招商銀行
CHINA MERCHANTS BANK

招商銀行股份有限公司

CHINA MERCHANTS BANK CO., LTD.

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

(Stock code: 03968)

2014 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of China Merchants Bank Co., Ltd. (the "Company") hereby announces the audited results of the Company and its subsidiaries for the year ended 31 December 2014. This announcement, containing the full text of the 2014 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results. Printed version of the Company's 2014 Annual Report will be delivered to the H-Share Holders of the Company and available for viewing on the websites of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and of the Company (www.cmbchina.com) in April 2015.

Publication of Results Announcement

Both the Chinese and English versions of this results announcement are available on the websites of the Company (www.cmbchina.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). In the event of any discrepancies in interpretations between the English version and Chinese version, the Chinese version shall prevail.

The Company has also prepared the financial statements in Chinese in accordance with the PRC Generally Accepted Accounting Principles, which is available on the websites of the Company (www.cmbchina.com) and Shanghai Stock Exchange (www.sse.com.cn).

By Order of the Board
China Merchants Bank Co., Ltd.
Li Jianhong
Chairman

18 March 2015

As at the date of this announcement, the executive directors of the Company are Tian Huiyu, Zhang Guanghua and Li Hao; the non-executive directors of the Company are Li Jianhong, Ma Zehua, Li Xiaopeng, Li Yinquan, Fu Gangfeng, Sun Yueying, Su Min, Fu Junyuan and Hong Xiaoyuan; and the independent non-executive directors of the Company are Wong Kwai Lam, Leung Kam Chung, Antony, Pan Chengwei, Pan Yingli, Guo Xuemeng and Zhao Jun.

Contents

Important Notice

1. The Board of Directors, the Board of Supervisors, directors, supervisors and senior management of the Company confirm that the contents in this annual report are true, accurate, complete and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.

2. The 30th meeting of the Ninth Session of the Board of Directors of the Company was held at the China Merchants Bank University, Shenzhen from 17 to 18 March 2015. The meeting was presided by Li Jianhong, Chairman of the Board. 15 out of 18 eligible directors attended the meeting in person. Li Yinquan (director) attended the meeting by video conference, while Ma Zehua (Vice Chairman) and Sun Yueying (director) attended the meeting by telephone conference. A total of 18 valid votes were cast. 9 supervisors of the Company were present at the meeting. The convening of the meeting complied with the relevant provisions of the Company Law and the Articles of Association of the Company.

3. KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants (both being auditors of the Company) have separately reviewed the 2014 annual financial report prepared in accordance with the PRC Generally Accepted Accounting Principles and International Financial Reporting Standards, and issued standard auditing reports with unqualified opinions.

4. Unless otherwise stated, all monetary sums stated in this annual report are expressed in RMB.

5. Li Jianhong, Chairman of the Company, Tian Huiyu, President, Li Hao, First Executive Vice President and Chief Financial Officer, and Wang Tao, the person in charge of the Finance and Accounting Department, hereby make representations in respect of the truthfulness, accuracy and completeness of the financial statements in this annual report.

6. Proposal of profit appropriation: As stated in the audited PRC financial statements of the Company for 2014, 10% of the profit after tax of RMB51.877 billion, equivalent to RMB5.188 billion, was transferred to the statutory surplus reserve, while 1.5% of the total amount of the increased risk assets in this reporting period, equivalent to RMB7.446 billion, was appropriated to the general reserve. Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend of RMB6.70 (tax included) for every 10 shares to all shareholders of the Company, payable in RMB for holders of A Shares and in HKD for holders of H Shares. The retained profit will be carried forward to the next year. In 2014, the Company did not transfer any capital reserve into share capital. The above proposal of profit appropriation is subject to consideration and approval at the 2014 Annual General Meeting of the Company.

7. We have included in this report certain forward-looking statements with respect to the financial position, operating results and business development of the Group. We use words such as "will", "may", "expect", "try", "strive", "plan", "anticipate", "aim at", and similar expressions to identify forward-looking statements. These statements are based on current plans, estimates and projections. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we give no assurance that these expectations will translate into reality or prove to be correct. Therefore they should not be deemed as the Group's commitments. Investors should not place undue reliance on such statements and should pay more attention to investment risks. You are cautioned that such forward-looking statements are related to future events or future financial position, business, or other performance of the Group, and are subject to a number of uncertainties which may cause substantial differences in the actual results.

Definitions

Company, Bank, CMB or China Merchants Bank:
China Merchants Bank Co., Ltd.

Group:
China Merchants Bank Co., Ltd. and its subsidiaries

China Banking Regulatory Commission or CBRC:
China Banking Regulatory Commission

China Securities Regulatory Commission or CSRC:
China Securities Regulatory Commission

China Insurance Regulatory Commission or CIRC:
China Insurance Regulatory Commission

Hong Kong Stock Exchange or SEHK:
The Stock Exchange of Hong Kong Limited

Hong Kong Listing Rules:
The Rules Governing the Listing of Securities on the SEHK

Wing Lung Bank or WLB:
Wing Lung Bank Limited

Wing Lung Group:
Wing Lung Bank and its subsidiaries

CMB Financial Leasing or CMBFL:
CMB Financial Leasing Co., Ltd.

CMB International Capital or CMBIC:
CMB International Capital Corporation Limited

China Merchants Fund or CMFM:
China Merchants Fund Management Co., Ltd.

CIGNA & CMB Life Insurance:
CIGNA & CMB Life Insurance Co., Ltd.

CM Securities:
China Merchants Securities Co., Ltd.

KPMG Huazhen Certified Public Accountants:
KPMG Huazhen Certified Public Accountants (Special General Partnership)

SFO:
Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

Model Code:
Model Code for Securities Transactions by Directors of Listed Issuers of Hong Kong Stock Exchange

Significant Risk Warning

The Company has disclosed herein the major risks involved in its operations and the proposed risk management measures. Please refer to Chapter V for the details in relation to risk management.

Company Information

1.1 Company Profile

1.1.1 **Registered Company Name in Chinese:** 招商銀行股份有限公司 (Abbreviated Name in Chinese: 招商銀行)
Registered Company Name in English: China Merchants Bank Co., Ltd.

1.1.2 **Legal Representative:** Li Jianhong
Authorised Representatives: Tian Huiyu, Li Hao
Secretary of the Board of Directors: Xu Shiqing
Joint Company Secretaries: Xu Shiqing, Seng Sze Ka Mee Natalia (FCIS, FCS(PE), FHKIoD, FTIHK)
Securities Representative: Wu Jianbing

1.1.3 **Registered and Office Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China

1.1.4 **Mailing Address:**
7088 Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China
Postcode: 518040
Tel: 86755-83198888
Fax: 86755-83195109
E-mail: cmb@cmbchina.com
Website: www.cmbchina.com
Customer service hotline: 95555

1.1.5 **Principal Place of Business in Hong Kong:**
21st Floor, Bank of America Tower, 12 Harcourt Road, Hong Kong

1.1.6 **Share Listing:**
A Shares: Shanghai Stock Exchange
Abbreviated Name of A Shares: CMB;
Stock Code: 600036
H Shares: SEHK
Abbreviated Name of H Shares: CM BANK;
Stock Code: 03968

1.1.7 **Domestic Auditor:** KPMG Huazhen Certified Public Accountants
Office Address: 8th Floor, Tower 2, Oriental Plaza, 1 East Chang An Avenue, Beijing, China
Certified public accountants for signature: Pu Hongxia, Wu Zhongming
International Auditor: KPMG Certified Public Accountants
Office Address: 8th Floor, Prince's Building, 10 Charter Road, Central, Hong Kong

1.1.8 **Legal Advisor as to PRC Law:** Jun He Law Offices
Legal Advisor as to Hong Kong Law: Herbert Smith Freehills

1.1.9 **Depository for A Shares:**
China Securities Depository & Clearing Corporation Ltd., Shanghai Branch

1.1.10 **Share Register and Transfer Office as to H Shares:**
Computershare Hong Kong Investor Services Ltd.
Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

1.1.11 **Sponsors performing continuous supervisory duty during the reporting period:**
China International Capital Corporation Limited
Office address: 28/F, China World Office 2, 1 Jian Guo Men Wai Avenue, Beijing
Authorized representative of the sponsor: Liu Shulin, Guo Yun
Goldman Sachs Gao Hua Securities Company Limited
Office address: 18th Floor, Winland International Center, 7 Finance Street, Xicheng District, Beijing
Authorized representative of the sponsor: Duan Aimin, Li Yu
Continuous supervisory period: 11 September 2013 to 31 December 2014

1.1.12 **Websites and Newspapers designated by the Company for Information Disclosure:**

Mainland China:	*"China Securities Journal", "Securities Times", "Shanghai Securities News"* website of Shanghai Stock Exchange (www.sse.com.cn), website of the Company (www.cmbchina.com)
Hong Kong:	website of SEHK (www.hkex.com.hk), website of the Company (www.cmbchina.com)

Place of maintenance of annual reports: Office of the Board of Directors of the Company

1.1.13 **Other Information about the Company:**
Initial registration date: 31 March 1987
Initial registration place: Shenzhen Administration for Industry and Commerce, Shekou Branch
Registered No. of business license for an enterprise as a legal person: 440301104433862
Taxation Registration No.: Shen Shui Deng Zi 44030010001686X
Organisation Code: 10001686-X

1.2 Company Information

Founded in 1987 with its head office in Shenzhen, China, the Company is a national commercial bank with significant scale and strength in China. The Company mainly focuses on the market in China. The Company's distribution network primarily covers China's more economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium cities in other regions. For details, please refer to the section headed "Distribution channels" and the section headed "Branches and representative offices". The Company currently has 1,941 domestic and overseas correspondent banks in 110 countries (including China) and regions. The Company was listed on Shanghai Stock Exchange in April 2002 and on SEHK in September 2006.

The Company provides customers with various wholesale and retail banking products and services, and maintains treasury businesses for proprietary purpose and on behalf of customers. Many innovative products and services of the Company, such as "All-in-one Card", a multi-function debit card, "All-in-one Net", a comprehensive online banking service platform, the dual-currency credit card, the "Sunflower Wealth Management" services and private banking services, as well as global cash management, cross-border finance and other transaction banking services, have been widely recognised by consumers in China.

1,941

domestic and overseas correspondent banks in 110 countries (including China) and regions

1.3 Development Strategies, Investment Value and Core Competitiveness

Development vision: Creating a blue-chip for the stock market, building a bank that thrives for centuries

Strategic objective: Striving to become the best commercial bank in China with international competitive edge

Strategic positioning: An innovative bank distinguished by leading profitability, sound business structure, first-class service, strong operation management and excellent brand image

Development Strategies:

– Position its retail finance as "one body" and its corporate finance and financial institutions finance as "two wings". The Company will promote the "one body" to play a bigger role in driving the development of the "two wings", while having its corporate finance and financial institutions finance rendered more support to the growth of its retail finance. Therefore, the Bank will promote the concerted development of "one body" and "two wings" and create its distinguished competitive edge.

– Focus on promoting its diversified services and forging an "asset-light bank", make breakthroughs through product innovation and service upgrading, and put an emphasis on developing emerging financial businesses such as wealth management and assets management. In addition, the Company endeavours to promote the rapid growth of its non-interest income, further pushes forward structural adjustments and business transformation, improves the capital utilisation rate and reduces capital consumption, while making reasonable efforts to develop its traditional businesses such as deposit-taking and lending.

– Adhere to the "customer-centric" business philosophy, focus on exploring high-value customer groups while continuously expanding basic customer base in retail finance, corporate finance and financial institutions finance. Increasingly optimise customer structure and establish a highly professional customer service system.

– Strive to enhance our professional management capabilities, especially our overall risk management capability, through reform and process optimisation and with the support of IT technologies.

– Rationally expand physical network, innovate and develop e-banking, accelerate the establishment of a powerful multi-channel distribution system with operating synergies.

– Expand and strengthen our presence in domestic market, boost investments in economically developed regions, rationally expand our network into highly potential regions; steadily explore overseas markets with a focus on Hong Kong, Macao, emerging markets and international financial centers.

Investment Value and Core Competitiveness:

– The operation concept of "efficiency, quality and scale" has persistently been maintained, and a professional team, which boasts good execution and strong capabilities in business innovation and steady operation, has been built up. In addition, the sound corporate culture of "compliant operation, scientific management and steady development" has been established. The operation management of the Company has generally been "reasonable, effective, healthy and stable".

– The corporate governance mechanism and the scientific decision-making system of the Company have operated smoothly, which are relatively sound and in line with the development of the operation and management of commercial banks.

– Leading retail finance with unique competitive advantage. Our retail finance has formed its comprehensive advantages in products, customers, channels and brand, etc., and is growing stronger and bigger.

– Corporate finance has maintained its specialised operation and professional management, among which, emerging corporate finance businesses such as cash management, trade finance, cross-border finance and M&A financing have delivered outstanding performance.

– Financial institutions finance has formed new profit drivers through the two wheels of macro asset management and global markets business. Various financial institutions businesses such as bill business, wealth management, bond trading and custody business have all achieved healthy developments.

– The "three-in-one" cross-border finance platform, jointly formed by overseas institutions (Wing Lung Bank and overseas branches) undergoing relatively rapid global penetration and business expansion, offshore banking units and domestic branches, is producing new growth drivers and competitive edge.

– The comprehensive operation system has been basically established, and cross-segment product innovation and business coordination have been actively promoted, therefore the benefits of strategic synergy and financial synergy have been revealed.

– The risk management system and the capital management system of the Company, which are comprehensive, up-to-date and scientific, have been put in place and the relevant capabilities have been acquired, thus effectively ensuring healthy development and strong competitiveness in business operation in the long run.

– The organisational management system of the Company has constantly been improved, and its operation procedures have been optimised, thus improving its management and operation efficiency.

– Keep abreast with Internet development, and maintain the leading electronic application capability and level as evidenced by the innovative electronic service channels and the powerful IT platform of the Company.

– Industry benchmark of high quality services

– Large customer base and rapidly increasing high-value customers

– Continuously growing brand influence

1.4 Awards and Honors Received in 2014

In 2014, the Company won a number of honors in appraisal/selection activities organised by prestigious organisations both at home and abroad, including:

- In the "Best Private Banking and Wealth Management Survey for 2014" organised by *Euromoney*, the Company was once again awarded the "Best Private Bank in China".
- In the selection campaign for the "Excellent Providers of Retail Financial Service in the World for 2014" organised by *The Asian Banker* magazine, the Company was awarded the "Best Retail Bank in China" for the fifth time, the "Best Joint Stock Retail Bank in China" for the tenth consecutive time, and the "Best Bank for SMEs" in Asia Pacific region for the first time.
- In the selection campaign for the "Excellent Providers of Retail Banking Service in China" organised by *The Asian Banker* magazine, the Company was honoured the "Best Bank for SME Business in China for 2014" and the "Best Bank for Customer Credit Risk Management in China for 2014".
- Among the "Top 500 Global Bank Brands" published by *The Banker* magazine of the United Kingdom in 2014, the brand of the Company ranked 44th with the brand value of US$5.39 billion, being the highest among national small- and medium-sized banks. Among the top 1,000 global banks published by the same magazine in 2014, the Company ranked 36th with the tier 1 capital of US$41.69 billion, up by 14 places from the previous year.
- According to the selection results of the "Best Banks in Emerging Markets" published by *The Global Finance* of the United States, the Company was awarded the "Best Bank in China".
- In the selection results for the "Star of China for 2014" organised by *The Global Finance*, the Company was awarded the "Bank with Best Corporate Governance in China" and the "Best Bank for Wealth Management Service in China".
- Among the "Top 500 Global" list published by *The Fortune* magazine, the Company leaped to 350th, up by 62 places from the previous year.
- Upon the comprehensive selection based on the market research results of Ipsos, the Company was enlisted in the Superbrands of China, and was honoured the "Favourite Brands of Customers".
- At the press conference for the release of the "Social Responsibility Report for China Banking Industry in 2013" and the awarding ceremony for excellence in social responsibility works organised by China Banking Association, the Company was honored the "Best Financial Institution in Social Responsibilities of the Year" and the "Best Green Finance Award for Excellence in Social Responsibilities of the Year" for the third consecutive time, and was granted the "Best Public Welfare Contribution Award in Excellence in Social Responsibilities of the Year" and the "Public Charity Outstanding Programme Award of the Year".
- In the selection campaign for the "Most Respectable Enterprises for 2013/2014" organised by *Economic Observer*, the Company was honored the "Most Respectable Enterprise Award for 2014" for the 13th consecutive time.

- In the "First Annual Conference for China Finance Leaders and Selection of Top 100 Financial Leaders in 2013" jointly organised by *Xinhua Economic Information Daily* of Xinhua News Agency and Xinhua Net, Mr. Tian Huiyu, the President of the Company, was awarded the "Person of the Year in Chinese Finance for 2013".

- In the selection campaign for the "Annual CUP Card Awards" organised by China UnionPay, the Company was award the "Excellent Contribution in Interbank CUP Card-based Transactions for 2013" and the "Excellent CUP Card Marketing Activities for 2013".

- In the "Selection of Best Corporate Citizens in China for 2014" jointly organised by 21st Century Corporate Citizen Research Center together with domestic top universities, institutions and industry experts, the Company was honoured the "Best Innovation and Development Award for Corporate Citizens in China for 2014".

- In the comprehensive selection campaign named "Golden Wealth Management" for financial investment wealth management brands and products organised by *Shanghai Securities News*, the Company was awarded the "Best Structured (Linked) Wealth Management Products", the "Best RMB Wealth Management Products" and the "Best Cash Management Bank".

- In the selection campaign for the "Most Trusted Banks of CTOs in China for 2014" organised by the *CFO* magazine, the Company was awarded the "Best Corporate Wealth Management", the "Best SME Service Brand" and the "Best Financial Service for Cross-Border Transactions".

- In the selection campaign for the "Best Wealth Management Institution in China for 2014" organised by *Securities Times*, the "Sunflower Wealth Management" brand of the Company became the only bank wealth management brand that won the "Best Wealth Management Brand of Banks in China".

- In the first selection campaign for "Golden Internet" organised by *Shanghai Securities News*, the Company was awarded the "Best Mobile Financial Terminal".

- In the selection campaign for the "Gold Bull Wealth Management Product Award for 2013" held by *China Securities Journal*, the Company won the "Gold Bull Wealth Management Bank Award for 2013" and the "Gold Bull Bank Wealth Management Product Award (Net Value) for 2013".

Summary of Accounting Data and Financial Indicators

2.1 Key Accounting Data and Financial Indicators

Operating Results

(in millions of RMB)	2014	2013	Changes +/(-)%
Net operating income(note)	166,525	133,118	25.10
Profit before tax	73,431	68,425	7.32
Net profit attributable to the Bank's shareholders	55,911	51,743	8.06

Per Share

(RMB)	2014	2013	Changes +/(-)%
Basic earnings attributable to the Bank's shareholders	2.22	2.30	(3.48)
Diluted earnings attributable to the Bank's shareholders	2.22	2.30	(3.48)
Period-end net assets attributable to the Bank's shareholders	12.47	10.53	18.42

Volume Indicators

(in millions of RMB)	31 December 2014	31 December 2013	Changes +/(-)%
Total assets	4,731,829	4,016,399	17.81
of which: total loans and advances to customers	2,513,919	2,197,094	14.42
Total liabilities	4,416,769	3,750,443	17.77
of which: total deposits from customers	3,304,438	2,775,276	19.07
Total equity attributable to the Bank's shareholders	314,404	265,465	18.44

Note: Net operating income is the sum of net interest income, net fee and commission income, other net income as well as the share of profits of associates and joint ventures.

2.2 Financial Ratios

(%)	2014	2013	Changes +/(-)
Profitability indicators			
Return on average assets (after tax) attributable to the Bank's shareholders	**1.28**	1.39	Decreased by 0.11 percentage point
Return on average equity (after tax) attributable to the Bank's shareholders	**19.28**	22.22	Decreased by 2.94 percentage points
Net interest spread	**2.33**	2.65	Decreased by 0.32 percentage point
Net interest margin	**2.52**	2.82	Decreased by 0.30 percentage point
As percentage of net operating income			
– Net interest income	**67.26**	74.30	Decreased by 7.04 percentage points
– Net non-interest income	**32.74**	25.70	Increased by 7.04 percentage points
Cost-to-income ratio (excluding business tax and surcharges)	**30.42**	34.23	Decreased by 3.81 percentage points

(%)	31 December 2014	31 December 2013	Changes over the end of the previous year +/(-)
Capital adequacy indicators under the weighted approach(1)			
Tier 1 capital adequacy ratio	**9.60**	9.27	Increased by 0.33 percentage point
Capital adequacy ratio	**11.74**	11.14	Increased by 0.60 percentage point
Equity to total assets	**6.66**	6.62	Increased by 0.04 percentage point
Asset quality indicators			
Non-performing loan ratio	**1.11**	0.83	Increased by 0.28 percentage point
Allowance coverage ratio of non-performing loans(2)	**233.42**	266.00	Decreased by 32.58 percentage points
Allowance ratio of loans(3)	**2.59**	2.22	Increased by 0.37 percentage point

Notes: (1) As at 31 December 2014, calculated in accordance with the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC in June 2012, the Group's capital adequacy ratio and Tier 1 capital adequacy ratio were 12.38% and 10.44%, respectively, up by 0.64 percentage point and 0.84 percentage point respectively as compared with those calculated in accordance with the weighted approach.

(2) Allowance coverage ratio of non-performing loans = allowances for impairment losses/balance of non-performing loans;

(3) Allowance ratio of loans = allowances for impairment losses/total loans and advances to customers.

2.3 Five-year Financial Summary

(in millions of RMB)	2014	2013	2012	2011	2010
Results for the year					
Net operating income	**166,525**	133,118	113,818	96,666	71,756
Operating expenses	**61,081**	54,144	48,356	40,889	32,634
Impairment losses on assets	**31,681**	10,218	5,583	8,350	5,501
Profit before tax	**73,431**	68,425	59,558	47,122	33,343
Net profit attributable to the Bank's shareholders	**55,911**	51,743	45,268	36,129	25,769
(RMB)					
Per share					
Dividend	**0.67**	0.62	0.63	0.42	0.29
Basic earnings	**2.22**	2.30	2.10	1.67	1.23
Diluted earnings	**2.22**	2.30	2.10	1.67	1.23
Year-end net assets attributable to the Bank's shareholders	**12.47**	10.53	9.28	7.65	6.21
(in millions of RMB)					
Year end					
Share capital	**25,220**	25,220	21,577	21,577	21,577
Total shareholders' equity	**315,060**	265,956	200,401	165,010	134,006
Total liabilities	**4,416,769**	3,750,443	3,207,698	2,629,961	2,268,501
Deposits from customers	**3,304,438**	2,775,276	2,532,444	2,220,060	1,897,178
Total assets	**4,731,829**	4,016,399	3,408,099	2,794,971	2,402,507
Net loans and advances to customers[1]	**2,448,754**	2,148,330	1,863,325	1,604,371	1,402,160
(%)					
Key financial ratios					
Return on average assets (after tax) attributable to the Bank's shareholders	**1.28**	1.39	1.46	1.39	1.15
Return on average equity (after tax) attributable to the Bank's shareholders	**19.28**	22.22	24.78	24.17	22.73
Cost-to-income ratio	**30.42**	34.23	35.85	36.00	39.69
Non-performing loan ratio	**1.11**	0.83	0.61	0.56	0.68
Tier 1 capital adequacy ratio under the weighted approach	**9.60**	9.27	8.34	8.22	8.04
Capital adequacy ratio under the weighted approach	**11.74**	11.14	11.41	11.53	11.47

Note: (1) Net loans and advances to customers represent gross loans and advances to customers less allowances for loan impairment losses.

Chairman's Statement

In 2014, encountering the state of "new normal" of China's economy, China Merchants Bank achieved decent operating results by adhering to continuous strategic transformation, stimulating vitality through reform and maintaining innovation-driven growth. Net profit attributable to the shareholders of the Bank amounted to RMB55.911 billion, up by 8.06% year-on-year; Return on average equity (ROAE) and return on average asset (ROAA) attributable to the shareholders of the Company were 19.28% and 1.28% respectively; net non-interest income accounted for 32.74% of net operating income, hitting a new record; cost-to-income ratio dropped to 30.42%; and capital adequacy ratio under the advanced approach stood at 12.38%. With steady improvement in operating efficiency, the Bank continued to create value for its shareholders.

The past year saw a slowdown in China's economic growth rate, a change in growth drivers, transformation and upgrading of the traditional financial sector and cross-border competition from the non-traditional financial sector, all posing challenges to our banking business. In response, the Bank implemented the strategy of "one body with two wings" (with its retail finance as the main body and its corporate finance and financial institutions finance as the two wings) to forge an "asset-light bank". At the same time, the Bank optimised its organisational structure and streamlined its business process with a view to boost "institutional capital" strength and unleash potential reform returns, thereby improving operational efficiency.

In 2014, the Board of Directors focused on strengthening strategic management and control and enhancing corporate governance. Adhering to the operation concept of coordinated development between "efficiency, quality and scale", the Board of Directors ensured the achievement of strategic objectives by deepening strategic research, refining strategic objectives, optimising strategic measures and strengthening strategic management and control. Meanwhile, the Board of Directors attached great importance to the effectiveness of fulfilling its duties. Based on the quarterly meeting system of the Risk and Capital Management Committee, the Strategy Committee gradually established its regular meeting system to enhance participation in the decision-making of strategic management and budget management; while the Audit Committee also formulated its quarterly meeting system for internal audit trail. All Directors proactively conducted relevant investigation and research activities to keep themselves abreast of the Bank's business conditions in a timely manner.

Over the past year, the Board of Directors closely monitored the Bank's risks. Under the sustaining pressure on asset quality in the context of economic downturn, the Bank managed to hold the bottom line of risks by tracking the execution of annual risk preference. The Bank also identified its weakness in risk management through periodic risk assessments, and eliminated blind spots in risk management in an attempt to strengthen overall risk management capability. In addition, by optimising its internal audit management process, the Bank implemented a vertical internal audit system to enhance the independence and effectiveness of the internal audit department.

Li Jianhong
Chairman

In 2014, the Bank endeavoured to become an outstanding corporate citizen in adhering to the principle of "Gain from society and contribute to society". The Bank actively supported innovative technology enterprises, industrial transformation and upgrading, green loans and strategic emerging industries, thereby catering to the needs of the real economy and reducing finance costs. Based on the foundation of traditional donation activities and poverty relief projects, the Bank established a public welfare platform by giving full play to its advantages in public welfare finance service, and innovated its public welfare channels by launching a small-amount monthly donation program named "More Pleasure From Monthly Donations (月捐悦多)", thus providing an efficient and convenient channel for participation by public welfare organisations, customers and beneficiaries. This marks a new starting point of the Bank's efforts in corporate social responsibility.

In July 2014, Mr. Fu Yuning resigned as Chairman and Non-Executive Director of the Bank, chairman of the Strategy Committee and member of the Nomination Committee due to work rearrangement. During the year, Mr. Wang Daxiong, Mr. Xiong Xianliang, Mr. Yi Xiqun, Mr. Xu Shanda and Mr. Xiao Yuhuai ceased to be Directors of the Bank, and Mr. Ma Zehua, Mr. Li Xiaopeng, Ms. Su Min, Mr. Leung Kam Chung, Antony and Mr. Zhao Jun were appointed as new Directors of the Bank. On behalf of the Board of Directors and the staff of the Bank, I would like to take this opportunity to express my sincere gratitude to Mr. Fu Yuning and other resigned Directors for their outstanding contributions to the Bank during their tenure, and extend a warm welcome to the new members of the Board of Directors!

Looking ahead, the domestic banking environment will continue to undergo profound changes. Against the backdrop of the state of "new normal", China's economy will experience an era of mixed opportunities and risks. Various strategies, such as reform of state-owned enterprises, "one belt one road" and "free trade zones", will be further implemented, meanwhile, interest rate liberalisation has approached its final stage, and Internet banking is set to flourish.

Amidst the rapid changes of times, those who take responsive initiatives for proper changes will be the final winner and thus enjoy superiority. As CMB's history can be dated back to the early years of China's reform and opening-up endeavor, we acknowledge that making changes and innovation has been fundamental to responding to the call of the new epoches. In response to the changing environment, the Bank will take initiatives in continuous transformation in order to grow stronger and strive to become China's best commercial bank with a distinctive edge, an edge that helps the Bank to win customers' testimonials in market competition, to lead people's lifestyle in an era of technological innovation, to obtain employees' recognition in its continuous development, and to receive investors' and regulators' acknowledgement of its sound operation.

In 2015, the economic situation at home and abroad will remain complicated and volatile. While adhering to the strategic positioning of "One Body with Two Wings" and the operation strategy of "asset-light banking", the Bank will promote business growth through strategic planning and push service upgrading through business transformation. The Bank will further enhance strategic management and operation capability by taking effective approaches. In the meantime, the Bank will enhance its capability to accommodate financial transformation, integrate internet finance into its traditional banking businesses, and define new logic of banking operations under the current rapidly changing situation, so as to maintain and consolidate CMB's leading position among its peers.

System reform boosts service efficiency and improves operation capability. In this new year, the Bank will continue to enhance competitiveness through system reform, intensify management and control through process reengineering, strengthen risk management capability through centralised management and improve operation efficiency through optimising operation models and introducing innovative services.

In 2015, the Company will, in adhering to the service concept of "customer-centricity" and the business philosophies of "Change as situation does" and "We are here, just for you", fully capitalise on the state-of-the-art internet technologies, especially the increasingly mature mobile internet technology, to launch innovative services and increase service channels, striving to provide better service experience to its customers and create greater value for its investors and our society.

China Merchants Bank Co., Ltd.
Chairman

President's Statement

In 2014, China Merchants Bank diligently fulfilled all the requirements of both the regulators and the Board of Directors. The Bank proceeded with strategic transformation to forge an "asset-light bank" through constant service upgrading in implementing the strategic positioning of "one body with two wings", which is a crucial step forward in the realisation, operation and implementation of our transformation towards "asset-light banking". Such efforts have brought fruitful results.

As at the end of 2014, total assets of the Group amounted to RMB4,731.829 billion, up by 17.81% from the beginning of the year; total deposits from customers amounted to RMB3,304.438 billion, up by 19.07% from the beginning of the year; and total loans and advances to customers amounted to RMB2,513.919 billion, up by 14.42% from the beginning of the year. Net profit attributable to the shareholders of the Bank amounted to RMB55.911 billion, up by 8.06% year-on-year. The return on average equity (after tax) attributable to the shareholders of the Bank was 19.28%, down by 2.94 percentage points year-on-year. The cost-to-income ratio was 30.42%, representing a decrease of 3.81 percentage points compared with the previous year. Under the advanced approach, the capital adequacy ratio was 12.38%, the non-performing loan ratio was 1.11%, and the allowance coverage ratio of non-performing loans stood at 233.42%.

In 2014, all businesses of the Bank experienced rapid development, and ranked first among national small- and medium-sized banks in terms of the increase amount in corporate and retail deposits. With respect to retail finance, the Company further reinforced its leading position in wealth management and private banking, and proactively launched marketing activities targeting high-net-worth customers, steadily promoted the development of credit card business, and successively launched "Online Banking 7.0 (網絡銀行7.0版)", "Mobile Banking 3.0 (手機銀行3.0版)" and "All-in-one Mobile (一閃通)". With regard to corporate finance, the Company launched a series of innovative products such as "C+ Account (C+賬戶)", "Corporate All-in-one Card (公司一卡通)", "Cross-border Smart Banking (跨境智慧)" comprehensive service platform and "Smart Supply Chain (智慧供應鏈)" financial platform. As for financial institutions finance, the Company vigorously promoted the development of macro asset management business which outperformed its domestic peers in terms of the scale and proportion of net-worth wealth management products, and successfully launched its all-function online custody banking service, the first of its kind in China.

In 2014, the Bank made great efforts in risk prevention, internal control and compliance. Under the challenging situation where credit risk has become a major concern along with the economic downturn, the Bank implemented comprehensive risk screening, strengthened risk pre-warning and exit mechanism, strictly carried out categorised management of assets, broadened channels for disposal of non-performing assets, and vigorously enhanced the management of asset quality. The Bank strengthened the management and control over risks associated with loans extended to local government financing vehicles, real estate enterprises, overcapacity industries and emerging financing businesses. The Bank strictly guarded itself against external risks related to guarantee agencies, credit chains and trade financing. The Bank continuously improved the management of liquidity risk, market risk, operational risk and reputational risk, and fully regulated new business processes and risk monitoring. The Bank furthered its efforts in internal control and compliance management, intensified its efforts in audit, monitoring and rectification, committed itself to the prevention of money laundering and terrorism financing, and maintained necessary precautions against any misconducts. No serious incident of misconduct or significant error occurred during the year.


Tian Huiyu
President

In 2014, the Bank strengthened its internal management, further promoted process re-engineering, optimised the organisational structure of corporate finance, financial institutions finance, middle- and back-offices at the Head Office, further optimised the organisational structure of retail finance at the Head Office, and officially commenced the reform on operational systems of our branches. The Bank continued to improve the branch performance assessment system and upgraded its budget management, assets and liabilities management, capital management and expenditure and income management. The Bank completed fund-raising through issuance of write-down-type Tier-2 capital instruments (減記型二級資本債融資), deepened the reform on human resources, streamlined administrative procedures and decentralised powers, promoted the appraisal of post value, optimised professional sequence management, and established an internal market and a reserve talent pool. The Bank also enhanced its IT management, reformed IT organisation, established and improved the Service-level Agreement (SLA) and IT internal customer service satisfaction system, and promoted the adoption of the management guidelines of Capability Maturity Model Integration (CMMI) and Information Technology Infrastructure Library (ITIL) throughout the Bank.

In 2014, the Bank steadily promoted its international and integrated operations, further improved the three major product lines of "Shang Mao Tong (商貿通)", "Cai Fu Tong (財富通)" and "Zi Ben Tong (資本通)", and became one of the first domestic banks permitted to implement the advanced approach for capital measurement. The Bank pioneered in launching "Free Trade Cross-border Banking Service (自貿跨境通)" and integrated its cross-border smart banking platform. The integration with Wing Lung Bank was further promoted, and its business coordination with our domestic branches was further strengthened, and achieved a relatively rapid growth in net earnings. Our Hong Kong Branch, New York Branch and Singapore Branch continued their sound growth momentum, while our Luxembourg Branch has formally commenced its preparation work. CMB Financial Leasing, CMB International Capital, CMB Fund and CIGNA & CMB Life Insurance have all achieved steady development.

In 2014, the Bank's overall brand image continued to receive high recognition from the community, which was evidenced by over 130 awards granted by prestigious media at home and abroad, including the "Best Retail Bank in China", the "Best Private Bank in China", the "Best Cash Management Bank in China" and the "Best Cross-border Trade Financing".

The above achievements were attributable to the hard work of our staff and the unwavering support from our customers, investors from all walks of life. On behalf of China Merchants Bank, I would like to extend my sincere gratitude to all who care about and support the development of China Merchants Bank.

Looking forward to 2015, we will adhere to the guiding principle of "achieving steady development and speeding up transformation" to overcome obstacles, make concerted efforts and forge ahead with CMB spirits, so as to usher in a new era of sustainable growth for China Merchants Bank in a new historical period.

China Merchants Bank Co., Ltd.
President

Liu Yuan
Chairman of the Board of Supervisors

Report of the Board of Directors

5.1 Analysis of General Operating Status

In 2014, the domestic economy entered into a downward cycle where we saw economic slowdown, painful structural adjustment and vanishing impetus brought about by the previous economic incentive policies. Also, the global economy remained volatile and uncertain, and was full of challenges. Despite the complicated external situation and challenges, the Group overcame various unfavourable factors, accelerated strategic transformation and maintained steady development, which were reflected mainly in the following aspects:

Profitability improved steadily. In 2014, the Group accomplished a net profit attributable to its shareholders of RMB55.911 billion, representing an increase of RMB4.168 billion or 8.06% as compared with the previous year. The Group realised a net interest income of RMB112.000 billion and a net non-interest income of RMB54.525 billion, representing an increase of RMB13.087 billion or 13.23%, and an increase of RMB20.320 billion or 59.41% respectively as compared with the previous year. The return on average asset (ROAA) and return on average equity (ROAE) attributable to the shareholders of the Bank were 1.28% and 19.28%, decreasing by 0.11 percentage point and 2.94 percentage points from 1.39% and 22.22% for 2013 respectively. Our operating performance improved steadily, which was driven by an increase in net interest income brought about by the expansion of asset scale; and a rapid growth in net fee and commission income thanks to our intensified efforts in capitalising on customers' demand for comprehensive wealth management and the opportunities brought about by stronger consumption demand to develop the intermediary businesses.

The scale of assets and liabilities expanded in a balanced way. As at the end of 2014, the Group's total assets amounted to RMB4,731.829 billion, representing an increase of RMB715.430 billion or 17.81%, as compared with the beginning of the year. The total loans and advances to customers amounted to RMB2,513.919 billion, representing an increase of RMB316.825 billion or 14.42%, as compared with the beginning of the year. The total liabilities of the Group amounted to RMB4,416.769 billion, representing an increase of RMB666.326 billion or 17.77%, as compared with the beginning of the year. The total deposits from customers amounted to RMB3,304.438 billion, representing an increase of RMB529.162 billion or 19.07%, as compared with the beginning of the year.

The non-performing assets increased while the allowance coverage ratio remained stable. As at the end of 2014, the Group had a balance of non-performing loans of RMB27.917 billion, representing an increase of RMB9.585 billion as compared with the beginning of the year. The non-performing loan ratio was 1.11%, up by 0.28 percentage point as compared with the beginning of the year. The non-performing loan allowance coverage ratio was 233.42%, representing a decrease of 32.58 percentage points as compared with the beginning of the year.

5.2 Analysis of Income Statement

5.2.1 Financial highlights

(in millions of RMB)	2014	2013
Net interest income	112,000	98,913
Net fee and commission income	44,696	29,184
Other net income	9,671	4,933
Operating expenses	(61,081)	(54,144)
Provision for insurance claims	(332)	(331)
Share of profits of associates	2	53
Share of profits of joint ventures	156	35
Impairment losses on assets	(31,681)	(10,218)
Profit before tax	73,431	68,425
Income tax	(17,382)	(16,683)
Net profit	56,049	51,742
Net profit attributable to the Bank's shareholders	55,911	51,743

In 2014, the Group realised a profit before tax of RMB73.431 billion, representing an increase of 7.32% as compared with that of 2013. The effective income tax rate was 23.67%, representing a decrease of 0.71 percentage point as compared with that of 2013.

The following table sets out the impact of changes in major income/loss items of the Group on its profit before tax for 2014.

Changes in profit before tax

(in millions of RMB)

Profit before tax for 2013	**68,425**
Changes in 2014	
Net interest income	13,087
Net fee and commission income	15,512
Other net income	4,738
Operating expenses	(6,937)
Provision for insurance claims	(1)
Impairment losses on assets	(21,463)
Gains on investment in associates and joint ventures	70
Profit before tax for 2014	**73,431**

5.2.2 Net operating income

In 2014, the net operating income of the Group was RMB166.525 billion, representing an increase of 25.10% as compared with that of 2013. The net interest income accounted for 67.26% of the total net operating income, representing a decrease of 7.04 percentage points from 2013; the net non-interest income accounted for 32.74% of the total net operating income, representing an increase of 7.04 percentage points from 2013.

The following table sets out the composition of the net operating income of the Group in the past 5 years.

(%)	2014	2013	2012	2011	2010
Net interest income	67.26	74.30	77.65	78.94	79.54
Net fee and commission income	26.84	21.92	17.34	16.17	15.79
Other net income	5.81	3.71	4.96	4.83	4.58
Gains on investment in associates and joint ventures	0.09	0.07	0.05	0.06	0.09
Total	100.00	100.00	100.00	100.00	100.00

5.2.3 Net interest income

In 2014, the Group's net interest income amounted to RMB112.000 billion, representing an increase of 13.23% as compared with that of 2013.

The following table sets out the average balances of assets and liabilities, interest income/interest expense, and average yield/cost of the Group during the period indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

	2014			2013		
(in millions of RMB, excluding percentages)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances	2,400,646	145,727	6.07	2,092,074	127,630	6.10
Investments	873,418	37,749	4.32	542,652	21,621	3.98
Balances with central bank	563,026	8,318	1.48	472,535	7,296	1.54
Placements with banks and other financial institutions	603,612	31,040	5.14	399,959	16,948	4.24
Total	4,440,702	222,834	5.02	3,507,220	173,495	4.95

(in millions of RMB, excluding percentages)	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Interest-bearing liabilities						
Deposits from customers	3,056,634	64,102	2.10	2,583,045	48,475	1.88
Placements from banks and other financial institutions	960,520	42,669	4.44	582,573	22,826	3.92
Issued debts	92,385	3,921	4.24	70,396	3,281	4.66
Borrowings from the central bank	4,000	142	3.55	–	–	–
Total	4,113,539	110,834	2.69	3,236,014	74,582	2.30
Net interest income	/	112,000	/	/	98,913	/
Net interest spread	/	/	2.33	/	/	2.65
Net interest margin	/	/	2.52	/	/	2.82

In 2014, with the negative impact from the rising costs of deposits from customers and inter-bank borrowing, net interest margin and net interest spread of the Group were 2.52% and 2.33% respectively, down by 30 basis points and 32 basis points respectively as compared with those of 2013.

The following table sets forth, for the period indicated, the breakdown of changes in interest income and interest expenses due to changes in volume and interest rate. Changes in volume are measured by changes of average balances (daily average balance), while changes in interest rate are measured by changes in the average interest rate; interest income and expense changes caused by changes in volume and interest rate together are counted as changes incurred by volume.

	2014 compared with 2013		
	Increase/(decrease) due to		Value of net increase/
(in millions of RMB)	Volume	Interest rate	(decrease)
Assets			
Loans and advances	18,725	(628)	18,097
Investments	14,283	1,845	16,128
Balances with central bank	1,306	(284)	1,022
Placements with banks and other financial institutions	10,492	3,600	14,092
Changes in interest income	44,806	4,533	49,339
Liabilities			
Deposits from customers	9,944	5,683	15,627
Placements from banks and other financial institutions	16,814	3,029	19,843
Issued debts	936	(296)	640
Borrowings from the central bank	142	–	142
Changes in interest expense	27,836	8,416	36,252
Changes in net interest income	16,970	(3,883)	13,087

The following table sets out the average balances of assets and liabilities, interest income/interest expense and annualised average yield/cost of the Group during the period indicated. The average balances of interest-earning assets and interest-bearing liabilities are the average of the daily balances.

	July to September 2014			October to December 2014		
(in millions of RMB, except for percentages)	Average balance	Interest income	Annualised average yield (%)	Average balance	Interest income	Annualised average yield (%)
Interest-earning assets						
Loans and advances	2,419,889	37,221	6.10	2,517,350	38,197	6.02
Investments	977,213	11,252	4.57	920,568	9,059	3.90
Balances with central bank	588,042	2,159	1.46	582,553	2,148	1.46
Placements with banks and other financial institutions	739,443	8,436	4.53	552,331	8,085	5.81
Total	**4,724,587**	**59,068**	**4.96**	**4,572,802**	**57,489**	**4.99**

	July to September 2014			October to December 2014		
(in millions of RMB, except for percentages)	Average balance	Interest expense	Annualised average cost (%)	Average balance	Interest expense	Annualised average cost (%)
Interest-bearing liabilities						
Deposits from customers	3,192,785	17,510	2.18	3,197,672	17,181	2.13
Placements from banks and other financial institutions	1,114,930	12,059	4.29	901,952	9,223	4.06
Issued debts	98,220	1,090	4.40	105,955	1,210	4.53
Borrowings from the central bank	–	–	–	15,870	142	3.55
Total	**4,405,935**	**30,659**	**2.76**	**4,221,449**	**27,756**	**2.61**
Net interest income	/	28,409	/	/	29,733	/
Net interest spread	/	/	2.20	/	/	2.38
Net interest margin	/	/	2.39	/	/	2.58

In the fourth quarter of 2014, the net interest spread of the Group was 2.38%, up by 18 basis points as compared with the third quarter of 2014. The annualised average yield of the interest-earning assets was 4.99%, up by 3 basis points as compared with the third quarter of 2014 while the annualised average cost of interest-bearing liabilities was 2.61%, down by 15 basis points as compared with the third quarter of 2014.

In the fourth quarter of 2014, the net interest margin of the Group was 2.58%, up by 19 basis points as compared with the third quarter of 2014.

5.2.4 Interest income

In 2014, the Group recorded an interest income of RMB222.834 billion, an increase of 28.44% as compared with that of 2013, mainly due to the increase in the scale of interest-earning assets. Interest income from loans and advances continued to constitute the majority of the interest income of the Group.

Interest income from loans and advances

In 2014, the interest income from loans and advances of the Group was RMB145.727 billion, representing an increase of RMB18.097 billion or 14.18% as compared with the previous year.

The following table sets forth, for the periods indicated, the average balance, the interest income and the average yield of different types of loans and advances of the Group.

	2014			2013		
(in millions of RMB, excluding percentages)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	1,448,378	82,168	5.67	1,262,701	72,765	5.76
Retail loans	860,497	58,428	6.79	743,453	50,120	6.74
Discounted bills	91,772	5,131	5.59	85,920	4,745	5.52
Loans and advances	2,400,646	145,727	6.07	2,092,074	127,630	6.10

In 2014, from the perspective of the terms of loans and advances of the Company, the average balance of short-term loans was RMB1,227.995 billion, with the interest income amounting to RMB77.790 billion, and the average yield reaching 6.33%; the average balance of medium to long-term loans was RMB950.231 billion, with the interest income amounting to RMB58.705 billion, and the average yield reaching 6.18%. The average yield of short-term loans was higher than that of medium to long-term loans mainly because of the relatively high yield of micro enterprise loans and bills discounting among short-term loans.

Interest income from investments

In 2014, the interest income from investments of the Group increased by RMB16.128 billion or 74.59% as compared with the previous year, and the average yield of investments was 4.32%, up by 0.34 percentage point as compared with the previous year, which was primarily attributable to the increase in scale of non-standard investment and the increase in yield.

Interest income from placements with banks and other financial institutions

In 2014, the interest income from placements with banks and other financial institutions of the Group increased by RMB14.092 billion or 83.15% as compared with the previous year, and the average yield for placements with banks and other financial institutions was 5.14%, up by 0.90 percentage point as compared with the previous year, which was primarily attributable to the increase in scale of placements with banks and other financial institutions and the increase in the yield of inter-bank lending.

5.2.5 Interest expense

In 2014, the interest expense of the Group was RMB110.834 billion, an increase of RMB36.252 billion or 48.61% as compared with the previous year, which was primarily attributable to the increase in volume of interest-bearing liabilities and the rise in cost of deposits from customers and inter-bank borrowing.

Interest expense on deposits from customers

In 2014, the Group's interest expense on deposits from customers increased by RMB15.627 billion or 32.24% as compared with the previous year, which was primarily attributable to the 18.33% increase of the average balance of deposits from customers and the 0.22 percentage point increase in the average cost of deposits from customers as compared with the previous year.

The following table sets forth, for the periods indicated, the average balance, the interest expense and the average cost for deposits from corporate and retail customers of the Group.

	2014			2013		
(in millions of RMB, excluding percentages)	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
Deposits from corporate customers						
Demand	864,524	6,186	0.72	759,533	5,339	0.70
Time	1,169,137	41,381	3.54	901,611	28,510	3.16
Subtotal	2,033,661	47,567	2.34	1,661,144	33,849	2.04
Deposits from retail customers						
Demand	588,039	2,799	0.48	530,799	2,701	0.51
Time	434,934	13,736	3.16	391,102	11,925	3.05
Subtotal	1,022,973	16,535	1.62	921,901	14,626	1.59
Total deposits from customers	3,056,634	64,102	2.10	2,583,045	48,475	1.88

Interest expense on placements from banks and other financial institutions

In 2014, the interest expense on placements from banks and other financial institutions of the Group increased by 86.93% as compared with the previous year, which was primarily attributable to the increase of the amount of placements from banks and other financial institutions, and the increase in the interest rate of inter-bank borrowing.

Interest expense on issued debts

In 2014, the interest expense on issued debts of the Group increased by 19.51% as compared with the previous year, which was primarily attributable to an increase in the size of issued debts.

5.2.6 Net non-interest income

In 2014, the Group recorded a net non-interest income of RMB54.525 billion, representing an increase of RMB20.320 billion or 59.41% as compared with the previous year. Specifically, the net non-interest income from retail banking business amounted to RMB22.960 billion, an increase of 39.48% over the previous year, accounting for 42.11% of the Group's net non-interest income; the net non-interest income from corporate banking business amounted to RMB16.565 billion, an increase of 36.70% over the previous year, accounting for 30.38% of the Group's net non-interest income. The net non-interest income of financial institutions business amounted to RMB9.625 billion, an increase of 249.87% over the previous year, accounting for 17.65% of the Group's net non-interest income. The net non-interest income from other businesses amounted to RMB5.375 billion, an increase of 86.96% over the previous year, accounting for 9.86% of the Group's net non-interest income.

The following table sets forth, for the periods indicated, the principal components of net non-interest income of the Group.

(in millions of RMB)	2014	2013
Fee and commission income	48,543	31,365
Less: Fee and commission expense	(3,847)	(2,181)
Net fee and commission income	44,696	29,184
Other net non-interest income	9,829	5,021
Total net non-interest income	54,525	34,205

5.2.7 Net fee and commission income

In 2014, net fee and commission income of the Group increased by RMB15.512 billion or 53.15% as compared with that of 2013, which was primarily attributable to the increase in commissions from custody and other trustee businesses, bank card fees and agency services fees.

The following table sets forth, for the periods indicated, the principal components of net fee and commission income of the Group.

(in millions of RMB)	2014	2013
Fee and commission income	48,543	31,365
Bank card fees	12,894	8,309
Settlement and clearing fees	4,116	2,756
Agency services fees	7,017	5,143
Commissions from credit commitment and loan business	4,204	2,873
Commissions from custody and other trustee businesses	13,033	7,187
Others	7,279	5,097
Fee and commission expense	(3,847)	(2,181)
Net fee and commission income	44,696	29,184

Bank card fees increased by RMB4.585 billion or 55.18% as compared with the previous year, which was primarily attributable to the rapid increase in the income from credit card repayment by instalments and POS income.

Settlement and clearing fees increased by RMB1.360 billion or 49.35% as compared with the previous year, which was primarily attributable to the rapid increase in remittance and settlement volume.

Agency services fees increased by RMB1.874 billion or 36.44% as compared with the previous year, which was primarily attributable to the steady growth in the fees from distribution of funds and the fees from distribution of third-party insurance policies.

Commissions from credit commitment and loan business increased by RMB1.331 billion or 46.33% as compared with the previous year, which was primarily attributable to the growth in the fees from domestic letter of credit, international guarantee and factoring businesses.

Commissions from custody and other trustee businesses increased by RMB5.846 billion or 81.34% as compared with the previous year, which was primarily attributable to the rapid growth of income from wealth management business due to further promotion of wealth management products based on customers' demand for wealth management. Income from entrusted wealth management amounted to RMB6.244 billion, representing an increase of 83.86% as compared with the previous year.

Other fee and commission income increased by RMB2.182 billion or 42.81% as compared with the previous year, which was mainly attributable to the increase of financial advisory fees by RMB1.091 billion as compared with the previous year.

5.2.8 Other net income

In 2014, other net income of the Group increased by RMB4.738 billion or 96.05% as compared with that of 2013, which was mainly due to the substantial increase in bills spread income and net income from foreign exchange trading.

(in millions of RMB)	2014	2013 (restated)
Net trading profit/(loss)		
– Foreign exchange	**2,467**	891
– Securities, derivatives and other trading activities	**1,659**	192
Net gains/(losses) on financial instruments designated at fair value through profit or loss	**139**	(172)
Net gains/(losses) on investment in available-for-sale financial assets	**(145)**	138
Gains on investment in funds	**21**	19
Rental income on assets under operating lease	**476**	414
Bills spread income	**4,238**	2,469
Insurance operating income	**475**	426
Others	**341**	556
Other net income in total	**9,671**	4,933

5.2.9 Operating expenses

In 2014, operating expenses of the Group were RMB61.081 billion, representing an increase of 12.81% as compared with that of 2013. The cost-to-income ratio was 30.42%, representing a decrease of 3.81 percentage points as compared with the previous year. Through measures such as improvements of budgeting method for expenses, optimisation of resources allocation and enhancement of daily expense management, the Group further explored its capabilities in expenses management, effectively enhanced cost efficiency and the support of expenses to business development. The expenses management and control achieved fruitful results, leading to a stable but slower increase in operating expenses compared with that of operating income. Staff costs increased by 8.11% as compared with that of 2013 due to the increase in headcount. Return on investments was improved while business was expanded. Other general and administrative expenses increased by 16.94% as compared with that of 2013, and depreciation charges and rental expenses increased by 7.28% and 19.56% respectively as compared with those of 2013.

The Company has always attached great importance to investments in research and development. In 2014, our research and development expenses amounted to RMB3.874 billion, representing an increase of 21.29% as compared with that of 2013.

The following table sets forth, for the periods indicated, the principal components of the operating expenses of the Group.

(in millions of RMB)	2014	2013
Staff costs	29,179	26,990
Business tax and surcharges	10,425	8,579
Depreciation of fixed assets and investment properties	3,535	3,295
Rental expenses	3,349	2,801
Other general and administrative expenses	14,593	12,479
Total operating expenses	61,081	54,144

5.2.10 Impairment losses on assets

In 2014, impairment losses on assets of the Group were RMB31.681 billion, an increase of 210.05% as compared with that of 2013. The following table sets forth, for the periods indicated, the principal components of impairment losses on the assets of the Group.

(in millions of RMB)	2014	2013
Assets impairment charged/(released) on		
– Loans and advances	31,254	10,196
– Investments	35	4
– Placements with banks and other financial institutions	57	(32)
– Other assets	335	50
Total impairment losses on assets	31,681	10,218

Impairment losses on loans constituted the largest proportion of impairment losses on assets. In 2014, impairment losses on loans were RMB31.254 billion, representing an increase of 206.53% as compared with the previous year, which was mainly due to increased provision for deteriorated assets and additional provision for the heightened credit risks associated with overcapacity industries amidst economic downturn. For details of the provision for impairment losses on loans, please refer to the section headed "Loan quality analysis" in this chapter.

5.3 Analysis of Balance Sheet

5.3.1 Assets

As at 31 December 2014, the total assets of the Group amounted to RMB4,731.829 billion, representing an increase of 17.81% as compared with the end of 2013, which was mainly attributable to the increase in loans and advances to customers, investments and balances with central bank of the Group.

The following table sets forth, as at the dates indicated, the components of the total assets of the Group.

	31 December 2014		31 December 2013	
(In millions of RMB, excluding percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Total loans and advances to customers	2,513,919	53.13	2,197,094	54.70
Provision for impairment losses on loans	(65,165)	(1.38)	(48,764)	(1.21)
Net loans and advances to customers	2,448,754	51.75	2,148,330	53.49
Investments	996,217	21.05	763,401	19.01
Cash, precious metal and balances with central bank	670,007	14.16	523,872	13.04
Balances with banks and other financial institutions	55,986	1.18	38,850	0.97
Inter-bank lending and financial assets purchased under repurchase agreements	469,065	9.91	466,952	11.63
Interest receivable	23,560	0.50	17,699	0.44
Investment in associates and joint ventures	1,484	0.03	778	0.02
Fixed assets	27,445	0.58	24,199	0.60
Investment properties	1,684	0.04	1,701	0.04
Intangible assets	3,292	0.07	2,996	0.07
Deferred tax assets	10,291	0.22	8,064	0.20
Goodwill	9,953	0.21	9,953	0.25
Other assets	14,091	0.30	9,604	0.24
Total assets	4,731,829	100.00	4,016,399	100.00

5.3.1.1 Loans and advances

As at 31 December 2014, total loans and advances of the Group amounted to RMB2,513.919 billion, representing an increase of 14.42% as compared with the end of the previous year; total loans and advances accounted for 53.13% of the total assets, representing a decrease of 1.57 percentage points as compared with the end of the previous year.

The following table sets forth, as at the dates indicated, the loans and advances to customers of the Group by product type.

(In millions of RMB, excluding percentages)	31 December 2014 Amount	31 December 2014 Percentage of the total (%)	31 December 2013 Amount	31 December 2013 Percentage of the total (%)
Corporate loans	1,467,585	58.38	1,325,810	60.34
Discounted bills	75,007	2.98	71,035	3.24
Retail loans	971,327	38.64	800,249	36.42
Total loans and advances to customers	2,513,919	100.00	2,197,094	100.00

Corporate loans

As at 31 December 2014, the Group's total corporate loans amounted to RMB1,467.585 billion, representing an increase of 10.69% as compared with the end of the previous year. Total corporate loans accounted for 58.38% of total loans and advances to customers, representing a decrease of 1.96 percentage points as compared with the end of the previous year. In 2014, taking into account the adjustment in total loan volume and structural adjustment, the Group supported the development of the real economy, satisfied the diversified financing demands of customers, and put in more efforts to support trade financing, thus optimising the corporate loan structure.

Discounted bills

As at 31 December 2014, discounted bills amounted to RMB75.007 billion, representing an increase of 5.59% as compared with the end of the previous year. The Group has been endeavouring to expand its discounted bills business featuring low risk and low capital consumption. Based on the timeline of granting loans, the Group made flexible adjustments to the scale of bills financing and adopted a series of measures including optimisation of structure, centralisation of operation, acceleration of circulation and increase in volume, aiming to increase the overall return on bill assets.

Retail loans

As at 31 December 2014, retail loans amounted to RMB971.327 billion, representing an increase of 21.38% as compared with the end of the previous year; and retail loans accounted for 38.64% of total loans and advances, up by 2.22 percentage points as compared with the end of the previous year. To consistently implement its operation strategy of "asset-light banking", the Group reinforced its retail customer base of micro enterprises, increased residential mortgage loans and credit card loans while adapting to changes in market situation and achieved balanced development of differentiated competitive edge and return on assets.

5.3.1.2 Investments

Investments

Investments of the Group are composed of listed and unlisted financial instruments denominated in Renminbi and foreign currencies, including financial assets designated at fair value through profit or loss, derivative financial assets, available-for-sale financial assets, held-to-maturity investments and investment receivables.

The following table sets forth the components of the investment portfolio of the Group according to accounting classification.

(In millions of RMB, excluding percentages)	31 December 2014 Amount	31 December 2014 Percentage of the total (%)	31 December 2013 Amount	31 December 2013 Percentage of the total (%)
Financial assets held for trading	33,022	3.31	14,611	1.91
Financial assets designated at fair value through profit or loss	7,168	0.72	8,612	1.13
Derivative financial assets	9,315	0.94	5,925	0.77
Available-for-sale financial assets	278,526	27.96	289,911	37.98
Held-to-maturity investments	259,434	26.04	208,927	27.37
Investment receivables	408,752	41.03	235,415	30.84
Total investments	996,217	100.00	763,401	100.00

Financial assets held for trading

As at 31 December 2014, the net value of financial assets held for trading of the Group increased by RMB18.411 billion or 126.01% as compared with that at the end of 2013. Such investments were made mainly to take the opportunities of transactions in the bond market.

In 2014, the slowdown in the speed of the macro-economy was intertwined with falling inflation. In response, the central bank took a timely approach to adopt various monetary policies and instruments such as lowering the targeted reserve requirement ratio (RRR) and interest rate, SLO and SLF to make the adjustments, and the liquidity in the interbank market improved prominently as compared with 2013, and the yields of the bond market dropped significantly. Through intensive market research, the Group adopted aggressive trading policies in line with market situation, proactively expanded tradings in interest-bearing bonds and bonds with high credit ratings, and enhanced its trading operation to sell at high prices and buy at low prices in response to increased market volatility, thereby achieving relatively better trading revenue.

The following table sets forth the components of the portfolio of financial assets held for trading of the Group.

(in millions of RMB)	31 December 2014	31 December 2013
Bonds issued by the PRC government	5,351	4,129
Bonds issued by policy banks	521	339
Bonds issued by commercial banks and other financial institutions	12,102	6,642
Others (note)	15,048	3,501
Total Financial assets held for trading	33,022	14,611

Note: including other bonds, equity investments and fund investments.

Financial assets designated at fair value through profit or loss

The following table sets forth the components of the portfolio of financial assets designated at fair value through profit or loss of the Group.

(in millions of RMB)	31 December 2014	31 December 2013
Bonds issued by the PRC government	299	285
Bonds issued by policy banks	349	995
Bonds issued by commercial banks and other financial institutions	4,387	5,055
Other bonds	2,133	2,277
Total financial assets designated at fair value through profit or loss	7,168	8,612

Available-for-sale financial assets

As at 31 December 2014, the net value of the available-for-sale financial assets of the Group decreased by RMB11.385 billion or 3.93% as compared with that at the end of 2013. The investment in this category was made mainly due to the need to allocate assets and liabilities and improve operating performance.

In 2014, in order to stabilise economic growth and lower the financing cost for real economy, the central bank successively injected liquidity into market since the beginning of the year to alleviate market concerns about liquidity. Before the end of the year, the central bank lowered the benchmark deposit and loan interest rates to further loosen its monetary policies in future, based on changes in overseas and domestic economic environments. In response to the market trends, the Group took opportunities to increase investments primarily in interest-bearing bonds and bonds with high credit ratings, and moderately extended bond duration. As a result, the Company optimised its assets and liabilities structure.

The following table sets forth the components of the portfolio of the available-for-sale financial assets of the Group.

(in millions of RMB)	31 December 2014	31 December 2013 (restated)
Bonds issued by the PRC government	77,265	49,846
Bonds issued by the People's Bank of China (the "PBOC")	99	229
Bonds issued by policy banks	22,313	27,922
Bonds issued by commercial banks and other financial institutions	103,100	105,747
Other bonds	73,828	105,056
Equity investments	2,215	1,611
Fund investments	317	74
Total available-for-sale financial assets	279,137	290,485
Less: Impairment allowances	(611)	(574)
Net available-for-sale financial assets	278,526	289,911

Held-to-maturity investments

As at 31 December 2014, the net amount of held-to-maturity investments of the Group increased by RMB50.507 billion or 24.17% as compared with the end of the previous year. Held-to-maturity investments are held on a long-term basis for the strategic purpose of the Group. In the first half of the year, the Group moderately extended the duration of investment portfolios based on the requirements of interest rate risk management of bank account and liquidity risk management, and purchased more medium to long term bonds bearing fixed interest rates when the yields of bond market were at a higher level. The purchase focused on bonds issued by the PRC government, policy banks and commercial banks which led to a faster growth of such category of investments.

The following table sets forth the components of held-to-maturity investments of the Group.

(in millions of RMB)	31 December 2014	31 December 2013
Bonds issued by the PRC government	109,919	90,483
Bonds issued by policy banks	21,854	18,055
Bonds issued by commercial banks and other financial institutions	120,753	92,028
Other bonds	6,979	8,439
Total held-to-maturity investments	259,505	209,005
Less: Impairment allowances	(71)	(78)
Net held-to-maturity investments	259,434	208,927

Investment receivables

Investment receivables are unlisted PRC certificated bonds and other investment in debt securities held by the Group, which are not publicly quoted in China or overseas. As at 31 December 2014, the Group's net investment receivables amounted to RMB408.752 billion, representing an increase of RMB173.337 billion as compared with the end of 2013, which was mainly due to increased investment in the trust beneficiary rights which are included in non-standard investment in debt securities.

The following table sets forth the composition of the Group's investment receivables.

(in millions of RMB)	31 December 2014	31 December 2013
Standard investment in debt securities		
Bonds issued by the PRC government	594	822
Bonds issued by commercial banks and other financial institutions	21,229	10,054
Other bonds	21,335	12,462
Non-standard investment in debt securities		
Credit		
– Insurance Asset Management Plan	–	2,978
– Trust Beneficiary Rights and others	239,121	130,304
Non-credit		
– Insurance Asset Management Plan	56,330	37,692
– Trust Beneficiary Rights and others	70,211	41,166
Total investment receivables	408,820	235,478
Less: provision for impairment losses	(68)	(63)
Net investment receivables	408,752	235,415

Carrying value and market value

All bond investments classified as financial assets designated at fair value through profit or loss and available-for-sale investments were stated at market value or at fair value. Due to lack of a mature market for the investment receivables in the Group's investment portfolio, the Group has not made any assessment on their market value or fair value.

The following table sets forth, as at the dates indicated, the carrying value and the market value of the held-to-maturity listed investments in our investment portfolio.

	31 December 2014		31 December 2013	
(in millions of RMB)	Carrying value	Market/ fair value	Carrying value	Market/ fair value
Held-to-maturity listed investments	256,074	261,326	204,642	195,499

Securities investments

Stock code	Name	Currency	Initial investment ('000)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Percentage of total Investments at end of period (%)	Profits/ (losses) for the reporting period ('000)
USY39656AA40	Industrial and Commercial Bank of China	USD	100,000	N/A	101,683	52.63	1,683
00388.HK	Hong Kong Exchanges and Clearing Ltd.	HK$	2,689	996,042	170,921	11.41	–
V	Visa Inc	USD	2,049	54,361	13,256	6.86	–
03988.HK	Bank of China Ltd.	HK$	50,008	16,300,000	70,905	4.73	–
02388.HK	BOC Hong Kong (Holdings) Limited	HK$	31,809	1,662,000	43,046	2.87	–
01288.HK	Agricultural Bank of China Ltd.	HK$	32,323	10,000,000	39,200	2.62	–
00941.HK	China Mobile Ltd.	HK$	23,866	316,000	28,661	1.91	–
MA	Master Card	USD	–	38,400	3,309	1.71	–
00005.HK	HSBC Holdings plc	HK$	26,628	328,672	24,289	1.62	–
02778.HK	Champion Reit	HK$	31,755	6,164	22,190	1.48	(133)
Other securities investments at the end of the period		HK$	112,855	N/A	150,853	10.07	(1,948)
Other securities investments at the end of the period		USD	3,999	N/A	4,038	2.09	–

Notes: 1. The above table ranked the securities according to their carrying values at the end of the period to show the top 10 holdings.
2. Other securities investments referred to those other than the top 10 holdings.

Analysis on investments in foreign currency bonds

As at 31 December 2014, the Group had a balance of investments in foreign currency bonds of US$5.413 billion, among which US$3.089 billion was held by the Company and US$2.324 billion was held by Wing Lung Group.

As at 31 December 2014, the investments in foreign currency bonds held by the Company are categorized by issuer as follows: 31.3% of the foreign currency bonds were issued by the PRC government and Chinese companies; 31.4% by overseas governments and institutions; 15.9% by overseas financial institutions and 21.4% by overseas non-financial companies. The Company has made a provision for impairment losses of US$92 million for its investments in foreign currency bonds, and the floating earnings of the evaluation made on the investment in foreign currency bonds was US$38 million.

Companies in which the Company holds controlling interests and other Investee companies

Shareholdings in non-listed financial companies

Name of companies	Initial Investment ('000)	Shareholding percentage (%)	Shareholdings at end of period (shares)	Carrying value at end of period ('000)	Profits/ (losses) for the reporting period[1] ('000)	Change in owners' equity for the reporting period ('000)	Origination of shares
Wing Lung Bank Ltd.	32,081,937	100.00	231,028,792	30,313,858	2,198,050	2,701,054	Equity investment
CMB International Capital Corporation Ltd.	855,545	100.00	1,000,000,000	855,545	249,009	943,252	Ownership upon establishment by promotion
CMB Financial Leasing Co., Ltd.	6,000,000	100.00	N/A	6,000,000	1,434,968	3,436,123	Ownership upon establishment by promotion
China Merchants Fund Management Co., Ltd	708,193	55.00	115,500,000	882,274	146,240	98,425	Equity investment
CIGNA & CMB Life Insurance Co.,Ltd.	646,443	50.00	725,000,000	1,223,365	125,865	79,603	Equity investment
Taizhou Bank Co., Ltd.	306,671	10.00	180,000,000	345,708	120,600	–	Equity investment
China UnionPay Co., Ltd.	155,000	3.75	110,000,000	155,000	4,000	1,722	Equity investment
EPS Company (Hong Kong) Ltd.	HK$8,400	2.10	2	HK$8,400	HK$1,950	–	Equity investment
Yantai City Commercial Bank Corporation Ltd.	189,620	3.77	99,800,000	149,700	(40,100)	19,799	Equity investment
Bank Consortium Holdings Ltd.	HK$20,000	13.33	20,000,000	HK$66,218	HK$21,317	HK$7	Equity investment
Joint Electronic Teller Services Ltd.	HK$2,000	20.00	20,000	HK$8,510	HK$530	–	Equity investment
Hong Kong Life Insurance Ltd.	HK$70,000	16.67	70,000,000	HK$96,501	HK$7,780	HK$1,225	Equity investment
BC Reinsurance Ltd.	HK$21,000	21.00	42,000,000	HK$65,631	HK$8,460	–	Equity investment
Professional Liability Underwriting Services Ltd.	HK$810	27.00	810,000	HK$4,351	HK$1,253	HK$24	Equity investment
I-Tech Solutions Limited	HK$3,000	50.00	3,000,000	HK$2,887	HK$36	–	Equity investment
Hong Kong Precious Metals Exchange Ltd.	HK$136	0.35	136,000	HK$136	–	–	Equity investment
AR Consultant Service Ltd.	HK$4,023	8.70	100,000	HK$10,661	–	HK$2,681	Equity investment
Luen Fung Hang Life Ltd.	MOP 6,000	6.00	60,000	MOP 6,000	–	–	Equity investment
China Insurance Brokers Co., Ltd.	HK$570	3.00	N/A	–	–	–	Equity investment

Note: 1. Profits/(losses) for the reporting period indicate the impact on the net profits attributable to the shareholders of the Company for the reporting period.

