western China: Shaanxi, Xinjiang, Sichuan, Chongqing and Yunnan.

Accounting policies of the operating segments maintain the same with the major accounting policies of the Group.

When presenting information by operating segment, operating income is divided on the basis of location of branches generating income. Segment assets and capital expenditure are divided by the location of the related assets.

2013	Northern and Northeastern China	Eastern China	Central China and Southern China	Western China	Offset among segments	Total
Operating income	18,305	11,023	8,928	6,965	(2)	45,219
Net interest income	15,728	9,539	7,572	6,063	–	38,902
Of which:						
Net external interest income	18,932	7,183	6,458	6,329	–	38,902
Segmental net interest income	(3,204)	2,356	1,114	(266)	–	–
Net fee and commission income	2,731	1,395	1,309	877	–	6,312
Other net operating income	(154)	89	47	25	(2)	5
Operating expenses	(7,983)	(8,704)	(4,967)	(2,907)	2	(24,559)
Operating profit	10,322	2,319	3,961	4,058	–	20,660
Supplementary information						
1. Depreciation and amortization expenses	1,148	471	333	221	–	2,173
2. Capital expenditures	1,329	669	427	237	–	2,662
3. Impairment losses on assets	(1,357)	3,760	1,001	286	–	3,690
31 December 2013						
Segment assets	1,177,915	392,760	312,568	236,225	(451,496)	1,667,972
Undistributed assets						4,475
Total assets						1,672,447
Segment liabilities	1,108,510	390,978	309,017	229,419	(451,496)	1,586,428
Undistributed liabilities						–
Total Liabilities						1,586,428

# AUDIT REPORT

2012	Northern and Northeastern China	Eastern China	Central China and Southern China	Western China	Offset among segments	Total
Operating income	15,894	10,154	7,542	6,188	–	39,778
Net interest income	13,921	9,136	6,733	5,554	–	35,344
Of which:						
Net external interest income	15,174	8,004	6,406	5,760	–	35,344
Segmental net interest income	(1,253)	1,132	327	(206)	–	–
Net fee and commission income	1,729	935	770	612	–	4,046
Other net operating income	244	83	39	22	–	388
Operating expenses	(11,100)	(5,272)	(3,751)	(2,453)	–	(22,576)
Operating profit	4,794	4,882	3,791	3,735	–	17,202
Supplementary information						
1. Depreciation and amortization expenses	1,014	400	240	204	–	1,858
2. Capital expenditures	1,293	461	839	225	–	2,818
3. Impairment losses on assets	1,183	1,119	801	716	–	3,819
31 December 2012						
Segment assets	937,317	367,699	266,741	231,629	(317,848)	1,485,538
Undistributed assets						3,322
Total assets						1,488,860
Segment liabilities	877,346	363,276	263,209	228,111	(317,848)	1,414,094
Undistributed liabilities						43
Total Liabilities						1,414,137

## X. Related Parties and Related Party Transactions

### 1. Related parties

There is no related party that controls or jointly controls the Bank. Other related parties are as follows:

(1) Shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank

Name of related shareholder	Register place	Legal Representative/ CEO	Business nature	Registered capital	Shareholding percentage (%)	Voting rights percentage (%)
Shougang Corporation	Beijing	Wang Qinghai	Industry, construction, geological exploration, transportation, etc.	RMB7.264 billion	20.28	20.28
SGCC Yingda International Holdings Corporation, Ltd.	(i) Beijing	Han Jun	Investment and assets operation and management; assets custody, rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation; and investment advisory	RMB19 billion	18.24	18.24
DEUTSCHE BANK LUXEMBOURG S.A	(ii) Luxembourg	Ernst Wilhelm Contzen	Conducting various proprietary and agency banking and financial businesses; engaging in insurance brokerage via natural persons with official license, and other activities directly or indirectly related.	EUR3.959 billion	9.28	9.28
DEUTSCHE BANK AKTIENGESELLSCHAFT	(iii) Frankfurt, Federal Republic of Germany	Services for Jürgen Fitschen and Anshuman Jain	Engaging in various banking business, providing services in terms of capital, fund management, real estate finance, financing, research and advisory, etc.	EUR2.610 billion	8.21	8.21

(i) As at 31 December 2013, the registered capital of SGCC Yingda International Holdings Corporation, Ltd. increased by RMB3 billion compared with 31 December 2012.

(ii) As at 31 December 2013, the registered capital of DEUTSCHE BANK LUXEMBOURG S.A. increased by EUR495 million compared with 31 December 2012.

(iii) As at 31 December 2013, the registered capital of DEUTSCHE BANK AKTIENGESELLSCHAFT increased by EUR230 million compared with 31 December 2012.

In November 2009, the Bank was informed that DEUTSCHE BANK AKTIENGESELLSCHAFT accepted 171,200,000 shares of the Bank held by SAL.OPPENHEIM JR. & CIE.KOMMANDITGESELLSCHAFT AUF AKTIEN through agreement. In September 2011, the Bank received the *Reply of the China Banking Regulatory Commission concerning the Issues relating to Equity Transfer of Hua Xia Bank* (Y.J.F. [2011] No. 396), approving the above-mentioned equity transfer. As at 31 December 2013, the registration procedures for the above-mentioned equity transfer have not been completed yet.

(2) Subsidiaries of the Bank

Please refer to Note 7 – Business Combination and Consolidated Financial Statements.

(3) Other related parties

Other related parties include key management personnel (directors, supervisors and senior executives of the Head Office), enterprises controlled or jointly controlled by key management personnel or their close family members as well as State Grid Corporation of China (parent company of SGCC Yingda International Holdings Corporation, Ltd., the related party shareholder of the Bank) and its subsidiaries.

## 2. Related party transactions

Related party transactions between the Bank and its related parties, whose pricing will be based on general transaction price according to normal commercial terms, shall be subject to the approval of corresponding decision-making institution by transaction type.

(1) Related party transactions with shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank and their subsidiaries

	31 December 2013		31 December 2012	
	Transaction balance	Percentage (%) <sup>(i)</sup>	Transaction balance	Percentage (%) <sup>(i)</sup>
Assets				
Loans and advances to customers	6,537	0.82	7,798	1.11
Derivative financial assets	–	–	3	1.75
Interest receivable	13	0.17	12	0.19
Liabilities				
Placements from banks and other financial institutions	52	0.15	44	0.06
Deposits from customers	1,414	0.12	1,570	0.15
Interest payable	1	0.01	2	0.02
Off-balance-sheet items				
Letter of guarantee issued	–	–	163	1.69
Letter of credit issued	184	0.26	186	0.36
Bank acceptance bills	313	0.11	110	0.04

	2013		2012	
	Transaction amount	Percentage (%) <sup>(i)</sup>	Transaction amount	Percentage (%) <sup>(i)</sup>
Interest income	353	0.46	314	0.43
Interest expense	32	0.09	12	0.03

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

## (2) Related party transactions with subsidiaries

	31 December 2013	31 December 2012
Due from banks and other financial institutions	25	–
Due from banks and other financial institutions	1,125	189

Related party transactions between the Bank and its subsidiaries are offset in the preparation of the consolidated financial statements.

## (3) Related parties transactions with other related parties

	31 December 2013		31 December 2012	
	Transaction balance	Percentage (%) <sup>(i)</sup>	Transaction balance	Percentage (%) <sup>(i)</sup>
Assets				
Loans and advances to customers	535	0.07	595	0.09
Available-for-sale financial assets	950	1.46	–	–
Held-to-maturity investments	600	0.55	600	0.53
Interest receivable	58	0.78	20	0.32
Liabilities				
Deposits from customers	1,181	0.10	714	0.07
Interest payable	15	0.13	2	0.02
Off-balance-sheet items				
Letter of guarantee issued	38	0.31	37	0.38
Letter of credit issued	68	0.10	266	0.52
Bank acceptance bills	121	0.04	–	–

	2013		2012	
	Transaction amount	Percentage (%) <sup>(i)</sup>	Transaction amount	Percentage (%) <sup>(i)</sup>
Interest income	95	0.12	67	0.09
Interest expense	14	0.04	8	0.02
Investment income	–	–	7	41.18

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(4) Remuneration of key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank, directly or indirectly, including directors, supervisors and senior management members. Directors of the Bank are of the view that related party transactions between key management personnel stated above and the Bank are carried out under normal commercial terms as the same with those with non-related parties.

Remunerations of directors, supervisors and key senior management members received from the Bank are set out below:

	2013	2012
Remunerations	26	26

The total compensation before tax for Chairman, President, Chairman of the Board of Supervisors, employee representative supervisors and other senior management members of the Bank is in the process of determination, and the remaining part will be disclosed separately after determination. Nevertheless, the Management of the Group expects that the difference between the above amount and the final compensation amount will not pose material influence on the consolidated financial statements of 2013.

(5) Enterprise annuity

Except the normal fund contribution to enterprise annuity created by the Bank and general banking businesses, the Bank has no related party transactions in 2013 and 2012.

## XI. Contingencies and Commitments

### 1. Pending legal proceedings

As at 31 December 2013, the claimed amount of pending legal proceedings against the Bank and its subsidiaries totaled RMB203 million. Based on court order or suggestions of legal consultants, the Group has set aside provisions for losses arising from legal proceedings against it. The Management of the Group believes that the final court decision on these legal proceedings will not impose material impact on the Group's financial position or operation. Provisions for legal proceeding losses set aside based on suggestions of internal and external legal consultants are presented in Note 8 – 25 Projected Liabilities.

### 2. Capital expenditure commitments

The Group and the Bank			
	Note	31 December 2013	31 December 2012
Capital commitments signed but not confirmed in the financial statements			
Commitment to purchase long-term assets	(1)	285	172
External investment commitments	(2)	60	2,520
<b>Total</b>		<b>345</b>	<b>2,692</b>

(1) Commitment to purchase long-term assets is the unpaid account estimated in construction-in-process of the Bank.

(2) On 14 October 2010, the 25th meeting of the 5th Board of Directors of the Bank reviewed and approved the *Proposal on Initiating the Setup of Songyang Hua Xia Rural Bank in Zhejiang*, agreeing to contribute capital to the setup of a rural bank in Songyang, Zhejiang Province with the registered capital of RMB50 million to RMB100 million, of which the Bank held 51% (inclusive) – 60% of shares.



