SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2014

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.

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FOR THE YEAR ENDED 31 DECEMBER 2014

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INDEPENDENT AUDITOR'S REPORT

2015/SH-106/MHL/SGUY

To the shareholders of Shanghai Pudong Development Bank Co.,Ltd

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

We have audited the financial statements of Shanghai Pudong Development Bank Co., Ltd. ("the Bank") set out on pages 3 to 122, which comprise the consolidated and the Bank's statements of financial position as at 31 December 2014, the consolidated and the Bank's statements of comprehensive income, the consolidated and the Bank's statements of changes in equity and the consolidated and the Bank's statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and the Bank's financial positions as of 31 December 2014, and the consolidated and the Bank's financial performances and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

17 March 2015

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
CONSOLIDATED AND THE BANK'S STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014
(All amounts expressed in millions of RMB unless otherwise stated)

		Group		Bank	
	Note	2014	2013	2014	2013
Interest income	5.1	212,015	177,804	208,622	175,579
Interest expense	5.1	(113,832)	(92,627)	(112,206)	(91,859)
Net interest income		98,183	85,177	96,416	83,720
Fee and commission income	5.2	22,321	14,573	22,124	14,486
Fee and commission expense	5.2	(975)	(669)	(956)	(667)
Net fee and commission income		21,346	13,904	21,168	13,819
Dividend income		48	54	122	100
Net trading income	5.3	1,738	(1,301)	1,738	(1,301)
Net gains on investment securities		132	10	132	10
Net gain from disposal of investment in a joint venture		-	386	-	386
Other operating income		2,095	2,123	1,887	1,920
Employee benefit expenses	5.4	(17,189)	(15,802)	(16,939)	(15,562)
Operating expenses	5.5	(10,181)	(9,199)	(9,975)	(9,027)
Depreciation expenses for property and equipment		(1,884)	(1,722)	(1,827)	(1,691)
Business tax and surcharges	5.6	(8,147)	(6,813)	(8,061)	(6,750)
Impairment losses on assets	5.7	(24,193)	(13,074)	(23,697)	(12,676)
Share of results of associates and joint ventures		82	106	82	106
Profit before income tax		62,030	53,849	61,046	53,054
Income tax expense	5.8	(14,670)	(12,649)	(14,367)	(12,432)
Net profit for the year		47,360	41,200	46,679	40,622

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

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

		Group		Bank	
	Note	2014	2013	2014	2013
Other comprehensive income	5.9				
Items that may be subsequently reclassified to profit or loss					
Share of other comprehensive income of associates and joint ventures, after tax		46	2	46	2
Unrealized gains/(losses) from available-for-sale financial assets, after tax		6,073	(3,837)	6,073	(3,837)
Other comprehensive income		6,119	(3,835)	6,119	(3,835)
Total comprehensive income for the year		53,479	37,365	52,798	36,787
Net profit for the year attributable to:					
-Shareholders of the Bank		47,026	40,922		
-Non-controlling interests		334	278		
		47,360	41,200		
Total comprehensive income for the year attributable to:					
-Shareholders of the Bank		53,145	37,087		
-Non-controlling interests		334	278		
		53,479	37,365		
Basic and diluted earnings per share attributable to the shareholders of the Bank (expressed in RMB per share)	5.10	2.521	2.194		

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

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

		Group		Bank	
	Note	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Assets					
Cash and balances with central bank	5.11	506,067	476,342	501,944	472,869
Due from and placements with banks and other financial institutions	5.12	164,256	260,130	162,865	259,161
Precious metals		11,707	3,348	11,707	3,348
Financial assets at fair value through profit or loss	5.13	32,841	28,627	32,841	28,627
Derivative financial assets	5.14	2,612	1,946	2,612	1,946
Financial assets purchased under resale agreements	5.15	196,188	295,953	196,188	295,953
Loans and advances to customers	5.16	1,974,614	1,725,745	1,956,388	1,709,888
Available-for-sale financial assets	5.17	222,208	161,721	222,208	161,721
Investment securities - held-to-maturity	5.18	121,698	146,253	121,698	146,253
Investment securities - loans and receivables	5.19	877,171	515,234	877,171	515,234
Investments in associates and joint ventures	5.20	1,475	1,140	1,475	1,140
Investments in subsidiaries	4	-	-	3,083	3,077
Property and equipment	5.21	12,413	10,625	10,933	10,507
Construction in progress	5.22	3,387	1,861	3,387	1,860
Deferred income tax assets	5.23	10,692	9,382	10,576	9,317
Other assets	5.24	58,595	41,818	29,843	22,977
Total assets		4,195,924	3,680,125	4,144,919	3,643,878

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

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

	Note	Group		Bank	
		31 December 2014	31 December 2013	31 December 2014	31 December 2013
Liabilities					
Due to central bank		21,006	601	20,000	-
Due to and placements from banks and other financial institutions	5.26	824,629	774,498	807,794	765,976
Financial liabilities at fair value through profit or loss		312	-	312	-
Derivative financial liabilities	5.14	3,303	3,853	3,303	3,853
Financial assets sold under repurchase agreements	5.27	68,240	79,557	67,409	79,508
Deposits from customers	5.28	2,724,004	2,419,696	2,700,357	2,398,772
Income tax payable		8,636	7,367	8,623	7,281
Bonds issued	5.29	146,667	71,970	146,667	71,970
Other liabilities	5.30	135,842	115,356	131,204	112,715
Total liabilities		3,932,639	3,472,898	3,885,669	3,440,075
Equity					
Ordinary shares	5.31	18,653	18,653	18,653	18,653
Preference shares	5.32	14,960	-	14,960	-
Capital surplus	5.33	60,639	60,639	60,589	60,589
Surplus reserves	5.34	49,647	37,460	49,647	37,460
General risk reserve	5.35	36,858	29,489	36,700	29,450
Revaluation reserve	5.36	1,255	(4,864)	1,255	(4,864)
Retained earnings	5.37	78,157	62,998	77,446	62,515
Equity attributable to the Bank's shareholders		260,169	204,375	259,250	203,803
Non-controlling interests	5.38	3,116	2,852	-	-
Total equity		263,285	207,227	259,250	203,803
Total liabilities and equity		4,195,924	3,680,125	4,144,919	3,643,878

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

These financial statements were approved for issue by the Board of Directors of the Bank on 17 March 2015.

Chairman of Board	Governor	Person in-charge of finance and accounting	Head of finance and accounting department

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(All amounts expressed in millions of RMB unless otherwise stated)

		Equity attributable to the Bank's shareholders									
		Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Revaluation reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	Note	5.31	5.32	5.33	5.34	5.35	5.36	5.37		5.38	
Balance at 1 January 2014		18,653	-	60,639	37,460	29,489	(4,864)	62,998	204,375	2,852	207,227
Net profit for the year		-	-	-	-	-	-	47,026	47,026	334	47,360
Other comprehensive income		-	-	-	-	-	6,119	-	6,119	-	6,119
Total comprehensive income		-	-	-	-	-	6,119	47,026	53,145	334	53,479
Preference shares issued		-	14,960	-	-	-	-	-	14,960	-	14,960
Appropriations to surplus reserves and general risk reserve		-	-	-	12,187	7,369	-	(19,556)	-	-	-
Dividends		-	-	-	-	-	-	(12,311)	(12,311)	-	(12,311)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	(70)	(70)
Balance at 31 December 2014		18,653	14,960	60,639	49,647	36,858	1,255	78,157	260,169	3,116	263,285

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2014
(All amounts expressed in millions of RMB unless otherwise stated)

		Equity attributable to the Bank's shareholders									
		Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Revaluation reserve	Retained earnings	Sub-total	Non-controlling interests	Total
	Note	5.31	5.32	5.33	5.34	5.35	5.36	5.37		5.38	
Balance at 1 January 2013		18,653	-	60,589	27,248	23,052	(1,029)	48,984	177,497	2,162	179,659
Net profit for the year		-	-	-	-	-	-	40,922	40,922	278	41,200
Other comprehensive income		-	-	-	-	-	(3,835)	-	(3,835)	-	(3,835)
Total comprehensive income		-	-	-	-	-	(3,835)	40,922	37,087	278	37,365
Increase in non-controlling interests arising from new subsidiaries		-	-	-	-	-	-	-	-	174	174
Increase in share capital of a subsidiary contributed by non-controlling shareholders		-	-	50	-	-	-	-	50	281	331
Appropriations to surplus reserves and general risk reserve		-	-	-	10,212	6,437	-	(16,649)	-	-	-
Dividends		-	-	-	-	-	-	(10,259)	(10,259)	-	(10,259)
Dividends of subsidiaries		-	-	-	-	-	-	-	-	(43)	(43)
Balance at 31 December 2013		18,653	-	60,639	37,460	29,489	(4,864)	62,998	204,375	2,852	207,227

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

SHANGHAI PUDONG DEVELOPMENT BANK CO., LTD.
THE BANK’S STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(All amounts expressed in millions of RMB unless otherwise stated)

	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Revaluation reserve	Retained earnings	Total
Note	5.31	5.32	5.33	5.34	5.35	5.36	5.37	
Balance at 1 January 2014	18,653	-	60,589	37,460	29,450	(4,864)	62,515	203,803
Net profit for the year	-	-	-	-	-	-	46,679	46,679
Other comprehensive income	-	-	-	-	-	6,119	-	6,119
Total comprehensive income	-	-	-	-	-	6,119	46,679	52,798
Preference shares issued	-	14,960	-	-	-	-	-	14,960
Appropriations to surplus reserves and general risk reserve	-	-	-	12,187	7,250	-	(19,437)	-
Dividends	-	-	-	-	-	-	(12,311)	(12,311)
Balance at 31 December 2014	18,653	14,960	60,589	49,647	36,700	1,255	77,446	259,250

	Ordinary shares	Preference shares	Capital Surplus	Surplus reserves	General risk reserve	Revaluation reserve	Retained earnings	Total
Note	5.31	5.32	5.33	5.34	5.35	5.36	5.37	
Balance at 1 January 2013	18,653	-	60,589	27,248	23,050	(1,029)	48,764	177,275
Net profit for the year	-	-	-	-	-	-	40,622	40,622
Other comprehensive income	-	-	-	-	-	(3,835)	-	(3,835)
Total comprehensive income	-	-	-	-	-	(3,835)	40,622	36,787
Appropriations to surplus reserves and general risk reserve	-	-	-	10,212	6,400	-	(16,612)	-
Dividends	-	-	-	-	-	-	(10,259)	(10,259)
Balance at 31 December 2013	18,653	-	60,589	37,460	29,450	(4,864)	62,515	203,803

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

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

	Group		Bank	
	2014	2013	2014	2013
1. Cash flows from operating activities				
Profit before income tax	62,030	53,849	61,046	53,054
Adjusted by:				
Depreciation	1,884	1,722	1,827	1,691
Impairment losses of loans and advances to customers	21,919	10,419	21,723	10,227
Impairment losses of other assets	2,274	2,655	1,974	2,449
Interest expense	113,832	92,627	112,206	91,859
Interest income	(212,015)	(177,804)	(208,622)	(175,579)
Losses on disposal of property and equipment	8	7	8	7
Dividend income	(48)	(54)	(122)	(100)
Share of results of associates and joint ventures	(82)	(106)	(82)	(106)
Unrealized (gains) / losses on derivative financial instruments	(1,216)	870	(1,216)	870
Gains arising from disposal of available-for-sale investment securities	(132)	(10)	(132)	(10)
Exchange (gains) / losses from investing and financing activities	(7)	7	(7)	7
Net (increase) / decrease in operating assets:				
Mandatory reserves with central bank	(35,995)	(50,577)	(36,277)	(49,757)
Due from and placements with banks and other financial institutions	25,059	112,323	24,066	113,504
Financial assets at fair value through profit or loss	(4,214)	(10,186)	(4,214)	(10,186)
Financial assets purchased under resale agreements	99,765	(28,864)	99,765	(28,864)
Precious metals	(8,359)	3,325	(8,359)	3,325
Loans and advances to customers	(260,886)	(222,941)	(258,395)	(217,077)
Other assets	(16,777)	(11,750)	(6,866)	(2,741)
Net increase/(decrease) in operating liabilities:				
Due to central bank	20,405	486	20,000	-
Due to and placements from banks and other financial institutions	50,131	204,070	41,818	197,635
Financial assets sold under repurchase agreements	(11,317)	(4,983)	(12,099)	(4,982)
Deposits from customers	304,308	285,331	301,585	279,488
Financial liabilities at fair value through profit or loss	312	-	312	-
Other liabilities	5,239	12,816	4,402	11,659
Cash generated from operating activities	156,118	273,232	154,341	276,373
Interest received	155,203	129,346	151,070	127,246
Interest paid	(103,426)	(81,121)	(101,853)	(80,454)
Income tax paid	(16,737)	(13,051)	(16,310)	(12,829)
Net cash generated from operating activities	191,158	308,406	187,248	310,336

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

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

	Group		Bank	
	2014	2013	2014	2013
2. Cash flows from investing activities				
Proceeds from disposal of an equity investment	-	703	-	703
Redemption of investment securities	439,358	436,385	439,358	436,385
Interest income received from investment securities	39,425	36,016	39,490	36,062
Proceeds from disposal of property and equipment	16	16	16	15
Purchase of property and equipment	(3,550)	(1,771)	(2,131)	(1,709)
Purchase of other long term assets	(1,836)	(1,122)	(1,827)	(1,115)
Cash paid for additional equity investments	(207)	(20)	(207)	(198)
Purchase of investment securities	(815,661)	(785,247)	(815,661)	(785,247)
Net cash used in investing activities	(342,455)	(315,040)	(340,962)	(315,104)
3. Cash flows from financing activities				
Proceeds from capital contributions from non-controlling shareholders	-	505	-	-
Proceeds from issuance of preference shares	14,960	-	14,960	-
Proceeds from issuance of bonds and deposit certificates	101,738	2,962	101,738	2,962
Repayment of bonds and deposit certificate issued	(27,144)	(8,200)	(27,144)	(8,200)
Interest paid on bonds issued	(4,276)	(3,341)	(4,276)	(3,341)
Dividends paid to shareholders	(12,381)	(10,302)	(12,311)	(10,259)
Net cash from/ (used in) financing activities	72,897	(18,376)	72,967	(18,838)
4. Effect of exchange rate changes on cash and cash equivalents	1,068	(1,048)	1,068	(1,048)
5. Net decrease in cash and cash equivalents	(77,332)	(26,058)	(79,679)	(24,654)
Cash and cash equivalents at the beginning of the year	266,116	292,174	264,540	289,194
Cash and cash equivalents at the end of the year	188,784	266,116	184,861	264,540
6. Composition of cash and cash equivalents				
Cash	7,225	6,657	7,103	6,572
Excess reserves with central bank	51,459	58,544	49,877	57,857
Due from other banks and financial institutions with original maturities no more than three months	109,171	190,962	106,952	190,158
Placements with other banks and financial institutions with original maturities no more than three months	20,929	9,953	20,929	9,953
Total	188,784	266,116	184,861	264,540

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

1. GENERAL INFORMATION

Shanghai Pudong Development Bank Co., Ltd. (“the Bank” or “SPD”) is a joint-stock commercial bank incorporated in Shanghai, the People’s Republic of China (“the PRC”) on 28 August 1992 in accordance with the approval from the People’s Bank of China (“the PBOC” or “Central Bank”) (YinFu [1992] No.350). The Bank obtained its business licence from Shanghai Municipal Administration of Industry and Commerce (“SMAIC”) on 19 October 1992 and commenced its business on 9 January 1993.

On 10 November 1999, the Bank’s ordinary shares denominated in RMB were listed and traded on Shanghai Stock Exchange. On 28 November 2014, the Bank issued 150 million preference shares to domestic investors.

The Bank operates under business license No. 310000000013047 issued by SMAIC, and financial service certificate No. B0015H131000001 issued by the China Banking Regulatory Commission (“the CBRC”) in the PRC.

As of 31 December 2014, the Bank’s ordinary shares were RMB18,653 million, of which RMB 3,731 million were restricted for trading. The Bank’s preference shares was RMB 14,960 million.

The Bank and its domestic subsidiaries (collectively referred to as “the Group”) are mainly engaged in financial service businesses. The scope of business mainly includes commercial banking services and financial leasing businesses approved by the PBOC and the CBRC. The Bank’s principal regulator is the CBRC. The Banks’s overseas branches and subsidiaries are subject to the supervision by local regulators.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The Group’s accounting year starts on 1 January and ends on 31 December.

The financial statements are prepared in accordance with International Financial Report Standards (“IFRS”), on the basis of going concern. The financial statements have been prepared under the historical cost convention, except for precious metals, available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss, which are measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying accounting policies. Estimates and judgements significant to the financial statements are disclosed in Note 3.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(a) New and revised IFRSs issued and applied

The Group has applied following new or amended IFRSs, which are applicable for the Group's financial year beginning on 1 January 2014 and the relevant impact is set out below:

Amendments to IAS 32, 'Financial instruments: Presentation'	Offsetting financial assets and financial liabilities
Amendments to IAS 36, 'Impairment of assets'	Recoverable amount disclosures for non-financial assets
Amendments to IAS 39, 'Financial instruments: Recognition and measurement'	Novation of derivatives and continuation of hedge accounting
New interpretations to IFRIC 21	Levies

Amendments to IAS 32

These amendments are the application guidance to IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

Amendments to IAS 36

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

Amendments to IAS 39

This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.

IFRIC 21

This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(b) New and revised IFRSs issued, not yet effective but early applied

		Effective for annual period beginning on or after
Amendment to IAS 27	Equity method in separate financial statements	1 January 2016

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

The early adoption of the amendment has no material effect on the Group's operating results, financial position or other comprehensive income.

(c) New and revised IFRSs issued but not yet effective

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

		Effective for annual period beginning on or after
Amendments to IAS 19, 'Employee contributions'	Defined benefit plans	1 July 2014
IFRS (Revised)	Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
IFRS (Revised)	Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014
Amendment to IFRS 11	Accounting for acquisitions of interests in joint operation	1 January 2016
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
IFRS (Revised)	Changes from the 2012-2014 cycle of the annual improvements project	1 January 2016
Amendments to IFRS 15	Revenue from Contracts with Customers	1 January 2017
Amendments to IFRS 9	Financial Instruments	1 January 2018

IAS 19

This narrow scope amendment applies to contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

Annual improvements to IFRSs 2010-2012 Cycle

These amendments include changes from the 2010-2012 cycle of the annual improvements project, including following amendments applicable to the Group's operations:

- IFRS 8, 'Operating segments'

The standard is amended to require disclosure of the judgements made by management in aggregating operating segments and a reconciliation of segment assets to the entity's assets when segment assets are reported.

- IAS 24, 'Related Party Disclosures'

The reporting entity is not required to disclose the compensation paid by the management entity (as a related party) to the management entity's employee or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided.

Annual improvements to IFRSs 2011-2013 Cycle

These amendments include changes from the 2011-2013 cycle of the annual improvements project, including following amendments applicable to the Group's operations:

- IFRS 3, 'Business combinations'

The standard is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

- IFRS 13, 'Fair value measurement'

The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.