Derivative financial instruments

As at 31 December 2014, the major categories and amount of derivative financial instruments held by the Group are shown in the following table. For details of derivative financial instruments, please refer to Note 53(f) to the financial statements "Risk Management – Use of derivatives".

	31 December 2014			31 December 2013		
	Notional amount	Fair value		Notional amount	Fair value	
(in millions of RMB)		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives	360,545	420	(629)	118,516	556	(1,867)
Currency derivatives	1,020,501	8,879	(9,615)	573,253	5,334	(6,366)
Other derivatives	1,039	16	(2)	2,122	35	(2)
Total	**1,382,085**	**9,315**	**(10,246)**	693,891	5,925	(8,235)

In 2014, the interbank derivatives market developed rapidly along with the progress of reform on interest rate and exchange rate regime. The Group, on one hand, actively seized opportunities arising from the general downward trend of RMB market rates throughout the year by aggressively increasing the trading in interest rate derivatives such as interest rate swaps and their risk exposure, thereby capturing a bigger market share in the interest rate derivative market and generating substantially more income from such trading activities; on the other hand, the Group actively seized market opportunities brought about by the sharp rise in domestic USD deposits and the increasing USD liquidity to intensify the foreign exchange swap transactions, thereby significantly expanding our market share in the foreign exchange derivatives trading market and generating considerable income from such trading activities.

5.3.1.3 Goodwill

In compliance with the PRC enterprise accounting principles, at the end of 2014, the Group took an impairment test on the goodwill arising from the acquisition of WLB and China Merchants Fund and decided that provision for impairment was not necessary. As at 31 December 2014, the Group had a balance of provision for impairment losses on goodwill of RMB579 million and the carrying value of goodwill was RMB9.953 billion.

5.3.2 Liabilities

As at 31 December 2014, the total liabilities of the Group amounted to RMB4,416.769 billion, representing an increase of 17.77% as compared with the end of 2013, which was primarily due to the steady growth in deposits from customers and deposits from banks and other financial institutions.

The following table sets forth, as at the dates indicated, the components of the total liabilities of the Group.

	31 December 2014		31 December 2013	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from customers	3,304,438	74.82	2,775,276	74.00
Deposits from banks and other financial institutions	697,448	15.79	514,182	13.71
Borrowings from the central bank	20,000	0.45	–	–
Placements from banks and other financial institutions	94,603	2.14	125,132	3.34
Financial liabilities designated at fair value through profit or loss	13,369	0.30	21,891	0.58
Derivative financial liabilities	10,246	0.23	8,235	0.22
Proceeds from disposal of financial assets repurchased	66,988	1.52	153,164	4.08
Accrued payroll	6,068	0.14	5,119	0.14
Taxes payable	11,656	0.26	8,722	0.23
Interest payable	45,349	1.03	30,988	0.83
Bonds payable	106,155	2.40	68,936	1.84
Deferred income tax liabilities	771	0.02	770	0.02
Other liabilities	39,678	0.90	38,028	1.01
Total liabilities	**4,416,769**	**100.00**	3,750,443	100.00

Deposits from customers

As at 31 December 2014, the total deposits from customers of the Group amounted to RMB3,304.438 billion, representing an increase of 19.07% as compared with the end of 2013. Deposits from customers accounted for 74.82% of the total liabilities of the Group and were the major funding source of the Group.

The following table sets forth, as at the dates indicated, the deposits from customers of the Group by product type and customer type.

	31 December 2014		31 December 2013	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Deposits from corporate customers				
Demand	973,646	29.46	864,224	31.14
Time	1,237,765	37.46	942,728	33.97
Subtotal	2,211,411	66.92	1,806,952	65.11
Deposits from retail customers				
Demand	644,836	19.52	547,363	19.72
Time	448,191	13.56	420,961	15.17
Subtotal	1,093,027	33.08	968,324	34.89
Total deposits from customers	3,304,438	100.00	2,775,276	100.00

In 2014, with the impact from the active capital market and the high yield of wealth management products, retail customers are transferring their deposits for investments. As at 31 December 2014, the percentage of retail deposits to total deposits from customers of the Group was 33.08%, representing a decrease of 1.81 percentage points as compared with the end of 2013.

As at 31 December 2014, the percentage of demand deposits to total deposits from customers of the Group was 48.98%, representing a decrease of 1.88 percentage points as compared with the end of 2013. Among the figures, the proportion of corporate demand deposits accounted for 44.03% of the corporate deposits, representing a decrease of 3.80 percentage points as compared with the end of 2013, and the retail demand deposits accounted for 59.00% of the retail deposits, representing an increase of 2.47 percentage points as compared with the end of 2013.

5.3.3 Shareholders' equity

(in millions of RMB)	31 December 2014	31 December 2013
Share capital	**25,220**	25,220
Capital reserve	**67,523**	67,523
Investment revaluation reserve	**1,902**	(5,547)
Hedging reserve	**(163)**	(951)
Surplus reserve	**28,690**	23,502
Regulatory general reserve	**53,979**	46,347
Retained profits	**121,665**	95,471
Proposed profit appropriations	**16,897**	15,636
Difference arising from converting financial statements denominated in foreign currency	**(1,309)**	(1,736)
Total equity attributable to the shareholders of the Company	**314,404**	265,465
Minority shareholders' equity	**656**	491
Total shareholders' equity	**315,060**	265,956

5.3.4 Market share of deposit and lending businesses

According to the Statements of Incomes and Expenditures relating to Lendings by Financial Institutions published by the PBOC in December 2014, the market share and ranking of the Bank among the 31 national small- and medium-sized banks in terms of total loans and deposits as at the end of the reporting period are as follows:

Items expressed in RMB	Market share (%)	Ranking
Total deposits	10.56	1
Total savings deposits	15.53	1
Total loans	9.16	2
Total personal consumption loans	15.95	1

Note: From 2010, the PBOC had applied new classifications for all financial institutions in the PRC based on their total assets in preparing the Statements of Incomes and Expenditures relating to Lendings by Financial Institutions, being large-sized banks, national small- and medium-sized banks, and local small- and medium-sized banks, etc. The national small- and medium-sized banks are China Merchants Bank, Agricultural Development Bank, Export-Import Bank, China Citic Bank, Shanghai Pudong Development Bank, China Minsheng Bank, China Everbright Bank, Industrial Bank, Huaxia Bank, Guangdong Development Bank, Evergrowing Bank, China Zheshang Bank, Bohai Bank, Bank of Beijing, Bank of Tianjin, Baoshang Bank, Shengjing Bank, Bank of Dalian, Bank of Jinzhou, Harbin Bank, Bank of Shanghai, Bank of Nanjing, Bank of Jiangsu, Bank of Ningbo, Bank of Hangzhou, Chouzhou Bank, Jinan Bank, Weihai Bank, Linshang Bank, Ping An Bank, and Bank of Chongqing.

5.4 Loan Quality Analysis

During the reporting period, the Group saw a steady growth in the volume of its credit assets, an increase in non-performing assets and a healthy allowance coverage. As at 31 December 2014, total loans and advances to customers of the Group were RMB2,513.919 billion, representing an increase of 14.42% as compared with the end of the previous year; the non-performing loan ratio was 1.11%, 0.28 percentage point up from the end of the previous year; whereas the non-performing loan allowance coverage ratio was 233.42%, representing a decrease of 32.58 percentage points as compared with the end of the previous year; the loan allowance ratio was 2.59%, representing an increase of 0.37 percentage point as compared with the end of the previous year.

5.4.1 Distribution of loans by 5-tier loan classification

The following table sets forth the 5-tier loan classification of the Group as at the dates indicated.

	31 December 2014		31 December 2013	
(in millions of RMB, except for percentages)	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Normal	2,439,368	97.03	2,154,159	98.05
Special mention	46,634	1.86	24,603	1.12
Substandard	17,343	0.69	9,037	0.41
Doubtful	7,580	0.30	5,450	0.25
Loss	2,994	0.12	3,845	0.17
Total loans and advances to customers	2,513,919	100.00	2,197,094	100.00
Total non-performing loans	27,917	1.11	18,332	0.83

Under the 5-tier loan classification system, non-performing loans of the Group are divided into substandard loans, doubtful loans and loss loans. Affected by the slowdown in economy, the non-performing loans and special mention loans of the Group had increased. As at the end of the reporting period, the total non-performing loans of the Group amounted to RMB27.917 billion, representing an increase of 52.29% as compared with the end of the previous year. Specifically, the increase of non-performing loans was mainly due to the contribution of substandard loans. During the reporting period, the proportion of substandard loans increased by 0.28 percentage point to 0.69%; the proportion of loss loans decreased by 0.05 percentage point as compared with the end of the previous year as a result of write-offs. As at the end of the reporting period, the special mention loans amounted to RMB46.634 billion, accounting for 1.86% of the total loans, representing an increase of 0.74 percentage point over the end of the previous year.

5.4.2 Distribution of loans and non-performing loans by product type

(in millions of RMB, except for percentages)	31 December 2014				31 December 2013			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)(1)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)(1)
Corporate loans	1,467,585	58.38	20,466	1.39	1,325,810	60.34	13,280	1.00
Working capital loans	762,925	30.35	12,574	1.65	769,146	35.00	10,176	1.32
Fixed asset loans	350,416	13.94	1,324	0.38	290,008	13.20	693	0.24
Trade finance	231,298	9.20	2,106	0.91	170,887	7.78	749	0.44
Others(2)	122,946	4.89	4,462	3.63	95,769	4.36	1,662	1.74
Discounted bills(3)	75,007	2.98	–	–	71,035	3.24	–	–
Retail loans	971,327	38.64	7,451	0.77	800,249	36.42	5,052	0.63
Micro enterprise loans	338,813	13.48	3,612	1.07	286,285	13.03	1,624	0.57
Residential mortgage loans	329,178	13.09	871	0.26	268,606	12.23	919	0.34
Credit card loans	219,888	8.75	2,069	0.94	155,235	7.06	1,530	0.99
Others(4)	83,448	3.32	899	1.08	90,123	4.10	979	1.09
Total loans and advances to customers	2,513,919	100.00	27,917	1.11	2,197,094	100.00	18,332	0.83

Notes: (1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

(2) Consists primarily of other corporate loans such as financial leasing, merger and acquisition loans and corporate mortgage loans.

(3) The Company will transfer its overdue discounted bills to corporate loans for accounting purposes.

(4) Since the interim period of 2014, the "Commercial Housing Loans" was included in the category of the "Others" by the Company. The Company also made retroactive adjustments to the figures as at 31 December 2013 based on new calibre. The "Others" category under new calibre consists primarily of general consumption loans, commercial housing loans, automobile loans, house decoration loans, education loans and other personal loans secured by monetary assets.

In 2014, the Group steadily developed its retail business, increased credit card loans and residential mortgage loans, and moderately developed micro enterprise loans. As a result, the percentage of retail loans increased by 2.22 percentage points to 38.64%. As the repayment ability of certain individual borrowers deteriorated due to economic downturn, the ratio of non-performing retail loans was 0.77%, up by 0.14 percentage point as compared with the end of the previous year.

The Group proactively supported the development of trade finance business with genuine trading background. During the reporting period, the percentage of trade finance increased by 1.42 percentage points to 9.20%. Due to decelerated economic growth, painful structural adjustment and vanishing impetus brought about by the previous economic incentive policies, the non-performing corporate loan ratio of the Group increased. As at the end of the reporting period, the ratio of non-performing corporate loans was 1.39%, up by 0.39 percentage point as compared with the end of the previous year, among which, the increase of non-performing loans included in "Others" category was mainly due to the deterioration in repayment ability of certain major customers.

5.4.3 Distribution of loans and non-performing loans by industry

(in millions of RMB, except for percentages)	31 December 2014				31 December 2013			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)[1]	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)[1]
Corporate loans	1,467,585	58.38	20,466	1.39	1,325,810	60.34	13,280	1.00
Manufacturing	360,270	14.33	9,628	2.67	388,340	17.68	6,904	1.78
Wholesale and retail	301,395	11.99	6,547	2.17	295,174	13.43	4,260	1.44
Property development	179,983	7.16	460	0.26	131,061	5.97	521	0.40
Transportation, storage and postal services	148,473	5.91	741	0.50	127,416	5.80	338	0.27
Construction	102,314	4.07	396	0.39	92,916	4.23	316	0.34
Production and supply of electric power, heat, gas and water	101,064	4.02	–	–	60,097	2.74	148	0.25
Mining	64,960	2.58	1,629	2.51	64,744	2.95	3	–
Leasing and commercial services	52,152	2.07	110	0.21	38,235	1.74	74	0.19
Water conservancy, environment and public utilities	30,421	1.21	150	0.49	34,383	1.56	115	0.33
Information transmission, software and IT service	22,313	0.89	55	0.25	16,376	0.75	83	0.51
Others[2]	104,240	4.15	750	0.72	77,068	3.49	518	0.67
Discounted bills	75,007	2.98	–	–	71,035	3.24	–	–
Retail loans	971,327	38.64	7,451	0.77	800,249	36.42	5,052	0.63
Total loans and advances to customers	2,513,919	100.00	27,917	1.11	2,197,094	100.00	18,332	0.83

Notes: (1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

(2) Consists primarily of finance, agriculture, forestry, animal husbandry, fishery, accommodation and catering, health care, social welfare, etc.

In 2014, the Group facilitated the development of the real economy, optimised risk asset portfolio, gave priority to industries such as advanced and new technologies, health and medication, modernised agriculture, education and culture, provided moderate support to infrastructural construction, the traditional competitive industries benefiting from urbanisation and consumption industries such as consumer goods wholesale and retail and tourism. The differential risk prevention and control strategy was formulated over key areas such as industries with surplus production capacity, customers with high risks, small- and micro- enterprise customers, real estate, local government financing platforms and trade financing. During the reporting period, 92% of the non-performing corporate loans increment was related primarily to manufacturing, wholesale and retail, and mining.

5.4.4 Distribution of loans and non-performing loans by region

(in millions of RMB, except for percentages)	31 December 2014				31 December 2013			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)(1)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)(1)
Head Office	290,911	11.57	2,658	0.91	197,872	9.01	2,627	1.33
Yangtze River Delta	479,535	19.07	9,895	2.06	456,889	20.80	8,262	1.81
Bohai Rim	344,987	13.72	2,675	0.78	313,312	14.26	1,555	0.50
Pearl River Delta and West Side of Taiwan Strait	385,848	15.35	3,675	0.95	343,894	15.65	2,321	0.67
North-east China	128,884	5.13	1,823	1.41	119,404	5.43	591	0.49
Central China	263,511	10.48	4,331	1.64	242,455	11.04	1,741	0.72
Western China	322,046	12.81	2,409	0.75	284,398	12.94	954	0.34
Overseas	69,523	2.77	–	–	51,033	2.32	18	0.04
Subsidiaries	228,674	9.10	451	0.20	187,837	8.55	263	0.14
Total loans and advances to customers	2,513,919	100.00	27,917	1.11	2,197,094	100.00	18,332	0.83

Note: (1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

In 2014, the Group flexibly adjusted its regional credit granting policies to optimise the allocation of credit portfolio and took the initiative to prevent the occurrence of regional risk by tightening the loan approval standard for the risk concentrated regions and reinforcing the management of credit granting rights. As at the end of the reporting period, the percentage of the balance of loans extended to the Head Office, overseas bodies and subsidiaries increased while that for the other regions decreased. During the reporting period, 59% of the non-performing loan increment of the Group occurred in the Central China, the Yangtze River Delta and Western China.

5.4.5 Distribution of loans and non-performing loans by type of guarantees

(in millions of RMB, except for percentages)	31 December 2014				31 December 2013			
	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)(1)	Loan balance	Percentage of the total (%)	Non-performing loans	Non-performing loan ratio (%)(1)
Credit loans	544,936	21.68	3,000	0.55	446,121	20.30	1,986	0.45
Guaranteed loans	450,713	17.93	11,077	2.46	466,568	21.24	7,190	1.54
Collateralised loans	1,059,962	42.16	12,651	1.19	918,500	41.80	8,430	0.92
Pledged loans	383,301	15.25	1,189	0.31	294,870	13.42	726	0.25
Discounted bills	75,007	2.98	–	–	71,035	3.24	–	–
Total loans and advances to customers	2,513,919	100.00	27,917	1.11	2,197,094	100.00	18,332	0.83

Note: (1) Represents the percentage of non-performing loans in a certain category to the total loans of that category.

During the period of economic downturn, the Group enhanced risk prevention through various mitigation measures, including demanding more collateral. As at the end of the reporting period, the percentage of collateralised and pledged loans increased significantly by 2.19 percentage points as compared with the end of the previous year, while the percentage of credit loans increased by 1.38 percentage points as compared with the end of the previous year which was mainly due to the increase of credit card loans.

5.4.6 Loans to the top ten single borrowers

Top ten borrowers (in millions of RMB)	Industry	Loan balance as at 31 December 2014	Percentage of net capital (under the advanced approach) (%)	Percentage of total loans (%)
A	Transportation, storage and postal services	6,500	1.81	0.26
B	Transportation, storage and postal services	5,635	1.57	0.22
C	Wholesale and retail	5,412	1.51	0.22
D	Wholesale and retail	4,157	1.16	0.17
E	Manufacturing	4,408	1.23	0.17
F	Production and supply of electric power, gas and water	4,000	1.12	0.16
G	Information transmission, software and IT services	3,570	1.00	0.14
H	Transportation, storage and postal services	2,853	0.80	0.11
I	Mining	2,789	0.78	0.11
J	Transportation, storage and postal services	2,700	0.75	0.11
Total		**42,024**	**11.73**	**1.67**

As at the end of the reporting period, the loan balance of the Group's largest single borrower amounted to RMB6.500 billion, representing 1.81% of the Group's net capital. The loan balance of the top ten single borrowers totalled RMB42.024 billion, representing 11.73% of the Group's net capital and 1.67% of the Group's total loan balance respectively.

5.4.7 Distribution of loans by overdue term

(in millions of RMB, except for percentages)	31 December 2014		31 December 2013	
	Amount	Percentage of the total (%)	Amount	Percentage of the total (%)
Overdue within 3 months	**27,480**	**1.09**	17,017	0.77
Overdue from 3 months up to 1 year	**19,542**	**0.78**	8,689	0.40
Overdue from 1 year up to 3 years	**4,751**	**0.19**	4,743	0.22
Overdue more than 3 years	**931**	**0.04**	2,546	0.11
Total overdue loans	**52,704**	**2.10**	32,995	1.50
Total loans and advances to customers	**2,513,919**	**100.00**	2,197,094	100.00

As at the end of the reporting period, overdue loans of the Group amounted to RMB52.704 billion, up by RMB19.709 billion from the end of the previous year and accounting for 2.10% of its total loans, representing an increase of 0.60 percentage point as compared with the end of the previous year. Among all the overdue loans, collateralised and pledged loans accounted for 51.29%, guaranteed loans accounted for 32.84%, while credit loans accounted for 15.87% (the majority of which were those overdue loans of credit cards). The Group adopted stringent classification criteria for overdue loans, and the ratio of its non-performing loans to loans overdue for more than 90 days was 1.11.

5.4.8 Restructured loans

(in millions of RMB, except for percentages)	31 December 2014 Amount	31 December 2014 Percentage of the total (%)	31 December 2013 Amount	31 December 2013 Percentage of the total (%)
Restructured loans(Note)	996	0.04	1,068	0.05
Of which: restructured loans overdue for more than 90 days	534	0.02	687	0.03

Note: Represents the restructured non-performing loans.

The Group imposes strict and prudent control over restructuring of loans. As at the end of the reporting period, the percentage of the Group's restructured loans was 0.04%, a decrease of 0.01 percentage point as compared with that at the end of the previous year.

5.4.9 Repossessed assets and allowances for impairment losses

As at the end of the reporting period, total repossessed assets of the Group amounted to RMB1,398 million. After deduction of allowances for impairment losses of RMB943 million, the net repossessed assets amounted to RMB455 million.

5.4.10 Changes of allowances for impairment losses on loans

The Group adopted two methods to assess impairment losses on loans at the balance sheet date: individual assessment and portfolio assessment. Loans which were considered individually significant were assessed individually for impairment. If there was any objective evidence indicating that a loan was impaired, the impairment losses would be recognised through profit or loss for the current period, as measured by the difference between the carrying amount of the loan and its discounted value of estimated future cash flows recoverable. Loans that were not considered individually significant and loans that were individually assessed but not indicated impaired based on objective evidence were grouped in a portfolio of loans with similar credit risk characteristics for the purpose of impairment testing. Based on the result of testing, the Group would determine allowances for impairment losses on a portfolio basis.

The following table sets forth the changes of allowances for impairment losses on loans to customers of the Group.

(in millions of RMB)	2014	2013
Balance at the beginning of the period	48,764	41,138
Charge for the period	32,895	10,927
Release for the period	(1,641)	(731)
Unwinding of discount on impaired loans(note)	(655)	(406)
Recovery of loans and advances previously written off	651	65
Write-offs	(14,917)	(2,134)
Transfers in/out	–	(8)
Foreign exchange rate movements	68	(87)
Balance at the end of the period	65,165	48,764

Note: Represents the interest income accrued on impaired loans as a result of subsequent increases in their present values due to the passage of time.

The Group continues to adopt a stable and prudent policy in respect of making provisions. As at the end of the reporting period, the balance of allowances for impairment losses on loans amounted to RMB65.165 billion, representing an increase of RMB16.401 billion as compared with that at the end of the previous year. The non-performing loan allowance coverage ratio was 233.42%, representing a decrease of 32.58 percentage points as compared with the end of the previous year; the loan allowance ratio was 2.59%, representing an increase of 0.37 percentage point as compared with the end of the previous year.

5.5 Analysis of capital adequacy ratio

As at 31 December 2014, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the advanced approach were 12.38% and 10.44%, respectively, representing an increase of 0.64 percentage point and 0.84 percentage point respectively as compared with those under the weighted approach.

(in millions of RMB, except for percentages)	At the end of the year 31 December 2014
The Group	
Capital adequacy ratios under the advanced approach(1)	
1. Net core Tier 1 capital	301,977
2. Net Tier 1 capital	301,982
3. Net capital	358,334
4. Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	2,748,687
Of which: Credit risk weighted assets	2,471,180
Market risk weighted assets	22,610
Operational risk weighted assets	254,897
5. Risk-weighted assets (having taken into consideration the floor requirements during the parallel run period)	2,893,732
6. Core Tier 1 capital adequacy ratio	10.44%
7. Tier 1 capital adequacy ratio	10.44%
8. Capital adequacy ratio	12.38%
Information on leverage ratio	
9. Leverage ratio	4.96%

Notes: (1) The "advanced approach" refers to the advanced measurement approach set out in the "Capital Rules for Commercial Banks (Provisional)" issued by the CBRC on 7 June 2012. Same as below. In accordance with the requirements of the advanced approach, the scope of entities for calculating the capital adequacy ratio of the Group shall include China Merchants Bank Co., Ltd. and its subsidiaries. The scope of entities for calculating the capital adequacy ratio of the Company shall include all the domestic and overseas branches and sub-branches of China Merchants Bank Co., Ltd. As at 31 December 2014, the Group's subsidiaries for calculating its capital adequacy ratio include Wing Lung Bank, CMBIC, CMBFL and CMFM.

(2) The "floor requirements during the parallel run period" means that, during the parallel run period that the advanced capital measurement approaches were implemented, a commercial bank shall use the capital floor adjustment co-efficients to adjust the result of its risk-weighted assets multiplying the sum of its minimum capital amount and reserve capital amount, total amount of capital deductions and the provision for excessive loan loss which can be included into capital, so as to obtain the required capital amount subject to the capital floor requirements. The capital floor adjustment co-efficients shall be 95%, 90% and 80% respectively in the first year, the second year, and the third and subsequent years during the parallel run period.

The capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the advanced approach were 11.93% and 10.00% respectively, 0.66 percentage point and 0.88 percentage point higher as compared with those under the weighted approach.

(in millions of RMB, except for percentages)	At the end of the year 31 December 2014
The Company	
Capital adequacy ratios under the advanced approach	
1. Net core Tier 1 capital	268,845
2. Net Tier 1 capital	268,845
3. Net capital	320,740
4. Risk-weighted assets (without taking into consideration the floor requirements during the parallel run period)	2,546,291
Of which: Credit risk weighted assets	2,285,300
Market risk weighted assets	19,123
Operational risk weighted assets	241,868
5. Risk-weighted assets (having taken into consideration the floor requirements during the parallel run period)	2,687,891
6. Core Tier 1 capital adequacy ratio	10.00%
7. Tier 1 capital adequacy ratio	10.00%
8. Capital adequacy ratio	11.93%
Information on leverage ratio	
9. Leverage ratio	4.65%

As at 31 December 2014, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group under the weighted approach were 11.74% and 9.60% respectively, representing an increase of 0.60 percentage point and 0.33 percentage point respectively as compared with those at the beginning of the year. Without taking into account the issuance of Tier 2 capital bonds of RMB11.3 billion, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Group were 11.38% and 9.60% respectively, representing an increase of 0.24 and 0.33 percentage point respectively as compared with those at the beginning of the year, thus maintaining a balanced internal growth of capital.

(in millions of RMB, except for percentages)	**At the end of the year 31 December 2014**	At the end of last year 31 December 2013	Increase/decrease at the end of the year as compared with the end of last year (%)
The Group			
Capital adequacy ratios under the weighted approach[(1)]			
1. Net core Tier 1 capital	**301,977**	254,393	18.70
2. Net Tier 1 capital	**301,982**	254,393	18.71
3. Net capital	**369,532**	305,704	20.88
4. Risk-weighted assets	**3,146,571**	2,744,991	14.63
5. Core Tier 1 capital adequacy ratio	**9.60%**	9.27%	Increase of 0.33 percentage point
6. Tier 1 capital adequacy ratio	**9.60%**	9.27%	Increase of 0.33 percentage point
7. Capital adequacy ratio	**11.74%**	11.14%	Increase of 0.60 percentage point

Note: (1) The “weighted approach” refers to the weighted approach for credit risk, the standardised approach for market risk and the basic indicator approach for operational risk in accordance with the relevant provisions of the “Capital Rules for Commercial Banks (Provisional)” issued by the CBRC on 7 June 2012. Same as below.

As at 31 December 2014, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company under the weighted approach were 11.27% and 9.12% respectively, representing an increase of 0.42 percentage point and 0.08 percentage point respectively as compared with those at the beginning of the year. Without taking into account the capital injection of RMB4.2 billion into its subsidiaries and the issuance of Tier 2 capital bonds of RMB11.3 billion, the capital adequacy ratio and the Tier 1 capital adequacy ratio of the Company were 11.03% and 9.27% respectively, representing an increase of 0.18 and 0.23 percentage point respectively as compared with those at the beginning of the year.

(in millions of RMB, except for percentages)	At the end of the year 31 December 2014	At the end of last year 31 December 2013	Increase/ decrease at the end of the year as compared with the end of last year (%)
The Company			
Capital adequacy ratios under the weighted approach			
1. Net core Tier 1 capital	**268,845**	231,379	16.19
2. Net Tier 1 capital	**268,845**	231,379	16.19
3. Net capital	**331,937**	277,710	19.53
4. Risk-weighted assets	**2,946,283**	2,560,011	15.09
5. Core Tier 1 capital adequacy ratio	**9.12%**	9.04%	Increase of 0.08 percentage point
6. Tier 1 capital adequacy ratio	**9.12%**	9.04%	Increase of 0.08 percentage point
7. Capital adequacy ratio	**11.27%**	10.85%	Increase of 0.42 percentage point

Balance of credit risk exposures

During the reporting period, the credit risk of the Company under the foundation internal rating-based approach (IRB approach) was classified into six types of risk exposures: sovereign, financial institution, corporation, retail, shareholding and others. The balances of various risk exposures are as follows:

(Unit: RMB million)	Type of risk exposure	Legal person	Group
Portion covered by the foundation IRB approach	Financial institution	474,853	474,853
	Corporation	1,571,404	1,571,404
	Retail	1,051,949	1,051,949
	Of which: Personal housing mortgages	320,953	320,953
	Qualified revolving retail	329,727	329,727
	Other retail	401,269	401,269
Portion not covered by the foundation IRB approach	On-balance sheet	2,108,721	2,375,167
	Off-balance sheet	187,299	192,158
	Counterparty	5,336	7,060

Market risk capital measurement

The Group uses various approaches to calculate its market risk capital. More specifically, it uses the internal model approach to calculate the general market risk capital of its entities in Mainland China, and uses the standardised approach to calculate the specific market risk capital of its entities in Mainland China and the general market risk capital and specific market risk capital of overseas institutions. As at the end of 2014, the market risk capital of the Group was RMB1.81 billion, and its risk-weighted assets were RMB22.61 billion. Of which, the market risk capital calculated by the internal model approach was RMB1.09 billion, and the market risk capital calculated by the standardised approach was RMB720 million.

The Group's market risk capital under the internal model approach was calculated by using the market risk value based on 250 days of historical market data, the 99% confidence level and 10 days of holding period. The following table sets forth the market risk value indicators of the Group as at the end of 2014:

(Unit: RMB million)

No.	Item	Pressure risk value during the reporting period	General risk value during the reporting period
1	Average value	163	101
2	Maximum value	271	165
3	Minimum value	90	62
4	Value at the end of the period	196	144

5.6 Results of Operating Segments

The following results of operating segments are presented by business segments and geographical segments. As business segment information can better reflect the business operations of the Group, the Group chooses business segment information as the primary reporting format. Segment reporting data are principally derived from the multi-dimensional profitability report of the Company's management accounting system.

Business segments

The main businesses of the Group are corporate finance business, retail finance business and financial institutions business. The following table summarises the operating results of the business segments of the Group for the periods indicated.

Items (in millions of RMB, except for percentages)	2014		2013 (restated)	
	Profit before tax by segment	Percentage (%)	Profit before tax by segment	Percentage (%)
Corporate finance business	**30,798**	**41.94**	40,807	59.64
Retail finance business	**29,105**	**39.64**	23,495	34.34
Financial institutions business	**16,199**	**22.06**	9,114	13.32
Other businesses	**(2,671)**	**(3.64)**	(4,991)	(7.30)
Total	**73,431**	**100.00**	68,425	100.00

During the reporting period, the percentage of profit from retail finance of the Group further increased. Profit before tax amounted to RMB29.105 billion, up by 23.88% from the previous year, representing 39.64% of the total profit before tax, an increase of 5.30 percentage points as compared with the previous year. At the same time, the cost-to-income ratio of retail finance (excluding business tax and surcharges) was 39.64%, a decrease of 4.75 percentage points as compared with that of the corresponding period in 2013.

Geographical segments

The major outlets of the Group are located in the more economically developed regions of China and some large cities in other regions. The following table sets forth the segment results of the Group by geographical location in the periods indicated.

	Total Assets		Total Liabilities		Total Profit	
	31 December 2014		31 December 2014		2014	
(in millions of RMB, except for percentages)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	1,863,145	39	1,629,954	37	1,998	3
Yangtze River Delta	590,741	12	586,447	13	10,514	15
Bohai Rim	425,612	9	414,438	9	14,922	20
Pearl River Delta and West Side of Taiwan Strait	527,907	11	515,926	12	15,988	22
North-eastern China	173,827	4	170,945	4	3,865	5
Central China	333,656	7	328,146	8	7,510	10
Western China	378,606	8	370,196	8	11,212	15
Overseas	126,892	3	121,176	3	2,077	3
Subsidiaries	311,443	7	279,541	6	5,345	7
Total	4,731,829	100	4,416,769	100	73,431	100

	Total Assets		Total Liabilities		Total Profit	
	31 December 2013		31 December 2013		2013	
(in millions of RMB, except for percentages)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Head Office	1,566,355	39	1,371,100	37	2,711	4
Yangtze River Delta	507,514	13	497,711	13	13,295	19
Bohai Rim	352,891	9	343,143	9	12,996	19
Pearl River Delta and West Side of Taiwan Strait	490,874	12	480,480	13	13,877	20
North-eastern China	146,125	4	143,285	4	3,800	6
Central China	286,311	7	280,598	7	7,642	11
Western China	316,410	8	309,422	8	9,316	14
Overseas	99,536	2	98,869	3	925	1
Subsidiaries	250,383	6	225,835	6	3,863	6
Total	4,016,399	100	3,750,443	100	68,425	100

5.7 Others

5.7.1 Balance of off-balance-sheet items that may have a material effect on the financial positions and operating results and the related important information

The Group's off-balance-sheet items include derivative financial instruments, commitments and contingent liabilities. Commitments and contingent liabilities include credit commitments, operating leasing commitments, capital expenditure commitments, securities underwriting commitments, bonds redemption commitments, outstanding litigations and disputes and other contingent liabilities. Credit commitment is the primary component. As at the end of 2014, the balance of credit commitments was RMB1,225.128 billion. For details of the contingent liabilities and commitments, please refer to "Contingent liabilities and commitments" in "Notes to the Financial Statements" of this report.

5.7.2 Outstanding overdue debts

As at the end of 2014, the Group did not have any outstanding overdue debts.

The contents and data in section 5.8 and below are analysed from the Company's perspective.

From 2014 onwards, the Company optimised its organisational structure to conduct business decisions, results reporting and performance evaluation based on its three major business lines, namely, retail finance, corporate finance and financial institutions finance. Accordingly, adjustments under some calibres were made to certain data of the previous year set out in the sections headed "Business Development Strategies" and "Business Operation".

5.8 Business Development Strategies

5.8.1 Development strategy – "Asset-light Banking", "One Body with Two Wings"

Building "asset-light banking" is a necessary choice for the Company to stay competitive under recent market developments, which is objectively required by the changes in China's economic pattern and the trend of developing "asset-light banking" in the financial industry, and is also a feasible approach to the accomplishment of the Company's transformation and transcendence. The essence or core of "asset-light banking" is to achieve more efficient growth and more lucrative return through less capital consumption, more intensive operation and higher flexibility. It features mainly in "light" assets, "light" operation model, "light" management pattern and "light" business culture. The Company will make concerted efforts to promptly accommodate market changes and create values for customers under its service concept of "customer-centricity", thereby achieving the ultimate goal of value enhancement.

The Company will establish an "One Body with Two Wings" business structure under which retail finance is the mainstay business supported by corporate finance and financial institutions finance, and develop those businesses into three profit-generating pillars which will realise mutual integration, mutual coordination and mutual promotion. As for retail finance, the Company will develop best banking service and increase its value contribution through three major businesses, namely wealth management, small-and-micro-enterprise financial services and consumer finance. With respect to corporate finance, the Company will develop professional banking service and focus on four major businesses, namely cash management, trade finance, cross-border finance and M&A financing, aiming to develop superior business features. With regard to financial institutions finance, the Company will develop elite banking service which will forge new profit drivers through macro asset management and global capital market business. By establishing the business structure of "One Body with Two Wings", the Company will better overcome the challenges from interest rate liberalisation and periodic economic fluctuations.

5.8.2 Initial progress of "Asset-light Banking" and "One Body with Two Wings" achieved through continuous promotion of strategic transformation

Evaluation on implementation of the "Asset-light Banking" strategy

1. *Percentage of risk-weighted assets to total assets continued to decline*

As at the end of the reporting period, the percentage of risk-weighted assets in total assets under the weighted approach was 65.61%, down by 1.72 percentage points from 67.33% as at the end of the previous year. The growth rate of risk-weighted assets under the weighted approach stood at 15.09%, 3.02 percentage points lower than 18.11%, being the growth rate of the Company's total assets.

2. *Securitisation of assets was vigorously promoted*

Securitisation of assets has become an important approach and breakthrough point for the Company to implement the "asset-light banking" strategy. In 2014, by capturing the opportunity of re-launching pilot securitisation, the Company issued a total of three tranches of asset-backed securities in a total amount of RMB24.545 billion, ranking first among domestic commercial banks in terms of total issuance volume, next only to China Development Bank. Specifically, the Company rolled out China's first credit card asset securitised product ahead of its peers, with an amount of RMB8.11 billion; and issued two tranches of corporate loan securitised products in an aggregate amount of RMB16.43 billion. At the same time, the Company continued to push forward with innovation practice of asset securitisation business, established and improved its internal management process and system, and stepped up professional training and system building processes, thereby establishing normalised operation mechanisms for asset securitisation business.

In 2015, the Company will increase its efforts in asset allocation and management through securitisation of assets and capitalise on potential of asset size and capital resources. Meanwhile, the Company will also improve the concentration and liquidity of assets, promote its transformation from an asset-holding bank to an asset-trading bank and draw upon asset securitisation vehicles to liquidise its existing assets and optimise its newly acquired assets, thus effectively implementing the asset-light business mode. It is expected that the issuance volume for the year will increase substantially as compared with that of 2014. Meanwhile, the Company will establish and improve the full-process asset securitisation system, and continuously promote the innovation of asset securitisation business by various means including piloting the design of securitised products on a diversified and differentiated basis. In addition, the Company will make innovations in the transaction structure, push forward the cross-market issue practice, promote the development of diversified asset distribution channels, and endeavour to expand investor base.

3. *Net non-interest income increased rapidly*

In 2014, the Company continued to vigorously expand wealth management, credit cards and other businesses, thus facilitating a rapid growth in the net non-interest income. In 2014, the Company realised a net non-interest income of RMB49.618 billion, representing a year-on-year increase of 61.79%. The proportion of the net non-interest income to our net operating income was 31.50%, up by 7.15 percentage points as compared with that of the previous year. Fee and commission income amounted to RMB45.168 billion, representing a year-on-year increase of 53.48%, among which, fees and commission income from wealth management services amounted to RMB13.647 billion, representing a year-on-year increase of 46.88% on the same statistical calibre as compared with 2013. Specifically, income from entrusted wealth management services amounted to RMB6.244 billion, representing a year-on-year increase of 83.86%; income from sales of third-party trust programmes amounted to RMB2.263 billion, representing a year-on-year increase of 1.34%; income from sales of third party insurance policies amounted to RMB2.136 billion, representing a year-on-year increase of 17.30%; income from sales of mutual fund amounted to RMB2.847 billion, representing a year-on-year increase of 70.68%; income from precious metals custody amounted to RMB157 million. Bank card fees amounted to RMB12.794 billion, representing a year-on-year increase of 55.91%; and the bills sell-off spread income amounted to RMB4.238 billion, representing a year-on-year increase of 71.65%. In addition, settlement and clearing fees amounted to RMB4.077 billion, representing a year-on-year increase of 51.67%, and fees from international guarantee and factoring amounted to RMB1.327 billion, representing a year-on-year increase of 28.96%.

4. The capital utilisation efficiency remained stable

As at the end of the reporting period, the capital adequacy ratio and Tier 1 capital adequacy ratio of the Company measured under the weighted approach were 11.27% and 9.12% respectively; up by 0.42 percentage point and 0.08 percentage point respectively as compared with those as at the end of the previous year. The capital adequacy ratio and Tier 1 capital adequacy ratio of the Company measured under the advanced approach were 11.93% and 10.00% respectively, both up by 0.81 percentage point as compared with those on 30 June 2014. The risk adjusted return on capital (RAROC) before tax was 23.52%, maintaining at a level which was significantly higher than the capital cost.

5. The operational efficiency kept at a satisfactory level

As at the end of the reporting period, the cost-to-income ratio of the Company was 30.58%, representing a decrease of 4.11 percentage points as compared with the previous year; the profit before tax per person was RMB950,000; the profit before tax per outlet was RMB54.67 million.

6. The e-banking Channels replacement ratio improved continuously

As at the end of the reporting period, the overall counter replacement ratio in respect of retail e-banking channels reached 95.38% and overall counter replacement ratio in respect of corporate e-banking channels reached 56.50%; whereas 93.32% of transaction settlements were completed via online corporate banking services, representing an increase of 2.88, 1.85 and 0.90 percentage point(s) respectively over the previous year.

Analysis on achievements in implementing the "One Body with Two Wings" strategy

1. The value contribution of retail finance continued to grow

In 2014, the value contribution of the retail finance business grew steadily. Profit before tax reached RMB29.105 billion, representing a year-on-year increase of 23.88%, and its proportion to the Company's pre-tax profit increased continuously to 42.81%, 6.19 percentage points higher than that of the previous year. The net operating income from retail finance grew rapidly to RMB68.584 billion, representing a year-on-year increase of 20.80%; and accounted for 43.54% of the Company's net operating income.

2. Rapid growth in income from corporate finance and financial institutions finance

During the reporting period, the Company recorded net operating income from its corporate banking business of RMB77.421 billion, representing a year-on-year increase of 14.94%; net operating income from its financial institutions finance business of RMB18.853 billion, representing a year-on-year increase of 80.38%.

3. Coordinated development with retail finance business supported by corporate finance business and financial institutions finance business

The Company's development strategy of "One Body with Two Wings" puts more emphasis on mutual promotion and overall optimum of the Company's business segments while further highlighting the strategic position of our retail finance business. During the reporting period, both corporate finance business and financial institutions finance business of the Company experienced rapid growth, laying a solid foundation for development of our retail finance business. Our corporate finance business boosted the expansion of retail customer base by vigorously promoting payroll service, corporate card business and pension finance business. In 2014, the Company handled an amount of nearly RMB650 billion for its payroll service, issued 133,400 cards for its corporate card business and managed pension assets of over RMB110 billion, which provided sales agency service in an aggregate amount of RMB26.3 billion to retail finance business. Meanwhile, our financial institutions finance business offered product support to our retail finance business in the form of assets management, aiming at catering to multi-level investment needs of retail customers. During the reporting period, the Company offered 2,021 wealth management products with a total amount of RMB4,801.9 billion to retail customers.

5.9 Operating Environment, the Impact of Changes in Macroeconomic Policies and Key Business Concerns

1. Overview of the macroeconomic and financial outlook

Looking forward to 2015, China's economic growth will stay within a reasonable range as a whole, despite its continuing slowdown. As for the demand side, it may remain weak due to shrinking investments, weakening consumption and various uncertainties in export, however, the implementation of national strategies, the materialisation of reform benefits, the optimisation of industrial structure and other favourable factors will continue to boost economic growth to some extent. Based on a comprehensive analysis of various factors, China's economy is expected to maintain a reasonable growth of approximately 7%, while its commodity prices will continue a downward trend. Under the combined impact of "decelerated economic growth, painful structural adjustment and vanishing impetus brought about by the previous economic incentive policies" and "deleveraging", it is expected that China will continue to adopt a "neutrally moderate" monetary policy in 2015.

In 2015, the banking industry will face drastic changes. Confronting external challenges such as the gradual slowdown of macroeconomic growth, the acceleration of interest rate liberalisation and financial disintermediation in the context of anticipated reduction of the interest rates, and the continuous emergence of new financial service models and organisations representing by internet finance, the banking industry will encounter more acute competition and the industry-wide stagnated profit growth will become the "new normal". The banking industry will be under increasing pressure on risk control as the Chinese economy is gearing into a zigzag track of transformation where banks are increasingly exposed to credit risk. On the other hand, the continuous improvement of the financial regulatory system, the intermittent introduction of new regulatory tools, the increasingly tightening regulatory policies (formulated to regulate financial institutions businesses and service charges) and the increasingly stringent capital constraint, will further motivate domestic banks to seek a healthy and sustainable growth while improving their operation management and risk control capability.

2. Net interest margin

In 2014, the net interest margin of the Company was 2.58%, down by 31 basis points as compared with the previous year, which was mainly due to: (1) the increase in the proportion of interest-earning assets relating to financial institutions business as a result of a relatively rapid expansion of the financial institutions business of which the net interest margin is relatively narrow; (2) the fact that structured deposits grew at a relatively fast pace to adapt to the liberalisation of interest rate and hence it increased the overall costs of deposits; (3) the decrease in net interest margin from foreign currency business as compared with the previous year as a result of the fact that the growth rate of foreign currency liability business outpaced that of foreign currency asset business as affected by fluctuations in RMB exchange rate. Looking forward to 2015, amidst the complicated economic conditions at home and abroad, the central bank may further lower deposit reserve ratio and cut interest rate to ensure a stable and healthy economic growth, which will lead to limited growth in yield of assets such as loans, bond investments as well as yield of assets with financial institutions. With the accelerated interest rate liberalisation and increasingly intense market competition, the pressure on liabilities is relatively difficult to be relieved and net interest margin will face greater downward pressure. In response, the Company will step up adjustments to its asset-liability structure, expand its customer base, deepen customer management and flexibly adjust its pricing policy, so as to expand channels to secure more low-cost deposits and strengthen its competitive advantage in liability cost. Meanwhile, with effective risk management and control in place, the Company will continue to optimise its asset structure. Net interest margin is expected to maintain stable with a slight decline.

3. Assets quality of key areas

As at 31 December 2014, the non-performing loan ratio of the Company was 1.20%, representing an increase of 0.30 percentage point as compared with the end of the previous year, while the proportion of special mention loans to the total was 1.94%, up by 0.83 percentage point from the end of the previous year. The allowance coverage ratio of our non-performing loans was 229.99%, representing a decrease of 31.35 percentage points as compared with the end of the previous year. The credit cost ratio was 1.43%, an increase of 0.92 percentage point as compared with the end of the previous year. The risk exposure was generally controllable.

To proactively cope with the changes in external macroeconomic environment, the Company proactively prevented and controlled the potential risks associated with loans extended to real estate enterprises, local government financing platforms, overcapacity industries and high-risk areas.

In respect of real estate credit business, the Company proactively made dynamic adjustments to its credit policies, set more stringent criteria as regard to customers, regions and projects, and implemented risk quota management on full statistical calibers. The Company also increased efforts to support its core customers at the Head Office and branch levels, with new loans extended mainly to the development of residential properties and land reserves. In addition, the Company strengthened its control over risks associated with loan extension and post lending, and optimised its assets structure. As at the end of the reporting period, the balance of business with domestic real estate exposed to risk (calculated on the broad statistical calibre) amounted to RMB309.426 billion (including businesses such as actual and contingent credit, bond investments, proprietary trading and investment of wealth management products in non-standard assets), representing an increase of RMB120.957 billion as compared with the beginning of the year. Specifically, the balance of loans for domestic corporate real estate amounted to RMB140.848 billion, representing an increase of RMB44.415 billion as compared with the end of the previous year, which accounted for 6.16% of the Company's total loans, up by 1.36 percentage points as compared with the end of the previous year, and the non-performing loan ratio was 0.32%, down by 0.20 percentage point as compared with the end of the previous year. In addition, there were no non-performing assets in our businesses such as contingent credit involving real estate, bond investments, proprietary trading and investment of wealth management products in non-standard assets.

In respect of loans extended to local government financing platforms, the Company implemented risk quota management on full statistical calibers. In adherence to the basic guidance of controlling the total amount of loans, stringently following basic business principles and regarding full coverage of cash flow as its core standard, the Company provided appropriate support to platforms of local government which are of systematic significance, and continued to optimise the loan structure of local government financing platforms. Meanwhile, in accordance with relevant national regulations, the Company steadily carried out classification, clearance and verification of the existing loans extended to local government financing platforms. As at the end of the reporting period, the balance of business with local government financing platforms exposed to risk (calculated on the broad statistical calibre) amounted to RMB238.596 billion (including businesses such as actual and contingent credit, bond investments, proprietary trading and investment of wealth management products in non-standard assets), representing an increase of RMB94.415 billion as compared with the beginning of the year. Among which, the balance of loans on balance sheet amounted to RMB114.484 billion, representing an increase of RMB27.219 billion as compared with the end of the previous year, which accounted for 5.01% of the total loans granted by the Company, up by 0.67 percentage point as compared with the end of the previous year. There was no non-performing asset.

For overcapacity industries such as iron and steel, cement, plate glass, electrolytic aluminium, ship-building, polysilicon, wind power equipment and coal chemical industry, according to its overall policy of controlling total loan amounts, adjusting loan structure, increasing financial guarantees and minimizing risk exposures, the Company supported quality customers and withdrew risky loans by raising entry standards, implementing list management, quota management and credit approval management, thereby optimising risk mitigation measures. During the reporting period, the balance of our loans extended to overcapacity industries amounted to RMB42.744 billion, accounting for 1.87% of total loans of the Company, and representing a decrease of 0.56 percentage point as compared with that at the beginning of the year. Due to the impact of such national policies as the upgrading and adjustment of industrial structure and the elimination of obsolete production capacity, the non-performing loan ratio of the Company was 1.75%, up by 1.02 percentage points as compared with the beginning of the year.

In respect of the prevention and control of regional risks, the Company formulated differentiated regional credit policies and optimised portfolio allocations. In addition, by raising entry standards, strengthening authorisation management and making dynamic adjustments to its management tools such as loan granting volume and asset quality appraisal, the Company consolidated regional risk control and promoted adjustments to regional customer portfolio, with an aim to enhance its regional risk monitoring and pre-warning capability.

4. Growth rate of risk-weighted assets

As at the end of 2014, the Company's risk-weighted assets under the weighted approach increased by 15.09% compared with the beginning of the year. The Company has maintained a reasonable and healthy growth in its risk-weighted assets, which was mainly attributable to the fact that the Company has implemented the operation strategy of "asset-light banking", increased its effort to develop the asset-light businesses and moderately reduced the growth of risk-weighted assets. In 2015, the Company will continue to implement the operation strategy of "asset-light banking", optimise business structure and customer structure and deepen the application of the advanced approach in respect of risk capital measurement so as to increase return on capital, enhance value creation capability, maintain risk-weighted assets at a stable level with moderate decline, and ensure a sound capital adequacy ratio to meet regulatory requirements on an ongoing basis.

5. Capital Management

The Company continued to optimise its business structure and enhance capital management. During the reporting period, the Company satisfied the minimum capital requirements, the reserve capital requirements and the counter-cyclical capital requirements under the transitional arrangements of the CBRC.

On 18 April 2014, the CBRC approved the Company's implementation of the advanced approach for capital measurement. Specifically, pursuant to the relevant regulatory requirements, the Company adopted the foundation IRB approach to measure corporate risk exposure and financial institution risk exposure, the IRB approach to measure retail risk exposure, the internal model approach to measure market risks and the standard method to measure operational risks, respectively. Meanwhile, the CBRC also allowed a parallel run period for commercial banks which have been approved to adopt the advanced approach for capital measurement. During the parallel run period, commercial banks shall calculate their respective capital adequacy ratio by using the advanced approach for capital measurement and other approaches and comply with the capital floor requirements. Under the advanced approach, the volume of risk weighted assets of the Company is significantly lower than that under the weighted approach. This is mainly due to the diversified nature of retail assets which produce significant capital efficient effect under the advanced approach. As the Company always places emphasis on the strategy of retail banking, retail assets account for a larger proportion in its total assets.

In 2014, the Company successfully completed the issuance of Tier 2 capital bonds of RMB11.3 billion. The capital structure was further optimised. In 2015, the Company will continue to pay close attention to new financing instruments such as preference shares and perpetual bonds.

The Company's capital management goals for 2012 to 2016 were set at 8.5% for the core Tier 1 capital adequacy ratio, 9.5% for the Tier 1 capital adequacy ratio and 11.5% for the capital adequacy ratio, respectively. The Company's core Tier 1 capital adequacy ratio, Tier 1 capital adequacy ratio and capital adequacy ratio under the advanced approach in 2014 was 1.5, 0.5 and 0.43 percentage point(s) higher than the aforesaid capital management goals, respectively.

6. The proprietary funds invested in non-standard debt assets and the reverse repurchase business (CMB as funding provider)

As at 31 December 2014, the balance of the Company's proprietary funds invested in non-standard debt assets amounted to RMB365.422 billion, representing an increase of 72.26% as compared with that of the previous year. Among which, the balance of our proprietary funds invested in non-standard debt assets under the credit category amounted to RMB238.881 billion, representing an increase of 82.62% as compared with the corresponding period of the previous year, and the non-performing ratio was 0.005%. At the same time, the Company has been and will continue to be in strict compliance with the requirements of the "Notice on Regulating the Interbank Business of Financial Institutions" (Yin Fa [2014] No. 127), enhanced risk review and compliance review in the use of funds, accurately measured risks and made adequate capital provision based on the nature of its investment assets. As at 31 December 2014, the balance of provision for our proprietary funds invested in non-standard debt assets under the credit category amounted to RMB3.406 billion, representing an allowance ratio of 1.43%.

As at 31 December 2014, the balance of the Company's reverse repurchase businesses (CMB as funding provider) including the trust beneficiary rights under resale agreements, the asset management plan and the debenture beneficiary rights amounted to an aggregate of RMB110.156 billion, representing a decrease of 29.16% as compared with the beginning of the year, and no non-performing assets were recorded. The Company has made capital provision for these assets based on the risk exposures of corresponding financial institutions, and has ceased to engage in the third-party reverse repurchase businesses of the trust beneficiary rights and the asset management plan as required by the "Notice on Regulating the Interbank Business of Financial Institutions" (Yin Fa [2014] No. 127), the existing transactions of which will be settled as contracted.

7. Internet finance

The Company strived to establish an overall structure of Internet finance featuring "platform, flow and big data" to promote the transformation of its business model to a more network-oriented one. Meanwhile, the Company also formed a diversified cross-industry portfolio by incorporating the platform-based and open structure of competition and cooperation into its Internet economy, in an effort to build an Internet finance eco-system.

In terms of platform construction, the building of the mobile finance platform, the Small Business E Home (小企業E家) platform, the smart supply chain platform and the Banking E-Tong (銀E通) platform were highlighted. Under such platform-based business models, the Company not only achieved resources integration, product innovation and process synchronisation, but also provided customers with a full range of financial services beyond their expectations. The flow management system construction aimed at promoting the constant optimisation of the search engine and developing a full-process operating system capable of importing, distributing, converting and realising large financial data flows. Big data construction focused on the application of big data and the formulation of operating systems. Specifically, big data application will be used to analyze real-life cases onsite; breakthroughs will be sought to secure large-sized customers, grant real-time clearances and provide early warning of risks when conducting Internet finance transactions, MOT marketing online and rendering customer service.

Under the strategic framework of bank-wide Internet finance development, retail finance, corporate finance and financial institutions finance made proactive efforts in exploration and coordinated development, thereby having achieved remarkable results in Internet finance.

As for retail finance, the Company reconstructed its existing online banking system by releasing Online Banking Professional 7.0 and launching new Internet-based products including "Zhao Zhao Ying (朝朝盈)", "P2P Lending (閃電貸)" and "Wei Ling Fan Xian (尾零返現)". As for mobile finance, while focusing on the construction of two mobile platforms, being Mobile Banking and CMB Life (掌上生活), the Company launched a new generation of the mobile CMB Life (掌上生活) as well as "All-in-one Mobile (一閃通)", a full-functional mobile financial product. As of the end of 2014, the number of customers of our retail e-banking reached 36.13 million, and the total number of retail e-banking log-ins reached 1.329 billion times; the number of mobile banking log-ins amounted to 749 million times; the number of CMB Life (掌上生活) subscribers amounted to 11.5 million, representing a year-on-year growth of 277.05%; and the total number of log-ins for CMB Life (掌上生活) reached 838 million. In addition, the Company actively forged a diversified cross-industry combination through joint establishment of CMB-China Unicom Consumption Finance Co., Ltd. (招聯消費金融有限公司) with China Unicom. By sharing core competencies and superior resources, the Company joined hands with China Unicom in aggressively expanding the application in Internet finance.

As for corporate finance, the Company continuously stepped up its efforts in promoting Small Business E Home (小企業E家). In response to customers' demands when dealing with finance-based assets appreciation as well as their payment and liquidity, and relying on the technical innovation of Small Business E Home (小企業E家) and third-party collaboration, the Company helped customers achieve efficiency of asset management under the unified user system, thereby directly serving interbank institutional customers via the Internet. As at the end of 2014, the Company's Small Business E Home (小企業E家) had 538,000 registered members. In 2014, the total number of logins on our Small Business E Home (小企業E家) reached 1.10 million times. In addition, the number of customers of the Company's e-banking amounted to 542,000 as at the end of the reporting period, and the total number of e-banking log-ins reached 60.00 million times in 2014.

As for financial institutions finance, the Company strived to launch an interbank electronic channel and relevant customer service platforms. Depending on the client service of "mobile phone + PC", the Company has commenced the online operation of its offline businesses, conduct channel cooperation with other financial institutions to share our respective advantages and resources, and launched the all-function online custody banking service, being the first of its kind in China. As at the end of the reporting period, the coverage ratio of the Company's online custody banking service increased by 71.12 percentage points to 100%, and the accumulated settlement and clearing amount from its online custody banking service was RMB16.99 trillion, representing a year-on-year increase of 106.44%.

8. Deposit insurance system

As at the end of 2014, the central bank sought for public opinions on the draft of the Deposit Insurance System, which is expected to be issued in 2015. The promulgation of the Deposit Insurance System, on one hand, will mark that the government will no longer pay for the aftermaths of the banking crisis, leading to fairer and more intense market competition; and on the other hand, will boost the public's confidence in small- and medium-sized banks to a certain extent. However, relevant premium expenditures are expected to increase the operating costs of the banks. In response, the Company will take a number of measures accordingly. Firstly, the Company will accelerate the restructuring of customer base and increase stable retail savings deposits by consistently implementing the strategic positioning of "one body with two wings", so as to avoid over-reliance on short-term wholesale financing. Secondly, the Company will uphold the strategic guidance of "service upgrading", strengthen its capabilities of providing comprehensive financial services to customers and attract quality deposits by rendering premium customer service. Thirdly, the Company will adjust and optimise its liabilities structure to moderately increase the proportion of non-deposit liabilities, in an attempt to diversify funding sources and exercise reasonable control over the deposit premium expenditures.

5.10 Business Operation

In 2014, under the complicated economic and financial situations, the Company adhered to the development positioning of "one body with two wings", and proactively captured market opportunities to enhance professional capabilities, optimised resources allocation, promoted business coordination, intensified appraisals and trainings, improved IT supports, tightened risk control and strived to overcome various unfavourable factors, thereby achieving rapid growth in all its business lines. Meanwhile, the Company concentrated on promoting its financial services, made breakthroughs through product innovation and service upgrading, and put an emphasis on developing emerging financial businesses. In order to forge an "asset-light bank", the Company endeavored to promote the rapid growth of its non-interest income, pushed forward business structure adjustments and operation transformation, raised the capital utilisation rate and reduced capital consumption, while making reasonable effort to develop its traditional businesses such as deposit-taking and lending.

5.10.1 Retail finance

Business overview

In 2014, the profit from retail finance of the Company maintained a rapid growth with steady improvement in value contribution. Profit before tax reached RMB29.105 billion, representing a year-on-year increase of 23.88%. The percentage of retail profit in total profit increased to 42.81%, up by 6.19 percentage points as compared with the corresponding period of the previous year. Net operating income generated by retail finance grew rapidly to RMB68.584 billion, up by 20.80% year-on-year, representing 43.54% of the Company's net operating income. Among which, net interest income from retail finance reached RMB45.624 billion, up by 13.17% year-on-year and accounting for 66.52% of the Company's net operating income from retail finance; net non-interest income from retail finance amounted to RMB22.960 billion, up by 39.48% year-on-year and accounting for 33.48% of the net operating income from retail finance, and 46.27% of the Company's net non-interest income. In 2014, the retail finance of the Company recorded a commission income of RMB12.693 billion from bank cards (including credit cards), up by 56.63% year-on-year; fee and commission income from retail wealth management was RMB9.289 billion, up by 29.79% year-on-year (calculated on the same statistical calibre) and accounting for 42.29% of net fee and commission income from retail finance.

The Company prioritised the development of its retail finance earlier than its domestic peers. By having a full-fledged business management system, a healthy customer structure, a coordinated channel mix and well-organised product portfolio in place, the Company has established its systematic advantages and secured a leading market position. Meanwhile, the Company possesses outstanding competitive edge in terms of wealth management, small and micro enterprise business, consumer finance and other core retail businesses.

Facing the burgeoning Internet finance and increasingly fierce market competition, the Company will adhere to its customer-centric principle and aim at creating a business model of "light retail bank" through upgrading its services and improving professional expertise in the future, so as to achieve a breakthrough in key areas such as identifying, securing and managing customers in a cost-efficient manner, enhancing our professional wealth management capability, conducting differentiated management of retail credit and implementing refined management and cross-selling on customers. Furthermore, the Company will continuously improve the input/output efficiency and profit contribution and enhance market competitiveness of its retail finance.

Retail customers and total assets under management from retail customers

In 2014, the Company accelerated service upgrading in all aspects, closely seized the historic opportunities brought about by rapid development of mobile internet application, innovated marketing methods, and pushed forward the research and development of new products. The Company improved the asset-light operation featuring agency issuance of customer consumption loans, enhanced the acquisition of small and micro enterprise customers in large scale, devoted to promoting cross-border sales, sales among different business lines and multi-product cross sales of retail customers, and committed to optimising business procedures, so as to continually strengthen the exploration of new customers, further expand customer base, continually increase customer value contribution and further solidify the customer base of retail customers.

Meanwhile, with diversified investment products and channels emerging as well as the gradual recovery of the capital market, the Company proactively responded to the changes in customers' demand for wealth management, and provided professional asset portfolio service according to different risk preferences, life cycles and customised fund requirements of customers. With complementary financing services and convenient settlement instruments, the Company solidified settlement funds of small and micro enterprise customers as well as personal loan customers, and solidified settlement funds from the daily life of public customers by providing facilitation services such as credit cards and payment of utility fees. Moreover, the Company devoted to carrying out research, development and promotion of new products and new models, and implemented precision marketing to customers by capitalisation of big data and light-weight channels, so as to satisfy the customised requirements of customers for deposit products. Through various measures above, the Company realised a balanced growth in total assets under management (AUM) and deposits from retail customers.

As at the end of December 2014, the number of retail customers of the Company reached 56.25 million, representing an increase of 18.10% as compared with that at the beginning of the year, among which, the number of Sunflower-level and above customers (retail customers of the Company with minimum total daily average assets of RMB500,000 per month) reached 1,289,600, representing an increase of 21.08% as compared with that at the beginning of the year. The balance of total assets under management (AUM) from our retail customers amounted to RMB3,469.9 billion, representing an increase of 22.82% as compared with that at the beginning of the year and a year-on-year additional increase of RMB199.9 billion. Among which, the balance of total assets under management from Sunflower-level and above customers amounted to RMB2,600.7 billion, representing an increase of 26.71% as compared with that at the beginning of the year, and accounting for 74.95% of the balance of total assets under management from retail customers of the Bank. Period-end balance of deposits from retail customers amounted to RMB1,014.194 billion, representing an increase of 12.81% as compared with that at the beginning of the year, of which, demand deposits accounted for 61.05% while the period-end balance of deposits from retail customers accounted for 32.11% of the balance of the Company's total customer deposits, of which, the total amount of deposits from Sunflower-level and above customers amounted to RMB468.967 billion. According to the data released by the PBOC, the Company ranked first among domestic small- and medium-sized banks in terms of the balance and increment of retail deposits, among which, the Company ranked third among domestic banks in terms of the balance of foreign currency deposits at the fixed point of time. The accumulated amount from All-in-one Card transactions was RMB1,704.177 billion, representing a year-on-year growth of 105.45%. The average balance per All-in-one Card held by retail customers amounted to RMB11,600, basically unchanged as compared with that of the previous year; and transaction amount of "All-in-one Card" via POS reached RMB810.4 billion, representing a year-on-year increase of 32.12%.

Wealth management

The Company further accelerated the development of its wealth management business by adopting a number of initiatives to improve its professional wealth management capability. In 2014, the Company continued to upgrade the asset allocation service under the customer-centric principle. It assisted customers in recognising investment trends in the global market and in building a reasonable investment philosophy with authoritative global market research provided by the Investment Decision-making Committee from time to time, thereby building our professional market research capabilities. Moreover, the Company constantly diversified the wealth management product portfolio, further improved customer service before, during and after sales, and established a sound asset allocation service system by offering professional asset allocation services, formulating investment strategies, and forming and implementing product investment portfolio. The Company further optimised and integrated the platform for wealth management business and the professional asset allocation system, and improved the work efficiency of customer relationship managers.

In 2014, the Company recorded RMB4,801.9 billion in accumulated sales of personal wealth management products, RMB685.9 billion in the distribution of open-ended funds, RMB63.6 billion in premium from distribution of third-party insurance policies and RMB118.4 billion in the sales of trust plans. Fee and commission income from retail wealth management business was RMB9.289 billion, representing a year-on-year increase of 29.79% (calculated on the same statistical calibre). Among them, income from distribution of funds amounted to RMB2.842 billion, representing a year-on-year increase of 70.79%; income from distribution of third-party insurance policies amounted to RMB2.126 billion, representing a year-on-year increase of 17.46%; income from entrusted wealth management amounted to RMB2.081 billion, representing a year-on-year increase of 51.02%; income from distribution of third-party trust plans amounted to RMB2.096 billion, representing a slight year-on-year decrease of 2.06%; and income from precious metals custody amounted to RMB144 million.

In 2015, the Company will cater for customers' needs based on market research and the core philosophy of asset allocation so as to improve its comprehensive customer management capability towards high- and middle-end customers, achieve all-round upgrading of wealth management services, and further enhance the competitive advantages of the Company in wealth management business.

Private banking

Our private banking business follows the philosophy of "It's our job to build your everlasting family fortune", which provides high-net-worth customers with comprehensive, tailored and private wealth management services. Our private banking business has maintained a rapid and steady growth during the reporting period. As at 31 December 2014, the Company had 32,880 private banking customers (retail customers of the Company with minimum total daily average assets of RMB10 million per month), representing an increase of 28.96% as compared with that at the beginning of the year; total assets under management from private banking customers amounted to RMB752.6 billion, representing an increase of 31.71% over the beginning of the year. The Company established six new private banking centers in Lanzhou, Kunming, Shanghai and other cities during the reporting period. Currently, the Company has established 37 private banking centers and 59 wealth management centers, which form a high-end customer service network of the Company.

In 2014, the Company fully promoted the upgrading of its private banking service, constantly enhanced its capability in providing the relevant investment advisory services, and continued to optimise and enrich its open-ended product platform. Meanwhile, the Company completed the signing of contract for the first discretionary assets entrustment deal in China. The Company also consolidated and enhanced its advantages in supremely-high-end customer service; fully exerted its advantages in business coordination with overseas financial institutions to promote the building of an overseas investment platform, so as to gradually launch the comprehensive cross-border financial service and satisfy customers' demands for global assets allocation. In addition, the Company has built a comprehensive financial service platform comprising tax, legal and personal financing and corporate banking services for private banking customers by offering corporate banking services to the enterprises controlled by private banking customers.

Credit cards

As at the end of the reporting period, the Company had issued 59.81 million credit cards in total; the total number of active cards was 31.64 million; 5.99 million new cards have been issued during the reporting period. As at the end of the reporting period, the number of users of credit cards in circulation were 26.07 million, up by 22.68% as compared with that at the end of the previous year. The Company constantly improved the efficiency of customer acquisition and customer management. The cumulative transaction value of credit cards in 2014 was RMB1,331.3 billion, representing a year-on-year increase of 41.58%; and the average transaction value per month of each active card was RMB3,913. The percentage of the revolving balances of credit cards was 28.27%. The balance of credit card overdrafts (including corporate business cards) was RMB219.686 billion, up by 41.71% as compared with that of the previous year. Interest income from credit cards for 2014 amounted to RMB11.844 billion, representing a year-on-year increase of 33.75%. Non-interest income from credit cards was RMB12.117 billion, representing a year-on-year increase of 55.21%. Thanks to enhanced risk controlling, the risk conditions of our credit card business remained stable, among which, non-performing loan ratio of credit cards was 0.94%, down by 0.04 percentage point as compared with that at the end of the previous year.