### 3. Credit commitments

	The Group		The Bank	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Bank acceptance bills	286,995	296,998	286,737	296,691
Letter of credit issued	71,333	50,848	71,333	50,848
Letter of guarantee issued	12,272	9,658	12,272	9,657
Irrevocable loan commitment	1,449	1,302	555	1,302
Unused credit card limit	15,918	15,063	15,918	15,063
<b>Total</b>	<b>387,967</b>	<b>373,869</b>	<b>386,815</b>	<b>373,561</b>

### 4. Operating lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable operating lease contracts signed by the Group and the Bank as the lessee is as follows:

	The Group		The Bank	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Within 1 year	989	824	974	819
1 – 5 years	2,855	2,310	2,832	2,296
More than 5 years	1,198	1,021	1,188	1,013
<b>Total</b>	<b>5,042</b>	<b>4,155</b>	<b>4,994</b>	<b>4,128</b>

### 5. Collateral

#### (1) Collateral assets

On the balance sheet date, the book value of assets used as collaterals for transactions under repurchase agreements is as follows:

	The Group and the Bank	
	31 December 2013	31 December 2012
Bonds	60,178	7,086
Bills	212	40,829
<b>Total</b>	<b>60,390</b>	<b>47,915</b>

On 31 December 2013, the book value of financial assets under repurchase agreements of the Group was RMB59.884 billion (31 December 2012: RMB47.422 billion).

In addition, partial bond investment of the Group is used as collaterals for on-lending, third-party lending and time deposits of commercial banks under cash management of the central treasury or as collaterals according to regulatory requirements. On 31 December 2013, the book value of the above collaterals was RMB15.983 billion (31 December 2012: RMB51.441 billion).

(2) Collaterals received

The Group accepts such collaterals as cash or securities in relevant business under reverse repurchase agreements. Some of the securities accepted can be sold or re-used as collaterals. On 31 December 2013, the book value of such collaterals as securities that can be sold or reused as collaterals accepted by the Group was RMB117 billion (31 December 2012: RMB240.5 billion). As at 31 December 2013, the Group had not re-mortgaged the above collaterals (as at 31 December 2012, the collaterals were re-mortgaged at RMB40.5 billion).

**6. Government bonds underwriting and redemption**

As a member of the underwriter group of savings government bonds of the Ministry of Finance (MOF), the Group underwrites and sells savings government bonds as an agent. Holders of savings government bonds may request redemption in advance and the Group is obliged to perform the duty of redemption. The Group is obliged to redeem the principal of the savings government bonds and the interest payable determined according to the early redemption agreement.

On 31 December 2013, the Group is obliged to redeem the savings government bond principal of RMB5.859 billion (31 December 2012: RMB6.527 billion). The original term of the above savings government bonds ranges from 3 to 5 years. The Management expects that the amount of redemption of these savings government bonds through the Group prior to maturity will not be material.

The MOF will not provide fund for the early redemption of these savings government bonds in a timely manner but is obliged to repay the principal and the interest upon maturity or according to documents issued.

**7. Entrusted transaction**

(1) Entrusted deposits and loans

	<b>The Group</b>		<b>The Bank</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Entrusted loans	222,455	51,328	222,104	51,328
Entrusted loan funds	222,455	51,328	222,104	51,328

(2) Entrusted investments

	<b>The Group and the Bank</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Entrusted investments	216,166	160,706

Entrusted investment means that the Group manages customer assets as entrusted by the non-principal-guaranteed wealth management customer and the investment risk of entrusted assets is taken by the customer.

## **XII. Transfer of Financial Assets**

The Group conducted transactions under repurchase agreements with counterparties. On 31 December 2013, the book value of bond assets and bill assets sold by the Group under repurchase agreements totaled RMB60.390 billion (31 December 2012: RMB47.915 billion). At the same time, it undertook that it would repurchase such bonds or bills at the agreed-upon price on a preset future date. The sales income of the above bonds and bills was presented as financial assets under repurchase agreements, which was RMB59.884 billion (31 December 2012: RMB47.422 billion). According to the repurchase agreements, the legal ownership of the bonds and bills is not transferred during the transaction period. In addition, the Group shall not sell or mortgage such bonds and bills during the transaction period, without consent of both parties. Therefore, the Group deems that almost all the risks and compensations relating with such bonds and bills are retained within the Group. Consequently, the Group did not derecognize these bonds and bills from the consolidated financial statements; instead, it deemed them as collaterals for pledged loans acquired from counterparties. Claim of the counterparties is not limited to such transferred assets.

## **XIII. Risk Management**

### **1. Overview**

The Group mainly faces credit risk, market risk and liquidity risk. Market risk includes exchange rate risk, interest rate risk and other price risks.

### **2. Risks management framework**

The Management of the Group is responsible for determining the overall risk appetite, and reviewing and approving the risk management objectives and strategies of the Group.

The risk management framework: Senior Management of the Group is responsible for the overall and specific risk management, including implementing risk management strategies, measures and credit policies, approving the internal rules, measures and procedures concerning risk management and establishing a risk management department and other relevant departments to manage financial risks.

### **3. Credit risk**

#### **3.1 Credit risk management**

Credit risk refers to the possibility of loss and uncertainty of income of banks caused by customer default or decreased credit standing, when commercial banks operate credit, inter-bank lending and investment businesses. The credit risk of the Group mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans, inter-bank lending, bond investments, bill acceptance, L/C, and L/G.

Before granting credit to a single customer, the Group will conduct credit appraisal first and regularly inspect the credit limit granted. The means for credit risk management include acquisition of collaterals and warranty. As for the off-balance-sheet credit commitment, the Group will charge security deposit to reduce the credit risk in general.

### 3.2 Maximum credit risk exposure

Without regard to the available collaterals or other credit enhancement measures, the amounts of the maximum credit exposure on the balance sheet date are presented as follows:

	<b>The Group</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Balances with central banks	258,679	223,438
Due from and placements with banks and other financial institutions	61,810	118,842
Held-for-trading financial assets	8,699	9,757
Derivative financial assets	531	171
Financial assets under reverse repurchase agreements	327,447	239,109
Loans and advances to customers	800,726	699,861
Available-for-sale financial assets	65,134	59,166
Held-to-maturity investments	109,265	113,456
Investments classified as receivables	11,573	1,000
Other financial assets	10,959	7,870
On-balance-sheet credit risk exposure	1,654,823	1,472,670
Off-balance-sheet credit risk exposure	387,967	373,869
<b>Maximum credit risk exposure</b>	<b>2,042,790</b>	<b>1,846,539</b>

	<b>The Bank</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Balances with central banks	258,482	223,256
Due from and placements with banks and other financial institutions	61,740	118,643
Held-for-trading financial assets	8,699	9,757
Derivative financial assets	531	171
Financial assets under reverse repurchase agreements	327,447	239,109
Loans and advances to customers	789,119	699,144
Available-for-sale financial assets	65,134	59,166
Held-to-maturity investments	109,265	113,456
Investments classified as receivables	11,573	1,000
Other financial assets	10,063	7,866
On-balance-sheet credit risk exposure	1,642,053	1,471,568
Off-balance-sheet credit risk exposure	386,815	373,561
<b>Maximum credit risk exposure</b>	<b>2,028,868</b>	<b>1,845,129</b>

The Group will adopt a series of policies and credit enhancement measures to reduce the credit risk exposure to an acceptable level. Common methods include asking the borrower to pay security deposit or providing collaterals or warranty. The amount and type of collaterals required by the Group depend on the assessment of the credit risk of the counterparty. As for the type and assessment parameters of collaterals, the Group has formulated relevant guideline and it takes the acceptable type and its value as the specific implementation standard.

The types of collaterals accepted by the Group are as follows:

- (1) Reverse repurchase transactions: bills, bonds, beneficiary rights of assets, etc;
- (2) Corporate loans: house property, machinery equipments, land use rights, certificate of deposits and equity, etc; and
- (3) Personal loans: house property and certificate of deposits, etc.

The Management regularly inspects the value of collaterals and requires the counterparty to increase the collaterals if necessary.

### 3.3 Derivative financial instruments

The credit risk of derivative financial instruments of the Group lies in whether the counterparty is able to make payments timely in line with the contract. As for the evaluation and control standard for credit risk of derivative financial instruments, the Group applied the same risk control standard with the other transactions.

### 3.4 Off-balance-sheet business risk

The Group includes the off-balance-sheet business into unified credit management. As for the off-balance-sheet businesses such as bank acceptance bills, L/C and L/G, the Bank requires authentic trading background, charges security deposit in corresponding proportion based on the credit status of customers and business risk level, and requires the effective guarantee for the rest parts. The Group strictly controls the high-risk off-balance-sheet business such as the financing L/G.

## 3.5 Credit quality of various assets with credit risk

31 December 2013 (the Group)					
	Neither overdue nor impaired financial assets	Overdue but unimpaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	258,679	–	–	–	258,679
Due from and placements with banks and other financial institutions	61,852	–	119	(161)	61,810
Held-for-trading financial assets	8,694	5	–	–	8,699
Derivative financial assets	531	–	–	–	531
Financial assets under reverse repurchase agreements	327,447	–	–	–	327,447
Loans and advances to customers	809,868	5,858	7,443	(22,443)	800,726
Available-for-sale financial assets	65,134	–	–	–	65,134
Held-to-maturity investments	109,265	–	–	–	109,265
Investments classified as receivables	11,573	–	–	–	11,573
Other financial assets	10,930	–	576	(547)	10,959
<b>Total</b>	<b>1,663,973</b>	<b>5,863</b>	<b>8,138</b>	<b>(23,151)</b>	<b>1,654,823</b>

31 December 2012 (the Group)					
	Neither overdue nor impaired financial assets	Overdue but unimpaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	223,438	–	–	–	223,438
Due from and placements with banks and other financial institutions	118,862	–	125	(145)	118,842
Held-for-trading financial assets	9,751	6	–	–	9,757
Derivative financial assets	171	–	–	–	171
Financial assets under reverse repurchase agreements	239,109	–	–	–	239,109
Loans and advances to customers	711,159	2,670	6,339	(20,307)	699,861
Available-for-sale financial assets	59,166	–	–	–	59,166
Held-to-maturity investments	113,456	–	–	–	113,456
Investments classified as receivables	1,000	–	–	–	1,000
Other financial assets	7,804	33	575	(542)	7,870
<b>Total</b>	<b>1,483,916</b>	<b>2,709</b>	<b>7,039</b>	<b>(20,994)</b>	<b>1,472,670</b>

31 December 2013 (the Bank)					
	Neither overdue nor impaired financial assets	Overdue but unimpaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	258,482	–	–	–	258,482
Due from and placements with banks and other financial institutions	61,782	–	119	(161)	61,740
Held-for-trading financial assets	8,694	5	–	–	8,699
Derivative financial assets	531	–	–	–	531
Financial assets under reverse repurchase agreements	327,447	–	–	–	327,447
Loans and advances to customers	798,141	5,858	7,442	(22,322)	789,119
Available-for-sale financial assets	65,134	–	–	–	65,134
Held-to-maturity investments	109,265	–	–	–	109,265
Investments classified as receivables	11,573	–	–	–	11,573
Other financial assets	10,026	–	576	(539)	10,063
<b>Total</b>	<b>1,651,075</b>	<b>5,863</b>	<b>8,137</b>	<b>(23,022)</b>	<b>1,642,053</b>

31 December 2012 (the Bank)					
	Neither overdue nor impaired financial assets	Overdue but unimpaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	223,256	–	–	–	223,256
Due from and placements with banks and other financial institutions	118,663	–	125	(145)	118,643
Held-for-trading financial assets	9,751	6	–	–	9,757
Derivative financial assets	171	–	–	–	171
Financial assets under reverse repurchase agreements	239,109	–	–	–	239,109
Loans and advances to customers	710,433	2,670	6,339	(20,298)	699,144
Available-for-sale financial assets	59,166	–	–	–	59,166
Held-to-maturity investments	113,456	–	–	–	113,456
Investments classified as receivables	1,000	–	–	–	1,000
Other financial assets	7,800	33	575	(542)	7,866
<b>Total</b>	<b>1,482,805</b>	<b>2,709</b>	<b>7,039</b>	<b>(20,985)</b>	<b>1,471,568</b>

Overdue financial assets refer to the financial assets with principal or interest overdue for 1 day or above.