IFRS 11

The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' (as defined in IFRS, Business combinations). Specifically, an investor will need to:

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

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

The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not re-measured when the acquisition of an additional interest in the same joint operation with joint control maintained.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

IFRS 10 and IAS 28

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

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

Annual improvements to IFRSs 2012-2014 Cycle

These amendments include changes from the 2012-2014 cycle of the annual improvements project, including following amendments applicable to the Group's operations:

- IFRS 7, 'Financial instruments: Disclosures'

If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. It provides guidance about what is meant by continuing involvement.

IFRS 15

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

IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers replaces the previous revenue standards: IAS 18 Revenue and IAS 11 Construction Contracts, and the related Interpretations on revenue recognition.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

IFRS 9

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

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

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

IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS 39.

The Group is considering the impact of IFRS 9 on the consolidated financial statements.

Except for the impact of IFRS 9, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2.2 Business Combinations

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Business Combinations (Continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Acquisition-related costs are expensed as incurred. The transaction costs incurred for the issuance of equity or debt securities in connection with the business combination are included in part of the initial recognition cost of these securities.

2.3 Consolidation

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

A structured entity is an entity that has been designed so that voting rights or similar rights are not the dominant factor in deciding who controls the investee, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual or relative arrangements.

The Group determines whether it is an agent or a principle in relation to those structured entities in which the Group acts as an asset manager. If an asset manager is an agent, it acts primarily on behalf of others (other investors in the structured entity) and so do not control the structured entity. Otherwise, it may be a principle if it acts primarily for itself, and therefore controls the structured entity. Where necessary, amounts reported by subsidiaries have been adjusted to conform to the policies adopted by the Group. Intra-group balances, transactions and unrealised profits on transactions between group companies are eliminated. The Group’s non-controlling interests, including subsidiaries’ equity, net profit for the year and comprehensive income that are not attributable to the Bank’s shareholders, are separately presented in the respective sections of the consolidated financial statements.

With respect to a subsidiary acquired through business combination not under common control, the operating results and cash flows of the subsidiary shall be consolidated into the Group’s financial statements from the date the Group obtains control of the subsidiary and deconsolidated from the Group’s financial statements when the Group loses the control of the subsidiary. While preparing the consolidated financial statements, the Group should adjust the subsidiary’s financial statements by using the fair values of the identifiable assets, liabilities and contingent liabilities recognized on the acquisition date.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation

The functional currency of the Group's operations in Mainland China is Renminbi (RMB). The functional currency of the Bank's Hong Kong branch and subsidiary is Hong Kong Dollar (HKD). The financial statements of Hong Kong branch and subsidiary is translated into RMB when the Bank prepares the consolidated financial statements. The presentation currency of the Group is RMB.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction.

At the financial reporting date, monetary items denominated in foreign currencies are translated to RMB using the exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of security. Translation differences related to changes in amortised cost are recognized in profit or loss, and other changes in carrying amount are recognized in revaluation reserves of equity.

At the financial reporting date, non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the exchange rates at the date of transaction.

Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available-for-sale are recognized in revaluation reserve in equity. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognized in the profit or loss.

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

(i) asset and liability items are translated at the closing rate at the date of the statement of financial position;
(ii) income and expenses for each statement presenting profit or loss and other comprehensive income (ie including comparatives) shall be translated at exchange rates at the dates of the transactions, and the resulting translation differences are recorded in other comprehensive income.

2.5 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. In the consolidated statement of cash flows, cash and cash equivalents include cash, excess reserves with central bank, due from and placements with other banks and financial institutions within original maturities no more than three months.

2.6 Precious metals

Precious metals held by the Group are gold traded in domestic market. They are initially recognized at acquisition cost and subsequently measured at fair value at the financial reporting date. Gain or loss arising from fair value re-measurement is recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments

Financial instruments - Recognition and derecognition

The Group recognizes a financial asset or a financial liability at the time the Group becomes a party to the contractual obligation of financial instruments.

Financial assets are derecognized when:

(i) the contractual rights to receive cash flows from the financial asset have expired; or

(ii) the Group has transferred substantially all risks and rewards of ownership; or

(iii) the financial asset has been transferred and the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but it has not retained control of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the considerations received together with the accumulated change of fair value recorded in equity through other comprehensive income is recognized in profit or loss.
If the obligation relating to a financial liability has been partially or fully discharged, the financial liability is derecognized partially or in full. If the existing financial liability is replaced by the same creditor with another financial liability that is with substantially different terms, or if the terms of the existing liability are substantially revised, such replacement or revision is accounted for as derecognition of the original liability and recognition of a new liability, and the difference is recognized in profit or loss.

Regular way transactions of financial assets are recognized and derecognized, using trade date accounting. A regular way of purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. Trade date is the date on which the Group commits to purchase or sell the asset.

Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group determines the classification of the financial assets on initial recognition. Financial assets are recognized at fair value on initial recognition. For financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit or loss. Transaction costs relating to financial assets in other categories are included in the initial recognized amount.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Classification and measurement of financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss upon initial recognition. A financial asset held for trading is the financial asset that satisfies one of the following conditions: 1) the financial asset is acquired for the purpose of selling in the near term; 2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) It is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These financial assets are subsequently measured at fair value. Changes of fair value are recognized in profit or loss. Interest accrued during the assets holding period, dividend received and gains or loss arising from disposal are recognized in profit and loss.

Held-to-maturity investments

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the positive intention and the ability to hold to maturity. Held-to-maturity investments shall be measured at amortized cost using the effective interest rate method. Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Group fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Group shall reclassify all held-to-maturity investments into available-for-sale category measured at fair value. The Group is further prohibited to reclassify these financial assets as held-to-maturity during the current financial year or the two preceding financial years.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When the Group provides funds or services directly to customers without the intention to sell the receivables, the Group classifies such financial assets as loans and receivables. Subsequently, such financial assets are measured at amortized cost using effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Available-for-sale financial assets are measured at fair value. For available-for-sale debt instruments, premium or discount is amortized using effective interest method and recognized as interest income or expense. A gain or loss arising from changes in fair value of an available-for-sale financial asset is recognized in a separate component of equity, except for impairment losses and foreign exchange gains and losses resulting from monetary financial assets, until the financial asset is derecognized or is determined to be impaired. At this time, the cumulative gain or loss previously recognized in equity shall be reclassified to profit or loss. Dividends and interests relating to an available-for-sale financial asset are recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Classification and measurement of financial liabilities

Financial liabilities of the Group are, upon initial recognition, classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group determines the classification of the financial liabilities on initial recognition. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognized in profit or loss, and transaction costs relating to other financial liabilities are included in the initially recognized amount.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition. A financial liability held for trading is the financial liability that satisfies one of the following conditions: 1) the financial liability is acquired for the purpose of repurchasing in the near term; 2) the financial liability is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or 3) It is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured. These financial liabilities are subsequently measured at fair value. All realized and unrealized gains or losses on these financial liabilities are recognized in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using effective interest method on the financial reporting date.

Equity instruments

An instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

(b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

(i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

(ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, the issuer's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the issuer's own equity instruments.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Hedge accounting

Within the Group, only overseas branch of the Bank adopts hedge accounting. The Group documents, at inception, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at inception and throughout the life of the hedge whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Currently overseas branch only uses fair value hedge. Changes in fair value of hedging instruments that are designated and qualified as fair value hedges are recorded in profit or loss, together with the changes in fair value of the hedged item attributable to the hedged risk. The net result is recorded as net trading profit or loss in the profit or loss as ineffective portion. If the hedge relationship no longer satisfies the criteria for hedge accounting, the unamortised carrying value adjustments to the carrying amount of a hedged item that is measured at amortised cost is amortised to profit or loss using the effective interest method over the period to maturity.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used techniques by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Impairment of financial assets

The Group assesses at each financial reporting date whether there is any objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulties of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including adverse changes in the payment status of borrowers in the group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property price for the mortgages in the relevant area or national or local economic conditions that correlate with defaults on the assets n the group;
- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- a significant or prolonged decline in the fair value of an equity instrument; or
- other objective evidence indicating impairment of the financial asset.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortized cost

When there is objective evidence that a financial asset is impaired, the carrying amount of the financial asset shall be reduced to the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The amount of reduction is recognized as an impairment loss in the profit or loss. Present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (the effective interest rate determined by calculation upon initial recognition) taking into consideration the value of any related collateral. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognized in the comprehensive income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified through individually assessment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and impairment losses are or continue to be recognized are not included in a collective assessment of impairment.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed.

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

Available-for-sale financial assets

A significant or prolonged decline in the fair value of an equity instrument is an objective indicator of impairment of available-for-sale equity instrument. The Group separately checks all available-for-sale equity investments at reporting date. If a decline in the fair value of an equity instrument is below its initial cost by 50% or more, or fair value is below cost for one year or longer at reporting date, it indicates that such an equity instrument is impaired; If such a decline in fair value is below its initial cost by 20% or more but not up to 50% at reporting date, the Group takes other factors such as price volatility into consideration to judge whether the equity instrument is impaired, The Group calculate the initial cost of available-for-sale equity instrument using weighted average method.

If available-for-sale financial asset is impaired, the cumulative loss from declines in fair value that had been recognized directly in revaluation reserve of equity is reclassified from equity to the profit or loss. The amount of the cumulative loss that is transferred out and recognized in the profit or loss equals to the difference between its initial cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Financial instruments (Continued)

Impairment of financial assets (Continued)

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, the previously recognized impairment loss shall be reversed with the amount of the reversal recognized in profit or loss. Impairment losses recognized in profit or loss for an equity instrument investment shall not be reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income.

Offsetting financial instruments

Financial assets and financial liabilities are presented separately in the statement of financial position by the Group, and they shall not be offset against each other; except for the followings:

(i) The Group has the legal right to offset the recognized amount, and the legal right is enforceable;

(ii) The Group has the intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.8 Assets purchased under resale agreements (“Reverse repos”) and assets sold under repurchase agreements (“Repos”)

Reverse repo refers to the agreement under which the Group purchases an asset with an obligation to resell it to the same counterparty at a pre-determined price on a specified date. Reverse repo are recorded at the actual amount paid and presented in “assets purchased under resale agreements” on the statement of financial position, while assets bought are not recognized. Repo refers to the agreement under which the Group sells an asset with an obligation to repurchase it from the same counterparty at a pre-determined price on a specified date. Repos are recorded at the actual amounts received and presented in “assets sold under repurchase agreements” on the statement of financial condition, while assets sold are not derecognized. Interest earned from resale agreement and interest paid under repurchase agreement is recorded as interest income or interest expense respectively using effective interest method.

2.9 Derivative financial instruments and embedded derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. Gains or losses arising from changes in fair value on derivatives are reported in profit or loss.

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Derivative financial instruments and embedded derivative financial instruments (Continued)

An embedded derivative shall be separated from the host contract and accounted for as a derivative under this Standard if, and only if:

(i) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

(ii) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(iii) The hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

2.10 Investments in associates and joint ventures

Associates are all entities over which the Group has significant influence but no control. Significant influence is the power to participate in the financial and operating policy decision process but does not control or jointly control those policy decisions.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

Investments in associates and joint ventures are initially recognized at cost and are accounted for using the equity method of accounting. The Group’s “Investments in associates and joint ventures” includes goodwill.

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

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

2.11 Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Bank on the basis of dividend received and receivable.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Property and equipment

2.12.1 Recognition and initial measurement

Property and equipment mainly comprise buildings, motor vehicles, mainframe computers, computer equipment, electrical equipment, aircraft equipment, office equipment, software and leasehold improvement, etc.

Property and equipment shall be recognized only when the economic benefits associated with the asset will likely flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for property and equipment that meet the recognition criteria shall be included in the cost of the asset, and carrying amount of the component of the asset that is replaced shall be derecognized. Otherwise, such expenditure shall be recognized in profit or loss.

Property and equipment are initially measured at cost, comprising purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and other surcharge.

2.12.2 Depreciation methods of property and equipment

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. For the impaired property and equipment, the annual depreciation amount should be calculated on the basis of carrying amount less impairment and estimated remaining useful life. The estimated useful lives, estimated residual values and annual depreciation rates are as follows:

Category	Useful life	Estimated residual value	Annual depreciation rate
Buildings	30 years	3-5%	3.17-3.23%
Motor Vehicles	5 years	3-5%	19.00-19.40%
Mainframe computers	5 years	3-5%	19.00-19.40%
Computer equipment	3-5 years	3-5%	19.00-32.33%
Electronic equipment	5 years	3-5%	19.00-19.40%
Office equipment	5 years	3-5%	19.00-19.40%
Software	5 years	0%	20%
Leasehold improvement	5 years	0%	20%

Aircraft equipment purchased by the Group to conduct operating lease activities are depreciated using the straight-line method over their estimated useful life of 20 years. The estimated residual value of these aircraft equipment is 5% of their respective original costs.

Estimated useful lives, residual values, and depreciation method are reviewed and adjusted if appropriate at the end of each year by the Group.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.15).

2.13 Constructions in progress

Construction in progress is stated at cost. Cost comprises cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences from the following month after such assets are transferred to property and equipment. When the recoverable amount is lower than its carrying amount, it shall be written down immediately to the recoverable amount (Note 2.15).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Foreclosed assets

Foreclosed assets included in ‘Other assets’ are initially recognized at fair value plus related costs when they are obtained as the compensation for the loan principal and interest and subsequently measured at the lower of their carrying amount and recoverable amount. When there are indicators that the recoverable amount is lower than carrying amount, the carrying amount is written down immediately to its recoverable amount, through profit or loss.

2.15 Impairment of long term assets

Property and equipment, construction in progress, intangible assets with finite useful lives, and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the reporting date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. Cash-generating unit is the smallest identifiable group of assets that generates cash inflows independently of the cash flows from other assets or groups of assets.

2.16 Bonds issued

Bonds issued are initially measured at fair value less transaction cost, and subsequently measured at amortised cost, using the effective interest method.

2.17 Provisions

Except for provision arising from business combination, provisions are recognized by the Group when obligations related to contingent matters meet all the following conditions:

(i) The Group has present legal or constructive obligations as a result of past events;

(ii) It is probable that an outflow of resources from the Group will be required to settle the obligation; and

(iii) The amount has been reliably estimated.

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

2.18 Fiduciary activities

The Group acts as an agent to safeguard assets for customers in accordance with agreements. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognized in the Group's consolidated statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Fiduciary activities (Continued)

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers who are the lenders providing the entrusted loans. The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

2.19 Financial guarantee contract

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement less amortisation calculated and the best estimate of the expenditure required to settle any financial obligation arising at the financial reporting date. Any increase in the liability relating to guarantees is taken to profit or loss. These estimates are determined based on experience of similar transactions, historical losses and by the judgement of management.

2.20 Revenue and expense recognition

2.20.1 Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments, except derivatives, are recognized within "Interest income" and "Interest expense" in profit or loss using the effective interest method. Interest income and expense for derivatives is recognized in "Net trading gains" in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.20.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are accrued over that period. For other services, fee and commission income are recognized when the transactions are completed.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Employee benefits

Employee benefits are all forms of benefits provided by the Group in exchange for service rendered by employees. Employee benefits are recognized in the period in which services are rendered.

The Group has participated in various defined contribution social security schemes set up by government agency including pension and medical insurance, housing fund and other social security plans. According to the relevant regulations and contracts, insurance and housing fund shall be paid to the social security agencies or insurance company based on certain percentages of the gross salary subject to a ceiling. The Group's contributions to these plans are charged to profit or loss.

Other than the social security schemes described above, the Group has no further material benefit obligations to its employees.

2.22 Income tax

Income tax comprises current and deferred tax. Income taxes are recognized as an expense or income and include in profit or loss, except to the extent that the tax arises from a business combination or if it relates to a transaction or event which is recognized directly in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the financial reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, and recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the financial reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilized except the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit/ (tax loss).

For deductible temporary differences associated with investment in subsidiaries, associates and joint ventures, a deferred tax asset is recognized to the extent that, and only to the extent that, it is probable that the temporary difference will reverse in the foreseeable future; and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities shall be recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit/ (tax loss).

Deferred income tax liabilities on taxable temporary differences arising from investment in subsidiaries, associates and joint ventures are recognized, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of income tax losses available for carrying forward are recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Income taxes (Continued)

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related to the same taxable entity within the Group and the same taxation authority; and

- The taxable entity within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

2.23 Operating leases and finance leases

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

- As a lessee under operating leases

Lease payments under an operating lease are recognized in profit or loss by a lessee on a straight-line basis over the lease term. Initial direct cost is also charged to profit or loss. Contingent rents are recorded into profit or loss of the period in which they actually arise.

- As a lessor under finance leases

At the lease commencement date, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognized as a receivable. The difference between the receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using an interest rate which reflects a constant rate of return, as interest income in the comprehensive income statement. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in “other assets”. When making the judgment of derecognition or impairment measurement, finance lease receivables are considered as loans and receivables.

- As a lessor under operating lease

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognized as the Group’s property and equipment. Rental income from operating leases is recognized as Other Operating Income in the consolidated income statement on a straight-line basis over the term of the related lease.

2.24 Segment reporting

The Group identifies operating segment on the basis of internal organization structure, management requirement and internal report system, and forms the segment report and discloses the segment information based on operating segment.

Operating segment represents the segment satisfying the following conditions at the same time: (i) The segment produces income and expense in daily activities; (ii) The Group’s management regularly evaluates the performance of the segment, and decides to allocate resources to the segment and to assess its performance; and (iii) The Group can obtain financial position, operation performance, cash flow and other relevant accounting information of the segment. Two or more operating segments with similar economic characteristics are combined into an operating segment, provided that certain conditions are met.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes regular assessments on accounting judgments and estimates based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Areas susceptible to significant changes in estimates and judgments, which affect the carrying value of assets and liabilities of next accounting period, are set out below. It is possible that actual results may be materially different from the estimates and judgments referred below.

3.1 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment regularly besides individual impairment loss assessment on identified non-performing loans. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable evidence indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets. Management makes estimation based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The management regularly reviews the methods and assumptions adopted to forecast the future cash flows to reduce the difference between the estimated loss and actual loss.

3.2 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments that are not quoted in an active market. These valuation techniques include the use of observable inputs and data with consistent characteristics of assets or liabilities in the transaction of related assets or liabilities. To the extent practical market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are prioritized to use when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using unobservable inputs and data, such as the Group makes the assumption on the credit risk, volatilities and credit of the Group and the counterparty. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

3.3 Income taxes and business taxes

Significant estimates are required in determining the provision for income tax and business tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax issues arising from new tax regulations or other uncertain tax arrangements based on estimates of whether additional taxes will be due. The deductibility of certain items is subject to tax authority’s final approval. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income taxes and business taxes and/or deferred tax provisions in the period in which such determination is made.

3.4 Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying certain non-derivative financial assets with fixed or determinable payments and fixed maturity date as held-to-maturity. The classification of held-to-maturity investment requires significant judgment.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

3.5 Determination of control over the structured entities

Management applies its judgment to determine whether the Group is acting as an agent or a principle in relation to the structured entities in which the Group acts as an asset manager. In assessing whether the Group is acting as agent, the Group considers factors such as scope of the asset manager’s decision-making authority, rights held by other parties, remuneration to which it is entitled, and exposure to viability of returns and makes regular reassessment. The Group performs re-assessment periodically.