During the reporting period, the Company released the mobile user application CMB Life 4.0 (掌上生活4.0) by capitalising on the development trend of mobile Internet technologies. With the current number of its subscribers exceeding 10 million, CMB Life (掌上生活) has become the main carrier of the credit card business in the mobile Internet era and promises to create a one-stop mobile Internet platform in the future. The Company also constantly improved its smart "WeChat/Weibo customer service" platform with over 10 million subscribers in a view to continuously improve customers' card usage experience and the functions of this application. In addition, the Company set up innovative customer service models by connecting various external mobile Internet platforms and establishing a number of service channels including public interactive communities (such as "tieba.baidu" (百度貼吧) community and WeChat community), Alipay service window and Xiaomi lifestyle yellow pages. Furthermore, the Company endeavoured to build streamlined models to acquire customers, so as to improve the efficiency in acquiring customers and constantly optimise its customer mix. The Company actively carried out the dual network project under the Bank's retail system, leading to a steady growth in cross-sales. Moreover, The Company launched a series of new products such as Baidu Music co-branded Credit Card (百度音樂聯名卡), "www.sanguosha.com" co-branded Credit Card (三國殺聯名卡), EMV All Currency International chip-based Credit Card (EMV全幣種國際芯片信用卡), LOL Real Gold Credit Card (英雄聯盟真金信用卡) and other chip-based credit cards complying with the Unionpay's latest the PBOC 3.0 specification standards, thereby further optimising its product mix. Besides, the Company constantly upgraded its products and services with higher profit margin and continuously improved its high-yield product portfolio. The Company also increased its marketing efforts and diversified its marketing means by launching a series of activities such as "Little Points, Great Fun", "Wednesday Food 50%-off", "Extraordinary USA" (非常美國), "Extraordinary Europe" (非常歐洲) and "Extraordinary Overseas Purchase" (非常海購), thus striving to establish overseas online operating platforms and constantly put on trial of new operating models based on customers' accumulated points. Meanwhile, the Company improved its efficiency of capital and credit line utilisation and implemented sound risk management strategies to ensure steady and healthy development of business. The asset quality remained stable during the reporting period.

Looking ahead, the Company will continue to increase efforts in the exploration and innovation of the credit card business model in the mobile Internet era and take the customer-centric and market-oriented approaches to speed up the establishment of a differentiated competitive edge. In addition, the Company will continue to enhance the value of the retail business contributed by the credit card business, and maintain the leading edges of its credit card business.

Retail loans

As at 31 December 2014, the Company's total retail loans amounted to RMB955.276 billion, representing an increase of 21.61% as compared with that at the end of the previous year, ranking fifth among all domestic banks. As for the increment of retail loans, the Company ranked fifth among all domestic listed banks (based on the statistics of the People's Bank of China). The retail loans accounted for 41.80% of total loans and advances to customers, up by 2.70 percentage points as compared with that at the end of the previous year. During the reporting period, the floating range of weighted average interest rates of newly granted retail loans in RMB (weighted at actual amounts, same as below) decreased by 1.44 percentage points to 28.05% as compared with the previous year.

Due to the macroeconomic downturn, intensifying industry risk and regional risks, the creditworthiness and solvency of some individual customers deteriorated. As at 31 December 2014, the balance of the Company's special mention retail loans amounted to RMB12.775 billion, representing an increase of 48.22% as compared with that at the end of the previous year. The proportion of special mention retail loans increased by 0.24 percentage point as compared with that at the end of the previous year and the balance of non-performing loans amounted to RMB7.404 billion with non-performing loan ratio of 0.78%, up by 0.14 percentage point as compared with that at the end of the previous year. If disregarding credit cards, among the balance of new non-performing retail loans of the Company in 2014, the mortgage loans and pledged loans accounted for 83.89%, representing a mortgage and pledge rate of 52.94%. Given that a vast majority of such new non-performing retail loans were fully secured by collaterals, the risk associated with non-performing retail loans was generally controllable.

In 2014, the Company adopted a strategy for balanced development of its retail loan business, the Company, while maintaining the moderate and steady growth of micro-enterprise loans, increased the provision of residential mortgage loans to support the development of housing finance, on the basis of the overall consideration of market demand and risk management concerns. As at the end of the reporting period, the balance of residential mortgage loans of the Company was RMB321.362 billion, representing an increase of 22.92% as compared with that at the end of the previous year and accounting for 33.64% of our retail loans.

The calculation calibre for our micro enterprise businesses was different from that at the end of the previous year due to the Company's adjusted classification of certain products. As at the end of the reporting period, balance of the Company's loans to micro enterprises totalled RMB335.637 billion, representing an increase of 19.01% over the beginning of the year (calculated on the Bank's calibre), and accounted for 35.14% of retail loans, representing a decrease of 0.76 percentage point as compared with that at the beginning of the year. The decline in its growth and proportion was mainly due to the decreased demand of micro enterprises for loans and the increased risk exposure during the downward economic cycle. Given that, the Company slightly adjusted its business structure in advance to increase its loans extended to low risk businesses such as residential mortgage loans, while maintaining the steady development of its micro enterprise loan business, which consequently reduced the proportion of its micro enterprise loans and further optimised its retail loan structure. As at the end of the reporting period, the non-performing loan ratio of loans granted to micro enterprises of the Company was 1.08%, representing an increase of 0.50 percentage point as compared with the end of the previous year; The Company had a total of 1,425,300 micro enterprise customers, representing an increase of 53.24% as compared with the end of the previous year. During the reporting period, the floating ranges of weighted average interest rate of newly granted micro enterprise loans of the Company was 33.57%, up by 0.94 percentage point as compared with the previous year.

The Company put great emphasis on loan risk management, and instituted a relatively sound risk management system and a streamlined loan approval model among its peers. By building a "Credit Factory for Retail Loan Business", and through the approach of centralised loan approval by head office, the Company constantly optimised the risk-control model which can then be applied to the loan approval procedure and strengthened the capacity of the closed-loop procedures in identifying risks prior to the release of loans. As for the post-loan stage, the Company built a standardised system integrating pre-warning, loan recovery and disposal so that the Company was able to prevent default risks at an early stage and improve the post-loan management efficiency. The Company launched an on-line self-service loan product named "Flash Loan" and a remote pre-investigation mortgage product named "Cloud Mortgage", so as to further reduce time consumption for loan investigation, and forge a "Light" model of its retail loan business.

In 2015, the Company will uphold its principle of coordinated development in retail loan business, and continue to optimise the structure of retail loan business, so as to maintain the steady growth of micro enterprise loan business. By leveraging on the comprehensive advantages of the Company in retail business, the Company aims to become the principal settlement bank of its micro enterprise customers. In respect of housing loan, the Company will prioritise on quality developers, quality housing estates and quality customers, and will devote itself to exploring the consumption and financial needs of housing loan customers, so as to enhance the overall service quality.

5.10.2 Corporate finance

Business overview

In 2014, as for its corporate banking business, the Company continued to optimise the pricing mechanism and system development, improved its risk pricing capability, and strove to establish new profitability mode. During the reporting period, with respect to its corporate banking business, the Company realised profit before tax of RMB30.798 billion, accounting for 45.31% of profit before tax of the Company. Net operating income of corporate banking business was RMB77.421 billion, representing a year-on-year increase of 14.94%, and accounting for 49.15% of the operating income of the Company. Among which, the Company posted RMB60.856 billion in net interest income of corporate banking business, representing a year-on-year increase of 10.17%, and accounting for 78.60% of the net operating income of corporate banking business; and net non-interest income of corporate banking business amounted to RMB16.565 billion, representing a year-on-year increase of 36.70%, accounting for 21.40% of the net operating income of corporate banking business, and accounting for 33.39% of the net non-interest income of the Company.

Faced with challenges and opportunities brought about by changes in tendencies such as the "new normal" of economy, the Company's corporate banking business will focus on customer base building and strategic business transformation for the purpose of boosting structural reform. In addition, to achieve breakthroughs in asset deployment and operation management, the Company accelerated the construction of transaction banking and investment banking business systems and continuously enhanced its capability in the management of core customer base, as well as five professional competences including customer classification management, comprehensive customised services, product system innovation, precision data marketing and unified risk management, striving to build differentiated competitive edges.

Corporate customers

As at 31 December 2014, the Company has developed 755,100 corporate depositors and 34,800 corporate borrowers, including 79,291 high-net-worth wholesale customers (wholesale customers with overall contribution to the Company of more than RMB100,000).

Corporate loans

Corporate loans of the Company include working capital loans, fixed asset loans, trade finance and other loans, such as merger and acquisition loans and corporate mortgage loans. As at 31 December 2014, total corporate loans of the Company were RMB1,263.567 billion, representing an increase of 8.73% as compared with that at the end of the previous year and accounting for 55.28% of total customer loans and advances. Among them, the balance of the medium to long-term loans to domestic enterprises amounted to RMB469.207 billion, accounting for 39.30% of the total loans to domestic enterprises, and representing an increase of 4.76 percentage points as compared with that at the end of the previous year. The non-performing loan ratio of our corporate loans was 1.59%, representing an increase of 0.47 percentage point as compared with that at the end of the previous year, which was mainly due to the weaker debt repayment ability of enterprises as a result of the economic downturn. The floating range of weighted average interest rates of newly granted corporate loans in RMB increased by 0.64 percentage point to 13.33% as compared with the previous year.

In 2014, the Company further optimised the industry distribution structure of corporate loans, giving priority to industries undergoing structural upgrading, traditionally competitive industries, strategic emerging industries, modern service sectors, and green industries. Meanwhile, the Company moderately adjusted loans to state-regulated industries, such as real estate, local government financing vehicles, and overcapacity industries. As at 31 December 2014, the balance of green credit loans was RMB150.947 billion, representing an increase of RMB34.575 billion (calculated on the same statistical calibre) as compared with that at the end of the previous year, which accounted for 11.95% of the total corporate loans of the Company. The balance of our loans extended to strategic emerging industries amounted to RMB52.286 billion, up by RMB4.285 billion as compared with that at the end of the previous year, which accounted for 4.14% of the total corporate loans of the Company. For further details about loans extended to state-regulated industries such as the real estate industry, please refer to the section headed "Assets quality of key areas" in this report.

The underlying data of our small enterprise businesses at the beginning of the year was different from that at the end of the previous year due to the elimination of relevant data after growth of certain enterprises at the beginning of the year. As at the end of the reporting period, balance of the Company's loans to small enterprises totalled RMB268.050 billion, representing a decrease of 5.29% over the beginning of the year (calculated on the Bank's calibre), and accounted for 22.45% of domestic corporate loans, representing a decrease of 3.02 percentage points as compared with the beginning of the year. Such decrease was mainly due to the fact that the Company prudently withdrew from small enterprises with potential risks in terms of loan granting, so as to further prevent the general risk of granting loans to small enterprises under current economic slowdown. In the meantime, in order to fully implement the development strategy of "asset-light banking", the Company proactively reduced the granting of general loans, and increased the use of bills of acceptance, letters of guarantee, letters of credit and other types of credits. As at the end of the reporting period, the non-performing loan ratio of loans granted to small enterprises of the Company was 2.83%, representing an increase of 0.90 percentage point as compared with the end of the previous year; the Company had a total of 548,800 small enterprise customers, representing an increase of 38.52% as compared with the end of the previous year. During the reporting period, the floating range of weighted average interest rate of newly granted small enterprises loans of the Company was 22.96%, up by 0.18 percentage point as compared with the previous year.

The "Qian Ying Zhan Yi (千鷹展翼)" program is a strategic brand of the Company to serve innovative emerging enterprises. Targeting at this group of customers, the Company deepened innovation in marketing methods, product support, service channels and technology through further cooperation with external institutions to support innovative small enterprise customers based on the "equity financing plus debt financing" mode during the reporting period. As at the end of 2014, the total number of registered customers reached 22,086, representing an increase of 27.34% as compared with that at the end of the previous year. The customers who have credit lines granted by the Company accounted for 63% of all registered customers, indicating a continuous expansion in our customer base; the credit lines granted to customers amounted to RMB324.957 billion, representing an increase of 16.80% as compared with that at the beginning of the year; the balance of loans as at the end of the reporting period amounted to RMB140.565 billion, a level higher than the loans granted to other enterprises.

In 2014, the Company continuously promoted syndicated loan business to enhance inter-bank cooperation and information sharing and diversify the risks associated with large amount loans. As at 31 December 2014, the balance of syndicated loans amounted to RMB72.350 billion.

Discounted bills

In 2014, after taking overall consideration of its total credit, liquidities, gains and risks, the Company effectively allocated and promoted its discounted bills business. As at 31 December 2014, the balance of discounted bills amounted to RMB66.712 billion, an increase of 8.31% as compared with that at the end of the previous year, and accounting for 2.92% of total customer loans.

Corporate customer deposits

In 2014, the Company's corporate customer deposits maintained a rapid growth momentum. As at 31 December 2014, the balance of corporate customer deposits amounted to RMB2,144.552 billion, representing an increase of 22.13% as compared with that at the end of the previous year, and accounting for 67.89% of the total customer deposits; while its daily average balance amounted to RMB1,968.556 billion, representing a year-on-year increase of 22.42%; demand deposits accounted for 44.81% of total deposits from our corporate customers, 3.88 percentage points lower than that at the end of the previous year. According to the statistics of the PBOC, during the reporting period, the Company ranked first among domestic small- and medium-sized banks in terms of the increment of domestic corporate customer deposits in RMB, representing 3.12% of the total domestic corporate deposits in RMB and a year-on-year increase of 0.26 percentage point, and ranked first among domestic small- and medium-sized banks in terms of the market share of corporate customer deposits in foreign currencies.

Transaction banking business and offshore banking business

With respect to cash management business, the Company proactively took various measures to deal with challenges arising from interest rate liberalisation. The Company provided various types of customers with all-inclusive, multi-model and integrated cash management services, contributing to the acquisition and retention of base customers, acquisition of low cost corporate settlement related deposits, and the cross-sales of other corporate and retail products. As at 31 December 2014, the total number of customers using cash management service reached 548,240, representing an increase of 71.54% as compared with that at the end of the previous year. The Company introduced "C+ cash management solution", which includes all the features of principal corporate settlement products and services. The number of accounts opened for this service has exceeded 130,000. The Company was the first in the banking industry to launch the "All-in-one Card for Company (公司一卡通)", a card designed for collecting funds. Currently, the total number of cards issued has reached 110,000. Basic cash management business sustained healthy development with such innovative products as "C + Account-deposits portfolio", Cross-Border Cash Pool, Virtual Cash Pool, and the release of CBS-TT Version specially for cross-border cash management. The Company optimised cross-bank cash management products iteratively, and launched the "CBS5 Cash Management Cloud Service" (CBS5 財資管理雲服務), an innovative cross-bank cash management product, which effectively promoted the marketing of various key items focusing on customs, tax, social security and provident funds. The cross-bank cash management products have been applied by more than 380 conglomerates with more than 19,000 companies under management for fund management. In 2014, the intermediary business income from cash management of the Company amounted to RMB2.462 billion, representing a year-on-year increase of 53.88%.

With respect to cross-border finance business, the Company increased efforts on product innovation, committed to promoting the rapid development of "Cai Fu Tong (財富通)" and "Zi Ben Tong (資本通)", launched a smart cross-border finance platform and received a number of awards including the "Most Distinctive Trade Finance Bank (最佳特色貿易金融銀行)" award, which is deemed the most valuable annual award from the China Banking Association. During the year, the Company completed international settlements of US$538.446 billion, representing a year-on-year growth of 26.72%, cross-border Renminbi settlements of RMB697.698 billion, representing a year-on-year growth of 99.33%, the market share of our cross-border payments was 3.39%, up by 0.26 percentage point as compared with that at the beginning of the year, and ranking second among all domestic small- and medium-sized banks (based on the statistics of the State Administration of Foreign Exchange); foreign exchange settlements for customers of US$159.691 billion, representing a year-on-year growth of 22.63%, the market share of our foreign exchange settlement was 4.36%, up by 0.61 percentage point as compared with that at the beginning of the year, and ranking first among all domestic small- and medium-sized banks (based on the statistics of the State Administration of Foreign Exchange), accumulated international trade facilities of US$37.006 billion, representing a year-on-year growth of 9.77%, international factoring of US$16.617 billion, representing a year-on-year growth of 50.76%, and forfeiting of US$18.342 billion, representing a year-on-year growth of 63.17%. The number of onshore customers of our international business reached 55,376, representing a growth of 24.41% as compared with that at the end of the previous year.

With regard to offshore business, as at 31 December 2014, the number of offshore customers reached 31,400, representing an increase of 21.71% as compared with the beginning of the year; deposits from offshore customers amounted to US$12.085 billion, representing an increase of 31.75% as compared with the beginning of the year; balance of offshore trade finance business reached US$5.874 billion, representing an increase of 54.54% as compared with the beginning of the year; credit assets continued to be of good quality with a non-performing loan ratio of 0.57%. The cumulative net non-interest income reached US$132 million, representing a year-on-year increase of 40.11%.

With respect to supply chain finance business, the Company fully launched its smart supply chain finance system, aggressively developed supply chain settlement products, exploited corporate notes management services and promoted products relating to bill-pool and bill value-added service, and launched special finance solutions for eight core industries, such as healthcare and medical care. During the year, the Company secured 1,488 core customers in supply chains and 9,648 customers from upstream and downstream industries in total.

With respect to integrated trade financing for domestic trade, and for domestic and foreign trade, the Company focused on the innovation of integrated trade financing products for domestic trade and foreign trade, launched a product series named "Yi Rong Tong (一融通)" and saved relevant capital effectively. The Company provided domestic trade financing of RMB444.958 billion, representing a year-on-year growth of 77.03%.

As for corporate card business, through coordinated marketing of retail and corporate lines, the Company had issued a total of 133,400 corporate cards as at 31 December 2014. Intermediary business income from corporate cards amounted to RMB106 million during the reporting period.

Investment banking business

With respect to bond underwriting business, the Company vigorously developed underwriting business for debt financing instruments with a focus on the ultra- short-term commercial papers and instruments issued through private placement, and actively expanded high-end investment banking business, including refinancing of listed companies and structured financing. During the reporting period, the Company successfully led the underwriting of the first 3 ultra-short-term commercial papers across the country and the first ultra-short-term commercial paper in each of 8 provinces, the first corporate perpetual bond in the country and the first medium-term note issued by a real estate company in the country. As at 31 December 2014, debt financing instruments underwritten by our investment banking department amounted to RMB243.464 billion, representing a year-on-year increase of 65.02%. There were 322 bonds underwritten by the Company, representing a year-on-year increase of 61.81%.

With respect to M&A advisory business, the Company regarded M&A advisory business as one of its strategic corporate banking businesses. The Company established a M&A advisory department targeting potential customers from listed companies, state-owned assets reform and cross-border mergers and acquisitions so as to proactively promote the development of M&A advisory business in a fast and streamlined manner. In 2014, a total of RMB28.530 billion was granted for financing M&A activities, representing a year-on-year increase of 138.47%. Facilities granted to light-weight financing activities increased substantially, accounting for 43.24% of total facilities granted for M&A activities. As at the end of the reporting period, the number of M&A finance customers was 94, representing an increase of 261.54% as compared with that at the beginning of the year.

5.10.3 Financial institutions finance

Overview of business

The financial institutions finance segment of the Company was established in late 2013. During the year, all business lines of this segment saw rapid development. The financial institutions business of the Company continued to record stable growth in profits with increasing value contribution. During the reporting period, the Company's financial institutions business realised pre-tax profit of RMB16.199 billion, up by 77.74% year-on-year; net operating income was RMB18.853 billion, representing a year-on-year increase of 80.38%, and accounting for 11.97% of the net operating income of the Company. In particular, net interest income was RMB9.228 billion, up by 19.83% year-on-year, and net non-interest income was RMB9.625 billion, up by 249.87% year-on-year.

In light of the complicated situation caused by continued downward economic trend, intensified financial risk exposure and market volatility, liberalisation of interest rates and foreign exchange rates, gradual standardisation of financial institutions business and wealth management business from the regulatory authorities and fierce competition due to increasing number of non-banking institutions and Internet financing sector entering into the banking industry, the Company will guide its development with priority given to transformation and establish a system featured with macro businesses with financial institutions, asset management and transactions under the operational guidance of "building an operational system for macro asset management and seeking a leading position among banks in terms of transactions". Leveraging on the customer base operation, product innovation and management optimisation, the Company focused on forming a financing channel characterised by on-and-off balance sheet financing, domestic and overseas financing, online and offline financing, on exchange and off exchange financing and internal and external business lines financing to establish a new financial institutions product line and professional service system. By introducing the concept of investment banking and the Internet thinking and relying on the platform of "Zhao Ying Tong (招赢通)" (previously known as "Zhao Cai Tong (招財通)", the Company strengthened sales and marketing, led the trend of innovation, marched toward the forefront of the banking industry to establish six main business engines comprising financial institutions investment and financing, asset management, financial market, asset custody, bill business and futures finance, which in turn provided a strong impetus for the development of the Company's financial institutions business and other businesses.

Financial institutions business

The Company intensified construction of channels and enhanced value contribution from its financial institutions customers for the purpose of deepening comprehensive cooperation with its customer group of financial institutions. Meanwhile, it proactively adapted to changes in the market and regulatory policies and adjusted and optimised the structure of the over-the-counter treasury business to generate more revenue. Meanwhile, the cross-border RMB interbank collaboration business and bill business of the Company saw a rapid growth, maintaining a leading position in the industry on an on-going basis. As at 31 December 2014, the balance of placements from banks and other financial institutions reached RMB700.042 billion, representing an increase of 37.36% as compared with the beginning of the year. The balance of over-the-counter asset business with other financial institutions such as interbank placements, assets purchased for resale (including bills and beneficial rights) amounted to RMB390.970 billion as at the end of the reporting period. The balance of funds under third-party custody amounted to RMB113.024 billion, representing an increase of 221.79% as compared with the beginning of the year. As for third party custody business, the Company had a total of 4.25 million customers, up by 360,000 customers as compared with the beginning of the year; and the trading amount of discounted bills business was RMB9,109.9 billion, a year-on-year increase of 340.84%. The volume of interbank cross-border RMB clearing service in 2014 reached RMB785 billion, representing an year-on-year increase of 115.95%, and the total number of clearing accounts amounted to 113, an increase by 38 from the beginning of the year. The balance of interbank deposit from other financial institutions in cross-border RMB-denominated clearing accounts increased by 89.80% as compared with that at the beginning of the year, and both the number of cross-border RMB clearing accounts from other financial institutions and newly opened accounts during the year ranked first among national small- and medium-sized banks. As for margin trading and short selling business, the Company maintained business cooperation with 64 securities firms including 11 newly added ones.

The Company has been qualified as a futures margin depository bank by China Financial Futures Exchange (CFFEX), Zhengzhou Commodity Exchange (ZCE) and Dalian Commodity Exchange (DCE). As at 31 December 2014, the Company's balance of futures deposits was RMB8.615 billion with 165 futures margin depository accounts.

Assets management business

With regard to wealth management business, the Company continued to improve its business development. Firstly, the Company proactively conducted product innovation and launched a number of net-worth bond products and high-yield structured wealth management products, which are popular in the market. Secondly, the Company managed to enhance its investment management. In 2014, seizing up the opportunity brought by downward interest rates and relaxed overall liquidity environment, the Company vigorously allocated high-yield assets and increased investment to credit bonds. Meanwhile, the Company formulated a differentiated asset allocation strategy based on product liquidity, resulting in a significant increase in revenue from wealth management products. Thirdly, the Company enhanced its marketing efforts and increased sales of products significantly in 2014 by optimising the cooperation mode for sales of products between the Head Office and its branches, establishing an efficient investment and financing mode applicable to direct sale by the head office and improving the measures of issuance of offline wealth management products, which effectively drove the sales of products.

During the reporting period, the wealth management business of the Company maintained development momentum and the Company made a breakthrough on core areas of wealth management business, including the number and amount of wealth management products issued, and the balance at the end of the period. The Company developed 12,580 wealth management products in total and recorded RMB7.29 trillion in the sales of wealth management products bank-wide, representing an increase of 272.96% as compared with the previous year. As at the end of the reporting period, the balance of wealth management products under operation by the Company amounted to RMB908.078 billion (excluding structured deposits), representing an increase of 41.64% as compared with that at the beginning of the year (calculated on the same statistical calibre). Of which, RMB831.472 billion was off balance sheet, representing an increase of 42.74% as compared with that at the beginning of the year.

Also, the Company is committed to transforming its wealth management business. Firstly, the Company made investments in strict compliance with the CBRC's limits requirements regarding "non-standard debt assets" and had continued to comply with those regulatory requirements. As at the end of the reporting period, the balance of our wealth management funds invested in "non-standard debt assets" amounted to RMB146.739 billion, accounting for 19.78% of the balance of wealth management products and 3.86% of the total assets of the Company at the end of the last year respectively, which has been lower than the upper limit in accordance with the relevant requirements of the CBRC. Secondly, the Company proactively developed its net-worth products and structured products, the proportion contributed by net-worth products and structured wealth management products accounted for 29.85%. As at the end of the reporting period, the balance of net-worth wealth management products of the Company amounted to RMB242.649 billion, representing a proportion of 26.72% to balance of wealth management products under operation and an increase of 395.70% as compared with that at the beginning of the year. During the reporting period, the Company issued 423 structured wealth management products with a sales value of RMB100.131 billion. As at the end of the reporting period, the balance of structured wealth management products of the whole Bank amounted to RMB28.389 billion, representing a proportion of 3.13% to balance of wealth management products under operation and more than twelve-fold increase as compared with that at the beginning of the year.

Asset custody business

With regard to the asset custody business, the Company advanced product innovation, system development and research and procedure optimisation, set up the first Internet custodian bank with full service in China and put more efforts in marketing various custody services and set a new record in terms of volume and income of assets under custody. As at the end of the reporting period, the balance of assets under custody amounted to RMB3,543.038 billion, representing an increase of 90.77% as compared with that at the beginning of the year. The Company's custody business recorded accumulative income of RMB2.112 billion, representing a year-on-year increase of 98.87%. The number of asset custody projects reached 7,737, an increase of 128.97% as compared with the previous year, 19 open-ended funds (including QDII) were added to the portfolio of assets under custody with the size of funds raised for custody reaching RMB23.873 billion during the year. 90 open-ended funds (including QDII) in total were under custody with a volume of RMB135.806 billion. The outsourcing services newly introduced has opened up a new area for custody services. As at the end of the reporting period, the market share of assets under custody by the Company for corporate fund customers was 13.92%, representing a year-on-year increase of 6.90 percentage points.

Global markets business

RMB investment business: the Company, after making an intensive study of domestic financial market, grasped the trend of local-currency bond market and formulated its investment plan in a scientific way. Firstly, the Company actively extended the duration of its investments, increased investments primarily in medium- to long-term bonds with maturity of 5 years or above. Meanwhile, the Company prioritised its investments in government bonds, and the credit bonds with good credit standing. Secondly, by capitalising on the opportunities of fluctuations in interest rates and credit spreads, the Company proactively adjusted and optimised the structure of its debt portfolios and reinforced analysis and management of credit bonds to increase earnings. As at the end of the reporting period, the balance of the Company's RMB investment portfolio was RMB629.68 billion, with a portfolio duration of 3.58 years and the portfolio yield of 4.36%. As at the end of the reporting period, the balance of the Company's RMB bond portfolio was RMB514.97 billion, with portfolio duration of 3.65 years and the annualised portfolio yield rate of 4.34%.

Foreign currency investments: the Company seized opportunities to increase investments based on its judgment on the international market. Firstly, the Company implemented its prudent investment strategy, adjusted its investment pace and controlled the duration of its new investments. Meanwhile, the Company actively participated in the spread transactions of newly issued bonds and range trading operation to realise interest spread gains. Secondly, the Company proactively developed secondary market operations and derivative products to increase returns of debt portfolio. As at the end of the reporting period, the balance of the Company's foreign exchange investment portfolio amounted to RMB3.089 billion, with a portfolio duration of 2.20 years and the annualized portfolio yield of 3.08%.

During the reporting period, the transaction amount of the Company's bond business was RMB2,188.3 billion, representing a year-on-year increase of 180.77%; the transaction amount of proprietary derivatives business was US$327.7 billion, representing a year-on-year increase of 61.11%. In 2014, the Company ranked first in terms of the market making transactions in the bond market (comprehensive ranking) and RMB-denominated option transactions in the interbank market, and also ranked top in proprietary gold transactions on the Shanghai Gold Exchange and in the market share of foreign currency settlements and tradings on behalf of customers among all nationwide small- and medium-sized banks.

5.10.4 Distribution channels

The Company provides products and services via multiple distribution channels. Our distribution channels are mainly divided into physical distribution channels and e-banking channels.

Physical distribution channels

The efficiently operated outlets of the Company are primarily located in China's economically developed regions such as Yangtze River Delta, Pearl River Delta and Bohai Rim, and some large and medium cities in other regions. As at 31 December 2014, the Company had 125 branches, 1,297 sub-branches, 1 exclusive branch-level operation center (credit card center), 1 representative office, 2,791 self-service centers and 10,604 cash self-service machines (including 2,364 automatic teller machines and 8,240 cash recycle machines) in more than 120 cities of Mainland China. Meanwhile, the Company also had 2 subsidiaries, namely CMB Financial Leasing and China Merchants Fund, and 1 joint venture, namely CIGNA & CMB Life Insurance. The Company also has a number of wholly-owned subsidiaries including Wing Lung Bank and CMB International Capital in Hong Kong, and a branch in Hong Kong (Hong Kong Branch); a branch and a representative office in New York, the United States; a branch in Singapore (Singapore Branch); a representative office in London, the United Kingdom; a representative office in Taipei and a branch in Luxembourg still under construction.

In 2015, the Company will steadily expanded its branch network in economically developed first and second tier cities to give full play to the economy of scale. As for its regional layout, the Company will penetrate deeper into the three largest markets, namely Yangtze River Delta, Pearl River Delta and Bohai Rim, to further strengthen its development advantage, thus enhancing its regional competitiveness in these key regions.

E-banking Channels

The Company attaches great importance to developing, improving and integrating e-banking channels such as online banking, mobile banking and direct banking, which are highly recognised by the society and have effectively relieved the pressure on outlets of the Company.

Online banking

The Company's online banking business continued to remain steady growth in 2014; its users were increasing steadily and the frequency they use online banking grew as well.

As for its retail online banking business, at the end of 2014, the number of active users of the retail online banking professional edition of the Company reached 18,632,500, and the relevant replacement ratio in respect of retail online banking was 93.62%, up by 4.26 percentage points as compared with that of last year. In 2014, the total cumulative number of online retail banking transactions was 1,229,040,900, up by 29.62% as compared with that in the previous year; and the accumulated transaction amount was RMB26,029.643 billion, up by 33.21% as compared with that in the previous year. Specifically, the cumulative number of online banking transactions was 353,928,900, up by 39.84% as compared with that in the previous year; and the accumulated amount of online banking transactions was RMB25,228.747 billion, up by 31.90% as compared with that in the previous year; the cumulative number of online payment transactions was 875,112,000, up by 25.90% as compared with that in the previous year; and the accumulated amount of online payment transactions was RMB800.896 billion, up by 93.82% as compared with that in the previous year.

As for its corporate online banking business, as at 31 December 2014, the total number of corporate online banking customers of the Company reached 542,715, representing an increase of 71.47% as compared with that at the end of the previous year. Of which, the number of small enterprise customers exceeded 467,500, and the number of small enterprise customers who only used our online banking services to conduct settlement transactions exceeded 160,000. The accumulated number of corporate online banking transactions of the whole Bank was 75,980,000, representing an increase of 37.92% as compared with that in the corresponding period of the previous year. Of which, the number of settlement transactions of small enterprise customers reached 33,950,000, accounting for 44.68% of the number of corporate online banking transactions of the whole Bank. The accumulated transaction amount of corporate online banking transactions of the whole Bank amounted to RMB48.47 trillion, representing an increase of 41.39% as compared with that in the corresponding period of the previous year.

Mobile banking

The personal mobile banking business of the Company continued to maintain rapid growth in 2014 as mobile banking customers were getting more and more active. In December 2014, the mobile banking recorded more than 100,000,000 logins for the first time in history. Mobile banking has become the most dynamic e-channel for customers of the Company. As at 31 December 2014, the aggregate number of downloads of mobile banking apps had reached 74,282,700. The total number of mobile banking contracts signed had reached 23,675,200, of which number of active customers had reached 11,664,200. Meanwhile, the number of mobile banking transactions and payments has been increasing rapidly. In 2014, the total cumulative number of mobile banking transactions amounted to 895,087,100, up by 245.19% as compared with that in the previous year; and the cumulative transaction amount reached RMB3,558.858 billion, up by 213.62% as compared with that in the previous year. Specifically, the cumulative number of mobile banking transactions was 225,467,500, up by 343.49% as compared with that in the previous year (calculated on the same statistical calibre); and the accumulated amount of mobile banking transactions was RMB3,129.897 billion, up by 190.96% as compared with that in the previous year; the cumulative number of mobile payment transactions was 669,619,600, up by 221.22% as compared with that in the previous year; and the accumulated amount of mobile payment transactions was RMB428.961 billion, up by 626.10% as compared with that in the previous year. During the reporting period, the Company launched a new mobile banking product, namely "All-in-one Mobile (一閃通)", which enabled the use of mobile phones and bank cards to be combined together for the first time in real term. It's the world's first full-service mobile banking product based on various application scenarios covering online, offline, large amount and small amount transactions. In addition, the Company had continuously optimised and upgraded "WeChat Banking" service since it launched the first WeChat Banking in China, and introduced certain featured services, namely notification of account activity, reminder of wealth management calendar and no-card cash withdrawal, which has attracted about 5 million users to follow and use "WeChat Banking", which helped establish a light and smart customer service model that is multi-layered and diversified.

As at 31 December 2014, the number of users of corporate mobile banking services amounted to 176,400. The total number of transactions including account enquiries, payments and settlements completed through corporate mobile banking reached 2,480,000 in the whole year, which effectively met our corporate customers' demand for mobile financial services, and also enabled the Company to form a brand new service channel for its online marketing campaign targeting corporate customers.

Direct banking

The direct banking service provided by the Company integrates the convenience of direct banking channels and the face-to-face friendly and attentive service at counters, which is performed by direct banking relationship managers to provide customers with real-time, comprehensive, speedy and professional service, including a variety of banking transactions, investment and financial advisory services, one-stop loan services and product sales. Currently, the primary functions of direct banking are to provide business advisory and transaction, online loan service, online wealth management, direct transactions, distant assistant service, online interactive service and visual counters.

Since the beginning of this year, according to the overall arrangement of "service upgrade" and "asset-light bank" for the whole Bank, the Company hit a record high of overall customer satisfaction of 98.34% during the year by constantly enhancing its service capabilities and customer experiences. Meanwhile, the Company innovated its customer acquisition model so as to reduce cost of securing customers and increase the number of customers whose assets were upgraded to gold card and Sunflower level by 173.34% and the number of customers who don't hold gold card or Sunflower card despite their assets reached the upgrade standards by 364.08% based on our marketing efforts as compared with the previous year. The sales of various types of funds (including monetary funds) increased by 11.05% as compared with that in the corresponding period of the previous year. Total loans granted through online channel increased by 16.28% than that in the corresponding period of the previous year. The number of "All-in-one Card" activated through direct banking increased by 11.83% as compared with that in the corresponding period of the previous year. During the reporting period, the Company has established the new outlet model of the simple-and-easy sub-branches based on visible counters without physical presence of counter staff. Our paperless counter has created superior customer experience in the banking industry.

5.10.5 Overseas businesses

Hong Kong Branch

The Company established its Hong Kong Branch in 2002, which is principally engaged in corporate banking and retail banking. With regard to corporate banking, the Hong Kong Branch provides enterprises located in Hong Kong with diversified corporate banking products and services, such as deposits, loans (including syndicated loans and trade facilities), settlement and assets custody, and engages in interbank transaction of funds, bonds and foreign exchange trading, and conducts funds clearing and asset transfer with customers in the banking industry. With respect to retail banking, the Hong Kong Branch proactively develops featured retail banking services and provides cross-border personal banking services for individual customers in Hong Kong and Mainland China. These featured products are "Hong Kong All-in-one Card" and "Hong Kong Bank-Securities Express".

In 2014, the Hong Kong Branch continued to leverage on its competitive edge in cross-border RMB business. Meanwhile, it made good use of the opportunities of business coordination with branches in Mainland China and comprehensively promoted its operation and internal management. During the reporting period, it realised net operating income of HK$2,307 million, up by 66.93% as compared with the corresponding period of the previous year; among which, net interest income of HK$1,269 million, net non-interest income of HK$1,038 million, and profit before tax of HK$2,174 million, up by 118.93% as compared with the corresponding period of the previous year, and profit per capita exceeded HK$15.42 million for the whole year.

New York Branch

Established in 2008, the New York Branch of the Company was positioned as a bank committed to facilitating economic and trade cooperation between China and the U.S.. It provides various services including corporate deposits, corporate loans, project financing, trade financing, M&A financing and cash management for enterprises and financial institutions in China and the U.S.. In addition, it also acts as a showcase and platform in improving our internationalisation and global service capabilities. With strong support from the parent bank and focusing on the U.S. market, the New York Branch, as an integral part of our internationalisation, is committed to providing a featured cross-border financial platform characterised by mutual coordination.

During the reporting period, the New York Branch achieved remarkable progress in operating cross-border assets and M&A financing businesses, broadening channels of funding sources, strengthening management of internal control, improving the organisational structure of our branches and enhancing our fundamental management, and launched a series of innovative products. By the end of November 2014, the New York Branch completed the issuance of certificates of deposit in RMB for the first time in the New York financial market, hence changing the record of no offshore RMB short-term bills in the US interbank market. In 2014, the New York Branch recorded net operating income of US$93.56 million, up by 63.65% as compared with the corresponding period of the previous year.

Singapore Branch

Established in November 2013, the Singapore Branch of the Company is a significant cross-border financial platform in Southeast Asia which is committed to providing quality comprehensive cross-border finance solutions to Chinese companies "going global" and Singaporean companies "being brought in". In addition to the general deposit, loan and remittance services, it focuses on offering cross-border financial services including Cross-border Trade Express, global credit line and cross-border settlement and sales of foreign exchange.

2014 is the first full-year operation after the establishment of the Singapore Branch. The branch grasped the opportunities brought about by the robust development of economic and trade relationships between China and Singapore to vigorously expand cross-border finance and local banking services, and won widespread recognition from customers and the market by offering innovative products and services. It completed its first foreign delisting financing deal, pioneered in providing cross-border RMB loans between China and Singapore ahead of other Chinese joint-stock banks, and actively expanded its trading-based businesses. It achieved rapid growth in all its business lines.

5.10.6 Wing Lung Group

Wing Lung Bank was founded in 1933, with a capital of HK$1.161 billion as at 31 December 2014, and is a wholly-owned subsidiary of the Company in Hong Kong. The principal operations of Wing Lung Bank and its subsidiaries ("Wing Lung Group") comprise deposit-taking, lending, investment and wealth management, credit cards, NET banking, documentary bills, leasing and hire purchase loans, foreign exchange, futures and securities brokerage, asset management, insurance business, Mandatory Provident Fund, property management, trustee and nominees services and investment banking. At present, Wing Lung Bank has a total of 41 banking offices in Hong Kong, 4 branches and representative offices in Mainland China, a branch in Macau, and three overseas branches, located respectively in Los Angeles, San Francisco, the United States and the Cayman Islands. As at 31 December 2014, the total number of employees of Wing Lung Bank is 1,849.

In 2014, profits attributable to the shareholders of Wing Lung Group was HK$3.169 billion, representing an increase of 22.04% as compared with the corresponding period of the previous year. Wing Lung Group recorded a net interest income of HK$3.897 billion, representing a year-on-year increase of 27.92%. The net interest margin was 1.72%, representing a year-on-year increase of 14 basis points. Net non-interest income was HK$1.674 billion, representing a year-on-year increase of 21.19%. The cost-to-income ratio in 2014 was 32.16%, representing a decrease of 4.19 percentage points as compared with that in the corresponding period of the previous year. The non-performing loan ratio (including trade bills) was 0.07%.

As at 31 December 2014, the total assets of Wing Lung Group amounted to HK$247.567 billion, representing an increase of 13.99% as compared with that at the end of 2013. Total equity attributable to shareholders amounted to HK$23.068 billion, representing an increase of 16.64% as compared with that at the end of 2013. Total loans and advances to customers (including trade bills) amounted to HK$154.067 billion, representing an increase of 16.69% as compared with that at the end of 2013. Deposits from customers amounted to HK$183.407 billion, representing an increase of 18.22% as compared with that at the end of 2013. Loan-to-deposit ratio was 63.47%, down by 2.72 percentage points as compared with that at the end of 2013. In the second half of 2014, Wing Lung Group issued a undated non-cumulative subordinated capital securities with nominal value of US$260 million to enhance the capital strength of Wing Lung Group. As at 31 December 2014, the total capital ratio of Wing Lung Group was 15.96%, its Tier-1 capital ratio was 12.07% and its common equity Tier-1 capital ratio was 10.82%, and the average liquidity ratio for the reporting period was 42.52%, all above regulatory requirements.

For detailed information on Wing Lung Group, please refer to the 2014 annual report of Wing Lung Bank, which is published at the website of Wing Lung Bank (www.winglungbank.com).

5.10.7 CMB Financial Leasing

CMB Financial Leasing is one of the first five pilot bank-affiliated financial leasing firms approved by the State Council. Registered in Shanghai, it is wholly owned by the Company and commenced operation on 23 April 2008. CMBFL is guided by national industrial policies, and is mainly engaged in the provision of financial leasing services in respect of large and medium-sized equipments to domestic large enterprises and SMEs and overseas customers in electricity, manufacturing, transportation, construction and mining sectors. It satisfies different needs in respect of procurement of equipment, promotion of sales, revitalisation of assets, balancing of tax liabilities and improvement of financial structure. CMBFL also provides new financial leasing services such as capital and commodity finance (融資融物), asset management and financial advisory.

As at 31 December 2014, CMBFL had a registered capital of RMB6.0 billion and 163 employees; total assets of RMB103.392 billion, up by 33.64% as compared with the end of the previous year; net assets of RMB10.331 billion, up by 49.56% as compared with the end of the previous year. In 2014, CMBFL made a net profit of RMB1,423 million, up by 18.19% as compared with the corresponding period of the previous year.

5.10.8 CMB International Capital

CMB International Capital, which was established in 1993, is a wholly-owned subsidiary of the Company in Hong Kong. Currently, the business scope of CMBIC and its subsidiaries mainly covers investment banking, securities brokerage, assets management and equity investments.

As at 31 December 2014, CMBIC had a registered capital of HK$1.0 billion, 94 employees, total assets of HK$2.627 billion, representing an increase of 145.28% as compared with the beginning of the year and net assets of HK$1.856 billion, representing an increase of 167.05% as compared with the beginning of the year. In 2014, CMBIC achieved a net operating income of HK$565 million, representing an increase of 14.84% as compared with the corresponding period of the previous year, and net profit of HK$323 million, representing an increase of 43.56% as compared with the corresponding period of the previous year.

5.10.9 China Merchants Fund

China Merchants Fund was the first sino-foreign joint venture fund manager approved by CSRC. CMFM was established on 27 December 2002 with a registered capital of RMB210 million. As at the end of the reporting period, the Company had 55% equity interests in CMFM. The businesses of CMFM include fund establishment, fund management and other operations approved by CSRC.

As at 31 December 2014, CMFM reported total assets of RMB2.286 billion, up by 111.67% as compared with the end of the previous year, net assets of RMB952 million, up by 24.77% as compared with the end of the previous year and a workforce of 264 employees (excluding those of subsidiaries). CMFM had total assets under management of RMB170.146 billion, up by 92.25% as compared with the end of the previous year. In 2014, CMFM realised a net operating income of RMB1,146 million, representing an increase of 57.20% as compared with the corresponding period of the previous year, and a net profit of RMB240 million, representing an increase of 47.24% as compared with the corresponding period of the previous year.

5.10.10 CIGNA & CMB Life Insurance

CIGNA & CMB Life Insurance was established in Shenzhen in August 2003, and is the first sino-foreign joint venture life insurance company after China's entry into World Trade Organisation (WTO). As at the end of the reporting period, the Company had 50% equity interests in CIGNA & CMB Life Insurance. CIGNA & CMB Life Insurance is mainly engaged in insurance businesses such as life insurance, health insurance and accident injury insurance, as well as the reinsurance of the above insurances.

As at 31 December 2014, CIGNA & CMB Life Insurance had a registered capital of RMB1,450 million and a workforce of 1,839 employees, total assets of RMB14.448 billion, representing an increase of 35.31% as compared with the end of the previous year, and net assets of RMB2.409 billion, representing an increase of 105.20% as compared with the end of the previous year. In 2014, CIGNA & CMB Life Insurance realised insurance income of RMB5.305 billion, representing a year-on-year increase of 25.12%, and a net profit of RMB219 million, representing a year-on-year increase of 11.17%.

5.11 Risk Management

The Company, through transforming itself into an asset-light bank, stepped up the construction of a risk management system focusing on creating value after risk adjustment under the principles of "Comprehensive, Professional, Independent and Balanced management". In 2014, against the background of complicated and volatile economic environment at home and abroad and the increasing risks in bank operations, the Company continued to improve its overall risk management system and proactively overcome and prevent various risks.

The Risk and Compliance Management Committee of the Head Office is the highest authority of the Company in risk management. Under the framework of the risk management preference, strategies, policies and authorizations that has been approved by the Board, the Committee is responsible for reviewing and deciding the most significant bank-wide risk management policies.

5.11.1 Credit risk management

Credit risk refers to risks arising from failure to fulfill the obligations by the borrowers or the counterparties under the negotiated terms. Credit risks borne by the Company were mainly from on- and off-balance-sheet credit business, investment business, financing business and other businesses on and off balance sheet. The Company endeavors to formulate a credit risk management framework with independent functions, balanced and checked risks and three dedicated defense lines and implements the bank-wide policies and processes regarding credit risk identification, measurement, monitoring and management to maintain a balance among risk, capital and profit of the Company.

Based on different credit risk conditions and authorisation system, the Company reviews the grant of its loans at different authorisation levels. The decision-making entities include: the Risk and Compliance Management Committee, the Loan Approval Committee and the Professional Loan Approval Committee of the Head Office, as well as the Risk Control Committee and the Professional Loan Approval Committee of our branches. From business origination, due diligence, review and approval of credit, loan disbursement and post-loan management, the Company ensured that the risk management procedures were effectively implemented by introducing advanced risk quantifiable modeling tools and a risk management system. In accordance with regulatory requirements, based on factors like borrowers' ability and willingness to repay, guarantor's position, conditions of pledges and overdue period, and with the employment of the 5-category classification, the Company divided credit assets into different categories under an internal 10-category classification system. The classification of a credit asset may be initiated by a relationship manager or risk control officer and then reviewed by credit risk management departments of the Head Office and our branches according to their respective authorisation.

In 2014, the Company consistently followed national industrial policies and regulatory policies, improved the efficiency to serve the real economy and strengthened the management of both non-performing loans and non-performing loan ratio in a comprehensive manner, thereby effectively preventing relevant risks. Firstly, the Company strengthened risk control with the asset quality-centric philosophy, improved the risk management and control system, formulated the management and control targets of asset quality and made a clear division of duties in risk management. The Company increased its efforts in prevention and control of the risk of loan extension to key areas, industries, customers and businesses, and promoted the voluntary exit from the risks associated with overcapacity, customers with high risks, customers with small enterprise risks and private guarantee companies. The Company established the three-layered pre-warning mechanism involving the Head Office, branches and sub-branches, so as to enhance its risk pre-warning capabilities and establish a rapid risk response system. Secondly, the Company optimised its credit structure while focusing on the revitalisation of supply of funds. The Company refined its credit approval standards to clarify control, maintenance and development directions for risk management, and set up a virtual industry research center to establish an ongoing systematic research system. In addition, the Company also made dynamic adjustments to its credit policies by monitoring 12 key industries such as coal, iron and steel and making early judgment over their risk status. Thirdly, the Company supported the healthy and sustainable development of its core businesses, namely "one body with two wings", through proactive participation in business innovation. Specifically, the Company specified the risk management policies for supply chain financing, optimised the risk management policies for M&A financing service, constantly strengthened risk management and control over emerging financing businesses, and enhanced the risk management and control over trade financing (including cross-border financing), thereby promoting the sound development of small and micro enterprise businesses and retail credit business. Fourthly, the Company strengthened risk management based on institutional improvement, system construction and team building. Specifically, the Company improved its credit risk management system and authorisation system, formulated and optimised the management system in respect of key risk management areas in a timely manner, and enhanced its authorisation management. Moreover, the Company improved risk management tools and developed access to a centralised overview of customer risks so as to establish the credit risk management system at all levels, and continued to strengthen the building of teams of client managers, risk managers and loan-approving officers. Fifthly, focusing on the handling and accountability of non-performing loans, the Company speeded up the handling of nonperforming assets in various channels, improved accountability management, tightened credit discipline and strengthened risk culture building. During the reporting period, the Company recorded an increase in non-performing loans as adversely affected by economic downturns at home and abroad. However, thanks to the comprehensive countermeasures including the accelerated collection, writing off and transfer of non-performing loans, the asset quality of the Company remained stable.

5.11.2 Country risk management

Country risk represents risk of business loss or other losses suffered by banks due to the changes and incidents occurred in the economy, politics and society in a specific country or region, which result in the borrowers or debtors in that country or region becoming incapable or unwilling to pay off their debts owed to the banks, or the banks in that country or region suffering from commercial or other losses. Country risks may be triggered by conditions such as deterioration in the economy, turbulence in the politics and society of a country or region, assets being nationalized or confiscated, governments refusing to pay their foreign debts, foreign exchange control or currency depreciation, etc.

The Company incorporates country risk management into its overall risk management system, dynamically monitors the change in its country risk in accordance with relevant regulatory requirements, sets limit on its country risk based on the rating results from international rating agencies, and evaluates its country risk and makes provisions on a quarterly basis. As at the end 2014, the assets of the Company exposed to the country risk remained insignificant, which indicated low country risk ratings. Moreover, we have made adequate provision for country risk according to the regulatory requirements. As a result, country risk will not have any material effect on our operations.

5.11.3 Market risk management

Market risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate and which may result in loss to the Company, because of changes in foreign exchange rate, interest rate, commodity price, stock price and other observable market factors. Interest rate and foreign exchange rate are the two major market risk factors relevant to the Company. The Company is exposed to market risk through the financial instruments under the trading book and banking book. The financial instruments under the trading book are held for trading purpose or for the purpose of hedging the risks arising from the trading book position, and these financial instruments are traded in active market. The financial instruments under the banking book are assets and liabilities held by the Company for stable and determinable return, or for the purposes of hedging the risks arising from the banking book position. The financial instruments under the banking book include both the Company's on-balance sheet and off-balance sheet exposures, and have relative stable market value.

1. Interest rate risk

Interest rate risk arises from adverse change in interest rates and maturity profiles which may result in loss to the income and market value of financial instruments and positions held by the Company.

(1) Trading book

The Company has set up its market risk governance framework for trading book, covering interest rate risk, foreign exchange risk and commodity price risk. The Company's market risk governance framework for trading book specifies the duties, division of responsibilities and reporting lines of the Board of Directors, senior management, special committees and bank-related departments in the interest rate risk management of the trading book, ensuring the effectiveness of interest rate risk management of trading book. The market risk management department under the Bank's entire risk management office is responsible for execution of the management of interest rate risk under the trading book.

The Company has established the market risk limit management framework, covering the interest rate risk, foreign exchange rate risk and commodity price risk under the trading book. Within this framework, the highest level indicators, which are also the trading book market risk preference quantitative indicators of the Company, adopt VaR and portfolio stress testing methodologies and are directly linked to the Company's net capital. In addition, according to the product type, trading strategy and characteristics of risk of each sub-portfolio, the highest level indicators are allocated to lower level indicators, and to each front office departments each year. These indicators are implemented, monitored and reported on a daily basis.

In 2014, the Company continued to enhance the trading book market risk management framework based on existing practice. The Company has optimised the procedures, processes and tools for the measurement and monitoring of market risk, and enhanced the application of management tools in management of market risk. In April 2014, the Company was approved by the CBRC to adopt internal model approach to calculate pillar 1 market risk capital charges. The Company became the first joint-stock bank approved by the CBRC to use the internal model approach, which evidenced that the Company's risk management practice was recognized to be consistent with international regulatory requirements. It also forms a solid foundation for the Company to further enhance risk management and improve the risk management capability.

The Company uses quantitative indicators, including exposure indicators, market risk value indicators (VaR, covering various risk factors relating to trading book) interest rate stress testing loss indicators, interest rate sensitivity indicators and accumulative loss indicators (covering various risk factors relating to trading book), to manage the interest rate risk of trading book. The measures for management of interest rate risk include setting the indicators for business authorisation and risk limits, daily monitoring and ongoing reporting. Among which, VaR includes general VaR and stress VaR, which are both calculated using the historical simulation model.

In 2014, through open market operation, targeted RRR cuts, combined operation of various monetary policy tools and interest rates cuts, the central bank adjusted the market liquidity, alleviated the financing pressure of economic entities and guided the downward movement of market interest rate, resulting in the "bull market" in the RMB bonds market and significant decreased the yield curve for all kinds of bonds. The Company conducted a comprehensive research and timely track on macro economy, monetary policy and market situation, and formulated corresponding trading strategy. All risk indicators under the trading book were under good control.

(2) Banking book

The Company has established the governance and management framework for banking book in accordance with the interest rate risk management policy, which specifies the duties, division of responsibilities and reporting lines of the Board of Directors, senior management, special committees, and bank-related departments in the interest rate risk management of the banking book, ensuring the effectiveness of interest rate risk management. The interest rate risk of banking book of the Company is subject to centralised management by the Asset and Liability Management Department.

The Company has primarily adopted scenario simulation analysis, re-pricing gap analysis, duration analysis and stress testing for the measurement and analysis of interest rate risk under the banking book. Through assets and liabilities analysis meetings and reporting framework, the Company analyses the causes of interest rate risk under the banking book, proposes management advices and implements management measures.

In 2014, the Company continued to manage interest rate risk under the banking book in a proactive and forward looking manner. Through adjusting the on-balance sheet structural positions and hedging risks using off-balance derivatives, the Company proactively reduces the fluctuation in the net interest income, and keeps its interest rate risk stable and controllable. In addition to the adoption of active risk management measures, the Company has also commenced the optimisation of the market risk measurement model, improving the accuracy of measurement of interest rate risk management of banking book of the Company and realising a more scientific and forward-looking risk management.

In November 2014, PBOC cut RMB benchmark deposit and lending rate. The one-year benchmark deposit rate was cut by 25 basis points. The one-year benchmark lending rate was cut by 40 basis points. Meanwhile, the upper limits of floating range for deposit rates were expanded to 1.2 times of the benchmarking deposit rate and the maturity brackets of the benchmark rate were simplified. Based on the characteristics of the Company's banking book interest rate risk, the asymmetric cut of benchmark deposit and lending rate has certain negative impacts on the Company's net interest income. However, the negative impacts have been mitigated by the active measures of the Company to manage the interest rate risk. In the future, the Company will continue to enhance the active management of interest rate risk under the banking book, to achieve stable increase in both net interest income and economic value.

2. Exchange rate risk management

Exchange rate risk arises from the holding of assets, liabilities and equity items denominated in foreign currencies, and foreign currencies and foreign currency derivative positions which may expose banks to potential losses in their gross profit in the event of unfavourable exchange rate movement. The Company's functional currency is RMB. The majority of assets and liabilities of the Company are denominated in RMB and the rest mainly in USD and HKD. Under the principle of keeping the formulation, implementation and monitoring functions of exchange rate risk management policies separated, the Company has established its exchange rate risk management governance framework, specifying the roles, duties and reporting lines of the Board of Directors, the Board of Supervisors, the senior management, special committees and bank-related departments in exchange rate risk management. The Company's cautious attitude towards exchange rate risk, meaning in principle the Company does not bear risks voluntarily, is more appropriate for the current development stage of the Company. The current exchange rate risk management policies and systems of the Company are basically in line with relevant regulatory requirements and its own management requirements.

(1) Trading book

The Company has established the market risk (including exchange rate risk) management structure and system of trading book to implement centralised management on exchange rate risk of trading book based on quantitative indicators. The structure, procedure and method of exchange rate risk management of trading book are in line with those of interest risk management of trading book.

The Company uses the quantitative indicators such as risk exposure indicator, market risk value indicator (VaR, including interest rate, exchange rate and commodity risk factors), the loss indicator for exchange rate stress test, exchange rate sensibility indicator and accumulated loss indicator to control exchange rate risk. The measures for management of exchange rate risk include setting the indicators for business authorisation and risk limits, daily monitoring and ongoing reporting.

In 2014, RMB exchange rate saw significant fluctuation. From the beginning of the year to the end of May, the exchange rate of RMB against USD depreciated from RMB6.0 per USD to RMB6.25 per USD and appreciated to about RMB6.1 per USD from June to the end of October of the year due to the central bank intervention. Since December of the year, RMB depreciated again with increased volatility. Throughout the year, among the major currencies of transactions, despite the strong appreciation of USD, GBP, EUR, Japanese yen and Australian dollars have depreciated significantly. Although market volatility had certain impact on the Company's transaction values, the foreign exchange services of its trading book maintained smooth operation and the indicators of its market risk achieved good performance since the Company adopted prudent trading strategies and implemented strict risk management policies.

(2) Banking book

The exchange rate risk management of banking book of the Company is coordinated by the Head Office. The Asset and Liability Management Department under the Head Office as a treasurer of the Company is in charge of exchange rate risk management of banking book. The treasurer is responsible for managing exchange rate risk of banking book on a prudent basis to meet relevant regulatory requirements, and conducting the centralised exchange rate management of banking book through quota management, budget control and other approaches.

The primary exchange rate risk of banking book of the Company comes from the mismatch of its non-RMB denominated assets and liabilities. Through rigorous management of exchange rate risk, the Company has kept the exchange rate risk of its banking book within the acceptable range.

The Company mainly uses foreign exchange exposure analysis, scenario simulation analysis, stress test, and other methods to measure and analyse the exchange rate risk of banking book. The Company regularly measures and analyses changes in its foreign exchange exposure of banking book and monitors and reports exchange rate risk on a monthly basis under its quota limit framework. Based on the trend of exchange rate movements, the Company adjusts its foreign exchange exposure accordingly to mitigate the relevant exchange rate risk of its banking book.

In 2014, the Company further optimised its exchange rate risk assessment system of banking book which provides scientific reference standards for accurately assessing its risk and appropriately making management strategies, clearly specified the procedures for approval and management of risk limits at various levels and further refined its risk management.

5.11.4 Operational risk management

Operational risk refers to the risk of loss arising from inappropriate or faulty internal procedures, incompetent personnel, IT systems, or external events.

During the reporting period, in order to prevent loss arising from systematic operational risk and material operational risk, the Company further implemented the risk monitoring and alert policy, improved risk management mechanism and strengthened prevention and control of risks on key operational risks, namely "operational risks associated with credit business, manual intervention, IT support, outsourcing and staff". As a result, the quality and effectiveness of the operational risk management of the Company were enhanced.

5.11.5 Liquidity risk management

Liquidity risk is the risk that the Company cannot satisfy its customers by repaying deposits that fall due, granting new loans or providing financing, or that the Company cannot satisfy these requirements at a normal cost.

Under the principle of keeping the formulation, implementation and monitoring functions of liquidity risk management policy separated, the Company has established a liquidity risk management governance structure, defined the roles, duties and reporting lines of the Board of Directors, the Board of Supervisors, the senior management, special committees and related departments in liquidity risk management, so as to enhance the effectiveness of liquidity risk management. The Company's cautious attitude towards liquidity risk is more appropriate for the current development stage of the Company. The current liquidity risk management policies and systems of the Company are basically in line with regulatory requirements and its own management requirements.

The Company's liquidity risk management is conducted under a model that requires overall coordination by the Head Office with each of the branches acting in concert. The Asset and Liability Management Department of the Head Office as a treasurer of the Company is in charge of routine liquidity risk management. The treasurer is responsible for managing liquidity on a prudent basis in compliance with relevant regulatory requirements, and conducting centralised liquidity management through quota management, budget and control, active liability as well as internal funds transfer pricing, etc.

The Company measures, monitors and identifies liquidity risk for short-term reserves and duration structure and emergency purpose. It monitors the limit indicators closely at fixed intervals. Stress tests are regularly used to find out whether the Company is able to meet liquidity requirements under extreme circumstances. The Company has put in place liquidity contingency plans and organised regular liquidity contingency drillings to guard against any liquidity crisis.

In the first half of 2014, market liquidity was relatively abundant. Despite negative factors such as seasonal due payment of fiscal deposits and the forthcoming mid-year effect in May, business institutions maintained a relatively optimistic anticipation of stable money supply in the near future owing to the central bank's operation in open market, therefore there was abundant liquidity in the interbank market, and the Company was only exposed to moderate-to-low level of liquidity risk. In the second half of the year, the central bank continued its targeted loosening monetary policy, while maintaining an overall prudent stance. It injected liquidity into the market through adjustment of deposit-to-loan ratio, implementation of deposit deviation management and frequent operations in the open market, so as to lower the interest rates. The market liquidity gradually tightened approaching the end of the year, due to continuing decrease in the percentage of funds outstanding for foreign exchange, concentrated initial public offerings, diversification of fund in the capital market and deposit indicator assessment at the end of the year. The Company has made appropriate liquidity arrangement in advance in order to safeguard the overall steady operation of the Bank.

The Company has adopted various measures to tackle this liquidity risk during the year and ensured sound liquidity of the whole Bank. Firstly, the Company implemented its FTP management and fine-tuning mechanism in a flexible manner so as to secure liquidity for the Company while carrying out business. Secondly, the Company strengthened management of its interbank assets and liabilities and improved mismatch of interbank assets and liabilities, so as to maintain coordinated growth of interbank business. Thirdly, the Company enhanced coordinated and integrated management of its front, middle and back office systems by establishing a sound interaction mechanism, and greatly increased its operation efficiency. Fourthly, the Company proactively strengthened management of active liability operations, and improved the assets and liabilities structure. In 2014, the Company initiated a series of active liability operations, primarily including issuance of negotiated deposits, treasury term deposits, tier-2 capital bonds, offshore RMB-denominated bonds, interbank deposit certificates and other instruments, and secured stable availability of funds for the Company.

5.11.6 Reputational risk management

Reputation risk refers to the risk that the Company might be negatively evaluated by relevant interested parties due to the Company's operations, management and other activities or external incidents.

Reputation risk management is an important part of the corporate governance and the overall risk management system of the Company, covering all activities, operations and businesses undertaken by the Company and its subsidiaries. The Company established and formulated the reputational risk management system and relevant requirements and took initiatives to effectively prevent the reputational risk and respond to any reputation incidents, so as to reduce loss and negative impact to the greatest extent.

During the reporting period, in order to improve its product and service quality, the Company constantly explored advanced management philosophies, developed efficient management tools, further improved systematic reputational risk management system and promoted early management of reputational risk. As a result, the Company enhanced pre-occurrence risk management while consolidating post-occurrence risk treatments, thus effectively protecting the reputation of the Company, and improving its product and service quality through the enhancement of reputational risk management.

5.11.7 Compliance risk management

Compliance risk management is a key risk management activity of the Company. The Board of Directors of the Company is ultimately responsible for the compliance of the operating activities, and delegates the Risk and Capital Management Committee under the Board to supervise the compliance risk management. The Risk and Compliance Management Committee of the Head Office is the supreme governing body under the senior management of the Company to manage the compliance risk of the whole Bank. The Company has established a comprehensive and effective compliance risk management system, improved the three lines of defense for compliance risk management and the double-line reporting mechanism, and achieved effective identification and management of compliance risk by improving the functions of the compliance risk management and enhancing the risk management capability from time to time.

During the reporting period, the Company has developed and implemented a risk-based compliance management plan so as to reinforce the fundamentals of inherent internal control and compliance management, optimised the internal control and compliance management system and improved the policy standards on internal control and compliance management so as to effectively prevent and mitigate internal control and compliance risks. The Company fully utilised its professional advantage to analyse the nature of risks, and got involved into business development in advance to give all-round and strong support and impetus to the business innovation and healthy and steady development of the Company. The Company learned more knowledge about foreign related acts, regulatory policies, laws and regulations so as to provide a full range of quality legal compliance services, and took advantage of its "participation in law amendments" and topic researches to regularly offer compliance training and improve the professional level of internal control and compliance.

5.11.8 Anti-money laundering management

The Company takes anti-money laundering as its social responsibility and legal obligation. It attaches great importance to anti-money laundering through establishing a professional anti-money laundering team, launching a sound anti-money laundering system and procedures, developing or purchasing database of name list and filtering system, as well as a monitoring and reporting system for large transactions and suspicious transactions and customer laundering risk rating system.

In 2014, the Company vigorously took measures to improve the effectiveness of its anti-money laundering work in accordance with the regulatory requirements of the PBOC. Firstly, we have obtained fruitful results after reengineering the anti-money laundering system intensively, as evidenced by improved monitoring quality of anti-money laundering and reduced labor costs; Secondly, in response to the economic sanction risk, we have begun real-time filtering of cross-border businesses using the newly purchased list filtering system, and passed all the suspected money laundering businesses to the anti-money laundering list verification team at the Head Office for centralised treatment; thirdly, we have developed a money laundering risk rating system in respect of online customers, commenced the automatic rating of money laundering risk associated with those customers, and optimised the relevant business process; fourthly, we continued to optimise the systems and standards for monitoring large and suspicious transactions to improve system performance, and constantly adjusted the monitoring methods based on changes in the money laundering risk.

5.12 Profit Appropriation

5.12.1 Proposal of the profit appropriation for the year 2014

As stated in the audited financial statements of the Company for 2014, 10% of the profit after tax of RMB51.877 billion, equivalent to RMB5.188 billion, was transferred to the statutory surplus reserve, while 1.5% of the total amount of the increased risk assets in this reporting period, namely RMB7.446 billion was appropriated to the general reserve.

Based on the total share capital of A Shares and H Shares on the record date for implementation of the profit appropriation, the Company proposed to declare a cash dividend (tax included) of RMB6.70 for every 10 shares to all shareholders of the Company, payable in RMB for holders of A Shares and in HKD for holders of H Shares. The actual appropriation amount in HKD will be calculated based on the average RMB/HKD benchmark rates to be released by the PBOC for the week before the date of the general meeting (inclusive of the day of the general meeting). The retained profit will be carried forward to the next year. In 2014, the Company did not transfer any capital reserve into share capital. The above proposal of profit appropriation is subject to consideration and approval at the 2014 Annual General Meeting of the Company.

5.12.2 Profit appropriation for the previous three years:

Year	Number of bonus shares for every ten shares held (No. of shares)	Cash dividend for every ten shares held (RMB, inclusive of tax)	Number of shares issued on capitalisation of surplus reserve for every ten shares held (No. of shares)	Total cash dividends (inclusive of tax, in millions of RMB)	Net profit attributable to shareholders in the consolidated financial statements for the year (in millions of RMB)	Proportion of cash bonus to net profit attributable to shareholders in the consolidated financial statements (%)
2012	–	6.30	–	13,593	45,268	30.03
2013	–	6.20	–	15,636	51,743	30.22
2014[note]	–	6.70	–	16,897	55,911	30.22

Note: The proposal of profit appropriation for 2014 is subject to consideration and approval at the 2014 Annual General Meeting of the Company.