## 3.6 Loans and advances to customers

(1) The Loans and advances are distributed by industry as follows:

Industry	The Group			
	31 December 2013		31 December 2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	212,017	25.75	202,638	28.14
Wholesale and retail	128,655	15.63	112,267	15.59
Property development	71,924	8.74	68,032	9.45
Leasing and commercial services	64,265	7.81	52,679	7.31
Construction	61,471	7.47	52,430	7.28
Transportation, storage and postal services	42,622	5.18	45,147	6.27
Mining	25,122	3.05	22,704	3.15
Production and supply of electric power, heating power, gas and water	22,561	2.74	23,926	3.32
Other public industries	46,510	5.65	37,073	5.15
Discounted bills	5,268	0.64	2,605	0.36
Personal loans	142,754	17.34	100,667	13.98
<b>Total loans and advances to customers</b>	<b>823,169</b>	<b>100.00</b>	<b>720,168</b>	<b>100.00</b>

Industry	The Bank			
	31 December 2013		31 December 2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	207,975	25.63	202,528	28.15
Wholesale and retail	128,435	15.83	112,125	15.58
Property development	71,924	8.86	68,032	9.46
Leasing and commercial services	64,235	7.92	52,658	7.32
Construction	59,162	7.29	52,398	7.28
Transportation, storage and postal services	42,109	5.19	45,131	6.27
Mining	22,391	2.76	22,704	3.16
Production and supply of electric power, heating power, gas and water	21,158	2.61	23,926	3.33
Other public industries	46,358	5.71	36,971	5.14
Discounted bills	5,253	0.65	2,522	0.35
Personal loans	142,441	17.55	100,447	13.96
<b>Total loans and advances to customers</b>	<b>811,441</b>	<b>100.00</b>	<b>719,442</b>	<b>100.00</b>



(2) The Loans and advances are distributed by region as follows:

Geographic region	The Group			
	31 December 2013		31 December 2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Northern and Northeastern China	289,957	35.22	250,050	34.72
Eastern China	245,089	29.77	224,428	31.16
Central China and Southern China	167,916	20.40	140,345	19.49
Western China	120,207	14.61	105,345	14.63
<b>Total loans and advances to customers</b>	<b>823,169</b>	<b>100.00</b>	<b>720,168</b>	<b>100.00</b>

Geographic region	The Bank			
	31 December 2013		31 December 2012	
	Amount	Percentage (%)	Amount	Percentage (%)
Northern and Northeastern China	282,272	34.79	249,733	34.71
Eastern China	245,089	30.20	224,428	31.19
Central China and Southern China	167,916	20.69	140,345	19.51
Western China	116,164	14.32	104,936	14.59
<b>Total loans and advances to customers</b>	<b>811,441</b>	<b>100.00</b>	<b>719,442</b>	<b>100.00</b>

(3) The Loans and advances are distributed by collateral as follows:

	The Group		The Bank	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Unsecured loans	120,630	111,247	120,629	111,245
Guaranteed loans	268,952	233,980	268,282	233,519
Loans secured by collaterals	433,587	374,941	422,530	374,678
Of which: Mortgage loans	335,152	263,213	324,191	263,056
Pledged loans	98,435	111,728	98,339	111,622
<b>Total loans and advances to customers</b>	<b>823,169</b>	<b>720,168</b>	<b>811,441</b>	<b>719,442</b>

## (4) Overdue loans

The Group					
31 December 2013					
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	642	307	40	21	1,010
Guaranteed loans	2,345	1,813	1,276	222	5,656
Mortgage loans	1,341	879	1,420	268	3,908
Pledged loans	1,388	670	342	204	2,604
<b>Total</b>	<b>5,716</b>	<b>3,669</b>	<b>3,078</b>	<b>715</b>	<b>13,178</b>

The Bank					
31 December 2013					
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	642	307	40	21	1,010
Guaranteed loans	2,345	1,813	1,275	222	5,655
Mortgage loans	1,341	879	1,420	268	3,908
Pledged loans	1,388	670	342	204	2,604
<b>Total</b>	<b>5,716</b>	<b>3,669</b>	<b>3,077</b>	<b>715</b>	<b>13,177</b>

The Group and the Bank					
31 December 2012					
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	251	26	30	–	307
Guaranteed loans	1,205	1,183	446	350	3,184
Mortgage loans	1,200	1,031	968	374	3,573
Pledged loans	530	465	297	205	1,497
<b>Total</b>	<b>3,186</b>	<b>2,705</b>	<b>1,741</b>	<b>929</b>	<b>8,561</b>

Note: If the principal or interest of a loan becomes overdue for more than 1 day, it will be classified as an overdue loan.

## (5) Credit quality of loans and advances to customers

<b>The Group</b>			
	<b>Note</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Neither overdue nor impaired	(i)	809,868	711,159
Overdue but not impaired	(ii)	5,858	2,670
Impaired	(iii)	7,443	6,339
<b>Total loans and advances to customers</b>		<b>823,169</b>	<b>720,168</b>

<b>The Bank</b>			
	<b>Note</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Neither overdue nor impaired	(i)	798,141	710,433
Overdue but not impaired	(ii)	5,858	2,670
Impaired	(iii)	7,442	6,339
<b>Total loans and advances to customers</b>		<b>811,441</b>	<b>719,442</b>

Note: If the principal or interest of a loan becomes overdue for more than 1 day, it will be classified as an overdue loan.

(i) Loans and advances neither overdue nor impaired

The Group			
31 December 2013			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	668,712	(14,301)	654,411
Personal loans and advances	141,156	(2,762)	138,394
<b>Total</b>	<b>809,868</b>	<b>(17,063)</b>	<b>792,805</b>

The Group			
31 December 2012			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	611,482	(14,060)	597,422
Personal loans and advances	99,677	(2,287)	97,390
<b>Total</b>	<b>711,159</b>	<b>(16,347)</b>	<b>694,812</b>

The Bank			
31 December 2013			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	657,298	(14,184)	643,114
Personal loans and advances	140,843	(2,758)	138,085
<b>Total</b>	<b>798,141</b>	<b>(16,942)</b>	<b>781,199</b>

The Bank			
31 December 2012			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	610,976	(14,066)	596,910
Personal loans and advances	99,457	(2,290)	97,167
<b>Total</b>	<b>710,433</b>	<b>(16,356)</b>	<b>694,077</b>

(ii) Loans and advances overdue but not impaired

Analysis on term of overdue but unimpaired loans and advances to customers

31 December 2013 (The Group and the Bank)						
Item	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans	1,958	1,669	800	396	4,823	3,892
Personal loans	747	190	80	18	1,035	1,453
<b>Total</b>	<b>2,705</b>	<b>1,859</b>	<b>880</b>	<b>414</b>	<b>5,858</b>	<b>5,345</b>

31 December 2012 (The Group and the Bank)						
Item	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans	1,075	512	310	181	2,078	3,242
Personal loans	390	95	91	16	592	1,168
<b>Total</b>	<b>1,465</b>	<b>607</b>	<b>401</b>	<b>197</b>	<b>2,670</b>	<b>4,410</b>

(iii) Impaired loans and advances to customers

The Group			
31 December 2013			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Individual assessment	6,880	(4,639)	2,241
Collective assessment	563	(400)	163
<b>Total</b>	<b>7,443</b>	<b>(5,039)</b>	<b>2,404</b>

The Group			
31 December 2012			
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Individual assessment	5,942	(3,606)	2,336
Collective assessment	397	(237)	160
<b>Total</b>	<b>6,339</b>	<b>(3,843)</b>	<b>2,496</b>

Of which:

	<b>The Group</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Impaired loans assessed individually	6,880	5,942
Impaired loans assessed individually Percentage in total loans and advances to customers	0.84%	0.83%
Fair value of collaterals	5,222	7,299

	<b>The Bank</b>		
	<b>31 December 2013</b>		
	<b>Total loans and advances to customers</b>	<b>Allowance for impairment losses on loans and advances</b>	<b>Book value</b>
Individual assessment	6,879	(4,639)	2,240
Collective assessment	563	(400)	163
<b>Total</b>	<b>7,442</b>	<b>(5,039)</b>	<b>2,403</b>

	<b>The Bank</b>		
	<b>31 December 2012</b>		
	<b>Total loans and advances to customers</b>	<b>Allowance for impairment losses on loans and advances</b>	<b>Book value</b>
Individual assessment	5,942	(3,606)	2,336
Collective assessment	397	(237)	160
<b>Total</b>	<b>6,339</b>	<b>(3,843)</b>	<b>2,496</b>

Of which:

	<b>The Bank</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Impaired loans assessed individually	6,879	5,942
Impaired loans assessed individually Percentage in total loans and advances to customers	0.85%	0.83%
Fair value of collaterals	5,222	7,299

## 3.7 Credit quality of debt instruments

The Group and the Bank			
	Note	31 December 2013	31 December 2012
Neither overdue nor impaired	(1)	194,666	183,373
Overdue but not impaired		5	6
Book value of debt instruments		194,671	183,379

(1) Neither overdue nor impaired debt instruments

The Group and the Bank					
31 December 2013					
Type of debt instruments	Held-for-trading financial assets	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Government bonds	—	9,011	78,267	631	87,909
Bonds of public entities and quasi-governments	961	25,341	14,592	—	40,894
Bonds of financial institutions	—	—	9,439	3,100	12,539
Corporate bonds	7,733	30,782	6,967	—	45,482
Usufruct of assets	—	—	—	7,842	7,842
<b>Total</b>	<b>8,694</b>	<b>65,134</b>	<b>109,265</b>	<b>11,573</b>	<b>194,666</b>