For further disclosure in respect of unconsolidated structured entities in which the Group has an interest or for which it is a sponsor, see Note 5.39.

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

4 SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

4.1 Subsidiaries of the Bank

Name of subsidiaries	Place of incorporation	Percentage of equity interest %	Percentage of Non-controlling interest %
SPD Bank Financial Leasing Co., Ltd.	Shanghai	61%	39%
SPDB International Holding ,Ltd.(Note a)	Hong Kong	100%	-
Mianzhu SPD Rural Bank Co., Ltd.	Sichuan	55%	45%
Liyang SPD Rural Bank Co., Ltd.	Jiangsu	51%	49%
Gongyi SPD Rural Bank Co., Ltd.	Henan	51%	49%
Fengxian SPD Rural Bank Co., Ltd.	Shanghai	51%	49%
Zixing SPD Rural Bank Co., Ltd.	Hunan	51%	49%
Chongqing Banan SPD Rural Bank Co., Ltd.	Chongqing	51%	49%
Zouping SPD Rural Bank Co., Ltd.	Shandong	51%	49%
Zezhou SPD Rural Bank Co., Ltd.	Shanxi	51%	49%
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	Liaoning	51%	49%
Hancheng SPD Rural Bank Co., Ltd.	Shaanxi	51%	49%
Jiangyin SPD Rural Bank Co., Ltd.	Jiangsu	51%	49%
Pingyang SPD Rural Bank Co., Ltd.	Zhejiang	51%	49%
Xinchang SPD Rural Bank Co., Ltd.	Zhejiang	51%	49%
Yuanjiang SPD Rural Bank Co., Ltd	Hunan	51%	49%
Chaling SPD Rural Bank Co., Ltd	Hunan	51%	49%
Linchuan SPD Rural Bank Co., Ltd	Jiangxi	51%	49%
Linwu SPD Rura Bank Co., Ltd	Hunan	51%	49%
Hengnan SPD Rural Bank Co., Ltd	Hunan	51%	49%
Haerbin Hulan SPD Rural Bank Co., Ltd.	Heilongjiang	51%	49%
Gongzhuling SPD Rural Bank Co., Ltd	Jilin	51%	49%
Yuzhong SPD Rural Bank Co., Ltd.	Gansu	51%	49%
Yunnan Fumin Rural Bank Co., Ltd.	Yunnan	51%	49%
Ningbo Haishu Rural Bank Co., Ltd.	Zhejiang	51%	49%
Urumchi Midong SPD Rural Bank Co., Ltd.	Xinjiang	51%	49%
Tianjin Baodi SPD Rural Bank Co., Ltd. (Note b)	Tianjin	49%	51%

4 SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4.1 Subsidiaries of the Bank (Continued)

For all structural entities please refer to Note 5.39.

(a) On 17 November 2014, the Bank acquired 100% equity interests of Asiavest Partners Limited (Subsequently renamed as SPDB International Holdings Limited "SPDI" on 24 November 2014) at the price of RMB 7.27 million. The Bank consolidated the financial statements of SPDI from the acquisition date. At the acquisition date, the SPDI's assets and liabilities were immaterial to the Group. From the acquisition date to 31 December 2014, the revenue, net profit, operating cash flow and net cash flow of SPDI are immaterial to the Group.

(b) In accordance with Articles of association of Baodi Tianjin SPD Rural Bank Co., Ltd., resolutions on the company's operating and development strategy, operating plan and investment scheme are required to be approved by more than 50% directors and the Bank has 4 of 7 seats in the Board of Directors. Although the Bank only has 49% voting rights in Baodi Tianjin SPD Rural Bank Col, Ltd., the Bank is able to control it through the Board of Directors. As a result, it is a consolidated subsidiary of the Bank.

All subsidiaries are unlisted and consolidated in the Bank's financial statements.

None of these subsidiaries is restricted to transfer funds to the Bank.

IFRS 12 requires disclosure of the summary information of subsidiaries whose individual non-controlling interests are material to the Group. After individual assessment, the Group concluded that no subsidiary has non-controlling interest that is material to the Group.

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

5 NOTES TO THE FINANCIAL STATEMENTS

5.1 Net interest income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
Interest income				
Balance with central bank	7,409	6,882	7,361	6,843
Due from banks and other financial institutions	5,917	7,388	5,903	7,341
Placements with banks and other financial institutions	1,702	2,422	1,702	2,422
Loans and advances to customers				
- Corporate loans	92,085	80,699	91,152	79,924
- Retail loans	26,705	21,536	26,285	21,290
- Discounted and rediscounted bills	3,291	3,664	2,950	3,575
Financial assets purchased under resale agreements	17,147	16,183	17,147	16,183
Bonds	15,054	12,289	15,054	12,289
Investment classified as loans and receivables other than bonds	40,758	25,568	40,758	25,568
finance lease activities	1,637	1,029	-	-
Others	310	144	310	144
Sub-total	212,015	177,804	208,622	175,579
Including: interest income accrued on impaired financial assets	630	354	630	354
Interest expense				
Due to central bank	(166)	(13)	(143)	(1)
Due to and placements from banks and other financial institutions	(41,534)	(31,574)	(40,407)	(31,154)
Deposits from customers	(64,703)	(55,202)	(64,257)	(54,868)
Financial assets sold under repurchase agreements	(2,059)	(1,860)	(2,029)	(1,858)
Bonds issued	(4,374)	(3,415)	(4,374)	(3,415)
Others	(996)	(563)	(996)	(563)
Sub-total	(113,832)	(92,627)	(112,206)	(91,859)
Net interest income	98,183	85,177	96,416	83,720

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.2 Net fee and commission income

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
Fee and commission income				
Wealth management fees	4,161	1,348	4,161	1,348
Credit commitment fees	3,405	2,598	3,391	2,583
Custodian fees	2,820	2,094	2,820	2,094
Fees from investment banking activities	3,212	2,870	3,212	2,870
Fees from bank cards	3,091	1,541	3,091	1,541
Agency commissions	2,119	1,370	2,119	1,370
Settlement and clearing fees	877	470	876	468
Others	2,636	2,282	2,454	2,212
Sub-total	22,321	14,573	22,124	14,486
Fee and commission expense	(975)	(669)	(956)	(667)
Net fee and commission income	21,346	13,904	21,168	13,819

5.3 Net trading income

	Group and Bank	
	Year ended 31 December	
	2014	2013
Precious metals	160	200
Trading securities	227	(352)
Financial assets designated at fair value through profit or loss	554	(274)
Fair value changes of hedged bonds	(6)	(5)
Derivative financial instruments	784	(870)
Others	19	-
Total	1,738	(1,301)

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.4 Employee benefit expenses

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
Wages and salaries, bonuses, allowances and subsidies	13,372	12,547	13,163	12,341
Welfare fund	457	364	446	355
Social insurance	2,148	1,836	2,131	1,817
Housing fund	763	630	756	629
Labor union fund and staff education fund	449	425	443	420
Total	17,189	15,802	16,939	15,562

5.5 Operating expenses

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
Rental expenses	2,161	1,868	2,123	1,843
Advertising expenses	1,992	1,624	1,971	1,610
General and administrative expenses	496	467	488	457
Electronic equipment operating and maintenance expenses	753	603	746	594
Property management expenses	239	209	239	209
Cash carrier expenses	235	212	230	208
Transportation expenses	183	169	176	163
Others	4,122	4,047	4,002	3,943
Total	10,181	9,199	9,975	9,027

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.6 Business tax and surcharges

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
Business tax	7,246	6,059	7,173	6,008
Urban maintenance and construction tax	505	424	498	417
Education fee and levy	269	226	264	223
Other levies	127	104	126	102
Total	8,147	6,813	8,061	6,750

5.7 Impairment losses on assets

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
Loans and advances to customers	21,919	10,419	21,723	10,227
Other receivables	421	75	421	75
Foreclosed assets	39	36	39	36
Finance lease receivables	300	206	-	-
Investments classified as loans and receivables	1,354	2,301	1,354	2,301
Interest receivable	160	37	160	37
Total	24,193	13,074	23,697	12,676

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.8 Income tax expense

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
Current income tax	18,006	15,117	17,652	14,860
Deferred income tax	(3,336)	(2,468)	(3,285)	(2,428)
Total	14,670	12,649	14,367	12,432

Reconciliations between the Group’s theoretical income tax expense using the statutory Chinese mainland tax rate and actual amount are as follows:

	Group		Bank	
	Year ended 31 December		Year ended 31 December	
	2014	2013	2014	2013
Profit before income tax	62,030	53,849	61,046	53,054
Tax calculated at an applicable tax rate	15,508	13,462	15,262	13,264
Tax effect of expenses that are not deductible for tax purpose	279	225	262	230
Tax effect arising from income not subject to tax	(1,216)	(1,069)	(1,235)	(1,080)
Differences from prior year tax clearance	99	28	78	18
Others	-	3	-	-
Income tax expense	14,670	12,649	14,367	12,432

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.9 Other comprehensive income

Group and Bank

	Year ended 31 December	
	2014	2013
Items that may be subsequently reclassified to profit or loss		
1. Fair value measurement of available-for-sale financial assets		
Transfer to other comprehensive income in current year, after tax	6,172	(3,829)
Transfer to profit or loss in current year, after tax	(99)	(8)
Sub-total	6,073	(3,837)
2. Share of other comprehensive income of associates and joint ventures		
Transfer to other comprehensive income in current year	46	(12)
Transfer to profit or loss in current year	-	14
Sub-total	46	2
Total	6,119	(3,835)

5.10 Earnings per share

Basic earnings per share (EPS) is calculated by dividing consolidated net profit for the year attributable to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the year. At 31 December 2014, the Bank has contingent convertible ordinary shares, which have no impact on the calculation of the basis and diluted EPS for the year ended 31 December 2014.

	Year ended 31 December	
	2014	2013
Consolidated net profit for the year attributable to the holders of the Bank's ordinary shares	47,026	40,922
Weighted average number of outstanding ordinary shares (million)	18,653	18,653
Basic and diluted EPS (RMB)	2.521	2.194

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.10 Earnings per share (Continued)

On 28 November 2014, the Bank issued Rmb 15 billion of non-cumulative preference shares. These preference shares are entitled to dividends at pre-determined coupon rate after approval by the Board of Directors of the Bank, and are not entitled to further participate in the appropriation of the remaining profit of the Bank. The dividends of preference shares are not included in the calculation of the basic EPS and diluted EPS for the year ended 31 December 2014 because no dividends for preference shares are declared in 2014.

5.11 Cash and balances with central bank

	Group		Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Cash	7,225	6,657	7,103	6,572
Mandatory reserves with central bank	446,746	410,751	444,327	408,050
Excess reserves with central bank	51,459	58,544	49,877	57,857
Fiscal deposits with central bank	637	390	637	390
Total	506,067	476,342	501,944	472,869

The Group is required to place mandatory reserves with the PBOC, which are not allowed to be used in the Group's daily operations. The reserve rate for deposits denominated in RMB is 18% at 31 December 2014 (31 December 2013: 18%). The reserve rate for deposits denominated in foreign currencies is 5% at 31 December 2014 (31 December 2013: 5%).

5.12 Due from and placements with banks and other financial institutions

	Group		Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Due from domestic banks	99,040	218,222	96,639	217,253
Due from overseas banks	43,247	15,080	43,247	15,080
Placements with domestic banks	11,661	15,591	11,661	15,591
Placements with overseas banks	4,596	7,012	4,596	7,012
Placements with domestic other financial institutions	5,712	4,225	6,722	4,225
Total	164,256	260,130	162,865	259,161

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.13 Financial assets at fair value through profit or loss

Trading securities

	Group and Bank	
	31 December 2014	31 December 2013
Corporate bonds	15,254	18,781
Bonds issued by financial institutions	901	1,319
Bonds issued by policy banks	221	841
Bonds issued by local municipal governments	-	48
Government bonds	90	10
Deposit certificates issued by other financial institutions	4,300	-
Sub-total (Note 1)	20,766	20,999
Financial assets designated at fair value through profit or loss		
Borrowings from non-bank financial institutions (Note 2)	8,065	7,628
Other (Note 3)	4,010	-
Total	32,841	28,627

Note 1: There is no restriction on disposal of the Group's trading securities.

Note 2: The amount of changes in fair value arising from the changes in the credit risk of non-bank financial institution counterparties is insignificant.

Note 3: During 2014, the Bank appointed Chang Jiang Pension Insurance Co., Ltd. to manage the assets under the Bank's long term employee benefit plan of Rmb 3,893 million. As at 31 December 2014, the fair value of these assets amounted to Rmb 4,010 million.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.14 Derivative financial instruments

	Group and Bank		
	31 December 2014		
		Fair value	
	Notional amount	Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	467,311	1,631	(1,432)
Foreign exchange forward contracts	53,807	250	(141)
Interest rate swap contracts	305,043	200	(1,338)
Option contracts	37,045	15	(22)
Precious metal forward contracts	15,900	470	(345)
Derivative financial instruments held as hedging instruments at fair value:			
Interest rate swap	1,809	46	(25)
Total		2,612	(3,303)

	Group and Bank		
	31 December 2013		
	Notional	Fair value	
	amount	Assets	Liabilities
Derivative financial instruments not held for hedging:			
Currency swap contracts	283,309	1,263	(1,475)
Foreign exchange forward contracts	47,577	116	(327)
Interest rate swap contracts	73,325	512	(1,610)
Option contracts	5,758	8	(428)
Precious metal forward contracts	4,586	38	-
Derivative financial instruments held as hedging instruments at fair value:			
Cross currency interest rate swap	200	-	(13)
Interest rate swap	729	9	-
Total		1,946	(3,853)

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.15 Financial assets purchased under resale agreements

	Group and Bank	
	31 December 2014	31 December 2013
Bills	184,578	256,487
Bonds	4,920	22,633
Other financial assets (Note 1)	6,690	16,833
Total	196,188	295,953

Note 1: Other financial assets are beneficial rights in various trust and asset management plans purchased by the Group from other banks, which ultimately invest in the trust loans and bills.

5.16 Loans and advances to customers

	Group		Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Corporates loans				
Commercial Loans	1,455,880	1,288,128	1,443,798	1,276,971
Trade finance	63,885	51,638	63,885	51,638
Discounted bills	43,833	33,690	43,291	33,301
Retail loans				
Mortgage loans	210,011	186,575	209,725	186,241
Loans to finance family business	136,439	122,753	131,006	119,041
Credit card and overdraft	59,132	32,921	59,132	32,921
Others	59,200	51,789	58,746	51,075
Gross loans and advances to customers	2,028,380	1,767,494	2,009,583	1,751,188
Individual impairment allowances	(6,081)	(3,301)	(6,081)	(3,301)
Collective impairment allowances	(47,685)	(38,448)	(47,114)	(37,999)
Total impairment allowances	(53,766)	(41,749)	(53,195)	(41,300)
Loans and advances to customers, net	1,974,614	1,725,745	1,956,388	1,709,888

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.16 Loans and advances to customers (Continued)

5.16.1 Loans and advances to customers analysed by way of assessment of impairment allowance

Group	Non-impaired loans subject to collective assessment	Impaired loans			
		Collective assessment	Individual assessment	Sub-total	Total
As at 31 December 2014					
Corporates loans	1,545,918	5,591	12,089	17,680	1,563,598
Retail loans	460,877	3,905	-	3,905	464,782
	2,006,795	9,496	12,089	21,585	2,028,380
Allowance for impairment	(42,013)	(5,672)	(6,081)	(11,753)	(53,766)
Loans and advances to customers, net	1,964,782	3,824	6,008	9,832	1,974,614
As at 31 December 2013					
Corporates loans	1,362,846	3,680	6,930	10,610	1,373,456
Retail loans	391,587	2,451	-	2,451	394,038
	1,754,433	6,131	6,930	13,061	1,767,494
Allowance for impairment	(34,814)	(3,634)	(3,301)	(6,935)	(41,749)
Loans and advances to customers, net	1,719,619	2,497	3,629	6,126	1,725,745

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.16 Loans and advances to customers (Continued)

5.16.1 Loans and advances to customers listed by way of impairment assessment (Continued)

Bank	Non-impaired loans subject to collective assessment	Impairment loans			Total
		Collective assessment	Individual assessment	Sub-total	
As at 31 December 2014					
Corporates loans	1,533,345	5,540	12,089	17,629	1,550,974
Retail loans	454,731	3,878	-	3,878	458,609
	1,988,076	9,418	12,089	21,507	2,009,583
Allowance for impairment	(41,474)	(5,640)	(6,081)	(11,721)	(53,195)
Loans and advances to customers, net	1,946,602	3,778	6,008	9,786	1,956,388
As at 31 December 2013					
Corporates loans	1,351,356	3,624	6,930	10,554	1,361,910
Retail loans	386,829	2,449	-	2,449	389,278
	1,738,185	6,073	6,930	13,003	1,751,188
Allowance for impairment	(34,387)	(3,612)	(3,301)	(6,913)	(41,300)
Loans and advances to customers, net	1,703,798	2,461	3,629	6,090	1,709,888

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.16 Loans and advances to customers (Continued)

5.16.2 Loans and advances to customers analysed by industry

Group

	31 December 2014		31 December 2013	
	Amount	(%)	Amount	(%)
Corporate loans				
Manufacturing	376,429	18.56	379,883	21.50
Wholesale and retail	317,184	15.64	253,692	14.35
Real estate	201,190	9.92	149,953	8.48
Lease and commercial service	126,770	6.25	97,409	5.51
Construction	113,124	5.58	100,650	5.69
Transportation, warehouse and postal services	97,023	4.78	97,414	5.51
Water, environment and public facilities management	81,342	4.01	75,552	4.27
Mining	61,829	3.05	53,078	3.00
Energy and utilities	44,542	2.20	43,712	2.47
Agriculture, forestry, farming and fishery	17,892	0.88	14,588	0.83
Information transmission, software and IT services	12,643	0.62	11,355	0.64
Education	11,005	0.54	10,388	0.59
Hotel and catering	10,431	0.51	10,373	0.59
Healthcare and social welfare	9,364	0.46	7,647	0.43
Public management, social security and social organization	9,318	0.46	6,984	0.40
Resident services, repairing and other services	9,123	0.45	9,315	0.53
Research and technology services	6,887	0.34	6,774	0.38
Culture, sports and entertainment	5,589	0.28	5,075	0.29
Financial services	4,656	0.23	2,782	0.16
Others	3,424	0.17	3,142	0.18
	1,519,765	74.93	1,339,766	75.80
Discounted bank acceptances	34,273	1.69	27,967	1.58
Re-discount	7,304	0.36	3,847	0.22
Discounted commercial acceptances	2,256	0.11	1,876	0.11
	43,833	2.16	33,690	1.91
Retail loans	464,782	22.91	394,038	22.29
Total	2,028,380	100.00	1,767,494	100.00

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.16 Loans and advances to customers (Continued)