5.12.3 The formulation and implementation of the Company's cash dividend policies

1. As specified in the Articles of Association (revised in 2014), the profit appropriation policies of the Company are:

   (1) profit appropriation of the Company shall focus on reasonable returns on investment of the investors, and such policies shall maintain continuity and stability;

   (2) the Company may distribute dividends in cash, shares or a combination of cash and shares, and it shall distribute dividends mainly in cash. Subject to compliance with prevailing laws, regulations and the requirements of relevant regulatory authority on the capital adequacy ratio, as well as the requirements of general working capital, business development and the need for substantial investment, merger and acquisition plans of the Company, the cash dividends to be distributed by the Company each year in principle shall not be less than 30% of the net profit after taxation audited in accordance with PRC accounting standards for that year. The Company may pay interim cash dividend. Unless another resolution is passed at the shareholders' general meeting, the Board of Directors shall be authorized at the shareholders' general meeting to approve the interim profit appropriation policy;

   (3) if the Company generated profits in the previous accounting year but the Board of Directors did not make any cash profit appropriation proposal after the end of the previous accounting year, the Company shall state the reasons for not distributing the profit and the usage of the profit retained in the periodic report and the independent directors shall give an independent opinion in such regard;

   (4) if the Board of Directors opines that the price of the shares of the Company does not match the size of share capital of the Company or where the Board of Directors considers necessary, the Board of Directors may propose a dividend appropriation plan and implement the same upon consideration and approval at a general meeting provided that the abovementioned cash profit appropriation requirements are satisfied;

   (5) the Company shall pay cash dividends and other amounts to holders of domestic shares and such sums shall be calculated, declared and paid in Renminbi. The Company shall pay cash dividends and other amounts to holders of H Shares and such sums shall be calculated and declared in Renminbi and paid in Hong Kong dollars. The foreign currencies required by the Company for payment of cash dividends and other sums to shareholders of overseas listed foreign shares shall be handled according to the relevant provisions on foreign exchange administration of the State;

   (6) where appropriation of the Company's fund by a shareholder, which is in violation of relevant rules, has been identified, the Company shall make deduction against the cash dividend to be paid to such shareholder, and such amount shall be used as the reimbursement of the funds appropriated;

   (7) the Company shall disclose the implementation progress of the cash dividend policy and other relevant matters in its periodic reports in accordance with the applicable requirements.

2. During the reporting period, the profit appropriation plan of the Company for 2013 was implemented in strict accordance with the relevant provisions of the Articles of Association. It was considered and approved by the 14th meeting of the Ninth Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2013 Annual General Meeting. The criteria and proportion of cash dividend were clear and specific, and the Board of Directors of the Company has implemented the profit appropriation plan. The profit appropriation plan of the Company for 2014 will also be implemented in strict accordance with the relevant provisions of the Articles of Association. It will be considered and approved by the 30th meeting of the Ninth Session of the Board of Directors of the Company, and submitted for consideration and approval at the 2014 Annual General Meeting. The independent directors of the Company have expressed their independent opinions on the profit appropriation plans for 2013 and 2014 that the profit appropriation plans of the Company and their implementation process have provided adequate protection for the legitimate rights and interests of minority investors.

5.13 Social Responsibility

Sticking to the principle of "Gain from society and contribute to society", the Company is always active in fulfilling its social responsibilities on poverty alleviation, green loans, charity activities and support of SMEs. The total amount of the charitable donations and other donations contributed by the Company and its employees for the reporting period was RMB41.75 million, representing a social contribution value of RMB8.88 per share at the end of the period. For details of the Company's fulfilment of its social responsibilities, please refer to the "Corporate Social Responsibility Report of China Merchants Bank Co., Ltd. in 2014".

5.14 Outlook and Measures

Looking into 2015, the economic and financial situations at home and abroad will remain complicated and volatile.

Internationally, the global economy will remain on its profound re-balancing journey; the growth, development, economic and monetary policies of major economies will vary significantly from nation to nation. In particular, US Fed's QE tapering and the implementation of quantitative easing policy by the Eurozone will probably result in significant volaticity in the international financial market and the liquidity of cross-border capital flows.

Domestically, in the state of "new normal" of domestic economy, economic downturn resulted from structural adjustments and economic transformation as well as the concentrated exposure of financial risk will further complicate the business operation of banks. Meanwhile, anticipated interest rate cuts, interest rate liberalisation and financial disintermediation will put additional pressure on profit growth of banks. In addition, competition among banking and non-banking peers represented by internet finance companies and private banks is set to become more fierce.

The complicated business environment will bring about more grim challenges to the Company. For example, **on the front of the sources of liabilities**, we will feel greater pressure and the cost of capital may increase further due to the rapid development of interest rate liberalisation and financial disintermediation, crossover competition from internet finance companies and stricter regulatory measures. **On the front of assets utilisation**, with the availability of diversified financing channels and more volatile market interest rate, we will feel greater pressure in expanding target customer groups and quality asset projects, enhancing asset optimisation and allocation as well as differentiated pricing. **On the front of risk management and control**, banks' capability in risk management and control will face tough challenges due to prolonged effect of risks associated with overcapacity, small and micro enterprises, private conglomerates, bulk commodity wholesale industry based on trade finance, and regional clusters formed by interconnections and cross-guarantees. **On the front of earnings growth**, given the economic slowdown, the accelerated interest rate liberalisation, changes in the method and standard of calculating interest risk capital of bank account, and stricter regulatory policies, we will face greater pressure in achieving sustainable and stable earnings growth.

In the meantime, however, the Company also saw a number of good development opportunities. For example, the further implementation of reform on governmental functions and tax system will effectively promote the transformation and upgrading of domestic economy and the development and progression of our society, which in turn will create room for new developments of banks. The further implementation of various national strategies, such as RMB globalisation, "one belt one road" and "free trade zones" will bring new opportunities for business development of commercial banks. Rapid accumulation of social wealth and profound changes in residential investments and consumption behaviours will create broad room for development of private banking, wealth management and consumption finance of banks. Accelerated development of a multi-level financial market and further promotion of asset securitisation will push forward the cross-market development of asset management in various fields. Information communication, internet applications and other emerging technologies will inevitably encourage banks to offer more quality services through platform construction, data exploitation and liquidity operation.

Facing the challenges and opportunities in the new situation, the Company will, in adherence to its philosophy of "achieving sound development and accelerating transformation" and being customer-centric and market-oriented, devote to increasing asset quality and expediting the transformation towards "asset-light banking". In view of the current operation environment, in 2015, the Company plans to achieve a growth rate of about 13% in proprietary loans, and a growth rate of about 12% in proprietary deposits. Meanwhile, the Company will further strengthen the management of risk assets, moderately reduce the growth rate of assets associated with risks, put more attention on the quality and structural optimisation of assets, and emphasize the balance between exploring potentials in stock volume and breeding organic growth. The Company intends to take the following approaches in 2015: **firstly**, the Company will adhere to the business philosophy of "assets utilisation determines liabilities expansion", and approach from expanding sources of quality assets, operating major categories of assets in a foresighted manner, increasing asset turnover rate and deepening customer operation, so as to enhance the capabilities of asset organisation and operation in a comprehensive manner; **secondly**, the Company will enhance asset quality management, establish and improve effective policies and methods to deal with non-performing assets, so as to enhance its professional capability in risk management; **thirdly**, the Company will further promote system reform in branches, base on the adjustment in organisational structure of the first batch of branches, be customer-centric and focus on key businesses, core customer groups and business department in accordance with the requirement of the strategic positioning of "one body with two wings", so as to be devoted to enhancing the professional operating and management capabilities of branches; **fourthly**, the Company will enhance its capabilities in fine and professional management, raise the awareness of effective management, effectively enhance fee management, optimise resources allocation, so as to enhance utilisation efficiency of resources; and **finally**, the Company will expedite its reform in human resources, rebuild the mechanism of "six capabilities", optimise remuneration and welfare system, improve liberated talent mobility, and cultivate a corporate culture with positive spirits, so as to fully motivate the initiative and creativity of staff throughout the Bank.

By Order of the Board of Directors
Li Jianhong
Chairman of the Board of Directors
18 March 2015

Important Events

6.1 Principal business activities

The Company is engaged in banking and related financial services.

6.2 Financial highlights

Details are set out in Chapter II Summary of Accounting Data and Financial Indicators of this annual report.

6.3 Reserve

For details of changes in the Company's reserves, please refer to its Statement of Changes in Equity.

6.4 Fixed assets

Changes in fixed assets as at 31 December 2014 of the Company are set out in Note 25 to the financial statements in this annual report.

6.5 Purchase, sale or repurchase of listed securities of the Company

Neither the Company nor its subsidiaries had purchased, sold or repurchased any of the Company's listed securities during the reporting period.

6.6 Pre-emptive rights

There is no provision for pre-emptive rights under the Articles of Association of the Company and the shareholders of the Company have not been granted any pre-emptive rights.

6.7 Retirement and welfare

Details about retirement and welfare provided by the Company to its employees are set out in Note 37 to the financial statements in this annual report.

6.8 Principal customers

As at the end of the reporting period, the operating income of the top 5 customers of the Company did not exceed 30% of the total operating income of the Company. The directors of the Company and their associates did not have any interests in the aforesaid top 5 customers.

6.9 Use of raised funds and major investments not financed by the raised funds

Use of raised funds

Please refer to the section headed "Issuance of bonds" in Chapter VII for details.

Major investments not financed by the raised funds

In 2013, the Company entered into a purchase agreement with Financial Street Holdings Co., Ltd., to purchase an office complex to be constructed. On 25 December 2014, the two parties entered into a supplemental agreement to the purchase agreement, pursuant to which the agreed provisional consideration was adjusted to RMB3.729 billion and some amendments were made to certain provisions. For further details of such agreements, please refer to the Company's announcements dated 26 June 2013 and 29 December 2014 on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

As of 31 December 2014, the Company has paid a total of RMB3.1216 billion. Currently, the office complex has passed the inspection and acceptance on its completed construction work.

6.10 Interests and short positions of directors, supervisors and chief executives under Hong Kong laws and regulations

As at 31 December 2014, the interests and short positions of the directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the SFO), which have been notified to the Company and Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the directors, supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of shares	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued shares (%)
Jin Qingjun	Supervisor	A Share	Long position	Beneficial Owner	65,800	0.00032	0.00026

6.11 Directors' interests in competing business

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

6.12 Financial, business and kinship relations among directors, supervisors and senior management

Save as disclosed herein, the Company is not aware that the directors, supervisors and senior management of the Company have any relations between each other with respect to financial, business, kinship or other material or connected relations.

6.13 Contractual rights and service contracts of directors and supervisors

During the reporting period, the directors and supervisors of the Company have no material interests in contracts of significance to which the Company or any of its subsidiaries was a party. None of the directors and supervisors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (excluding statutory compensation).

6.14 Disciplinary actions imposed on the Company, directors, supervisors and senior management and the shareholders holding more than 5% of our shares

So far as the Company is aware, during the reporting period, none of the Company, its directors, supervisors or senior management or the shareholders holding more than 5% of our shares was subject to investigation by relevant authorities or subject to mandatory measures imposed by judicial organs or discipline inspection authorities. None of them was referred or handed over to judicial authorities or being prosecuted for criminal liability, under investigation or administrative sanction by the CSRC, nor being prohibited from engagement in the securities markets, given notice of criticism, nor determined as unqualified, nor been publicly censured by any stock exchange. Neither the Company nor the shareholders holding more than 5% of the shares of the Company has been penalised by other regulatory bodies which have significant impact on the businesses of the Company.

6.15 Undertakings made by the Company and shareholders holding more than 5% of our shares

In the course of the rights issue of A shares in 2013, China Merchants Group Ltd., China Merchants Steam Navigation Co. Ltd. and China Ocean Shipping (Group) Company had individually undertaken that, they would not seek for related party transactions on terms more favourable than those given to other shareholders; they would repay the principal and interest of the loans granted by the Company on time; they would not interfere with the daily operations of the Company. Should they participate in the subscription of the rights shares, they would neither transfer nor entrust others to manage the allocated shares within five years from the delivery of such shares, nor would they seek for a repurchase by the Company of the allocated shares held by them. Upon expiration of the lock-up period of the allocated shares, they would not transfer their allocated shares until they obtain approval from the regulatory authorities on the share transfer and the shareholder qualification of transferees; and upon obtaining the approval from the Board of Directors and shareholders' general meeting of the Company, they would continue to support the reasonable capital demand of the Company; they would not impose unreasonable performance indicators on the Company. In the course of the rights issue of H shares, CM Group had also made a number of undertakings to the Company and joint global coordinators and has performed such undertakings during the reporting period. For details of the aforesaid undertakings, please refer to the A Share Rights Issue prospectus dated 22 August 2013 and the H Share Rights Issue prospectus dated 5 September 2013 on the website of the Company (www.cmbchina.com). As far as the Company is aware, as at the date of the report, the above shareholders did not violate the aforesaid undertakings.

6.16 Significant connected transactions

6.16.1 Overview of connected transactions

All the connected transactions of the Company have been conducted on normal commercial terms which are fair and reasonable and are in the interests of the Company and its shareholders as a whole. Pursuant to Chapter 14A of the Hong Kong Listing Rules, the transactions between the Company and CM Group and its subsidiaries and associates set out below constituted non-exempt continuing connected transactions, and the requirements of non-exempt continuing connected transactions set by the Hong Kong Stock Exchange were complied with by the Company.

6.16.2 Non-exempt continuing connected transactions

Pursuant to Chapter 14A of the Hong Kong Listing Rules, the non-exempt continuing connected transactions of the Company were those conducted by the Company with CMFM and CM Securities, respectively.

On 28 December 2011, with the approval of the Board of Directors, the Company announced the continuing connected transactions by the Company with CMFM and CM Securities respectively. The Company approved the annual cap for the continuing connected transactions for each of the years of 2012, 2013 and 2014 to be RMB500 million (in case of CMFM) and RMB300 million (in case of CM Securities) respectively. On 26 August 2014, with the approval of the Board of Directors, the Company revised the annual cap of the continuing connected transactions with CMFM for the year of 2014 to RMB1.537 billion, and set the annual cap of such transactions for each of 2015 and 2016 at RMB3.0 billion. Further details were disclosed in the announcement on continuing connected transactions issued by the Company on 28 December 2011 and 26 August 2014, respectively.

CMFM

The fund distribution agency services between the Company and CMFM constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

The Company and CM Securities held 55% and 45% of the equity interest in CMFM respectively. CMFM is a connected subsidiary of the Company under the Hong Kong Listing Rules.

The Company entered into a service co-operation agreement with CMFM on 28 December 2011 for a term commencing on 1 January 2012 and expiring on 31 December 2014. To continue with such transactions, the Company entered into another agreement with CMFM on 26 August 2014 for a term commencing on 1 January 2015 and expiring on 31 December 2016. Such agreements were all entered into on normal commercial terms. The service fees payable to the Company by CMFM pursuant to the service co-operation agreements will be calculated on an arm's length basis and normal commercial terms, and in terms as specified in the funds offering documents and/or the offering prospectuses. The service fees for sale of investment funds shall be paid at rate(s) prescribed by CMFM or at rate(s) no less favourable than those CMFM paid to other independent third parties in the ordinary and usual course of business.

The annual cap of the continuing connected transactions between the Company and CMFM for 2014 was RMB1.537 billion which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would only be subject to the reporting, announcement and annual review requirements pursuant to the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2014, the amount of continuing connected transactions between the Company and CMFM was RMB875.60 million.

CM Securities

The third-party custodian account, the wealth management agency services and collective investment products between the Company and CM Securities constituted continuing connected transactions of the Company under the Hong Kong Listing Rules.

China Merchants Steam Navigation Company Ltd., a wholly owned subsidiary of CM Group, is a substantial shareholder of the Company. CM Group currently holds 20.00% of indirect equity interest in the Company (including those interest deemed to be held through affiliated companies). As CM Group also holds 50.86% equity interest in CM Securities, pursuant to the Hong Kong Listing Rules, CM Securities is an associate of the connected person of the Company and therefore a connected person of the Company.

The Company entered into a service co-operation agreement with CM Securities on 28 December 2011 for a term commencing on 1 January 2012 and expiring on 31 December 2014. The agreement was entered into on normal commercial terms. The service fees payable by CM Securities to the Company should be determined in accordance with the following pricing policies:

(1) where there are State prescribed prices, to follow these prices; or

(2) where there are no State prescribed prices but there are applicable State guided prices, to follow the State guided prices; or

(3) where there are no State prescribed prices or State guided prices, to follow the market fee rates for ordinary business transactions agreed between the parties on arm's length negotiations.

The annual cap for continuing connected transactions between the Company and CM Securities for 2014 was set at RMB300 million which was less than 5% of the relevant percentage ratio calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules. Therefore, these transactions would be subject only to the reporting, announcement and annual review requirements pursuant to the Hong Kong Listing Rules, and exempt from the independent shareholders' approval requirement.

As at 31 December 2014, the amount of continuing connected transactions between the Company and CM Securities was RMB109.63 million.

The independent non-executive directors of the Company had reviewed the above-mentioned non-exempt continuing connected transactions between the Company and each of CMFM and CM Securities, respectively, and confirmed that:

(1) the transactions were conducted in the ordinary and usual course of business of the Company;

(2) the terms related to the transactions were fair and reasonable and in the interest of the Company and its shareholders as a whole;

(3) the transactions were entered into on normal commercial terms which were no more favourable than those to or from independent third parties; and

(4) the transactions were conducted in accordance with the terms of relevant agreements.

Furthermore, the Company has engaged KPMG Certified Public Accountants to review the continuing connected transactions of the Group in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Board confirmed that KPMG Certified Public Accountants have issued their unqualified letter containing their findings and conclusions in respect of the aforesaid transactions in accordance with Rule 14A.56 of the Hong Kong Listing Rules. A copy of the letter has been provided by the Company to SEHK.

6.16.3 Material connected party transactions

The Company's material connected party transactions are set out in Note 55 to the financial statements. These transactions entered into with related parties were in the ordinary course of its business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. These transactions were entered into by the Company on normal commercial terms in the ordinary and usual course of business, and those which constituted connected transactions under the Hong Kong Listing Rules were disclosed above and in compliance with the applicable requirements of the Hong Kong Listing Rules.

6.17 Material litigations and arbitrations

So far as the Company is aware, as at 31 December 2014, the Company was involved in the following litigation cases in the course of business: the number of pending litigation and arbitration cases in which the Company was involved totalled 8,393 with a total amount of principal and interest of approximately RMB22,830,147,300. Of which, there were a total of 128 pending litigation and arbitration cases against the Company as at 31 December 2014, with a total amount of approximately RMB791,791,800. There were 9 pending cases with a principal amount exceeding RMB100,000,000, involving a total amount of approximately RMB3,330,616,300. None of the above litigation and arbitration cases would have a significant adverse impact on the financial position or operating results of the Company.

6.18 Material contracts and their performance

Significant events in respect of holding in custody, contracting, hiring or leasing of assets

During the reporting period, none of the material contracts of the Company involving holding in custody, contracting or hiring or leasing of any assets of other companies by the Company or vice versa was entered into beyond the normal business scope of the Bank.

Significant entrustments in respect of fund and asset management

During the reporting period, there was no significant entrustment in respect of fund and asset management.

Significant guarantees

Guarantee business falls within the Company's ordinary course of business. During the reporting period, save for the financial guarantees entered into in our normal business scope approved by the PBOC and the CBRC, there was no other significant discloseable guarantee.

China Merchants Bank Co., Ltd.
Explanatory notes and independent opinions of the independent non-executive directors towards the Company's guarantees

In accordance with CSRC Approval [2003] No.56 of China Securities Regulatory Commission and the relevant provisions of Shanghai Stock Exchange, the independent non-executive directors of China Merchants Bank Co., Ltd. carried out a due diligence review of the Company's guarantees for 2014 on an open, fair and objective basis, and their opinions are as follows:

After review, it was ascertained that the guarantee business of China Merchants Bank Co., Ltd. was approved by the PBOC and the CBRC, and it is carried out in the ordinary course of business of banks as a conventional business. As at 31 December 2014, the balance of the Company's guarantee business was RMB248.650 billion, accounting for 80.08% of the Company's net assets.

The Company emphasises risk management of the guarantee business. It has formulated specific management measures and operation workflow according to the risk characteristics of this business. In addition, the Company has enhanced risk monitoring and safeguarded this business through management means such as on-site and offsite checks. During the reporting period, the Company's guarantee business was in normal operation and there were no non-compliant guarantees.

6.19 Significant event in respect of fund entrusting

During the reporting period, there was no event in respect of fund entrusting beyond our normal business.

6.20 Implementation of the H-Share appreciation rights incentive scheme during the reporting period

For details about the implementation of the Company's H-Share Appreciation Rights Incentive Scheme, please refer to Chapter VIII.

6.21 Use of funds by related persons

During the reporting period, neither the substantial shareholders of the Company nor their related persons had used any funds of the Company for non-operating purposes, and none of them had used the funds of the Company through any related party transactions on anything other than an arm's length basis. KPMG Huazhen Certified Public Accountants, being the auditor of the Company, has issued a special audit opinion in this regard.

6.22 Appointment of accounting firm

According to the resolutions passed at the 2013 Annual General Meeting, the Company appointed KPMG Huazhen Certified Public Accountants as the auditor for domestic business for the year 2014 and KPMG Certified Public Accountants as the auditor for overseas business for the year 2014. Those two Certified Public Accountants have been engaged as auditors of the Company since 2002.

The financial statements of the Group for the year 2014 prepared under the PRC Generally Accepted Accounting Principles and the internal control of the Group as at the year end of 2014 were audited by KPMG Huazhen Certified Public Accountants, and the financial statements for the year 2014 prepared under International Financial Reporting Standards were audited by KPMG Certified Public Accountants. The total audit fees amounted to approximately RMB16.85 million (including fees for the audit on the financial statements of our overseas branches and subsidiaries), among which the audit expenses for internal control was approximately RMB1.65 million. The auditor's responsibility statements made by KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants about their responsibilities on the financial statements are set out in the Auditors' Reports in the Annual Reports of the Company's A Shares and H Shares, respectively. Apart from the audit services, the non-audit service fee for the year paid by the Group to KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants was approximately RMB12.12 million.

6.23 Changes in accounting policies

For details of changes in the accounting policies, please refer to note 2 to the financial statements for the year.

6.24 Review of annual results

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants, our external auditors, have audited the financial statements of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively, and each has issued an unqualified audit report respectively. The Audit Committee of the Company has reviewed the financial results and financial statements of the Company for the year ended 31 December 2014.

6.25 Annual general meeting

For the convening of its 2014 Annual General Meeting, the Company will make further announcement.

6.26 Publication of annual report

The Company prepared the annual report in both English and Chinese versions in accordance with the International Financial Reporting Standards and the Hong Kong Listing Rules. These reports are available on the websites of Hong Kong Stock Exchange and the Company. In the event of any discrepancies in interpretation between the English and Chinese versions, the Chinese version shall prevail.

The Company also prepared the annual report in Chinese version in accordance with the PRC Generally Accepted Accounting Principles and the preparation rules for annual reports, which is available on the websites of Shanghai Stock Exchange and the Company.

Changes in Shares and Information on Shareholders

7.1 Changes in shares of the Company during the reporting period

		31 December 2013		Changes in the reporting period	31 December 2014	
		Quantity (share)	Percentage (%)	Quantity (share)	Quantity (share)	Percentage (%)
I.	Shares subject to trading moratorium	–	–	–	–	–
II.	Shares not subject to trading moratorium	25,219,845,601	100.00	–	25,219,845,601	100.00
	1. Ordinary shares in RMB (A Shares)	20,628,944,429	81.80	–	20,628,944,429	81.80
	2. Foreign shares listed domestically	–	–	–	–	–
	3. Foreign shares listed overseas (H Shares)	4,590,901,172	18.20	–	4,590,901,172	18.20
	4. Others	–	–	–	–	–
III.	Total shares	25,219,845,601	100.00	–	25,219,845,601	100.00

As at the end of the reporting period, the Company had a total of 442,825 shareholders, including 41,289 holders of H Shares and 401,536 holders of A Shares. No share is subject to trading moratorium.

As at the close of the fifth trading day (namely 12 March 2015) preceding the date for disclosure of the annual report, the Company had a total of 477,136 shareholders, including 40,827 holders of H Shares and 436,309 holders of A Shares, and all the shares are not subject to trading moratorium.

Based on the publicly available information and so far as the Company's directors were aware, as at 31 December 2014, the Company had met the public float requirement of the Hong Kong Listing Rules.

7.2 Top ten shareholders and top ten shareholders whose shareholdings are not subject to trading moratorium

Serial No.	Name of shareholder	Type of shareholder	Shares held at the end of the period (share)	Percentage of total share capital (%)	Type of shares	Changes in the reporting period (share)	Number of shares subject to trading moratorium (share)	Shares pledged or frozen (share)
1	HKSCC Nominees Ltd.(1)	/	4,533,108,257	17.97	H shares	869,429	–	–
2	China Merchants Steam Navigation Company Ltd.	State-owned legal person	3,162,424,323	12.54	A Shares not subject to trading moratorium	–	–	–
3	Anbang Property & Casualty Insurance Company Ltd. – traditional products	Domestic legal person	2,704,596,216	10.72	A Shares not subject to trading moratorium	1,260,220,029	–	–
4	China Ocean Shipping (Group) Company	State-owned legal person	1,574,729,111	6.24	A Shares not subject to trading moratorium	–	–	–
5	Shenzhen Yan Qing Investment and Development Company Ltd.	State-owned legal person	747,589,686	2.96	A Shares not subject to trading moratorium	–	–	–
6	Shenzhen Chu Yuan Investment and Development Company Ltd.	State- owned legal person	653,135,659	2.59	A Shares not subject to trading moratorium	–	–	–
7	Guangzhou Maritime Transport (Group) Company Ltd.	State- owned legal person	668,649,167 (note 2)	2.65	A Shares not subject to trading moratorium	–	–	–
8	China Communications Construction Company Ltd.	State- owned legal person	450,164,945	1.78	A Shares not subject to trading moratorium	–	–	–
9	SAIC Motor Corporation Limited	Domestic legal person	432,125,895	1.71	A Shares not subject to trading moratorium	–	–	–
10	Hebei Port Group Co., LTD	State-owned legal person	303,444,697	1.20	A Shares not subject to trading moratorium	–	–	–

Notes:

(1) Shares held by HKSCC Nominees Ltd. are the total shares in the accounts of holders of H Shares of the Company trading on the transaction platform of HKSCC Nominees Ltd.

(2) As at the end of the reporting period, the number of shares held by Guangzhou Maritime Transport (Group) Co., Ltd. in the Company is 668,649,167, among which 56,757,000 shares were lent to China Securities Finance Corporation Limited.

(3) Of the aforesaid top 10 shareholders, China Merchants Steam Navigation Company Ltd., Shenzhen Yan Qing Investment and Development Company Ltd. and Shenzhen Chu Yuan Investment and Development Company Ltd. are subsidiaries of China Merchants Group Ltd. The Company is not aware of any affiliated relationships among other shareholders. As at 31 December 2014, China Merchants Group Ltd. indirectly held an aggregate of 20.00% of the total issued shares of the Company, consisting of 19.38% of the A shares of the Company and 0.62% of the H shares of the Company, respectively.

(4) The above shareholders do not hold the shares of the Company through securities accounts.

7.3 Substantial shareholders' and other persons' interests and short positions in shares and underlying shares under Hong Kong laws and regulations

As at 31 December 2014, as far as the Company is aware, the following persons (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all issued shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	4,887,794,287	1	23.69	19.38
	H	Long	Interest of controlled corporation	156,178,923	1	3.40	0.62
China Merchants Steam Navigation Company Ltd.	A	Long	Beneficial owner	3,162,424,323			
		Long	Interest of controlled corporation	58,147,140	1		
				3,220,571,463		15.61	12.77
	H	Long	Interest of controlled corporation	156,178,923	1	3.40	0.62
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Beneficial owner	266,497,479			
		Long	Interest of controlled corporation	1,400,725,345	1		
				1,667,222,824		8.08	6.61
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	747,589,686			
		Long	Interest of controlled corporation	653,135,659	1		
				1,400,725,345		6.79	5.55
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	1,574,729,111		7.63	6.24
Anbang Property & Casualty Insurance Company Ltd. – traditional products	A	Long	Beneficial owner	2,704,596,216		13.11	10.72
JPMorgan Chase & Co.	H	Long	Beneficial owner	59,568,310			
		Long	Investment manager	149,910,816			
		Long	Custodian	159,706,545			
				369,185,671	2	8.04	1.46
		Short	Beneficial owner	292,000	2	0.006	0.001
BlackRock, Inc	H	Long	Interest of controlled corporation	326,251,175	3	7.11	1.29
Templeton Asset Management Ltd.	H	Long	Investment manager	273,706,314		5.96	1.09

Notes:

(1) China Merchants Group Ltd. was deemed to hold interests in a total of 4,887,794,287 A shares (Long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:

(1.1) China Merchants Steam Navigation Company Ltd. held 3,162,424,323 A shares (Long position) in the Company. China Merchants Steam Navigation Company Ltd. was a wholly-owned subsidiary of China Merchants Group Ltd..

(1.2) China Merchants Finance Investment Holdings Co. Ltd. held 266,497,479 A shares (Long position) in the Company. China Merchants Finance Investment Holdings Co. Ltd. was owned as to 90% and 10% by China Merchants Group Ltd. and China Merchants Steam Navigation Company Ltd., referred to in (1.1) above, respectively.

(1.3) Shenzhen Yan Qing Investment and Development Company Ltd. held 747,589,686 A shares (Long position) in the Company. Shenzhen Yan Qing Investment and Development Company Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and China Merchants Group Ltd. respectively.

(1.4) Shenzhen Chu Yuan Investment and Development Company Ltd. held 653,135,659 A shares (Long position) in the Company. Shenzhen Chu Yuan Investment and Development Company Ltd. was owned as to 50% by each of China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and Shenzhen Yan Qing Investment and Development Company Ltd., referred to in (1.3) above, respectively.

(1.5) Bestwinner Investment Limited held 58,147,140 A shares (Long position) and 156,178,923 H shares (Long position) in the Company. Bestwinner Investment Limited was an indirect wholly-owned subsidiary of China Merchants Group Ltd. (10.55% interests were directly owned by China Merchants Group Ltd. whereas 89.45% interests were indirectly owned by China Merchants Steam Navigation Company Ltd., referred to in (1.1) above, through its subsidiaries).

(2) JPMorgan Chase & Co. was deemed to hold interests in a total of 369,185,671 H shares (Long position) and 292,000 H shares (Short position) in the Company by virtue of its control over a number of its indirect or direct wholly-owned subsidiaries.

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 159,706,545 H shares. Besides, 11,089,710 H shares (Long position) and 292,000 H shares (Short position) were held through derivatives as follows:

1,341,710 H shares (Long position) and 282,000 H shares (Short position)	–	through physically settled derivatives (on exchange)
10,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
9,748,000 H shares (Long position)	–	through cash settled derivatives (off exchange)

(3) BlackRock, Inc. had a long position in 326,251,175 H shares (in which 1,468,000 H shares were held through cash settled derivatives (off exchange)) of the Company by virtue of its control over a number of direct wholly-owned subsidiaries.

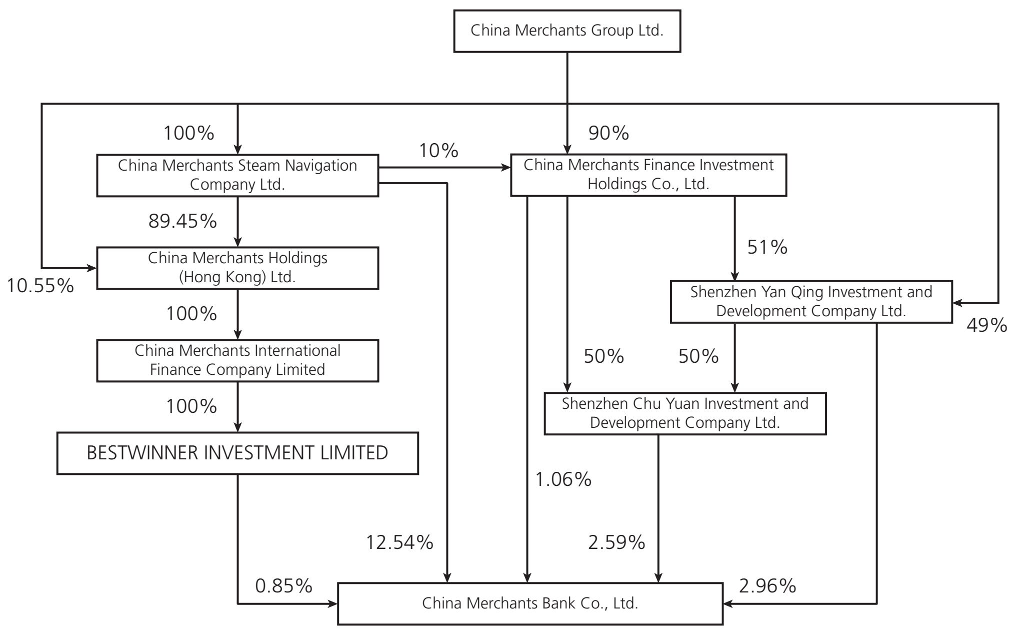
Save as disclosed above, the Company is not aware of any other person (other than the directors, supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at 31 December 2014 as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

7.4 Information on the Company's largest shareholder and its parent company

(1) China Merchants Steam Navigation Company Ltd., the largest shareholder of the Company, was founded on 22 February 1992 in Beijing with a registered capital of RMB5.9 billion (organisation code: 10001145-2). Its legal representative is Mr. Li Jianhong. It is a wholly owned subsidiary of China Merchants Group Ltd. The said company is mainly engaged in passenger and cargo shipping businesses; dockyard, warehouse and vehicle transportation; sale, purchase and supply of various transportation equipments, spare parts and materials; ship and passenger/goods shipping agency, international maritime cargo, etc; as well as investment and management of transportation-related financial businesses including banking, securities and insurance.

(2) China Merchants Group Ltd. directly holds 100% equity interest in China Merchants Steam Navigation Company Ltd. and is the parent company of the Company's largest shareholder. Its legal representative is Mr. Li Jianhong. China Merchants Group Ltd. is one of the state-owned backbone enterprises under the direct control of State-owned Assets Supervision and Administration Commission of the State Council. Its predecessor, China Merchants Steam Navigation Company, was incorporated in 1872, when China was in its late Qing Dynasty and was undergoing the Westernisation Movement, and was one of the enterprises which played a significant role in promoting the modernisation of China's national industries and commerce at that time. Nowadays, it has developed into a conglomerate, specialising in transportation infrastructure, industrial zone development, port, finance, property and logistics businesses, etc.

The Company has no controlling shareholder or de facto controlling party. The equity relationship between the Company and its largest shareholder is illustrated as follows:



Note: As at 31 December 2014, China Merchants Group Ltd. indirectly held an aggregate of 20.00% of the total shares of the Company, consisting of 19.38% of A Shares and 0.62% of H Shares of the Company.

7.5 Information on shareholders holding more than 10% shares of the Company

As at the end of the reporting period, Anbang Property & Casualty Insurance Company Ltd. held 10.72% of the Company's shares through the securities account for "Anbang Property & Casualty Insurance Company Ltd. – traditional products". As at the end of the reporting period, Anbang Property & Casualty Insurance Company Ltd. was founded on 31 December 2011 with a registered capital of RMB19.0 billion (organisation code: 59963808-5). Its legal representative is Zhang Feng. Anbang Property & Casualty Insurance Company Ltd. is held as to 95.26% by Anbang Insurance Group Co., Ltd.. The business scope of Anbang Property & Casualty Insurance Company Ltd. includes: property damage insurance; liability insurance; credit insurance and guarantee insurance; short-term health insurance and accident insurance; reinsurance of the aforesaid businesses; the investment of insurance premiums as permitted under the national laws and regulations; other businesses as approved by China Insurance Regulatory Commission.

7.6 Share issuance and listing

2013 rights issue

On 19 July 2013, the Bank received from the CSRC the "Reply Regarding the Approval of China Merchants Bank Co., Ltd.'s Rights Issue" (CSRC Approval [2013] No. 950), approving the Bank to issue new shares to holders of A Shares. As at the last day (3 September 2013) for subscription and payment under the rights issue, a total of 2,962,813,544 new A Shares had been validly subscribed for at a price of RMB9.29 per share. The A Shares issued under the rights issue commenced trading on 11 September 2013.

On 13 August 2013, the Bank received from the CSRC the "Reply Regarding the Approval of China Merchants Bank Co., Ltd.'s Rights Issue for Overseas-listed Foreign Shares" (CSRC Approval [2013] No. 1072). After obtaining the approval from Hong Kong Stock Exchange, the Bank issued 680,423,172 new shares to holders of H Shares at a price of HK$11.68 per share, and the paid-up new H Shares under the rights issue commenced trading on 2 October 2013.

The above rights issue resulted in an increase of 3,643,236,716 shares.

Internal staff shares

The Company had not issued internal staff shares during the reporting period.

7.7 Issuance of Bonds

Issuance of financial bonds in 2012

Approved by the CBRC and the PBOC, the Company issued the financial bonds (the "Bonds") in the amount of RMB20 billion on 14 March 2012. The Bonds were divided into two types, type I is a 5-year bond with a fixed interest rate, issuance size of RMB6.5 billion and an annual coupon rate of 4.15%; type II is a 5-year bond with a floating interest rate, issuance size of RMB13.5 billion and a basic spread of 0.95%, and the coupon rate being the sum of benchmark interest rate plus basic spread. The benchmark interest rate represented the one-year lump-sum deposit and withdrawal time deposit rate published by the PBOC and applicable for the first date of issuance and the value date in each interest-bearing year. The benchmark interest rate applicable to the first interest-bearing period is 3.50%. As at 31 December 2012, the proceeds raised from issuance of the financial bonds were fully used to support small- and micro-enterprise financings.

Issuance of subordinated debts in 2012

Approved by the CBRC and the PBOC, the Company issued subordinated debts in an amount of RMB11.7 billion in the domestic interbank debt market on 27 December 2012. The total size for such issuance of subordinated debts amounted to RMB11.7 billion, all of which are fixed rate debts for a term of 15 years. The coupon rate is 5.20% and the issuer may select to redeem the debts by the end of the first 10 years. As at 31 December 2012, the proceeds raised from issuance of the subordinated debts were fully used to replenish the supplementary capital of the Company.

Issuance of Tier 2 capital bonds in 2014

Approved by the CBRC and the PBOC, the Company issued Tier 2 capital bonds in an amount of RMB11.3 billion in the domestic interbank debt market in April 2014. The total volume for such issuance of Tier 2 capital bonds amounted to RMB11.3 billion, all of which are fixed rate debts for a term of 10 years. The coupon rate is 6.40% and the issuer may select to redeem the debts by the end of the first five years. As at 31 December 2014, the proceeds raised from issuance of Tier 2 capital bonds were fully used to replenish the tier 2 capital of the Company.

Issuance of medium-term notes and offshore RMB bonds in 2014

According to the business development plan of the Company, the Hong Kong Branch of the Company issued medium-term notes in the amount of US$500 million in Hong Kong in June 2014, all of which are fixed-rate notes for a term of 3 years with coupon rate of 2.475%. In November 2014, the Hong Kong Branch of the Company simultaneously issued the RMB Formosa Bonds (人民幣寶島債) in the amount of RMB1 billion and the RMB Lion City Bonds (人民幣獅城債) in the amount of RMB1 billion in Taiwan and Singapore respectively, both of which were launched under the medium-term note issuance plan of the Company. The RMB Formosa Bonds bear a fixed interest rate for a term of 5 years, and the coupon rate is 4.05%; and the RMB Lion City Bonds bear a fixed interest rate for a term of 3 years, and the coupon rate is 3.95%. As at 31 December 2014, the proceeds raised from issuance of the three kinds of medium-term notes were fully used to replenish the general working capital of the Company.

Approved by the PBOC and the National Development and Reform Commission, the Company issued offshore RMB bonds in the amount of RMB1 billion in Hong Kong in April 2014, and remitted the proceeds to Mainland China for use. The total size for such bond issuance was RMB1 billion, all of which are fixed-rate bonds for a term of 3 years, and the coupon rate is 4.1%. As at 31 December 2014, the proceeds raised from issuance of the bonds were fully used to replenish the general working capital of the Company.

Directors, Supervisors, Senior Management, Employees and Organisational Structure

8.1 Directors, Supervisors and Senior Management

Name	Gender	Date of Birth(Y/M)	Title	Term of office	Shareholding at the beginning of the year (share)	Shareholding at the end of the year (share)	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Aggregate pre-tax remunerations received from the shareholders' companies during the reporting period (RMB ten thousand)
Li Jianhong	Male	1956.5	Chairman Non-Executive Director	2014.8-2016.5 2014.7-2016.5	–	–	–	–
Ma Zehua	Male	1953.1	Vice Chairman Non-Executive Director	2014.8-2016.5 2014.3-2016.5	–	–	–	(note 1)
Zhang Guanghua	Male	1957.3	Vice Chairman Executive Director	2013.8-2016.5 2013.5-2016.5	–	–	379.68	–
Tian Huiyu	Male	1965.12	Executive Director President and Chief Executive Officer	2013.8-2016.5 2013.9-2016.5	–	–	474.60	–
Li Xiaopeng	Male	1959.5	Non-Executive Director	2014.11-2016.5	–	–	–	–
Li Yinquan	Male	1955.4	Non-Executive Director	2013.5-2016.5	–	–	–	–
Sun Yueying	Female	1958.6	Non-Executive Director	2013.5-2016.5	–	–	–	(note 1)
Su Min	Female	1968.2	Non-Executive Director	2014.9-2016.5	–	–	–	(note 2)
Fu Junyuan	Male	1961.5	Non-Executive Director	2013.5-2016.5	–	–	–	(note 3)
Li Hao	Male	1959.3	Executive Director, First Executive Vice President and Chief Financial Officer	2013.5-2016.5	–	–	379.68	–
Fu Gangfeng	Male	1966.12	Non-Executive Director	2013.5-2016.5	–	–	–	–
Hong Xiaoyuan	Male	1963.3	Non-Executive Director	2013.5-2016.5	–	–	–	–
Wong Kwai Lam	Male	1949.5	Independent Non-Executive Director	2013.5-2016.5	–	–	30.00	–
Leung Kam Chung, Antony	Male	1952.1	Independent Non-Executive Director	2015.1-2016.5	–	–	–	–
Pan Chengwei	Male	1946.2	Independent Non-Executive Director	2013.5-2016.5	–	–	30.00	–
Pan Yingli	Female	1955.6	Independent Non-Executive Director	2013.5-2016.5	–	–	30.00	–
Guo Xuemeng	Female	1966.9	Independent Non-Executive Director	2013.5-2016.5	–	–	30.00	–
Zhao Jun	Male	1962.9	Independent Non-Executive Director	2015.1-2016.5	–	–	–	–

Name	Gender	Date of Birth(Y/M)	Title	Term of office	Shareholding at the beginning of the year (share)	Shareholding at the end of the year (share)	Aggregate pre-tax remunerations received from the Company during the reporting period (RMB ten thousand)	Aggregate pre-tax remunerations received from the shareholders' companies during the reporting period (RMB ten thousand)
Liu Yuan	Male	1962.1	Chairman of Board of Supervisors, Employee Supervisor	2014.8-2016.5	–	–	148.31	–
Zhu Genlin	Male	1955.9	Shareholder Supervisor	2013.5-2016.5	–	–	–	(note 4)
An Luming	Male	1960.4	Shareholder Supervisor	2013.5-2016.5	–	–	–	–
Liu Zhengxi	Male	1963.7	Shareholder Supervisor	2013.5-2016.5	–	–	–	25.98
Pan Ji	Male	1949.4	External Supervisor	2013.5-2016.5	–	–	22.50	–
Dong Xiande	Male	1947.2	External Supervisor	2014.6-2016.5	–	–	–	–
Jin Qingjun	Male	1957.8	External Supervisor	2014.10-2016.5	–	65,800(note 5)	5.97	–
Xiong Kai	Male	1971.4	Employee Supervisor	2014.8-2016.5	–	–	45.26	–
Huang Dan	Female	1966.6	Employee Supervisor	2015.3-2016.5	–	–	–	–
Tang Zhihong	Male	1960.3	Executive Vice President	2013.5-2016.5	–	–	332.22	–
Ding Wei	Male	1957.5	Executive Vice President	2013.5-2016.5	–	–	332.22	–
Zhu Qi	Male	1960.7	Executive Vice President	2013.5-2016.5	–	–	(note 6)	–
Wang Qingbin	Male	1956.12	Executive Vice President and General Manager of Beijing Branch	2013.5-2016.5	–	–	332.22	–
Liu Jianjun	Male	1965.8	Executive Vice President	2013.12-2016.5	–	–	332.22	–
Xiong Liangjun	Male	1963.2	Secretary of the Party Discipline Committee	2014.8-now	–	–	110.74	–
Wang Liang	Male	1965.12	Executive Vice President	2015.1-2016.5	–	–	237.30	–
Zhao Ju	Male	1964.11	Executive Vice President	2015.2-2016.5	–	–	–	–
Lian Bolin	Male	1958.5	Executive Assistant President	2012.6-2016.5	–	–	237.30	–
Xu Shiqing	Male	1961.3	Secretary of Board of Directors	2013.5-2016.5 (note 7)	–	–	237.30	–
Fu Yuning	Male	1957.3	Former Chairman, Non-Executive Director	2013.5-2014.7	–	–	–	–
Wang Daxiong	Male	1960.12	Former Non-Executive Director	2013.5-2014.3	–	–	–	(note 8)
Xiong Xianliang	Male	1967.10	Former Non-Executive Director	2013.5-2014.6	–	–	–	–
Yi Xiqun	Male	1947.8	Former Independent Non-Executive Director	2013.5-2014.3	–	–	7.50	–
Xu Shanda	Male	1947.9	Former Independent Non-Executive Director	2013.11-2015.1	–	–	–	–
Xiao Yuhuai	Male	1954.6	Former Independent Non-Executive Director	2014.3-2015.1	–	–	–	–
Han Mingzhi	Male	1955.1	Former Chairman of Board of Supervisors	2013.5-2014.8	–	–	237.30	–
Peng Zhijian	Male	1948.11	Former External Supervisor	2013.5-2014.10	23,480	23,480	15.00	–
Shi Rongyao	Male	1950.10	Former External Supervisor	2013.5-2014.6	–	–	15.00	–
Yu Yong	Male	1962.7	Former Employee Supervisor	2013.5-2015.3	–	–	241.67	–
Guan Qizhi	Male	1965.1	Former Employee Supervisor	2013.5-2014.8	–	–	147.31	–
Tang Xiaoqing	Male	1954.8	Former Executive Vice President	2013.5-2014.8	–	–	221.48	–

Notes:

1. For details of the remuneration of Mr. Ma Zehua and Ms. Sun Yueying received from the shareholders' company during the reporting period, please refer to the 2014 annual report of China COSCO Holdings Co., Ltd.;

2. For details of the remuneration of Ms. Su Min received from the shareholders' company during the reporting period, please refer to the 2014 annual report of China Shipping Container Lines Company Limited;

3. For details of the remuneration of Mr. Fu Junyuan received from the shareholders' company during the reporting period, please refer to the 2014 annual report of China Communications Construction Co., Ltd.;

4. For details of the remuneration of Mr. Zhu Genlin received from the shareholders' company during the reporting period, please refer to the 2014 annual report of SAIC Motor Corporation Limited;

5. The shares held by Mr. Jin Qingjun at the end of the reporting period were acquired from the second tier market.

6. Mr. Zhu Qi received his remuneration from WLB, a subsidiary of the Company;

7. Mr. Xu Shiqing was appointed as the Secretary of Board of Directors of the Company (whose qualification was approved by the banking regulator(s) in the PRC in February 2015) at the first meeting of the Ninth Session of the Board of Directors of the Company held in May 2013;

8. For details of the remuneration of Mr. Wang Daxiong received from the shareholders' company during the reporting period, please refer to the 2014 annual report of China Shipping Development Co., Ltd.;

9. The remuneration received by newly appointed or resigned persons from the Company in the year is calculated on the length of their service in the Company in the reporting period;

10. The total pre-tax remuneration of the full-time Executive Directors, chairman of the Board of Supervisors and senior management of the Company is still under verification, and the information about the remaining part will be disclosed separately upon confirmation of payment;

11. None of the persons listed in the above table holds share options of the Company or has been granted with restricted shares of the Company.

8.2 Appointment and Resignation of Directors, Supervisors and Senior Management

In 2014, according to the resolutions passed at the 2014 First Extraordinary General Meeting of the Company, Mr. Ma Zehua was newly elected as a Non-executive Director of the Company, and Mr. Xiao Yuhuai was newly elected as an Independent Non-executive Director of the Company. The qualification of Mr. Ma Zehua and Mr. Xiao Yuhuai for serving as a director was approved by the banking regulator(s) in the PRC in March 2014. According to the resolutions passed at the 2013 Annual General Meeting of the Company, Mr. Li Jianhong and Ms. Su Min were newly elected as Non-executive Directors of the Company. The qualification of Mr. Li Jianhong and Ms. Su Min for serving as a director was approved by the banking regulator(s) in the PRC in July 2014 and September 2014, respectively. According to the resolutions passed at the 2014 Second Extraordinary General Meeting of the Company, Mr. Li Xiaopeng was newly elected as a Non-executive Director of the Company, and his qualification of serving as a director was approved by the banking regulator(s) in the PRC in November 2014; Mr. Zhao Jun and Mr. Leung Kam Chung, Antony were newly elected as Independent Non-executive Directors of the Company, and the qualification of Mr. Zhao Jun and Mr. Leung Kam Chung, Antony for serving as a director was approved by the banking regulator(s) in the PRC in January 2015.

Mr. Li Jianhong was elected as the Chairman at the 19th meeting of the Ninth Session of the Board of Directors of the Company, and his qualification for serving as the Chairman was approved by the banking regulator(s) in the PRC in August 2014. Mr. Ma Zehua was elected as the Vice Chairman at the 14th meeting of the Ninth Session of the Board of Directors of the Company, and his qualification for serving as Vice Chairman was approved by the banking regulator(s) in the PRC in August 2014.

Mr. Fu Yuning submitted a letter of resignation to the Company on 10 July 2014 due to the change of job assignment, and ceased to be the Chairman and Non-executive Director of the Company. Mr. Wang Daxiong and Mr. Xiong Xianliang submitted a letter of resignation to the Company on 21 March 2014 and 4 June 2014, respectively, due to the change of job assignment, and ceased to be Non-executive Directors of the Company. Mr. Yi Xiqun ceased to be an Independent Non-executive Director of the Company from March 2014. Mr. Xu Shanda and Mr. Xiao Yuhuai ceased to be Independent Non-executive Directors of the Company from January 2015.

According to the relevant resolutions passed at the 2013 Annual General Meeting of the Company, the resolutions passed at the 2014 Second Extraordinary General Meeting and the voting results at the meeting of employee representatives of the Company, Mr. Dong Xiande, Mr. Jin Qingjun, Mr. Liu Yuan, Mr. Xiong Kai and Ms. Huang Dan were newly elected as a Supervisor of the Ninth Session of the Board of Supervisors of the Company. Specifically, Mr. Liu Yuan, Mr. Xiong Kai and Ms. Huang Dan are Employee Supervisors while Mr. Dong Xiande and Mr. Jin Qingjun are External Supervisors. Mr. Han Mingzhi and Mr. Guan Qizhi, the former Employee Supervisors, ceased to be supervisors of the Company since August 2014; Mr. Shi Rongyao, a former External Supervisor, ceased to be the supervisor of the Company since June 2014; Mr. Peng Zhijian, a former External Supervisor, ceased to be the supervisor of the Company since October 2014; Mr. Yu Yong, a former Employee Supervisor, ceased to be the employee supervisor of the Company since March 2015. Mr. Liu Yuan was elected as the Chairman of the Board of Supervisors at the 14th meeting of the Ninth Session of the Board of Supervisors of the Company. Except for the aforesaid, other supervisors of the Company remain unchanged.

According to the relevant resolutions passed at the 26th meeting of the Ninth Session of the Board of Directors of the Company, Mr. Wang Liang and Mr. Zhao Ju were appointed as Executive Vice Presidents of the Company, whose qualifications were approved by the CBRC, Shenzhen Office in December 2014 and February 2015, respectively. Mr. Xiong Liangjun was appointed as the Secretary of the Party Discipline Committee of the Company by CBRC Party Committee in August 2014. The "Resolution Regarding the Resignation of Tang Xiaoqing as Executive Vice President of China Merchants Bank" was passed at the 21st meeting of the Ninth Session of the Board of Directors of the Company, whereby the resignation of Mr. Tang Xiaoqing due to the change of job assignment was approved.

For details of the above-mentioned matters, please refer to the relevant announcements published on China Securities Journal, Shanghai Securities News and Securities Times, and on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company.

8.3 Changes of Information of Directors and Supervisors during the Reporting Period

1. Mr. Li Jianhong, Chairman and Non-executive Director of the Company, serves as the Chairman of China Merchants Group Ltd. and ceased to be the Director and the President of China Merchants Group Ltd., the Chairman of China Merchants Energy Shipping Company Limited (a company listed on Shanghai Stock Exchange) and the Chairman of China Merchants Huajian Highway Investment Company Limited.

2. Mr. Zhang Guanghua, Vice Chairman and Executive Director of the Company, ceased to be the Chairman of CMB Financial Leasing Co., Ltd..

3. Mr. Li Xiaopeng, Non-executive Director of the Company, serves as the Chairman of China Merchants Huajian Highway Investment Company Limited and China Merchants Energy Shipping Company Limited (a company listed on Shanghai Stock Exchange) and the Deputy Chairman of China Merchants Holdings (International) Company Limited (a company listed on Hong Kong Stock Exchange).

4. Mr. Li Yinquan, Non-executive Director of the Company, serves as the Chairman of China Merchants Kunlun Equity Investment Fund Management Co., Ltd. (招商昆侖股權投資管理有限公司) and China Merchants China Investment Management Limited, the Director of China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange) and the CEO of China Merchants Capital Investments Co., Ltd., and ceased to be the Chairman of China Merchants China Direct Investments Limited.

5. Mr. Fu Gangfeng, Non-executive Director of the Company, serves as the Director of China Merchants Property Development Co., Ltd. (a company listed on Shenzhen Stock Exchange), and ceased to be a Director of China Merchants Securities Co., Ltd. (a company listed on Shanghai Stock Exchange) and China Merchants Energy Shipping Company Limited (a company listed on Shanghai Stock Exchange).

6. Mr. Hong Xiaoyuan, Non-executive Director of the Company, serves as the Chairman of China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange), China Merchants Holdings (U.K.) Co., Ltd. and Bosera Asset Management Co., Ltd and the Director of China Merchants Capital Investments Co, Ltd., and ceased to be the Chairman of China Merchants China Investment Management Limited, China Merchants Kunlun Equity Investment Fund Management Co., Ltd. (招商昆侖股權投資管理有限公司), Houlder Insurance Brokers Far East Ltd. and China Merchants Insurance Company Limited and the Director of Morgan Stanley Huaxin Fund Management Company Ltd., and Great Wall Securities Co., Ltd..

7. Mr. Wong Kwai Lam, Independent Non-executive Director of the Company, serves as a member of the Governance Committee of Chinese University of Hong Kong Medical Center Co., Ltd. (香港中文大學醫療中心有限公司), and ceased to be a member of the New Hospital Project Committee of the Chinese University of Hong Kong.

8. Mr. Zhao Jun, Independent Non-executive Director of the Company, serves as the Chairman of Fupu Fund Management Co., Ltd. (復樸投資管理有限公司), and ceased to be a Managing Partner of DT Capital Partners.

9. Mr. Zhu Genlin, Shareholder Supervisor of the Company, ceased to be the deputy chairman of Shanghai Creative Industry Centre.

10. Mr. An Luming, Shareholder Supervisor of the Company, serves as the Vice President of CNOOC International Financial Leasing Limited.

11. Mr. Yu Yong, Employee Supervisor of the Company, serves as the leader of the Inspection Team of the Company, and ceased to be the Deputy Director of the Labor Union of the Company.

8.4 Current Positions Held by the Directors and Supervisors in the Shareholders' Companies or Associated Companies

Name	Name of Company	Title	Term of office
Li Jianhong	China Merchants Group Ltd.	Chairman	From July 2014 up to now
Ma Zehua	China Ocean Shipping (Group) Company	Chairman	From July 2013 up to now
Li Xiaopeng	China Merchants Group Ltd.	General Manager	From July 2014 up to now
Li Yinquan	China Merchants Group Ltd.	Deputy General Manager	From July 2002 up to now
Sun Yueying	China Ocean Shipping (Group) Company	Chief Accountant	From December 2000 up to now
Su Min	China Shipping (Group) Limited.	Chief Accountant	From March 2011 up to now
Fu Junyuan	China Communications Construction Co., Ltd	Executive Director & Chief Financial Officer	From September 2006 up to now
Fu Gangfeng	China Merchants Group Ltd.	Chief Financial Officer	From November 2011 up to now
Hong Xiaoyuan	China Merchants Group Ltd.	Assistant General Manager & General Manager of China Merchants Finance Holdings Company Limited	From September 2011 up to now
Zhu Genlin	SAIC Motor Corporation Limited	Vice President	From January 2012 up to now
An Luming	CNOOC Investment Co., Ltd.[note]	General Manager	From December 2011 up to now
Liu Zhengxi	Shandong State-owned Assets Investment Holdings Co. Ltd	Vice President	From March 2011 up to now

Note: CNOOC Investment Co., Ltd. (a shareholder of the Company) is a subsidiary of China National Offshore Oil Corporation.

8.5 Biography of Directors, Supervisors and Senior Management and Information of Their Concurrent Posts

Directors

Mr. Li Jianhong is the Chairman and Non-executive Director of the Company. He holds a professional title of "Senior Economist" and graduated from East London University, England with a master's degree in Business Administration and also obtained a master's degree in Economy & Management from Jilin University. Mr. Li has been a Director of the Company since July 2014 and the Chairman of the Company since August 2014. Currently, he serves as the Chairman of China Merchants Group Ltd., the Chairman of the Board of Directors of China Merchants Holdings (International) Co., Ltd. (a company listed on Hong Kong Stock Exchange), the Chairman of China International Marine Containers (Group) Limited (a company listed on Hong Kong Stock Exchange and the Shenzhen Stock Exchange) and the Chairman of China Merchants Capital Investments Co., Ltd.. Mr. Li was an assistant to the President, Chief Economist and Executive Vice President of China Ocean Shipping (Group) Company, the Director and President of China Merchants Group Ltd., the Chairman of China Merchants Energy Shipping Company Limited (a company listed on Shanghai Stock Exchange) and the Chairman of China Merchants Huajian Highway Investment Company Limited.

Mr. Ma Zehua is the Vice Chairman and Non-executive Director of the Company. He graduated from Shanghai Maritime Institute (now known as Shanghai Maritime University) with a master's degree in international law, and he is a senior economist. He has been the Director of the Company since March 2014 and the Vice Chairman of the Company since August 2014. He has acted as chairman of China Ocean Shipping (Group) Company (COSCO Group). Mr. Ma is currently a deputy of the 12th session of the National People's Congress of the PRC and a member of the Foreign Affairs Committee. From 1990 to 2013, Mr. Ma had served as general manager of COSCO (UK) Ltd., general manager of development department and head of overseas business division of COSCO Group, assistant to president and general manager of development department of COSCO Group, president of COSCO Americas, Inc., deputy general manager of Guangzhou Ocean Shipping Company, general manager of Qingdao Ocean Shipping Company, vice president of COSCO Group, vice president of China Shipping (Group) Company, and director of the Board and president of COSCO Group.

Mr. Zhang Guanghua is the Vice Chairman and Executive Director of the Company. Mr. Zhang obtained a master's degree in economics from Jilin University and a doctorate degree in economics from Southwestern University of Finance and Economics and is a senior economist. He has been an Executive Director of the Company since June 2007 and has been the Vice Chairman of the Company since August 2013. He is also the vice chairman of the board of directors of Wing Lung Bank, and the chairman of CIGNA &CMB Life Insurance Company Limited and China Merchants Fund Management Co., Ltd.. He is a member of the Standing Council of China Society for Finance and Banking, a member of the Fifth Committee of China Council for the Promotion of International Trade. He served as the deputy general manager of PBOC Hainan Branch, the deputy general manager of PBOC Guangzhou Branch, the president of Guangdong Development Bank, the Executive Vice President of the Company and the Chairman of CMB Financial Leasing Co., Ltd..

Mr. Tian Huiyu is the Executive Director, President and Chief Executive Officer of the Company. He obtained his bachelor's degree in infrastructure finance and credit from Shanghai University of Finance and Economics and his master's degree in public administration from Columbia University. He is a senior economist. Mr. Tian has been the business executive of retail banking at the head office and general manager of Beijing Branch of China Construction Bank Corporation ("CCB") (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) from March 2011 to May 2013. He served consecutively as deputy general manager of Shanghai Branch of CCB, head and general manager of Shenzhen Branch of CCB from December 2006 to March 2011, executive vice president of Bank of Shanghai from July 2003 to December 2006, and vice president of Trust Investment Branch of China Cinda Asset Management Co., Ltd from July 1998 to July 2003.

Mr. Li Xiaopeng is a Non-executive Director of the Company. He has obtained his Ph.D. in finance from Wuhan University. He is a senior economist. He has been a Director of the Company since November 2014. Mr. Li is currently the general manager of China Merchants Group Ltd.. He is also concurrently acting as the Chairman of China Merchants Huajian Highway Investment Company Limited and China Merchants Energy Shipping Company Limited (a company listed on Shanghai Stock Exchange), vice chairman of China Merchants Holdings (International) Co., Ltd., vice chairman of China Urban Financial Society and vice chairman of China Rural Financial Society. He previously served in several positions, including deputy head of Henan Branch of Industrial and Commercial Bank of China, general manager of the banking department of the head office of ICBC, head of ICBC Sichuan Branch, vice president of China Huarong Asset Management Corporation, assistant to the president of ICBC and head of ICBC Beijing Branch, vice president of ICBC, vice president and executive director of ICBC, and chairman of the board of supervisors of China Investment Corporation. He also served concurrently as chairman of ICBC International Holdings Ltd., chairman of ICBC Financial Leasing Co., Ltd., and chairman of ICBC Credit Suisse Asset Management Co., Ltd..

Mr. Li Yinquan is a Non-executive Director of the Company. He obtained a master's degree in economics in the Graduate School of the People's Bank of China and a master's degree in finance in FINAFRICA, Italy, and is a senior economist. He has been a Director of the Company since April 2001. He is a member of the Twelfth National Committee of CPPCC of Hong Kong Special Administrative Region. He is the deputy general manager of China Merchants Group Ltd., the chairman of China Merchants Finance Holdings Company Limited, China Merchants Kunlun Equity Investment Fund Management Co., Ltd. and China Merchants China Investment Management Limited and a director of China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange), and the vice chairman and CEO of China Merchants Capital Investments Co., Ltd.. He is also a director of China Merchants Holdings (International) Co., Ltd. (a company listed on Hong Kong Stock Exchange). He was the chief financial officer, vice president and chief financial officer of China Merchants Group Ltd.

Ms. Sun Yueying is a Non-executive Director of the Company. She is a university graduate and is a senior accountant. She has been a Director of the Company since April 2001. She has been the chief accountant of China Ocean Shipping (Group) Company. She has also been a non-executive director of China COSCO Holdings Company Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), the chairman of COSCO Finance Co., Ltd. and a director of China Merchants Securities Co., Ltd. (a company listed on Shanghai Stock Exchange).

Ms. Su Min is a Non-executive Director of the Company. She holds a bachelor's degree in finance from Shanghai University of Finance and Economics and a master's degree in business administration from China University of Technology, and is a senior accountant. She has been an Independent Non-executive Director of the Company since September 2014. Ms. Su is also the chief accountant and a member of the Communist Party of China Committee of China Shipping (Group) Company, and a director of China Shipping Development Co., Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) and China Shipping Container Lines Company Limited (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). From 2004 to 2011, Ms. Su successively served as a deputy director of Property Office of the State-owned Assets Supervision and Administration Commission of Anhui Province, the chief accountant of Anhui Energy Group Co., Ltd., the chairman and general manager of Anhui Hefei Wanneng Microfinance Company, and the deputy general manager and chief accountant of Anhui Energy Group Co., Ltd.

Mr. Fu Junyuan is a Non-executive Director of the Company. He obtained a doctorate degree in management and is a senior accountant. He has been a director of the Company since March 2000. He has been an executive director and chief financial officer of China Communications Construction Ltd. (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange). He has also been the chairman of CCCC Finance Company Limited and the vice chairman of Jiang Tai Insurance Broker Co., Ltd.. He was the chief accountant of China Harbour Engineering (Group) Ltd. and the chief accountant of China Communications Construction (Group) Ltd. from October 1996 to September 2006.

Mr. Li Hao is an Executive Director, First Executive Vice President and Chief Financial Officer of the Company. Mr. Li obtained a master's degree in business administration from the University of Southern California and is a senior accountant. He joined the Company in May 1997 as the executive assistant president. He was the general manager of the Shanghai Branch of the Bank from April 2000 to March 2002, and has been an Executive Vice President of the Company since March 2002, and the Chief Financial Officer since March 2007. He has served as an Executive Director of the Company since June 2007, and the First Executive Vice President of the Company since May 2013. He is also a non-executive director of Wing Lung Bank.

Mr. Fu Gangfeng is a Non-executive Director of the Company. He obtained a bachelor's degree in finance and a master's degree in management engineering from Xi'an Highway College and is a senior accountant. He has been a Director of the Company since August 2010. He is the chief financial officer of China Merchants Group Ltd. He also serves as a director of China Merchants Property Development Co., Ltd. (a company listed on Shenzhen Stock Exchange). He was the deputy director of the Shekou ZhongHua Certified Public Accountants, the director of the chief accountant office and deputy chief accountant of China Merchants Shekou Industrial Zone Co., Ltd. respectively, and the chief financial officer of China Merchants Shekou Holdings Co. Ltd. and China Merchants Shekou Industrial Zone Co., Ltd., and the general manager of the finance division of China Merchants Group Ltd.

Mr. Hong Xiaoyuan is a Non-executive Director of the Company. He obtained a master's degree in economics from Peking University and a master's degree in science from Australian National University. He has been a Director of the Company since June 2007. He has been the Assistant General Manager of China Merchants Group Ltd. and the General Manager of China Merchants Finance Holdings Company Limited. He is also the chairman of China Merchants Finance Investment Holdings Co., Ltd., China Merchants Holdings (U.K.) Co., Ltd., China Merchants China Direct Investments Limited (a company listed on Hong Kong Stock Exchange) and Bosera Asset Management Co., Ltd.. He had also served as a director of China Merchants Securities Co., Ltd. (a company listed on Shanghai Stock Exchange) and China Merchants Capital Investments Co., Ltd..

Mr. Wong Kwai Lam is an Independent Non-executive Director of the Company. He obtained a bachelor's degree from the Chinese University of Hong Kong and Ph. D from Leicester University, U.K.. He is also an Honorary Fellow of the Chinese University of Hong Kong. He has been an Independent Non-executive Director of the Company since July 2011. He is the chairman of IncitAdv Consultants Ltd. and a director of Opera Hong Kong, a member of the Strategic Investment Society of The Chinese University of Hong Kong, and the vice chairman of the Board of Trustee and a member of the Strategic Investment Society of New Asia College of The Chinese University of Hong Kong. He also serves as the manager of Prosperity Real Estate Investment Trust and an independent non-executive director of K. Wah International Holdings Limited (a company listed on Hong Kong Stock Exchange), and an independent non-executive director of both Langham Hospitality Investments Limited (a company listed on Hong Kong Stock Exchange) and LHIL Manager Limited. He is a member of the Governance Committee of Chinese University of Hong Kong Medical Center Co., Ltd. (香港中文大學醫療中心有限公司) and a member of the Governance Committee of Prince of Wales Hospital located in Shatin, Hong Kong. He once served at Merrill Lynch (Asia Pacific) Limited and acted as the managing director & chairman of Asia Pacific Investment Banking. Mr. Wong used to be a member of Advisory Committee under the Securities and Futures Commission in Hong Kong and its committee on Real Estate Investment Trusts and a member of the China Committee to the Hong Kong Trade Development Council.

Mr. Leung Kam Chung, Antony is an Independent Non-executive Director of the Company. He graduated from the University of Hong Kong with a bachelor's degree in social sciences, and attended Harvard Business School's Program for Management Development and Advanced Management Program. He has been an Independent Non-executive Director of the Company since January 2015. He is currently Chief Executive Officer of Nan Fung Group, Senior Advisor and Member of the International Advisory Board of Blackstone, and Chairman of Harvard Business School Association of Hong Kong. Prior to this, he was Senior Managing Director, Chairman of Greater China of Blackstone and a member of the firm's Executive Committee. Before that he was Chairman of Asia for JP Morgan Chase, and prior to that he worked for Citi in various positions, including Country Corporate Officer for Hong Kong and China, Regional Treasurer for North Asia, Head of Investment Banking for North Asia, South West Asia and Head of Private Banking for Asia. Past board membership of Mr. Leung included independent director of Industrial and Commercial Bank of China Limited, China Mobile Hong Kong Company Limited, American International Assurance and China National Bluestar Group, international advisory board member of China Development Bank and European Advisory Group. The community services that Mr. Leung had engaged in included Financial Secretary, Non-Official Member of the Executive Council of Hong Kong SAR, Chairman of the Education Commission, Chairman of the University Grants Committee, Member of the Exchange Fund Advisory Committee, Member of the Preparatory Committee for the Hong Kong Special Administrative Region and Election Committee and Hong Kong Affairs Advisors to the Chinese Government, member of the board of Hong Kong Airport Authority and Director of the Hong Kong Futures Exchange.