The Group and the Bank					
31 December 2012					
Type of debt instruments	Held-for-trading financial assets	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Government bonds	—	6,854	75,372	—	82,226
Bonds of public entities and quasi-governments	—	20,651	17,016	—	37,667
Bonds of financial institutions	—	—	13,768	—	13,768
Corporate bonds	9,751	31,661	7,300	—	48,712
Trust assets held	—	—	—	1,000	1,000
<b>Total</b>	<b>9,751</b>	<b>59,166</b>	<b>113,456</b>	<b>1,000</b>	<b>183,373</b>

(2) The debt instruments are classified based on credit ratings of credit rating agencies widely accepted in the market

<b>The Group and the Bank</b>						
<b>31 December 2013</b>						
	<b>No rating</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Below A</b>	<b>Total</b>
Government bonds	87,909	–	–	–	–	87,909
Bonds of public entities and quasi-governments	37,250	3,644	–	–	–	40,894
Bonds of financial institutions	3,555	8,089	900	–	–	12,544
Corporate bonds	19,979	13,459	12,044	–	–	45,482
Usufruct of assets	7,842	–	–	–	–	7,842
<b>Total</b>	<b>156,535</b>	<b>25,192</b>	<b>12,944</b>	<b>–</b>	<b>–</b>	<b>194,671</b>

<b>The Group and the Bank</b>						
<b>31 December 2012</b>						
	<b>No rating</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>Below A</b>	<b>Total</b>
Government bonds	82,226	–	–	–	–	82,226
Bonds of public entities and quasi-governments	35,124	2,543	–	–	–	37,667
Bonds of financial institutions	4,256	8,418	1,100	–	–	13,774
Corporate bonds	21,984	14,379	12,349	–	–	48,712
Trust assets held	1,000	–	–	–	–	1,000
<b>Total</b>	<b>144,590</b>	<b>25,340</b>	<b>13,449</b>	<b>–</b>	<b>–</b>	<b>183,379</b>

### 3.8 Renegotiated financial assets

The carrying amount of renegotiated financial assets which were identified as overdue or impaired is as follows:

<b>Item</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
Loans and advances to customers	24	6



#### 4. Liquidity risk

Liquidity risk is the risk that funds will not be available to make repayments when liabilities fall due. Liquidity risk may be resulted from mismatch of cash flows or terms between assets and liabilities.

The Bank has established the Asset & Liabilities Management Committee which is responsible for formulation, organization and implementation of the administrative policies on liquidity risk, established multi-channel financing mechanism, and designed a series of daily liquidity monitoring indicator systems complying with the actuality of the Bank based on the applicability principle, in accordance with the indicator system on liquidity risk monitoring by regulatory departments. Meanwhile, taking into account both the economic efficiency and liquidity, the Bank held some government bonds and central bank bills in the assets portfolio, which could not only achieve stable investment income, but also be sold off or repurchased in the secondary market at any time to fulfill the liquidity requirements.

##### 4.1 Liquidity analysis

###### (1) Maturity analysis

The table below analyzes the carrying amount of financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of contract:

Item	The Group							Total
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	
31 December 2013								
Financial assets								
Cash on hand and balances with central banks	207,782	54,445	–	–	–	–	–	262,227
Due from banks and other financial institutions	–	9,987	9,530	13,777	4,910	2,000	–	40,204
Placements with banks and other financial institutions	–	–	18,607	1,055	1,944	–	–	21,606
Held-for-trading financial assets	5	–	375	1,900	1,485	4,104	830	8,699
Derivative financial assets	–	–	123	105	293	10	–	531
Financial assets under reverse repurchase agreements	–	–	86,871	99,977	65,439	72,718	2,442	327,447
Loans and advances to customers	4,839	–	55,164	86,672	324,782	174,284	154,985	800,726
Available-for-sale financial assets	–	–	866	1,103	7,709	40,044	15,412	65,134
Held-to-maturity investments	–	–	90	1,350	6,730	35,540	65,555	109,265
Investments classified as receivables	–	–	–	73	307	6,680	4,513	11,573
Other financial assets	86	2,646	2,986	2,301	2,496	421	23	10,959
Total financial assets	212,712	67,078	174,612	208,313	416,095	335,801	243,760	1,658,371
Financial liabilities								
Due from and placements with banks and other financial institutions	–	29,404	131,578	54,875	94,721	3,946	–	314,524
Derivative financial liabilities	–	–	136	105	295	9	–	545
Financial assets under repurchase agreements	–	–	59,732	71	81	–	–	59,884
Deposits from customers	–	650,124	20,267	76,264	368,625	62,312	–	1,177,592
Bonds payable	–	–	–	–	–	8,400	–	8,400
Other financial liabilities	–	5,612	763	606	4,699	4,355	518	16,553
Total financial liabilities	–	685,140	212,476	131,921	468,421	79,022	518	1,577,498
Net position	212,712	(618,062)	(37,864)	76,392	(52,326)	256,779	243,242	80,873

## AUDIT REPORT

The Group								
31 December 2012								
Item	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
<b>Financial assets</b>								
Cash on hand and balances with central banks	183,441	43,711	–	–	–	–	–	227,152
Due from banks and other financial institutions	–	6,175	64,035	8,412	8,546	240	–	87,408
Placements with banks and other financial institutions	–	–	19,833	2,997	3,899	4,305	400	31,434
Held-for-trading financial assets	6	–	441	3,201	2,947	3,071	91	9,757
Derivative financial assets	–	–	87	55	29	–	–	171
Financial assets under reverse repurchase agreements	–	–	60,503	129,066	49,540	–	–	239,109
Loans and advances to customers	3,474	–	38,476	89,478	320,117	109,231	139,085	699,861
Available-for-sale financial assets	–	–	679	1,313	5,369	33,368	18,437	59,166
Held-to-maturity investments	–	–	–	810	6,421	35,027	71,198	113,456
Investments classified as receivables	–	–	–	–	1,000	–	–	1,000
Other financial assets	60	993	1,201	2,402	940	1,055	1,219	7,870
<b>Total financial assets</b>	<b>186,981</b>	<b>50,879</b>	<b>185,255</b>	<b>237,734</b>	<b>398,808</b>	<b>186,297</b>	<b>230,430</b>	<b>1,476,384</b>
<b>Financial liabilities</b>								
Due from and placements with banks and other financial institutions	–	12,531	190,285	79,934	14,320	4,000	–	301,070
Derivative financial liabilities	–	–	71	59	29	–	–	159
Financial assets under repurchase agreements	–	–	20,592	19,935	6,895	–	–	47,422
Deposits from customers	–	521,443	71,642	143,285	228,245	71,034	351	1,036,000
Bonds payable	–	–	–	–	–	8,400	–	8,400
Other financial liabilities	–	5,158	832	1,664	2,992	1,368	1,242	13,256
<b>Total financial liabilities</b>	<b>–</b>	<b>539,132</b>	<b>283,422</b>	<b>244,877</b>	<b>252,481</b>	<b>84,802</b>	<b>1,593</b>	<b>1,406,307</b>
<b>Net position</b>	<b>186,981</b>	<b>(488,253)</b>	<b>(98,167)</b>	<b>(7,143)</b>	<b>146,327</b>	<b>101,495</b>	<b>228,837</b>	<b>70,077</b>

The Bank								
31 December 2013								
Item	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
<b>Financial assets</b>								
Cash on hand and balances with central banks	207,615	54,405	–	–	–	–	–	262,020
Due from banks and other financial institutions	–	9,955	9,467	13,802	4,910	2,000	–	40,134
Placements with banks and other financial institutions	–	–	18,607	1,055	1,944	–	–	21,606
Held-for-trading financial assets	5	–	375	1,900	1,485	4,104	830	8,699
Derivative financial assets	–	–	123	105	293	10	–	531
Financial assets under reverse repurchase agreements	–	–	86,871	99,977	65,439	72,718	2,442	327,447
Loans and advances to customers	4,839	–	55,033	86,117	322,243	166,546	154,341	789,119
Available-for-sale financial assets	–	–	866	1,103	7,709	40,044	15,412	65,134
Held-to-maturity investments	–	–	90	1,350	6,730	35,540	65,555	109,265
Investments classified as receivables	–	–	–	73	307	6,680	4,513	11,573
Other financial assets	86	2,528	2,979	2,301	1,727	421	21	10,063
<b>Total financial assets</b>	<b>212,545</b>	<b>66,888</b>	<b>174,411</b>	<b>207,783</b>	<b>412,787</b>	<b>328,063</b>	<b>243,114</b>	<b>1,645,591</b>
<b>Financial liabilities</b>								
Due from and placements with banks and other financial institutions	–	29,900	132,208	53,876	88,024	3,946	–	307,954
Derivative financial liabilities	–	–	136	105	295	9	–	545
Financial assets under repurchase agreements	–	–	59,732	71	81	–	–	59,884
Deposits from customers	–	649,605	19,880	76,170	368,361	62,272	–	1,176,288
Bonds payable	–	–	–	–	–	8,400	–	8,400
Other financial liabilities	–	5,598	749	568	4,582	3,312	80	14,889
<b>Total financial liabilities</b>	<b>–</b>	<b>685,103</b>	<b>212,705</b>	<b>130,790</b>	<b>461,343</b>	<b>77,939</b>	<b>80</b>	<b>1,567,960</b>
<b>Net position</b>	<b>212,545</b>	<b>(618,215)</b>	<b>(38,294)</b>	<b>76,993</b>	<b>(48,556)</b>	<b>250,124</b>	<b>243,034</b>	<b>77,631</b>

# AUDIT REPORT

The Bank								
31 December 2012								
Item	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
<b>Financial assets</b>								
Cash on hand and balances with central banks	183,316	43,643	–	–	–	–	–	226,959
Due from banks and other financial institutions	–	6,150	63,861	8,412	8,546	240	–	87,209
Placements with banks and other financial institutions	–	–	19,833	2,997	3,899	4,305	400	31,434
Held-for-trading financial assets	6	–	441	3,201	2,947	3,071	91	9,757
Derivative financial assets	–	–	87	55	29	–	–	171
Financial assets under reverse repurchase agreements	–	–	60,503	129,066	49,540	–	–	239,109
Loans and advances to customers	3,474	–	38,460	89,319	319,671	109,138	139,082	699,144
Available-for-sale financial assets	–	–	679	1,313	5,369	33,368	18,437	59,166
Held-to-maturity investments	–	–	–	810	6,421	35,027	71,198	113,456
Investments classified as receivables	–	–	–	–	1,000	–	–	1,000
Other financial assets	60	993	1,200	2,402	937	1,055	1,219	7,866
<b>Total financial assets</b>	<b>186,856</b>	<b>50,786</b>	<b>185,064</b>	<b>237,575</b>	<b>398,359</b>	<b>186,204</b>	<b>230,427</b>	<b>1,475,271</b>
<b>Financial liabilities</b>								
Due from and placements with banks and other financial institutions	–	12,618	190,428	79,934	14,320	4,000	–	301,300
Derivative financial liabilities	–	–	71	59	29	–	–	159
Financial assets under repurchase agreements	–	–	20,592	19,935	6,895	–	–	47,422
Deposits from customers	–	521,442	71,642	143,285	227,108	71,034	351	1,034,862
Bonds payable	–	–	–	–	–	8,400	–	8,400
Other financial liabilities	–	5,158	832	1,653	2,966	1,368	1,242	13,219
<b>Total financial liabilities</b>	<b>–</b>	<b>539,218</b>	<b>283,565</b>	<b>244,866</b>	<b>251,318</b>	<b>84,802</b>	<b>1,593</b>	<b>1,405,362</b>
<b>Net position</b>	<b>186,856</b>	<b>(488,432)</b>	<b>(98,501)</b>	<b>(7,291)</b>	<b>147,041</b>	<b>101,402</b>	<b>228,834</b>	<b>69,909</b>