5.16.2 Loans and advances to customers analysed by industry (Continued)

Bank

	31 December 2014		31 December 2013	
	Amount	(%)	Amount	(%)
Corporate loans				
Manufacturing	370,391	18.42	374,289	21.37
Wholesale and retail	315,016	15.68	251,765	14.38
Real estate	201,074	10.01	149,948	8.56
Lease and commercial service	126,392	6.29	96,899	5.53
Construction	112,381	5.59	99,978	5.71
Transportation, warehouse and postal services	96,830	4.82	96,997	5.54
Water, environment and public facilities management	81,248	4.04	75,518	4.31
Mining	61,612	3.07	52,907	3.02
Energy and utilities	44,188	2.20	43,446	2.48
Agriculture, forestry, farming and fishery	16,627	0.83	13,493	0.77
Information transmission, software and IT services	12,614	0.63	11,355	0.65
Education	10,847	0.54	10,172	0.58
Hotel and catering	10,357	0.52	10,373	0.59
Public management, social security and social organization	9,318	0.46	6,984	0.40
Healthcare and social welfare	9,206	0.46	7,455	0.43
Resident services, repairing and other services	9,031	0.45	9,315	0.53
Research and technology services	6,887	0.34	6,727	0.38
Culture, sports and entertainment	5,584	0.28	5,075	0.29
Financial services	4,656	0.23	2,782	0.16
Others	3,424	0.17	3,131	0.18
	1,507,683	75.03	1,328,609	75.86
Discounted bank acceptances	33,731	1.68	27,578	1.57
Re-discount	7,304	0.36	3,847	0.22
Discounted commercial acceptances	2,256	0.11	1,876	0.11
	43,291	2.15	33,301	1.90
Retail loans	458,609	22.82	389,278	22.24
Total	2,009,583	100.00	1,751,188	100.00

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.16 Loans and advances to customers (Continued)

5.16.3 Loans and advances to customers analyzed by geography

Group

	31 December 2014		31 December 2013	
	Amount	(%)	Amount	(%)
Shanghai	259,893	12.81	237,610	13.44
Zhejiang	256,585	12.65	258,533	14.63
Jiangsu	203,841	10.05	185,532	10.50
Guangdong	139,698	6.89	107,313	6.07
Liaoning	112,609	5.55	100,108	5.66
Beijing	103,709	5.11	79,371	4.49
Henan	101,206	4.99	85,721	4.85
Shandong	100,023	4.93	83,034	4.70
Tianjin	76,861	3.79	59,036	3.34
Sichuan	73,951	3.65	68,619	3.88
Others	600,004	29.58	502,617	28.44
Total	2,028,380	100.00	1,767,494	100.00

Bank

	31 December 2014		31 December 2013	
	Amount	(%)	Amount	(%)
Shanghai	258,826	12.88	236,349	13.50
Zhejiang	254,290	12.65	256,613	14.65
Jiangsu	201,012	10.00	182,850	10.44
Guangdong	139,698	6.95	107,313	6.13
Liaoning	111,992	5.57	99,388	5.68
Beijing	103,709	5.16	79,371	4.53
Henan	99,668	4.96	84,297	4.81
Shandong	98,465	4.90	81,583	4.66
Tianjin	76,663	3.81	59,036	3.37
Sichuan	73,282	3.65	68,104	3.89
Others	591,978	29.47	496,284	28.34
Total	2,009,583	100.00	1,751,188	100.00

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.16 Loans and advances to customers (Continued)

5.16.4 Loans and advances to customers analysed by collateral type

	Group		Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Collateralised loans	872,609	767,585	871,707	766,860
Guaranteed loans	602,818	533,000	597,776	522,918
Unsecured loans	355,942	274,383	345,561	270,774
Pledged loans	197,011	192,526	194,539	190,636
Gross loans and advances to customers	2,028,380	1,767,494	2,009,583	1,751,188

5.16.5 Overdue loans and advances to customers

Group

	31-Dec-14				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Collateralised loans	2,034	12,530	4,848	188	19,600
Guaranteed loans	2,440	8,479	2,660	147	13,726
Unsecured loans	1,591	1,615	1,046	12	4,264
Pledged loans	222	679	234	-	1,135
Total	6,287	23,303	8,788	347	38,725

	31-Dec-13				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Collateralised loans	1,167	7,282	4,521	325	13,295
Guaranteed loans	1,199	3,731	1,675	234	6,839
Unsecured loans	1,463	341	649	21	2,474
Pledged loans	57	269	50	-	376
Total	3,886	11,623	6,895	580	22,984

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.16 Loans and advances to customers (Continued)

5.16.5 Overdue loans and advances to customers (Continued)

Bank

	31-Dec-14				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Collateralised loans	2,009	12,507	4,848	188	19,552
Guaranteed loans	2,328	8,447	2,654	147	13,576
Unsecured loans	1,591	1,615	1,046	12	4,264
Pledged loans	222	679	234	-	1,135
Total	6,150	23,248	8,782	347	38,527

	31-Dec-13				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
Collateralised loans	1,161	7,279	4,521	325	13,286
Guaranteed loans	1,120	3,702	1,675	234	6,731
Unsecured loans	1,463	341	649	21	2,474
Pledged loans	57	269	50	-	376
Total	3,801	11,591	6,895	580	22,867

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.16 Loans and advances to customers (Continued)

5.16.6 Allowance for impairment of loans and advances to customers

Group	Year ended 31 December 2014			Year ended 31 December 2013		
	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
Balance at beginning of the year	3,301	38,448	41,749	3,228	32,519	35,747
Charge for the year	8,051	13,868	21,919	2,427	7,992	10,419
Write-off	(3,438)	(3,985)	(7,423)	(1,644)	(1,308)	(2,952)
Transfer-out	(1,613)	(590)	(2,203)	(724)	(761)	(1,485)
Recovery of loans and advances written off in previous years	151	141	292	183	214	397
Unwind of discount on impairment allowance	(371)	(259)	(630)	(169)	(185)	(354)
Exchange difference	-	62	62	-	(23)	(23)
Balance at end of the year	6,081	47,685	53,766	3,301	38,448	41,749

Bank	Year ended 31 December 2014			Year ended 31 December 2013		
	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
Balance at beginning of the year	3,301	37,999	41,300	3,228	32,262	35,490
Charge for the year	8,051	13,672	21,723	2,427	7,800	10,227
Write-off	(3,438)	(3,911)	(7,349)	(1,644)	(1,308)	(2,952)
Transfer-out	(1,613)	(590)	(2,203)	(724)	(761)	(1,485)
Recovery of loans and advances written off in previous years	151	141	292	183	214	397
Unwind of discount on impairment allowance	(371)	(259)	(630)	(169)	(185)	(354)
Exchange difference	-	62	62	-	(23)	(23)
Balance at end of the year	6,081	47,114	53,195	3,301	37,999	41,300

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.17 Available-for-sale financial assets

	Group and Bank	
	31 December 2014	31 December 2013
At fair value		
Corporate bonds	50,257	54,838
Bonds issued by policy banks	73,599	48,299
Government bonds	49,629	23,410
Bonds issued by financial institutions	15,876	14,030
Bonds issued by local municipal governments	25,323	13,985
PBOC bills	-	1,107
Deposit certificates issued by other financial institutions	5,063	-
Equity investments	1,587	1,128
Others (Note 1)	953	5,000
	222,287	161,797
Impairment allowance	(79)	(76)
Total	222,208	161,721

Note 1: Others mainly include the Bank’s investments in various structured entities with no fixed repayment schedules.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.18 Investment securities - held-to-maturity

	Group and Bank	
	31 December 2014	31 December 2013
Government bonds	62,233	75,101
Bonds issued by policy banks	32,188	35,916
Bonds issued by local municipal governments	14,698	17,258
Corporate bonds	10,877	13,186
Bonds issued by financial institutions	1,702	2,621
Deposit certificates issued by other financial institutions	-	2,171
Total	121,698	146,253

5.19 Investment securities - loans and receivables

	Group and Bank	
	31 December 2014	31 December 2013
Bonds		
Bonds issued by financial institutions	14,948	11,344
Government bonds	246	370
Corporate bonds	22,170	6,328
Assets backed securities (“ABS”)	7,546	-
	44,910	18,042
Wealth management products managed by other banks	145,874	24,935
Beneficial rights in trust and asset management plans (Note 1)	654,520	435,177
Others (Note 2)	35,522	39,381
	835,916	499,493
Collectively assessed impairment allowances	(3,655)	(2,301)
Loans and receivables, net	877,171	515,234

Note 1: Certain trust companies and security companies established these trust and asset management plans and are responsible for the management of these products. Investment decisions are also made by these trust companies or security companies. These products are ultimately invested in trust loans.

Note 2: These are the assets invested by certain principal-guaranteed wealth management products issued and managed by the Group. The ultimate investments of these wealth management products are trust loans.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.20 Investments in associate and joint ventures

	Group and Bank	
	31 December 2014	31 December 2013
Investment in associate	929	605
Investment in joint ventures	546	535
Total	1,475	1,140

Amounts recorded in the statement of comprehensive income are analysed as follows:

	Group and Bank Year ended 31 December	
	2014	2013
Investments in associates		
—Share of results	75	98
—Share of changes in other comprehensive income	46	(12)
—Exchange differences	3	(2)
Sub-total	124	84
Investments in joint ventures		
—Share of results	7	8
—Exchange differences	4	(5)
Sub-total	11	3
Total	135	87

Associate

Name of the investees	**Places of incorporation**	**Shareholding percentage**	**Nature of business**	**Accounting Method**
Fubon First Sino Bank	Shanghai, China	20%	Commercial banking activities approved by the CBRC	Equity method

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.20 Investments in associates and joint ventures (Continued)

Joint ventures

Group and Bank

Name of the investees	Places of incorporation	Share holding percentage	Nature of business	Accounting Method
AXA SPDB Investment Managers Co., Ltd.	Shanghai, China	51%	Securities investment, fund raising, fund sales, assets management and other business approved by CSRC	Equity method

According to the Articles of Association of AXA SPDB Investment Managers Co., Ltd., resolutions on certain significant operate and finance decisions shall be approved by shareholders representing more than two thirds voting shares. These resolutions include the company's strategic plan, investment plan, annual financial budget and financial statements and profit appropriations etc. Although the Group owns 51% voting shares of AXA SPDB Investment Management Co., Ltd., it has to exercise influences over the company jointly with another major shareholder.

Name of the investees	Places of incorporation	Share holding percentage	Nature of business	Accounting Method
SPD Silicon Valley Bank Co., Ltd.	Shanghai, China	50%	Commercial banking business approved by CBRC	Equity method

The Group's associates and joint ventures are all unlisted companies.

There is no restriction for capital transfer from the Group's associates and joint ventures to the Bank.

There are no contingent liabilities of the Group in these associates and joint ventures.

IFRS 12 requires disclosure of the summary financial information of material associates or joint ventures. The Bank is of the view that these associates and joint ventures are not material to the Group in terms of their aggregated assets, revenue and profit and therefore no additional information disclosure is required.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.21 Property and equipment

Group	31 December 2013	Additions	Disposals	31 December 2014
Cost	20,114	3,699	(338)	23,475
Land and buildings	9,074	421	-	9,495
Motor vehicles	438	47	(23)	462
Software	1,026	243	(8)	1,261
Electronic computers and other equipment	5,290	1,025	(306)	6,009
Aircraft equipment	-	1,369	-	1,369
Leasehold improvement	4,286	594	(1)	4,879
Accumulated depreciation	9,489	1,884	(311)	11,062
Land and buildings	2,389	293	-	2,682
Motor vehicles	269	52	(22)	299
Software	697	199	(8)	888
Electronic computers and other equipment	3,270	809	(281)	3,798
Aircraft equipment	-	14	-	14
Leasehold improvement	2,864	517	-	3,381
Net book value	10,625			12,413
Land and buildings	6,685			6,813
Motor vehicles	169			163
Software	329			373
Electronic computers and other equipment	2,020			2,211
Aircraft equipment	-			1,355
Leasehold improvement	1,422			1,498

The depreciation expense recognized in profit or loss for the year ended 31 December 2014 is RMB 1,884 million.

At year ended 31 December 2014, the leasing subsidiary of the Bank purchased certain aircraft equipment for operating lease activities.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.21 Property and equipment (Continued)

Bank	31 December 2013	Additions	Disposals	31 December 2014
Cost	19,925	2,279	(336)	21,868
Land and buildings	9,074	421	-	9,495
Motor vehicles	415	45	(23)	437
Software	1,026	242	(8)	1,260
Electronic computers and other equipment	5,239	1,002	(304)	5,937
Leasehold improvement	4,171	569	(1)	4,739
Accumulated depreciation	9,418	1,827	(310)	10,935
Land and buildings	2,389	293	-	2,682
Motor vehicles	262	48	(22)	288
Software	697	198	(8)	887
Electronic computers and other equipment	3,249	796	(280)	3,765
Leasehold improvement	2,821	492	-	3,313
Net book value	10,507			10,933
Land and buildings	6,685			6,813
Motor vehicles	153			149
Software	329			373
Electronic computers and other equipment	1,990			2,172
Leasehold improvement	1,350			1,426

The depreciation expense recognized in profit or loss for the year ended 31 December 2014 is RMB 1,827 million.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.22 Construction in progress

Group	31 December 2013	Additions	Transfer out	31 December 2014
Buildings	1,806	321	(108)	2,019
Others	55	1,354	(41)	1,368
Total	1,861	1,675	(149)	3,387

Bank	31 December 2013	Additions	Transfer out	31 December 2014
Buildings	1,806	321	(108)	2,019
Others	54	1,354	(40)	1,368
Total	1,860	1,675	(148)	3,387

5.23 Deferred income tax assets

The Group’s movement of the deferred income tax assets is as follows:

	Year ended 31 December 2014
Balance at beginning of the year	9,382
Credited to profit or loss (Note 5.8)	3,336
Credited to other comprehensive income	(2,026)
Balance at end of the year	10,692

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.23 Deferred income tax assets (Continued)

	31 December 2014		31 December 2013	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Impairment allowances for loans and other assets	43,859	10,965	28,231	7,058
Amortization for long-term assets	-	-	36	9
Employee benefits payable	179	45	67	17
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	-	-	6,452	1,614
Fair value changes of hedged available-for-sale financial assets recognized in profit or loss	19	5	13	3
Fair value changes of financial assets at fair value through profit or loss	-	-	630	158
Fair value changes of precious metals	-	-	194	49
Fair value changes of derivative financial instruments	691	173	1,907	477
Deferred income tax assets before offsetting	44,748	11,188	37,530	9,385
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Fair value changes of financial assets and liabilities at fair value through profit or loss	(154)	(39)	-	-
Fair value changes of precious metals	(74)	(19)	-	-
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	(1,647)	(412)	-	-
Amortization for long-term assets	(92)	(23)	-	-
Depreciation	(13)	(3)	(10)	(3)
Deferred tax liabilities before offsetting	(1,980)	(496)	(10)	(3)
Net deferred income tax assets after offsetting	42,768	10,692	37,520	9,382

As at 31 December 2014, the Group offset deferred income tax assets and liabilities of RMB 496 million (31 December 2013: RMB 3 million).

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.23 Deferred income tax assets (Continued)

The Bank's movements in deferred income tax assets are as follows:

	Year ended 31 December 2014
Balance at beginning of the year	9,317
Credited to profit or loss(Note 5.8)	3,285
Credited to other comprehensive income	(2,026)
Balance at end of the year	10,576

	31 December 2014		31 December 2013	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Impairment allowances for loans and other assets	43,576	10,894	28,036	7,010
Amortization for long-term assets	-	-	36	9
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	-	-	6,452	1,614
Fair value changes of hedged available-for-sale financial assets recognized in profit or loss	19	5	13	3
Fair value changes of financial assets at fair value through profit or loss	-	-	630	158
Fair value changes of precious metals	-	-	194	49
Fair value changes of derivative financial instruments	691	173	1,907	477
Deferred income tax assets before offsetting	44,286	11,072	37,268	9,320

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.23 Deferred income tax assets (Continued)

	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Fair value changes of financial assets liabilities at fair value through profit or loss	(154)	(39)	-	-
Fair value changes of precious metals	(74)	(19)	-	-
Fair value changes of available-for-sale financial assets recognized in other comprehensive income	(1,647)	(412)	-	-
Amortization for long-term assets	(92)	(23)	-	-
Depreciation	(13)	(3)	(10)	(3)
Deferred tax liabilities before offsetting	(1,980)	(496)	(10)	(3)
Net deferred income tax assets after offsetting	42,306	10,576	37,258	9,317

As at 31 December 2014, the Bank offset deferred income tax assets and liabilities of RMB 496 million (31 December 2013: RMB 3 million).