Mr. Pan Chengwei is an Independent Non-executive Director of the Company. He graduated from Cadre Institute under the Ministry of Transport with an associate bachelor's degree and is an accountant. He has been an Independent Non-executive Director of the Company since July 2012. He is currently an independent non-executive director of both Shenzhen Nanshan Power Co., Ltd., (a company listed on Shenzhen Stock Exchange) and the China International Marine Containers (Group) Co., Ltd. (a company listed on Hong Kong Stock Exchange and the Shenzhen Stock Exchange). He once served as the general manager of finance department of China Ocean Shipping (Group) Company (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange), the general manager of finance department of COSCO (Hong Kong) Group Limited, the general manager of COSCO (H.K.) Property Development Limited, the general manager of COSCO (H.K.) Industry & Trade Holdings Ltd., the chief representative of Shenzhen representative office of COSCO HK Group, the general manager of COSCO (Cayman) Fortune Holding Co., Ltd. and its Hong Kong branch, and the compliance manager of the Fuel Oil Futures Department of China Ocean Shipping (Group) Company.

Ms. Pan Yingli is an Independent Non-executive Director of the Company. She holds a bachelor's degree in economics from East China Normal University, a master's degree in economics from Shanghai University of Finance and Economics and a doctorate degree in world economics from East China Normal University. She has been an Independent Non-executive Director of the Company since November 2011. She is currently a director of Research Center for Global Finance, Shanghai Jiao Tong University, a professor and a tutor of doctorate candidates in Finance at Antai College of Economics and Management of Shanghai Jiao Tong University, vice president of Shanghai World Economy Association, vice president of Shanghai Institute of International Financial Centers, chief expert of Pan Yingli (International Financial Center Construction) Studio at Shanghai Institute of Development Strategies under Development Research Center of Shanghai Municipal Government. She was an associate professor, a professor and a tutor of doctorate candidates in East China Normal University and then joined Shanghai Jiao Tong University in November 2005. From 1998 to 2007, she served as an invited expert of Shanghai Municipal Government on decision-making consultation.

Ms. Guo Xuemeng is an Independent Non-executive Director of the Company. She holds a Master's degree in accounting of economics department from Northern Jiaotong University (renamed as Beijing Jiaotong University in 2003) and a Doctor's degree in economics from Beijing Jiaotong University. She has been an Independent Non-executive Director of the Company since July 2012. She is currently a professor, a tutor of doctorate candidates of the School of Economics and Management as well as the vice dean of the Graduate School of Beijing Jiaotong University, a secretary general of Transportation and Economics Committee of China Communication and Transportation Association, a direct member of Railway Accounting Association (鐵道會計學會直屬學會理事), an independent non-executive director of both Gvitech Corporation (偉景行科技股份有限公司) and Beijing Bode Communication Equipment Co., Ltd. (北京博得交通設備股份有限公司). From July 2001 to November 2012, she successively served as the deputy secretary of the CPC committee of the School of Economics and Management, deputy director of the general office, vice dean and deputy secretary of the CPC committee of the School of Economics and Management of Beijing Jiaotong University.

Mr. Zhao Jun is an Independent Non-executive Director of the Company. He obtained a Bachelor's degree from the Department of Shipbuilding Engineering of Harbin Engineering University, a master's degree from the Department of Ocean Engineering of Shanghai Jiao Tong University, a doctorate degree in Civil Engineering from the University of Houston and a master's degree in financial management from the School of Management of Yale University. He has been an Independent Non-executive Director of the Company since January 2015. Mr. Zhao is currently the chairman of Fupu Fund Management Co., Ltd. (復樸投資管理有限公司). He used to serve as a managing partner of DT Capital Partners, managing director and its chief representative based in China of ChinaVest, Ltd..

Supervisors

Mr. Liu Yuan has been the Chairman of the Board of Supervisors of the Company since August 2014. He graduated from Renmin University of China with a bachelor's degree in global economy and is an economist. He served as the deputy section officer and section officer of the management office of foreign affairs bureau (外事局管理處) of the People's Bank of China from August 1984 to October 1991. He was the secretary (division deputy level) and deputy chief of the monetary office of foreign exchange affairs division (外匯業務司金管處) of State Administration of Foreign Exchange from October 1991 to February 1994. He held the positions of secretary (deputy level) of the General Office (辦公廳正處級秘書), researcher of the regulatory office I of the banking division (銀行司監管一處調研員), head of the regulatory office III of the banking regulatory division II (銀行監管二司監管三處處長) and head of the regulatory office VII of the banking regulatory division II (銀行監管二司監管七處處長) of the People's Bank of China from February 1994 to July 2003. He served as the deputy head of the Banking Supervision Department II (銀行監管二部副主任) of the CBRC, director of CBRC Shanxi Bureau, director of CBRC Shenzhen Bureau, head of the banking related case audit bureau (銀行業案件稽查局局長) of the CBRC and head of the banking related consumer protection bureau (銀行業消費者權益保護局) of the CBRC from July 2003. He was appointed as a member of the CPC Committee at the Head Office of China Merchants Bank in July 2014. He is concurrently a visiting professor of Renmin University of China and chairman of the professional committee under the supervisory committee of Chinese Association of Listed Companies.

Mr. Zhu Genlin was a Non-executive Director of the Company from April 2001 to May 2003, and has been a Shareholder Supervisor of the Company since May 2003. Mr. Zhu graduated from Shanghai University of Finance and Economics and obtained a master's degree in economics. He is a senior economist and associate researcher. He has been the chief financial officer of Shanghai Automotive Industry Corporation (Group) from February 2002 to August 2010, a vice president of Shanghai Automotive Industry Corporation (Group) from August 2010 to January 2012 and a vice president of SAIC Motor Corporation Limited (a company listed on Shanghai Stock Exchange) since January 2012. He is concurrently the chairman of the Board of Supervisors of Shanghai Foundation for Promotion of Transformation of Scientific and Technological Achievements, the deputy chairman of Shanghai Cost Study Society, the general manager of Shanghai Automotive Group (Beijing) Co., Ltd., the chairman of China Automotive Industry Investment and Development Co., Ltd., the chairman of Shanghai Automotive Asset Management Co., Ltd., the chairman of Shanghai Creative Industry Investment Corp., the vice chairman of the board of supervisors of Shenyin & Wanguo Securities Co., Ltd. and a director of Changjiang Pension Insurance Co., Ltd..

Mr. An Luming has been a Shareholder Supervisor of the Company since May 2012. Mr. An graduated from Beijing Institute of Economics majoring in political economics and is a senior economist. He joined China National Offshore Oil Corporation (the "CNOOC") in 1995, and had served as the Chief of the Corporate Management Office (企業管理處) of the Corporate Policy Research Department, the Chief of the System Reform Department of the Corporate Reform Office, the Restructure and Listing Manager of the Corporate Reform Office, General Manager Assistant and Deputy General Manager of Zhonghai Trust and Investment Co., Ltd., the deputy general manager of the Asset Management Department of the CNOOC, and the deputy general manager of the Financial Assets Department of the CNOOC. From December 2011 to present, Mr. An has acted as the general manager of the CNOOC Investment Holding Co., Ltd. He has concurrently served as a vice president of CNOOC International Financial Leasing Limited (中海油國際融資租賃有限公司) from December 2014 to present.

Mr. Liu Zhengxi has been a Shareholder Supervisor of the Company since May 2012. He graduated from Hangzhou Institute of Commerce majoring in enterprise management. Mr. Liu served as a section officer, the deputy director of the Planning and Financial Division and the deputy director of the Labor Wage Division of Shandong Provincial Department of Labor and Social Security from 2000 to 2004, and the deputy director and the director of the Distribution Department and the Head of the Capital Operation and Gains Management Department of State-owned Assets Supervision and Administration Commission of Shandong Province from 2004 to 2011. From March 2011 to present, Mr. Liu has acted as the vice president of Shandong State-owned Assets Investment Holding Co., Ltd.

Mr. Pan Ji has been an External Supervisor of the Company since May 2011. He graduated from Beijing Institute of Economics majoring in Labour Economics. He previously served as the supervisor (at director-general level) of the Board of Supervisors of the State-owned Assets Supervision and Administration Commission under the State Council. He used to serve as the vice director of the Cadre Division Office and the deputy head of Planning & Recruitment Department of the Labour & Personnel Bureau, the vice director, office head, the chief of the Central Committee, the assistant inspector (at deputy director-general level) of the Recruitment Office of the Examination Recruitment Department of the Ministry of Personnel, the assistant to Commissioner and office head of the Investigating Commissioner Office under the State Council, the supervisor and office head of the Board of Supervisors of the Central Enterprises Work Committee, and the supervisor (at deputy director-general level) of the Board of Supervisors of the State-owned Assets Supervision and Administration Commission under the State Council.

Mr. Dong Xiande has been an External Supervisor of the Company since June 2014. Mr. Dong graduated from Shanghai Harbour School (上海港灣學校) majoring in accounting and statistics and is a senior accountant. Mr. Dong was the deputy head of Treasury Department of Qinhuangdao Port Authority since August 1984, the head of Treasury Department of Qinhuangdao Port Authority since September 1985 (during which he concurrently served as the director of Settlement Centre of Qinhuangdao Port Authority from December 1997 to July 1998), the chief accountant of Qinhuangdao Port Authority from June 1998 to August 2002 (during which he concurrently served as the head of Treasury Department of Qinhuangdao Port Authority from June 1998 to March 1999), and the director and chief accountant of Qinhuangdao Port Group Co., Ltd. from August 2002 to February 2008 when he retired. Mr. Dong was a non-executive director of the fifth session of the Board of Directors of China Merchants Bank Co., Ltd. from June 2002 to April 2004, and a shareholder supervisor of the seventh session of the Board of Supervisors of China Merchants Bank Co., Ltd. from June 2007 to June 2010.

Mr. Jin Qingjun has been an External Supervisor of the Company since October 2014. He graduated from the Graduate School of China University of Political Science and Law with a master's degree in law. He was a legal counsel in Hong Kong and the UK and also worked at Jang Shinn Law Office (中信律師事務所) as a legal counsel from August 1987 to October 1993. He was an executive partner at Shu Jin Law Firm (信達律師事務所) from October 1993 to August 2002. Since September 2002, he has been the senior partner of King & Wood Mallesons, Beijing. He concurrently holds the positions of part-time professor at the School of Law, China University of Political Science and Law and the School of Law, Renmin University of China; co-tutor for students of master's degree at the School of Law, Tsinghua University; arbitrator of Shenzhen Court of International Arbitration, Shanghai International Arbitration Center and Arbitration Foundation of Southern Africa; mediator of Shenzhen Securities and Futures Dispute Resolution Centre; and the PRC legal counsel of US Court of Appeals for the Washington D.C Circuit. Currently, he serves as an independent director of Guotai Junan Securities Co., Ltd., Gemdale Corporation (a company listed on Shanghai Stock Exchange), Tianjin Changrong Print and Packing Equipment Co., Ltd. (a company listed on Shenzhen Stock Exchange), Invesco Great Wall Fund Management Company Limited and New China Asset Management Co., Ltd. In 2012, he was titled one of the Top 10 PRC Lawyers of the Year and PRC Securities Lawyer of the Year.

Mr. Xiong Kai has been an Employee Supervisor of the Company since August 2014. He graduated from the Graduate School of Chinese Academy of Social Sciences with a doctorate degree in legal theory. He worked at the Ministry of Public Security from July 1994 to April 2006 and held the positions of deputy section officer, section officer and deputy director. He served as the deputy director (researcher), director, deputy division director and division director at the CPC General Office from April 2006 to July 2014. He has been appointed as the general manager of the Inspection and Security Department at the Head Office of China Merchants Bank since July 2014.

Ms. Huang Dan has been an Employee Supervisor of the Company since March 2015. She obtained a bachelor's degree in computer software from Huazhong University of Science and Technology, and a master's degree in finance from Southwestern University of Finance and Economics. She is also an engineer. Ms. Huang started her career in Tongji Medical University in July 1988, and then served in China Chang Jiang Energy Corp. (Group) in April 1993. She joined the Human Resources Department of the Head Office of China Merchants Bank in April 1994 and successively served as Assistant Manager, Deputy Manager, Manager and Senior Manager. She successively served as Assistant General Manager and Deputy General Manager in the Human Resources Department of the Head Office of China Merchants Bank from April 2005 to December 2014. She has been the Deputy Director of the Labor Union of the Head Office of China Merchants Bank since December 2014.

Senior Management

Mr. Tian Huiyu, please refer to Mr. Tian Huiyu's biography under the paragraph headed "Directors" above.

Mr. Zhang Guanghua, please refer to Mr. Zhang Guanghua's biography under the paragraph headed "Directors" above.

Mr. Li Hao, please refer to Mr. Li Hao's biography under the paragraph headed "Directors" above.

Mr. Tang Zhihong is an Executive Vice President of the Bank. Mr. Tang graduated from Jilin University and is a senior economist. He joined the Bank in May 1995. He successively served as the deputy general manager of Shenyang Branch, the deputy head of the Shenzhen Administration Unit, the general manager of Lanzhou Branch, the general manager of Shanghai Branch, the head of the Shenzhen Administration Unit, and Executive Assistant President of the Head Office. He has been an Executive Vice President of the Bank since May 2006.

Mr. Ding Wei is an Executive Vice President of the Bank. Mr. Ding is a graduate from Hangzhou University and associate researcher. He joined the Bank in December 1996. He successively served as the director of the General Office and the general manager of the Operation Department of Hangzhou Branch, the assistant general manager and the deputy general manager of Hangzhou Branch, the general manager of Nanchang Sub-branch, the general manager of Nanchang Branch, and the general manager of the Human Resources Department of the Head Office, and an executive assistant president of the Head Office. He has served as Executive Vice President of the Bank since April 2008. He is concurrently the Chairman of CMB International Capital.

Mr. Zhu Qi is an Executive Vice President of the Bank. Mr. Zhu obtained a master's degree in economics from Zhongnan University of Finance and Economics and is a senior economist. He joined the Bank in August 2008, and has been an executive director and Chief Executive Officer of Wing Lung Bank since September 2008. He has been the Executive Vice President of the Bank since December 2008, and previously served as an independent non-executive director of Great Eagle Holdings Limited (a company listed on Hong Kong Stock Exchange). He worked in the Industrial and Commercial Bank of China (a company listed on Hong Kong Stock Exchange and Shanghai Stock Exchange) from 1986 to 2008, and successively served as the deputy general manager and general manager of Industrial and Commercial Bank of China Ltd., Hong Kong Branch, a director, the managing director and the chief executive officer of Industrial and Commercial Bank of China (Asia) Ltd. and the chairman of Chinese Mercantile Bank.

Mr. Wang Qingbin is an Executive Vice President of the Bank. He is a graduate from Chinese Academy of Social Sciences with a master's degree and also a senior economist. He joined the Bank in May 2000 and successively served as the general manager of Jinan Branch and Shanghai Branch. He has been an Executive Assistant President of the Head Office since May 2009 and an Executive Vice President of the Bank since June 2011 and is concurrently the general manager of Beijing Branch since November 2013.

Mr. Liu Jianjun is an Executive Vice President of the Bank. Mr. Liu obtained a master's degree from Dongbei University of Finance and Economics and he is a senior economist. He has been the Executive Vice President of the Bank since December 2013. He successively served as the deputy general manager of Weifang Branch and Jinan Branch and the general manager of Dezhou Branch under China Construction Bank, Shandong Branch from 1995 to 2000. He served as the deputy general manager of Jinan Branch of the Bank, the general manager of the Overall Retail Management Department, the business executive and a senior executive vice president of the General Office of Retail Finance and the Director of the Credit Card Center, and concurrently is the director of CIGNA & CMB Life Insurance and China UnionPay Co., Ltd. from 2000 to 2013.

Mr. Xiong Liangjun is the Secretary of the Party Discipline Committee of the Bank. Mr. Xiong obtained a master's degree in economics from Zhongnan University of Finance and Economics and is a senior economist. He has been the Secretary of the Party Discipline Committee of the Bank since July 2014. He successively served as the assistant general manager and the deputy general manager of Shenzhen Central Sub-branch of the PBOC from April 2000 to September 2003. Later, he successively served as deputy director-general of the CBRC Shenzhen Bureau, director-general of CBRC Guangxi Bureau and CBRC Shenzhen Bureau from September 2003 to July 2014.

Mr. Wang Liang is an Executive Vice President of the Bank. He is a graduate from Renmin University of China with a master's degree and also a senior economist. He joined the Bank in November 1995 and successively served as the assistant general manager, the deputy general manager and the general manager of Beijing Branch of the Bank. He has been the Executive Assistant President of the Bank and the general manager of Beijing Branch since June 2012. He ceased to serve as the general manager of Beijing Branch in November 2013, and has served as an Executive Vice President of the Bank since January 2015.

Mr. Zhao Ju is an Executive Vice President of the Bank. Mr. Zhao obtained an EMBA from Guanghua School of Management of Peking University. He has served as an Executive Vice President of the Bank since February 2015. He joined the Trust Investment Company for Development of Rural Villages in China (中國農村發展信託投資公司) in July 1988, and then he served in the international business department of China Construction Bank from September 1991, in which he served successively as the section officer of the project management department, deputy director of the capital management department, director of foreign capital management department and director of merchant banking department. From September 1997, he began to work in the Beijing Office of Deutsche Bank. From January 2001, he worked as the general manager in the investment banking headquarter of China Galaxy Securities Co., Ltd. From November 2005 to November 2014, he served as the managing director of UBS Investment Bank and its Asia's Vice Chairman.

Mr. Lian Bolin is an Executive Assistant President of the Bank. Mr. Lian graduated from Anhui Institute of Finance and Trade and is a senior economist. He joined the Bank in January 2002 and successively served as the deputy general manager of Hefei Branch, the deputy general manager of Shanghai Branch, the general manager of Jinan Branch and the general manager of Shanghai Branch of the Bank. He has been an Executive Assistant President of the Bank and the general manager of Shanghai Branch since June 2012. He ceased to serve as the general manager of Shanghai Branch in September 2014, and has concurrently served as the chairman of CMB Financial Leasing since March 2014.

Mr. Xu Shiqing is the Secretary of the Board of Directors, and one of the joint company secretaries of the Company. He was a doctor of philosophy in Business Administration of the Southern California University and a senior economist. Mr. Xu joined the Company in 1993. He held various positions such as the executive assistant in the General Office of the Head Office, assistant general manager of International Business Department of the Head Office, deputy general manager of International Business Department, deputy general manager of Offshore Business Department of the Head Office, assistant general manager of the Fuzhou Branch, deputy general manager of the Planning and Treasury Department of the Head Office, the person-in-charge of Custodian Department of the Head Office, the general manager of Planning and Financial Department and Treasury Department of the Head Office, general manager of Planning and Financial Department of the Head Office, general manager of Strategic Development Department and Overseas Development Department of the Head Office, and the general manager of Hong Kong Branch.

Joint Company Secretaries

Mr. Xu Shiqing, please refer to his biography above.

Mrs. Seng Sze Ka Mee, Natalia has been one of the joint company secretaries of the Company since August 2006. Mrs. Seng is the Chief Executive Officer – China and Hong Kong of Tricor Group and an Executive Director of Tricor Services Limited (hereinafter referred to as "Tricor"), and also a Practice Leader of Tricor's Corporate Services and China Consultancy Services. Prior to joining Tricor in 2002, she was a Director – Company Secretarial of Ernst & Young, Hong Kong. Mrs. Seng is a Chartered Secretary, a Past President (2007-2009) and a retired Council Member (1996-2012) and a Fellow of The Hong Kong Institute of Chartered Secretaries; she is also a Fellow and a retired Council Member (2010-2014) of The Institute of Chartered Secretaries and Administrators in the United Kingdom, and a Fellow of both The Hong Kong Institute of Directors and The Taxation Institute of Hong Kong. Mrs. Seng has been appointed by government as a lay member to the Council of the Hong Kong Institute of Certified Public Accountants from December 2013 to November 2015; and an appointed member of the Inland Revenue Department Users' Committee (since 2009). Mrs. Seng holds a Master's degree in Business Administration (Executive) from City University of Hong Kong. Apart from the Company, she has also been providing secretarial services to other listed companies with support of her professional team.

8.6 Explanation on the office location of Chairman of the Company

Mr. Li Jianhong, Chairman of the Company, also acts as the chairman of China Merchants Group Ltd.. China Merchants Group Ltd. is the parent company of the Company's largest shareholder and is directly managed by the State-owned Assets Supervision and Administration Committee under the State Council. It is a state-owned large-sized business group with business operations headquartered in Hong Kong. Therefore, Mr. Li Jianhong's daily office place is located in Hong Kong.

8.7 Evaluation and incentive system for directors, supervisors and senior management

The Company offers remuneration to independent directors and external supervisors according to the "Resolution in respect of Adjustment to Remuneration of Independent Directors and External Supervisors"; offers remuneration to executive directors and other senior executives according to the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (released on 13 June 2013); and offers remuneration to employee supervisors in accordance with the policies on remuneration of employees of the Company. Directors and supervisors nominated by shareholders of the Company do not receive any remuneration from the Company.

According to the "Policies on Evaluation of Performance of Directors by the Board of Supervisors (Provisional)", the Board of Supervisors evaluates the annual duty performance of the directors through monitoring their duty performance in the ordinary course, reviewing their annual duty performance record (including but not limited to, attendance of meetings, participation of researches, provision of recommendations and the term of office in the Company), the "Annual Duty Performance Self-Evaluation Questionnaire" completed by each director and work summaries, and then reports the same to the general meeting and regulatory authorities. The Board of Directors evaluates the performance of the senior management through the "Policies on Remunerations of Senior Management of China Merchants Bank Co., Ltd." (released on 13 June 2013) and the "Assessment Standards of H-Share Appreciation Rights Incentive Scheme for the Senior Management".

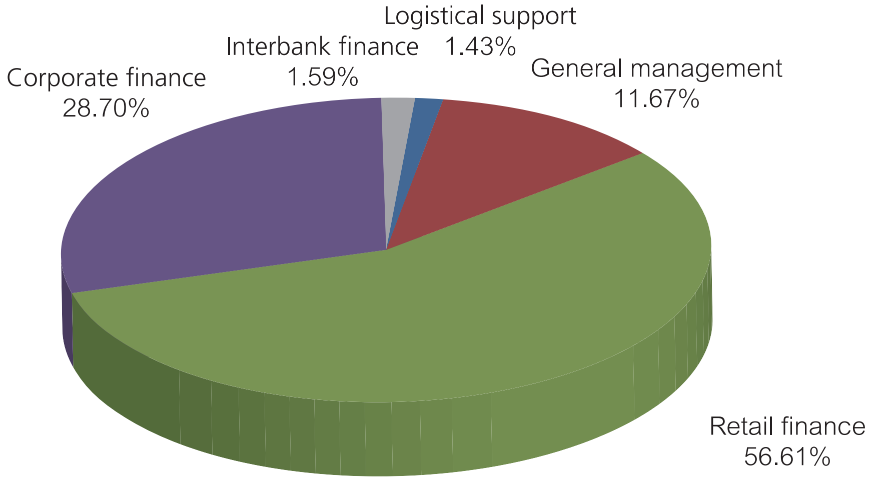
8.8 H Share Appreciation Rights Incentive Scheme during the reporting period

To further establish and enhance its incentive system for reconciling the interests of shareholders, the Company and the senior management members, the Company approved the H Share Appreciation Rights Incentive Scheme for senior management at the 2007 First Extraordinary General Meeting held on 22 October 2007. On 30 October 2007, 7 November 2008, 16 November 2009, 18 February 2011, 4 May 2012, 22 May 2013 and 7 July 2014, the Board of Directors of the Company granted the H Share appreciation rights of Phase I to Phase VII under the Scheme respectively. Please refer to the relevant announcements published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company for details.

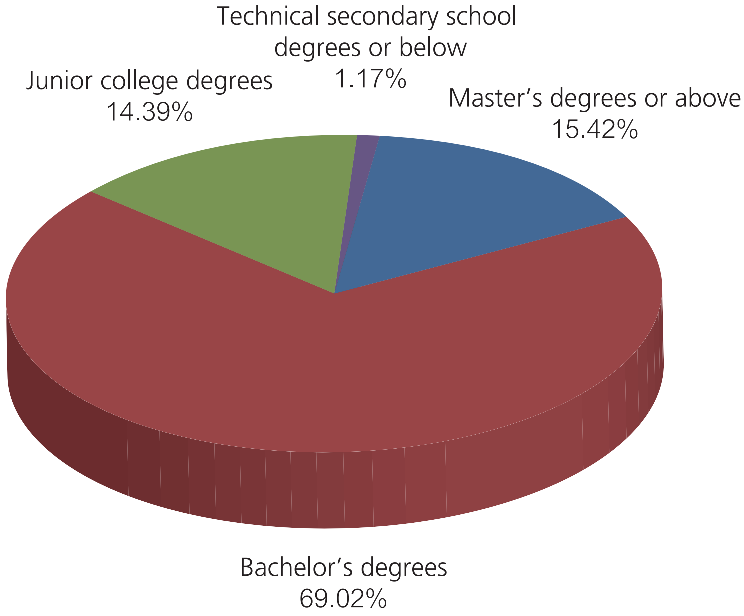
8.9 Information about Employees

As at 31 December 2014, the Company had 75,109 employees (including dispatched employees). In addition, the Company is responsible for payment of costs for 363 retired employees. The composition of our employees in service is set out as follows:

(1) Professional Structure



(2) Educational Structure



Core technical team and key technical personnel

During the reporting period, there was no change in the personnel (including the Company's core technical team and key technical staff other than the directors, supervisors or senior management personnel) who may have significant influence on the Company's core competitiveness.

Staff Remuneration Policy

The Company's remuneration policy is in line with its operation targets, cultural concept and values. It aims to refine and improve its incentive and restrictive mechanisms, realise its corporate goals, enhance its organisational performance and minimize its operating risk. The remuneration policy adheres to the principles of remuneration management featuring "strategic orientation, performance enhancement, risk control, internal fairness and market adaptation" and reflects the remuneration concept of "fixing remuneration based on positions and workload".

Staff Training Program

The Company has formulated multi-level staff training programs covering all its staff. The contents of training focus mainly on knowledge of its business and products, professional ethics and security, management skills and leadership. During the reporting period, the Company fully completed all its training programs.

8.10 Branches and Representative Offices

The Company accelerated the expansion of its branch network in 2014. During the reporting period, 3 domestic branches were approved to commence business, namely Tangshan Branch, Liupanshui Branch and Jingzhou Branch; and 9 cross-city sub-branches were approved to be upgraded to second-tier branches, namely Xianyang Branch, Ordos Branch, Zhuzhou Branch, Xiangtan Branch, Baotou Branch, Quzhou Branch, Huzhou Branch, Xiaogan Branch and Huanggang Branch.

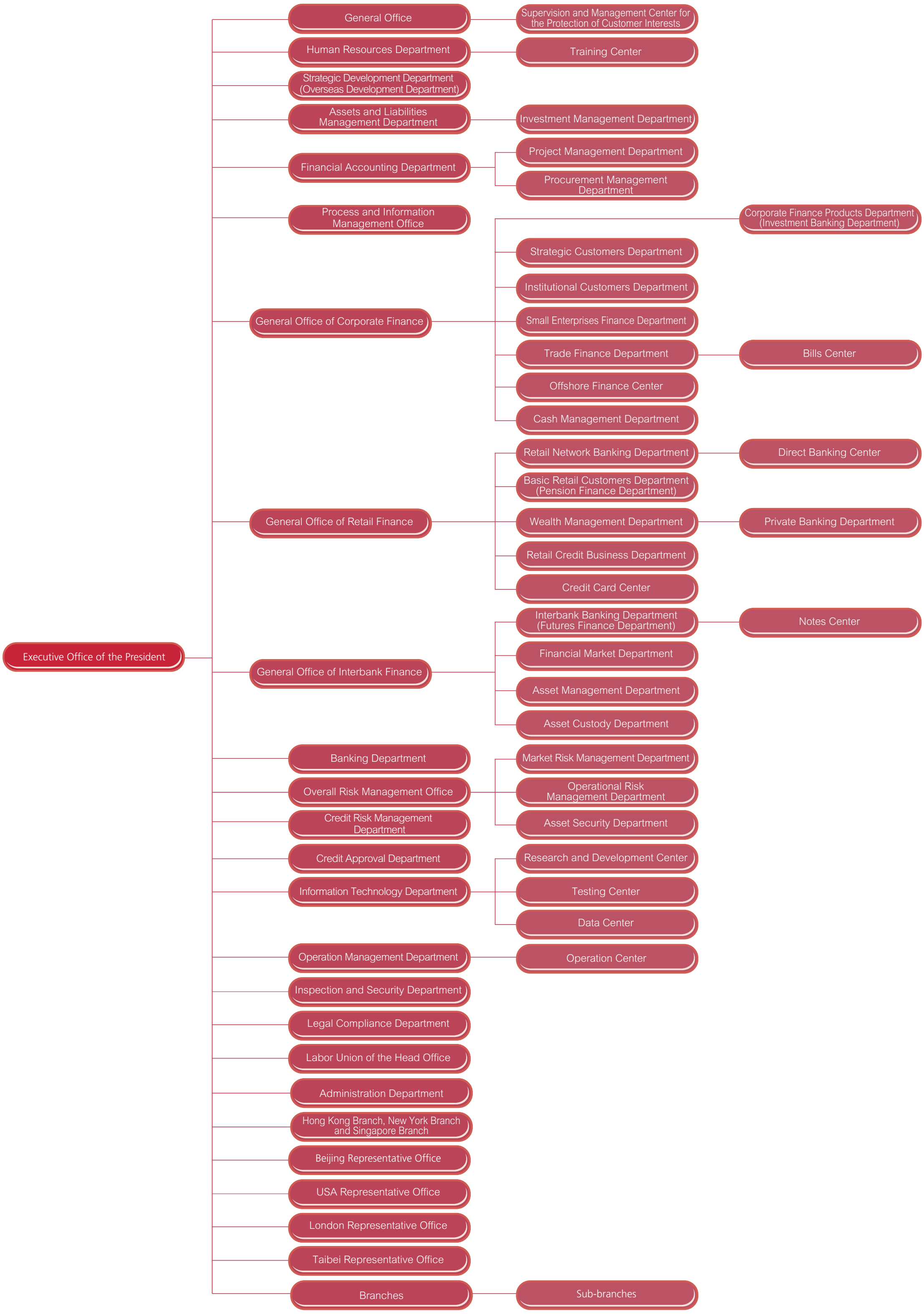
The following table sets forth the branches and representative offices as at 31 December 2014:

Regions	Name of branches	Business address	Postal Code	No. of branches	No. of Staff	Volume of assets (In millions of RMB)
Head Office	Head Office	7088 Shennan Boulevard, Shenzhen	518040	1	5,177	1,714,511
	Credit Card Center	686 Lai'an Road, Pudong New District, Shanghai	201201	1	12,335	218,607
Yangtze River Delta	Shanghai Branch	1088 Lujiazui Ring Road, Pudong, Shanghai	200120	87	4,108	185,205
	Shanghai Pilot Free Trade Zone Branch	Waigaoqiao Building, 6 Jilong Road, Waigaoqiao Bonded Area, Pudong New District, Shanghai	200131	1	41	103
	Nanjing Branch	1 Hanzhong Road, Nanjing	210005	69	2,513	97,801
	Hangzhou Branch	23 Hangda Road, Hangzhou	310007	52	2,402	100,051
	Ningbo Branch	Block 2, 235 Heji Street, Jiangdong District, Ningbo	315042	26	1,209	59,033
	Suzhou Branch	36 Wansheng Street, Industrial Park, Suzhou	215028	41	1,499	97,100
	Wuxi Branch	9 Xueqian Road, Wuxi	214001	14	628	26,769
	Wenzhou Branch	1-3/F, Block 2, 4, 5, Hongshengjin Garden, Wuqiao Avenue, Lucheng District, Wenzhou	325000	11	471	24,679

Regions	Name of branches	Business address	Postal Code	No. of branches	No. of Staff	Volume of assets (In millions of RMB)
Bohai Rim	Beijing Representative Office	35 Jinrong Avenue, Xicheng District, Beijing	100005	1	9	1
	Beijing Branch	156 Fuxingmen Nei Dajie, Beijing	100031	90	4,393	197,740
	Qingdao Branch	65 Hai'er Road, Laoshan District, Qingdao	266103	51	2,014	71,365
	Tianjin Branch	Yujia Building, 255 Guangdong Road and 9 Qianjin Road, Hexi District, Tianjin	300204	36	1,649	72,304
	Jinan Branch	8 Kuangshi Street, Jinan	250012	47	1,816	70,906
	Shijiazhuang Branch	172 Zhonghua Street South, Shijiazhuang	050000	14	278	11,288
	Tangshan Branch	44 Beixin Road West, Lubei District, Tangshan	063000	1	96	2,008
Pearl River Delta and West Side of Taiwan Strait	Guangzhou Branch	5 Huasui Road, Tianhe District, Guangzhou	510620	55	2,528	99,455
	Shenzhen Branch	2 Shennan Road Central, Shenzhen	518001	97	4,724	206,243
	Fuzhou Branch	60 Guping Road, Fuzhou	350003	33	1,093	48,774
	Xiamen Branch	No. 6 Complex Building, Hongtai Industrial Park, 309 Hudong Road, Siming District, Xiamen	361001	24	917	45,297
	Quanzhou Branch	Huangxing Building, No. 301, the middle section of Fengze Street, Quanzhou	362000	12	414	16,812
	Dongguan Branch	200 Hongfu Road, Nancheng District, Dongguan	523129	27	981	33,437
	Foshan Branch	12 Denghu Road East, Guicheng Street, Foshan	528200	28	1,151	77,889
North-eastern China	Shenyang Branch	12 Shiyiwei Road, Heping District, Shenyang	110003	30	1,682	49,592
	Dalian Branch	17 Renmin Road, Zhongshan District, Dalian	116001	35	1,238	53,646
	Harbin Branch	3 Zhongyang Avenue, Daoli District, Harbin	150001	30	997	44,244
	Changchun Branch	1177 Ziyou Avenue, Zhaoyang District, Changchun	130000	19	581	26,346
Central China	Wuhan Branch	518 Jianshe Avenue, Hankou, Wuhan	430022	52	2,151	86,679
	Nanchang Branch	468 Dieshan Road, Donghu District, Nanchang	330003	40	1,320	70,185
	Changsha Branch	766 Wuyi Avenue, Changsha	410005	46	1,450	45,535
	Hefei Branch	China Merchants Bank Mansion, 169 Funan Road, Hefei	230061	33	1,187	45,966
	Zhengzhou Branch	96 Nongye Road East, Zhengzhou	450018	29	1,092	45,128
	Taiyuan Branch	8 Xinjian Road South, Taiyuan	030001	20	910	28,638
	Haikou Branch	1-3/F Complex Building C, Haian Yihao, 1 Shimao Road North, Haikou	570100	4	220	11,525

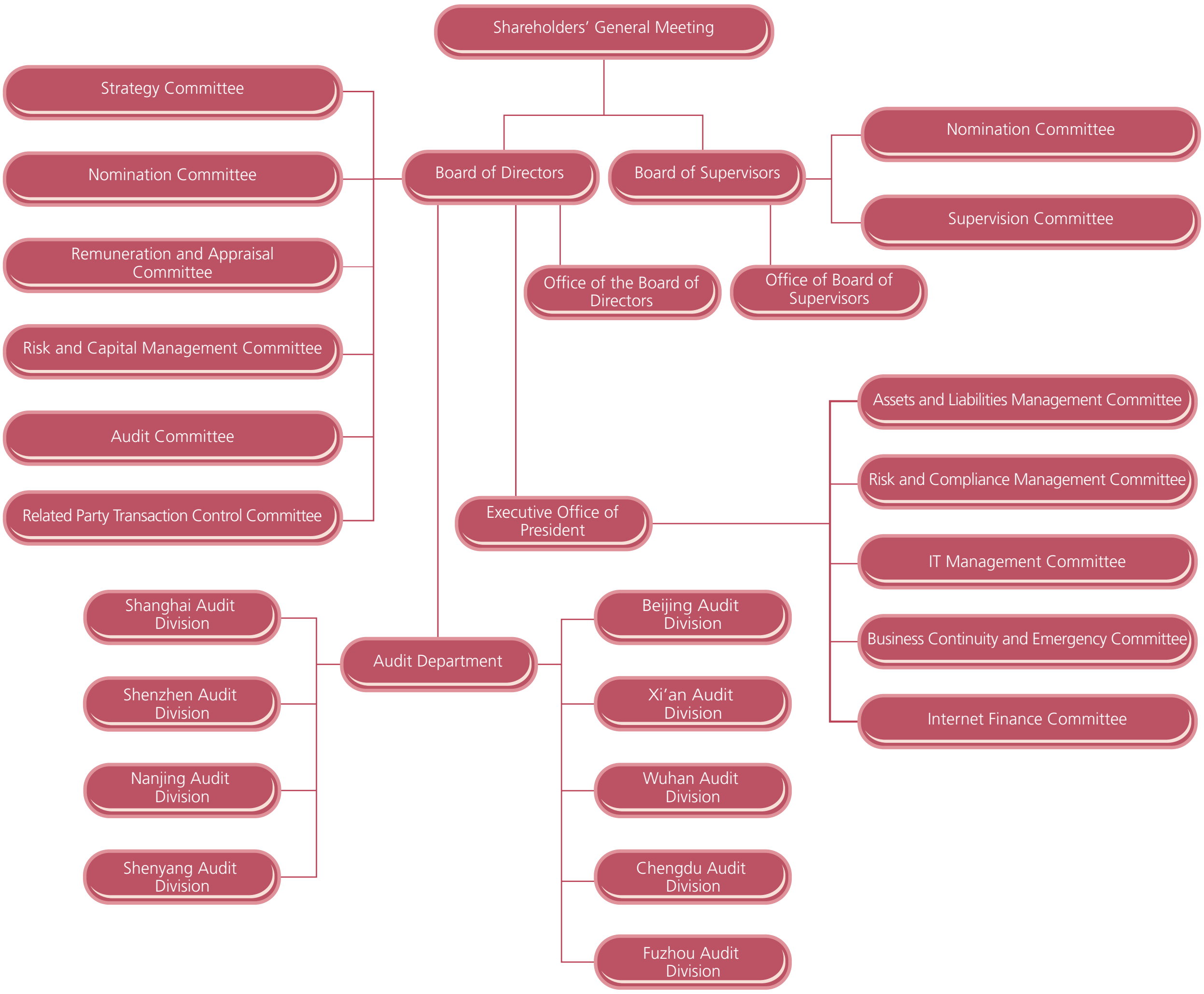
Regions	Name of branches	Business address	Postal Code	No. of branches	No. of Staff	Volume of assets (In millions of RMB)
Western China	Chengdu Branch	No. 1, the 3rd section of Renmin Road South, Wuhou District, Chengdu	610000	46	1,588	56,417
	Lanzhou Branch	9 Qingyang Road, Chengguan District, Lanzhou	730030	27	852	22,373
	Xi'an Branch	1 Gaoxin No.2 Road, Xi'an	710001	48	1,807	56,732
	Chongqing Branch	88 Xingguang Road, New North District, Chongqing	401121	38	1,439	58,984
	Urumchi Branch	China Merchants Bank Mansion, 2 Huanghe Road, Urumchi	830000	16	597	28,336
	Kunming Branch	48 Dongfeng Road East, Kunming	650051	35	1,309	61,202
	Hohhot Branch	15 Chilechuan Avenue, Saihan District, Huhhot	010040	16	647	27,517
	Nanning Branch	92-1 Minzu Avenue, Nanning	530022	16	468	22,848
	Guiyang Branch	284 Zhonghua Road North, Yunyan District, Guiyang	550001	11	378	21,698
	Yinchuan Branch	217 Xinhua Street East, Xingqing District, Yinchuan	750000	10	295	13,380
	Xining Branch	4 Xinning Road, Chengxi District, Xining	810000	5	159	9,118
Outside Mainland China	Hong Kong Branch	12 Harcourt Road, Central, Hong Kong	–	1	147	74,796
	USA Representative Office	509 Madison Avenue, Suite306, New York, New York 10022, U.S.A	–	1	1	2
	New York Branch	535 Madison Avenue	–	1	86	46,774
	Singapore Branch	One Raffles Place, Tower 2, #32-61, Singapore	–	1	33	5,322
	London Representative Office	39 Cornhill EC3V 3ND, London, UK	–	1	2	2
	Taipei Representative Office	333, Section 1, Jilong Road, Xinyi District, Taipei	–	1	1	1
Other assignments					26	–
Total			–	1,431	75,109	4,490,364

8.11 The Company's Organisational Structure:



Corporate Governance

9.1 Corporate Governance Structure:



9.2 Overview of Corporate Governance

In 2014, the operation and management of banks faced great challenges owing to domestic economic slowdown, worsening credit risk, faster interest rate liberalisation and emerging internet finance. The Board of Directors, the Board of Supervisors and the special committees had consistently followed national policies and regulatory requirements, performed duties with diligence, forged ahead aggressively and operated effectively according to laws and regulations, successfully completed analysis and review of important issues of the operation and management of the Company, and guaranteed compliant operation and sustainable and steady development of the Company. Particulars of which are set out as follows:

During the year, the Company convened a total of 68 important meetings at which 194 proposals were reviewed and 71 reports were delivered. Among which, there were 3 shareholders' general meetings (20 proposals were reviewed), 16 meetings of the Board of Directors (67 proposals were reviewed and 16 reports were delivered), 9 meetings of the Board of Supervisors (32 proposals were reviewed and 11 reports were delivered), 33 meetings of the special committees of the Board of Directors (65 proposals were reviewed and 35 reports were delivered), 5 meetings of the special committees of the Board of Supervisors (8 proposals were reviewed), 1 meeting of non-executive directors (1 report was delivered) and 1 meeting of independent non-executive directors (2 proposal was reviewed and 8 reports were delivered). 12 activities including research, field study and training were organised by the Board of Directors, and 14 by the Board of Supervisors.

The Board of Directors continued to play the role of scientific decision-making and strategic management, continuously strengthened risk management and capital management, made scientific decisions after review and deliberation of important issues including results and distribution of profits, implementation of business strategies, changes of directors and senior management, risk and capital management, remuneration and appraisal, financial supervision and internal control, structural adjustment, material external investments and material related party transactions so as to guarantee compliant operation and steady development of the Company. During the year, the special committees of the Board of Directors diligently performed their duties and made full advantage of their expertise and research capability. The matters under their review had covered most of the resolutions proposed to the Board of Directors, thus enhancing the efficiency and scientific decision-making ability of the Board of Directors, and promoted the healthy development of various businesses of the Company.

Through their presence at meetings of the Board of Directors and the special committees of the Board of Directors and the Shareholders' General Meetings, the Board of Supervisors supervised the compliance of convening, reviewing and voting procedures of the meetings of the Board of Directors and the special committees of the Board of Directors and the Shareholders' General Meetings, and supervised the performance of duties by the Directors.

For details of information disclosure and management of investor relations of the Company, please refer to the section headed "Communications with shareholders" of this report.

Having conducted thorough self-inspection, the Company was not aware of any non-compliance of its corporate governance practice during the reporting period with the requirements set out in CSRC's regulatory documents governing the corporate governance of listed companies, nor had there been any irregularities regarding corporate governance such as provision of undisclosed information to its substantial shareholders.

During the reporting period, the Company received recognitions from the capital markets and regulatory authorities in respect of corporate governance, information disclosure as well as investor relations management, and won a number of awards, including "Excellent Board of Directors" from the 10th Golden Round Table, "2014 Best Corporate Governance Disclosure Awards – Gold Award" in the awarding ceremony of 2014 Corporate Governance Disclosure Awards organised by HKICPA, "Best Blue-Chip Company on the Main Board, Listed Company with the Best Brand Image and Best Investment Value Award for Listed Companies" in the selection organised by Sina Finance, "Top 80 Listed Companies with Excellent Annual Reports in Asia Pacific Region for 2013" and the silver award for annual reports in banking industry organised and assessed by LACP, No.1 of "Top 100 Valuable China Listed Companies on Main Board for 2013" in the selection organised by Securities Times and "Award for Top 10 Management Team on the Main Board for 2013". In addition, the Company ranked the first among Top 100 Best Listed Companies in China in the "List of Most Valuable Listed Companies in China for 2014" sponsored by *China Reform Daily*.

9.3 Information about General Meetings

During the reporting period, the Company convened 3 shareholders' general meetings in Shenzhen, which were the 2014 First Extraordinary General Meeting held on 13 January 2014, the 2013 Annual General Meeting held on 30 June 2014 and the 2014 Second Extraordinary General Meeting held on 20 October 2014. For details of the resolutions, please refer to the documents on shareholders' general meetings published on the websites of Shanghai Stock Exchange and the Company as well as the circulars regarding the shareholders' general meetings published on the website of Hong Kong Stock Exchange. The notifying, gathering, convening and voting procedures of the meetings complied with relevant requirements of the Company Law, the Articles of Association of the Company and the Hong Kong Listing Rules. Relevant resolutions were published on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company and on *China Securities Journal*, *Shanghai Securities News* and *Securities Times*. For more information on the attendance of directors at shareholders' general meetings, please refer to the section headed "Attendance of Directors at Relevant Meetings" of this report.

9.4 Board of Directors

The Board of Directors is the core of our corporate governance. The Company implements a system under which the President assumes full responsibility under the leadership of the Board of Directors, which in turn is an independent policy-making body of the Company, responsible for the execution of resolutions passed by the general meetings; devising the Company's major principles, policies and development plans; deciding on the Company's operating plans, investment proposals and the establishment of internal management organs; preparing annual financial budgets, final accounts and profit appropriation plans; and appointing members of senior management. The Company's management team has discretionary powers in terms of operation, and the Board of Directors would not intervene in any specific matters in the Company's daily operation and management.

In institution development and actual operation, the Board of Directors places great emphasis on the "Unity of Form and Spirit". With respect to the development of organisational structure, the Board of Directors facilitates more scientific and reasonable decision-making through the establishment of a diversified director structure, and improves the decision-making ability and operational efficiency through promoting the effective operation of special committees. With respect to the operation, the Board of Directors focuses on key issues, directions, and strategies. The Board of Directors continues to strengthen the scientific concept of development to seek balance, health and sustainability; ensures the Company's healthy, sustainable and sound development through effective management of its strategy, risks, capital, remuneration, audit and related party transactions, etc., thus providing a solid basis for the Company to enhance its operation and management capabilities.

9.4.1 Composition of the Board of Directors

As at 31 December 2014, the Board of Directors of the Company had 18 members, including 9 non-executive directors, 3 executive directors, and 6 independent non-executive directors. All nine non-executive directors come from large state-owned enterprises where they hold key positions such as the chairman of the board of directors, general manager or deputy general manager and chief financial officer. They have extensive experience in management, finance and accounting fields. All three executive directors have extensive experience in financial management. Among the six independent non-executive directors, two are renowned experts in finance and accounting, two are renowned experts in finance, management and capital market, and two are financial experts and investment bankers with international vision, and they all have extensive knowledge of the development of domestic and overseas banking industry, with two from Hong Kong who are proficient in international accounting standards and the requirements of Hong Kong capital market. Currently, the Board of Directors of the Company has four female directors who, together with other directors of the Company, offer professional opinions to the Company in their respective fields. Such diversified composition of the Board of Directors of the Company has brought about a wide spectrum of vision and highly professional experience, and also has maintained strong independence which enables the Board of Directors to make independent judgments and scientific decisions effectively when studying and considering important issues.

The Company values the diversity of the members of the Board of Directors. The Company has had in place policies under which the Nomination Committee of the Company shall review the structure, number of directors and composition (including their skills, knowledge and experience) of the Board of Directors at least once a year and put forward proposals in respect of any intended changes to the Board of Directors in line with the strategies of the Company.

The list of directors of the Company is set out in Chapter VIII of this report. To comply with the Hong Kong Listing Rules, the independent non-executive directors have been clearly identified in all corporate communications of the Company which disclose their names.

9.4.2 Appointment, re-election and removal of directors

In accordance with the Articles of Association of the Company, the directors of the Company shall be elected or replaced by shareholders at general meetings, and the term of office for a director shall be three years. The term of office for a director of the Company shall commence from the date on which the approval from the banking regulatory authority of the State Council is obtained. A director is eligible for re-election upon the expiry of his/her current term of office. The director's term of office shall not be terminated without any justification at a general meeting before expiry of his/her term.

A director may be removed by an ordinary resolution at a general meeting before the expiry of his/her term of office in accordance with relevant laws and administrative regulations (however, any claim which may be made in accordance with any contract will not be affected).

The term of office for independent non-executive directors of the Company shall be the same as that for other directors of the Company. The term of office for an independent non-executive director of the Company shall comply with the relevant laws and requirements of the governing authority.

The procedures for appointment, re-election and removal of directors of the Company are set out in the Articles of Association of the Company. The Nomination Committee of the Company carefully considers the qualifications and experience of every candidate for director and recommends suitable candidates to the Board of Directors. Upon passing the candidate nomination proposal, the Board of Directors proposes election of related candidates at a general meeting and proposes the relevant resolution at a general meeting for consideration and approval. Except the independent non-executive directors, who will be treated individually due to the restriction of their terms of office, other new directors shall, upon expiry of the current session of the Board of Directors (the term of office for each session is three years), be subject to re-election at the general meeting together with other members of the Board.

9.4.3 Responsibilities of directors

During the reporting period, all directors of the Company had cautiously, seriously and diligently exercised their rights as a director granted by the Company and by domestic and overseas regulatory authorities, devoted sufficient time and attention to the business of the Company, ensured that the business practices of the Company were fully compliant with the requirements of the laws and administrative regulations and economic policies of the country, gave all shareholders fair treatment, readily reviewed the business operation and management of the Company, and fulfilled the responsibilities stipulated under the laws and administrative regulations, departmental regulations and the Articles of Association of the Company. All directors of the Company are aware of their joint and individual responsibilities towards shareholders. During the year, their attendance of meetings has been satisfactory, with the attendance rates of each director at 91% or above.

The independent non-executive directors of the Company have presented their professional advice on the resolutions reviewed by the Board of Directors, including offering independent written opinions on significant matters regarding the profit appropriation preliminary plan, major related party transactions, external guarantees, the appointment and removal of directors and senior management and the remuneration for senior management. In addition, for the six special committees under the Board, the independent non-executive directors of the Company made full advantage of their professional edge, provided professional and independent advice regarding corporate governance and operation management of the Company, and thereby ensured the scientific decision-making of the Board of Directors.

The Board of Directors of the Company reviewed its work during the reporting period, for which it also consulted the senior management for their opinions and took consideration of those opinions of the Board of Supervisors. The Board of Directors believes that it has effectively performed its duties and safeguarded the interests of the Company and shareholders during the reporting period. The Company is of the opinion that all the directors have devoted sufficient time to perform their duties.

The Company also pays high attention to the continuous training of directors, so as to ensure that they have a proper understanding of the operations and businesses of the Company, and that they are fully aware of their responsibilities under the laws and the regulatory requirements of the CBRC, the CSRC, Shanghai Stock Exchange, Hong Kong Stock Exchange and the Articles of Association of the Company. The Company has renewed the "insurance for liabilities of directors and senior management" for all directors.

During the reporting period, the Company initiated annual appraisal of the performance of directors performed by the Board of Supervisors, and annual report and cross-appraisal performed by independent non-executive directors. The appraisal results have been reported to the general meeting.

9.4.4 Chairman of the Board and the President

The positions of the chairman of the Board of Directors and the president of the Company have been taken up by different persons and their duties have been clearly defined in accordance with the requirements of the Hong Kong Listing Rules. Mr. Li Jianhong serves as the Chairman of the Board of Directors and has been responsible for leading the Board of Directors, chairing board meetings, ensuring that all directors are updated regarding issues arising at board meetings, managing the operations of the Board of Directors, and ensuring that all major and relevant issues are discussed by the Board of Directors in a constructive and timely manner. To enable the Board of Directors to discuss all important and relevant matters timely, the Chairman and senior management have worked together to ensure that the directors duly receive appropriate, complete and reliable information for their consideration and review. Mr. Tian Huiyu serves as the President, responsible for the business operations and implementation of the strategic and business plans of the Company.

9.4.5 Attendance of Directors at Relevant Meetings

The following table sets forth the records of attendance of each director at the meetings convened by the Board of Directors and by special committees under the Board of Directors and at the shareholders' general meetings held in 2014.

Directors	Board of Directors Note(1)	Special committees under the Board of Directors: Strategy Committee	Nomination Committee	Remuneration and Appraisal Committee	Risk and Capital Management Committee	Audit Committee	Related Party Transaction Control Committee	Shareholders' General Meeting
	Actual times of attendance/Required times of attendance							
Non-executive directors								
Li Jianhong	10/10	1/1	3/3	/	/	/	/	1/1
Ma Zehua	12/14	1/1	/	/	/	/	/	2/2
Li Xiaopeng	2/2	/	/	/	/	/	/	/
Li Yinquan	15/16	2/2	/	4/4	/	/	/	2/3
Sun Yueying	16/16	/	/	/	8/8	8/8	/	3/3
Su Min	5/5	/	/	/	3/3	/	/	1/1
Fu Junyuan	15/16	2/3	/	4/4	/	/	/	2/3
Fu Gangfeng	16/16	/	/	/	/	8/8	/	3/3
Hong Xiaoyuan	16/16	2/2	/	3/3	8/8	/	/	3/3
Fu Yuning (resigned)	8/8	2/2	2/2	/	/	/	/	1/2
Wang Daxiong (resigned)	1/1	1/2	/	/	1/2	/	/	1/1
Xiong Xianliang (resigned)	4/4	/	/	/	/	/	2/2	1/1
Executive directors								
Tian Huiyu	16/16	2/3	5/5	/	/	/	/	2/3
Zhang Guanghua	15/16	1/1	/	/	8/8	/	/	3/3
Li Hao	16/16	1/1	/	/	/	1/1	5/5	3/3
Independent non-executive directors								
Wong Kwai Lam	15/16	1/1	/	4/4	1/1	1/1	5/5	3/3
Pan Chengwei	16/16	/	5/5	/	1/1	8/8	5/5	3/3
Pan Yingli	16/16	1/1	5/5	4/4	1/1	1/1	/	3/3
Guo Xuemeng	16/16	1/1	/	/	1/1	8/8	5/5	3/3
Xu Shanda (resigned)	16/16	1/1	/	3/4	1/1	8/8	/	1/3
Xiao Yuhuai (resigned)	14/14	/	/	/	6/6	/	/	2/2
Yi Xiqun (resigned)	2/2	1/1	/	/	2/2	1/1	/	1/1

Notes:
1. During the reporting period, the Board of Directors held a total of 16 meetings, of which 4 were on-site and telephone meetings and 12 were meetings convened and voted by correspondence.
2. Actual number of attendance does not include attendance by proxy. The above directors who did not attend the meetings in person had appointed other directors to attend such meetings on their behalf.
3. Mr. Xu Shanda, Mr. Wong Kwai Lam, Ms. Pan Yingli and Ms. Guo Xuemeng (all being independent non-executive directors) attended the second meeting of the Ninth Session of the Strategy Committee under the Board of Directors on invitation; Mr. Xu Shanda, Mr. Wong Kwai Lam, Mr. Pan Chengwei, Ms. Pan Yingli and Ms. Guo Xuemeng (all being independent non-executive directors) attended the sixth meeting of the Ninth Session of the Risk and Capital Management Committee under the Board of Directors on invitation; Mr. Wong Kwai Lam and Ms. Pan Yingli attended the third meeting of the Ninth Session of the Audit Committee under the Board of Directors on invitation.

9.4.6 Securities transactions of directors, supervisors and relevant employees

The Company has adopted the Model Code set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for directors and supervisors of the Company in respect of their dealings in the Company's securities. Having made enquiry of all the directors and supervisors, the Company confirmed that they had complied with the aforesaid Model Code throughout the year ended 31 December 2014.

The Company has also established guidelines for relevant employees in respect of their dealings in securities of the Company, which are no less exacting than the Model Code. The Company is not aware of any violation against the mentioned guidelines by relevant employees.

9.4.7 Performance of duties by independent non-executive directors

The Board of Directors of the Company currently has six independent non-executive directors, which meets the requirement that at least one third of the total directors of the Company shall be independent directors. The qualification, number and proportion of independent non-executive directors are in compliance with relevant requirements of the CBRC, the CSRC, Shanghai Stock Exchange and the Hong Kong Listing Rules. All six independent non-executive directors of the Company are not involved in the circumstances set out in Rule 3.13 of Hong Kong Listing Rules which would cause doubt on their independence. The Company has received from the independent non-executive directors their respective annual confirmation of independence which was made in accordance with Rule 3.13 of Hong Kong Listing Rules. Therefore, the Company is of the opinion that all independent non-executive directors have complied with the requirement of independence set out in Hong Kong Listing Rules. The majority of the members of the Nomination Committee, the Remuneration and Appraisal Committee, the Audit Committee and the Related Party Transaction Control Committee under the Board of Directors of the Company are Independent Non-executive directors, and all of such committees are chaired by an independent non-executive director. During the reporting period, the six independent non-executive directors maintained communication with the Company through personal attendance at the meetings, on-site visits, research and investigations and conferences. They effectively performed their roles as independent non-executive directors by diligently attending meetings held by the Board of Directors and the special committees, actively expressing their opinions and attending to the interests and requests of small and medium shareholders.

During the reporting period, the independent non-executive directors expressed their independent opinions on material issues including change of directors, appointment and remuneration of the senior management, profit appropriation and related party transactions of the Company. They made no objection to the resolutions either made or not made by the Board of Directors.

According to the "Rules Governing Independent Directors' Work on Annual Reports" of the Company, the independent non-executive directors of the Company performed the following duties in preparing and reviewing the annual report for the year:

1. The independent non-executive directors listened to reports on the performance of the Company in 2014 made by the management and Chief Financial Officer. The independent non-executive directors believed that the reports made by the management of the Company had fully and objectively reflected the operations of the Company in 2014 as well as the progress of significant matters. They recognised and were satisfied with the work performed by the management team and the results achieved in 2014.

2. The independent non-executive directors reviewed the work plan for preparing the annual report and the unaudited financial statements of the Company.

3. Prior to the annual audit conducted by the accounting firm in charge of the annual audit, the independent non-executive directors discussed with the certified public accountants in respect of the composition of the auditing team, their audit plan, risk judgement, techniques to be used for testing and assessing risks and embezzlement as well as the priorities of the annual audit.

4. After receiving the initial audit opinions from the auditors, the independent non-executive directors discussed with the auditors in respect of major issues and prepared their written opinions.

5. The independent non-executive directors reviewed the procedures for convening Board meetings in the year, the decision-making procedures for matters on the agenda and the adequacy of information for making reasonable and accurate judgment.

9.5 Special Committees of the Board of Directors

There are six special committees under the Board of Directors of the Company, namely the Strategy Committee, the Nomination Committee, the Remuneration and Appraisal Committee, the Risk and Capital Management Committee, the Audit Committee and the Related Party Transaction Control Committee.

In 2014, all special committees under the Board of Directors of the Company carried out their duties in an independent, compliant and effective manner. During the year, these committees held a total of 33 meetings to study and review 100 significant issues, including operating results and profit appropriation, strategies implementation, change of directors and senior management, risk and capital management, remuneration and appraisal, financial supervision and internal control, significant external investments, significant related party transactions, and reported their audit opinions and advices to the Board of Directors by submitting meeting minutes and holding on-site meetings, hence effectively assisting the Board of Directors to make scientific decisions.

The composition and duties of the six special committees as well as their work in 2014 are summarized as follows:

9.5.1 Strategy Committee

The Strategy Committee consists of equity holding directors and directors from senior management. The current members of the Strategy Committee are Li Jianhong (Chairman), Ma Zehua, Li Xiaopeng, Su Min, Fu Junyuan (all being non-executive directors) and Tian Huiyu (an executive director). It is mainly responsible for studying the medium-to-long term development strategies and significant investment decisions of the Bank and making relevant proposals herewith.

Main authorities and duties:

(1) formulate the operational goals and medium-to-long term development strategies of the Bank, and make an overall assessment on strategic risks;

(2) consider material investment and financing plans and make proposals to the Board of Directors;

(3) supervise and review the implementation of the annual operational and investment plans;

(4) evaluate and monitor the implementation of Board resolutions; and

(5) make recommendations and proposals on important issues for discussion and determination by the Board of Directors.

In 2014, the Strategy Committee considered the Comprehensive Operating Plan of China Merchants Bank for 2014, the Proposal on Profit Distribution for 2013, the Proposal on Grant of General Mandate for Issuance of Shares and/or Share Options, the Proposal on Capital Increase of RMB2 billion in CMBFL and the Proposal on Establishment of London Branch, and reviewed the Report on "35 Proposals on Strategic Transformation of China Merchants Bank (2014-2016)", the Assessment Report on Strategies Implementation of China Merchants Bank in 2013, the Report on Implementation of the Operating Plan of China Merchants Bank in the first half of 2014, the Summary Report on WLB's Integration for the Past Five Years.

9.5.2 Nomination Committee

The majority of the Nomination Committee are independent non-executive directors, the chairman as well. The current members of the Nomination Committee include Leung Kam Chung, Antony (Chairman), Pan Chengwei, Pan Yingli (all being independent non-executive directors), Li Jianhong (a non-executive director) and Tian Huiyu (an executive director). It is mainly responsible for selecting candidates for directors and senior management of the Company, determining the standards and procedures for such selection and making relevant proposals.

Main authorities and duties:

(1) review the structure, size and composition of the Board of Directors (including their expertise, knowledge and experience) at least once a year and make recommendations on any change to the Board of Directors to implement the strategies of the Bank according to the Bank's business operations, asset scale and shareholding structure of the Bank;

(2) study the standards and procedures for selection of directors and senior management, and make recommendations to the Board of Directors;

(3) conduct extensive searches for qualified candidates for directors and senior management;

(4) conduct preliminary examination on the candidates for directors and senior management and make recommendations to the Board of Directors; and

(5) any other task delegated by the Board of Directors.

In 2014, the Nomination Committee considered and passed the Resolution on Nomination of Su Min as a Candidate for Non-executive Director, Resolution on Election of Mr. Li Jianhong as Chairman of China Merchants Bank, Resolution on Nomination of Leung Kam Chung, Antony and Zhao Jun as Independent Non-executive Directors, Resolution on Appointment of Zhao Ju as Executive Vice President of China Merchants Bank, Resolution on Appointment of Wang Liang as Executive Vice President of China Merchants Bank.

9.5.3 Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee is composed of a majority of the independent non-executive directors with one serving as the chairman. The members of the Nomination Committee currently include Wong Kwai Lam (Chairman), Leung Kam Chung, Antony, Pan Yingli (all being independent non-executive directors) and Li Yinquan, Fu Junyuan (both being non-executive directors).It is responsible mainly for formulating the appraisal standards for directors and senior management of the Bank and conducting appraisals on them, as well as formulating and reviewing the remuneration policies and plans for directors and senior management of the Company. It is accountable to the Board of Directors.

Main authorities and duties:

(1) study the appraisal standards for directors and senior management, and conduct appraisals and make recommendations based on the actual conditions of the Bank;

(2) study and review the remuneration policies and proposals in respect of directors and senior management of the Bank, make recommendations to the Board of Directors and supervise the implementation of such proposals;

(3) review the regulations and policies in respect of remuneration of the Bank; and

(4) any other task delegated by the Board of Directors.

In 2014, the Remuneration and Appraisal Committee considered and passed the "Resolution on Adjusting the Number of and Price of H Share Appreciation Rights of Phases I to VI Following the Rights Issue of H Shares in 2013", the "Administrative Measures on Total Staff Cost of China Merchants Bank (Provisional)", the "Resolution on Granting the H Share Appreciation Rights of Phase VII to Senior Management of China Merchants Bank", the "Resolution on Adjusting the Price of the H Share Appreciation Rights of Phases I to VI", the "Resolution on Approving the Performance Appraisal of H Share Appreciation Rights of China Merchants Bank in 2014", the "Resolution on Selection of Consulting Firm for Long-term Incentive Project of China Merchants Bank", and listened to the reports on implementation of the administrative measures for remuneration of senior management, the administrative measures for total staff cost for 2013 and review of performance-linked bonus for senior management of China Merchants Bank for 2013.

9.5.4 Risk and Capital Management Committee

The members of the Risk and Capital Management Committee currently are Hong Xiaoyuan (Chairman), Sun Yueying, Su Min (all being non-executive directors), Zhang Guanghua (an executive director) and Leung Kam Chung, Antony and Zhao Jun (both being independent non-executive directors). It is mainly responsible for control, management, supervision and assessment of risks of the Bank.

Main authorities and duties:

(1) supervise the status of risk control by the senior management of the Bank in relation to credit risk, market risk, operational risk, liquidity risk, strategic risk, compliance risk, reputation risk, country risk and other risks;

(2) make regular assessment on the risk policies, management status, risk-withstanding ability and capital status of the Bank;

(3) perform relevant duties under the advanced capital measurement method pursuant to the authorisation given by the Board of Directors;

(4) submit proposals on perfecting the management of risks and capital of the Bank;

(5) arrange and instruct risk prevention works in accordance with the authorisation of the Board of Directors; and

(6) any other task delegated by the Board of Directors.

In 2014, the Risk and Capital Management Committee considered and passed the Report on Comprehensive Risk, the Report on Risk Appetite Execution, the Report on Write-offs of Doubtful Debts, the Resolution on Amendments to the Policies on Measurement Model Verification, the Assessment Report on Internal Capital Adequacy, the Report on Outsource Management, the Report on Business Continuity, the Report on Write-offs of Large Amount Doubtful Debts, the Report on Credit Risk Management and Control, the Proposal for Significant Debt Restructuring and the Measures for Case Prevention. It also listened to and reviewed the Report on Weakness and Risks Revealed During Audit Process, the Special Audit Report on Internal Credit Risk Assessment System, the Administrative Measures for Definition and Determination of Defaults and Default Loss of Internal Credit Risk Rating System, the Operation of the Optimised Internal Credit Risk Rating Model, the Report on Preparation of Asset Quality Budget for 2015, etc..

9.5.5 Audit Committee

The majority of members and the chairman of the Audit Committee are independent non-executive directors. The current members of the Audit Committee are Guo Xuemeng (Chairman), Wong Kwai Lam, Pan Chengwei (all being independent non-executive directors), Fu Gangfeng and Sun Yueying (both being non-executive directors). It was verified that no member of the Audit Committee has ever served as a partner of the current auditors of the Company. The Audit Committee is mainly responsible for communication, supervision and verification of internal and external auditing issues of the Bank.

Main authorities and duties:

(1) propose the appointment or replacement of external auditors;

(2) monitor the internal audit system of the Bank and its implementation, and evaluate the work procedures and work effectiveness of its internal audit department;

(3) coordinate the communication between internal auditors and external auditors;

(4) audit the financial information of the Bank and disclosure of such information, and is responsible for the annual audit work of the Bank, including issue of a conclusive report on whether the information contained in the audited financial statements is true, accurate, complete and updated, and submit the same to the Board of Directors for consideration;

(5) examine the internal control system of the Bank, and make recommendations for improvement in the internal control of the Bank;

(6) review and supervise the mechanism for the Bank's employees to whistle blow any misconduct in respect of financial reports, internal control or otherwise, so as to ensure that the Bank always handles the whistle blowing issues in a fair and independent manner and takes appropriate actions;

(7) examine the accounting policies, financial reporting procedures and financial position of the Bank; and

(8) any other task delegated by the Board of Directors.

In 2014, the Audit Committee held a total of eight meetings to consider and approve a number of proposals on the annual report and interim report of the Company, change of accounting policies, improvement in the audit management system and workflow, the annual audit plan and audit conclusions of the accounting firm, re-appointment of the accounting firm and the internal control assessment report, and listened to the internal audit work report, the annual work plan for internal audit, the report on the information management and relevant enhancement proposals, and the report on higher efficiency in consolidated financial data reporting.