## (2) Undiscounted contract cash flows classified by expiry date of contract

The table below presents the undiscounted cash flows of non-derivative financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of the contract:

Item	The Group							
	31 December 2013							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
Financial assets								
Cash on hand and balances with central banks	207,782	54,445	–	–	–	–	–	262,227
Due from banks and other financial institutions	–	10,004	9,541	13,889	5,084	2,137	–	40,655
Placements with banks and other financial institutions	–	–	18,630	1,066	1,981	–	–	21,677
Held-for-trading financial assets	5	–	389	1,951	1,729	4,878	1,025	9,977
Financial assets under reverse repurchase agreements	–	–	87,964	102,835	70,193	82,942	2,547	346,481
Loans and advances to customers	9,517	–	60,237	94,842	356,422	236,412	222,378	979,808
Available-for-sale financial assets	–	–	1,107	1,733	9,880	49,750	18,289	80,759
Held-to-maturity investments	–	–	219	2,160	10,304	50,321	115,768	178,772
Investments classified as receivables	–	–	62	146	874	8,629	5,162	14,873
Other financial assets	75	2,629	–	5	781	10	2	3,502
Total financial assets	217,379	67,078	178,149	218,627	457,248	435,079	365,171	1,938,731
Financial liabilities								
Due from and placements with banks and other financial institutions	–	29,412	131,936	55,431	97,839	4,679	–	319,297
Financial assets under repurchase agreements	–	–	59,857	72	82	–	–	60,011
Deposits from customers	–	652,502	20,456	76,798	376,498	68,321	–	1,194,575
Bonds payable	–	–	–	200	221	9,264	–	9,685
Other financial liabilities	–	3,223	8	15	100	1,055	518	4,919
Total financial liabilities	–	685,137	212,257	132,516	474,740	83,319	518	1,588,487
Net position	217,379	(618,059)	(34,108)	86,111	(17,492)	351,760	364,653	350,244

The Group								
31 December 2012								
Item	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
<b>Financial assets</b>								
Cash on hand and balances with central banks	183,441	43,711	–	–	–	–	–	227,152
Due from banks and other financial institutions	–	6,440	64,139	8,546	8,985	273	–	88,383
Placements with banks and other financial institutions	–	–	19,853	3,016	3,994	5,468	563	32,894
Held-for-trading financial assets	28	–	6	7	305	3,670	6,677	10,693
Financial assets under reverse repurchase agreements	–	–	61,045	130,772	50,677	–	–	242,494
Loans and advances to customers	6,213	–	48,782	94,074	350,896	173,814	174,980	848,759
Available-for-sale financial assets	–	–	768	1,827	7,375	41,068	21,003	72,041
Held-to-maturity investments	–	–	123	1,532	9,605	51,334	116,419	179,013
Investments classified as receivables	–	–	–	–	1,124	–	–	1,124
Other financial assets	–	692	139	277	410	124	–	1,642
<b>Total financial assets</b>	<b>189,682</b>	<b>50,843</b>	<b>194,855</b>	<b>240,051</b>	<b>433,371</b>	<b>275,751</b>	<b>319,642</b>	<b>1,704,195</b>
<b>Financial liabilities</b>								
Due from and placements with banks and other financial institutions	–	12,619	190,838	80,834	15,135	4,673	–	304,099
Financial assets under repurchase agreements	–	–	20,655	20,135	7,046	–	–	47,836
Deposits from customers	–	525,999	145,689	71,274	232,587	77,527	418	1,053,494
Bonds payable	–	–	–	200	221	9,686	–	10,107
Other financial liabilities	–	465	87	184	1,300	796	1,239	4,071
<b>Total financial liabilities</b>	<b>–</b>	<b>539,083</b>	<b>357,269</b>	<b>172,627</b>	<b>256,289</b>	<b>92,682</b>	<b>1,657</b>	<b>1,419,607</b>
<b>Net position</b>	<b>189,682</b>	<b>(488,240)</b>	<b>(162,414)</b>	<b>67,424</b>	<b>177,082</b>	<b>183,069</b>	<b>317,985</b>	<b>284,588</b>

The Bank								
31 December 2013								
Item	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
<b>Financial assets</b>								
Cash on hand and balances with central banks	207,615	54,405	–	–	–	–	–	262,020
Due from banks and other financial institutions	–	9,971	9,478	13,914	5,084	2,137	–	40,584
Placements with banks and other financial institutions	–	–	18,630	1,066	1,981	–	–	21,677
Held-for-trading financial assets	5	–	389	1,951	1,729	4,878	1,025	9,977
Financial assets under reverse repurchase agreements	–	–	87,964	102,835	70,193	82,942	2,547	346,481
Loans and advances to customers	9,517	–	60,058	94,107	353,429	227,536	221,702	966,349
Available-for-sale financial assets	–	–	1,107	1,733	9,880	49,750	18,289	80,759
Held-to-maturity investments	–	–	219	2,160	10,304	50,321	115,768	178,772
Investments classified as receivables	–	–	62	146	874	8,629	5,162	14,873
Other financial assets	75	2,511	–	–	–	10	–	2,596
<b>Total financial assets</b>	<b>217,212</b>	<b>66,887</b>	<b>177,907</b>	<b>217,912</b>	<b>453,474</b>	<b>426,203</b>	<b>364,493</b>	<b>1,924,088</b>
<b>Financial liabilities</b>								
Due from and placements with banks and other financial institutions	–	29,908	132,522	54,384	90,943	4,679	–	312,436
Financial assets under repurchase agreements	–	–	59,857	72	82	–	–	60,011
Deposits from customers	–	651,981	20,067	76,703	376,230	68,278	–	1,193,259
Bonds payable	–	–	–	200	221	9,264	–	9,685
Other financial liabilities	–	3,214	–	–	2	12	80	3,308
<b>Total financial liabilities</b>	<b>–</b>	<b>685,103</b>	<b>212,446</b>	<b>131,359</b>	<b>467,478</b>	<b>82,233</b>	<b>80</b>	<b>1,578,699</b>
<b>Net position</b>	<b>217,212</b>	<b>(618,216)</b>	<b>(34,539)</b>	<b>86,553</b>	<b>(14,004)</b>	<b>343,970</b>	<b>364,413</b>	<b>345,389</b>

The Bank								
31 December 2012								
Item	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
<b>Financial assets</b>								
Cash on hand and balances with central banks	183,316	43,643	–	–	–	–	–	226,959
Due from banks and other financial institutions	–	6,440	63,964	8,546	8,985	273	–	88,208
Placements with banks and other financial institutions	–	–	19,853	3,016	3,994	5,468	563	32,894
Held-for-trading financial assets	28	–	6	7	305	3,670	6,677	10,693
Financial assets under reverse repurchase agreements	–	–	61,045	130,772	50,677	–	–	242,494
Loans and advances to customers	6,213	–	48,775	94,073	350,223	173,731	174,979	847,994
Available-for-sale financial assets	–	–	768	1,827	7,375	41,068	21,003	72,041
Held-to-maturity investments	–	–	123	1,532	9,605	51,334	116,419	179,013
Investments classified as receivables	–	–	–	–	1,124	–	–	1,124
Other financial assets	–	692	138	277	409	124	–	1,640
<b>Total financial assets</b>	<b>189,557</b>	<b>50,775</b>	<b>194,672</b>	<b>240,050</b>	<b>432,697</b>	<b>275,668</b>	<b>319,641</b>	<b>1,703,060</b>
<b>Financial liabilities</b>								
Due from and placements with banks and other financial institutions	–	12,619	190,981	80,834	15,135	4,673	–	304,242
Financial assets under repurchase agreements	–	–	20,655	20,135	7,046	–	–	47,836
Deposits from customers	–	525,998	72,321	144,642	231,432	77,526	417	1,052,336
Bonds payable	–	–	–	200	221	9,686	–	10,107
Other financial liabilities	–	465	87	173	1,278	796	1,239	4,038
<b>Total financial liabilities</b>	<b>–</b>	<b>539,082</b>	<b>284,044</b>	<b>245,984</b>	<b>255,112</b>	<b>92,681</b>	<b>1,656</b>	<b>1,418,559</b>
<b>Net position</b>	<b>189,557</b>	<b>(488,307)</b>	<b>(89,372)</b>	<b>(5,934)</b>	<b>177,585</b>	<b>182,987</b>	<b>317,985</b>	<b>284,501</b>

Assets that can be used for repaying all liabilities and fulfilling outstanding loan commitment include cash on hand and balance with central banks, due from and placements with banks and other financial institutions and held-for-trading financial assets, etc. In normal operation, most due deposits are still retained within the Group instead of withdrawn immediately on the maturity date. Besides, available-for-sale financial assets can be disposed of when necessary to repay matured debts.