5.24 Other assets

	Group		Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Net finance lease receivable (Note 1)	27,926	18,628	-	-
Interest receivable	17,328	14,709	16,933	14,535
Settlement and clearing accounts	5,397	3,280	5,397	3,280
Other receivables (Note 2)	2,869	2,143	2,456	2,116
Margin deposits for precious metal trading	3,336	1,398	3,336	1,398
Prepayment for constructions	792	718	792	718
Foreclosed assets	325	370	325	370
Prepaid land use rights	310	319	310	319
Other long-term assets	312	253	294	241
Total	58,595	41,818	29,843	22,977

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.24 Other assets (Continued)

Note 1: Finance lease receivable

The Group

	31 December 2014	31 December 2013
Gross finance lease receivable analysed by maturity:		
Within 1 year (including 1 year)	7,992	5,471
1 to 2 years (including 2 years)	7,559	5,468
2 to 3 years (including 3 years)	6,444	4,637
3 to 5 years (including 5 years)	8,262	5,377
Over 5 years	3,499	1,571
Gross amount of finance lease receivable	33,756	22,524
Unearned income	(5,150)	(3,516)
Net finance lease receivable	28,606	19,008
Net finance lease receivable analysed by maturity:		
Within 1 year (including 1 year)	6,257	4,229
1 to 5 years (including 5 years)	19,142	13,343
Over 5 years	3,207	1,436
	28,606	19,008
Impairment allowance	(680)	(380)
Net finance lease receivable	27,926	18,628

Note 2 Other receivables are analyzed by aging as follows:

	Group		Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Within 1 year	3,061	1,945	2,648	1,918
1 to 2 years	522	465	522	465
2 to 3 years	217	125	217	125
Over 3 years	616	715	616	715
	4,416	3,250	4,003	3,223
Less: Impairment allowance	(1,547)	(1,107)	(1,547)	(1,107)
Net other receivables	2,869	2,143	2,456	2,116

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.25 Impairment allowances for assets

Group	31December 2013	Charge	Write-off	Transfer-out	Others	31 December 2014
Loans and advances to customers	41,749	21,919	(7,423)	(2,203)	(276)	53,766
Other receivables	1,107	421	-	-	19	1,547
Foreclosed assets	677	39	-	(26)	-	690
Finance lease receivable	380	300	-	-	-	680
Interest receivable	206	160	-	-	-	366
Investments classified as loans and receivables	2,301	1,354	-	-	-	3,655
Available-for-sale financial assets	76	-	-	-	3	79
Total	46,496	24,193	(7,423)	(2,229)	(254)	60,783

Bank	31 December 2013	Charge	Write-off	Transfer-out	Others	31 December 2014
Loans and advances to customers	41,300	21,723	(7,349)	(2,203)	(276)	53,195
Other receivables	1,107	421	-	-	19	1,547
Foreclosed assets	677	39	-	(26)	-	690
Interest receivable	206	160	-	-	-	366
Investments classified as loans and receivables	2,301	1,354	-	-	-	3,655
Available-for-sale financial assets	76	-	-	-	3	79
Total	45,667	23,697	(7,349)	(2,229)	(254)	59,532

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.26 Due to and placements from banks and other financial institutions

	Group		Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Due to domestic banks	277,271	442,719	281,049	447,471
Due to other domestic financial institutions	364,063	211,449	364,483	211,471
Due to overseas banks	111,403	52,658	111,403	52,658
Due to other overseas financial institutions	8,794	5,691	8,794	5,691
Placements from domestic banks	37,098	53,886	16,065	40,590
Placements from overseas banks	25,000	8,095	25,000	8,095
Placements from other domestic financial institutions	1,000	-	1,000	-
Total	824,629	774,498	807,794	765,976

5.27 Financial assets sold under repurchase agreements

	Group		Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Bonds	48,613	70,088	48,613	70,088
Bills	18,922	9,469	18,796	9,420
Other financial assets (Note 1)	705	-	-	-
Total	68,240	79,557	67,409	79,508

Note 1: Other financial assets include the finance lease receivables under repurchase agreements of the leasing subsidiary of the Bank.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.28 Deposits from customers

	Group		Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Current deposits				
-Corporate	801,622	746,749	793,987	739,113
-Retail	111,674	100,065	110,373	98,545
Time deposits				
-Corporate	1,018,783	891,929	1,011,663	885,082
-Retail	362,552	327,022	357,641	323,896
Pledged deposits	418,068	350,781	415,515	349,134
Fiscal deposits	8,072	-	8,072	-
Other deposits	3,233	3,150	3,106	3,002
Total	2,724,004	2,419,696	2,700,357	2,398,772

5.29 Bonds issued

Group and Bank	31 December 2014	31 December 2013
Bonds issued		
Subordinated bond issued in 2011 (Note1)	18,400	18,400
Subordinated bond issued in 2012 (Note 2)	12,000	12,000
Other bond issued in 2012 (Note 3)	30,000	30,000
RMB bond issued in Hong Kong (Note 4)	1,000	-
Sub-total	61,400	60,400
Less: Unamortized issue cost	(5)	-
Net book value	61,395	60,400
Deposit certificates issued (Note 5)	85,272	11,570
Total	146,667	71,970

Note 1：The Bank issued subordinated bond in the amount of RMB 18.4 billion in the domestic inter-bank market on 11 October 2011 which have a term of 15 years through maturity, with a fixed annual coupon rate of 6.15%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

Note 2：The Bank issued subordinated bond in the amount of RMB 12.0 billion in the domestic inter-bank market on 28 December 2012 which have a term of 15 years through maturity, with a fixed annual coupon rate of 5.20%. The Bank is entitled to redeem entire portion of bond at face value on its tenth anniversary.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.29 Bonds issued (Continued)

Note 3：The Bank issued financial bond in the amount of RMB 30 billion in the domestic inter-bank market on 28 February 2012 which have a term of 5 years, with a fixed annual coupon rate of 4.20%.

Note 4：The Bank issued RMB bond in Hong Kong Exchanges and Clearing Limited in the amount of RMB 1 billion on 22 May 2014 which have a term of 3 years, with a fixed annual coupon rate of 4.08%.

Note 5: These deposit certificates were issued by the head office and the Hong Kong Branch of the Bank.

5.30 Other liabilities

	Group		Bank	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Wealth management products (Note 1)	69,220	59,305	69,220	59,305
Interest payable	38,750	32,841	38,462	32,605
Settlement and clearing accounts	10,973	6,456	10,973	6,456
Employee benefits payable	5,696	6,273	5,517	6,121
Business tax and surcharge, value added tax and other tax payables	3,430	3,129	3,348	3,133
Deposits under lease agreements	2,826	1,613	-	-
Deferred revenue	1,982	1,731	865	1,161
Fiscal deposits in transition	611	1,051	611	1,051
Relending	453	1,105	453	1,105
Accrued expenses	416	262	416	260
Proceeds from customers for subscribing mutual funds	348	413	348	413
Long term undrawn deposits	97	102	97	102
Others	1,040	1,075	894	1,003
Total	135,842	115,356	131,204	112,715

Note 1:

The Group records the proceeds received from customers for purchase of principal guaranteed wealth management products issued and managed by the Group in “other liabilities” on the statement of financial position. The corresponding assets of the wealth management products are presented in respective line items of the statement of financial position.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.31 Ordinary shares

Group and Bank

	2014-12-31	2013-12-31
RMB ordinary shares	18,653	18,653

5.32 Preference shares

Name of the Preference shares	Dividend rate	Par value	Number	Carrying value	Maturity Date	Converted (Yes/No)
Preference shares	6% per annum for the first 5 years	RMB 100	150 million	14,960	No maturity date	No conversion during the year

On 28 November 2014, the Bank issued non-cumulative preference shares with the par value of RMB 15 billion. The proceeds after deducting transaction costs amounted to Rmb 14.96 billion and were recorded as Preference shares. The Bank has the option to redeem part or all outstanding preference shares on any dividend payment date after five years from the issuance if certain conditions are met, such as approval obtained from the CBRC. Holders of the preference shares have no right to require the Bank to redeem the outstanding preference shares. Dividends of the preference shares are payable in cash on annual basis at a fixed dividend rate which is adjusted every five years. The Bank at its discretion has the right not to declare and distribute the dividends of the preference shares in part or full.

Upon occurrence of any of the following triggering events and subject to the approval from the CBRC, the Bank’s outstanding preference shares shall be mandatorily converted in part or full to the Bank’s ordinary shares:

i) When the core tier 1 capital adequacy ratio of the Bank decreases to 5.125% or below, upon the approval from the Board of Directors, the outstanding preference share shall be converted into the Bank’s ordinary shares in part or full at a pre-determined mandatory conversion price so as to bring the Bank’s core tier 1 capital adequacy ratio back to 5.125% or above;

ii) When any triggering event of the Bank’s tier 2 capital instruments occurs, the outstanding preference shares shall be converted to the Bank’s ordinary A shares at the pre-determined mandatory conversion price.

The initial conversion price is RMB 10.96 per share, being the average price of the Bank’s ordinary A shares during the 20 consecutive trading days before offering memorandum was approved by the Bank’s Board of Directors. If the Bank subsequently appropriates bonus shares, transfers retained earnings to ordinary shares, issues new ordinary shares (excluding any increase of ordinary shares due to conversion of convertible financial instruments issued by the Bank, such as preference shares and convertible bonds, etc) or issue rights, the conversion price shall be adjusted subject to the terms and formula provided by the offering documents to adjust for the dilutive effects of these specified increases in ordinary shares.

Pursuant to the relevant laws and regulations, and the Approval from CBRC on SPD’s Non-Public Offering of Preference Shares and Corresponding Revisions to the Article of Association (YJF[2014]No.564), the proceeds from the issuance of preference shares can be used to supplement the other tier 1 capital of the Bank.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.32 Preference shares (Continued)

Upon liquidation, the holders of the Bank's preference shares are entitled to the repayment at the par value of the outstanding preference shares prior to any distribution to the holders of the Bank's ordinary shares. If the remaining assets of the Bank are not sufficient to cover the par value, they are allocated to the holders of preference shares on proportionate basis.

5.33 Capital surplus

Group

	31 December 2013	Addition	Deduction	31 December 2014
Share premium	60,568	-	-	60,568
Other capital surplus	71	-	-	71
Capital increase of subsidiaries	50	-	-	50
Others	21	-	-	21
Total	60,639	-	-	60,639

	31 December 2012	Addition	Deduction	31 December 2013
Share premium	60,568	-	-	60,568
Other capital surplus	21	50	-	71
Capital increase of subsidiaries	-	50	-	50
Others	21	-	-	21
Total	60,589	50	-	60,639

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.33 Capital surplus (Continued)

Bank

	31 December 2013	Addition	Deduction	31 December 2014
Share premium	60,568	-	-	60,568
Other capital surplus	21	-	-	21
Others	21	-	-	21
Total	60,589	-	-	60,589

	31 December 2012	Addition	Deduction	31 December 2013
Share premium	60,568	-	-	60,568
Other capital surplus	21	-	-	21
Others	21	-	-	21
Total	60,589	-	-	60,589

5.34 Surplus reserves

Group and Bank

	31 December 2013	Addition	31 December 2014
Statutory reserve (Note 5.37)	13,475	4,063	17,538
Discretionary reserve (Note 5.37)	23,985	8,124	32,109
Total	37,460	12,187	49,647

	31 December 2012	Addition	31 December 2013
Statutory reserve (Note 5.37)	10,071	3,404	13,475
Discretionary reserve (Note 5.37)	17,177	6,808	23,985
Total	27,248	10,212	37,460

Pursuant to related PRC regulations, the Bank is required to appropriate 10% of its annual net profit to a non-distributable statutory reserve until such reserve has reached 50% of ordinary shares. After the appropriation of statutory reserve, the Bank may further appropriate discretionary reserve.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.35 General risk reserve

Group

	31 December 2013	Addition	31 December 2014
General risk reserve	29,489	7,369	36,858

	31 December 2012	Addition	31 December 2013
General risk reserve	23,052	6,437	29,489

Bank

	31 December 2013	Addition	31 December 2014
General risk reserve (Note 5.37)	29,450	7,250	36,700

	31 December 2012	Addition	31 December 2013
General risk reserve (Note 5.37)	23,050	6,400	29,450

Pursuant to Caijin [2012] No. 20 “Administration Rules on Appropriation to General Risk Reserve for Financial Institutions” issued by the Ministry of Finance (“MOF”), the Bank and its domestic subsidiaries are required to make appropriation to a general risk reserve effective from 1 July 2012 and the balance of such reserve shall not be less than 1.5% of the entity’s risk assets in five-year time.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.36 Revaluation reserve

Group and Bank	31 December 2013	Addition	Deduction	31 December 2014
Changes in fair value of available-for-sale financial assets	(4,837)	6,073	-	1,236
Changes of other equity items of associates and joint ventures	(27)	46	-	19
Total	(4,864)	6,119	-	1,255

Group and Bank	31 December 2012	Addition	Deduction	31 December 2013
Changes in fair value of available-for-sale financial assets	(1,000)	-	(3,837)	(4,837)
Changes of other equity items of associates and joint ventures	(29)	2	-	(27)
Total	(1,029)	2	(3,837)	(4,864)

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.37 Retained earnings

Group

	Year ended 31 December	
	2014	2013
	Amount	Amount
Opening balance of retained earnings	62,998	48,984
Plus: Net profit attributable to the Bank's Shareholders for the year	47,026	40,922
Less: Appropriation to statutory reserve	(4,063)	(3,404)
Appropriation to discretionary reserve	(8,124)	(6,808)
Appropriation to general risk reserve	(7,369)	(6,437)
Cash dividends	(12,311)	(10,259)
Ending balance of retained earnings	78,157	62,998

As at 31 December 2014, retained earnings of the Group included subsidiaries' surplus reserves attributable to the Bank of RMB 83.52 million (31 December 2013: RMB 36.63 million), of which the current year's appropriation amounted to RMB 46.89 million (2013: RMB 30.69 million).

Bank

	Year ended 31 December	
	2014	2013
	Amount	Amount
Opening balance of retained earnings	62,515	48,764
Plus: Net profit attributable to the Bank's Shareholders for the year	46,679	40,622
Less: Appropriation to statutory reserve	(4,063)	(3,404)
Appropriation to discretionary reserve	(8,124)	(6,808)
Appropriation to general risk reserve	(7,250)	(6,400)
Cash dividends	(12,311)	(10,259)
Ending balance of retained earnings	77,446	62,515

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.37 Retained earnings (Continued)

Pursuant to the resolution of 2013 Annual General Meeting on 26 May 2014, the Bank appropriated 10% and 20% of its net profit for the year ended 31 December 2013 to the statutory reserve and the discretionary reserve in the amount of RMB 4.063 billion and RMB 8.124 billion respectively. The Bank further appropriated RMB 7.25 billion to general risk reserve. Cash dividends of RMB 12.311 billion (RMB 6.6 before tax per 10 shares) were also approved by shareholders.

In accordance with a resolution of the board meeting on 17 March 2015, the Board of Directors proposed to appropriate 10% and 20% of the Bank’s net profit for the year ended 31 December 2014 to the statutory reserve and discretionary reserve in the amount of RMB 4,668 million and RMB 9,336 million respectively. The Bank further proposed an appropriation of RMB 8.9 billion to general risk reserve. Cash dividends of RMB 14.121 billion (RMB 7.57 before tax per 10 ordinary shares) to ordinary shareholders were also proposed. These appropriations are subject to final approval by shareholders.

5.38 Non-controlling interests

Non-controlling interests of the Group are as follows:

	31 December 2014	31 December 2013
SPD Financial Leasing Co., Ltd.	1,410	1,273
Pufa International Holding Co., Ltd	-	-
Mianzhu SPD Rural Bank Co., Ltd.	46	42
Liyang SPD Rural Bank Co., Ltd.	145	138
Gongyi SPD Rural Bank Co., Ltd.	136	123
Fengxian SPD Rural Bank Co., Ltd.	131	148
Zixing SPD Rural Bank Co., Ltd.	114	112
Chongqing Banan SPD Rural Bank Co., Ltd.	56	45
Zouping SPD Rural Bank Co., Ltd.	133	128
Zezhou SPD Rural Bank Co., Ltd.	163	153
Dalian Ganjingzi SPD Rural Bank Co., Ltd.	41	35
Hancheng SPD Rural Bank Co., Ltd.	36	29
Jiangyin SPD Rural Bank Co., Ltd.	83	72
Pingyang SPD Rural Bank Co., Ltd.	68	63
Xinchang SPD Rural Bank Co., Ltd.	96	76
Yuanjiang SPD Rural Bank Co., Ltd.	29	25
Chaling SPD Rural Bank Co., Ltd.	30	25
Linchuan SPD Rural Bank Co., Ltd.	60	50
Linwu SPD Rural Bank Co., Ltd.	28	24
Hengnan SPD Rural Bank Co., Ltd.	26	24
Haerbing hulan SPD Rural Bank Co., Ltd.	53	50
Gongzhulin SPD Rural Bank Co., Ltd.	23	23
Yuzhong SPD Rural Bank Co., Ltd.	29	25
Yunnan Fumin Rural Bank Co., Ltd.	27	25
Ningbo Haishu Rural Bank Co., Ltd.	52	49
Urumchi Midong SPD Rural Bank Co., Ltd.	50	46
Tianjin Baodi SPD Rural Bank Co., Ltd.	51	49
Total	3,116	2,852

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.39 Structured entities

(1) Structured entities that are not consolidated

i) Unconsolidated structured entities managed by the Group

Unconsolidated structured entities established and managed by the Group as an agent are wealth management product vehicles and securitization vehicles.

These wealth management products are designed and issued to specific customers based on analysis of potential target customers, and the proceeds from these products are invested in certain financial market or investment products in accordance with guidelines determined in the contracts. The returns on investment are distributed to investors pursuant to contract terms. As the asset manager, the Group is entitled to sales commission, a fixed management fee and a floating management fee based on performance of the product. The Group has performed analysis and concluded that its variable return related to these structured entities is not material. As at 31 December 2014, the Bank’s maximum risk exposure on these wealth management products refer to those commission and fees which are not material.

In 2014, unconsolidated wealth management products established and managed by the Group amounted to Rmb 575.9 billion (2013: Rmb 256.9 billion).

As the asset manager, the Group actively manages the maturities of assets and liabilities of these wealth management product vehicles to maximize the return for the investors. Temporary funding from the Group to these wealth management product vehicles is one of the practical approaches for liquidity management but not a contractual obligation to the Group. The price of the temporary funding is based on market price. In 2014, the Group did not provide funding to these wealth management product vehicles (In 2013, the Group had provided funding totalling RMB 12.8 billion with an average tenor of 10.7 days and earned interest income of RMB 13.09 million).

Another type of unconsolidated structured entities managed by the Group is the special purpose vehicles (“SPV”) established by trust company for the asset securitization. Such SPVs purchased loan assets from the Bank and issued securities to investors. The repayment of such securities comes from the cash flow of the underlying loan assets. The Bank acts as a service provider and manages loan assets transferred to SPVs and is entitled to the commission fee. The Bank also holds 5% of each tier of asset backed securities. The Group concluded that its variable returns from these SPVs are not material. At 31 December 2014, the Group’s maximum risk exposure in these unconsolidated SPVs amounted to RMB 531 million (31 December 2013: Nil), being the aggregated carrying value of asset backed securities held by the Group. The Group recorded these asset backed securities as “investment securities-loans and receivables.”

As at 31 December 2014, total assets of these unconsolidated SPVs amounted to RMB 10,471 million (31 December 2013: Nil).

The Bank did not provide financial support to these unconsolidated SPVs in 2014.

ii) Unconsolidated structured entities invested by the Group

Unconsolidated structured entities that are invested by the Group during 2014 mainly included wealth management products issued and managed by independent third parties, and trust and asset management plans. These unconsolidated structured entities that are invested by the Group are classified as available-for-sale or loans and receivables financial assets respectively. The Group did not provide liquidity support to these structured entities in 2014.

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

5 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5.39 Structured entities (Continued)

(1) Structured entities that are not consolidated (Continued)

ii) Unconsolidated structured entities invested by the Group (Continued)

The carrying value of assets of these unconsolidated structured entities and the Group's maximum risk exposure on loss are listed as follows:

As at 31 December 2014	Carrying Value	Maximum risk exposure on loss	Total volume of structured entities
Investment securities - loans and receivables			
Wealth management products of other banks	145,874	145,874	Note 1
Asset backed securities	7,137	7,137	Note 1
Trust and asset management plans	652,617	652,617	656,017
Available-for-sale financial assets			
Asset management plans	960	960	4,894

As at 31 December 2013	Carrying Value	Maximum risk exposure on loss	Total volume of structured entities
Investment securities - loans and receivables			
Wealth management products of other banks	24,935	24,935	Note1
Trust and asset management plans	436,081	436,081	436,081
Available-for-sale financial assets			
Asset management plans	5,031	5,031	5,031

Note 1: Total volume of these wealth management products and asset backed securities is not available in the public information.

The Group earns interest income as return on these investments and commission income for providing services to these structured entities.

(2) Consolidated structured entities

Consolidated structured entities include principal-guaranteed wealth management product vehicles established and managed by the Group (Note 5.30). The Group did not provide liquidity support to these consolidated structured entities during 2014.

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

6 SEGMENT REPORTING

Top management of the Group reviews the performance of the Bank's branches and subsidiaries in different economic regions from geographic perspective. The branches and subsidiaries of the Bank mainly provide services to local customers domiciled in respective geographic areas, therefore operating segments are analysed principally based on the location of the assets.

The operating segments' principal income are mainly from various commercial and investment banking services, including deposits and loans, discounted bills, trade finance, inter-bank money market and investments etc. Shanghai segment includes business activities conducted by head office, business units under direct management of the head office and Shanghai branch of the Bank. Majority of the Group's income is generated from Mainland China.