According to "Work Procedures on Annual Reports for Audit Committee of the Board of Directors" adopted by the Company, the Audit Committee of the Board of Directors of the Company performed the following duties in preparing and reviewing the report for 2014:

1. Before the auditors commenced their annual audit, the Audit Committee considered and discussed the audit plan of the accounting firm for 2014, including the composition of the auditing team, scope of audit work and schedule of audit, methods adopted for auditing the internal control, the priorities of audit work for 2014. They also reviewed the plan for preparing the annual report and the unaudited financial statements of the Company.

2. In the course of annual audit and after the issue of a preliminary audit opinion by the accounting firm in charge of annual audit, the Audit Committee reviewed the management's report on the operations of the Company for 2014. The Audit Committee exchanged opinions on significant matters and the audit progress with the accounting firm in charge of annual audit, and reviewed the financial statements of the Company. The Audit Committee then formed written opinions for the above issues.

3. Before the annual meeting of the Board of Directors was held, the Audit Committee voted on and made a resolution on the Company's Annual Report for 2014 which was submitted to the Board of Directors for consideration and approval. Moreover, the Audit Committee reviewed and issued a conclusion report on the audit work performed by the external auditors in respect of the Company's financial statements for the year 2014 to the Board of Directors.

9.5.6 Related Party Transaction Control Committee

The majority of members and the chairman of Related Party Transaction Control Committee are independent non-executive directors. The current members of the Related Party Transaction Control Committee are Pan Chengwei (Chairman), Guo Xuemeng, Zhao Jun (all being independent non-executive directors), Fu Gangfeng (a non-executive director) and Li Hao (an executive director). It is mainly responsible for inspection, supervision and review of related party transactions of the Company.

Main authorities and duties:

(1) identify connected persons of the Company according to relevant laws and regulations;

(2) inspect, supervise and review major related party transactions and continuing related party transactions, and to control the risks associated with related party transactions;

(3) review the administrative measures on related party transactions of the Bank, and to monitor the establishment and improvement of the related party transactions management system of the Bank; and

(4) review the announcements on related party transactions of the Bank.

In 2014, the Related Party Transaction Control Committee considered and passed the resolutions regarding various issues including the report and special audit report on the related party transactions of the Company for 2013, the management plan for the related party transactions and the name list of connected persons for 2014, and the major related party transaction projects with China Communications Construction Co., Ltd, China Merchants Group Ltd., China Ocean Shipping (Group) Company, Anbang Property & Casualty Insurance Company Ltd. and the upper limit on the continuing related party transaction with CMFM.

9.6 Corporate Governance Functions

During the reporting period, the Board of Directors has performed the following duties on corporate governance:

- formulating and inspecting the policies and practices on corporate governance of the Company and making certain amendments as it deems necessary, to ensure the validity of those policies and practices;
- inspecting and supervising the trainings and continuing professional development of directors and senior management;
- inspecting and supervising the policies and practices of the Company for compliance with laws and regulatory requirements;
- formulating, reviewing and supervising the Code of Conduct and the Compliance Handbook applicable to directors and employees; and
- reviewing the compliance of the Company with the Code of Corporate Governance and the disclosures in the Report of Corporate Governance.

9.7 Board of Supervisors

The Board of Supervisors oversees the financial activities, internal control, risk management of the Company and its compliance with relevant laws and regulations, the duty performance of the Board of Directors and the senior management with an aim to protect the legitimate rights and interests of the Company, its shareholders, employees, creditors and other stakeholders.

9.7.1 Composition of the Board of Supervisors

The Board of Supervisors of the Company consists of 9 members, including 3 shareholder supervisors, 3 employee supervisors and 3 external supervisors. The number of employee supervisors and external supervisors each accounts for not less than one-third of the members of the Board of Supervisors. The 3 shareholder supervisors are from large state-owned enterprises where they hold key responsible positions and have extensive experience in business management and professional knowledge in finance and accounting; the 3 employee supervisors have long participated in banking operation and administration, and thus accumulated rich professional experience in finance; and the 3 external supervisors have been engaged in corporate governance and business management of large state-owned enterprises and legal affairs, and have thus accumulated extensive experience in those fields. The composition of the Board of Supervisors of the Company has adequate expertise and independence which ensures the effective supervision by the Board of Supervisors.

A Nomination Committee and a Supervision Committee are established under the Board of Supervisors.

9.7.2 How the Board of Supervisors performs its supervisory duties

The Board of Supervisors discharges its supervisory duties primarily by: holding regular meetings, attending shareholders' general meetings, board meetings and special committee meetings, attending various meetings on operation and management held by the senior management; reviewing various documents submitted by the Company, reviewing work reports and specific reports of the senior management, conducting exchanges and discussions, carrying out special investigations and surveys at domestic and overseas branches (on a collective or separate basis) of the Company, performing off-site investigation and having talks with directors and the senior management over their performance of duties, etc. By doing so, the Board of Supervisors comprehensively monitors the operation and management, risk management and internal control of the Company as well as duty performance of the directors and the senior management, and provides constructive and specific advice and recommendations.

9.7.3 Duty performance of the Board of Supervisors during the reporting period

During the reporting period, the Board of Supervisors convened 9 meetings, of which 2 were on-site meetings and 7 were meetings convened and voted by correspondence. 33 proposals regarding strategic planning, business operations, internal control, risk management, corporate governance and evaluation of the duty performance of the directors and supervisors were considered, and 11 reports involving internal audit and related party transactions, asset quality and the prevention and control of crimes were reviewed at these meetings.

In 2014, the Company convened 3 general meetings and 4 on-site board meetings. Supervisors attended the general meetings and were present at all the on-site board meetings, and supervised compliance with the relevant laws and regulations, voting procedures of the general meetings and board meetings, the directors' attendance, statements made and voting at the general meetings and board meetings, respectively.

During the reporting period, all 3 external supervisors were able to perform their supervisory duties independently. The external supervisors discharged their supervisory duties by attending meetings of the Board of Supervisors, convening special committee meetings of the Board of Supervisors, participating in meetings of the Board of Directors or any of its special committee, participating in the Board of Supervisors' investigations and surveys conducted (on a collective or separate basis) at branch level, proactively familiarizing themselves with the operations and management of the Company, and giving opinions and suggestions on significant matters. During the adjournment of the Board of Directors and Board of Supervisors, the external supervisors were able to review various documents and reports of the Company and exchange opinions with the Board of Directors and senior management in a timely manner, thereby playing an active role in performing their supervisory duties.

During the reporting period, the Board of Supervisors of the Company had no objection to the matters supervised.

9.7.4 Operation of the special committees under the Board of Supervisors

The Nomination Committee and the Supervision Committee are established under the Board of Supervisors, each consisting of four supervisors. The chairman of the Nomination Committee and the Supervision Committee is served by an external supervisor respectively.

The Nomination Committee under the Board of Supervisors

The members of the Nomination Committee of the Ninth Session of the Board of Supervisors were Pan Ji (chairman), Zhu Genlin, Dong Xiande and Yu Yong. The major duties of the Nomination Committee are as follows: to make proposals to the Board of Supervisors on the size and composition of the Board of Supervisors; to study the standards and procedures for the election of supervisors and propose the same to the Board of Supervisors; to conduct extensive searches for qualified candidates for supervisors; to undertake preliminary examination on the qualifications of the candidates for supervisors nominated by shareholders and provide relevant recommendations; to supervise the procedures for election of directors; to evaluate the duty performance of the members of the Board of Directors, Board of Supervisors and senior management, and submit reports to the Board of Supervisors; to supervise whether the remuneration management system and policies of the whole Bank and the remuneration package for its senior management members are scientific and reasonable.

In 2014, the Nomination Committee under the Board of Supervisors convened 2 meetings where proposals regarding the evaluation report on duty performance of the directors in 2013 and the evaluation report on duty performance of the supervisors in 2013 and the changes in external supervisors were reviewed and considered.

The Supervision Committee under the Board of Supervisors

The members of the Supervision Committee of the Ninth Session of the Board of Supervisors were Jin Qingjun (chairman), An Luming, Liu Zhengxi and Xiong Kai. The major duties of the Supervision Committee are to formulate the supervisory plans for performance of supervisory duties by the Board of Supervisors; to formulate the supervisory plans for financial activities of the Bank and conduct relevant examinations; to supervise the adoption by the Board of Directors of prudent business philosophy and value standards and formulate suitable development strategies in line with the actual situations of the Bank; to conduct supervision and assessment on the important financial decisions of the Board of Directors and the senior management members and their implementations, the establishment and improvement of the internal control governance structure and the overall risk management governance structure and the division of duties of relevant parties and the performance of their duties; to formulate the specific plans for reviewing the operation decisions, internal control and risk management of the Company under the authorization of the Board of Supervisors when necessary; to formulate the plans for conducting resignation audit on directors, president and other senior management members when necessary.

In 2014, the Supervisory Committee under the Board of Supervisors convened a total of 3 meetings where the audit opinions on resignation of 3 senior executives of the Company and the rectification proposal of the Board of Supervisors regarding implementation of the "2013 Regulatory Report for China Merchants Bank" were reviewed and considered. In addition, the members of the Supervisory Committee under the Board of Supervisors were also present at various on-site meetings convened by the Strategy Committee, Risk and Capital Management Committee and Audit Committee of the Board of Directors. They also reviewed the consideration and discussion on the development strategies, financial decisions, risk management, internal management and capital management of the Company, and supervised the duty performance of the directors and offered comments and suggestions on some issues.

9.8 Trainings and Investigations/Surveys Conducted by Directors and Supervisors During the Reporting Period

During the reporting period, the Company's Board of Directors and Board of Supervisors organised 26 investigations/surveys and training activities. The Chairman of the Board of Supervisors conducted investigations/surveys on 11 operating entities of the Company, leading to continuous improvement in the performance and effectiveness of decision-making of Directors and Supervisors

During the reporting period, the Company organised Directors and Supervisors who were newly appointed to participate in job-focused training sessions provided by relevant regulatory authorities and authorised institutions as well as banking management training. The purpose of which is to enable them to obtain proper understanding of the operation and businesses of the Company and its duties under relevant laws, regulations and rules. 12 investigations/surveys/visits by Directors were organised which involved visiting the Head Office departments, various branches and sub-branches and subsidiaries to get familiar with business operations of the Head Office, branches and subsidiaries, the progress of the Second Transformation, risk management, as well as problems and challenges encountered. The Company also organised a field trip to Europe for the Risk and Capital Management Committee under the Board of Directors. During the trip, the Bank had in-depth communication and discussion with a variety of European banks, including Deutsche Bank, Commerzbank, Finland Pohjola Bank, Nordea Bank AB and ING Bank, in respect of the risk management governance structure, the promotion of Basel Accords, as well as the culture, regulations and development direction of risk management, which provided a great opportunity for the Board of Directors to draw on the experiences from these banks so as to effectively perform its obligations of risk management.

During the reporting period, the Board of Supervisors organised 14 investigations/surveys.The Chairman of the Board of Supervisors conducted 11 investigations/surveys. The Board of Supervisors organised collective investigations/surveys on six operating subsidiaries of the Company. Through organising investigations/surveys in various forms, the supervisors familiarized themselves with the business operations, the implementation of business strategies, risk management and internal control of those operating subsidiaries of the Company under local economic and financial environment, carefully analysed and concluded the difficulties and problems confronted by the Company, and timely proposed relevant management opinions and suggestions to the Board of Directors and senior management in the form of the "Work Brief of Board of Supervisors" and investigation/research reports, thereby performing an active role in enhancing the operation and management capability of the Company as well as strengthening risk management and internal control during the process of strategic transformation.

The Company also provided its directors with the latest information and relevant trainings on the Hong Kong Listing Rules and other applicable regulatory requirements to ensure that they follow and better understand good corporate governance, and took a number of approaches such as the provision of special reports and reference information to improve and update their knowledge and skills.

According to the training records for 2014 kept by the Company for Directors, the status of relevant trainings is as follows:

	Provision of Information and Scope of Trainings		
Name of Directors	Corporate Governance	Policies and Regulations	Business/ Management
Non-executive directors			
Li Jianhong	√	√	√
Ma Zehua	√	√	√
Li Xiaopeng	√	√	√
Li Yinquan	√	√	√
Sun Yueying	√	√	√
Su Min	√	√	√
Fu Junyuan	√	√	√
Fu Gangfeng	√	√	√
Hong Xiaoyuan	√	√	√
Fu Yuning (resigned)	√	√	√
Wang Daxiong (resigned)	√	√	√
Xiong Xianliang (resigned)	√	√	√
Executive directors			
Tian Huiyu	√	√	√
Zhang Guanghua	√	√	√
Li Hao	√	√	√
Independent non-executive directors			
Wong Kwai Lam	√	√	√
Pan Chengwei	√	√	√
Pan Yingli	√	√	√
Guo Xuemeng	√	√	√
Yi Xiqun (resigned)	√	√	√
Xu Shanda (resigned)	√	√	√
Xiao Yuhuai (resigned)	√	√	√

9.9 Company Secretary under Hong Kong Listing Rules

Mr. Xu Shiqing, Secretary of the Board of Directors of the Company, and Mrs. Seng Sze Ka Mee, Natalia of Tricor, an external services provider, are both the joint company secretaries of the Company under Hong Kong Listing Rules. Mr. Xu Shiqing is the major contact person of the Company for internal issues.

During the reporting period, Mr. Xu Shiqing and Mrs. Seng Sze Ka Mee, Natalia both attended relevant professional trainings of not less than 15 hours in accordance with the requirements of Rule 3.29 of Hong Kong Listing Rules.

9.10 Misconduct Reporting and Monitoring

In 2014, the Company had no material internal cases or external malignant cases of consummated theft and robbery or severe accidents.

9.11 Communications with Shareholders

Investor Relations

In 2014, adhering to the basic investor-oriented principle of improving investor experience and increasing efficiency, the Company maintained continuous and positive communication with various investors and analysts in the capital markets with an innovative, professional, open and positive attitude. We delivered the strategies, operating results, business highlights and investment value of the Company to investors across the world in various forms in a timely, comprehensive and objective manner. During the reporting period, the Company held two results announcement and analyst meetings, one press conference and one global roadshow for annual results. We received 85 visits from approximately 150 institutional investors and analysts, answered 380 calls from investors, handled 450 online messages from investors, and participated in 29 investment banking presentations in China and abroad and held 178 one-to-one and one-to-many meetings with 693 investors, which effectively met the needs of communication with the Company required by investors and analysts at home and abroad.

In the context of economic downturn, focusing on the Company's targeted milestones and focal points, the investor relations management team of the Company strengthened its efforts in acquiring capital market feedbacks so as to collect investors' reasonable opinions and recommendations. During the year, the team completed a total of 13 special reports on capital market research and submitted the same to the management for reference. In addition, the Company spearheaded to propose, develop and put in place the investor online reservation system among its peers. We also updated and maintained the web pages of investor relations to ensure the contents are up to date, accurate and valid, aiming to continuously improve investors' experience and satisfaction from every subtlety.

Information Disclosure

The Board of Directors and management of the Company attach great importance to information disclosure. They have developed a series of rules and regulations to strengthen information disclosure in terms of framework and system constructions. They also ensure investors' access to information in a timely, accurate and equal manner by leveraging on good corporate governance and internal control.

During the reporting period, the Company has disclosed material information in a true, accurate, complete, timely and fair manner in strict accordance with the requirements of relevant laws and regulations governing information disclosure. It has issued more than 330 disclosure documents in aggregate on Shanghai Stock Exchange and Hong Kong Stock Exchange, including periodic reports, interim announcements, corporate governance documents, circulars to shareholders, proxy forms and reply slips in a total size of more than 2.02 million words. Apart from fulfilling its statutory obligation of information disclosure, the Company continued to be more initiative in information disclosure in its periodic reports, placing special emphasis on hot issues that concern investors and information particularly related to the banking sector, further improving initiative and transparency in information disclosure in periodic reports. No material error was reported regarding information disclosure during the reporting period.

During the reporting period, the Company further improved the management and reporting procedures for material contracts, which not only prevented the risk of irregular information disclosure resulting from omission of or delay in disclosure of material contracts, but also played an important role in improving and perfecting internal control system of the whole Bank and enhancing the internal control capability and standards of the Company.

In addition, during the reporting period, the Company proactively cooperated with regulatory authorities in arranging works related to prevention of insider trading. Through organising persons with knowledge of inside information to study educational materials of warning against insider trading, the Company further raised the awareness of persons with knowledge of inside information to prevent inside information disclosure and insider trading.

9.12 Shareholders' Rights

Convening of extraordinary general meeting

An extraordinary general meeting shall be convened by the Board of Directors within two months upon request in writing by shareholders individually or jointly holding 10% or more of the Company's voting shares.

Two or more shareholders holding more than 10% of the voting shares at the proposed general meeting may sign one or several same written requests requisitioning the Board of Directors to convene an extraordinary general meeting or class meeting and stating the subjects to be considered at the meeting. The number of shares held referred to above shall be calculated on the date the shareholders submit their written request. The Board of Directors shall give written replies as to whether it agrees or disagrees to the convening of the extraordinary general meeting or class meeting within 10 days after receiving the request according to the provisions of laws, administrative regulations and the Articles of Association of the Company.

If the Board of Directors agrees to convene an extraordinary general meeting or class meeting, it shall issue a notice on convening the shareholders' general meetings or class meeting within 5 days after passing the board resolution. Any change to the original proposal as stated in the notice shall be approved by the relevant shareholders.

Making proposals at the shareholders' general meeting

If the Company convenes a shareholders' general meeting, shareholders individually or jointly holding more than 3% of the total issued voting shares of the Company may submit interim proposals in writing to the Company 10 days before convening the shareholders' general meeting and submit the same to the convenor. The convenor shall issue a supplemental notice to the shareholders' general meeting and announce the contents of the interim proposal within two days after receiving the proposal.

Shareholder individually or jointly holding more than 1% of the issued shares of the Company may nominate candidate(s) for independent director(s) for election at the shareholders' general meeting.

Convening of extraordinary board meeting

An extraordinary Board meeting may be held if it is requisitioned by shareholders representing more than one-tenth (10%) of the voting rights. The Chairman shall convene and preside over the extraordinary Board meeting within ten (10) days upon receiving such proposal.

Making inquiries to the Board of Directors

Shareholders are entitled to review the information about the Company (including the Articles of Association, the status of share capital, the minutes of shareholders' general meeting, resolutions of board meetings, resolutions of meetings of the Board of Supervisors, financial and accounting reports, etc.) in accordance with the provisions of the Articles of Association after submitting written documents certifying the class and quantity of shares of the Company held by them and the Company verifies the identity of such shareholders.

9.13 Major Amendments to the Articles of Association of the Company

During the reporting period, according to the actual situation of the Company and certain requirements of the laws and regulations and regulatory documents of the PRC and Hong Kong, the Company made certain amendments to its Articles of Association (including the Rules of Procedures for Shareholders' General Meetings, the Rules of Procedures for Meetings of the Board of Directors and the Rules of Procedures for Meetings of the Board of Supervisors), and such amendments were approved at the 2013 Annual General Meeting of the Company held on 30 June 2014 as a special resolution. For details of the amendments, please refer to the document regarding the shareholders' general meeting published by the Company on the website of Shanghai Stock Exchange and the website of the Company and the circular dated 29 April 2014 on the website of Hong Kong Stock Exchange.

9.14 Statement Made by the Directors about Their Responsibility on the Financial Statements

The senior management of the Company provided the Board of Directors with adequate explanation and sufficient information to enable the Board of Directors to make informed assessment on the financial and other information submitted to it for approval. The directors of the Company acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2014 to present a true view of the operating results of the Company. So far as the directors are aware, there is no material uncertainties related to events or conditions that might have a significant adverse effect on the Company's ability of sustainable operation.

9.15 Statement of Compliance with the Corporate Governance Code

During the reporting period, the Company has fully complied with the principles of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules and has complied with all code provisions and recommended best practices (if applicable).

Internal Control

10.1 Internal Control

In accordance with the laws and regulations such as the "Basic Principles for Internal Control of Enterprises" and the relevant guidelines, the "Internal Control Guidelines for Commercial Banks" as well as the requirements of Shanghai Stock Exchange and Hong Kong Stock Exchange, the Company formulated the objectives and principles of internal control, and established an internal control system consisting of five elements, namely internal environment, risk assessment, control measures, information and communication and internal supervision, to exert control over the whole process of operation management of the Company, and continued to enhance the integrity, rationality and effectiveness of our internal control system in practice.

Pursuant to the requirements of relevant laws and regulations, the Company has established a relatively sound corporate governance structure to achieve effective checks and balances and interaction between and among the Board of Directors, the Board of Supervisors and the senior management. The Board of Directors shall make sure that the Company has established and implemented an adequate and effective internal control system; the Board of Supervisors shall supervise the Board of Directors and senior management in establishing and implementing internal control; and the senior management shall oversee the daily operation of internal control of the Company. To meet the needs of its internal management and risk management, the Company has established an internal control organisation structure with reasonable division of labor, clearly defined responsibility and definite reporting relationship. The Legal and Compliance Department, which takes charge of internal control management of the Company, is responsible for the comprehensive planning, organisation and implementation of our internal control system. The Audit Department shall supervise and evaluate our internal control work. Each department is responsible for the establishment, execution and self-examination of its respective internal control.

During the reporting period, the Company streamlined the departments at the Head Office to establish a new organisational structure comprising of the headquarters of retail finance, corporate finance and interbank finance as well as various middle and back office departments under the reform guidelines of "Specialisation, Flattening and Intensification". The Company enhanced the dynamic monitoring and management of assets quality by vigorously promoting the risk system reform at the Head Office and branches.

The Company established a uniform operation effectiveness management system across the whole Bank along with the pilot implementation of uniform counter management and vertical operation management, so as to improve the operation effectiveness of the whole Bank. The Company improved the team performance appraisal system and increased its effort to assess the risk and internal control compliance management, so as to regulate the business operations of its branches. The Company enhanced staff training and increased educational resources. The Company has actively implemented the "Internal Control Guidelines for Commercial Banks" newly issued by the CBRC and formulated the "Administrative Measures for Monitoring and Examination of China Merchants Bank" and the "Administrative Measures for Rectification of China Merchants Bank". Keen on establishing its case prevention system, the Company has formulated the "Administrative Measures for Case Prevention", the "Administrative Measures for Assessing Case Prevention" and the "Administrative Measures for Screening Case Risks".

In accordance with the relevant requirements of Generally Accepted Accounting Principles and the International Financial Reporting Standards, the Company has formulated "China Merchants Bank Accounting Policy Handbook" and the accounting systems for various businesses and established a standardised accounting process, so as to ensure the truthfulness and completeness of its accounting information as well as the truthfulness and fairness of its financial statements. During the reporting period, no material defects were identified in the Company's internal control system in terms of financial reporting.

The Company has formulated the "Accountability System of China Merchants Bank Co., Ltd. in relation to Serious Faults in Information Disclosure in the Annual Report", and complied with the principles of truthfulness, accuracy, completeness, timeliness and fairness in information disclosure, ensuring effective communication within the Company and that between the Company and external parties. No material mistake occurred in information disclosure during the reporting period.

During the reporting period, the Company assessed the status of its internal control in 2014. As reviewed by the Board of Directors of the Company, no significant defects were found in the Company's internal control system in terms of completeness, reasonableness and effectiveness. For more details, please refer to the "2014 Report on Assessment of Internal Control of China Merchants Bank Co., Ltd.", and the "Auditors' Report on Internal Control" issued by KPMG Huazhen Certified Public Accountants with standard unqualified opinions.

10.2 Internal Audit

The Company has established a sound internal audit mechanism. Firstly, the Company has formulated an independent and vertical internal audit management system. The Head Office has an audit department which consists of 9 audit divisions. The audit department at the Head Office carries out the examination, supervision and appraisal functions independently, and reported to the Board of Directors and its audit committee. The person in charge of the audit department at the Head Office shall be appointed by the Board of Directors. The annual audit plan shall be approved by the Board of Directors and the audit results shall be reported to the Board of Directors. Secondly, the Company formulated a set of systems comprising of general rules, operational rules and practice based on the "Internal Audit Constitution of China Merchants Bank" and established an inspection model that gives equal emphasis on onsite and offsite checks.

The Audit Department of the Company shall supervise, inspect and assess the effectiveness of the management activities, risk profile and internal control of the whole Bank (including domestic and overseas branches, business management departments, affiliates), follow up the rectification of audit findings, and provide independent audit advices and the recommendations on operation management to the Board of Directors, promote the rectification and implementation of audit findings and strengthen the examination and application of rectifications.

In 2014, the Company started its audit work with enhancing the investigation of misconducts, the appraisal of internal control performance and the revelation of potential risks, which has further improved the internal control and risk management of the Company and ensured a sustainable and healthy development of various businesses of the Bank.

Report of The Board of Supervisors

During the reporting period, the Board of Supervisors has proactively and effectively carried out supervision on the financial activities, internal control, risk management, lawful operation as well as the duty performance of the Board of Directors and the senior management of the Company pursuant to the Company Law, Articles of Association of the Company and supervisory duties delegated by relevant supervisory authorities.

Independent opinions on relevant matters from the Board of Supervisors:

Lawful operation

During the reporting period, the business activities of the Company complied with the Company Law, Commercial Banking Law and Articles of Association, the internal control system was improved, and the decision making procedures were lawful and valid. None of the directors and senior management of the Company was found to have violated the relevant laws, regulations or the Articles of Association or had done anything detrimental to the interests of the Company and shareholders.

Authenticity of financial statements

KPMG Huazhen Certified Public Accountants and KPMG Certified Public Accountants audited the financial reports for 2014 in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively and have each produced a standard unqualified audit report, stating that the financial reports give a true, objective and accurate view of the financial position and operating results of the Company.

Purchase and sale of assets

During the reporting period, the Company has no new significant acquisition or disposal of assets.

Related party transactions

During the reporting period, the Board of Supervisors was not aware of any related party transactions which were not conducted on an arm's length basis or were detrimental to the interests of the Company and its shareholders.

Implementation of resolutions passed at the general meeting(s)

The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meeting in 2014, and concluded that the Board of Directors had duly implemented relevant resolutions passed at the general meeting(s).

Internal control

The Board of Supervisors had reviewed the "Report on Assessment of Internal Control of China Merchants Bank Co., Ltd. for 2014", and concurred with the Board of Directors' representations regarding the completeness, reasonableness, effectiveness and implementation of the internal control system of the Company.

By Order of the Board of Supervisors
Liu Yuan
Chairman of the Board of Supervisors

18 March 2015

Financial Statements

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Independent Auditor's Report

KPMG

Independent auditor's report to the shareholders of China Merchants Bank Co., Ltd
(a joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Merchants Bank Co., Ltd (the "Bank") and its subsidiaries (together the "Group") set out on pages 151 to 317, which comprise the consolidated and Bank statements of financial position as at 31 December 2014, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated and Bank statements of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

18 March 2015

Consolidated Statement of Profit or Loss

For the year ended 31 December 2014

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2014	2013
Interest income	3	222,834	173,495
Interest expense	4	(110,834)	(74,582)
Net interest income		112,000	98,913
Fee and commission income	5	48,543	31,365
Fee and commission expense		(3,847)	(2,181)
Net fee and commission income		44,696	29,184
Other net income	6	9,671	4,933
Operating income		166,367	133,030
Operating expenses	7	(61,081)	(54,144)
Charge for insurance claims		(332)	(331)
Operating profit before impairment losses		104,954	78,555
Impairment losses	11	(31,681)	(10,218)
Share of profits of associates		2	53
Share of profits of joint ventures		156	35
Profit before taxation		73,431	68,425
Income tax	12	(17,382)	(16,683)
Profit for the year		56,049	51,742
Attributable to:			
Equity shareholders of the Bank		55,911	51,743
Non-controlling interests		138	(1)
Earnings per share			
Basic and diluted (RMB)	14	2.22	2.30

The notes on pages 162 to 317 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2014	2013
Profit for the year		56,049	51,742
Other comprehensive income for the year			
Items that will be reclassified to profit or loss			
Exchange difference on translation of financial statements of overseas subsidiaries		427	(471)
Available-for-sale financial assets: net movement in fair value reserve		7,415	(5,576)
Cash flow hedge: net movement in hedging reserve		788	(690)
Equity-accounted investees-share of other comprehensive income		35	(8)
		8,665	(6,745)
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability		–	74
Other comprehensive income for the year	13	8,665	(6,671)
Attributable to:			
Equity shareholders of the Bank		8,664	(6,671)
Non-controlling interests		1	–
Total comprehensive income for the year		64,714	45,071
Attributable to:			
Equity shareholders of the Bank		64,575	45,072
Non-controlling interests		139	(1)

The notes on pages 162 to 317 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2014

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2014	2013
Assets			
Cash		14,793	15,662
Precious metals		15,222	6,633
Balances with central bank	15	639,992	501,577
Balances with banks and other financial institutions	16	55,986	38,850
Placements with banks and other financial institutions	17	124,085	148,047
Amounts held under resale agreements	18	344,980	318,905
Loans and advances to customers	19	2,448,754	2,148,330
Interest receivable	20	23,560	17,699
Financial assets at fair value through profit or loss	21(a)	40,190	23,223
Derivative financial assets	53(f)	9,315	5,925
Available-for-sale financial assets	21(b)	278,526	289,911
Held-to-maturity investments	21(c)	259,434	208,927
Debt securities classified as receivables	21(d)	408,752	235,415
Interest in joint ventures	23	1,465	759
Interest in associates	24	19	19
Property and equipment	25	27,445	24,199
Investment properties	26	1,684	1,701
Intangible assets	27	3,292	2,996
Goodwill	28	9,953	9,953
Deferred tax assets	29	10,291	8,064
Other assets	30	14,091	9,604
Total assets		4,731,829	4,016,399
Liabilities			
Borrowing from central bank		20,000	–
Deposits from banks and other financial institutions	31	697,448	514,182
Placements from banks and other financial institutions	32	94,603	125,132
Amounts sold under repurchase agreements	33	66,988	153,164
Deposits from customers	34	3,304,438	2,775,276
Interest payable	35	45,349	30,988
Financial liabilities at fair value through profit or loss	21(e)	13,369	21,891
Derivative financial liabilities	53(f)	10,246	8,235
Debt securities issued	36	106,155	68,936
Salaries and welfare payable	37(a)	6,068	5,119
Tax payable	38	11,656	8,722
Deferred tax liabilities	29	771	770
Other liabilities	39	39,678	38,028
Total liabilities		4,416,769	3,750,443

The notes on pages 162 to 317 form part of these financial statements.

	Note	2014	2013
Equity			
Share capital	40	25,220	25,220
Capital reserve	41	67,523	67,523
Investment revaluation reserve	42	1,902	(5,547)
Hedging reserve	43	(163)	(951)
Surplus reserve	44	28,690	23,502
Regulatory general reserve	45	53,979	46,347
Retained profits		121,665	95,471
Proposed profit appropriations	46(b)	16,897	15,636
Exchange reserve	47	(1,309)	(1,736)
Total equity attributable to shareholders of the Bank		314,404	265,465
Non-controlling interests	56	656	491
Total equity		315,060	265,956
Total equity and liabilities		4,731,829	4,016,399

Approved and authorised for issue by the Board of Directors on 18 March 2015.

Li Jianhong
Director

Tian Huiyu
Director

Company Chop

The notes on pages 162 to 317 form part of these financial statements.

Statement of Financial Position

At 31 December 2014

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2014	2013
Assets			
Cash		14,290	14,918
Precious metals		15,176	6,633
Balances with central bank	15	630,661	496,469
Balances with banks and other financial institutions	16	47,015	28,660
Placements with banks and other financial institutions	17	137,848	144,968
Amounts held under resale agreements	18	343,955	318,023
Loans and advances to customers	19	2,222,388	1,962,035
Interest receivable	20	22,411	16,819
Financial assets at fair value through profit or loss	21(a)	37,218	20,394
Derivative financial assets	53(f)	8,346	5,515
Available-for-sale financial assets	21(b)	262,942	273,923
Held-to-maturity investments	21(c)	254,708	203,503
Debt securities classified as receivables	21(d)	408,504	236,585
Investments in subsidiaries	22	39,490	35,273
Interest in joint ventures	23	646	171
Interest in associates	24	–	–
Property and equipment	25	23,510	20,653
Investment properties	26	581	507
Intangible assets	27	2,279	1,973
Deferred tax assets	29	9,962	7,820
Other assets	30	8,434	7,152
Total assets		4,490,364	3,801,994
Liabilities			
Borrowing from central bank		20,000	–
Deposits from banks and other financial institutions	31	700,042	509,640
Placements from banks and other financial institutions	32	40,059	69,828
Amounts sold under repurchase agreements	33	66,075	151,861
Deposits from customers	34	3,158,746	2,654,881
Interest payable	35	43,873	29,779
Financial liabilities at fair value through profit or loss	21(e)	12,929	21,360
Derivative financial liabilities	53(f)	9,266	7,802
Debt securities issued	36	84,559	50,143
Salaries and welfare payable	37(a)	5,367	4,634
Tax payable	38	11,105	8,219
Other liabilities	39	27,843	27,543
Total liabilities		4,179,864	3,535,690

The notes on pages 162 to 317 form part of these financial statements.

	Note	2014	2013
Equity			
Share capital	40	**25,220**	25,220
Capital reserve	41	**76,681**	76,681
Investment revaluation reserve	42	**1,646**	(5,641)
Hedging reserve	43	**(163)**	(951)
Surplus reserve	44	**28,690**	23,502
Regulatory general reserve	45	**53,208**	45,762
Retained profits		**108,319**	86,099
Proposed profit appropriations	46(b)	**16,897**	15,636
Exchange reserve	47	**2**	(4)
Total equity		**310,500**	266,304
Total equity and liabilities		**4,490,364**	3,801,994

Approved and authorised for issue by the Board of Directors on 18 March 2015.

Li Jianhong
Director

Tian Huiyu
Director

Company Chop

The notes on pages 162 to 317 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

(Expressed in millions of Renminbi unless otherwise stated)

		2014											
		Total equity attributable to equity shareholders of the Bank											
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropria-tions	Exchange reserve	Subtotal	Non-controlling interests	Total
At 1 January 2014		25,220	67,523	(5,547)	(951)	23,502	46,347	95,471	15,636	(1,736)	265,465	491	265,956
Amounts increase/(decrease) for the year		–	–	7,449	788	5,188	7,632	26,194	1,261	427	48,939	165	49,104
(a) Profit for the year		–	–	–	–	–	–	55,911	–	–	55,911	138	56,049
(b) Other comprehensive income for the year	13	–	–	7,449	788	–	–	–	–	427	8,664	1	8,665
Total comprehensive income for the year		–	–	7,449	788	–	–	55,911	–	427	64,575	139	64,714
(c) Changes by the shareholder's equity													
(i) Contribution to non-wholly owned subsidiaries	56	–	–	–	–	–	–	–	–	–	–	84	84
(ii) Decrease in non-controlling interests		–	–	–	–	–	–	–	–	–	–	(38)	(38)
(d) Profit appropriations													
(i) Appropriations to statutory surplus reserve	44	–	–	–	–	5,188	–	(5,188)	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	45	–	–	–	–	–	7,632	(7,632)	–	–	–	–	–
(iii) Dividends paid for the year 2013		–	–	–	–	–	–	–	(15,636)	–	(15,636)	(20)	(15,656)
(iv) Proposed dividends for the year 2014		–	–	–	–	–	–	(16,897)	16,897	–	–	–	–
At 31 December 2014		25,220	67,523	1,902	(163)	28,690	53,979	121,665	16,897	(1,309)	314,404	656	315,060

The notes on pages 162 to 317 form part of these financial statements.

		2013											
		Total equity attributable to equity shareholders of the Bank											
	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropria-tions	Exchange reserve	Subtotal	Non-controlling interests	Total
At 1 January 2013		21,577	37,508	37	(261)	18,618	39,195	71,326	13,593	(1,265)	200,328	73	200,401
Amounts increase/(decrease) for the year		3,643	30,015	(5,584)	(690)	4,884	7,152	24,145	2,043	(471)	65,137	418	65,555
(a) Profit for the year		–	–	–	–	–	–	51,743	–	–	51,743	(1)	51,742
(b) Other comprehensive income for the year	13	–	–	(5,584)	(690)	–	–	74	–	(471)	(6,671)	–	(6,671)
Total comprehensive income for the year		–	–	(5,584)	(690)	–	–	51,817	–	(471)	45,072	(1)	45,071
(c) Changes by the shareholder's equity													
(i) Establishment of non-wholly owned subsidiaries	56	–	–	–	–	–	–	–	–	–	–	81	81
(ii) Issuing shares		3,643	30,015	–	–	–	–	–	–	–	33,658	–	33,658
(iii) Acquisition of subsidiary		–	–	–	–	–	–	–	–	–	–	338	338
(d) Profit appropriations													
(i) Appropriations to statutory surplus reserve	44	–	–	–	–	4,884	–	(4,884)	–	–	–	–	–
(ii) Appropriations to regulatory general reserve	45	–	–	–	–	–	7,152	(7,152)	–	–	–	–	–
(iii) Dividends paid for the year 2012		–	–	–	–	–	–	–	(13,593)	–	(13,593)	–	(13,593)
(iv) Proposed dividends for the year 2013		–	–	–	–	–	–	(15,636)	15,636	–	–	–	–
At 31 December 2013		25,220	67,523	(5,547)	(951)	23,502	46,347	95,471	15,636	(1,736)	265,465	491	265,956

The notes on pages 162 to 317 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2014

(Expressed in millions of Renminbi unless otherwise stated)

2014

	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Total
At 1 January 2014		25,220	76,681	(5,641)	(951)	23,502	45,762	86,099	15,636	(4)	266,304
Amounts increase/(decrease) for the year		–	–	7,287	788	5,188	7,446	22,220	1,261	6	44,196
(a) Profit for the year		–	–	–	–	–	–	51,751	–	–	51,751
(b) Other comprehensive income for the year	13	–	–	7,287	788	–	–	–	–	6	8,081
Total comprehensive income for the year		–	–	7,287	788	–	–	51,751	–	6	59,832
(c) Profit appropriations											
(i) Appropriations to statutory surplus reserve	44	–	–	–	–	5,188	–	(5,188)	–	–	–
(ii) Appropriations to regulatory general reserve	45	–	–	–	–	–	7,446	(7,446)	–	–	–
(iii) Dividends paid for the year 2013	46(a)	–	–	–	–	–	–	–	(15,636)	–	(15,636)
(iv) Proposed dividends for the year 2014	46(b)	–	–	–	–	–	–	(16,897)	16,897	–	–
At 31 December 2014		25,220	76,681	1,646	(163)	28,690	53,208	108,319	16,897	2	310,500

2013

	Note	Share capital	Capital reserve	Investment revaluation reserve	Hedging reserve	Surplus reserve	Regulatory general reserve	Retained profits	Proposed profit appropriations	Exchange reserve	Total
At 1 January 2013		21,577	46,666	(46)	(261)	18,618	38,849	65,194	13,593	–	204,190
Amounts increase/(decrease) for the year		3,643	30,015	(5,595)	(690)	4,884	6,913	20,905	2,043	(4)	62,114
(a) Profit for the year		–	–	–	–	–	–	48,338	–	–	48,338
(b) Other comprehensive income for the year	13	–	–	(5,595)	(690)	–	–	–	–	(4)	(6,289)
Total comprehensive income for the year		–	–	(5,595)	(690)	–	–	48,338	–	(4)	42,049
(c) Issuing shares		3,643	30,015	–	–	–	–	–	–	–	33,658
(d) Profit appropriations											
(i) Appropriations to statutory surplus reserve	44	–	–	–	–	4,884	–	(4,884)	–	–	–
(ii) Appropriations to regulatory general reserve	45	–	–	–	–	–	6,913	(6,913)	–	–	–
(iii) Dividends paid for the year 2012	46(a)	–	–	–	–	–	–	–	(13,593)	–	(13,593)
(iv) Proposed dividends for the year 2013	46(b)	–	–	–	–	–	–	(15,636)	15,636	–	–
At 31 December 2013		25,220	76,681	(5,641)	(951)	23,502	45,762	86,099	15,636	(4)	266,304

The notes on pages 162 to 317 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2014

(Expressed in millions of Renminbi unless otherwise stated)

	Note	2014	2013
Cash flows from operating activities			
Profit before tax		73,431	68,425
Adjustments for:			
– Impairment losses on loans and advances		31,254	10,196
– Impairment losses on investments and other assets		427	22
– Unwind of discount		(655)	(406)
– Depreciation of property and equipment and investment properties		3,535	3,295
– Amortisation of other assets		413	335
– Net gain on debt securities and equity investments		(4,177)	(2,357)
– Interest income on investments		(37,749)	(21,621)
– Interest expense on issued debt securities		3,921	3,281
– Share of profits of associates		(2)	(53)
– Share of profits of joint ventures		(156)	(35)
– Net gain on disposal of property and equipment		(3)	(6)
Changes in:			
Balances with central bank		(59,267)	(34,993)
Loans and advances to customers		(331,091)	(294,708)
Other assets		(32,283)	(11,584)
Deposits from customers		529,162	242,832
Deposits and placements from banks and other financial institutions		66,561	266,018
Balances and placements with banks and other financial institutions with original maturity over 3 months		24,909	(131,822)
Borrowing from central bank		20,000	–
Other liabilities		3,693	38,127
Cash generated from operations		291,923	134,946
Income tax paid		(19,750)	(15,793)
Net cash flows from operating activities		272,173	119,153
Cash flows used in investing activities			
Payment for purchase of investments		(787,928)	(798,001)
Proceeds from disposal of investments		579,100	552,287
Gains received from investments		39,675	21,849
Payment for purchase of property and equipment and other assets		(8,125)	(8,211)
Proceeds from sale of property and equipment and other assets		1,297	405
Loans repaid by joint ventures		2	2
Net cash flows used in investing activities		(175,979)	(231,669)

The notes on pages 162 to 317 form part of these financial statements.

	Note	2014	2013
Cash flows from financing activities			
Proceeds from issue of debt securities		20,471	4,000
Proceeds from issue of negotiable interbank certificates of deposit		24,155	2,968
Proceeds from issue of certificates of deposit		29,377	29,120
Proceeds from issue of share capital		–	33,658
Cash received from non-controlling shareholders		84	81
Repayment of debt securities		–	(23,000)
Repayment of negotiable interbank certificates of deposit		(3,000)	–
Repayment of certificates of deposit		(31,790)	(18,706)
Repayment of redemption of non-controlling equity		(38)	–
Dividends paid		(15,656)	(13,593)
Interest paid on issued debt securities		(1,724)	(3,516)
Net cash flows from financing activities		21,879	11,012
Net increase/(decrease) in cash and cash equivalents		118,073	(101,504)
Cash and cash equivalents at 1 January		349,949	452,855
Effect of foreign exchange rate changes		3,449	(1,402)
Cash and cash equivalents at 31 December	48(a)	471,471	349,949
Cash flows from operating activities include:			
Interest received		188,752	149,145
Interest paid		112,124	64,020

The notes on pages 162 to 317 form part of these financial statements.

Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

1 Organisation and principal activities

(a) Organisation

China Merchants Bank Co., Ltd. (the "Bank") is a commercial bank incorporated in Shenzhen, the People's Republic of China (the "PRC"). With the approval of the China Securities Regulatory Commission (the "CSRC") of the PRC, the A-Shares of the Bank were listed on Shanghai Stock Exchange on 9 April 2002.

On 22 September 2006, the Bank's H Shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "HKEx").

As at 31 December 2014, apart from the Head Office, the Bank had 46 branches in the Mainland China, Hong Kong, the United States of America and Singapore. In addition, the Bank has four representative offices in Beijing, London, New York and Taipei.

(b) Principal activities

The principal activities of the Bank and its subsidiaries (the "Group") are the provision of corporate and personal banking services, conducting treasury business, the provision of asset management and other financial services.

2 Significant accounting policies

(a) Statement of compliance and basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations promulgated by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the HKEx.

2 Significant accounting policies *(continued)*

(b) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 2 to both periods presented in these consolidated financial statements.

The Group has adopted the following new standards, amendments to standards and interpretations, including any consequential amendments to other standards, with an initial effective date of 1 January 2014.

- **Amendments to IFRS 10 – Consolidated Financial Statement, IFRS 12 – Disclosure of Interests in Other Entities and IAS 27 – Separate Financial Statements, Investment entities**

  The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. The adoption does not have any material impact on the Group's financial statements.

- **Amendments to IAS 32 – Financial Instrument: Presentation, Offsetting Financial Assets and Financial Liabilities**

  The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The adoption does not have any material impact on the Group's financial statements.

- **Amendments to IAS 36 – Impairment of Assets, Recoverable Amount Disclosures for Non-Financial Assets**

  The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generated unit ("CGU") whose recoverable amount is based on fair value less disposal costs. The adoption does not have any material impact on the Group's financial statements.

- **Amendments to IAS 39 – Financial Instruments: Recognition and Measurement, Novation of Derivatives and Continuation of Hedge Accounting**

  The amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The adoption does not have any material impact on the Group's financial statements.

- **Interpretation to HK(IFRIC) 21- Levies**

  The Interpretations Committee decided that, for the purposes of this interpretation, a levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation. The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. This interpretation does not have any material impact on the Group's financial statements.

2 Significant accounting policies *(continued)*

(c) Basis of measurement

Unless stated otherwise, the financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency, rounded to the nearest million.

The financial statements are prepared using the historical cost basis except that financial assets and liabilities at fair value through profit or loss including derivatives, and available-for-sale financial assets are stated at their fair value.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the future period are discussed in note 54.

(d) Subsidiaries and non-controlling interests

The financial statements include the financial statements of the Bank and its subsidiaries. Subsidiaries are enterprises controlled by the Bank. The group controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has ability to affect those returns through its power over the entity. The results and affairs of the subsidiaries are included from the date that control commences until the date that control ceases.

The results of the subsidiaries are included in the consolidated result of the Group. All significant intercompany transactions and balances, and any unrealised gains or losses arising from intercompany transactions, have been eliminated on consolidation.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's identifiable net assets. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the net profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in a joint venture (see note 2(e)) or, an associate (see note 2(f)).

In the Bank's statement of financial position, its investments in subsidiaries are stated at cost less allowances for impairment losses.

2 Significant accounting policies *(continued)*

(e) Joint ventures

A joint venture is an arrangement in which the group has joint control, where by the group has rights to the net assets of the arrangement, rather than rights to its assets and obligation for its liabilities.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

When judge whether there is a joint control, the Group usually considers the following cases:

– whether any party with in the joint arrangement cannot control the relevant activities of the joint ventures;

– whether the decisions about the joint ventures' relevant activities require the unanimous consent of the parties sharing control.

The consolidated statement of profit or loss includes the Group's share of the results of joint ventures for the year and the consolidated statement of financial position includes the Group's share of the net assets of the joint ventures.

In the Bank's statement of financial position, the interests in joint ventures are stated at cost less allowance for impairment losses. The results of joint ventures are accounted for by the Bank on the basis of dividends received and receivable.

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(f)).

(f) Associates

Associates are entities in which the Group or the Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

When judge whether there is a significant influence, the Group usually considers the following cases:

– representation on the Board of Directors or equivalent governing body of the investee;

– participation in policy-making processes;

– material transactions between the entity and its investee.

Investment in associates is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair value of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associates' net assets. Any acquisition-date excess over cost, the consolidated statement of profit or loss includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in the associates recognised for the year (see notes 2(g) and (n)).

2 Significant accounting policies *(continued)*

(f) Associates *(continued)*

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under equity method together with the Group's interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the consolidated statement of profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(i)).

In the Bank's statement of financial position, its interests in associates are stated at cost less impairment losses, if any. The results of associates are accounted for by the Bank on the basis of dividends received and receivable.

(g) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each CGU, or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(n)(ii)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(h) Intangible assets

Intangible assets are stated at cost less accumulated amortisation (only intangible assets with finite useful lives) and impairment losses (see note 2(n)(ii)). Amortisation of intangible assets with finite useful lives is amortised on a straight-line basis over the assets' estimated useful lives (2 – 50 years).

Land use rights are stated at cost, amortised on a straight-line basis over the respective lease periods of 40 – 50 years.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. The Group does not have intangible assets with useful lives assessed to be indefinite as at 31 December 2014.

2 Significant accounting policies *(continued)*

(i) Financial instruments

(i) Initial recognition and classification

All financial assets and financial liabilities are recognised in the consolidated statement of financial position when and only when, the Group becomes a party to the contractual provisions of the instruments. Financial assets are derecognised on the date when the contractual rights to substantially all the risks and rewards of ownership or the cash flows expire are transferred.

Except for loans and advances to customers that is recognised using settlement date accounting, purchase or sale of other financial assets is recognised using trade date accounting.

Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expired.

At initial recognition, all financial assets and liabilities are measured at fair value. In the case of a financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data.

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are:

– financial assets and financial liabilities at fair value through profit or loss, include those financial assets and financial liabilities held principally for the purpose of short term profit taking and those financial assets and liabilities that are designated by the Group upon recognition as at fair value through profit or loss.

  All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative;

– financial instruments are designated at fair value through profit or loss upon initial recognition when:

  – the assets or liabilities are managed, evaluated and reported internally on a fair value basis;

  – the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;

  – the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

  – the separation of the embedded derivative from the financial instrument is not prohibited;

– held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that the Group has the positive intent and ability to hold to maturity;

– loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term, and those that are designated as available-for-sale financial assets upon initial recognition;

– available-for-sale financial assets are financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity financial assets; and

– other financial liabilities, other than that at fair value through profit or loss, are measured at amortised cost using the effective interest method.

2 Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

(i) Initial recognition and classification *(continued)*

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities not at fair value through profit or loss, which are measured at amortised cost using the effective interest method.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the consolidated statement of profit or loss when they arise.

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the consolidated statement of profit or loss.

For financial assets and liabilities measured at amortised cost, a gain or loss is recognised in the consolidated statement of profit or loss when the financial asset or liability is derecognised, impaired and amortised.

(ii) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions of the assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Group uses valuation techniques to maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and value is neither evidenced by a quoted price in an active market for an identical asset nor based on a valuation technique that uses only data from observable markets, then the instrument is initially measured at fair value, adjusted to defer the difference between value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than valuation is wholly supported by observable market data or the transaction is closed out.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities.

The fair value of a demand deposit is not less than the amount payable on demand. The Group recognises transfers between levels of the fair value hierarchy as of the end reporting period during which the change has occurred.

2 Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

(iii) Hedge accounting

The Group designates certain derivatives as hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedge"). Hedge accounting is applied to derivatives designated as hedging instruments in cash flow hedge provided certain criteria are met.

It is the Group's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items attributable to the hedged risks.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedge are recognised in other comprehensive income and accumulated separately in equity. Any gain or loss relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss within "trading profits" of "other net income".

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

Hedge effectiveness testing

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

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

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

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value and do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss. These gains and losses are recognised in "trading profits" of "other net income".

2 Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

(iv) Specific items

Cash equivalents

Cash equivalents comprise balances with banks and the central bank, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Placements with banks and other financial institutions

Banks represent other banks approved by the People's Bank of China ("PBOC") and other authorities. Other financial institutions represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC") and insurance companies, securities firms, and investment fund companies, etc. which are registered with and under the supervision of other regulatory authorities. Placements with banks and other financial institutions are accounted for as loans and receivables.

Investments

Equity investments are accounted for as financial assets at fair value through profit or loss or available-for-sale financial assets. Debt investments are classified as financial assets at fair value through profit or loss, held-to-maturity investments, debt securities classified as receivables, and available-for-sale financial assets in accordance with the Group's holding intention at acquisition.

Loans and advances to customers

Loans and advances directly granted by the Group to customers, participation in syndicated loans and finance leases receivables are accounted for as loans and advances to customers.

(v) Derivative financial instruments

The Group's derivative financial instruments mainly include spot, forward and foreign currency swaps, interest rate swaps and option contracts undertaken in response to customers' needs or for the Group's own asset and liability management purposes. To hedge against risks arising from derivative transactions undertaken for customers, the Group enters into similar derivative contracts with other banks.

Derivative financial instruments are stated at fair value, with gains and losses arising recognised in the consolidated statement of profit or loss.

(vi) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

– the host contract is not itself carried at fair value through profit or loss;

– the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and

– the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

2 Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

(vii) Securitisations

The Group securitises various credit assets, which generally results in the sale of these assets to special purpose entities, which, in turn issue securities to investors. Interests in the securitised financial assets may be retained in the form of senior or junior tranches, or other residual interests (retained interests). Retained interests are stated at fair value on the statement of financial position of the Group. Gains or losses on securitisation depend on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair value at the date of the transfer. Gains or losses on securitisation are recorded in "other net income".

When applying the policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on the transferred financial assets and the degree of control exercised by the Group over the transferred financial assets:

- when the Group transfers substantially all the risks and rewards of ownership of the financial assets, the Group shall derecognise the financial assets;
- when the Group retains substantially all the risks and rewards of ownership of the financial assets, the Group shall continue to recognise the financial assets; and
- when the Group neither transfers nor retains substantially all the risk and rewards of ownership of the financial assets, the Group would determine whether it has retained control of the financial assets. If the Group has not retained control, it shall derecognise the financial assets and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer. If the Group has retained control, it shall continue to recognise the financial assets to the extent of its continuing involvement in the financial assets.

2 Significant accounting policies *(continued)*

(j) Property, equipment, investment property and depreciation

Property, equipment and investment property, are stated at cost or deemed cost less accumulated depreciation. These also include land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease.

Depreciation is calculated to write off the cost of property, equipment and investment property over their following estimated useful lives, after taking into account an estimated residual value on a straight-line basis:

Land and buildings	20 years
Investment properties	20 years
Computer equipment	3 years
Motor vehicles and others	3 – 5 years
Leasehold improvements (leasing property)	3 years
Leasehold improvements (self-owned property)	the estimated useful lives

Construction in progress represents property under construction and is stated at cost less impairment losses. Cost comprises the direct and indirect cost of construction. Construction in progress is transferred to an appropriate class of property and other asset when the asset is ready for its intended use. No depreciation is provided for construction in progress.

The carrying amount of property, equipment and investment property is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of impairment loss is recognised in the consolidated statement of profit or loss. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values.

Subsequent expenditure relating to a property, equipment and investment property is capitalised only when it is probable that future economic benefits associated with the property and equipment will flow to the Group. All other expenditure is recognised in the consolidated statement of profit or loss as an expense as incurred.

Profits or losses on disposal of property, equipment and investment property are determined as the difference between the net disposal proceeds and the carrying amount of the property, equipment, investment property and are accounted for in the consolidated statement of profit or loss as they arise.

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. When it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in “other assets”.

Repossessed assets are measured at fair value at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the consolidated statement of profit or loss.

2 Significant accounting policies *(continued)*

(l) Finance and operating lease

(i) Classification

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as "loans and advances to customers". Unrecognised finance income under finance leases are amortised using an effective interest rate method over the lease term. Finance income implicit in the lease payment is recognised as "interest income" over the period of the leases in proportion to the funds invested. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n)(i).

(iii) Operating leases

– *Operating lease*

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

– *Assets leased out under operating leases*

Property, equipment and investment property leased out under operating leases are depreciated in accordance with the depreciation policies described in Note 2(j) and if impaired, impairment losses are provided for in accordance with the accounting policy described in Note 2(n)(ii). Income derived from operating leases is recognised in the statement of profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent lease income is charged to profit or loss in the accounting period in which they are incurred.

(m) Resale and repurchase agreements

Amounts for purchase of securities under resale agreements are accounted for under "amounts held under resale agreements". Amounts from sale of securities under repurchase agreements are accounted for under "amounts held under repurchase agreements".

The difference between the purchase and resale consideration or sale and repurchase consideration is amortised over the period of the transaction using the effective interest method and is included in interest income or expense, as appropriate.

2 Significant accounting policies *(continued)*

(n) Impairment

(i) Financial assets

Financial assets are assessed at the end of each reporting period to determine whether there is any objective evidence that a financial asset or a group of financial assets 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 and that 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 evidences include:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;

– disappearance of an active market for financial assets because of financial difficulties; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in consolidated statement of profit or loss.

Impairment losses on loans and advances to customers

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

– *Individually assessed*

  Loans and advances which are considered individually significant are assessed individually for impairment.

  Impairment allowances are made on individually impaired significant loans when there is objective evidence of impairment that will impact the estimated future cash flows of the loan. Individually impaired loans and advances are graded as substandard or below.

  Impairment allowance of an individually impaired significant loan is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loans and advances' applicable effective interest rate. The carrying amount of the loan is reduced through the allowance for impairment losses.

  The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

– *Collectively assessed*

  Impairment allowances are calculated on a collective basis for the following:

  – no objective evidence of impairment exists for an individually assessed loans; and

  – for homogeneous groups of loans that are not individually significant with similar credit risk characteristics.

2 Significant accounting policies *(continued)*

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

Impairment losses on loans and advances to customers (continued)

– *Collectively assessed (continued)*

Incurred but not yet identified impairment

If no objective evidence of impairment exists for an individually assessed loan on an individual basis, whether significant or not, the loans are grouped in a pool of loans with similar credit risk characteristics for the purpose of calculating a collective impairment allowance. This allowance covers loans that are impaired at the end of the reporting period but will not be individually identified as such until some time in the future. As soon as information is available that specifically identifies objective evidence of impairment on individual loans in the pool of loans, those loans are removed from the pool. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment. The collective assessment allowance is determined after taking into account:

– the structure and risk characteristics of the Group's loan portfolio (indicating the borrower's ability to repay all loans) and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience;

– the emergence period between a loss occurring and that loss being identified and evidenced by the establishment of an allowance against the loss on an individual loan; and

– management's judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of loans

Portfolios of homogeneous loans are collectively assessed using roll rate or historical loss rate methodologies. Overdue period represents the major observable objective evidence for impairment.

Impairment losses are recognised in the consolidated statement of profit or loss.

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

When the Group determines that a loan has no reasonable prospect of recovery after the group has completed all the necessary legal or other proceedings, the loan is written off against its allowance for impairment losses. Amount recovered from a loan that has been written off will be recognised as income through the impairment loss account in the consolidated statement of profit or loss.

Loans and advance with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and advances are subject to ongoing monitoring to determine whether they remained as impaired or overdue.

In the recovery of impaired loans, the Group may take repossession of the collateral assets through court proceedings or voluntary delivery of repossession by the borrowers.

2 Significant accounting policies *(continued)*

(n) Impairment *(continued)*

(i) Financial assets *(continued)*

Impairment losses on available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income is removed from other comprehensive income and is recognised in the consolidated statement of profit or loss even though the financial assets has not been derecognised.

The amount of the cumulative loss that is recognised in the consolidated statement of profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in consolidated statement of profit or loss. For an available-for-sale asset that is not carried at fair value as its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed, with the amount of the reversal being recognised in the consolidated statement of profit or loss.

Impairment losses recognised in the consolidated statement of profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through the consolidated statement of profit or loss. Any subsequent increase in the fair value of these assets is recognised directly in equity.

(ii) Other assets

Internal and external sources of information are reviewed at the end of the reporting period to identify indications that other assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated by the Group at the end of the reporting period whether or not there is any indication of impairment.

2 Significant accounting policies *(continued)*

(n) Impairment *(continued)*

(ii) Other assets *(continued)*

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in the consolidated statement of profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversal of impairment losses*

Once recognised, the impairment losses will never be reversed.

(o) Convertible bonds issued

At initial recognition the liability component of the convertible bonds issued is calculated as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar debt securities that do not have a conversion option. The liability component is subsequently carried at amortised cost until it is converted or redeemed. Any excess of proceeds over the amount initially recognised as the liability component is in substance an option and is recognised as the equity component in the capital reserve.

If the bond is converted into shares, the carrying value of the liability component and any interest payable at the time of conversion, are transferred to "share capital" based on the numbers of shares issued at par and the differences are recognised as share premium in capital reserve.

2 Significant accounting policies *(continued)*

(p) Financial guarantee issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within "other liabilities".

The deferred income is amortised in the consolidated statement of profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(n)(ii) and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Income recognition

(i) Interest income

Interest income is recognised in the consolidated statement of profit or loss on an accruals basis, taking into account the effective interest rate of the instrument or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of any interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

When a financial asset or a group of financial assets are impaired, interest income is recognised on the impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

Interest income and expenses from all financial assets and liabilities that are classified as financial assets at fair value through profit or loss are considered to be incidental and are therefore presented together with all other changes in fair value arising from the portfolio. Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense, foreign exchange differences and dividend income attributable to those financial instruments.

2 Significant accounting policies *(continued)*

(q) Income recognition *(continued)*

(ii) Fee and commission income

Fee and commission income is recognised in the consolidated statement of profit or loss when the corresponding service is provided.

(iii) Dividend income

- Dividend income from listed investments is recognised when the underlying investment is declared ex-dividend.
- Where the investments are unlisted, interim dividend income is recognised when declared by the Board of Directors of the investees. Final dividend income is recognised only when the amount proposed by the Board of Directors of the investees is approved by shareholders at general meetings.

(iv) Premium income

Premium income represents gross insurance premium written less reinsurance ceded, as adjusted for unearned premium. Gross premiums written are recognised at date of risk inception.

(r) Taxation

Current income tax and movements in deferred tax balances are recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the statement of financial position liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets also arise from unused tax losses and unused tax credits. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced by the extent that it is no longer probable that the related tax benefit will be realised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group or the Bank has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies *(continued)*

(s) Foreign currencies translations

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated into RMB at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities, and share capital which are measured at historical cost in a foreign currency are translated into RMB at the foreign exchange rates ruling at the date of the transaction, whilst those stated at fair value are translated into RMB at the foreign exchange rate ruling at the date of valuation. Income and expenses denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. When the gain or loss on a non-monetary item, including available-for-sale equity instrument, is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the consolidated statement of profit or loss.

The assets and liabilities of operations outside Mainland China are translated into RMB at the spot exchange rates ruling at the end of the reporting period. The equity items, excluding "Retained profits", are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. The income and expenses of foreign operation are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the transaction dates. Foreign exchange differences arising from translation are recognised as "exchange reserve" in other comprehensive income.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the consolidated statement of profit or loss when the profit or loss on disposal is recognised.

(t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(u) Employee benefits

(i) Salaries and staff welfare

Salaries, bonuses and other benefits are accrued in the period in which the associated services are rendered by employees.

(ii) Post employment benefits

The Group participates in a number of defined contribution retirement benefit schemes managed by different provincial governments or independent insurance companies. Obligation for contributions to these schemes are jointly borne by the Group and the staff, and contributions paid by the Group are recognised as an expense in the consolidated statement of profit or loss as incurred.

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds form the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, considerations in future contributions to the plan. To calculate the present value of economic benefits consideration is given to any applicable minimum funding requirements.

2 Significant accounting policies *(continued)*

(u) Employee benefits *(continued)*

(ii) Post employment benefits *(continued)*

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in the statement of profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Share-based payment

The Group offers equity incentives to its employee, namely H share Appreciation Rights Scheme for the Senior Management (“the Scheme”). The Scheme is accounted for as cash settled plan. The fair value of the equity incentives is measured at grant date using Black-Scholes model, taking into account the terms and condition upon which the equity incentives were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the equity incentives, the total estimated fair value of the equity incentives is spread over the vesting period, taking into account the probability that the equity incentives will vest.

During the vesting period, the equity incentives that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged or credited to the consolidated statement of profit or loss for the year of the review. On vesting date, the amount recognised as an expense is adjusted to reflect the actual amount of equity incentives that vest.

(v) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

2 Significant accounting policies *(continued)*

(w) Segmental reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they meet most of these criteria.

(x) Fiduciary activities

The Group acts in a fiduciary capacity in entrusted loan and entrusted investment business. Assets held by the Group and the related undertakings to return such assets to customers are excluded from the statement of financial position as the risks and rewards of the assets reside with the customers.

(y) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the year in which they are approved and declared.

3 Interest income

	2014	2013
Loans and advances (note)		
– Corporate loans	**82,168**	72,765
– Retail loans	**58,428**	50,120
– Discounted bills	**5,131**	4,745
Balances with central bank	**8,318**	7,296
Balances and placements with banks and other financial institutions	**10,579**	5,390
Amounts held under resale agreements	**20,461**	11,558
Investments (note)	**37,749**	21,621
Interest income on financial assets that are not at fair value through profit or loss	**222,834**	173,495

Note: Included in the above is interest income of RMB655 million accrued for impaired loans during the year ended 31 December 2014 (2013: RMB406 million) and nil for impaired debt securities investments during the year ended 31 December 2014 (2013: Nil).

4 Interest expense

	2014	2013
Deposits from customers	64,102	48,475
Borrowing from central bank	142	–
Deposits and placements from banks and other financial institutions	41,032	20,175
Amounts sold under repurchase agreements	1,637	2,651
Issued debts	3,921	3,281
Interest expense on financial liabilities that are not at fair value through profit or loss	110,834	74,582

5 Fee and commission income

	2014	2013
Bank cards fees	12,894	8,309
Remittance and settlement fees	4,116	2,756
Agency services fees	7,017	5,143
Commissions from credit commitment and lending business	4,204	2,873
Commissions on trust and fiduciary activities	13,033	7,187
Others	7,279	5,097
	48,543	31,365

6 Other net income

	2014	2013
Trading profits arising from		
– Foreign exchange	2,467	891
– Bonds, derivatives and other trading activities	1,659	192
Net gains/(losses) from financial instruments designated at fair value through profit or loss	139	(172)
Net (losses)/gains from available-for-sale financial assets	(145)	138
Distributions from investment in funds	21	19
Rental income	476	414
Gain on disposal of bills	4,238	2,469
Insurance operating income	475	426
Others	341	556
	9,671	4,933

7 Operating expenses

	2014	2013
Staff costs		
– Salaries and bonuses (note (i))	19,968	18,208
– Social insurance and corporate supplementary insurance	4,426	4,008
– Others	4,785	4,774
	29,179	26,990
Business tax and surcharges	10,425	8,579
Depreciation		
– Property, equipment and investment properties depreciation	3,535	3,295
Rental expenses	3,349	2,801
Other general and administrative expenses(note (ii))	14,593	12,479
	61,081	54,144

Notes:

(i) Performance bonus is included in the above salaries and bonuses, the details of which are disclosed in note 37(c).

(ii) Auditors' remuneration amounted to RMB17 million for the year ended 31 December 2014 (2013: RMB16 million).

8 Directors' and Supervisors' emoluments

The emoluments of the Directors and Supervisors during the year are as follows:

	2014				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu	–	4,200	–	546	4,746
Zhang Guanghua	–	3,360	–	437	3,797
Li Hao	–	3,360	–	437	3,797
Non-executive directors					
Li Jianhong (iii)	–	–	–	–	–
Ma Zehua	–	–	–	–	–
Li Xiaopeng (iii)	–	–	–	–	–
Li Yinquan	–	–	–	–	–
Sun Yueying	–	–	–	–	–
Su Min (iii)	–	–	–	–	–
Fu Junyuan	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Independent non-executive directors and supervisors					
Wong Kwai Lam	300	–	–	–	300
Liang Jinsong (iii)	–	–	–	–	–
Pan Chengwei	300	–	–	–	300
Pan Yingli	300	–	–	–	300
Guo Xuemeng	300	–	–	–	300
Zhao Jun (iii)	–	–	–	–	–
Liu Yuan (iii)	–	1,313	–	170	1,483
Zhu Genlin	–	–	–	–	–
An Luming	–	–	–	–	–
Liu Zhengxi	–	–	–	–	–
Pan Ji	225	–	–	–	225
Dong Xiande (iii)	–	–	–	–	–
Jin Qingjun (iii)	60	–	–	–	60
Xiong Kai (iii)	–	401	–	52	453
Huang Dan (iii)	–	–	–	–	–

8 Directors' and Supervisors' emoluments *(continued)*

The emoluments of the Directors and Supervisors during the year are as follows: *(continued)*

	2014				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive, non-executive directors and supervisors					
Fu Yuning (iv)	–	–	–	–	–
Wang Daxiong (iv)	–	–	–	–	–
Xiong Xianliang (iv)	–	–	–	–	–
Yi Xiqun (iv)	75	–	–	–	75
Xu Shanda (iv)	–	–	–	–	–
Xiao Yuhuai (iv)	–	–	–	–	–
Han Mingzhi (iv)	–	2,100	–	273	2,373
Peng Zhijian (iv)	150	–	–	–	150
Shi Rongyao (iv)	150	–	–	–	150
Yu Yong (iv)	–	2,138	–	278	2,416
Guan Qizhi (iv)	–	1,304	–	169	1,473
	1,860	18,176	–	2,362	22,398

Notes:

(i) The total remuneration before tax for the full-time directors, supervisors and executive officers of the Group is not yet finalised. Details of their remaining compensation will be disclosed separately when their total remuneration is confirmed.