## 4.2 Off-balance-sheet items

Off-balance-sheet items of the Group mainly include bank acceptance bills, letter of credit issued, letter of guarantee issued, irrevocable loan commitments and unused credit card limit. Amounts of off-balance-sheet items are presented in the table below by residual maturity of contract:

<b>The Group</b>				
<b>31 December 2013</b>				
	<b>No more than 1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Bank acceptance bills	286,995	–	–	286,995
Letter of credit issued	70,120	1,213	–	71,333
Letter of guarantee issued	4,741	3,519	4,012	12,272
Irrevocable loan commitment	1,449	–	–	1,449
Unused credit card limit	15,918	–	–	15,918
<b>Total</b>	<b>379,223</b>	<b>4,732</b>	<b>4,012</b>	<b>387,967</b>

<b>The Group</b>				
<b>31 December 2012</b>				
	<b>No more than 1 year</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Bank acceptance bills	296,998	–	–	296,998
Letter of credit issued	49,165	1,683	–	50,848
Letter of guarantee issued	6,649	2,943	66	9,658
Irrevocable loan commitment	840	462	–	1,302
Unused credit card limit	15,063	–	–	15,063
<b>Total</b>	<b>368,715</b>	<b>5,088</b>	<b>66</b>	<b>373,869</b>

The Bank				
31 December 2013				
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance bills	286,737	–	–	286,737
Letter of credit issued	70,120	1,213	–	71,333
Letter of guarantee issued	4,741	3,519	4,012	12,272
Irrevocable loan commitment	555	–	–	555
Unused credit card limit	15,918	–	–	15,918
<b>Total</b>	<b>378,071</b>	<b>4,732</b>	<b>4,012</b>	<b>386,815</b>

The Bank				
31 December 2012				
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance bills	296,691	–	–	296,691
Letter of credit issued	49,165	1,683	–	50,848
Letter of guarantee issued	6,648	2,943	66	9,657
Irrevocable loan commitment	840	462	–	1,302
Unused credit card limit	15,063	–	–	15,063
<b>Total</b>	<b>368,407</b>	<b>5,088</b>	<b>66</b>	<b>373,561</b>

## 5. Market risk

Market risk means the possibility of loss to the Group's on- and off-balance-sheet businesses that results from changes in the market prices (including exchange rate, interest rate, commodity price and stock price). Market risk of the Group includes exchange rate risk and interest rate risk. Exchange rate risk of the Group mainly refers to risk of loss caused by exchange rate fluctuation in exposure of assets and liabilities denominated in foreign currency. Interest rate risk mainly refers to risk of loss caused by interest rate fluctuation arising from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

### 5.1 Exchange rate risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly include the Group's treasury operation exposure and foreign exchange business.

As for the business varieties involving exchange rate risk, the Group strictly manages various links of development, launching and operation, and formulates necessary risk control system in terms of business authorization, exposure limits and process monitoring. The Bank divides its foreign exchange trading businesses between banking book and trading book and the foreign exchange exposure of the whole bank is managed by the Head Office in a unified manner.

At the end of the reporting period, exchange rate risk of financial assets and financial liabilities is as follows:

The Group					
31 December 2013					
Item	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	241,738	20,354	94	41	262,227
Due from banks and other financial institutions	32,086	7,197	105	816	40,204
Placements with banks and other financial institutions	21,606	—	—	—	21,606
Held-for-trading financial assets	8,694	5	—	—	8,699
Derivative financial assets	5	500	—	26	531
Financial assets under reverse repurchase agreements	325,627	1,820	—	—	327,447
Loans and advances to customers	773,070	27,499	—	157	800,726
Available-for-sale financial assets	65,134	—	—	—	65,134
Held-to-maturity investments	109,265	—	—	—	109,265
Investments classified as receivables	11,573	—	—	—	11,573
Other financial assets	10,774	184	—	1	10,959
<b>Total financial assets</b>	<b>1,599,572</b>	<b>57,559</b>	<b>199</b>	<b>1,041</b>	<b>1,658,371</b>
Due from and placements with banks and other financial institutions	303,201	11,282	15	26	314,524
Derivative financial liabilities	3	518	2	22	545
Financial assets under repurchase agreements	59,884	—	—	—	59,884
Deposits from customers	1,150,097	25,531	1,148	816	1,177,592
Bonds payable	8,400	—	—	—	8,400
Other financial liabilities	15,228	724	8	593	16,553
<b>Total financial liabilities</b>	<b>1,536,813</b>	<b>38,055</b>	<b>1,173</b>	<b>1,457</b>	<b>1,577,498</b>
<b>Net exposure</b>	<b>62,759</b>	<b>19,504</b>	<b>(974)</b>	<b>(416)</b>	<b>80,873</b>

The Group					
31 December 2012					
Item	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	208,926	18,098	72	56	227,152
Due from banks and other financial institutions	79,331	6,646	624	807	87,408
Placements with banks and other financial institutions	31,284	150	–	–	31,434
Held-for-trading financial assets	9,751	6	–	–	9,757
Derivative financial assets	–	171	–	–	171
Financial assets under reverse repurchase agreements	239,109	–	–	–	239,109
Loans and advances to customers	673,945	25,685	80	151	699,861
Available-for-sale financial assets	59,166	–	–	–	59,166
Held-to-maturity investments	113,456	–	–	–	113,456
Investments classified as receivables	1,000	–	–	–	1,000
Other financial assets	7,639	228	–	3	7,870
<b>Total financial assets</b>	<b>1,423,607</b>	<b>50,984</b>	<b>776</b>	<b>1,017</b>	<b>1,476,384</b>
Due from and placements with banks and other financial institutions	290,795	10,178	29	68	301,070
Derivative financial liabilities	–	159	–	–	159
Financial assets under repurchase agreements	47,422	–	–	–	47,422
Deposits from customers	1,011,290	22,568	1,072	1,070	1,036,000
Bonds payable	8,400	–	–	–	8,400
Other financial liabilities	11,898	744	1	613	13,256
<b>Total financial liabilities</b>	<b>1,369,805</b>	<b>33,649</b>	<b>1,102</b>	<b>1,751</b>	<b>1,406,307</b>
<b>Net exposure</b>	<b>53,802</b>	<b>17,335</b>	<b>(326)</b>	<b>(734)</b>	<b>70,077</b>

The Bank					
31 December 2013					
Item	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	241,531	20,354	94	41	262,020
Due from banks and other financial institutions	32,016	7,197	105	816	40,134
Placements with banks and other financial institutions	21,606	–	–	–	21,606
Held-for-trading financial assets	8,694	5	–	–	8,699
Derivative financial assets	5	500	–	26	531
Financial assets under reverse repurchase agreements	325,627	1,820	–	–	327,447
Loans and advances to customers	761,463	27,499	–	157	789,119
Available-for-sale financial assets	65,134	–	–	–	65,134
Held-to-maturity investments	109,265	–	–	–	109,265
Investments classified as receivables	11,573	–	–	–	11,573
Other financial assets	9,878	184	–	1	10,063
<b>Total financial assets</b>	<b>1,586,792</b>	<b>57,559</b>	<b>199</b>	<b>1,041</b>	<b>1,645,591</b>
Due from and placements with banks and other financial institutions	296,631	11,282	15	26	307,954
Derivative financial liabilities	3	518	2	22	545
Financial assets under repurchase agreements	59,884	–	–	–	59,884
Deposits from customers	1,148,793	25,531	1,148	816	1,176,288
Bonds payable	8,400	–	–	–	8,400
Other financial liabilities	13,564	724	8	593	14,889
<b>Total financial liabilities</b>	<b>1,527,275</b>	<b>38,055</b>	<b>1,173</b>	<b>1,457</b>	<b>1,567,960</b>
<b>Net exposure</b>	<b>59,517</b>	<b>19,504</b>	<b>(974)</b>	<b>(416)</b>	<b>77,631</b>

The Bank					
31 December 2012					
Item	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	208,733	18,098	72	56	226,959
Due from banks and other financial institutions	79,132	6,646	624	807	87,209
Placements with banks and other financial institutions	31,284	150	–	–	31,434
Held-for-trading financial assets	9,751	6	–	–	9,757
Derivative financial assets	–	171	–	–	171
Financial assets under reverse repurchase agreements	239,109	–	–	–	239,109
Loans and advances to customers	673,228	25,685	80	151	699,144
Available-for-sale financial assets	59,166	–	–	–	59,166
Held-to-maturity investments	113,456	–	–	–	113,456
Investments classified as receivables	1,000	–	–	–	1,000
Other financial assets	7,635	228	–	3	7,866
<b>Total financial assets</b>	<b>1,422,494</b>	<b>50,984</b>	<b>776</b>	<b>1,017</b>	<b>1,475,271</b>
Due from and placements with banks and other financial institutions	291,025	10,178	29	68	301,300
Derivative financial liabilities	–	159	–	–	159
Financial assets under repurchase agreements	47,422	–	–	–	47,422
Deposits from customers	1,010,152	22,568	1,072	1,070	1,034,862
Bonds payable	8,400	–	–	–	8,400
Other financial liabilities	11,861	744	1	613	13,219
<b>Total financial liabilities</b>	<b>1,368,860</b>	<b>33,649</b>	<b>1,102</b>	<b>1,751</b>	<b>1,405,362</b>
<b>Net exposure</b>	<b>53,634</b>	<b>17,335</b>	<b>(326)</b>	<b>(734)</b>	<b>69,909</b>

The potential impact on pre-tax profit is presented below, in the case that the spot and forward exchange rates of RMB against all foreign currencies appreciate or depreciate by 5% at the same time.

	<b>The Group and the Bank</b>	
	<b>2013</b>	<b>2012</b>
Appreciation by 5%	46	138
Depreciation by 5%	(46)	(138)

Impact on pre-tax profit arises from impact of RMB exchange rate fluctuation on net exposure of monetary assets and liabilities and monetary derivative instruments denominated in foreign currency.

The impact on pre-tax profit is determined based on the assumption that the Group's exchange rate sensitive position and net position of monetary derivative instruments remain unchanged on balance sheet dates. The Group actively adjusts foreign currency exposure and applies proper derivative instruments to reduce the foreign exchange risk, based on the Management's judgment on the exchange rate fluctuation trend. Therefore, the sensitivity analysis above may deviate from the actualities to some extent.

## 5.2 Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB. The PBOC establishes RMB benchmark interest rates which include an upper limit on RMB deposit rates. Since 20 July 2013, PBOC has removed its control over loan interest rates of financial institutions in an all-round manner.

The Group intensified the cost control over interest-bearing liabilities management, established term and interest rate structure matching with the interest-bearing liabilities over the interest-generating assets management, optimized assets and liabilities portfolio management, and proactively developed fee-based business and non-interest rate sensitive financial products, so as to reduce the impact of interest rate risk on the Group's operation.