	Shanghai	Beijing	Sichuan	Tianjin	Shandong	Guangdong	Jiangsu	Henan	Zhejiang	Liaoning	Others	Elimination	Total
Year ended 31 December 2014													
Interest income	213,860	23,122	16,143	14,216	14,731	31,245	28,978	15,043	33,033	13,805	102,746	(294,907)	212,015
Including: External interest income	*43,094*	*8,822*	*10,678*	*9,551*	*8,040*	*15,146*	*15,609*	*8,205*	*19,360*	*9,028*	*64,482*	-	*212,015*
Internal interest income	*170,766*	*14,300*	*5,465*	*4,665*	*6,691*	*16,099*	*13,369*	*6,838*	*13,673*	*4,777*	*38,264*	*(294,907)*	-
Interest expense	(197,712)	(17,731)	(12,270)	(10,478)	(10,415)	(24,186)	(20,025)	(9,914)	(24,127)	(9,517)	(72,364)	294,907	(113,832)
Including: External interest expense	*(35,810)*	*(10,265)*	*(3,420)*	*(2,590)*	*(4,013)*	*(11,724)*	*(6,669)*	*(3,424)*	*(7,640)*	*(2,862)*	*(25,415)*	-	*(113,832)*
Internal interest expense	*(161,902)*	*(7,466)*	*(8,850)*	*(7,888)*	*(6,402)*	*(12,462)*	*(13,356)*	*(6,490)*	*(16,487)*	*(6,655)*	*(46,949)*	*294,907*	-
Net interest income	16,148	5,391	3,873	3,738	4,316	7,059	8,953	5,129	8,906	4,288	30,382	-	98,183
Net fee and commission income	8,232	922	456	649	792	1,550	1,226	720	964	741	5,094	-	21,346
Dividend income	48	-	-	-	-	-	-	-	-	-	-	-	48
Net trading income	1,752	-	-	-	-	-	-	-	-	-	(14)	-	1,738
Net gains on disposal of investment securities	132	-	-	-	-	-	-	-	-	-	-	-	132
Other operating income	42	83	42	165	189	171	345	115	286	74	583	-	2,095

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

6 SEGMENT REPORTING (Continued)

	Shanghai	Beijing	Sichuan	Tianjin	Shandong	Guangdong	Jiangsu	Henan	Zhejiang	Liaoning	Others	Elimination	Total
Year ended 31 December 2014													
Employee expenses, depreciation and other general and administrative expenses	(7,302)	(1,684)	(664)	(894)	(1,145)	(2,113)	(2,200)	(1,249)	(2,642)	(1,242)	(8,119)	-	(29,254)
Business tax and surcharges	(1,452)	(371)	(301)	(253)	(406)	(505)	(787)	(402)	(933)	(414)	(2,323)	-	(8,147)
Impairment charges	(3,409)	(221)	(31)	(607)	(949)	(1,793)	(1,427)	(504)	(7,936)	(1,283)	(6,033)	-	(24,193)
Share of results of associates and joint ventures	82	-	-	-	-	-	-	-	-	-	-	-	82
Total profit / (loss)	14,273	4,120	3,375	2,798	2,797	4,369	6,110	3,809	(1,355)	2,164	19,570	-	62,030
31 December 2014													
Loans and advances to customers	314,983	96,276	72,126	63,366	90,898	117,497	195,280	97,909	240,611	103,215	582,453	-	1,974,614
Total assets	1,484,936	316,914	129,455	151,993	142,176	391,468	313,653	164,102	323,661	148,725	1,033,047	(404,206)	4,195,924
Deposits from customers	481,724	179,285	97,913	101,610	125,621	210,277	280,685	150,593	260,316	114,496	721,484	-	2,724,004
Total liabilities	1,278,287	312,971	126,134	149,257	139,375	387,637	307,756	160,389	327,834	146,697	1,000,508	(404,206)	3,932,639
Net position of assets and liabilities	206,649	3,943	3,321	2,736	2,801	3,831	5,897	3,713	(4,173)	2,028	32,539	-	263,285

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

6 SEGMENT REPORTING (Continued)

	Shanghai	Beijing	Sichuan	Tianjin	Shandong	Guangdong	Jiangsu	Henan	Zhejiang	Liaoning	Others	Elimination	Total
Year ended 31 December 2013													
Interest income	187,127	19,320	14,232	11,629	12,088	22,564	25,247	13,450	32,224	13,691	90,197	(263,965)	177,804
Including: External interest income	*37,254*	*7,779*	*8,817*	*7,327*	*6,484*	*11,451*	*12,900*	*7,061*	*17,787*	*8,410*	*52,534*	-	*177,804*
Internal interest income	*149,873*	*11,541*	*5,415*	*4,302*	*5,604*	*11,113*	*12,347*	*6,389*	*14,437*	*5,281*	*37,663*	*(263,965)*	-
Interest expense	(172,579)	(14,731)	(10,493)	(8,575)	(8,624)	(17,451)	(17,526)	(9,144)	(22,925)	(9,716)	(64,828)	263,965	(92,627)
Including: External interest expense	*(25,663)*	*(7,552)*	*(3,094)*	*(2,323)*	*(3,271)*	*(7,176)*	*(6,180)*	*(3,180)*	*(8,186)*	*(3,285)*	*(22,717)*	-	*(92,627)*
Internal interest expense	*(146,916)*	*(7,179)*	*(7,399)*	*(6,252)*	*(5,353)*	*(10,275)*	*(11,346)*	*(5,964)*	*(14,739)*	*(6,431)*	*(42,111)*	*263,965*	-
Net interest income	14,548	4,589	3,739	3,054	3,464	5,113	7,721	4,306	9,299	3,975	25,369	-	85,177
Net fee and commission income	3,478	481	368	558	652	989	991	605	1,104	595	4,083	-	13,904
Dividend income	54	-	-	-	-	-	-	-	-	-	-	-	54
Net trading income	(1,270)	-	-	-	-	-	-	-	-	-	(31)	-	(1,301)
Net gains on disposal of investment securities	10	-	-	-	-	-	-	-	-	-	-	-	10
Net gains on disposal of interest in an associate	386	-	-	-	-	-	-	-	-	-	-	-	386
Other operating income	555	78	27	112	138	108	199	36	304	93	473	-	2,123

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

6 SEGMENT REPORTING (Continued)

	Shanghai	Beijing	Sichuan	Tianjin	Shandong	Guangdong	Jiangsu	Henan	Zhejiang	Liaoning	Others	Elimination	Total
Year ended 31 December 2013													
Employee expenses, depreciation and other general and administrative expenses	(7,105)	(1,474)	(567)	(984)	(1,043)	(1,900)	(2,021)	(1,038)	(2,738)	(1,195)	(6,658)	-	(26,723)
Business tax and surcharges	(973)	(307)	(268)	(224)	(359)	(409)	(694)	(330)	(951)	(377)	(1,921)	-	(6,813)
Impairment charges	(2,188)	(208)	(394)	(263)	(681)	(205)	(1,145)	(364)	(4,010)	(419)	(3,197)	-	(13,074)
Share of results of associates and joint ventures	106	-	-	-	-	-	-	-	-	-	-	-	106
Total profit	7,601	3,159	2,905	2,253	2,171	3,696	5,051	3,215	3,008	2,672	18,118	-	53,849
31 December 2013													
Loans and advances to customers	221,717	78,569	67,315	58,400	79,954	105,753	179,927	82,985	248,234	97,973	504,918	-	1,725,745
Total assets	1,194,762	251,696	165,909	128,969	157,597	269,460	291,530	145,802	317,271	146,782	986,401	(376,054)	3,680,125
Deposits from customers	362,890	161,658	107,482	91,894	110,706	169,412	245,927	135,097	270,939	113,440	650,251	-	2,419,696
Total liabilities	1,038,061	248,452	162,947	126,526	155,360	265,712	286,331	142,549	315,169	144,032	963,813	(376,054)	3,472,898
Net position of assets and liabilities	156,701	3,244	2,962	2,443	2,237	3,748	5,199	3,253	2,102	2,750	22,588	-	207,227

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

7 CONTINGENCIES AND COMMITMENTS

7.1 Credit commitment

The Group's credit commitment is listed as follows:

Item	31 December 2014	31 December 2013
Bank acceptances	574,709	502,094
Bills acceptance under letters of credit	157,179	64,935
Letters of guarantee issued	143,042	81,195
Letters of credit issued	31,051	97,336
Credit card and other commitments	107,400	96,838
Total	1,013,381	842,398

As at 31 December 2014, there is no outstanding commitment on security underwriting (31 December 2013: Nil).

7.2 Commitment on early redemption of certificate treasury bonds

The Group is entrusted by the MOF to underwrite certificate treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is committed to redeem these treasury bonds. The MOF will not provide funding for the early redemption of these treasury bonds on a back-to-back basis but will pay interest and repay the principal at maturity. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 31 December 2014, the outstanding principal value of the treasury bonds sold by the Group amounted to RMB 2,939 million (31 December 2013: RMB 2,412 million). Management expects the amount of redemption before the maturity dates of these bonds through the Group will not be material.

7.3 Operating lease commitment

According to the lease contract terms, the minimum lease payment commitment of the Group is as follows:

	31 December 2014	31 December 2013
Within 1 year	1,827	1,586
1 to 5 years	5,295	4,431
Over 5 years	1,923	2,027
Total	9,045	8,044

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

7 CONTINGENCIES AND COMMITMENTS (Continued)

7.4 Capital commitment

As at 31 December 2014, the major capital commitment the Group had signed but not paid amounted to RMB 207 million (31 December 2013: RMB 449 million).

7.5 Legal proceedings

As at 31 December 2014, the number of outstanding legal proceedings where the Group acts as the defendant was 69, and the amount involved was about RMB 1,564 million. The Group had assessed individual cases and is of the view that no provision was required (At 31 December 2013: the number of outstanding litigations where the Group acted as defendant was 42, and the amount involved was about RMB 339 million).

8 FIDUCIARY BUSINESSES

The Group provides safe-keeping and entrusted loan businesses to independent third party customers. The assets arising from these businesses are not recorded on the Group’s statement of financial position. As at 31 December 2014, the balance of entrusted loan business was RMB 199 billion (As at 31 December 2013: RMB 166.7 billion).

9 RELATED PARTIES

9.1 Major related parties

The related parties of the Bank mainly include its subsidiaries, associates, joint ventures, the major shareholders who hold 5% or more ordinary shares of the Bank and their group companies (including parent and all subsidiaries), key management personnel of the Bank (including directors, supervisors and senior management personnel) and their close family members, and the companies that are controlled, or under common control of, or significant influence by these key management personnel and their close family members.

9.2 Major shareholders holding more than 5% shares of the bank

As at 31 December 2014, major shareholders holding more than 5% ordinary shares of the Bank are as follows:

	Percentage	Major business
China Mobile Group Guangdong Company Limited	20.00%	Mobile and Communication
Shanghai International Group Co., Ltd.	16.93%	Financial Services
Shanghai International Trust Investment Company	5.23%	Trust Business

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

9 RELATED PARTIES (Continued)

9.3 Subsidiaries

For general information of the Bank's subsidiaries, please refer to Note 4 "Scope of consolidated financial statements."

9.4 Associates and joint ventures

For general information of associates and joint ventures, please refer to Note 5.20 "Investments in associates and joint ventures."

9.5 Other major related parties

Other related parties mainly include respective group companies of shareholders who hold 5% or more ordinary shares of the Bank, key management personnel of the Bank (including the directors, supervisors and senior management) and their close family members, and the companies that are controlled, or under common control of, or significant influence by these key management personnel and their close family members.

9.6 Transactions and balances with related parties

The major transactions between the Group and its related parties are loans and deposits. These transactions are conducted and priced under the normal commercial terms and business procedures as if they were conducted with independent third parties. The amount of transactions with related parties is not significant to the total volume of each type of the Group's business.

(1) Loans and advances to customers

	31 December 2014	31 December 2013
Associates and joint ventures	7	-
Companies with significant influence by key management personnel	725	275
Group companies of major shareholders	1,844	500
Total	2,576	775

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	188	20

(2) Due from banks and other financial institutions

	31 December 2014	31 December 2013
Associates and joint ventures	-	435

	Year ended 31 December 2014	Year ended 31 December 2013
Interest income	-	2

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

9 RELATED PARTIES (Continued)

9.6 Transactions and balances with related parties (Continued)

(3) Derivative transactions with related parties

	31 December 2014		
	Notional amount	Fair value	
		Assets	Liabilities
Associates and joint ventures			
Foreign exchange forward contracts	92	1	(1)
Derivative financial assets/liabilities		1	(1)

	31 December 2013		
	Notional amount	Fair value	
		Assets	Liabilities
Associates and joint ventures			
Currency swap contracts	2,289	7	(5)
Foreign exchange forward contracts	657	2	(8)
Derivative financial assets/liabilities		9	(13)

(4) Deposits from customers

	31 December 2014	31 December 2013
Major shareholders	3,873	3,062
Companies with significant influence by key management personnel	13,462	6,288
Group companies of major shareholders	31,735	32,536
Total	49,070	41,886

	Year ended 31 December 2014	Year ended 31 December 2013
Interest expense	1,501	1,228

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

9 RELATED PARTIES (Continued)

9.6 Transaction between related parties (Continued)

(5) Due to other banks and financial institutions

	31 December 2014	31 December 2013
Major shareholders	226	19
Associates and joint ventures	841	1,036
Group companies of major shareholders	7,921	7,910
Companies with significant influence by key management personnel	867	240
Total	9,855	9,205

	Year ended 31 December 2014	Year ended 31 December 2013
Interest expense	564	334

(6) Letters of guarantee issued

	31 December 2014	31 December 2013
Group companies of major shareholders	-	1
Associates and joint ventures	3	12
Companies with significant influence by key management personnel	-	303
Total	3	316

The outstanding letters of guarantee as at 31 December 2014 will expire in 2015.

(7) Operating expenses

	Year ended 31 December 2014	Year ended 31 December 2013
Major shareholders	2	1
Group companies of major shareholders	124	82
Total	126	83

The Group makes payments to one major shareholder and its group companies for purchase of mobile communication services.

(8) Commission income from related parties

	Year ended 31 December 2014	Year ended 31 December 2013
Group companies of major shareholders	-	2
Associates and joint ventures	18	15
Total	18	17

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

9 RELATED PARTIES (Continued)

9.6 Transaction between related parties (Continued)

(9) Entrusted investment

	2014-12-31	2013-12-31
Companies with significant influence by key management personnel	4,010	-

(10) Related parties that are controlled by the Bank

Related parties that are controlled by the Bank are the subsidiaries of the Bank (refer to Note 4 for details). Major transactions with these subsidiaries are eliminated in the consolidated financial statements, and are summarized as follows:

Balances at year end	31 December 2014	31 December 2013
Balance with other banks and financial institutions	571	340
Interest receivable	3	-
Due to banks and other financial institutions	4,588	5,853
Interest payable	5	26
Placements with other banks and financial institutions	1,010	-
Others	386	-

Transactions for the year:	Year ended 31 December 2014	Year ended 31 December 2013
Interest income from balance with other banks and financial institutions	25	11
Interest income from placements with other banks and financial institutions	13	1
Interest expense from Due to banks and other financial institutions	166	155
Net fee and commission income	21	21
Income from other businesses	1	3

9 RELATED PARTIES (Continued)

(11) Compensation of key management personnel

Transactions between the Group and its key management personnel are conducted under normal commercial terms. During 2014, individual amounts of transactions with key management personnel are not significant.

According to the relevant regulations, the 2014 annual compensation of Bank’s directors, supervisors and senior management personnel is yet to be approved by relevant authorities. The compensation of key management personnel does not have significant impact on the Group and the Bank’s financial statements of 2014 (The aggregated compensation of Bank’s directors, supervisors and senior management personnel for 2013 was RMB 38.70 million).

10 FINANCIAL RISK MANAGEMENT

The Group exposes to a variety of financial risks. The Group analyses, evaluates, accepts and manages some degree of risks or risk portfolios. Managing financial risk is core to the financial industry, and the inherent risks are an inevitable consequence of business operation. The Group’s aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse impact on the Group’s financial performance.

The Group designs a series of risk management policies to identify and analyse these risks, and has set appropriate risk limits and control procedures to monitor the risks and limits through reliable information systems.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes currency risk and interest rate risk.

The Board of Directors of the Bank is responsible for determining the Group's overall risk appetite. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, related departments of the head office are responsible for their implementation.

10.1 Credit risk

Credit risk is the risk that a customer or counterparty may be failing or unwilling to discharge an obligation or commitment to the Group resulting in a financial loss to the Group. Credit risk is greater when counterparties are concentrated in one industry or geographic region, because a group of otherwise unrelated counterparties could be adversely affected in their ability to fulfill their obligations due to same economic factors affecting their common industry or region.

The Group has established relevant mechanism, and set limit for individual borrower’s tolerable credit risk. The Group regularly monitors and reviews this credit risk limit.

The Group conducts credit evaluation before granting facilities to specific customer, and regularly examines the credit limit granted. The approaches of credit risk management include obtaining collateral and guarantee. For off-balance sheet credit commitments, the Group generally obtains guarantee deposits to mitigate the credit risk.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.1 Credit risk measurement

(i) Loans

The Group has established a five-grade classification system to measure and manage the credit quality of its loans and advances to corporate and retail customers. Such classification system is based on “Guideline for Credit Risk Classification” (the “Guideline”) issued by the CBRC on 3 July 2007. The Group’s own system and the Guideline require the Group to classify its credit assets and off-balance sheet credit exposures into five categories, which are namely pass, special-mention, substandard, doubtful and loss, among which loans classified in the substandard, doubtful and loss categories are regarded as non-performing loans.

The core definition of the credit asset classification is as follows:

Pass: loans for which borrowers can fulfill the terms of the contracts, and there is no reason to believe their ability to repay principal or interest of loans on a timely basis is in doubt.

Special Mention: loans for which borrowers are able to service the loans currently, although there exist some negative factors which may affect the borrower to repay the loans on time.

Substandard: loans for which borrowers’ ability to service loans is apparently in doubt and borrowers cannot rely on their proceeds from normal operations to repay the principal and interest of loans. Certain losses may be incurred by the Group even when guarantees are executed.

Doubtful: loans for which borrowers cannot repay the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and proceeding necessary legal procedures.

(ii) Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale and issuer’s credit rating and establishing post lending management standards. Generally, for foreign currency securities, only those with credit ratings (by Standard & Poor or equivalent agencies) equivalent to or higher than BBB can be invested. Investments in RMB debt securities are limited to those bonds with credit rating equivalent to or above BBB+ assigned by rating agencies recognized by the PBOC. For middle or long term RMB debt securities, their credit ratings granted by PBOC recognized agencies cannot be lower than A-. For short term RMB debt securities, their credit ratings granted by the PBOC recognized agencies cannot be lower than A-1.