(ii) As at 31 December 2014, the Group has offered 7 phases of H share appreciation rights scheme to its senior management ("the Scheme"). In 2014, none of the granted share appreciation rights was exercised. Details of the Scheme are set out in note 37(a)(iii).

(iii) On 30 June 2014, the Bank's 2013 general meeting of shareholders considered and approved the Resolution on election of Li Jianhong as a non-executive director.

On 20 October 2014, the Bank's 2nd 2014 extraordinary general meeting of shareholders considered and approved the Resolution on election of Li Xiaopeng as a non-executive director.

On 30 June 2014, the Bank's 2013 general meeting of shareholders considered and approved the Resolution on election of Su Min as a non-executive director.

On 20 October 2014, the Bank's 2nd 2014 extraordinary general meeting of shareholders considered and approved the Resolution on election of Liang Jinsong as an independent non-executive director.

On 20 October 2014, the Bank's 2nd 2014 extraordinary general meeting of shareholders considered and approved the Resolution on election of Zhao Jun as an independent non-executive director.

From 28 August 2014 to 29 August 2014, the Bank's 14th meeting of the 9th Supervisory Committee considered and approved the Resolution on election of Liu Yuan as a chairman of the Supervisors of the Bank, and elected Liu Yuan as the chairman of the 9th Supervisory Committee of the Bank.

On 30 June 2014, the Bank's 2013 general meeting of shareholders considered and approved the Resolution on election of Dong Xiande as an external supervisor.

On 20 October 2014, the Bank's 2nd 2014 extraordinary general meeting of shareholders considered and approved the Resolution on election of Jin Qingjun as an external supervisor.

On 26 August 2014, the Bank's workers' congress considered and elected Liu Yuan and Xiong Kai as employee supervisors of the 9th Supervisory Committee of the Bank.

On 10 March 2015, the Bank's workers' congress considered and elected Huang Dan as employee supervisor of the 9th Supervisory Committee of the Bank.

8 Directors' and Supervisors' emoluments *(continued)*

Notes: (continued)

(iv) During the reporting period, Fu Yuning retired as the Bank's non-executive director due to the change of job assignment.

During the reporting period, Wang Daxiong retired as the Bank's non-executive director due to the change of job assignment.

During the reporting period, Xiong Xianliang retired as the Bank's non-executive director due to the change of job assignment.

During the reporting period, Yi Xiqun retired as the Bank's independent non-executive director upon expiry of his term of office.

During the reporting period, Xu Shanda retired as the Bank's independent non-executive director due to the change of job assignment.

During the reporting period, Xiao Yuhuai retired as the Bank's independent non-executive director due to the change of job assignment.

During the reporting period, Han Mingzhi retired as the Bank's supervisor due to the change of job assignment.

During the reporting period, Peng Zhijian retired as the Bank's supervisor due to the change of job assignment.

During the reporting period, Shi Rongyao retired as the Bank's supervisor due to the change of job assignment.

During the reporting period, Guan Qizhi retired as the Bank's supervisor due to the change of job assignment.

On 9 March 2015, Yu Yong retired as the Bank's supervisor due to the change of job assignment.

8 Directors' and Supervisors' emoluments *(continued)*

	2013				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tian Huiyu (ii)	–	2,800	1,170	364	4,334
Zhang Guanghua	–	3,097	1,294	403	4,794
Li Hao	–	3,097	1,294	403	4,794
Non-executive directors					
Fu Yuning	–	–	–	–	–
Ma Zehua (ii)	–	–	–	–	–
Li Yinquan	–	–	–	–	–
Fu Gangfeng	–	–	–	–	–
Sun Yueying	–	–	–	–	–
Fu Junyuan	–	–	–	–	–
Hong Xiaoyuan	–	–	–	–	–
Xiong Xianliang	–	–	–	–	–
Wang Daxiong	–	–	–	–	–
Independent non-executive directors and supervisors					
Yi Xiqun	300	–	–	–	300
Xu Shanda (ii)	–	–	–	–	–
Wong Kwai Lam	300	–	–	–	300
Pan Chengwei	300	–	–	–	300
Pan Yingli	300	–	–	–	300
Guo Xuemeng	300	–	–	–	300
Xiao Yuhuai (ii)	–	–	–	–	–
Han Mingzhi	–	3,063	1,155	398	4,616
Zhu Genlin	–	–	–	–	–
An Luming	–	–	–	–	–
Liu Zhengxi	–	–	–	–	–
Peng Zhijian	300	–	–	–	300
Pan Ji	300	–	–	–	300
Shi Rongyao (ii)	175	–	–	–	175
Yu Yong (ii)	–	1,127	–	147	1,274
Guan Qizhi (ii)	–	1,095	–	142	1,237

8 Directors' and Supervisors' emoluments *(continued)*

	2013				
	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000 (i)	Retirement scheme contributions RMB'000	Total RMB'000
Former Executive, non-executive directors and supervisors					
Wei Jiafu (iii)	–	–	–	–	–
Ma Weihua (iii)	–	1,750	731	228	2,709
Yan Lan (iii)	250	–	–	–	250
Wen Jianguo (iii)	–	–	–	–	–
Yang Zongjian (iii)	–	785	–	102	887
Zhou Qizheng (iii)	–	1,059	–	138	1,197
	2,525	17,873	5,644	2,325	28,367

Notes:

(i) On 24 October 2014, the Board of Directors approved the discretionary bonuses of the Bank's directors, supervisors and executive officers for 2013. Disclosures in 2013 (note 8, 9 & 55(h)) had been adjusted correspondingly.

(ii) On 31 May 2013, the Bank's 2012 general meeting of shareholders considered and approved the Resolution regarding the addition of an executive director and an independent non-executive director, and gave consent to the appointment of Tian Huiyu as executive director of the Bank's 9th Board of Directors.

On 31 May 2013, the Bank's 2012 general meeting of shareholders considered and approved the Resolution regarding the addition of an executive director and an independent non-executive director, and gave consent to the appointment of Xu Shanda as independent non-executive director of the Bank's 9th Board of Directors.

On 31 May 2013, the Bank's 2012 general meeting of shareholders considered and approved the Resolution regarding the election of shareholder representative supervisors and external supervisors for the 9th the Supervisors of the Bank, and gave consent to the appointment of Shi Rongyao as external supervisor of the Bank's 9th Supervisory Committee, and Yu Yong and Guan Qizhi as employee representative supervisors.

On 13 January 2014, the Bank's 1st 2014 extraordinary general meeting of shareholders considered and approved the Resolutions on election of Ma Zehua as a non-executive director and Xiao Yuhuai as an independent non-executive director.

(iii) During the year ended 31 December 2013, Wei Jiafu retired as the Bank's non-executive director due to the change of job assignment.

During the year ended 31 December 2013, Ma Weihua retired as the Bank's executive director upon expiry of his term of office.

During the year ended 31 December 2013, Yan Lan retired as the Bank's independent non-executive director upon expiry of her term of office.

During the year ended 31 December 2013, Wen Jianguo, Yang Zongjian and Zhou Qizheng retired as the Bank's supervisor upon expiry of their term of office.

8 Directors' and Supervisors' emoluments *(continued)*

The number of the Directors and Supervisors whose emoluments are within the following bands is set out below:

	2014	2013 (note)
RMB		
0 – 500,000	23	22
500,001 – 1,000,000	–	–
1,000,001 – 1,500,000	1	2
1,500,001 – 2,000,000	–	–
2,000,001 – 2,500,000	–	–
3,000,000 – 3,500,000	–	–
3,500,001 – 4,000,000	2	–
4,000,001 – 4,500,000	–	1
4,500,001 – 5,000,000	1	3
6,500,000 – 7,000,000	–	–
	27	28

During the year ended 31 December 2014, no emoluments were paid by the Group to any of the persons who are directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended 31 December 2014, there was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration

Note: On 24 October 2014, the Board of Directors approved the discretionary bonuses of the Bank's directors, supervisors and executive officers for 2013. Disclosures in 2013 (note 8, 9 & 55(h)) had been adjusted correspondingly.

9 Individuals with highest emoluments

Of the 5 individuals with the highest emoluments for the year ended 31 December 2014, 3 (2013: 4) are Directors or Supervisors whose emoluments are included in Note 8 above. The aggregate of the emoluments in respect of the five individuals during the year is as follows:

	2014 RMB'000	2013 RMB'000 (Note 8)
Salaries and other emoluments	17,218	14,824
Discretionary bonuses (note 8(i))	–	6,068
Contributions to defined contribution retirement schemes	2,138	1,927
	19,356	22,819

9 Individuals with highest emoluments *(continued)*

The number of the five highest paid individuals whose emoluments fell within the following bands is set out below:

RMB	2014	2013 (Note 8)
3,000,001 – 3,500,000	1	–
3,500,001 – 4,000,000	3	–
4,000,001 – 5,000,000	1	5
6,000,001 – 7,000,000	–	–

10 Loans to directors, supervisors and executive officers

Loans to directors, supervisors and executive officers of the Group are as follows:

	2014	2013
Aggregate amount of relevant loans made by the Group outstanding at year end	42	49
Maximum aggregate amount of relevant loans made by the Group outstanding during the year	48	53

11 Impairment losses

	2014	2013
Loans and advances (Note 19(c))	31,254	10,196
Balance and placement with banks and other financial institutions (Note 16(a), Note 17(c))	57	(32)
Investments		
– Available-for-sale financial assets (Note 21(b))	40	4
– Held-to-maturity investments (Note 21(c))	(9)	(1)
– Debt securities classified as receivables (Note 21(d))	4	1
Other assets	335	50
	31,681	10,218

12 Income tax

(a) Income tax in the consolidated statement of profit or loss represents:

	2014	2013
Current income tax expense		
– Mainland China	21,470	17,142
– Hong Kong	738	486
– Overseas	120	36
Subtotal	22,328	17,664
Deferred income tax expense	(4,946)	(981)
Total	17,382	16,683

(b) A reconciliation of income tax expense in the consolidated statement of profit or loss and that calculated at the applicable tax rate is as follows:

	2014	2013
Profit before taxation	73,431	68,425
Tax at the PRC statutory income tax rate of 25% (2013: 25%)	18,358	17,106
Tax effects of the following items:		
– Effects of non-deductible expenses	783	847
– Effects of non-taxable income	(1,623)	(1,253)
– Effects of different applicable rates of tax prevailing in other areas	(136)	(17)
Income tax expense	17,382	16,683

Note: (i) The applicable income tax rate for the Bank's operations in Mainland China is 25% during 2014 (2013: 25%).

(ii) The applicable income tax rate in Hong Kong is 16.5% during 2014 (2013: 16.5%).

(iii) Taxation for overseas operations is charged at the applicable rates of tax prevailing in relevant countries.

13 Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	2014			2013		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Available-for-sale financial assets:						
– Net movement in fair value reserve	9,855	(2,440)	7,415	(7,445)	1,869	(5,576)
Cash flow hedge:						
– Net movement in hedging reserve	1,051	(263)	788	(920)	230	(690)
Exchange difference	427	–	427	(471)	–	(471)
Equity-accounted investees						
– share of other comprehensive income	35	–	35	(8)	–	(8)
Remeasurement of defined benefit scheme redesigned through reserve	–	–	–	89	(15)	74
Other comprehensive income	11,368	(2,703)	8,665	(8,755)	2,084	(6,671)

(b) Movement in the fair value reserve relating to components of other comprehensive income

	2014	2013
Available-for-sale financial assets:		
Changes in fair value recognised during the period	7,270	(5,355)
Reclassification adjustments for amounts transferred to profit or loss:		
– On disposal	145	(221)
Net movement in the fair value reserve during the period recognised in other comprehensive income	7,415	(5,576)
Cash flow hedge:		
Effective portion of changes in fair value of hedging instruments	566	(864)
Reclassification adjustment for amount transferred to profit or loss		
– Realised losses	222	174
Net movement in the hedging reserve during the period recognised in other comprehensive income	788	(690)

14 Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity shareholders of the Bank and the weighted average number of shares in issue. There is no difference between basic and diluted earnings per share as there are no potentially dilutive shares outstanding during the year 2014 and 2013.

	2014	2013
Net profit attributable to equity shareholders of the Bank	**55,911**	51,743
Weighted average number of shares in issue (in million) (note)	**25,220**	22,488
Basic and diluted earnings per share attributable to equity shareholders of the Bank (in RMB)	**2.22**	2.30

Note: Movements of the share capital are included in Note 40 of the consolidated financial statements.

15 Balances with central bank

	Group		Bank	
	2014	2013	2014	2013
Statutory deposit reserve (note (i))	**503,089**	443,958	**501,339**	442,004
Surplus deposit reserve (note (ii))	**135,145**	55,997	**127,564**	52,843
Fiscal deposits	**1,758**	1,622	**1,758**	1,622
	639,992	501,577	**630,661**	496,469

Notes: (i) Statutory deposit reserve funds are deposited with the PBOC and other central banks outside the Mainland China as required and are not available for the Group's daily operations. The statutory deposit reserve funds are calculated at 17.5% and 5.0% for eligible RMB deposits and foreign currency deposits respectively as at 31 December 2014 (2013: 18.0% and 5.0% for eligible RMB deposits and foreign currency deposits). Eligible deposits include deposits from government authorities and other organisations, fiscal deposits (other than budgets), retail deposits, corporate deposits, and net credit balances of entrusted business.

(ii) The surplus deposit reserve maintained with the PBOC and central banks outside the Mainland China are mainly for clearing purposes.

16 Balances with banks and other financial institutions

	Group		Bank	
	2014	2013	**2014**	2013
Balances in the Mainland				
– Banks	**36,659**	26,513	**27,860**	17,230
– Other financial institutions	**422**	1,022	**422**	1,022
	37,081	27,535	**28,282**	18,252
Balances outside the Mainland				
– Banks	**18,971**	11,368	**18,807**	10,461
– Other financial institutions	**8**	–	**–**	–
	56,060	38,903	**47,089**	28,713
Less: Impairment allowances				
– Banks	**(71)**	(49)	**(71)**	(49)
– Other financial institutions	**(3)**	(4)	**(3)**	(4)
	(74)	(53)	**(74)**	(53)
	55,986	38,850	**47,015**	28,660

(a) Movements of allowances for impairment losses

	Group and Bank	
	2014	2013
As at 1 January	**53**	66
Charge/(release) for the year	**21**	(13)
As at 31 December	**74**	53

17 Placements with banks and other financial institutions

(a) Analysed by nature of counterparties

	Group		Bank	
	2014	2013	**2014**	2013
Placements in Mainland				
– Banks	**57,358**	49,479	**49,669**	57,396
– Other financial institutions	**32,965**	75,829	**62,591**	75,829
	90,323	125,308	**112,260**	133,225
Placements outside Mainland				
– Banks	**33,808**	22,749	**25,634**	11,753
	124,131	148,057	**137,894**	144,978
Less: Impairment allowances				
– Banks	**(46)**	(10)	**(46)**	(10)
	124,085	148,047	**137,848**	144,968

(b) Analysed by remaining maturity

	Group		Bank	
	2014	2013	**2014**	2013
Maturing				
– Within one month	**87,020**	69,147	**83,919**	69,147
– Between one month and one year	**30,226**	75,086	**44,290**	72,007
– After one year	**6,839**	3,814	**9,639**	3,814
	124,085	148,047	**137,848**	144,968

17 Placements with banks and other financial institutions *(continued)*

(c) Movements of allowances for impairment losses

	Group and Bank	
	2014	2013
As at 1 January	**10**	29
Charge/(release) for the year	**36**	(19)
As at 31 December	**46**	10

18 Amounts held under resale agreements

(a) Analysed by nature of counterparties

	Group		Bank	
	2014	2013	**2014**	2013
Amounts held under resale agreements				
– Banks in the Mainland	**205,082**	232,489	**204,216**	231,607
– Other financial institutions in the Mainland	**139,873**	86,416	**139,714**	86,416
– Overseas banks	**25**	–	**25**	–
	344,980	318,905	**343,955**	318,023

(b) Analysed by remaining maturity

	Group		Bank	
	2014	2013	**2014**	2013
Maturing				
– Within one month	**191,746**	143,758	**191,359**	142,876
– Between one month and one year	**117,135**	90,172	**116,497**	90,172
– After one year	**36,099**	84,975	**36,099**	84,975
	344,980	318,905	**343,955**	318,023

18 Amounts held under resale agreements *(continued)*

(c) Analysed by assets types

	Group		Bank	
	2014	2013	**2014**	2013
Bonds issued by				
– PRC government	**8,334**	31,013	**8,175**	31,013
– Policy banks	**1,629**	10,452	**1,629**	10,452
– Others	**127,226**	77,915	**127,226**	77,915
	137,189	119,380	**137,030**	119,380
Loans	**416**	325	**416**	325
Bills	**97,219**	43,696	**96,353**	42,814
Trust beneficiary rights	**63,484**	117,391	**63,484**	117,391
Asset management plans	**45,492**	38,113	**45,492**	38,113
Debtor beneficiary rights	**1,180**	–	**1,180**	–
	344,980	318,905	**343,955**	318,023

19 Loans and advances to customers

(a) Loans and advances to customers

	Group		Bank	
	2014	2013	**2014**	2013
Corporate loans and advances	**1,467,585**	1,325,810	**1,263,567**	1,162,140
Discounted bills	**75,007**	71,035	**66,712**	61,592
Retail loans and advances	**971,327**	800,249	**955,276**	785,525
Gross loans and advances to customers	**2,513,919**	2,197,094	**2,285,555**	2,009,257
Less: Impairment allowances				
– Individually-assessed	**(9,577)**	(7,002)	**(9,446)**	(6,921)
– Collectively-assessed	**(55,588)**	(41,762)	**(53,721)**	(40,301)
	(65,165)	(48,764)	**(63,167)**	(47,222)
Net loans and advances to customers	**2,448,754**	2,148,330	**2,222,388**	1,962,035

19 Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers

(i) Analysed by industry sector:

Operation in Mainland China

	Group		Bank	
	2014	2013	**2014**	2013
Manufacturing	**342,005**	373,458	**320,462**	350,145
Wholesale and retail	**259,298**	258,251	**256,138**	248,361
Property development	**143,952**	98,367	**140,848**	96,432
Transportation, storage and postal services	**140,548**	120,598	**118,440**	118,917
Production and supply of electric power, heating power, gas and water	**98,514**	58,028	**65,575**	57,517
Construction	**98,350**	89,314	**94,406**	70,236
Mining	**61,179**	64,199	**48,896**	51,378
Leasing and commercial services	**49,343**	37,561	**47,185**	33,663
Water, environment and public utilities management	**30,328**	34,383	**29,866**	27,561
Telecommunications, software and IT services	**20,092**	15,535	**19,364**	15,400
Others	**65,045**	47,217	**52,864**	41,497
Corporate loans and advances	**1,308,654**	1,196,911	**1,194,044**	1,111,107
Discounted bills	**75,007**	71,035	**66,712**	61,592
Credit cards	**219,621**	154,971	**219,621**	154,971
Residential mortgage	**321,424**	261,501	**321,362**	261,432
Micro – finance loans	**336,924**	284,758	**335,637**	282,015
Others	**78,731**	87,209	**78,656**	87,107
Retail loans and advances	**956,700**	788,439	**955,276**	785,525
Gross loans and advances to customers	**2,340,361**	2,056,385	**2,216,032**	1,958,224

19 Loans and advances to customers *(continued)*

(b) Analysis of loans and advances to customers *(continued)*

(i) Analysed by industry sector: *(continued)*

Operation outside Mainland China

	Group		Bank	
	2014	2013	**2014**	2013
Wholesale and retail	**42,097**	36,923	**31,847**	23,136
Property development	**36,031**	32,694	**9,451**	6,229
Financial concerns	**29,410**	18,677	**1,206**	209
Manufacturing	**18,265**	14,882	**11,662**	6,112
Transport and transport equipment	**7,925**	6,818	**1,529**	1,567
Information technology	**2,221**	841	**1,876**	696
Recreational activities	**431**	35	**100**	–
Others	**22,551**	18,029	**11,852**	13,084
Corporate loans and advances	**158,931**	128,899	**69,523**	51,033
Credit cards	**267**	264	**–**	–
Residential mortgage	**7,754**	7,105	**–**	–
Micro-finance loans	**1,889**	1,527	**–**	–
Others	**4,717**	2,914	**–**	–
Retail loans and advances	**14,627**	11,810	**–**	–
Gross loans and advances to customers	**173,558**	140,709	**69,523**	51,033

Notes: At 31 December 2014, over 90% of the Group's loans and advances to customers was granted in the Mainland (2013: over 90%).

19 Loans and advances to customers *(continued)*

(c) Movements of allowances for impairment losses

	Group			
	2014			
	Impairment allowances for loan and advances which are collectively assessed	Impairment allowances for impaired loans and advances		
		Which are collectively assessed	Which are individually assessed	Total
At 1 January	38,534	3,228	7,002	48,764
Charge for the year (Note 11)	12,287	5,732	14,876	32,895
Release for the year (Note 11)	(22)	(1)	(1,618)	(1,641)
Write-offs	–	(4,456)	(10,461)	(14,917)
Unwinding of discount	–	(1)	(654)	(655)
Recoveries of loans and advances previously written off	–	231	420	651
Exchange difference	56	–	12	68
At 31 December	50,855	4,733	9,577	65,165

	Group			
	2013			
	Impairment allowances for loan and advances which are collectively assessed	Impairment allowances for impaired loans and advances		
		Which are collectively assessed	Which are individually assessed	Total
At 1 January	34,202	1,941	4,995	41,138
Charge for the year (Note 11)	4,405	1,661	4,861	10,927
Release for the year (Note 11)	(8)	(1)	(722)	(731)
Write-offs	–	(398)	(1,736)	(2,134)
Unwinding of discount	–	(1)	(405)	(406)
Recoveries of loans and advances previously written off	–	26	39	65
Transfers	–	–	(8)	(8)
Exchange difference	(65)	–	(22)	(87)
At 31 December	38,534	3,228	7,002	48,764

19 Loans and advances to customers *(continued)*

(c) Movements of allowances for impairment losses *(continued)*

	Bank 2014			
	Impairment allowances for loan and advances which are collectively assessed	Impairment allowances for impaired loans and advances: Which are collectively assessed	Impairment allowances for impaired loans and advances: Which are individually assessed	Total
At 1 January	37,073	3,228	6,921	47,222
Charge for the year	11,865	5,727	14,803	32,395
Release for the year	–	–	(1,602)	(1,602)
Write-offs	–	(4,452)	(10,452)	(14,904)
Unwinding of discount	–	–	(653)	(653)
Recoveries of loans and advances previously written off	–	229	418	647
Exchange difference	51	–	11	62
At 31 December	48,989	4,732	9,446	63,167

	Bank 2013			
	Impairment allowances for loan and advances which are collectively assessed	Impairment allowances for impaired loans and advances: Which are collectively assessed	Impairment allowances for impaired loans and advances: Which are individually assessed	Total
At 1 January	33,277	1,941	4,921	40,139
Charge for the year	3,857	1,657	4,822	10,336
Release for the year	–	–	(686)	(686)
Write-offs	–	(394)	(1,733)	(2,127)
Unwinding of discount	–	–	(404)	(404)
Recoveries of loans and advances previously written off	–	24	30	54
Transfers	–	–	(8)	(8)
Exchange difference	(61)	–	(21)	(82)
At 31 December	37,073	3,228	6,921	47,222

19 Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses

	Group 2014					
		Impaired loans and advances				
	Loans and advances for which impairment losses are collectively assessed (Note (i))	for which impairment losses are collectively assessed (Note (ii))	for which impairment losses are individually assessed (Note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (Note (iii))
Gross loans and advances to						
– Financial institutions	72,183	–	1	72,184	0.00	–
– Non-financial institution customers	2,413,844	7,408	20,483	2,441,735	1.14	5,743
	2,486,027	7,408	20,484	2,513,919	1.11	5,743
Less:						
Allowances for impairment losses on loans and advances to						
– Financial institutions	(87)	–	(1)	(88)		
– Non-financial institution customers	(50,768)	(4,733)	(9,576)	(65,077)		
	(50,855)	(4,733)	(9,577)	(65,165)		
Net loans and advances to						
– Financial institutions	72,096	–	–	72,096		
– Non-financial institution customers	2,363,076	2,675	10,907	2,376,658		
	2,435,172	2,675	10,907	2,448,754		

19 Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	Group					
	2013					
	Loans and advances for which impairment losses are collectively assessed (Note (i))	Impaired loans and advances: for which impairment losses are collectively assessed (Note (ii))	Impaired loans and advances: for which impairment losses are individually assessed (Note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (Note (iii))
Gross loans and advances to						
– Financial institutions	54,574	–	1	54,575	0.00	–
– Non-financial institution customers	2,124,225	5,005	13,289	2,142,519	0.85	3,663
	2,178,799	5,005	13,290	2,197,094	0.83	3,663
Less:						
Allowances for impairment losses on loans and advances to						
– Financial institutions	(56)	–	(1)	(57)		
– Non-financial institution customers	(38,478)	(3,228)	(7,001)	(48,707)		
	(38,534)	(3,228)	(7,002)	(48,764)		
Net loans and advances to						
– Financial institutions	54,518	–	–	54,518		
– Non-financial institution customers	2,085,747	1,777	6,288	2,093,812		
	2,140,265	1,777	6,288	2,148,330		

19 Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	Bank					
	2014					
	Loans and advances for which impairment losses are collectively assessed (Note (i))	Impaired loans and advances: for which impairment losses are collectively assessed (Note (ii))	Impaired loans and advances: for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (Note (iii))
Gross loans and advances to						
– Financial institutions	25,324	–	1	25,325	0.00	–
– Non-financial institution customers	2,232,766	7,404	20,060	2,260,230	1.22	5,425
	2,258,090	7,404	20,061	2,285,555	1.20	5,425
Less:						
Allowances for impairment losses on loans and advances to						
– Financial institutions	(55)	–	(1)	(56)		
– Non-financial institution customers	(48,934)	(4,732)	(9,445)	(63,111)		
	(48,989)	(4,732)	(9,446)	(63,167)		
Net loans and advances to						
– Financial institutions	25,269	–	–	25,269		
– Non-financial institution customers	2,183,832	2,672	10,615	2,197,119		
	2,209,101	2,672	10,615	2,222,388		

19 Loans and advances to customers *(continued)*

(d) Loans and advances to customers and allowances for impairment losses *(continued)*

	Bank					
	2013					
	Loans and advances for which impairment losses are collectively assessed (Note (i))	Impaired loans and advances: for which impairment losses are collectively assessed (Note (ii))	Impaired loans and advances: for which impairment losses are individually assessed (note (ii))	Total	Gross impaired loans and advances as a % of gross loans and advances	Fair value of collaterals held against individually assessed impaired loans and advances (Note (iii))
Gross loans and advances to						
– Financial institutions	23,462	–	1	23,463	0.00	–
– Non-financial institution customers	1,967,726	4,996	13,072	1,985,794	0.91	3,512
	1,991,188	4,996	13,073	2,009,257	0.90	3,512
Less:						
Allowances for impairment losses on loans and advances to						
– Financial institutions	(36)	–	(1)	(37)		
– Non-financial institution customers	(37,037)	(3,228)	(6,920)	(47,185)		
	(37,073)	(3,228)	(6,921)	(47,222)		
Net loans and advances to						
– Financial institutions	23,426	–	–	23,426		
– Non-financial institution customers	1,930,689	1,768	6,152	1,938,609		
	1,954,115	1,768	6,152	1,962,035		

Notes:

(i) These loans and advances include those for which no objective evidence of impairment has been identified on individual basis.

(ii) Impaired loans and advances include loans and advances for which objective evidence of impairment has been identified and include impairment losses are assessed in following ways:

- collectively: that is portfolios of homogeneous loans; or
- individually.

(iii) The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

19 Loans and advances to customers *(continued)*

(e) Finance leases receivables

The table below provides an analysis of finance lease receivables for leases of certain property and equipment in which the Group is the lessor:

	31 December 2014			31 December 2013		
	Total minimum lease receivables	Unearned finance income	Present value of minimum lease receivables	Total minimum lease receivables	Unearned finance income	Present value of minimum lease receivables
Within 1 years	35,411	(4,678)	30,733	30,503	(3,061)	27,442
After 1 year but within 5 years	63,895	(6,773)	57,122	48,386	(4,792)	43,594
After 5 years	10,461	(716)	9,745	5,267	(476)	4,791
	109,767	(12,167)	97,600	84,156	(8,329)	75,827
Less: Impairment allowances:						
– Individually assessed			(92)			(91)
– Collectively assessed			(1,626)			(1,213)
Net investment in finance lease receivables			95,882			74,523

As at 31 December 2014, the Bank's net investments in finance leases, included in "loans and advances" were nil (2013: Nil).

20 Interest receivable

	Group		Bank	
	2014	2013	**2014**	2013
Debt securities	**11,668**	9,252	**11,449**	9,075
Loans and advances to customers	**7,691**	5,697	**7,437**	5,501
Others	**4,201**	2,750	**3,525**	2,243
	23,560	17,699	**22,411**	16,819

21 Investments

		Group		Bank	
	Note	**2014**	2013	**2014**	2013
Financial assets at fair value through profit or loss	21(a)	**40,190**	23,223	**37,218**	20,394
Derivative financial assets	53(f)	**9,315**	5,925	**8,346**	5,515
Available-for-sale financial assets	21(b)	**278,526**	289,911	**262,942**	273,923
Held-to-maturity investments	21(c)	**259,434**	208,927	**254,708**	203,503
Debt securities classified as receivables	21(d)	**408,752**	235,415	**408,504**	236,585
		996,217	763,401	**971,718**	739,920

(a) Financial assets at fair value through profit or loss

		Group		Bank	
	Note	**2014**	2013	**2014**	2013
Financial assets held for trading	(i)	**33,022**	14,611	**32,146**	14,001
Financial assets designated at fair value through profit or loss	(ii)	**7,168**	8,612	**5,072**	6,393
		40,190	23,223	**37,218**	20,394

21 Investments *(continued)*

(a) Financial assets at fair value through profit or loss *(continued)*

	Group		Bank	
	2014	2013	**2014**	2013
(i) Financial assets held for trading				
Listed				
In the Mainland				
– PRC government bonds	**5,351**	4,129	**5,351**	4,129
– Bonds issued by policy banks	**521**	339	**521**	339
– Bonds issued by commercial banks and other financial institutions	**11,002**	5,703	**11,002**	5,703
– Other debt securities	**12,744**	2,465	**12,744**	2,445
– Investments in funds	**–**	3	**–**	–
Outside the Mainland				
– Bonds issued by commercial banks and other financial institutions	**1,100**	939	**1,100**	939
– Other debt securities	**1,580**	534	**1,416**	446
– Equity investments	**712**	340	**–**	–
– Investments in funds	**–**	2	**–**	–
	33,010	14,454	**32,134**	14,001
Unlisted				
Outside the Mainland				
– Other debt securities	**–**	157	**–**	–
	–	157	**–**	–
– Long position in precious metal contracts	**12**	–	**12**	–
	33,022	14,611	**32,146**	14,001

21 Investments *(continued)*

(a) Financial assets at fair value through profit or loss *(continued)*

	Group		Bank	
	2014	2013	**2014**	2013
(ii) Financial assets designated at fair value through profit or loss				
Listed				
In the Mainland				
– PRC government bonds	**299**	285	**299**	285
– Bonds issued by policy banks	**349**	933	**349**	933
– Bonds issued by commercial banks and other financial institutions	**3,621**	4,588	**3,621**	4,588
Outside the Mainland				
– Bonds issued by policy banks	**–**	62	**–**	–
– Bonds issued by commercial banks and other financial institutions	**735**	439	**141**	–
– Other debt securities	**1,320**	827	**468**	288
	6,324	7,134	**4,878**	6,094
Unlisted				
In the Mainland				
– Bonds issued by commercial banks and other financial institutions	**31**	28	**31**	28
Outside the Mainland				
– Other debt securities	**813**	1,450	**163**	271
	844	1,478	**194**	299
	7,168	8,612	**5,072**	6,393
Issued by:				
– Sovereigns	**5,651**	4,581	**5,650**	4,414
– Banks and other financial institutions	**18,018**	13,108	**16,777**	12,561
– Corporates	**16,521**	5,534	**14,791**	3,419
	40,190	23,223	**37,218**	20,394

21 Investments *(continued)*

(b) Available-for-sale financial assets

	Group		Bank	
	2014	2013	**2014**	2013
Listed				
In the Mainland				
– PRC government bonds	**77,265**	49,846	**77,145**	49,846
– Bonds issued by the PBOC	**99**	229	**–**	199
– Bonds issued by policy banks	**22,011**	27,922	**19,792**	25,455
– Bonds issued by commercial banks and other financial institutions	**89,364**	94,278	**86,832**	91,263
– Other debt securities	**61,294**	89,849	**60,673**	89,571
– Investments in funds	**243**	–	**–**	–
Outside the Mainland				
– Bonds issued by commercial banks and other financial institutions	**3,468**	2,611	**1,931**	1,624
– Other debt securities	**3,945**	5,219	**2,720**	3,989
– Equity investments	**1,258**	771	**529**	427
– Investments in funds	**20**	20	**–**	–
	258,967	270,745	**249,622**	262,374
Less: impairment allowances	**(169)**	(166)	**(169)**	(166)
	258,798	270,579	**249,453**	262,208
Unlisted				
In the Mainland				
– Bonds issued by commercial banks and other financial institutions	**3,393**	863	**3,393**	863
– Bonds issued by policy banks	**302**	–	**302**	–
– Other debt securities	**2,376**	1,922	**2,376**	1,922
– Equity investments	**835**	649	**434**	434
– Investments in funds	**29**	30	**–**	–
Outside the Mainland				
– Bonds issued by commercial banks and other financial institutions	**6,875**	7,995	**1,637**	1,040
– Other debt securities	**6,213**	8,066	**5,682**	7,783
– Equity investments	**122**	191	**6**	6
– Investments in funds	**25**	24	**–**	–
	20,170	19,740	**13,830**	12,048
Less: impairment allowances	**(442)**	(408)	**(341)**	(333)
	19,728	19,332	**13,489**	11,715
	278,526	289,911	**262,942**	273,923

21 Investments *(continued)*

(b) Available-for-sale financial assets *(continued)*

	Group		Bank	
	2014	2013	**2014**	2013
Issued by:				
– Sovereigns	**83,346**	58,383	**82,962**	58,314
– Banks and other financial institutions	**125,911**	134,565	**113,764**	120,748
– Corporates	**69,269**	96,963	**66,216**	94,861
	278,526	289,911	**262,942**	273,923

Movements of allowances for impairment losses

	Group		Bank	
	2014	2013	**2014**	2013
As at 1 January	**574**	583	**499**	528
Charge for the year	**43**	20	**–**	–
Releases for the year	**(3)**	(16)	**–**	(16)
Write-offs for the year	**(14)**	–	**–**	–
Exchange difference	**11**	(13)	**11**	(13)
As at 31 December	**611**	574	**510**	499

21 Investments *(continued)*

(c) Held-to-maturity investments

	Group		Bank	
	2014	2013	**2014**	2013
Listed				
In the Mainland				
– PRC government bonds	**109,428**	90,383	**109,428**	90,383
– Bonds issued by policy banks	**21,854**	18,055	**21,854**	18,055
– Bonds issued by commercial banks and other financial institutions	**120,165**	91,467	**120,165**	91,467
– Other debt securities	**2,816**	2,838	**2,816**	2,838
Outside the Mainland				
– PRC government bonds	**491**	100	**–**	–
– Bonds issued by commercial banks and other financial institutions	**588**	392	**467**	320
– Other debt securities	**803**	1,485	**18**	518
	256,145	204,720	**254,748**	203,581
Less: impairment allowances	**(71)**	(78)	**(71)**	(78)
	256,074	204,642	**254,677**	203,503
Unlisted				
Outside the Mainland				
– Bonds issued by commercial banks and other financial institutions	**–**	169	**–**	–
– Other debt securities	**3,360**	4,116	**31**	–
	3,360	4,285	**31**	–
Less: impairment allowances	**–**	–	**–**	–
	3,360	4,285	**31**	–
	259,434	208,927	**254,708**	203,503

21 Investments *(continued)*

(c) Held-to-maturity investments *(continued)*

	Group		Bank	
	2014	2013	**2014**	2013
Issued by:				
– Sovereigns	**113,350**	94,608	**109,430**	90,349
– Banks and other financial institutions	**142,583**	110,063	**142,462**	109,816
– Corporates	**3,501**	4,256	**2,816**	3,338
	259,434	208,927	**254,708**	203,503
Fair value of listed debt securities	**261,326**	195,499	**259,934**	190,068

For the year ended 31 December 2014, the Group didn't dispose debt securities classified as held-to-maturity prior to their maturity (2013: Nil).

Movements of allowances for impairment losses

	Group		Bank	
	2014	2013	**2014**	2013
As at 1 January	**78**	174	**78**	81
Release for the year	**(9)**	(1)	**(9)**	(1)
Write-offs for the year	**–**	(91)	**–**	–
Exchange difference	**2**	(4)	**2**	(2)
As at 31 December	**71**	78	**71**	78

21 Investments *(continued)*

(d) Debt securities classified as receivables

	Group		Bank	
	2014	2013	**2014**	2013
Unlisted				
In the Mainland				
– PRC government bonds	**594**	822	**594**	822
– Bonds issued by commercial banks and other financial institutions	**21,167**	9,993	**21,159**	9,993
– Other debt securities	**21,335**	12,462	**21,335**	12,462
– Insurance asset management plan	**56,330**	40,670	**56,330**	40,670
– Trust beneficiary rights	**112,038**	92,321	**111,997**	92,321
– Broker asset management plans	**111,393**	57,983	**111,393**	57,983
– Fund asset management plans and others	**85,901**	21,166	**85,702**	21,166
Outside the Mainland				
– Bonds issued by commercial banks and other financial institutions	**62**	61	**62**	1,231
	408,820	235,478	**408,572**	236,648
Less: impairment allowances	**(68)**	(63)	**(68)**	(63)
	408,752	235,415	**408,504**	236,585
Issued by:				
– Sovereigns	**594**	822	**594**	822
– Banks and other financial institutions	**386,823**	222,131	**386,575**	223,301
– Corporates	**21,335**	12,462	**21,335**	12,462
	408,752	235,415	**408,504**	236,585

All of the above receivables are unlisted.

Movements of allowances for impairment losses

	Group and Bank	
	2014	2013
As at 1 January	**63**	63
Charge for the year	**4**	1
Releases for the year	**–**	–
Exchange difference	**1**	(1)
As at 31 December	**68**	63

21 Investments *(continued)*

(e) Financial liabilities designated at fair value through profit or loss

		Group		Bank	
	Note	2014	2013	2014	2013
Trading liabilities	(i)	**1,007**	1,311	**977**	1,216
Financial liabilities designated at fair value through profit or loss	(ii)	**12,362**	20,580	**11,952**	20,144
		13,369	21,891	**12,929**	21,360

(i) Trading liabilities

	Group		Bank	
	2014	2013	**2014**	2013
Listed				
– Short positions in equity securities at fair value	**30**	67	**–**	–
– Short positions in funds at fair value	**–**	28	**–**	–
Short positions in precious metal contracts at fair value	**977**	1,216	**977**	1,216
	1,007	1,311	**977**	1,216

(ii) Financial liabilities designated at fair value through profit or loss

	Group		Bank	
	2014	2013	**2014**	2013
In the Mainland				
– Precious metal contracts from other bank	**2,029**	14,848	**2,029**	14,848
– Others	**2,214**	–	**2,214**	–
Outside the Mainland				
– Certificates of deposit issued	**3,020**	5,732	**2,610**	5,296
– Debt securities issued	**5,099**	–	**5,099**	–
As at 31 December	**12,362**	20,580	**11,952**	20,144

As at the end of reporting period, the difference between the fair value of the Group's and the Bank's financial liabilities at fair value through profit or loss and the contractual payables at maturity is not material. The amounts of changes in the fair value of these financial liabilities that are attributable to changes in credit risk are considered not significant during the year presented and cumulatively as at 31 December 2014 and 2013.

21 Investments *(continued)*

(f) Fair value of financial instruments

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair value. This includes a valuation team that has responsibility for overseeing all significant fair value measurements including 3 levels of fair value, and reports directly to the Chief Financial Officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair value, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuation meets the requirements of IFRSs, including the level in the fair value hierarchy in which such valuation should be classified.

Significant valuation issues are reported to the Audit Committee of the Group.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

The table below analyses the fair value at the end of reporting period and the hierarchy level into which the fair value treatment is categorised for the Group's financial instruments, which are measured at fair value on a recurring basis. Fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The determination of levels of fair value hierarchy is based on the inputs used in the valuation techniques as follows:

- Level 1 input: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 input: other than quoted prices included in level 1 that are observable for the assets or liabilities, either directly or indirectly;
- Level 3 input: inputs for the assets or liabilities that are not based on observable market data.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The Group's assets and liabilities measured at fair value are measured on a recurring basis. The Group does not have assets nor liabilities measured at fair value on a non-recurring basis.

21 Investments *(continued)*

(f) Fair value of financial instruments *(continued)*

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	2014							
	The Group				The Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading financial assets								
– Debt securities	3,988	28,310	–	32,298	3,825	28,309	–	32,134
– Long position in precious metal contracts	–	12	–	12	–	12	–	12
– Equity investments	712	–	–	712	–	–	–	–
	4,700	28,322	–	33,022	3,825	28,321	–	32,146
Financial assets designated at fair value through profit or loss								
– Debt securities	1,454	5,589	125	7,168	351	4,596	125	5,072
Derivative financial assets	–	9,300	15	9,315	–	8,346	–	8,346
Available-for-sale financial assets								
– Debt securities	26,737	249,357	–	276,094	13,627	248,346	–	261,973
– Equity investments	1,316	71	728	2,115	529	–	440	969
– Investments in funds	263	29	25	317	–	–	–	–
	28,316	249,457	753	278,526	14,156	248,346	440	262,942
	34,470	292,668	893	328,031	18,332	289,609	565	308,506
Liabilities								
Trading financial liabilities								
– Short position in precious metal contracts at fair value	–	977	–	977	–	977	–	977
– Short position in equity securities	30	–	–	30	–	–	–	–
– Short position in funds	–	–	–	–	–	–	–	–
	30	977	–	1,007	–	977	–	977
Financial liabilities designated at fair value through profit or loss								
– Precious metal contracts from other financial institutions	–	2,029	–	2,029	–	2,029	–	2,029
– Certificates of deposit issued	–	410	2,610	3,020	–	–	2,610	2,610
– Debt securities issued	–	5,099	–	5,099	–	5,099	–	5,099
– Others	–	2,214	–	2,214	–	2,214	–	2,214
	–	9,752	2,610	12,362	–	9,342	2,610	11,952
Derivative financial liabilities	–	10,246	–	10,246	–	9,266	–	9,266
	30	20,975	2,610	23,615	–	19,585	2,610	22,195

21 Investments *(continued)*

(f) Fair value of financial instruments *(continued)*

	2013							
	The Group				The Bank			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Trading financial assets								
– Debt securities	1,662	12,604	–	14,266	1,473	12,528	–	14,001
– Equity investments	340	–	–	340	–	–	–	–
– Investments in funds	5	–	–	5	–	–	–	–
	2,007	12,604	–	14,611	1,473	12,528	–	14,001
Financial assets designated at fair value through profit or loss								
– Debt securities	750	7,737	125	8,612	249	6,019	125	6,393
Derivative financial assets	–	5,894	31	5,925	–	5,515	–	5,515
Available-for-sale financial assets								
– Debt securities	24,577	263,724	–	288,301	14,900	258,156	–	273,056
– Equity investments	818	40	678	1,536	427	–	440	867
– Investments in funds	50	–	24	74	–	–	–	–
	25,445	263,764	702	289,911	15,327	258,156	440	273,923
	28,202	289,999	858	319,059	17,049	282,218	565	299,832
Liabilities								
Trading financial liabilities								
– Short position in precious metal contracts	–	1,216	–	1,216	–	1,216	–	1,216
– Short position in equity securities	67	–	–	67	–	–	–	–
– Short position in funds	28	–	–	28	–	–	–	–
	95	1,216	–	1,311	–	1,216	–	1,216
Financial liabilities designated at fair value through profit or loss								
– Precious metal contracts from other financial institutions	–	14,848	–	14,848	–	14,848	–	14,848
– Certificates of deposit issued	–	436	5,296	5,732	–	–	5,296	5,296
	–	15,284	5,296	20,580	–	14,848	5,296	20,144
Derivative financial liabilities	–	8,235	–	8,235	–	7,802	–	7,802
	95	24,735	5,296	30,126	–	23,866	5,296	29,162

During the year there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

21 Investments *(continued)*

(f) Fair value of financial instruments *(continued)*

(i) Inputs used for Level 1 financial instruments measured at fair value on an ongoing basis

Bloomberg's quoted prices are used for foreign currency bonds with active market price.

(ii) Valuation techniques and significant inputs used for Level 2 financial instruments measured at fair value on an ongoing basis

Fair value of RMB denominated bonds, which their fair value is available on China bond pricing system on the valuation date, is measured by using the latest valuation results published by China bond pricing system.

Fair value of foreign currency bonds, which have no active market price, is measured by using comprehensive valuations issued by Bloomberg.

Fair value of foreign exchange forwards in derivative financial investments is measured by discounting the differences between the contract prices and market prices of the foreign exchange forwards contracts. The discount rates used are the applicable RMB denominated swap yield curve as at the end of reporting period.

Fair value of foreign exchange options is measured by Black-Scholes model, applying applicable foreign exchange spot rates, foreign exchange yield curves and foreign exchange rate volatilities. The above market data used are quoted price in an active market, provided by Bloomberg, REUTERS and other market information providers.

Fair value of interest rate swaps in derivative financial investments is measured by discounting the predicted receivable amounts or payable amounts under the assumption that these swaps had been terminated at the end of reporting date. The discount rates used are the related RMB denominated swap yield curve as at the end of reporting period.

(iii) Valuation techniques and significant inputs used for Level 3 financial instruments measured at fair value on an ongoing basis

Quantitative information of Level 3 financial instruments measured at fair value is as below:

	Fair value as at 31 December 2014	Valuation techniques	Unobservable input
Financial assets designated at fair value through profit or loss – Debt securities	125	Discounted cash flow	Risk-adjusted discount rate
Unlisted equity investments classified as available-for-sale assets	346	Market comparison approach	Liquidity discount
Unlisted equity investments classified as available-for-sale assets	382	Discounted cash flow	Risk-adjusted discount rate
Investments in unlisted funds classified as available-for-sale assets	25	Discounted cash flow	Risk-adjusted discount rate
Unlisted derivative financial instruments	15	Binomial Model	Volatility
Financial liabilities designated at fair value through profit or loss – Certificates of deposit issued	2,610	Discounted cash flow	Risk-adjusted discount rate

21 Investments *(continued)*

(f) Fair value of financial instruments *(continued)*

(iii) Valuation techniques and significant inputs used for Level 3 financial instruments measured at fair value on an ongoing basis *(continued)*

(1) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

Assets

	The Group			
	Derivative financial assets	Financial assets designated at fair value through profit or loss-debt securities	Available-for-sale financial assets	Total
At 1 January 2014	31	125	702	858
Profit or loss				
– In profit or loss	–	–	(36)	(36)
– In other comprehensive income	–	–	(4)	(4)
Purchases	–	–	91	91
Disposals and payments on maturity	(16)	–	–	(16)
At 31 December 2014	15	125	753	893
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	–	–	–	–

Liabilities

	The Group	
	Financial liabilities designated at fair value through profit or loss – certificates of deposit issued	Total
At 1 January 2014	5,296	5,296
In profit or loss	45	45
Issues	1,056	1,056
Disposals and payments on maturity	(3,787)	(3,787)
At 31 December 2014	2,610	2,610
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	39	39

21 Investments *(continued)*

(f) Fair value of financial instruments *(continued)*

(iii) Valuation techniques and significant inputs used for Level 3 financial instruments measured at fair value on an ongoing basis *(continued)*

(1) Valuation of financial instruments with significant unobservable inputs (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy: *(continued)*

Assets

	The Group			
	Derivative financial assets	Financial assets designated at fair value through profit or loss – debt securities	Available-for-sale financial assets	Total
At 1 January 2013	–	196	440	636
Profit or loss				
– In profit or loss	2	(8)	–	(6)
– In other comprehensive income	–	–	(2)	(2)
Purchases	44	–	264	308
Disposals and payments on maturity	(15)	(63)	–	(78)
At 31 December 2013	31	125	702	858
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	1	(5)	–	(4)

Liabilities

	The Group	
	Financial liabilities designated at fair value through profit or loss – certificates of deposit issued	Total
At 1 January 2013	3,056	3,056
In profit or loss	(115)	(115)
Issues	2,939	2,939
Disposals and payments on maturity	(584)	(584)
At 31 December 2013	5,296	5,296
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	(85)	(85)

21 Investments *(continued)*

(f) Fair value of financial instruments *(continued)*

(iii) Valuation techniques and significant inputs used for Level 3 financial instruments measured at fair value on an ongoing basis *(continued)*

(1) Valuation of financial instruments with significant unobservable inputs (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy: *(continued)*

Assets

	The Bank		
	Financial assets designated at fair value through profit or loss – debt securities	Available- for-sale financial assets – equity investments	Total
At 1 January 2014	125	440	565
Profit or loss			
– In profit or loss	–	–	–
– In other comprehensive income	–	–	–
Purchases	–	–	–
Disposals and payments on maturity	–	–	–
At 31 December 2014	125	440	565
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	–	–	–

Liabilities

	The Bank	
	Financial liabilities designated at fair value through profit or loss – certificates of deposit issued	Total
At 1 January 2014	5,296	5,296
In profit or loss	45	45
Issues	1,056	1,056
Disposals and payments on maturity	(3,787)	(3,787)
At 31 December 2014	2,610	2,610
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	39	39

21 Investments *(continued)*

(f) Fair value of financial instruments *(continued)*

(iii) Valuation techniques and significant inputs used for Level 3 financial instruments measured at fair value on an ongoing basis *(continued)*

(1) Valuation of financial instruments with significant unobservable inputs (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy: (continued)

Assets

	The Bank		
	Financial assets designated at fair value through profit or loss – debt securities	Available-for-sale financial assets – equity investments	Total
At 1 January 2013	196	440	636
In profit or loss	(8)	–	(8)
Disposals and payments on maturity	(63)	–	(63)
At 31 December 2013	125	440	565
Total unrealised gains and losses included in the consolidated statement of profit or loss for assets held at the end of the reporting period	(5)	–	(5)

Liabilities

	The Bank	
	Financial liabilities designated at fair value through profit or loss – certificates of deposit issued	Total
At 1 January 2013	3,056	3,056
In profit or loss	(115)	(115)
Issues	2,939	2,939
Disposals and payments on maturity	(584)	(584)
At 31 December 2013	5,296	5,296
Total unrealised gains and losses included in the consolidated statement of profit or loss for liabilities held at the end of the reporting period	(85)	(85)

21 Investments *(continued)*

(f) Fair value of financial instruments *(continued)*

(iii) Valuation techniques and significant inputs used for Level 3 financial instruments measured at fair value on an ongoing basis *(continued)*

(2) The sensitivity of the fair value measurement to changes in unobservable inputs for level 3 financial instruments measured at fair value on a recurring basis:

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair value due to parallel movement of plus or minus 10 per cent of change in fair value to reasonably possible alternative assumptions.

	The Group		The Bank	
	2014		2014	
	Effect on profit or loss or other comprehensive income		Effect on profit or loss or other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets designated at fair value through profit or loss				
– Debt securities	13	(13)	13	(13)
Derivative financial assets	1	(1)	–	–
Available-for-sale financial assets				
– Equity investments	73	(73)	44	(44)
– Investments in funds	2	(2)	–	–
Financial liabilities designated at fair value through profit or loss				
– Certificates of deposit issued	261	(261)	261	(261)

21 Investments *(continued)*

(f) Fair value of financial instruments *(continued)*

(iii) Valuation techniques and significant inputs used for Level 3 financial instruments measured at fair value on an ongoing basis *(continued)*

(2) The sensitivity of the fair value measurement to changes in unobservable inputs for level 3 financial instruments measured at fair value on a recurring basis: (continued)

	The Group		The Bank	
	2013		2013	
	Effect on profit or loss or other comprehensive income		Effect on profit or loss or other comprehensive income	
	Favourable	(Unfavourable)	Favourable	(Unfavourable)
Financial assets designated at fair value through profit or loss				
– Debt securities	13	(13)	13	(13)
Derivative financial assets	3	(3)	–	–
Available-for-sale financial assets				
– Equity investments	68	(68)	44	(44)
– Investments in funds	2	(2)	–	–
Financial liabilities designated at fair value through profit or loss				
– Certificates of deposit issued	530	(530)	530	(530)

(3) Transfers between levels for financial instruments which are measured at fair value on a recurring basis, the reasons for these transfers and the policy for determining when transfers between levels are deemed

During the year ended 31 December 2014, there were no transfers between levels for financial instruments which are measured at fair value on a recurring basis. The Group recognises the transfers between levels at the end of the reporting period during which the change has occurred.

(4) Changes in valuation technique and the reasons for making the changes

During the year ended 31 December 2014, the Group has not changed the valuation technique of the above financial assets which are measured at fair value on a recurring basis.

22 Investments in subsidiaries

	Bank	
	2014	2013
Unlisted shares, at cost		
– Ordinary shares	**39,646**	37,041
– Perpetual bonds (Note)	**1,612**	–
Less: Impairment loss	**(1,768)**	(1,768)
	39,490	35,273

Note: The perpetual bonds were directionally issued by Wing Lung Bank Limited ("WLB") to the Bank on 30 September 2014 and 29 December 2014, at USD130 million respectively.

The following list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. Unless otherwise stated, the class of all shares held is ordinary. All of these companies are subsidiaries as defined under note 2(d) and have been included in the scope of the consolidated financial statements of the Group.

Name of company	Place of incorporation and operation	Particulars of the issued and paid up capital (in millions)	% of ownership held by the Bank	Principal activities	Economic nature	Legal representative
CMB International Capital Corporation Limited (note (i))	Hong Kong	HKD1,000	100%	Financial advisory services	Limited company	Ding Wei
CMB Finance Lease Company Limited (note (ii))	Shanghai	RMB6,000	100%	Finance lease	Limited company	Lian Bolin
Wing Lung Bank Limited (note (iii))	Hong Kong	HKD1,161	100%	Banking	Limited company	Ma Weihua
China Merchants Fund Management Corporation Limited (note (iv))	Shenzhen	RMB210	55%	Asset management	Limited company	Zhang Guanghua

(i) CMB International Capital Corporation Limited ("CMBICC"), formerly known as Jiangnan Finance Company Limited is the Bank's wholly-owned subsidiary approved by the PBOC through its Yin Fu [1998] No. 405, and was renamed as CMBICC on 22 February 2002 upon approval of PBOC through its Yin Fu [2002] No. 30. In 2014, the Bank made an additional capital contribution of HKD750 million in CMBICC. The capital of CMBICC is HKD1,000 million, and the Bank's shareholding percentage remains unchanged.

(ii) CMB Financial Leasing Company Limited ("CMBFLC") is a wholly-owned subsidiary of the Bank approved by the CBRC through its Yin Jian Fu [2008] No. 110 and commenced its operation in April 2008. In 2014, China Merchants Bank made an additional capital contribution of RMB2,000 million in CMBFLC. The capital of CMBFLC increases to RMB6,000 million and the Bank's shareholding percentage remains unchanged.

(iii) Wing Lung Bank Limited ("WLB") is a wholly owned subsidiary of the Bank acquired in 2008 by way of agreement. The acquisition was completed on 15 January 2009. WLB had withdrawn from listing on the HKEx as of 16 January 2009.

(iv) In 2012, the Bank acquired 21.6% equity interest in China Merchants Fund Management Corporation Limited ("CMFM"), its former associate, from an investment company in Netherlands at a consideration of €63,567,567.57. Following the settlement of the above consideration in cash, the Bank's shareholdings in CMFM was increased from 33.4% to 55.0% in 2013. As a result, the Bank obtains its control over CMFM, which became the Bank's subsidiary on 28 November 2013.

23 Interest in joint ventures

	Group		Bank	
	2014	2013	**2014**	2013
Unlisted shares, at cost	**–**	–	**646**	171
Share of net assets	**1,458**	750	**–**	–
Loans to joint ventures	**7**	9	**–**	–
	1,465	759	**646**	171
Share of profits for the period	**156**	35	**–**	–
Share of other comprehensive income for the period	**35**	(9)	**–**	–

Details of the Group's interest in the main joint ventures are as follows:

Name of joint ventures	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Proportion of ownership interest: Group's effective interest	Held by the Bank	Held by the subsidiary	Principal activity
CIGNA &CMB Life Insurance Company Limited (Note(i))	Incorporated with limited liabilities	Shenzhen	RMB1,450,000	50.00%	50.00%	–	Life Insurance Business
Bank Consortium Holding Limited (note (ii))	Incorporated with limited liabilities	Hong Kong	HKD150,000	13.33%	–	14.29%	Provision of trustee, administration and custodian services for retirement schemes
Joint Electronic Teller Services Limited (note (iii))	Incorporated with limited liabilities	Hong Kong	HKD10,024	2.88%	–	20.00%	Provision of ATM network services
Hong Kong Life Insurance Limited	Incorporated with limited liabilities	Hong Kong	HKD420,000	16.67%	–	16.67%	Life insurance Business
BC Reinsurance Limited	Incorporated with limited liabilities	Hong Kong	HKD200,000	21.00%	–	21.00%	Reinsurance Business
i-Tech Solutions Limited	Incorporated with limited liabilities	Hong Kong	HKD6,000	50.00%	–	50.00%	Electronic document processing
Shenzhen Zhaoyin Synergetic Fund Management Co.,Ltd.	Incorporated with limited liabilities	Shenzhen	RMB10,000	51.00%	–	51.00%	Fund management
Shenzhen Synergetic Hesheng Merge& Acquisition Fund	Partnership enterprise	Shenzhen	RMB484,160	5.16%	–	5.16%	Investment
Shenzhen Lianzhao Information Technology co., ltd.	Incorporated with limited liabilities	Shenzhen	RMB40,000	50.00%	–	50.00%	Computer network service

23 Interest in joint ventures *(continued)*

Summarised financial information of the only joint venture which is individually material to the Group (CIGNA & CMB Life Insurance Company Limited):

	Assets	Liabilities	Equity	Revenue	Profit	Other comprehensive income	Total comprehensive income	Cash and cash equivalents	Depreciation and amortisation	Income tax
2014										
100 per cent	14,448	12,039	2,409	5,194	219	69	288	456	20	68
Group's effective interest	7,224	6,020	1,204	2,597	110	34	144	228	10	34
2013										
100 per cent	10,678	9,504	1,174	929	14	(38)	(24)	659	17	64
Group's effective interest	5,339	4,752	587	465	7	(19)	(12)	330	9	32

Summarised financial information of joint ventures that are not individually material to the Group (others):

	Profit for the year	Other comprehensive income	Total comprehensive income
2014			
100 per cent	206	6	212
Group's effective interest	30	1	31
2013			
100 per cent	187	1	188
Group's effective interest	28	–	28

Notes:

(i) The Bank holds 50.00% equity interest of CIGNA & CMB Life Insurance Company Limited ("CIGNA & CMB Life"), and Life Insurance Company of North America ("INA") holds 50.00% equity interest of CIGNA & CMB Life. CIGNA & CMB Life is a limited liability company and is the only joint venture arrangement on the Bank's level. The Bank and INA share the joint venture's profits, risks and losses based on the above proportion of their shareholdings. The Bank's investment in CIGNA & CMB Life shall be accounted for as an investment in a joint venture.

(ii) The Bank's subsidiary, WLB, holds 14.29% of the entity's common share and is entitled to 13.33% of the paid dividends.

(iii) The Bank's subsidiary, WLB, is one of the five founders of the entity and jointly controls the entity. WLB holds 20.00% of the entity's common share and is entitled to 2.88% of the paid dividends.

24 Interest in associates

	Group		Bank	
	2014	2013	**2014**	2013
Share of net assets	**17**	17	**–**	–
Goodwill	**2**	2	**–**	–
	19	19	**–**	–

The following list contains the information as of 31 December 2014 of associates, which are unlisted corporate entities and principally affected the results or assets of the Group:

				Proportion of ownership interest			
Name of associate	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital (in thousands)	Group's effective interest	Held by the Bank	Held by the subsidiary	Principal activity
Professional Liability Underwriting Services Limited	Incorporated with limited liability	Hong Kong	HKD3,000	27.00%	–	27.00%	Insurance underwriting
CMB Sinolink Investment Limited	Incorporated with limited liability	Shenzhen	RMB20,000	40.00%	–	40.00%	Investment
Beijing Zhongguancun Gazelle Investment Fund Management Limited	Incorporated with limited liability	Beijing	RMB30,000	25.00%	–	25.00%	Fund Management

Summarised financial information of the associates that are not individually material to the Group:

	Profit for the year	Other comprehensive income	Total comprehensive income
2014			
100 per cent	**7**	**–**	**7**
Group's effective interest	**2**	**–**	**2**
2013			
100 per cent	2	–	2
Group's effective interest	–	–	–

25 Property and equipment

	Group						
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts and vessels	Motor vehicles and others	Total
Cost:							
At 1 January 2014	16,879	4,241	5,989	6,185	1,408	5,533	40,235
Additions	343	2,598	2,692	819	–	1,021	7,473
Reclassification and transfers	(18)	(1)	18	29	464	(54)	438
Disposals/write-offs	(112)	(33)	(1,490)	(2,125)	–	(548)	(4,308)
Exchange difference	74	1	29	6	–	33	143
At 31 December 2014	17,166	6,806	7,238	4,914	1,872	5,985	43,981
Accumulated depreciation:							
At 1 January 2014	4,106	–	4,317	3,670	153	3,790	16,036
Depreciation	836	–	1,016	716	74	774	3,416
Reclassification and transfers	5	–	(12)	29	–	(23)	(1)
Disposals/write-offs	(33)	–	(402)	(2,108)	–	(468)	(3,011)
Exchange difference	33	–	28	9	–	26	96
At 31 December 2014	4,947	–	4,947	2,316	227	4,099	16,536
Net book value:							
At 31 December 2014	12,219	6,806	2,291	2,598	1,645	1,886	27,445
At 1 January 2014	12,773	4,241	1,672	2,515	1,255	1,743	24,199

	Group						
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Aircrafts and vessels	Motor vehicles and others	Total
Cost:							
At 1 January 2013	13,705	3,476	5,148	5,103	1,389	5,081	33,902
Additions through acquisition of subsidiaries additions	1	–	6	–	–	3	10
Additions	760	3,615	1,002	1,058	88	840	7,363
Reclassification and transfers	2,548	(2,849)	(7)	55	–	36	(217)
Disposals/write-offs	(44)	–	(157)	(21)	–	(413)	(635)
Exchange difference	(91)	(1)	(3)	(10)	(69)	(14)	(188)
At 31 December 2013	16,879	4,241	5,989	6,185	1,408	5,533	40,235
Accumulated depreciation:							
At 1 January 2013	3,387	–	3,643	2,866	114	3,500	13,510
Depreciation	746	–	850	833	70	686	3,185
Reclassification and transfers	(9)	–	(4)	–	–	4	(9)
Disposals/write-offs	(17)	–	(173)	(13)	–	(377)	(580)
Exchange difference	(1)	–	1	(16)	(31)	(23)	(70)
At 31 December 2013	4,106	–	4,317	3,670	153	3,790	16,036
Net book value:							
At 31 December 2013	12,773	4,241	1,672	2,515	1,255	1,743	24,199
At 1 January 2013	10,318	3,476	1,505	2,237	1,275	1,581	20,392

25 Property and equipment *(continued)*

	Bank					
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:						
At 1 January 2014	14,098	4,242	5,739	6,021	5,480	35,580
Additions	341	2,598	2,560	811	1,016	7,326
Reclassification and transfers	(66)	(1)	24	29	(52)	(66)
Disposals/write-offs	(112)	(33)	(1,488)	(2,123)	(547)	(4,303)
Exchange difference	4	–	8	–	27	39
At 31 December 2014	14,265	6,806	6,843	4,738	5,924	38,576
Accumulated depreciation:						
At 1 January 2014	3,374	–	4,184	3,607	3,762	14,927
Depreciation	694	–	957	692	763	3,106
Reclassification and transfers	(9)	–	(7)	29	(21)	(8)
Disposals/write-offs	(33)	–	(400)	(2,105)	(466)	(3,004)
Exchange difference	18	–	7	(1)	21	45
At 31 December 2014	4,044	–	4,741	2,222	4,059	15,066
Net book value:						
At 31 December 2014	10,221	6,806	2,102	2,516	1,865	23,510
At 1 January 2014	10,724	4,242	1,555	2,414	1,718	20,653

	Bank					
	Land and buildings	Construction in progress	Computer equipment	Leasehold improvements	Motor vehicles and others	Total
Cost:						
At 1 January 2013	10,841	3,475	4,996	4,948	5,037	29,297
Additions	760	3,616	908	1,038	831	7,153
Reclassification and transfers	2,548	(2,849)	(8)	55	36	(218)
Disposals/write-offs	(44)	–	(157)	(19)	(412)	(632)
Exchange difference	(7)	–	–	(1)	(12)	(20)
At 31 December 2013	14,098	4,242	5,739	6,021	5,480	35,580
Accumulated depreciation:						
At 1 January 2013	2,781	–	3,556	2,808	3,476	12,621
Depreciation	605	–	801	807	678	2,891
Reclassification and transfers	(9)	–	(4)	–	4	(9)
Disposals/write-offs	(17)	–	(169)	(9)	(375)	(570)
Exchange difference	14	–	–	1	(21)	(6)
At 31 December 2013	3,374	–	4,184	3,607	3,762	14,927
Net book value:						
At 31 December 2013	10,724	4,242	1,555	2,414	1,718	20,653
At 1 January 2013	8,060	3,475	1,440	2,140	1,561	16,676

25 Property and equipment *(continued)*

(a) Analysed by remaining terms of leases

The net book value of land and buildings at the end of the reporting period is analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2014	2013	**2014**	2013
Held in Mainland China				
– Long-term leases (over 50 years)	**374**	282	**372**	280
– Medium-term leases (10 – 50 years)	**9,832**	10,420	**9,820**	10,415
	10,206	10,702	**10,192**	10,695
Held in Hong Kong				
– Long-term leases (over 50 years)	**1,069**	1,084	**–**	–
– Medium-term leases (10 – 50 years)	**925**	967	**29**	29
	1,994	2,051	**29**	29
Held overseas				
– Freehold	**19**	20	**–**	–
	12,219	12,773	**10,221**	10,724

(b) As at 31 December 2014, the Board of Directors considered that there was no impairment loss on property and equipment (2013: nil).

(c) As at 31 December 2014, the process of obtaining the registration license for the Group's properties with an aggregate net carrying value of RMB560 million (2013: RMB876 million) was still in progress.

(d) As at 31 December 2014, the Group has no significant unused property and equipment (2013: nil).