## AUDIT REPORT

At the end of reporting periods, the expiry date of contract or repricing date (whichever is earlier) of financial assets and financial liabilities is as follows:

The Group							
31 December 2013							
Item	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non- interest generating	Total
Cash on hand and balances with central banks	239,125	–	–	–	–	23,102	262,227
Due from banks and other financial institutions	19,517	13,777	4,910	2,000	–	–	40,204
Placements with banks and other financial institutions	18,607	1,055	1,944	–	–	–	21,606
Held-for-trading financial assets	375	1,949	1,504	4,036	830	5	8,699
Derivative financial assets	–	–	–	–	–	531	531
Financial assets under reverse repurchase agreements	86,871	99,977	65,439	72,718	2,442	–	327,447
Loans and advances to customers	327,210	199,948	218,256	44,188	6,285	4,839	800,726
Available-for-sale financial assets	2,733	6,835	10,119	32,040	13,407	–	65,134
Held-to-maturity investments	840	2,900	7,358	33,210	64,957	–	109,265
Investments classified as receivables	3,515	1,540	1,027	2,088	3,403	–	11,573
Other financial assets	78	–	769	–	–	10,112	10,959
<b>Total financial assets</b>	<b>698,871</b>	<b>327,981</b>	<b>311,326</b>	<b>190,280</b>	<b>91,324</b>	<b>38,589</b>	<b>1,658,371</b>
Due from and placements with banks and other financial institutions	160,982	54,875	94,721	3,946	–	–	314,524
Derivative financial liabilities	–	–	–	–	–	545	545
Financial assets under repurchase agreements	59,732	71	81	–	–	–	59,884
Deposits from customers	668,111	76,264	368,625	62,312	–	2,280	1,177,592
Bonds payable	–	–	1,600	6,800	–	–	8,400
Other financial liabilities	1,140	–	30	–	–	15,383	16,553
<b>Total financial liabilities</b>	<b>889,965</b>	<b>131,210</b>	<b>465,057</b>	<b>73,058</b>	<b>–</b>	<b>18,208</b>	<b>1,577,498</b>
<b>Interest rate risk exposure</b>	<b>(191,094)</b>	<b>196,771</b>	<b>(153,731)</b>	<b>117,222</b>	<b>91,324</b>	<b>20,381</b>	<b>80,873</b>



The Group							
31 December 2012							
Item	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	220,781	–	–	–	–	6,371	227,152
Due from banks and other financial institutions	70,164	8,412	8,546	240	–	46	87,408
Placements with banks and other financial institutions	19,833	2,997	3,899	4,305	400	–	31,434
Held-for-trading financial assets	441	3,201	2,967	3,051	91	6	9,757
Derivative financial assets	–	–	–	–	–	171	171
Financial assets under reverse repurchase agreements	60,503	129,066	49,540	–	–	–	239,109
Loans and advances to customers	267,002	133,501	201,164	20,662	74,058	3,474	699,861
Available-for-sale financial assets	2,331	6,701	8,278	27,146	14,710	–	59,166
Held-to-maturity investments	750	2,110	7,258	33,468	69,870	–	113,456
Investments classified as receivables	–	–	1,000	–	–	–	1,000
Other financial assets	–	–	–	–	–	7,870	7,870
<b>Total financial assets</b>	<b>641,805</b>	<b>285,988</b>	<b>282,652</b>	<b>88,872</b>	<b>159,129</b>	<b>17,938</b>	<b>1,476,384</b>
Due from and placements with banks and other financial institutions	202,816	79,934	14,320	4,000	–	–	301,070
Derivative financial liabilities	–	–	–	–	–	159	159
Financial assets under repurchase agreements	20,592	19,935	6,895	–	–	–	47,422
Deposits from customers	587,366	143,285	227,543	71,034	351	6,421	1,036,000
Bonds payable	–	–	1,600	6,800	–	–	8,400
Other financial liabilities	–	10	1,094	586	1,142	10,424	13,256
<b>Total financial liabilities</b>	<b>810,774</b>	<b>243,164</b>	<b>251,452</b>	<b>82,420</b>	<b>1,493</b>	<b>17,004</b>	<b>1,406,307</b>
<b>Interest rate risk exposure</b>	<b>(168,969)</b>	<b>42,824</b>	<b>31,200</b>	<b>6,452</b>	<b>157,636</b>	<b>934</b>	<b>70,077</b>

The Bank							
31 December 2013							
Item	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non- interest generating	Total
Cash on hand and balances with central banks	238,929	–	–	–	–	23,091	262,020
Due from banks and other financial institutions	19,422	13,802	4,910	2,000	–	–	40,134
Placements with banks and other financial institutions	18,607	1,055	1,944	–	–	–	21,606
Held-for-trading financial assets	375	1,949	1,504	4,036	830	5	8,699
Derivative financial assets	–	–	–	–	–	531	531
Financial assets under reverse repurchase agreements	86,871	99,977	65,439	72,718	2,442	–	327,447
Loans and advances to customers	326,787	199,405	215,974	36,469	5,645	4,839	789,119
Available-for-sale financial assets	2,733	6,835	10,119	32,040	13,407	–	65,134
Held-to-maturity investments	840	2,900	7,358	33,210	64,957	–	109,265
Investments classified as receivables	3,515	1,540	1,027	2,088	3,403	–	11,573
Other financial assets	78	–	–	–	–	9,985	10,063
<b>Total financial assets</b>	<b>698,157</b>	<b>327,463</b>	<b>308,275</b>	<b>182,561</b>	<b>90,684</b>	<b>38,451</b>	<b>1,645,591</b>
Due from and placements with banks and other financial institutions	162,108	53,876	88,024	3,946	–	–	307,954
Derivative financial liabilities	–	–	–	–	–	545	545
Financial assets under repurchase agreements	59,732	71	81	–	–	–	59,884
Deposits from customers	667,207	76,170	368,361	62,272	–	2,278	1,176,288
Bonds payable	–	–	1,600	6,800	–	–	8,400
Other financial liabilities	1,140	–	–	–	–	13,749	14,889
<b>Total financial liabilities</b>	<b>890,187</b>	<b>130,117</b>	<b>458,066</b>	<b>73,018</b>	<b>–</b>	<b>16,572</b>	<b>1,567,960</b>
<b>Interest rate risk exposure</b>	<b>(192,030)</b>	<b>197,346</b>	<b>(149,791)</b>	<b>109,543</b>	<b>90,684</b>	<b>21,879</b>	<b>77,631</b>

The Bank							
31 December 2012							
Item	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	220,599	–	–	–	–	6,360	226,959
Due from banks and other financial institutions	69,965	8,412	8,546	240	–	46	87,209
Placements with banks and other financial institutions	19,833	2,997	3,899	4,305	400	–	31,434
Held-for-trading financial assets	441	3,201	2,967	3,051	91	6	9,757
Derivative financial assets	–	–	–	–	–	171	171
Financial assets under reverse repurchase agreements	60,503	129,066	49,540	–	–	–	239,109
Loans and advances to customers	266,683	133,342	200,925	20,662	74,058	3,474	699,144
Available-for-sale financial assets	2,331	6,701	8,278	27,146	14,710	–	59,166
Held-to-maturity investments	750	2,110	7,258	33,468	69,870	–	113,456
Investments classified as receivables	–	–	1,000	–	–	–	1,000
Other financial assets	–	–	–	–	–	7,866	7,866
<b>Total financial assets</b>	<b>641,105</b>	<b>285,829</b>	<b>282,413</b>	<b>88,872</b>	<b>159,129</b>	<b>17,923</b>	<b>1,475,271</b>
Due from and placements with banks and other financial institutions	203,046	79,934	14,320	4,000	–	–	301,300
Derivative financial liabilities	–	–	–	–	–	159	159
Financial assets under repurchase agreements	20,592	19,935	6,895	–	–	–	47,422
Deposits from customers	586,664	143,285	227,108	71,034	351	6,420	1,034,862
Bonds payable	–	–	1,600	6,800	–	–	8,400
Other financial liabilities	–	–	1,074	586	1,142	10,417	13,219
<b>Total financial liabilities</b>	<b>810,302</b>	<b>243,154</b>	<b>250,997</b>	<b>82,420</b>	<b>1,493</b>	<b>16,996</b>	<b>1,405,362</b>
<b>Interest rate risk exposure</b>	<b>(169,197)</b>	<b>42,675</b>	<b>31,416</b>	<b>6,452</b>	<b>157,636</b>	<b>927</b>	<b>69,909</b>

The table below presents the potential impact on net interest income and equity in consideration of structure of the Group's interest-generating assets and interest-bearing liabilities at the end of the reporting period, in the case that the yield curves of all financial instruments go up or down in a parallel manner by 100 basis points.

<b>The Group</b>				
	<b>2013</b>		<b>2012</b>	
	<b>Net interest income</b>	<b>Equity</b>	<b>Net interest income</b>	<b>Equity</b>
Up 100 basis points	(768)	(1,691)	(698)	(1,767)
Down 100 basis points	768	1,774	698	1,867

<b>The Bank</b>				
	<b>2013</b>		<b>2012</b>	
	<b>Net interest income</b>	<b>Equity</b>	<b>Net interest income</b>	<b>Equity</b>
Up 100 basis points	(757)	(1,691)	(698)	(1,767)
Down 100 basis points	757	1,774	698	1,867

The sensitivity analysis on net interest income is conducted based on the reasonably possible changes in interest rates, with the assumption that the structure of financial assets and liabilities held at the end of the period remains unchanged.

Sensitivity analysis on equity is conducted based on the impact of interest rate change on changes in fair value of fixed-rate available-for-sale financial assets held on balance sheet dates after revaluation.

The above assumptions do not reflect the Group's policies on fund use and interest rate risk management. Therefore, the above analysis may deviate from the actualities to some extent.

In addition, the above analysis on impact of interest rate changes is only used as an example to demonstrate the estimated changes in net interest income and equity at various predicted yield levels and amidst the Group's current interest rate risk profile. Yet, it does not take into account the possible risk management measures the Management may take to reduce interest rate risk.

## 6. Capital management

Since 2013, the Group has calculated the capital adequacy ratio in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)* issued by the CBRC. In particular, credit risk is measured by the weighting approach, market risk the standard approach and operational risk the basic indicator approach.

Capital composition of the Group is as follows:

Core tier-1 capital: share capital, capital reserve, surplus reserve, general risk reserve, retained profit and recognizable part of capital contribution from minority shareholders;

Other tier-1 capital: recognizable part of capital contribution from minority shareholders;

Tier-2 capital: tier-2 capital instruments and premium thereof, excessive allowance for impairment losses on loans and recognizable part of capital contribution from minority shareholders.

Net capital is calculated by deducting corresponding capital deductions from capital at all levels in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)*.

The Management of the Group monitors the adequacy of capital and application of regulatory capital in a real-time manner based on relevant guideline of the Basel Committee and regulatory requirements of the CBRC.

To ensure the capital adequacy ratio meeting the regulatory requirement and support balanced and sound development of various businesses on this basis, the Group proactively expanded the capital supplementary channel to promote the capital strength, reasonably controlled the growth rate of risk assets, vigorously optimized the structure of risk assets and strived to enhance the utilization efficiency of risk assets.

On 31 December 2013, the Group calculated the net capital at all levels and the capital adequacy ratio in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)* issued by the CBRC.

31 December 2013	
Net tier-1 core capital	85,826
Net tier-1 capital	85,830
Net capital	105,621
Core tier-1 capital adequacy ratio	8.03%
Tier-1 capital adequacy ratio	8.03%
Capital adequacy ratio	9.88%

As there is significant difference between the calculation method for capital adequacy ratio determined according to the *Regulation Governing Capital of Commercial Banks (Provisional)* and the calculation method adopted in previous years in line with the *Administrative Measures on Capital Adequacy Ratio of Commercial Banks*, the comparison data of the previous year was not disclosed.

## 7. Methods of fair value determination

Fair value of the financial assets and financial liabilities is determined by the following methods:

The fair value of financial assets or liabilities with standard terms and conditions and active markets will be determined based on the current offer and quotation in the corresponding active markets.