(iii) Other financial assets classified as loans and receivables

Other financial assets classified as loans and receivables, include wealth management products issued and managed by other banks, trust plans and asset management plans. The Group established a risk evaluation system on the trust companies, security companies and fund management companies, set up credit limit for parties repurchasing trust beneficial rights, issuers of wealth management products, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

(iv) Inter-bank transactions

The Group reviews and monitors the credit risk of individual financial institutions on regularly basis. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Group.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.1 Credit risk measurement (Continued)

(v) Derivative financial instruments

The Group strictly controls the volume of derivative transactions. For corporate customers, the Group mitigates credit risk associated with derivative financial instruments by acquiring margin deposits from counterparties.

(vi) Credit commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Letters to guarantee issued, acceptances, bill acceptance and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. When the amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's exposure of credit risk is equivalent to the total amount of credit commitments.

10.1.2 Credit risk limit management and mitigation procedures

The Group manages and limits the concentrations of credit risk, including concentration to individual counterparty, group, industry and region.

The Group continuously optimizes the credit risk structure by setting limits on the borrower, group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent review where necessary.

The Group manages the exposure to credit risk through regular analyses of borrowers and potential borrowers’ abilities to fulfill interest and principal repayment obligations and amends the lending limits where appropriate.

The Group has established relevant policies to mitigate credit risk. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals. The Group provides guidelines on the acceptance of specific classes of collateral. The principal types of collateral for loans and advances are:

- Residential property and land use right;
- Commercial assets, such as commercial property, inventory and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.2 Risk limit management and mitigation policies (Continued)

Fair value of collateral is usually required to be assessed by professional valuer designated by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collateral as follows:

Collateral	Maximum loan-to-value ratio
Time deposit	95%-100%
PRC treasury bonds	90%-100%
PRC financial institution bonds	90%
Right to collect fees	70%
Right to operate a business	60%
Commercial property and plant	60%
Residential property	70%
Land use right	60%

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on regular basis.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.3 Maximum exposure to credit risk without considering collateral or other credit enhancements

	31 December 2014	31 December 2013
Credit risk exposure relating to balance sheet items:		
Balances with central bank	498,842	469,685
Due from and placements with banks and other financial institutions	164,256	260,130
Financial assets at fair value through profit or loss	32,841	28,627
Derivative financial assets	2,612	1,946
Financial assets purchased under resale agreements	196,188	295,953
Loans and advances to customers	1,974,614	1,725,745
Available-for-sale financial assets	219,668	155,593
Investment securities - held-to-maturity	121,698	146,253
Investment securities - loans and receivables	877,171	515,234
Other financial assets	53,520	38,760
Sub-total	4,141,410	3,637,926
Credit risk exposure relating to off-balance sheet items:		
Bank acceptance	574,709	502,094
Bills acceptance under letter of credit	157,179	64,935
Letters of guarantee issued	143,042	81,195
Letters of credit issued	31,051	97,336
Unused credit card and other commitments	107,400	96,838
Sub-total	1,013,381	842,398
Total	5,154,791	4,480,324

The table above represents the worst case scenario of credit risk exposure to the Group, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.4 Due from and placements with banks and other financial institutions and financial assets purchased under resale agreements

All those assets are neither past due nor impaired. Credit risk of those assets can be analyzed by type of counterparty as follows:

	31 December 2014	31 December 2013
Domestic commercial banks	117,391	250,646
Overseas commercial banks	47,843	22,092
Domestic non-bank financial institutions	5,712	4,225
	170,946	276,963

Bonds and bills purchased under resale agreements, which are fully pledged by bank accepted bills and bonds, amounted to RMB 189.50 billion as at 31 December 2014 (2013: RMB 279.10 billion). The Group does not expect significant credit risk from them.

10.1.5 Loans and advances to customers

Group	31 December 2014	31 December 2013
Neither past due nor impaired	1,989,450	1,744,261
Past due but not impaired	17,345	10,172
Impaired	21,585	13,061
Total	2,028,380	1,767,494
Less: Impairment allowance	(53,766)	(41,749)
Net	1,974,614	1,725,745

(i) Neither past due nor impaired

The Group classifies loan assets according to related regulations issued by the CBRC, which are provided in Note 10.1.1. Loans and advances neither past due nor impaired are further analyzed as follows:

	Corporate loans	Retail loans	Total
31 December 2014			
Pass	1,506,284	457,364	1,963,648
Special mention	23,401	2,401	25,802
	1,529,685	459,765	1,989,450
31 December 2013			
Pass	1,343,699	388,426	1,732,125
Special mention	10,399	1,737	12,136
	1,354,098	390,163	1,744,261

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.5 Loans and advances to customers (Continued)

(ii) Past due but not impaired

The Group's loans that are past due but not impaired are analyzed below:

	31 December 2014				
	Past due up to 30 days (including 30 days)	Past due 30 to 60 days (including 60 days)	Past due 60 to 90 days (including 90 days)	Past due over 90 days	Total
Corporate loans	1,539	1,463	2,049	11,182	16,233
Retail loans	587	260	223	42	1,112
	2,126	1,723	2,272	11,224	17,345

	31 December 2013				
	Past due up to 30 days (including 30 days)	Past due 30 to 60 days (including 60 days)	Past due 60 to 90 days (including 90 days)	Past due over 90 days	Total
Corporate loans	1,015	753	416	6,563	8,747
Retail loans	1,144	153	128	-	1,425
	2,159	906	544	6,563	10,172

The Group is of the view that these past due loans can be recovered from the operation income of borrowers, the payment from guarantors or disposal of collateral, are therefore not impaired.

As at 31 December 2014, the fair value of collateral for corporate loans that were past due but not impaired amounted to RMB 17.1 billion (31 December 2013: RMB 7.6 billion). The fair value of collateral for retail loans that were past due but not impaired amounted to RMB 4.1 billion (31 December 2013: RMB 2.6 billion).

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.5 Loans and advances to customers (Continued)

(iii) Impaired loans

The Group	31 December 2014	31 December 2013
Corporate loans	17,680	10,610
Retail loans	3,905	2,451
	21,585	13,061

(iv) Renegotiated loans and advances

Renegotiated loans represent the loans whose original contract repayment terms have been modified as a result of the deterioration of borrowers' financial conditions or inability to repay the loans according to contractual terms. At 31 December 2014, carrying value of the renegotiated loans held by the Group amounted to RMB 120 million (31 December 2013: RMB 123 million).

10.1.6 Investment securities

The table below analyses the Group's investment securities by external rating agencies, including S&P or equivalent agencies recognized by the PBOC.

Foreign currency investments:

	Available-for-sale financial assets	Loans and receivables	Total
Bonds			
31 December 2014			
AAA	7,909	186	8,095
Unrated	41	-	41
	7,950	186	8,136
31 December 2013			
AAA	3,520	182	3,702
Unrated	29	-	29
	3,549	182	3,731

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.6 Investment securities (Continued)

Investments denominated in RMB	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment securities - held-to-maturity	Investment securities - loans and receivables	Total
31 December 2014					
Medium or long term:					
AAA	4,698	39,154	11,407	23,332	78,591
AA- to AA+	3,927	17,161	1,172	5,491	27,751
A- to A	-	745	-	707	1,452
Short term:					
A-1	7,530	2,722	-	-	10,252
Unrated:					
Government bonds	90	49,110	62,233	246	111,679
Bonds issued by policy banks	221	72,440	32,188	-	104,849
Financial bonds (Note 1)	-	-	-	14,948	14,948
Bonds issued by local municipal governments (Note 1)	-	25,323	14,698	-	40,021
Deposit certificates issued by other banks	4,300	5,063	-	-	9,363
Wealth management products purchased from other banks (Note 2)	-	-	-	145,874	145,874
Beneficial rights of trust and asset management plans (Note 3)	-	-	-	651,120	651,120
Other investments (Note 3)	-	-	-	35,267	35,267
Loans to non-bank financial institutions	8,065	-	-	-	8,065
Others	4,010	-	-	-	4,010
	32,841	211,718	121,698	876,985	1,243,242

Note 1: Included in unrated financial bonds held by the Group are mainly the subordinated bonds issued by listed insurance companies. Local municipal government bonds are mainly issued under the name of and guaranteed by Ministry of Finance.

Note 2: Wealth management products are principal and interest guaranteed products issued by state-owned banks and join-stock commercial banks in China.

Note 3: The ultimate target of remaining balance relates to assets that meet the definition of “pass” under CBRC loan classification guidelines.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.1 Credit risk (Continued)

10.1.6 Investment securities (Continued)

Investments denominated in RMB (Continued)

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment securities - held-to-maturity	Investment securities - loans and receivables	Total
31 December 2013					
Medium or long term					
AAA	4,425	47,456	14,602	3,559	70,042
AA- to AA+	5,473	12,941	1,171	2,426	22,011
A- to A	-	1,078	34	99	1,211
Short term					
A-1	10,202	5,328	-	-	15,530
Unrated:					
Government bonds	10	21,850	75,101	370	97,331
PBOC bills		1,107	-	-	1,107
Bonds issued by policy banks	841	48,299	35,916	-	85,056
Financial bonds	-	-	-	11,344	11,344
Bonds issued by local municipal governments	48	13,985	17,258	-	31,291
Deposit certificates issued by other banks	-	-	2,171	-	2,171
Wealth management products purchased from other banks	-	-	-	24,935	24,935
Beneficial rights of trust and asset management plans	-	-	-	433,340	433,340
Other investments	-	-	-	38,979	38,979
Loans to non-bank financial institutions	7,628	-	-	-	7,628
	28,627	152,044	146,253	515,052	841,976

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk

Market risk is the risk of loss arising from on and off-balance sheet businesses from adverse movements in market prices, such as interest rates, exchange rates, equity and commodities. Both the Group's trading book and banking book face market risk, which mainly consists of interest rate risk, currency risk and to a less extent, commodity risk.

The Board of Directors of the Bank is ultimately responsible for monitoring the market risk management activities and ensuring the Group can effectively identify, measure, monitor and control the market risk associated with the Group's business activities. Under the authorisation of the Board of Directors, the senior management of the Group is responsible for establishing the group-wide market risk management system, organisational structure with well defined roles and responsibilities, limit structures and accountability mechanism. Relevant departments of head office are responsible for carrying out detailed market risk management activities including policies and procedures, measurement approaches and models, analyses and reporting and monitoring of various limits etc in order to timely and accurately identify, measure, monitor and control the market risk exposures in respective business areas and reporting to the senior management and Board of Directors on timely basis. Meanwhile, group-wide market risk management system incorporates the established internal controls and independent inspections. Relevant business units are responsible for executing the daily control activities. A three-line defence system includes business units as the fine line defence, market risk management and compliance departments as the second line defence and internal audit department as the third line defence.

The Group measures market risk based on predetermined benchmarks. The major measurement approaches include stress testing, analysis on value at risk, back testing, gap analysis and sensitivity analysis etc. The market risk of new products and businesses should be identified before these new products and businesses are launched according to relevant policies.

10.2.1 Currency risk

The Group mainly operates in the PRC and its main business activities are conducted in the PRC. Majority of its foreign currency business are conducted in USD.

The table below summarizes the Group's exposure to currency risk. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by original currency.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.1 Currency risk (Continued)

Item	31 December 2014				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and balances with central bank	471,136	34,327	427	177	506,067
Due from and placements with banks and other financial institutions	56,793	99,239	4,234	3,990	164,256
Financial assets at fair value through profit or loss	32,841	-	-	-	32,841
Derivative financial assets	2,179	422	11	-	2,612
Financial assets purchased under resale agreements	196,188	-	-	-	196,188
Loans and advances to customers	1,818,919	137,793	16,556	1,346	1,974,614
Available-for-sale financial assets	214,258	5,854	2,096	-	222,208
Investment securities - held-to-maturity	121,698	-	-	-	121,698
Investment securities - loans and receivables	876,985	186	-	-	877,171
Other financial assets	50,979	2,367	160	14	53,520
Total financial assets	3,841,976	280,188	23,484	5,527	4,151,175
Due to central bank	21,006	-	-	-	21,006
Due to and placements from banks and financial institutions	753,786	65,154	4,481	1,208	824,629
Financial liabilities at fair value through profit or loss	312	-	-	-	312
Derivative financial liabilities	3,237	66	-	-	3,303
Financial assets sold under repurchase agreements	68,240	-	-	-	68,240
Deposits from customers	2,517,413	189,167	11,766	5,658	2,724,004
Bonds issued	134,361	9,293	3,013	-	146,667
Other financial liabilities	118,461	1,131	53	459	120,104
Total financial Liabilities	3,616,816	264,811	19,313	7,325	3,908,265
Net position of financial instruments	225,160	15,377	4,171	(1,798)	242,910

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Currency risk (Continued)

Item	31 December 2013				
	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Cash and balances with central bank	441,469	34,043	640	190	476,342
Due from and placements with banks and other financial institutions	222,951	30,593	2,854	3,732	260,130
Financial assets at fair value through profit or loss	28,627	-	-	-	28,627
Derivative financial assets	1,729	180	2	35	1,946
Financial assets purchased under resale agreements	295,953	-	-	-	295,953
Loans and advances to customers	1,619,918	97,800	7,107	920	1,725,745
Available-for-sale financial assets	158,172	1,245	2,304	-	161,721
Investment securities - held-to-maturity	146,253	-	-	-	146,253
Investment securities - loans and receivables	515,052	182	-	-	515,234
Other financial assets	36,812	1,813	116	19	38,760
Total financial assets	3,466,936	165,856	13,023	4,896	3,650,711
Due to central bank	601	-	-	-	601
Due to and placements from banks and financial institutions	734,129	35,201	4,340	828	774,498
Derivative financial liabilities	2,158	1,673	6	16	3,853
Financial assets sold under repurchase agreements	79,557	-	-	-	79,557
Deposits from customers	2,296,716	107,301	10,082	5,597	2,419,696
Bonds issued	64,414	3,873	3,683	-	71,970
Other financial liabilities	98,255	2,050	47	508	100,860
Total financial liabilities	3,275,830	150,098	18,158	6,949	3,451,035
Net positions of financial instruments	191,106	15,758	(5,135)	(2,053)	199,676

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.1 Currency risk (Continued)

The Group measures the possible effect on net profit arising from foreign exchange rate fluctuation using sensitivity analysis. The table below shows the result of sensitivity analysis on the financial reporting date.

Increase/(decrease) of net profit for the year	31 December 2014		31 December 2013	
	Exchange rate fluctuation %		Exchange rate fluctuation %	
	-1%	1%	-1%	1%
USD against RMB	(294)	294	(299)	299
Other currencies against RMB	(18)	18	32	(32)

The sensitivity analysis was based on assets and liabilities at year end. The assumptions for calculation are shown as below:

- Exchange rate sensitivity represents the exchange gain or loss resulting from the 1% change in daily closing exchange rates (middle) on the financial reporting date;
- Exchange rates for all currencies are fluctuating simultaneously and in the same direction;
- Foreign currency position contains spot exchange position and forward exchange position.

The actual exchange gain or loss may differ from the sensitivity analysis result due to these assumptions.

10.2.2 Interest rate risk

Interest rate risk is the risk of loss arising from adverse movements in factors such as interest rates, term structure, etc., including interest rate risk from bank book and trading book respectively.

In accordance with provisions implemented by the PBOC on 22 November 2014, the upper limit of deposit interest rate is adjusted from 110% to 120% of benchmark interest rate. PBOC had also removed the bottom limit (i.e. 70% of benchmark) for loans on 20 July 2013. The Group determines the loan interest rate independently.

The Group's interest rate risk mainly results from re-pricing risk of bank book. The Group has established an internal transfer pricing system, which enables the Group to manage the interest rate risk of bank book centrally. The Group measures and monitors interest rate risk in trading accounts using value-at-risk and sensitivity analysis etc.

The table below summarizes the Group’s exposures to interest rate risk. The table presents the Group’s assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Interest rate risk (Continued)

	31 December 2014						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central banks	493,204	-	-	-	-	12,863	506,067
Due from and placements with banks and other financial institutions	103,835	21,709	34,696	3,480	-	536	164,256
Financial assets at fair value through profit or loss	498	4,089	16,511	11,603	140	-	32,841
Derivative financial assets	-	-	-	-	-	2,612	2,612
Financial assets purchased under resale agreements	80,328	59,111	55,449	1,300	-	-	196,188
Loans and advances to customers	693,265	301,603	900,653	70,415	8,678	-	1,974,614
Available-for-sale financial assets	7,413	15,262	41,341	82,923	72,729	-	219,668
Investment securities - held-to-maturity	1,317	9,112	24,530	65,050	21,689	-	121,698
Investment securities - loans and receivables	99,771	182,971	328,400	204,654	61,375	-	877,171
Other financial assets	1,615	-	26,311	-	-	25,594	53,520
Total financial assets	1,481,246	593,857	1,427,891	439,425	164,611	41,605	4,148,635

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Interest rate risk (Continued)

	31 December 2014						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to central bank	105	20,350	551	-	-	-	21,006
Due to and placements from banks and other financial institutions	374,543	205,128	239,827	5,131	-	-	824,629
Financial liabilities at fair value through profit or loss	-	-	-	-	-	312	312
Derivative financial liabilities	-	-	-	-	-	3,303	3,303
Financial assets sold under repurchase agreements	55,940	5,886	5,764	650	-	-	68,240
Deposits from customers	1,475,181	309,950	667,180	268,587	-	3,106	2,724,004
Debts securities issued	13,071	21,960	48,496	32,740	30,400	-	146,667
Other financial liabilities	61,555	1,627	4,411	1,225	400	50,886	120,104
Total financial liabilities	1,980,395	564,901	966,229	308,333	30,800	57,607	3,908,265
Total interest repricing gap	(499,149)	28,956	461,662	131,092	133,811	(16,002)	240,370

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Interest rate risk (Continued)

	31 December 2013						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central bank	465,012	-	-	-	-	11,330	476,342
Due from and placements with banks and other financial institutions	195,368	24,812	34,329	5,503	-	118	260,130
Financial assets at fair value through profit or loss	1,526	6,586	4,942	15,037	536	-	28,627
Derivative financial assets	-	-	-	-	-	1,946	1,946
Financial assets purchased under resale agreements	116,134	112,724	66,685	410	-	-	295,953
Loans and advances to customers	581,379	298,194	819,929	20,998	5,245	-	1,725,745
Available-for-sale financial assets	8,299	14,300	20,465	87,689	24,840	-	155,593
Investment securities - held-to-maturity	1,468	13,802	25,983	80,996	24,004	-	146,253
Investment securities - loans and receivables	34,493	85,560	135,600	216,517	43,064	-	515,234
Other financial assets	2,720	-	16,288	-	-	19,752	38,760
Total financial assets	1,406,399	555,978	1,124,221	427,150	97,689	33,146	3,644,583

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Interest rate risk (Continued)

	31 December 2013						
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total
Liabilities							
Due to central bank	25	330	246	-	-	-	601
Due to and placements from banks and other financial institutions	320,563	227,431	204,703	21,787	-	14	774,498
Derivative financial liabilities	-	-	-	-	-	3,853	3,853
Financial assets sold under repurchase agreements	70,580	5,214	3,763	-	-	-	79,557
Deposits from customers	1,396,748	261,680	548,647	209,618	-	3,003	2,419,696
Debts securities issued	955	6,130	3,932	30,553	30,400	-	71,970
Other financial liabilities	30,853	17,452	9,440	1,160	400	41,555	100,860
Total financial liabilities	1,819,724	518,237	770,731	263,118	30,800	48,425	3,451,035
Total interest repricing gap	(413,325)	37,741	353,490	164,032	66,889	(15,279)	193,548

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.2 Market risk (Continued)

10.2.2 Interest rate risk (Continued)

The Group performs sensitivity analysis by measuring the potential impact of a change in interest rate on net profit and equity. The table below shows the results of the sensitivity analysis on the financial reporting date.

	31 December 2014		31 December 2013	
	Interest rate fluctuation (Basis points)		Interest rate fluctuation (Basis points)	
	-100	+100	-100	+100
(Decreases)/increases in net profit	(911)	911	(692)	692
Increase/(decrease) in revaluation reserve	5,879	(5,465)	3,265	(3,072)

The above sensitivity analysis was performed on the basis of static characteristics of the interest risk of the assets and liabilities. In the relevant analysis, the fluctuation only covers one year, which reflects the effect on the annualized interest income from re-pricing the assets and liabilities. The assumptions are shown as below:

- Except for current deposits, assets and liabilities are re-priced in the middle of each specified period;
- The interest rates of current deposits and statutory deposit reserves with central bank remain unchanged;
- The yield curve moves in parallel with interest rate;
- There are no changes of assets and liabilities at year end.

Due to the assumptions, the actual change in net profit may be different from the sensitivity analysis results.

Based on the assumption of the parallel movement of the yield curve along with interest rate change, the sensitivity analysis of the equity is derived by remeasuring the fair value of the available-for-sale financial assets as a result of changes in interest rate.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to obtain adequate funds on time or at a reasonable cost to pay off debts upon maturity or meet other settlement obligations although the Group may have the capability to pay off the debts.

The Group’s liquidity risk management is intended to meet the obligations to customers for withdrawal and payment, to achieve the balance between the maturities of assets and liabilities, to reduce the liquidity cost, avoid liquidity crisis of the Group, and to effectively respond to systematic liquidity risk.

The Group’s liquidity risk management system comprises mainly regular and contingent management system which includes 10 components, such as policies and strategies, management framework, regulations, management tool, daily operation, stress test, system construction, risk monitoring, risk report, and emergency management and drilling.

In addition, the Group carries out various liquidity risk management activities such as liquidity forecast, real-time monitoring of liquidity position by each currency, analysis of liquidity gap for on and off-balance sheet position, and early reporting of large disbursement requests etc. The Group also assesses the liquidity risk arising from on and off-balance sheet exposures, actively obtains the external fundings and manages the maturities of its assets and liabilities in accordance with the Group’s liquidity risk management policy and limit requirement. The objective of these activities is to maintain the appropriate level of liquidity to support the Group’s business development.

The table below presents the cash flows payable by the Group under non-derivative financial assets and liabilities by remaining contractual maturities at the financial reporting date.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.1 Cash flows of non-derivative financial assets and liabilities

	31 December 2014						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with central bank	-	506,067	-	-	-	-	506,067
Due from and placements with banks and other financial institutions	-	54,504	72,226	35,684	4,063	-	166,477
Financial assets at fair value through profit or loss	-	-	4,540	17,317	12,968	142	34,967
Financial assets purchased under resale agreements	-	-	139,956	56,788	1,530	-	198,274
Loans and advances to customers	34,323	-	346,913	898,109	586,393	627,789	2,493,527
Available-for-sale financial assets	-	-	14,152	46,023	114,035	87,748	261,958
Investment securities - held-to-maturity	-	-	4,988	28,453	77,895	31,159	142,495
Investment securities - loans and receivables	-	-	284,477	355,233	263,693	71,761	975,164
Other financial assets	-	8,266	1,946	5,718	22,265	3,499	41,694
Total financial assets	34,323	568,837	869,198	1,443,325	1,082,842	822,098	4,820,623

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2014						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to central bank	-	-	20,641	565	-	-	21,206
Due to and placements from banks and other financial institutions	-	125,783	466,614	248,904	5,693	-	846,994
Financial liabilities at fair value through profit or loss	-	312	-	-	-	-	312
Financial assets sold under repurchase agreements	-	-	61,989	5,833	695	-	68,517
Deposits from customers	-	1,044,977	759,897	692,204	297,097	-	2,794,175
Bonds issued	-	-	36,545	51,243	42,338	34,535	164,661
Other financial liabilities	-	73,207	1,680	4,630	1,539	979	82,035
Total financial liabilities	-	1,244,279	1,347,366	1,003,379	347,362	35,514	3,977,900
Net liquidity	34,323	(675,442)	(478,168)	439,946	735,480	786,584	842,723

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2013						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Cash and balances with central bank	-	476,342	-	-	-	-	476,342
Due from and placements with banks and other financial institutions	-	20,459	205,322	35,592	6,112	-	267,485
Financial assets at fair value through profit or loss	-	-	7,904	5,700	19,547	601	33,752
Financial assets purchased under resale agreements	-	-	230,927	68,113	425	-	299,465
Loans and advances to customers	19,408	-	304,829	843,409	463,117	561,220	2,191,983
Available-for-sale financial assets	-	-	10,092	22,945	119,472	37,043	189,552
Investment securities - held-to-maturity	-	-	9,018	28,768	97,606	33,693	169,085
Investment securities - loans and receivables	-	-	126,518	151,396	254,476	50,848	583,238
Other financial assets	-	5,043	1,357	4,113	15,482	1,572	27,567
Total financial assets	19,408	501,844	895,967	1,160,036	976,237	684,977	4,238,469

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.1 Cash flows of non-derivative financial assets and liabilities (Continued)

	31 December 2013						
	Overdue	Repayable on demand	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities							
Due to central banks	-	-	363	252	-	-	615
Due to and placements from banks and other financial institutions	-	55,657	501,282	214,270	21,646	-	792,855
Financial assets sold under repurchase agreements	-	-	75,954	3,794	-	-	79,748
Deposits from customers	-	920,435	755,594	569,537	234,035	-	2,479,601
Bonds issued	-	-	5,433	7,254	42,897	36,291	91,875
Other financial liabilities	-	26,057	30,248	10,277	1,461	1,079	69,122
Total financial liabilities	-	1,002,149	1,368,874	805,384	300,039	37,370	3,513,816
Net liquidity	19,408	(500,305)	(472,907)	354,652	676,198	647,607	724,653

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.2 Cash flow of derivative financial instruments

a. Derivative financial instruments settled on a net basis

Derivative financial instruments held by the Group that will be settled on a net basis comprise interest rate swaps, foreign exchange options and precious metals derivatives. The table analyses the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2014						
Interest rate swap	(7)	5	(447)	(1,002)	(11)	(1,462)
Foreign exchange options	1	(1)	(7)	-	-	(7)
Precious metals derivatives	35	3	86	-	-	124
Total	29	7	(368)	(1,002)	(11)	(1,345)
31 December 2013						
Interest rate swap	(5)	8	(313)	(978)	-	(1,288)
Foreign exchange options	1	(1)	(1)	-	-	(1)
Precious metals derivatives	38	-	-	-	-	38
Others	-	(419)	-	-	-	(419)
Total	34	(412)	(314)	(978)	-	(1,670)

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.2 Cash flow of derivative financial instruments (Continued)

b. Derivative financial instruments settled on a gross basis

Derivative financial instruments held by the Group that will be settled on a gross basis are foreign exchange derivatives, including currency forward and currency swaps. The table below shows the distribution of contractual maturity for derivative financial instruments held by the Group that will be settled on a gross basis. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 month	1-3 months	3-12 months	1-5 years	Total
31 December 2014					
Foreign exchange derivatives					
-Outflow	(153,027)	(112,498)	(235,652)	(19,940)	(521,117)
-Inflow	153,162	112,374	235,708	19,906	521,150

	Within 1 month	1-3 months	3-12 months	1-5 years	Total
31 December 2013					
Foreign exchange derivatives					
-Outflow	(117,875)	(80,029)	(128,548)	(5,271)	(331,723)
-Inflow	117,831	79,566	128,418	5,262	331,077

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.3 Liquidity risk (Continued)

10.3.3 Off-balance sheet items

Group	Within 1 year	1 to 5 years	Over 5 years	Total
31 December 2014				
Bank bill acceptance	574,709	-	-	574,709
Acceptance bills of exchange under letter of credit	157,179	-	-	157,179
Letters to guarantee issued	106,002	20,796	16,244	143,042
Letters of credit issued	30,705	346	-	31,051
Credit cards and other commitments	107,400	-	-	107,400
Total	975,995	21,142	16,244	1,013,381

10.4 Fair value of financial instruments

10.4.1 Fair value hierarchy

According to the significance of the lowest inputs used in making the measurements, the fair value hierarchy shall have the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities, including listed equity securities on exchange or debt instruments.
- Level 2 - Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. This level includes the majority of the over-the-counter derivative contracts and debt securities for which quotations like yield curve or counterparty credit risk are available from Thomson Reuters, Bloomberg and China Bond.
- Level 3 - Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

10.4.2 Financial instruments not measured at fair value

The financial assets and financial liabilities not measured at fair value in the financial statements include balances with central banks, due from and placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and advances to customers, investment securities classified as held-to-maturity, investment securities-classified as loans and receivables, due to and placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers and bonds issued.

The table below summarizes the carrying amount and relevant fair value of investment securities classified as held-to-maturity and loans and receivable, bonds issued of the Group as at financial reporting date.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.2 Financial instruments not measured at fair value (Continued)

	12/31/2014				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Investment securities - held-to-maturity	121,698	-	122,017	-	122,017
Investment securities - loans and receivables	877,171	-	45,419	839,204	884,623
Financial liabilities:					
Bonds issued	146,667	-	146,386	-	146,386

	12/31/2013				
	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets:					
Investment securities - held-to-maturity	146,253	-	140,916	-	140,916
Investment securities - loans and receivables	515,234	-	16,936	497,219	514,155
Financial liabilities:					
Bonds issued	71,970	-	67,979	-	67,979

10.4.2.1 Investment securities classified as held to maturity and loans and receivables

Held-to-maturity securities are classified into level 1 when its fair value is based on quoted market price. Loans and receivables are classified into level 3 if its market information is not available and fair values of are calculated using discounted cash flow model. Held-to-maturity securities and loans and receivables are classified into level 2, if fair value can be estimated using quoted market prices for securities with similar credit risk, maturity and yield rate.

10.4.2.2 Bonds issued

The fair value of bonds issued is based on quoted market price. For those bonds whose quoted market price is not available, their fair value is calculated using discounted cash flow and the effective interest rate of bonds with similar maturity.

Except for the financial assets and liabilities listed above, fair values of financial assets and financial liabilities not measured at fair value are calculated using discounted future cash flow model. Since these financial instruments are in short-term or under floating interest rate linked to market interest rate, their carrying value is approximate to the fair value.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10. Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value

Fair value hierarchy of financial instruments measured at fair value is listed as below:

Group

	Level 1	Level 2	Level 3	Total
31 December 2014				
Financial assets at fair value through profit or loss				
-Bonds	-	28,831	-	28,831
-Others	-	-	4,010	4,010
Available-for-sale financial assets				
- Bonds	-	219,668	-	219,668
- Equity investment	-	-	1,587	1,587
- Others	-	-	953	953
Derivative financial assets	-	2,612	-	2,612
Total financial assets	-	251,111	6,550	257,661
Derivative financial liabilities	-	3,303	-	3,303
Total financial liabilities	-	3,303	-	3,303
31 December 2013				
Financial assets at fair value through profit or loss	-	28,627	-	28,627
Available-for-sale financial assets				
- Bonds	-	155,593	-	155,593
- Equity investment	-	-	1,128	1,128
- Others	-	-	5,000	5,000
Derivative financial assets	-	1,946	-	1,946
Total financial assets	-	186,166	6,128	192,294
Derivative financial liabilities	-	3,853	-	3,853
Total financial liabilities	-	3,853	-	3,853

No financial instrument is classified as level 1 by the Group.

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value (Continued)

The Group reclassifies the financial instruments when the specific event happens which leads to conversion among different level of fair value hierarchy. In 2014, the Group did not have such reclassification.

(i) Financial instruments in level 2

Valuation technique is used to calculate the fair value of financial instruments not actively traded in the markets (i.e., over-the-counter derivatives). The valuation techniques make use of observable market data as much as possible, and avoid relying on the specific estimations of the subjects. When all required significant inputs are observable in calculation of one financial instruction's fair value, the related financial instrument is classified into level 2. When one or more required significant inputs are unobservable, the related financial instrument is classified into level 3.

Financial assets classified into level 2 includes bonds investment, currency swap contracts, foreign exchange forward contracts, interest rate swap contracts, option contracts, precious metal forward contracts, etc. The fair values of RMB bonds are determined based on the yield curve provided by China Central Depository and Clearing Co., Ltd. The fair values of foreign currency bonds are determined based on the valuation of Bloomberg. The fair values of currency swap contracts, foreign exchange forward contracts, interest rate swap contracts are calculated by discounted cash flow and Black-Scholes Model, etc. The fair value of precious metal forward contracts is estimated based on the closing price of Shanghai Gold Exchange. All significant valuation inputs are observable market data.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value (Continued)

(ii) financial assets at level 3

Movements of the Group's financial assets classified as level 3 are listed below

	Financial assets at fair value through profit or loss	Available for sale financial assets		Total
	Others	Equity	Others	
At 1 January 2014	-	1,128	5,000	6,128
Purchase	3,893	-	-	3,893
Sales	-	-	(4,047)	(4,047)
Changes in fair value recognized in profit or loss	117	-	-	117
Changes in fair value recognized in other comprehensive income	-	459	-	459
At 31 December 2014	4,010	1,587	953	6,550
Unrealized gain or loss recognized in profit or loss for the positions held at 31 December 2014	117	-	-	117

	Available for sale financial assets		Total
	Equity	Others	
At 1 January 2013	1,128	-	1,128
Purchase	-	5,000	5,000
At 31 December 2013	1,128	5,000	6,128

No gain or loss was recognized in profit or loss for the position held at 31 December 2013.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.4 Fair value of financial instruments (Continued)

10.4.3 Financial instruments measured at fair value (Continued)

(ii) financial assets at level 3 (Continued)

Information used to calculate the fair value of financial instruments classified as level 3 are as follows:

Significant unobservable inputs

			Unobservable Inputs		
	Fair value as at 31 December 2014	Valuation techniques	Note	Range/ weighted average	Correlation with fair value
Financial assets at fair value through profit or loss	4,010	Note 1	Note 1	Note 1	Note1
Available for sale financial assets					
—Equity(Note 2)	1,483	Market approach	Discount for liquidity; Price to book ratio	14%-20% 0.89-1.31	Negative Positive
—Others	953	Income approach	Discount rate	11.04%	Negative

Note 1：

This refers to the fair value of the assets managed by Chang Jiang Pension Insurance Co., Ltd. in relation to the Bank’s long term employee benefit plan. All of the underlying assets are financial assets and the methods to calculate the fair value of the financial assets are as follows:

- The fair value of investments in the money market fund is based on market price;
- The fair value of bonds is calculated using discounted cash flow and the yield rate of bonds with similar maturity;
- The fair value of other debt instrument is calculated using discounted cash flow model and unobservable discount rates, ranging from 6% to 7.3%.

Note 2:

The fair value of the equity instrument classified as available-for-sale financial assets amounted to 104 million is based on the most recent transaction price and is included in the disclosure above.

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.5 Offsetting of financial assets and financial liabilities

Some financial assets and financial liabilities in the Group follow executable net amount settlement arrangements or similar agreements. Such arrangements with the Group and counterparties normally allow the net amount settlement under agreements of both parties. If no agreement is reached, it would be settled in full amount. But one party could choose to settle in net amount under the condition that the other party violates the agreement. According to the requirement of IFRS, the Group did not offset these financial assets and financial liabilities.

As at 31 December 2014, the amount of the Group's financial assets and financial liabilities following executable net amount settlement arrangements or similar agreements is not significant.

10.6 Capital management

The Group adopts the capital management approaches that can adequately respond to the interest risks associated with the Group's business and manages capital adequacy strictly in accordance with regulatory requirements. The primary objectives of the Group's capital management are to maintain capital adequacy ratio to support its businesses and to maximize shareholders' value. The Group actively adjusts the capital structure in response to the changing economic environment and risk characteristics. Generally, the mechanism of adjusting the capital structure comprises dividend policy and issuance of additional capital instruments such as preference shares and tier-two capital instruments etc.

From annual period beginning on 1 January 2013, the Group calculates the capital adequacy ratio in accordance with Provisional Administrative Rule on Capital Management of Commercial Banks issued by the CBRC in June 2012.

	Group		Bank	
	2014-12-31	2013-12-31	2014-12-31	2013-12-31
Core tier 1 capital – net	246,905	207,190	240,443	201,135
Tier 1 capital - net	261,985	207,218	255,443	201,135
Capital - net	324,906	264,995	317,518	258,315
Total risk weighted assets	2,868,897	2,414,593	2,822,985	2,381,451
Core tier 1 capital – net	8.61%	8.58%	8.52%	8.45%
Tier 1 capital - net	9.13%	8.58%	9.05%	8.45%
Capital - net	11.33%	10.97%	11.25%	10.85%

i. The scope of consolidation for the purpose of calculating the Group's Capital Adequacy Ratios includes domestic and overseas operating units and other financial subsidiaries specified in the capital rules.

ii. The Group's Core Tier-one Capital includes ordinary shares, the capital reserve (subject to regulatory limitations), surplus reserve, general risk reserve, retained earnings, minority interests (to the extent permitted in the Core Tier-one Capital under the Regulation).

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

10 FINANCIAL RISK MANAGEMENT (Continued)

10.6 Capital management (Continued)

iii. The Group's Deductible Items from Core Tier-one Capital include other intangible assets (excluding land use rights).

iv. The Group's other Tier 1 Capital includes preference shares and minority interests to the extent permitted by the capital rules.

v. The Group's Tier 2 Capital includes: Tier 2 capital instruments and related premium (to the extent allowed under the Regulation), excessive allowance for loan losses, and minority interests to the extent permitted by the capital rules.

vi. Risk-weighted Assets include Credit Risk-weighted Assets, Market Risk-weighted Assets and Operational Risk-weighted Assets. The Group adopts risk weighting approach, standardized approach and basic indicator approach to measure Credit Risk-weighted Assets, Market Risk weighted Assets and Operational Risk-weighted Assets respectively.

11 ASSETS PLEDGED

Following assets of the Group are pledged as collateral under repurchase agreements and for fiscal deposits.

	31 December 2014	31 December 2013
Discounted bills and Re-discount bills	18,999	9,515
Available-for-sale financial assets	16,837	21,183
Investment securities - held-to-maturity	66,745	54,777
Total	102,581	85,475

12 EVENTS AFTER THE REPORTING DATE

On 6 March 2015, the Bank issued non-cumulative preference shares with the par value of RMB 15 billion to domestic investors. The proceeds after deducting transaction costs amounted to Rmb 14,961 million and were recorded as Preference shares by the Bank.

Except for the matter described above, there was no significant subsequent event that requires additional disclosure in the consolidated financial statements.

13 COMPARATIVES

Certain comparative amounts have been reclassified to conform with the current year's presentation.