The fair value of other financial assets and liabilities is determined by the discounted cash flows analysis of observable market prices of similar transactions and based on the widely accepted pricing model;

The fair value of derivative instruments is determined based on public quotation in the active markets. If there is no public quotation, the fair value of non-option derivative instruments is determined based on the applicable yield curve with the future cash flow discounting method; the fair value of option derivative instruments is determined by the option pricing model.

The table below shows the book value and fair value of financial assets and financial liabilities that are not presented by fair value in the consolidated statement of financial position. Financial assets and financial liabilities whose book value and fair value is similar are not included in the table below, including balances with central banks, due from and placements with banks and other financial institutions, financial assets under reverse repurchase agreements, borrowings from the central bank, due to banks and other financial institutions, placements from banks and other financial institutions, and financial assets under repurchase agreements, etc.

Financial assets	The Group			
	31 December 2013		31 December 2012	
	Book value	Fair value	Book value	Fair value
Loans and advances to customers	800,726	800,782	699,861	699,951
Held-to-maturity investments	109,265	101,503	113,456	113,832
Investments classified as receivables	11,573	11,589	1,000	1,000
	<b>921,564</b>	<b>913,874</b>	<b>814,317</b>	<b>814,783</b>

<b>The Group</b>				
<b>Financial liabilities</b>	<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
Deposits from customers	1,177,592	1,183,673	1,036,000	1,041,350
Bonds payable	8,400	8,151	8,400	8,310
	<b>1,185,992</b>	<b>1,191,824</b>	<b>1,044,400</b>	<b>1,049,660</b>

<b>The Bank</b>				
<b>Financial assets</b>	<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
Loans and advances to customers	789,119	789,175	699,144	699,234
Held-to-maturity investments	109,265	101,503	113,456	113,832
Investments classified as receivables	11,573	11,589	1,000	1,000
	<b>909,957</b>	<b>902,267</b>	<b>813,600</b>	<b>814,066</b>

<b>The Bank</b>				
<b>Financial liabilities</b>	<b>31 December 2013</b>		<b>31 December 2012</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
Deposits from customers	1,176,288	1,182,368	1,034,862	1,040,211
Bonds payable	8,400	8,151	8,400	8,310
	<b>1,184,688</b>	<b>1,190,519</b>	<b>1,043,262</b>	<b>1,048,521</b>

As for financial instruments subsequently measured by fair value, the Group classifies them into three levels according to the availability of their fair value. Particulars are as follows:

Level 1: Fair value measurement is derived from the market prices of the same assets or liabilities in the active markets (no adjustment shall be made).

Level 2: Fair value measurement is derived from the input data on assets or liabilities that can be directly (price) or indirectly (deriving from price) observable, except the market prices in Level 1.

Level 3: Fair value measurement is derived by the valuation technique on input variables relating with assets or liabilities (unobservable input variables) based on unobservable market data.

The following table shows the financial instruments measured at fair value evaluated at three levels:

<b>The Group and the Bank</b>				
<b>31 December 2013</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets				
Held-for-trading financial assets	–	8,699	–	8,699
Derivative financial assets	–	531	–	531
Available-for-sale financial assets	–	65,134	–	65,134
Financial liabilities				
Derivative financial liabilities	–	545	–	545

<b>The Group and the Bank</b>				
<b>31 December 2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets				
Held-for-trading financial assets	–	9,757	–	9,757
Derivative financial assets	–	171	–	171
Available-for-sale financial assets	–	59,166	–	59,166
Financial liabilities				
Derivative financial liabilities	–	159	–	159

## XIV. Other Significant Matter

## 1. Assets and liabilities measured at fair value

The Group and the Bank					
2013					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Held-for-trading financial assets	9,757	(25)	–	–	8,699
Derivative financial assets	171	360	–	–	531
Available-for-sale financial assets	59,166	–	(1,850)	–	65,134
<b>Total financial assets</b>	<b>69,094</b>	<b>335</b>	<b>(1,850)</b>	<b>–</b>	<b>74,364</b>
<b>Financial liabilities</b>	<b>159</b>	<b>(385)</b>	<b>–</b>	<b>–</b>	<b>545</b>

The Group and the Bank					
2012					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Held-for-trading financial assets	4,058	7	–	–	9,757
Derivative financial assets	202	(31)	–	–	171
Available-for-sale financial assets	28,488	–	(288)	–	59,166
<b>Total financial assets</b>	<b>32,748</b>	<b>(24)</b>	<b>(288)</b>	<b>–</b>	<b>69,094</b>
<b>Financial liabilities</b>	<b>243</b>	<b>33</b>	<b>–</b>	<b>–</b>	<b>159</b>

Note: There is not necessarily articulation in the changes in the asset and liability items listed in the table above.



## 2. Foreign-currency financial assets and financial liabilities

The Group and the Bank					
2013					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Cash on hand and balances with central banks	18,226	—	—	—	20,489
Due from banks and other financial institutions	8,077	—	—	23	8,118
Placements with banks and other financial institutions	150	—	—	—	—
Held-for-trading financial assets	6	2	—	—	5
Derivative financial assets	171	355	—	—	526
Financial assets under reverse repurchase agreements	—	—	—	—	1,820
Loans and advances to customers	25,916	—	—	362	27,656
Available-for-sale financial assets	—	—	—	—	—
Held-to-maturity investments	—	—	—	—	—
Investments classified as receivables	—	—	—	—	—
Other financial assets	231	—	—	—	185
<b>Total financial assets</b>	<b>52,777</b>	<b>357</b>	<b>—</b>	<b>385</b>	<b>58,799</b>
<b>Financial liabilities</b>	<b>36,502</b>	<b>(382)</b>	<b>—</b>	<b>—</b>	<b>40,685</b>

The Group and the Bank					
2012					
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Cash on hand and balances with central banks	17,396	–	–	–	18,226
Due from banks and other financial institutions	2,488	–	–	20	8,077
Placements with banks and other financial institutions	441	–	–	–	150
Held-for-trading financial assets	103	1	–	–	6
Derivative financial assets	202	(31)	–	–	171
Financial assets under reverse repurchase agreements	–	–	–	–	–
Loans and advances to customers	8,726	–	–	201	25,916
Available-for-sale financial assets	63	–	–	–	–
Held-to-maturity investments	220	–	–	–	–
Investments classified as receivables	–	–	–	–	–
Other financial assets	390	–	–	6	231
<b>Total financial assets</b>	<b>30,029</b>	<b>(30)</b>	<b>–</b>	<b>227</b>	<b>52,777</b>
<b>Financial liabilities</b>	<b>14,379</b>	<b>33</b>	<b>–</b>	<b>–</b>	<b>36,502</b>

Note: There is not necessarily articulation in the changes in the asset and liability items listed in the table above.

## XV. Post Balance Sheet Date Events

As approved by the third meeting of the seventh Board of Directors of the Bank held on April 16, 2014, the Bank's profit distribution plan for 2013 is set as follows:

- (1) Set aside statutory surplus reserve at 10% of the net profit which is RMB1.549 billion;
- (2) Set aside general reserve of RMB4.151 billion;
- (3) Distribute cash dividends to all shareholders at the rate of RMB4.35 (pre-tax) per 10 shares, totaling RMB3.874 billion.

The above profit distribution plan is subject to the review and approval by the General Meeting of Shareholders of the Bank.

**XVI. Comparative Data**

Certain comparative data have been reclassified to be consistent with this year's presentation of financial statements.

**XVII. Approval of the Financial Statements**

The financial statements were approved by the Board of Directors of the Bank on 16 April 2014.

## Unaudited supplementary information

### 1. Detail list of extraordinary profit or loss

The table below is prepared in accordance with the *SIC No.1 on Information Disclosure of the Companies with Public Offering – Profit or Loss under the Current Account (2008)* issued by CSRC.

	2013	2012
Losses/(gains) on disposals of fixed assets	(5)	(8)
Profit/loss on changes in fair value of held-for-trading financial assets and held-for-trading financial liabilities excluding effective hedging transaction related to the Group's normal operation	–	9
Return on investment from the disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets	–	33
(Profit)/loss from contingencies irrelevant to the normal operation of the Company	–	(1)
Other net operating income and expenses except the above items	50	59
Income tax influence of extraordinary profit or loss	(15)	(24)
Less: Extraordinary profit or loss attributable to minority shareholders	(1)	–
<b>Total extraordinary profit or loss attributable to ordinary shareholders of the parent company</b>	<b>29</b>	<b>68</b>

Extraordinary profit or loss refers to the profit or loss resulting from transactions and events that have no direct relation with normal operation of the Group or that although have direct relation with normal operation of the Group, they may affect the financial statements users' normal judgment on the Group's operating results and profitability due to their special and accidental nature. The Group assesses items with extraordinary profit or loss based on the nature and features of its normal businesses. Since January 1, 2013, the Group has excluded the following items from items with extraordinary profit or loss: "(profit)/loss on changes in fair value of held-for-trading financial assets and held-for-trading financial liabilities excluding effective hedging transaction related to the Company's normal operation" and "return on investment from the disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets".

### 2. Return on equity and earnings per share

The table below is prepared in accordance with the *Rules for the Compilation and Submission of information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (Revision 2010)* issued by CSRC. During relevant periods, basic earnings per share will be calculated by dividing the current net profit with the weighted average ordinary shares issued.

	2013	2012
Net profit attributable to ordinary shareholders of the parent company	15,506	12,797
Weighted average return on equity (%)	19.30	18.50
Basic earnings per share (RMB yuan/share)	1.74	1.44
Net profit attributable to ordinary shareholders of the parent company after deduction of extraordinary profit or loss	15,477	12,729
Weighted average return on equity (%)	19.27	18.41
Basic earnings per share (RMB yuan/share)	1.74	1.43

According to the resolutions of the General Meeting of Shareholders of the Bank held on 18 June 2013 and the *Announcement on Implementing the Plan for 2012 Profit Distribution and Conversion of Capital Reserve to Share Capital of Hua Xia Bank Co., Limited* released on 18 July 2013, the Bank converted the capital reserve into capital share at a ratio of 3 for 10 shares for all shareholders on the register book on the equity right registration date (23 July 2013), on the basis of 6,849,725,776 shares recorded at the end of 2012. After the conversion, the share capital of the Bank increased by 2,054,917,733 shares to 8,904,643,509 shares. The earnings per share for all comparative periods will be re-calculated according to relevant requirements.

The Group has no potential diluted ordinary share.



Address: Hua Xia Bank Mansion, 22 Jianguomennei Street,

Dongcheng District, Beijing

Tel: 010-85238570, 010-85239938

Postal code: 100005

Fax: 010-85239605

Website: [www.hxb.com.cn](http://www.hxb.com.cn)