26 Investment properties

	Group		Bank	
	2014	2013	**2014**	2013
Cost:				
At 1 January	**2,379**	2,207	**758**	540
Transfers	**68**	226	**123**	218
Exchange difference	**30**	(54)	**–**	–
At 31 December	**2,477**	2,379	**881**	758
Accumulated depreciation:				
At 1 January	**678**	569	**251**	215
Depreciation	**119**	110	**39**	28
Transfers	**(14)**	10	**9**	9
Exchange difference	**10**	(11)	**1**	(1)
At 31 December	**793**	678	**300**	251
Net book value:				
At 31 December	**1,684**	1,701	**581**	507
At 1 January	**1,701**	1,638	**507**	325

(a) Analysed by remaining terms of leases

The net book value of investment properties at the end of the reporting period is analysed by the remaining terms of the leases as follows:

	Group		Bank	
	2014	2013	**2014**	2013
Held in Mainland China				
– Medium-term leases (10 – 50 years)	**596**	523	**581**	507
	596	523	**581**	507
Held in Hong Kong				
– Long leases (over 50 years)	**–**	8	**–**	–
– Medium-term leases (10 – 50 years)	**1,088**	1,170	**–**	–
	1,088	1,178	**–**	–
	1,684	1,701	**581**	507

(b) Investment properties of the Group mainly represent the leasing properties of WLB and the portion of the Bank's headquarters in Shenzhen that has been leased out under operating leases or is available for lease. As at 31 December 2014, fair value of these properties was RMB4,216 million (2013: RMB4,093 million). The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

	Group		Bank	
	2014	2013	**2014**	2013
1 year or less	**193**	184	**67**	52
5 years or less but over 1 year	**257**	330	**113**	105
Over 5 years	**21**	32	**21**	32
	471	546	**201**	189

27 Intangible assets

	Group			
	Land use right	Software	Core deposit	Total
Cost/valuation:				
At 1 January 2014	1,297	1,991	1,034	4,322
Additions	220	432	–	652
Transfers	6	–	–	6
Exchange difference	9	1	25	35
At 31 December 2014	1,532	2,424	1,059	5,015
Amortisation:				
At 1 January 2014	171	956	199	1,326
Additions	35	314	41	390
Transfers	1	–	–	1
Exchange difference	–	1	5	6
At 31 December 2014	207	1,271	245	1,723
Net book value:				
At 31 December 2014	1,325	1,153	814	3,292
At 1 January 2014	1,126	1,035	835	2,996

	Group			
	Land use right	Software	Core deposit	Total
Cost/valuation:				
At 1 January 2013	1,138	1,656	1,056	3,850
Additions through acquisition of subsidiaries	–	10	–	10
Additions	172	325	–	497
Transfers	(9)	–	–	(9)
Exchange difference	(4)	–	(22)	(26)
At 31 December 2013	1,297	1,991	1,034	4,322
Amortisation:				
At 1 January 2013	145	695	159	999
Additions	29	263	36	328
Transfers	(1)	–	–	(1)
Exchange difference	(2)	(2)	4	–
At 31 December 2013	171	956	199	1,326
Net book value:				
At 31 December 2013	1,126	1,035	835	2,996
At 1 January 2013	993	961	897	2,851

27 Intangible assets *(continued)*

	Bank		
	Land use right	**Software**	**Total**
Cost/valuation:			
At 1 January 2014	**1,106**	**1,974**	**3,080**
Additions	**220**	**400**	**620**
At 31 December 2014	**1,326**	**2,374**	**3,700**
Amortisation:			
At 1 January 2014	**152**	**955**	**1,107**
Additions	**32**	**282**	**314**
At 31 December 2014	**184**	**1,237**	**1,421**
Net book value:			
At 31 December 2014	**1,142**	**1,137**	**2,279**
At 1 January 2014	**954**	**1,019**	**1,973**

	Bank		
	Land use right	Software	Total
Cost/valuation:			
At 1 January 2013	934	1,649	2,583
Additions	172	325	497
At 31 December 2013	1,106	1,974	3,080
Amortisation:			
At 1 January 2013	129	694	823
Additions	25	262	287
Exchange difference	(2)	(1)	(3)
At 31 December 2013	152	955	1,107
Net book value:			
At 31 December 2013	954	1,019	1,973
At 1 January 2013	805	955	1,760

28 Goodwill

	As at 1 January	Addition in the year	Release in the year	As at 31 December	Impairment loss	Net value at 31 December
Wing Lung Bank (note i)	10,177	–	–	10,177	(579)	9,598
China Merchants Fund Management (note ii)	355	–	–	355	–	355
Total	10,532	–	–	10,532	(579)	9,953

Notes:

(i) On 30 September 2008, the Bank acquired a 53.12% equity interest in WLB. On the acquisition date, the fair value of WLB's identifiable net asset was RMB12,898 million, of which the Bank accounted for RMB6,851 million. A sum of RMB10,177 million being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill. Please find the details about WLB in note 22.

(ii) On 28 November 2013, the Bank acquired a 55.00% equity interest in CMFM. On the acquisition date, the fair value of CMFM's identifiable net asset was RMB752 million of which the Bank accounted for RMB414 million. A sum of RMB355 million being the excess of merger cost over the fair value of the identifiable net assets was recognised as goodwill. Please find the details about CMFM in note 22.

Impairment test for CGU containing goodwill

Goodwill is allocated to the Group's CGU, WLB which was acquired on 30 September 2008 and CMFM which was acquired on 28 November 2013.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecasts approved by management covering a 5-year period. Cash flows beyond the 5-year period are extrapolated using a steady growth rate. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

In assessing impairment of goodwill, the Group assumed the terminal growth in line with long-term forecast gross domestic product for the main operating areas of WLB and CMFM. A pre-tax discount rate of 12% (2013: 12%) was used.

29 Deferred tax assets/liabilities

	Group		Bank	
	2014	2013	**2014**	2013
Deferred tax assets	**10,291**	8,064	**9,962**	7,820
Deferred tax liabilities	**(771)**	(770)	**–**	–
Net amount	**9,520**	7,294	**9,962**	7,820

(a) Nature of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) are as follows:

	Group			
	2014		2013	
	Deductible/ (taxable) temporary difference	**Deferred tax**	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances on loans and advance to customers and other assets	**36,647**	**9,150**	15,917	3,986
Investment revaluation reserve	**(2,203)**	**(550)**	7,519	1,880
Salary and welfare payable	**5,290**	**1,322**	6,486	1,621
Others	**1,512**	**369**	2,358	577
Total	**41,246**	**10,291**	32,280	8,064
Deferred tax liabilities				
Impairment allowances on loans and advance to customers and other assets	**212**	**34**	142	23
Investment revaluation reserve	**(13)**	**(3)**	40	7
Others	**(5,022)**	**(802)**	(4,848)	(800)
Total	**(4,823)**	**(771)**	(4,666)	(770)

29 Deferred tax assets/liabilities *(continued)*

(a) Nature of deferred tax assets and liabilities *(continued)*

	Bank			
	2014		2013	
	Deductible/ (taxable) temporary difference	Deferred tax	Deductible/ (taxable) temporary difference	Deferred tax
Deferred tax assets				
Impairment allowances on loans and advance to customers and other assets	35,767	8,942	15,331	3,833
Investment revaluation reserve	(2,195)	(549)	7,521	1,880
Salary and welfare payable	5,106	1,277	6,370	1,593
Others	1,169	292	2,056	514
Total	39,847	9,962	31,278	7,820
Deferred tax liabilities				
Impairment allowances on loans and advance to customers and other assets	–	–	–	–
Investment revaluation reserve	–	–	–	–
Others	–	–	–	–
Total	–	–	–	–

(b) Movements of deferred tax

	Group				
	Impairment allowances on loans and advances to customers and other assets	Investment revaluation reserve	Salary and welfare payable	Others	Total
At 1 January 2014	4,009	1,887	1,621	(223)	7,294
Recognised in profit or loss	5,174	–	(299)	71	4,946
Recognised in other comprehensive income	–	(2,440)	–	(263)	(2,703)
Due to exchange difference	1	–	–	(18)	(17)
At 31 December 2014	9,184	(553)	1,322	(433)	9,520

29 Deferred tax assets/liabilities *(continued)*

(b) Movements of deferred tax *(continued)*

	Group				
	Impairment allowances on loans and advances to customers and other assets	Investment revaluation reserve	Salary and welfare payable	Others	Total
At 1 January 2013	3,568	18	1,100	(506)	4,180
Addition through acquisition of subsidiaries	–	–	7	20	27
Recognised in profit or loss	442	–	514	25	981
Recognised in other comprehensive income	–	1,869	–	215	2,084
Due to exchange difference	(1)	–	–	23	22
At 31 December 2013	4,009	1,887	1,621	(223)	7,294

	Bank				
	Impairment allowances on loans and advances to customers and other assets	**Investment revaluation reserve**	**Salary and welfare payable**	**Others**	**Total**
At 1 January 2014	**3,833**	**1,880**	**1,593**	**514**	**7,820**
Recognised in profit or loss	**5,109**	**–**	**(316)**	**41**	**4,834**
Recognised in other comprehensive income	**–**	**(2,429)**	**–**	**(263)**	**(2,692)**
At 31 December 2014	**8,942**	**(549)**	**1,277**	**292**	**9,962**

	Bank				
	Impairment allowances on loans and advances to customers and other assets	Investment revaluation reserve	Salary and welfare payable	Others	Total
At 1 January 2013	3,468	16	1,076	278	4,838
Recognised in profit or loss	365	–	517	6	888
Recognised in other comprehensive income	–	1,864	–	230	2,094
At 31 December 2013	3,833	1,880	1,593	514	7,820

The income tax rate applicable to the Bank's business is 25% (2013: 25%).

30 Other assets

	Group		Bank	
	2014	2013	**2014**	2013
Amounts pending for settlement	**3,883**	3,709	**3,690**	3,180
Repossessed assets (note (a))	**455**	62	**455**	62
Prepaid lease payments	**913**	781	**897**	768
Guarantee deposits	**926**	478	**253**	278
Prepayment for lease improvement and other miscellaneous items	**325**	303	**79**	141
Premium receivables	**135**	131	**–**	–
Recoverable from reinsurers	**225**	227	**–**	–
Defined benefit plan (note 37(b))	**70**	106	**–**	–
Others	**7,159**	3,807	**3,060**	2,723
Total	**14,091**	9,604	**8,434**	7,152

(a) Repossessed assets

	Group and Bank	
	2014	2013
Residential properties	**746**	650
Others	**652**	303
Total	**1,398**	953
Less: impairment allowances	**(943)**	(891)
Net repossessed assets	**455**	62

Notes:

(i) In 2014, the Group has disposed repossessed assets with total cost of RMB444 million (2013: RMB19 million).

(ii) The Group plans to dispose the repossessed assets by auction, bid and transfer.

31 Deposits from banks and other financial institutions

	Group		Bank	
	2014	2013	**2014**	2013
Deposits from banks				
– In the Mainland	**203,283**	221,121	**199,910**	216,605
– Outside the Mainland	**108,135**	55,896	**107,422**	55,870
Deposits from other financial institutions				
– In the Mainland	**386,030**	237,165	**392,710**	237,165
	697,448	514,182	**700,042**	509,640

32 Placements from banks and other financial institutions

	Group		Bank	
	2014	2013	**2014**	2013
Banks in the Mainland	**77,917**	104,396	**27,607**	55,985
Banks outside the Mainland	**16,686**	20,736	**12,452**	13,843
	94,603	125,132	**40,059**	69,828

33 Amounts sold under repurchase agreements

(a) Analysed by nature of counterparties

	Group		Bank	
	2014	2013	**2014**	2013
Banks in the Mainland	**56,279**	149,336	**55,984**	148,033
Other financial institution in the Mainland	**5,426**	3,114	**4,808**	3,114
Banks outside the Mainland	**5,283**	714	**5,283**	714
	66,988	153,164	**66,075**	151,861

(b) Analysed by assets type

	Group		Bank	
	2014	2013	**2014**	2013
Securities				
– PRC government bonds	**13,328**	31,900	**13,328**	31,900
– Bonds issued by policy banks	**16,428**	19,371	**16,428**	19,371
– Bonds issued by commercial banks and other financial institutions	**3,823**	82,017	**3,823**	82,017
– Other debt securities	**1,588**	143	**1,588**	143
	35,167	133,431	**35,167**	133,431
Discounted bills	**30,908**	18,430	**30,908**	18,430
Loans	**913**	1,303	**–**	–
	66,988	153,164	**66,075**	151,861

34 Deposits from customers

	Group		Bank	
	2014	2013	**2014**	2013
Corporate customers				
– Demand deposits	**973,646**	864,224	**960,911**	854,900
– Time deposits	**1,237,765**	942,728	**1,183,641**	900,988
	2,211,411	1,806,952	**2,144,552**	1,755,888
Retail customers				
– Demand deposits	**644,836**	547,363	**619,173**	524,823
– Time deposits	**448,191**	420,961	**395,021**	374,170
	1,093,027	968,324	**1,014,194**	898,993
	3,304,438	2,775,276	**3,158,746**	2,654,881

Guarantee deposits and margins received

Customer deposits include marginal deposits for guarantees as follows:

	Group		Bank	
	2014	2013	**2014**	2013
Guarantee for acceptance bills	**167,437**	165,808	**167,427**	165,678
Guarantee for loans	**48,199**	44,754	**48,199**	36,611
Guarantee for issuing letters of credit	**54,705**	36,397	**54,703**	36,389
Deposit for letters of guarantee	**42,739**	28,405	**42,508**	28,285
Others	**51,006**	26,572	**50,971**	26,520
	364,086	301,936	**363,808**	293,483

35 Interest payable

	Group		Bank	
	2014	2013	**2014**	2013
Issued debt securities	**1,352**	928	**1,345**	831
Customer deposit and others	**43,997**	30,060	**42,528**	28,948
	45,349	30,988	**43,873**	29,779

36 Debt securities issued

		Group		Bank	
	Note	**2014**	2013	**2014**	2013
Subordinated notes issued	36(a)	**32,396**	21,047	**29,966**	18,676
Long-term debt securities issued	36(b)	**27,636**	23,980	**20,982**	19,980
Negotiable interbank certificates of deposit		**24,832**	2,968	**24,832**	2,968
Certificates of deposit issued		**21,291**	20,941	**8,779**	8,519
		106,155	68,936	**84,559**	50,143

(a) Subordinated notes issued

As at the end of the reporting period, subordinated notes issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (RMB in million)	Beginning balance (RMB in million)	Issue in the year	Discount or premium amortisation	Repayment for the year	Ending balance (RMB in million)
Fixed rate bond (notes(i))	180 months	Sep 4, 2008	5.90 (for the first ten years); 8.90 (from 11 year onwards, if the notes are not called by the Bank)	7,000	6,991	–	3	–	6,994
Fixed rate bond (notes(ii))	180 months	Dec 28, 2012	5.20	11,700	11,685	–	1	–	11,686
Fixed rate bond (notes(iii))	120 months	Apr 18, 2014	6.40	11,300	–	11,300	(14)	–	11,286
					18,676	11,300	(10)	–	29,966

36 Debt securities issued *(continued)*

(a) Subordinated notes issued *(continued)*

As at the end of the reporting period, subordinated note issued by WLB was as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (In million)	Beginning balance (RMB in million)	Issue in the year	Discount or premium amortisation	Repayment for the year	Ending balance (RMB in million)
Fixed rate bond	144 months	Dec 28, 2009	5.70	HKD1,500	1,171	–	28	–	1,199
Fixed to floating rate notes	120 months	Nov 6, 2012	3.50 (for the first 5 years); T*+2.80 (from 6 year onwards, if the notes are not called by the Bank)	USD200	1,200	–	31	–	1,231
					2,371	–	59	–	2,430

* T represents the 5 years US Treasury rate.

Notes:

(i) The CBRC and PBOC approved the Bank's issuance of RMB30,000 million subordinated notes on 12 August 2008 (Yin Jian Fu [2008] No.304 entitled "The Approval of the issuance of subordinated bonds by China Merchants Bank" and Yin Shi Chang Xu Zhun Yu Zi [2008] No.25 entitle "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB26,000 million fixed rate notes and RMB4,000 million floating rate notes on 4 September 2008 to institutional investors on the Mainland China Interbank Bond Market.

The Bank exercised its redemption right on 4 September 2013 and redeemed a total of RMB23,000 million subordinated bonds, including two types of bonds valued at RMB19,000 million ad RMB4,000 million respectively.

(ii) The CBRC and PBOC approved the Bank's issuance of RMB11,700 million subordinated notes on 29 November 2012 (Yin Jian Fu [2012] No.703 entitled "The Approval of the issuance subordinated bonds by China Merchants Bank") and on 20 December 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.91 entitle "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11,700 million fixed rate notes on 28 December 2012 to institutional investors on the Mainland China Interbank Bond Market.

(iii) The CBRC and PBOC approved the Bank's issuance of RMB11,300 million tier-2 capital bonds on 29 October 2013 (Yin Jian Fu [2013] No.557 entitled "The Approval of the issuance subordinated bonds by China Merchants Bank") and on 15 April 2014 (Yin Shi Chang Xu Zhun Yu Zi [2014] No.22 entitle "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB11,300 million tier-2 capital bonds on 18 April 2014 on the Mainland China Interbank Bond Market.

36 Debt securities issued *(continued)*

(b) Long-term debt securities

As at the end of the reporting period, long-term debt securities issued by the Bank were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (RMB in million)	Beginning balance (RMB in million)	Issue in the year	Discount or premium amortisation	Repayment for the year	Ending balance (RMB in million)
12 CMB 01 (Note (i))	60 months	Mar 14, 2012	4.15	6,500	6,494	–	1	–	6,495
12 CMB 02 (Note (i))	60 months	Mar 14, 2012	R*+0.95	13,500	13,486	–	5	–	13,491
14 CMB 03 (Note (ii))	36 months	Apr 10, 2014	4.10	1,000	–	1,000	(4)	–	996
					19,980	1,000	2	–	20,982

* R represents the 1-year fixed deposit rate ("Rate") promulgated by the PBOC. The Rate on 14 March 2012 was 3.50%.

Notes:

(i) The CBRC and PBOC approved the Bank's issuance of RMB20,000 million long-term debt securities on 12 December 2011 (Yin Jian Fu [2011] No.557 entitled "The Approval of the issuance of long-term debt securities by China Merchants Bank") and on 16 January 2012 (Yin Shi Chang Xu Zhun Yu Zi [2012] No.2 entitle "Decision on Administrative Approval from the People's Bank of China"). The Bank issued RMB6,500 million fixed rate debt and RMB13,500 million floating rate debt on 14 March 2012 on the Mainland China interbank Bond Market.

(ii) The PBOC and National Development and Reform Commission approved the Bank's issuance of RMB1,000 million long-term debt securities on 13 February 2014 (Yin Han [2014] No.35 entitled "The Approval of the issuance of Renminbi debt securities in Hong Kong by China Merchants Bank") and on 11 March 2014 (Fa Gai Wai Zi [2014] No.412 entitled "The Approval of issuance of Renminbi debt securities in Hong Kong by China Merchants Bank"). The Bank issued RMB1,000 million long-term debt securities on 10 April 2014 in Hong Kong.

36 Debt securities issued *(continued)*

(b) Long-term debt securities *(continued)*

As at the end of the reporting period, long-term debt securities issued by CMBFLC were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (RMB in million)	Beginning balance (RMB in million)	Issue in the year	Discount or premium amortisation	Repayment for the year	Ending balance (RMB in million)
Fixed rate bond (Note (iii))	36 months	Jun 26, 2013	4.99	1,000	1,000	–	–	–	1,000
Fixed rate bond (Note (iii))	60 months	Jun 26, 2013	5.08	1,000	1,000	–	–	–	1,000
Fixed rate bond (Note (iii))	36 months	Jul 24, 2013	4.87	1,000	1,000	–	–	–	1,000
Fixed rate bond (Note (iii))	60 months	Jul 24, 2013	4.98	1,000	1,000	–	–	–	1,000
					4,000	–	–	–	4,000

Note:

(iii) As approved by CBRC under its Official Reply on the Issue of Financial Bonds by CMBFLC under ref. Yin Jian Fu [2012] No.758 and PBOC under its Decision on the Grant of Administrative Permission under ref. Yin Shi Chang Xu Zhun Yu Zi [2013] No.33, CMBFLC issued the first tranche of RMB2,000 million financial bonds on 26 June 2013 and the second trance of RMB2,000 million financial bonds on 24 July 2013. As at 31 December 2014, the Bank held RMB440 million financial bonds issued by CMBFLC.

As at the end of the reporting period, long-term debt securities issued by CMB International Leasing Management Limited ("CMBIL"), CMBICC's subsidiary, were as follows:

Debt type	Term to maturity	Date of issuance	Annual interest rate (%)	Nominal value (RMB in million)	Beginning balance (RMB in million)	Issue in the year	Discount or premium amortisation	Repayment for the year	Ending balance (RMB in million)
Fixed rate bond (note (iv))	60 months	Aug 11, 2014	3.25	3,100	–	3,100	(6)	–	3,094

Note:

(iv) On 11 Aug 2014, CMBIL issued 500 million US dollar with annual interest rate of 3.25% guaranteed Notes due 2019 on the HKEx.

37 Staff welfare scheme

(a) Salaries and welfare payable

	Group			
	2014			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Short-term employee benefits (i)	5,057	19,093	(18,285)	5,865
Post-employment benefits				
– defined contribution plans (ii)	49	2,889	(2,763)	175
Other long-term employee benefits (iii)	13	15	–	28
	5,119	21,997	(21,048)	6,068

	Group				
	2013				
	Beginning balance	Additions through acquisition of subsidiaries	Change in the year	Payment/ transfers in the year	Ending balance
Salary and bonus	2,589	81	13,408	(12,502)	3,576
Welfare expense	37	–	79	(80)	36
Social insurance and corporate supplementary insurance	337	–	4,008	(4,124)	221
Housing reserve	90	–	1,267	(1,249)	108
Trade union and employee education expenses	986	8	791	(620)	1,165
Others	17	–	(4)	–	13
Including: Cash settled share-based transactions	17	–	(4)	–	13
	4,056	89	19,549	(18,575)	5,119

37 Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

	Bank			
	2014			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Short-term employee benefits (i)	4,572	17,801	(17,207)	5,166
Post-employment benefits				
– defined contribution plans (ii)	49	2,858	(2,734)	173
Other long-term employee benefits (iii)	13	15	–	28
	4,634	20,674	(19,941)	5,367

	Bank			
	2013			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Salary and bonus	2,303	12,617	(11,814)	3,106
Welfare expense	37	–	(1)	36
Social insurance and corporate supplementary insurance	337	3,988	(4,105)	220
Housing reserve	90	1,259	(1,241)	108
Trade union and employee education expenses	982	783	(614)	1,151
Others	17	(4)	–	13
Including: Cash settled share-based transactions	17	(4)	–	13
	3,766	18,643	(17,775)	4,634

37 Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(i) Short-term employee benefits

	Group			
	2014			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Salary and bonus	3,576	15,069	(14,430)	4,215
Welfare expense	36	82	(81)	37
Social insurance				
– Medical insurance	169	1,464	(1,619)	14
– Injury insurance	1	29	(29)	1
– Maternity insurance	2	44	(43)	3
Housing reserve	108	1,548	(1,414)	242
Trade union and employee education expenses	1,165	857	(669)	1,353
	5,057	19,093	(18,285)	5,865

	Bank			
	2014			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Salary and bonus	3,106	13,897	(13,464)	3,539
Welfare expense	36	–	–	36
Social insurance				
– Medical insurance	168	1,453	(1,607)	14
– Injury insurance	1	28	(28)	1
– Maternity insurance	2	43	(42)	3
Housing reserve	108	1,534	(1,401)	241
Trade union and employee education expenses	1,151	846	(665)	1,332
	4,572	17,801	(17,207)	5,166

37 Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(ii) Post-employment benefits-defined contribution plan

	Group 2014			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Basic retirement security	32	1,218	(1,203)	47
Supplementary pension	13	1,580	(1,471)	122
Unemployment insurance	4	91	(89)	6
	49	2,889	(2,763)	175

	Bank 2014			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Basic retirement security	32	1,204	(1,190)	46
Supplementary pension	13	1,564	(1,456)	121
Unemployment insurance	4	90	(88)	6
	49	2,858	(2,734)	173

Defined contribution pension schemes

In accordance with the regulations in the PRC, the Group participates in statutory pension schemes organised by the municipal and provincial governments for its employees (endowment insurance). During the year 2014, the Group's contributions to the schemes are determined by local governments and vary at a range of 10% to 35% (2013: 10% to 35%) of the staff salaries.

In addition to the above statutory pension schemes, the Group has established a supplementary defined contribution plan for its employees (annuity insurance) in accordance with relevant annuity policies for corporate entities in the PRC. During the year 2014, the Group's annual contributions to this plan are determined based on 8.33% of the staff salaries and bonuses (2013: 8.33%).

37 Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(ii) Post-employment benefits-defined contribution plan *(continued)*

Defined contribution pension schemes *(continued)*

For its employees outside Mainland China, the Group participates in defined contribution retirement schemes at funding rates determined in accordance with the local practise and regulations.

(iii) Other long-term employee benefits

	Group/Bank			
	2014			
	Beginning balance	Change in the year	Payment/ transfers in the year	Ending balance
Cash settled share-based transactions	13	15	–	28
	13	15	–	28

As at 31 December 2014, the Group has offered 7 phases of H share Appreciation Rights Scheme to its senior management ("the Scheme"). The options of the Scheme vest after 2 years or 3 years from the grant date and are then exercisable within a period of 8 years or 7 years. Each of the share appreciation right is lined to one H-share.

37 Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(1) All share appreciation rights shall be settled in cash. The terms and conditions of the scheme are listed below:

	Number of unexercised options at the end of 2014 (in millions)	Exercise conditions	Contract period of options
Options granted on 30 October 2007	0.922	2 years after the grant date	10 years
Options granted on 7 November 2008	0.954	2 years after the grant date	10 years
Options granted on 16 November 2009	1.272	2 years after the grant date	10 years
Options granted on 18 February 2011	1.381	3 years after the grant date	10 years
Options granted on 4 May 2012	1.443	3 years after the grant date	10 years
Options granted on 22 May 2013	1.443	3 years after the grant date	10 years
Options granted on 7 July 2014	2.280	3 years after the grant date	10 years

(2) The number and weighted average exercise prices of share options are as follows:

	2014		2013	
	Weighted average exercise price (HKD)	**Number of options (in million)**	Weighted average exercise price (HKD)	Number of options (in million)
Outstanding as at the beginning of the year	**16.40**	**9.11**	17.79	8.15
Granted during the year	**14.84**	**2.28**	15.56	1.75
Forfeited during the year	**15.64**	**(1.69)**	16.59	(0.96)
Adjusted during the year	**–**	**–**	16.59	0.17
Outstanding at the end of the year	**15.43**	**9.70**	16.40	9.11
Exercisable at the end of the year	**16.29**	**3.49**	17.09	3.96

The options outstanding at 31 December 2014 had an weighted average exercise price of HKD15.43 (2013: HKD16.40) and a weighted average remaining contractual life of 6.76 years (2013: 6.86 years).

Pursuant to the requirements set out in the Scheme, if any dividends were distributed, capital reserve was converted into shares, share split or dilution, an adjustment to the exercise price is applied.

37 Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(3) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on the Black-Scholes model. The contractual life of the option is used as an input into this model.

	2014						
	Phase I	Phase II	Phase III	Phase IV	Phase V	Phase VI	Phase VII
Fair value at measurement date (in RMB)	**1.16**	**10.22**	**3.25**	**3.60**	**4.22**	**3.90**	**3.74**
Share price (in HKD)	**19.46**	**19.46**	**19.46**	**19.46**	**19.46**	**19.46**	**19.46**
Exercise price (in HKD)	**24.85**	**6.31**	**17.54**	**16.40**	**14.21**	**14.78**	**14.84**
Expected volatility	**26%**	**26%**	**26%**	**26%**	**26%**	**26%**	**26%**
Option life (year)	**2.83**	**3.83**	**4.83**	**6.17**	**7.33**	**8.42**	**9.58**
Expected dividends rate	**5.27%**	**5.27%**	**5.27%**	**5.27%**	**5.27%**	**5.27%**	**5.27%**
Risk-free interest rate	**2.58%**	**2.58%**	**2.58%**	**2.58%**	**2.58%**	**2.58%**	**2.58%**

	2013					
	Phase I	Phase II	Phase III	Phase IV	Phase V	Phase VI
Fair value at measurement date (in RMB)	0.88	7.09	2.21	2.47	2.90	2.73
Share price (in HKD)	16.52	16.52	16.52	16.52	16.52	16.52
Exercise price (in HKD)	25.63	7.09	18.33	17.19	14.99	15.56
Expected volatility	29%	29%	29%	29%	29%	29%
Option life (year)	3.83	4.83	5.83	7.17	8.33	9.42
Expected dividends rate	5.64%	5.64%	5.64%	5.64%	5.64%	5.64%
Risk-free interest rate	2.81%	2.81%	2.81%	2.81%	2.81%	2.81%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

37 Staff welfare scheme *(continued)*

(a) Salaries and welfare payable *(continued)*

(iii) Other long-term employee benefits *(continued)*

(4) The number of share appreciation rights granted to members of senior management:

	2014								
	Phase I No. of shares granted (in thousand)	Phase II No. of shares granted (in thousand)	Phase III No. of shares granted (in thousand)	Phase IV No. of shares granted (in thousand)	Phase V No. of shares granted (in thousand)	Phase VI No. of shares granted (in thousand)	Phase VII No. of shares granted (in thousand)	No. of shares exercised (in thousand)	Total no. of shares (in thousand)
Ma Wei Hua	318	318	326	307	307	307	–	–	1,883
Zhang Guang Hua	159	159	163	200	200	200	240	–	1,321
Li Hao	159	159	163	200	200	200	240	–	1,321
Tang Zhi Hong	159	159	163	184	184	184	210	–	1,243
Ding Wei	127	159	163	184	184	184	210	–	1,211
Tang Xiao Qing	–	–	163	153	184	184	210	–	894
Wang Qing Bin	–	–	131	153	184	184	210	–	862
Tian Hui Yu	–	–	–	–	–	–	300	–	300
Liu Jian Jun	–	–	–	–	–	–	210	–	210
Wang Liang	–	–	–	–	–	–	150	–	150
Lian Bo Lin	–	–	–	–	–	–	150	–	150
Xu Shi Qing	–	–	–	–	–	–	150	–	150
Total	922	954	1,272	1,381	1,443	1,443	2,280	–	9,695

	2013							
	Phase I No. of shares granted (in thousand)	Phase II No. of shares granted (in thousand)	Phase III No. of shares granted (in thousand)	Phase IV No. of shares granted (in thousand)	Phase V No. of shares granted (in thousand)	Phase VI No. of shares granted (in thousand)	No. of shares exercised (in thousand)	Total no. of shares (in thousand)
Ma Wei Hua	318	318	327	307	307	307	–	1,884
Zhang Guang Hua	159	159	163	200	200	200	–	1,081
Li Hao	159	159	163	200	200	200	–	1,081
Tang Zhi Hong	159	159	163	184	184	184	–	1,033
Yin Feng Lan	159	159	163	184	184	184	–	1,033
Ding Wei	127	159	163	184	184	184	–	1,001
Tang Xiao Qing	–	–	163	153	184	184	–	684
Wang Qing Bin	–	–	131	153	184	184	–	652
Xu Lian Feng	96	96	98	123	123	123	–	659
Total	1,177	1,209	1,534	1,688	1,750	1,750	–	9,108

Note: In 2014, no members of senior management had exercised any share appreciation rights (2013: Nil).

37 Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan

The Group's subsidiary WLB operates a defined benefit plan ("the Plan") for the staff, which includes a defined benefit scheme and a defined benefit pension section. The contributions of the Plan are determined based on periodic valuations by qualified actuaries of the assets and liabilities of the Plan. The Plan provides benefits based on members' final salary. The costs are solely funded by WLB.

The latest actuarial valuation of the Plan was performed in accordance with IAS 19 issued by the IASB as at 31 December 2014 by Towers Watson Hong Kong Limited, a professional actuarial firm. The present values of the defined benefit obligation and current service cost of the Plan are calculated based on the projected unit credit method. At the valuation date, the Plan had a funding level of 122% (2013: 136%).

The amounts recognised in the statement of financial position as at 31 December 2014 are analysed as follows:

	The Group	
	2014	2013
Fair value of the Plan assets	**386**	400
Present value of the funded defined benefit obligation	**(316)**	(294)
Net asset recognised in the statement of financial position	**70**	106

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. No contribution to the Plan is expected to be paid in 2015.

There was no plan amendment, curtailment or settlement impact for the years ended 31 December 2014 and 2013.

The amounts recognised in the consolidated statement of profit or loss are as follows:

	The Group	
	2014	2013
Current service cost	**(11)**	(15)
Net interest income	**2**	–
Net expense for the year included in retirement benefit costs	**(9)**	(15)

The actual losses on the Plan assets for the year ended 31 December 2014 was RMB1 million (2013: actual return RMB43 million).

37 Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The movements in the defined benefit obligation during the year are as follows:

	The Group	
	2014	2013
Present value of obligation at 1 January	**294**	384
Current service cost	**11**	15
Interest cost	**6**	3
Actual benefits paid	**(22)**	(48)
Actuarial losses/(gains) due to liability experience	**18**	(23)
Actuarial losses/(gains) due to financial assumption changes	**9**	(37)
Actuarial gain due to demographic assumption changes	**–**	–
Actual obligation at 31 December	**316**	294

The movements in the fair value of the Plan assets during the year are as follows:

	The Group	
	2014	2013
Fair value of the Plan assets at 1 January	**400**	418
Interest income	**8**	3
Expected return on the Plan assets other than interest (losses)/gains	**(10)**	40
Actual benefits paid	**(22)**	(48)
Exchange difference	**10**	(13)
Fair value of the Plan assets at 31 December	**386**	400

The major categories of the Plan assets are as follows:

	The Group			
	2014		2013	
		%		%
Equities	**249**	**64.5**	269	67.3
Bonds	**63**	**16.3**	66	16.5
Cash	**74**	**19.2**	65	16.2
Total	**386**	**100**	400	100

No deposit with the Bank was included in the amount of the Plan assets (2013: Nil).

37 Staff welfare scheme *(continued)*

(b) Post-employment benefits – defined benefit plan *(continued)*

The principal actuarial assumptions adopted in the valuation are as follows:

	The Group	
	2014	2013
	%	%
Discount rate		
– Defined benefit scheme	**1.7**	2.1
– Defined benefit pension scheme	**0.9**	0.75
Long-term average rate of salary increase for the Plan	**5.0**	5.0
Pension increase rate for the defined benefit pension plan	**3.0**	3.0

(c) Staff salary and incentive scheme

The performance bonus was accrued at a fixed percentage based on the net profit for the year as approved by the board of directors and accounted as operating expenses.

38 Tax payable

	Group		Bank	
	2014	2013	**2014**	2013
Corporate income tax	**8,383**	5,805	**7,929**	5,341
Business tax and surcharges payable	**2,745**	2,369	**2,714**	2,349
Others	**528**	548	**462**	529
	11,656	8,722	**11,105**	8,219

39 Other liabilities

	Group		Bank	
	2014	2013	**2014**	2013
Salary risk allowances (Note)	**3,700**	4,800	**3,700**	4,800
Clearing and settlement accounts	**7,001**	6,373	**7,001**	6,373
Cheques and remittances returned	**116**	106	**116**	106
Payment and collection account	**1,369**	1,086	**1,369**	1,086
Insurance liabilities	**1,709**	1,558	**–**	–
Debt securities acquisition payable	**–**	2,887	**–**	2,887
Others	**25,783**	21,218	**15,657**	12,291
	39,678	38,028	**27,843**	27,543

Note: Salary risk allowances are specific funds withheld from the employees' (excluding senior management of the Bank) annual remunerations of which the payments are delayed for the purpose of risk management. The allocation of the funds is based on performance assessment and risk management results, taking into account the short term and long term benefit. In the event of a decline in the asset quality, a sharp deterioration of risk profiles and profitability, the occurrence legal case, or a significant regulatory violation identified by any regulatory authorities, the relevant employees will be restricted from the allocation of these allowances. As at 31 December 2014, these allowances amounted to RMB3,700 million (2013: RMB4,800 million) and were included in "other liabilities".

40 Share capital

By type of share:

	Registered capital	
	2014	2013
Listed shares		
– A-Shares	**20,629**	20,629
– H-Shares	**4,591**	4,591
	25,220	25,220

All H-Shares are ordinary shares and rank pari passu with the A-Shares.

	Capital	
	No. of shares (in million)	Amount
At 1 January 2014 and at 31 December 2014	**25,220**	**25,220**

41 Capital reserve

The capital reserve primarily represents share premium by the Bank. The capital reserve can be used to issue shares with the shareholders' approval.

	Group		Bank	
	2014	2013	**2014**	2013
At 1 January	**67,523**	37,508	**76,681**	46,666
Share issued	**–**	30,015	**–**	30,015
At 31 December	**67,523**	67,523	**76,681**	76,681

42 Investment revaluation reserve

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value, net of deferred tax.

The movement of investment revaluation reserve:

	Group		Bank	
	2014	2013	**2014**	2013
Beginning Balance	**(5,547)**	37	**(5,641)**	(46)
Share of investment revaluation reserve of joint ventures	**35**	(8)	**–**	–
Realised loss/(gain) on disposal of available-for-sale financial assets, net of deferred tax	**145**	(221)	**(188)**	(240)
Changes in fair value of available-for-sale financial assets, net of deferred tax	**7,269**	(5,355)	**7,475**	(5,355)
Ending Balance	**1,902**	(5,547)	**1,646**	(5,641)

43 Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedge in note 2(i)(iii).

44 Surplus reserve

Statutory surplus reserve is calculated according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance ("MOF") and is provided at 10% of the audited profit after tax. Surplus reserve can be used to offset accumulated losses or capitalised as paid-up capital with the approval of shareholders.

	Group and Bank	
	2014	2013
At 1 January	**23,502**	18,618
Statutory surplus reserve	**5,188**	4,884
At 31 December	**28,690**	23,502

45 Regulatory general reserve

Pursuant to relevant MOF notices, the Bank and the Group's financial services subsidiaries in Mainland China are required to set aside a general reserve according to a certain percentage of the ending balance of gross risk-bearing assets through profit to cover potential losses against their assets. Effective from 1 July 2012, the minimum general reserve balance should increase to 1.5% of the ending balance of gross risk-bearing assets with a transition period of five years. The Bank and the Group's financial services subsidiaries in Mainland China have complied with the above requirements as of 31 December 2014.

	The Group		The Bank	
	2014	2013	**2014**	2013
At 1 January	**46,347**	39,195	**45,762**	38,849
Statutory general reserve	**7,632**	7,152	**7,446**	6,913
At 31 December	**53,979**	46,347	**53,208**	45,762

46 Profit appropriations

(a) Dividends declared and paid

	2014	2013
Dividends in respect of the previous year, approved, declared and paid during the year of RMB6.20 per every 10 shares (2013: RMB6.30 per every 10 shares)	15,636	13,593

(b) Proposed profit appropriations

	2014	2013
Statutory surplus reserve	5,188	4,884
Regulatory general reserve	7,446	6,913
Dividends		
– cash dividend: RMB6.70 per every 10 shares (2013: RMB6.20 per every 10 shares)	16,897	15,636
Total	29,531	27,433

2014 profit appropriation is proposed in accordance with the resolution passed at the meeting of the board of directors held on 18 March 2015 and will be submitted to the 2014 annual general meeting for approval.

47 Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China.

48 Notes to consolidated cash flow statements

(a) Analysis of the balances of cash and cash equivalents (with original maturity within 3 months):

	The Group	
	2014	2013
Cash and balances with central bank	149,938	71,659
Balance with banks and other financial institutions	47,336	29,983
Placements with banks and other financial institutions	68,983	72,976
Amounts held under resale agreements	190,039	159,184
Debt security investments	15,175	16,147
	471,471	349,949

(b) Significant non-cash transactions

There are no other significant non-cash transactions during the year.

49 Operating segments

The Group's principal activities are commercial lending and deposits taking. The funding of existing retail and corporate loans are mainly from customer deposits.

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography.

In 2014, the Bank adjusted its organisational structure into 3 business lines, including corporate finance, retail finance, interbank finance, and other sector, to assess its business decisions, reporting and performance. The Bank also adjusted its business management accounting report: The "interbank business" and "custody activities" in the wholesale banking segment and "financial market business" in the treasury business segment are reclassified as "interbank financial business". The "treasurer function" in the former treasury business segment is reclassified as "other business". The Group's business reporting segments after adjustment are as follows:

– Corporate financial business

The provision of financial services to corporation and institution customers includes lending and deposit taking activities, clearing and cash management services, trade finance and offshore businesses, investment banking and other services.

– Retail financial business

The provision of financial services to retail customers includes lending and deposit taking activities, bank card business, wealth management services, private banking and other services.

– Interbank financial business

This segment business includes interbank organisation transactions such as interbank lending and repurchasing activities, custody activities and financial market service.

– Other Business

Others covers treasurer services, transfer pricing within the Bank's virtual fund pool, investment properties, business of subsidiaries, associates and joint ventures, and other relevant businesses. None of these segments meets any of the quantitative thresholds so far for determining reportable segments.

For the purpose of operating segment analysis, external net interest income/expense represents the net interest income earned or expense incurred on external banking services. Internal net interest income/expense represents the assumed profit or loss by the internal funds transfer pricing mechanism, which has taken into account the structure and market returns of the assets and liabilities portfolio. Cost allocation is based on direct costs attributable to each reporting segment and the relevant agent apportion.

Corresponding comparative figures of business segment reporting have been restated.

49 Operating segments *(continued)*

(a) Segment results, assets and liabilities

	The Group									
	Corporate financial business		Retail financial business		Interbank financial business		Other business		Total	
	2014	2013 (restated)	**2014**	2013 (restated)	**2014**	2013 (restated)	**2014**	2013 (restated)	**2014**	2013 (restated)
External net interest income	**42,793**	45,875	**46,077**	37,361	**7,144**	8,193	**15,986**	7,484	**112,000**	98,913
Internal net interest income/(expense)	**18,063**	9,363	**(453)**	2,955	**2,084**	(492)	**(19,694)**	(11,826)	**–**	–
Net interest income	**60,856**	55,238	**45,624**	40,316	**9,228**	7,701	**(3,708)**	(4,342)	**112,000**	98,913
Net fee and commission income	**12,942**	8,694	**21,967**	15,655	**5,672**	2,408	**4,115**	2,427	**44,696**	29,184
Other net income	**3,623**	3,424	**993**	806	**3,953**	343	**1,102**	360	**9,671**	4,933
Operating income/ (expense)	**77,421**	67,356	**68,584**	56,777	**18,853**	10,452	**1,509**	(1,555)	**166,367**	133,030
Operating expenses										
– Depreciation	**(1,265)**	(1,240)	**(1,719)**	(1,591)	**(142)**	(72)	**(409)**	(392)	**(3,535)**	(3,295)
– Others	**(22,192)**	(20,875)	**(30,149)**	(26,746)	**(2,487)**	(1,210)	**(2,718)**	(2,018)	**(57,546)**	(50,849)
Charge for insurance claims	**–**	–	**–**	–	**–**	–	**(332)**	(331)	**(332)**	(331)
	(23,457)	(22,115)	**(31,868)**	(28,337)	**(2,629)**	(1,282)	**(3,459)**	(2,741)	**(61,413)**	(54,475)

49 Operating segments *(continued)*

(a) Segment results, assets and liabilities *(continued)*

	The Group									
	Corporate financial business		Retail financial business		Interbank financial business		Other business		Total	
	2014	2013 (restated)	**2014**	2013 (restated)	**2014**	2013 (restated)	**2014**	2013 (restated)	**2014**	2013 (restated)
Reportable segment profit before impairment losses	**53,964**	45,241	**36,716**	28,440	**16,224**	9,170	**(1,950)**	(4,296)	**104,954**	78,555
Impairment losses	**(23,166)**	(4,434)	**(7,611)**	(4,945)	**(25)**	(56)	**(879)**	(783)	**(31,681)**	(10,218)
Share of profit of associates and joint ventures	**–**	–	**–**	–	**–**	–	**158**	88	**158**	88
Reportable segment profit/(loss) before tax	**30,798**	40,807	**29,105**	23,495	**16,199**	9,114	**(2,671)**	(4,991)	**73,431**	68,425
Capital expenditure (note)	**2,908**	2,352	**3,951**	3,017	**326**	137	**940**	743	**8,125**	6,249

	The Group									
	Corporate financial business		Retail financial business		Interbank financial business		Other business		Total	
	2014	2013 (restated)	**2014**	2013 (restated)	**2014**	2013 (restated)	**2014**	2013 (restated)	**2014**	2013 (restated)
Reportable segment assets	**1,380,976**	1,203,002	**1,022,060**	835,925	**886,272**	876,363	**1,411,906**	1,075,358	**4,701,214**	3,990,648
Reportable segment liabilities	**2,169,013**	1,729,543	**1,028,265**	907,146	**702,617**	598,794	**483,362**	490,942	**4,383,257**	3,726,425
Interest in associates and joint ventures	**–**	–	**–**	–	**–**	–	**1,484**	778	**1,484**	778

Note: Capital expenditure represents total amount incurred for acquiring long-term segment assets.

49 Operating segments *(continued)*

(b) Reconciliations of reportable segment revenue, profit or loss, assets, liabilities and other material items

	The Group	
	2014	2013 (restated)
Revenue		
Total revenue for reportable segments	**166,367**	133,030
Other revenue	**–**	–
Consolidated revenue	**166,367**	133,030
Profit		
Total profit or loss for reportable segments	**73,431**	68,425
Other profit	**–**	–
Consolidated profit before income tax	**73,431**	68,425
Assets		
Total assets for reportable segments	**4,701,214**	3,990,648
Goodwill	**9,953**	9,953
Intangible assets	**1,059**	835
Deferred tax assets	**9,880**	7,778
Other unallocated assets	**9,723**	7,185
Consolidated total assets	**4,731,829**	4,016,399
Liabilities		
Total liabilities for reportable segments	**4,383,257**	3,726,425
Current taxation	**10,854**	5,354
Other unallocated liabilities	**22,658**	18,664
Consolidated total liabilities	**4,416,769**	3,750,443

49 Operating segments *(continued)*

(c) Geographical segments

The Group operates principally in the PRC with branches located in major provinces, autonomous regions and municipalities directly under the central government. The Group also has branches operation in Hong Kong, the United States of America and Singapore, subsidiaries operating in Hong Kong and Shanghai and representative offices in London and New York and Taiwan.

In presenting information on the basis of geographical segments, operating income is allocated based on the location of the branches that generate the revenue. Segment assets and non-current assets are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

– "Headquarter" refers to the Group headquarter, special purpose vehicles at the branch level which are directly under the headquarter, associates and joint ventures, including the headquarter and credit card centres, etc;

– "Yangtze River Delta region" refers to branches in Shanghai municipality, Zhejiang province and Jiangsu province;

– "Bohai Rim region" refers to branches in Beijing municipality, Tianjin municipality, Shandong province and Hebei province;

– "Pearl River Delta and West Coast region" refers to branches in Guangdong province and Fujian province;

– "Northeast region" refers to branches in Liaoning province, Heilongjiang province and Jilin province;

– "Central region" refers to branches in Henan province, Anhui province, Hunan province, Hubei province, Jiangxi province, Shanxi province and Hainan province;

– "Western region" refers to branches in Sichuan province, Chongqing municipality, Guizhou province, Yunnan province, Shanxi province, Gansu province, Ningxia Hui Autonomous region, Xinjiang Uyghur autonomous region, Guangxi Zhuang autonomous region, Inner Mongolia autonomous region, Qinghai province and Tibet autonomous region;

– "Overseas" refers to overseas branches in Hong Kong, New York, Singapore and representative offices in London, New York and Taiwan; and

– "Subsidiaries" refers to subsidiaries wholly owned by the Group as a controlling shareholder, including WLB, CMBICC, CMBFLC and CMFM.

49 Operating segments *(continued)*

(c) Geographical segments *(continued)*

	The Group									
	Total assets		Total liabilities		Non-current assets		Profit before taxation		Revenue	
Geographical information	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Headquarter	**1,863,145**	1,566,355	**1,629,954**	1,371,100	**23,340**	20,208	**1,998**	2,711	**25,146**	17,644
Yangtze River Delta region	**590,741**	507,514	**586,447**	497,711	**2,657**	2,373	**10,514**	13,295	**30,436**	25,650
Bohai Rim region	**425,612**	352,891	**414,438**	343,143	**2,522**	2,514	**14,922**	12,996	**25,521**	20,735
Pearl River Delta and West Coast region	**527,907**	490,874	**515,926**	480,480	**1,862**	1,946	**15,988**	13,877	**28,664**	23,074
Northeast region	**173,827**	146,125	**170,945**	143,285	**1,473**	1,148	**3,865**	3,800	**8,078**	6,853
Central region	**333,656**	286,311	**328,146**	280,598	**2,798**	2,336	**7,510**	7,642	**16,917**	14,270
Western region	**378,606**	316,410	**370,196**	309,422	**2,827**	2,475	**11,212**	9,316	**20,205**	16,180
Overseas	**126,892**	99,536	**121,176**	98,869	**68**	86	**2,077**	925	**2,517**	1,462
Subsidiaries	**311,443**	250,383	**279,541**	225,835	**6,311**	5,763	**5,345**	3,863	**8,883**	7,162
Total	**4,731,829**	4,016,399	**4,416,769**	3,750,443	**43,858**	38,849	**73,431**	68,425	**166,367**	133,030

50 Assets pledged as security

The following assets have been pledged as collateral for liabilities under repurchase arrangements:

	Group		Bank	
	2014	2013	**2014**	2013
Amounts sold under repurchase agreements	**66,988**	153,164	**66,075**	151,861
Assets pledged				
– Available-for-sale financial assets	**3,022**	12,960	**3,022**	12,960
– Held-to-maturity investments	**29,050**	119,352	**29,050**	119,352
– Trading assets	**3,853**	8,030	**3,853**	8,030
– Other assets	**31,821**	19,733	**30,908**	18,430
	67,746	160,075	**66,833**	158,772

The transactions under repurchase agreements are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

51 Contingent liabilities and commitments

(a) Credit commitments

At any given time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the end of the reporting period if counterparties failed completely to perform as contracted.

	Group		Bank	
	2014	2013	**2014**	2013
Contractual amount				
Irrevocable guarantees	**249,322**	173,593	**248,650**	172,642
Irrevocable letters of credit	**279,857**	173,124	**279,495**	172,874
Bills of acceptances	**399,489**	354,816	**399,402**	354,443
Irrevocable loan commitments				
– with an original maturity of one year or under	**4,062**	2,923	**1,560**	1,503
– with an original maturity of over one year	**23,694**	36,636	**18,841**	30,118
Credit card commitments	**266,094**	213,532	**258,459**	206,236
Others	**2,610**	8,811	**3,132**	10,016
	1,225,128	963,435	**1,209,539**	947,832

Irrevocable loan commitments only include credit limits granted to offshore customers, and onshore and offshore syndicated loans.

Apart from the irrevocable loan commitments, the Group had loan commitments of RMB1,725,348 million at 31 December 2014 (2013: RMB1,271,815 million) which are unconditionally cancellable by the Group or automatically cancellable due to deterioration in the creditworthiness of the borrower as stipulated in respective lending agreements. The Group will not assume any risks on the unused credit limits for these loan customers. As a result, such balances are not included in the above contingent liabilities and commitments.

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expired, management assesses and makes allowances for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	2014	
	The Group	The Bank
Credit risk weighted amounts of contingent liabilities and commitments	398,937	394,695

51 Contingent liabilities and commitments *(continued)*

(a) Credit commitments *(continued)*

(1) The Group calculated the credit risk weighted amount of its contingent liabilities and commitment in accordance with the requirements of the Administrative Measures on Capital of Commercial Banks (Trial) issued by the CBRC. The amount within the scope approved by the CBRC in April 2014 is calculated using the internal rating-based approach, and the risk-weighted approach is used to calculate those not eligible to the internal rating-based approach.

(2) As at 31 December 2013, the Group's credit risk weighted amount of its contingent liabilities and commitment was RMB362,533 million which was calculated using risk-weighted approach in accordance with the Administrative Measures on Capital of Commercial Banks (Trial) issued by the CBRC.

(b) Capital commitments

Authorised capital commitments were as follows:

	Group		Bank	
	2014	2013	**2014**	2013
For purchase of property and Equipment:				
– Contracted for	**1,965**	899	**1,847**	829
– Authorised but not contracted for	**572**	543	**551**	479
	2,537	1,442	**2,398**	1,308

(c) Operating lease commitments

Total future minimum lease payments under non-cancellable operating leases of properties are payable as follows:

	Group		Bank	
	2014	2013	**2014**	2013
Within 1 year	**2,293**	2,069	**2,217**	2,032
1 year to 5 years	**7,991**	6,806	**7,867**	6,756
After 5 years	**2,674**	1,152	**2,674**	1,150
	12,958	10,027	**12,758**	9,938

The Group and the Bank lease certain properties under operating leases. The leases typically run for an initial period of 1 to 5 years, and may include an option to renew the lease when all terms are renegotiated. None of the lease include contingent rental.

51 Contingent liabilities and commitments *(continued)*

(d) Outstanding litigations

At 31 December 2014, the Group was a defendant in certain pending litigations with gross claims of RMB595 million (2013: RMB905 million) arising from its banking activities. Many of these proceedings are in relation to steps taken by the Bank to collect delinquent loans and enforce rights in collateral securing such loans. The Board of Directors consider that no material losses would be incurred by the Group as a result of these pending litigations and therefore no provision has been made in the financial statements.

(e) Redemption obligations

As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the Group, but not yet matured at the end of the reporting period:

	Group and Bank	
	2014	2013
Redemption obligations	**23,497**	19,194

The Group expects that the amount of redemption before the maturity date of these government bonds through the Group will not be material.

52 Transactions on behalf of customers

(a) Entrusted lending business

The Group's entrusted lending business refers to activities where principals such as government departments, business entities and individuals provide capital for loan advances by the Group to their specified targets on their behalf in accordance with specific terms and conditions, with the help of the Group in monitoring loan usage and seeking loan recovery. The entrusted lending business does not expose the Group to any credit risk. As instructed by these principals, the Group holds and manages underlying assets and liabilities only in the capacity of an agent, and charges handling fees for related services.

Trust assets are not assets of the Group and are not recognised in the statement of financial position. Income received and receivable for providing these services are recognised in the statement of profit or loss as fee and commission income.

At the end of the reporting period, the entrusted assets and liabilities were as follows:

	Group		Bank	
	2014	2013	**2014**	2013
Entrusted loans	**243,797**	138,962	**240,474**	138,262
Entrusted funds	**(243,797)**	(138,962)	**(240,474)**	(138,262)

(b) Wealth management services

The Group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes and entrusted loans. The Group initiated the launch of wealth management products. The investment risk associated with these products is borne by the customers who invest in these products. The Group does not consolidate these wealth management products. The Group earns commission which represents the charges on customers in relation to the provision of custody, sales and management services.

The wealth management products and funds obtained are not assets and liabilities of the Group and are not recognised in the statement of financial position. The funds obtained from wealth management services that have not yet been invested are recorded under other liabilities.

At the end of the reporting period, funds received from customers under wealth management services were as follows:

	Group		Bank	
	2014	2013	**2014**	2013
Funds received from customers under wealth management services	**831,473**	582,521	**831,472**	582,519

53 Risk management

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a counterparty or a debtor to meet its obligation or commitment to the Group. Credit risk increases when all counterparties are concentrated in a single industry or a geographical region, as different counterparties in the same region or industry may be affected by the same economic development, which may eventually affect their repayment abilities.

The Group has designed its organisation framework, credit policies and processes with an objective to identify, evaluate and manage its credit risk effectively. The Risk and Capital Management Committee, set up and appointed by the Board of Directors is responsible for supervising and evaluating the set-up, organisational structure, work process and effectiveness of various risk management functions.

With respect to daily operations, the Risk Management Department, as directed by the Risk and Capital Management Committee, participates in, coordinates and monitors the work of other risk management functions, including each business unit and the Legal and Compliance Department. The Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring.

With respect to the credit risk management of corporate financial business, the Group formulated credit policy guideline, and enhanced credit acceptance and exit policies for corporate and institutional clients. With quota limit management these policies have contributed to the improvement in credit structure.

With respect to the credit risk management of personal credit business, the Group relies on credit assessment of applicants as the basis for loan approval. Customer relationship managers are required to assess the income level, credit history, and repayment ability of the applicant. The Group monitors post-lending conditions by focusing on borrowers' repayment ability, the status of collateral and any changes to collateral value. Once a loan becomes overdue, the Group starts the collection process according to standard personal loan collection procedures.

To mitigate risks, the Group requests customers to provide collateral and guarantees when necessary. Certain guidelines have been set for the acceptability of specific types of collateral or credit risk offset. Collateral structures and legal covenants are reviewed regularly to ensure that they can still cover the given risks and be consistent with market practices.

In respect of loan classification, the Group adopts a risk based loan classification methodology. Currently, the Group categorises its loans on a ten-grade loan classification basis in order to refine internal risk classification management (normal (grades 1-5), special mention (grades 1-2), substandard, doubtful and loss). The loans and advances for which objective evidence of impairment exists based on a loss event or several events and which bear significant impairment losses are classified as impaired loans and advances. The allowances for impairment losses for the impaired loans and advances are assessed collectively or individually as appropriate.

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

Concentration of credit risk: when certain number of customers are in the same business, located in the same geographical region or their industries share similar economic characteristics, their ability to meet their obligations may be affected by the same economic changes. The level of concentration of credit risk reflects the sensitivity of the Group's operating result to a specific industry or geographical region. To prevent concentration of credit risk, the Group has formulated the quota limit management policy to monitor and analyse the loan portfolio.

Analyses of loans and advances by industry, customer type and nature, and loan portfolio are stated in Note 19.

The Group's credit risk management policy for financial derivatives is the same as that for other transactions. In order to mitigate the credit risk arising from financial derivatives, the Group has signed offsetting agreements with certain counterparties.

53 Risk management *(continued)*

(a) Credit risk *(continued)*

(i) Maximum exposure

The Group's and the Bank's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is the total amount of the carrying amount of the relevant financial assets (including derivatives) as disclosed on the balance sheet and the carrying amount of the off balance sheet items disclosed in Note 51(a). At 31 December 2014, the maximum exposure to credit risk of the Group's relevant on balance sheet items and off balance sheet items is RMB7,612,426 million (2013: RMB6,197,222 million), and the maximum exposure to credit risk of the Bank is RMB7,324,155 million (2013: RMB5,939,199 million).

(ii) The credit quality of loans and advances to customers can be analysed as follows:

	Group		Bank	
	2014	2013	**2014**	2013
Impaired loans and advances to customers				
For which impairment allowances are individually assessed				
Gross amount	**20,484**	13,290	**20,061**	13,073
Less: impairment allowances	**(9,577)**	(7,002)	**(9,446)**	(6,921)
Carrying amount	**10,907**	6,288	**10,615**	6,152
For which impairment allowances are collectively assessed				
Gross amount	**7,408**	5,005	**7,404**	4,996
Less: impairment allowances	**(4,733)**	(3,228)	**(4,732)**	(3,228)
Carrying amount	**2,675**	1,777	**2,672**	1,768
Overdue but not impaired				
Within which				
– Less than 3 months	**25,105**	15,315	**23,892**	13,254
– 6 months or less but over 3 months	**752**	236	**25**	23
– 1 year or less but over 6 months	**–**	1	**–**	–
– Over 1 year	**6**	4	**–**	–
Gross amount	**25,863**	15,556	**23,917**	13,277
Less: impairment allowances – collectively assessed	**(2,640)**	(1,769)	**(2,611)**	(1,718)
Carrying amount	**23,223**	13,787	**21,306**	11,559
Neither overdue nor impaired				
Gross amount	**2,460,164**	2,163,243	**2,234,173**	1,977,911
Less: impairment allowances – collectively assessed	**(48,215)**	(36,765)	**(46,378)**	(35,355)
Carrying amount	**2,411,949**	2,126,478	**2,187,795**	1,942,556
Total carrying amount	**2,448,754**	2,148,330	**2,222,388**	1,962,035

Loans and advances that would be overdue or impaired had the terms been renegotiated amounted to RMB996 million as at 31 December 2014 (2013: RMB1,068 million).

53 Risk management *(continued)*

(a) Credit risk *(continued)*

(iii) Credit quality of debt investments

At the end of the reporting period, the analysis of the credit quality of debt investments by designated external credit assessment institution, Standard & Poors, is as follows:

	Group		Bank	
	2014	2013	**2014**	2013
Individually assessed and impaired gross amount	**662**	622	**662**	622
Allowance for impairment carrying amount	**(619)**	(560)	**(619)**	(560)
Sub total	**43**	62	**43**	62
Neither overdue nor impaired				
AAA	**8,667**	12,852	**5,197**	8,487
AA – to AA+ (note)	**441,823**	375,099	**430,647**	365,603
A – to A+	**5,543**	10,538	**2,724**	6,509
Lower than A-	**7,574**	9,248	**5,102**	7,320
	463,607	407,737	**443,670**	387,919
Unrated	**154,334**	135,582	**153,256**	133,417
Total	**617,984**	543,381	**596,969**	521,398

Note: Bonds issued by the PRC Government, PBOC and PRC Policy Banks held by the Group amounted to RMB238,073 million (2013: RMB193,104 million (credit quality: AA-)) are included.

An estimate of the fair value of collateral and other credit enhancements held against financial assets that are overdue but not impaired is as follows:

	Group		Bank	
	2014	2013	**2014**	2013
Estimate of the fair value of collateral and other credit enhancements held against – Loans and advances to customers	**88,929**	43,531	**84,088**	38,062

53 Risk management *(continued)*

(b) Market risk

Market risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate and which may result in loss to the Group, because of changes in foreign exchange rate, interest rate, commodity price, stock price and other observable market factors. Interest rate and foreign exchange rate are the two major market risk factors relevant to the Group. The Group is exposed to market risk through the financial instruments under the trading book and banking book. The financial instruments under the trading book are held for trading purposes or for the purposes of hedging the risks arising from the trading book position, and these financial instruments are traded in active market. The financial instruments under the banking book are assets and liabilities held by the Group for stable and determinable return, or for the purposes of hedging the risks arising from the banking book position. The financial instruments under the banking book include both the Group's on-balance sheet and off-balance sheet exposure, and have relative stable market value.

(i) Foreign exchange risk

Foreign exchange risk arises from the holding of foreign currency assets, liabilities and equity items, and the foreign currency and foreign currency derivative positions which may expose the Group to potential losses in the event of unfavourable foreign exchange rate movement. The functional currency of the Group is RMB. The financial assets and liabilities of the Group are denominated in RMB, and the other currencies are mainly US dollar and HK dollar. The Group has established its foreign exchange risk management and governance framework based on segregation of duty principle, which segregates the responsibilities of the establishment, execution and supervision of foreign exchange risk. This framework specified the roles, responsibilities and reporting lines of the Board of Directors, Supervisors, senior management, designated committees and relevant departments of the Bank in the management of foreign exchange risk. The Group takes a prudent strategy in the management of foreign exchange risk, and would not voluntarily take foreign exchange risk, which suits the current development of the Group. The current foreign exchange risk management policies and procedures of the Group fulfil the regulatory requirements and the requirements of the Group in the management of foreign exchange risk.

(1) Trading book

The Group has established the framework and system to manage the market risk arising from the trading book, including the management of foreign exchange risk, which takes a systematic way to manage the foreign exchange risk under the trading book based on quantitative indicators. The framework, process and methodology of the management of foreign exchange risk are consistent with the management of interest rate risk under the trading book.

The Group uses quantitative indicator, including risk exposure, Value-at-Risk ("VaR", covering interest rate, foreign exchange rate and commodity price risk factors), foreign exchange rate stress testing loss indicators, foreign exchange rate sensitivity analysis, accumulative loss indicators and etc. to manage foreign exchange risk. The measures in the management of foreign exchange risk include authorisation, setting transaction limits, daily monitoring, on-going reports and etc.

During 2014, fluctuation of the exchange rate of RMB against other currencies is remarkable. From the beginning of 2014 to May 2014, as a result of central bank intervention, the RMB exchange rate against the US dollar depreciated from 6.00 to 6.25. From June 2014 to October 2014, the RMB exchange rate against the US dollar bounced back and remained at around 6.10. In December 2014, RMB depreciated again, and its fluctuation increased. During the whole year of 2014, in terms of major trading currencies, the US dollar appreciated strongly, while GBP, EUR, JPY and AUD depreciated significantly. Although market fluctuation brings certain influence on the Group's transaction volume, the foreign exchange business of the trading book maintained stable and each risk indicators were in good control due to the prudent trading strategy and strict risk management strategy taken by the Group.

53 Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

(2) Banking book

The Group's foreign exchange risk under the banking book is overall managed by the Head Office. The asset and liability management department, as the treasurer of the Bank is in charge of the banking book foreign exchange risk management. The treasurer is responsible to manage the foreign exchange risk under the banking book using a prudent approach and compliant with the regulatory requirements, and managing the foreign exchange risk through management of limits, controlled adjustments and budget.

The Banking book foreign exchange risk of the Group arises from the mismatch in the non-RMB assets and liabilities. The Group stringently monitors its foreign exchange risk exposures to manage its foreign exchange risk within an acceptable level.

The Group has adopted foreign exchange exposure analysis, scenario simulation analysis and stress testing for the measurement and analysis of foreign exchange risk. The Group regularly measures and analyses the foreign exchange risk exposure changes, monitors and reports foreign exchange risk on a monthly basis under the limit framework, adjusts the foreign exchange exposures based on the trend of foreign exchange rate movements to mitigate the banking book foreign exchange risk.

In 2014, the Group continued to enhance assessment system on the management of the foreign exchange risk under the banking book, which provided systematic standards and reference to accurately evaluate foreign exchange risk and make effective management decisions. In addition, the Group also specified the limit authorisation process at different level for foreign exchange risk management and continued to enhance foreign exchange risk management policies and procedures.

53 Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

Assets and liabilities by original currency are shown as follows:

	Group						
	2014						
	Equivalent in RMB million					Original currency in million	
	RMB	US dollar	HKD	Others	Total	US dollar	HKD
Assets							
Cash and balances with central bank	621,938	18,874	13,327	646	654,785	3,044	16,669
Amounts due from banks and other financial institutions	458,014	52,091	4,886	10,060	525,051	8,402	6,111
Loans and advances to customers	2,139,783	214,718	77,640	16,613	2,448,754	34,632	97,111
Investments (including derivatives)	940,676	34,184	17,652	3,705	996,217	5,514	22,079
Other assets	58,496	41,027	7,010	489	107,022	6,617	8,768
	4,218,907	360,894	120,515	31,513	4,731,829	58,209	150,738
Liabilities							
Amounts due to banks and other financial institutions	799,722	74,400	3,064	1,853	879,039	12,000	3,832
Deposits from customers	2,892,528	210,658	174,441	26,811	3,304,438	33,977	218,188
Financial liabilities at fair value through profit or loss (including derivatives)	5,352	3,823	14,356	84	23,615	617	17,956
Debt securities issued	83,601	15,962	6,592	–	106,155	2,575	8,245
Other liabilities	90,056	2,605	10,240	621	103,522	420	12,808
	3,871,259	307,448	208,693	29,369	4,416,769	49,589	261,029
Net on-balance sheet position	347,648	53,446	(88,178)	2,144	315,060	8,620	(110,291)
Net off-balance sheet position:							
Credit commitments (note)	829,782	(39,226)	110,738	7,947	909,241	(6,327)	138,509
Derivatives:							
– forward purchase	580,485	450,254	184,254	45,259	1,260,252	72,622	230,462
– forward sold	(679,652)	(460,064)	(84,592)	(46,091)	(1,270,399)	(74,204)	(105,806)
– net currency option position	–	151	7	(674)	(516)	24	9
	(99,167)	(9,659)	99,669	(1,506)	(10,663)	(1,558)	124,665

53 Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

	Group						
	2013						
	Equivalent in RMB million					Original currency in million	
	RMB	US dollar	HKD	Others	Total	US dollar	HKD
Assets							
Cash and balances with central bank	506,261	10,586	6,267	758	523,872	1,749	8,030
Amounts due from banks and other financial institutions	461,613	36,502	2,942	4,745	505,802	6,032	3,770
Loans and advances to customers	1,887,354	178,500	66,808	15,668	2,148,330	29,499	85,607
Investments (including derivatives)	718,769	24,196	17,312	3,124	763,401	3,999	22,183
Other assets	51,954	4,199	18,538	303	74,994	694	23,754
	3,625,951	253,983	111,867	24,598	4,016,399	41,973	143,344
Liabilities							
Amounts due to banks and other financial institutions	753,301	36,448	1,309	1,420	792,478	6,023	1,677
Deposits from customers	2,490,848	167,009	90,414	27,005	2,775,276	27,600	115,856
Financial liabilities at fair value through profit or loss (including derivatives)	5,638	20,235	3,984	269	30,126	3,344	5,105
Debt securities issued	54,106	9,579	5,251	–	68,936	1,583	6,729
Other liabilities	73,082	4,105	5,598	842	83,627	678	7,173
	3,376,975	237,376	106,556	29,536	3,750,443	39,228	136,540
Net on-balance sheet position	248,976	16,607	5,311	(4,938)	265,956	2,745	6,804
Net off-balance sheet position:							
Credit commitments (note)	585,998	107,290	4,918	8,037	706,243	17,731	6,302
Derivatives:							
– forward purchase	126,702	317,668	77,911	48,319	570,600	52,498	99,835
– forward sold	(173,392)	(308,801)	(47,766)	(42,729)	(572,688)	(51,033)	(61,207)
– net currency option position	–	(34)	2	84	52	(6)	3
	(46,690)	8,833	30,147	5,674	(2,036)	1,459	38,631

53 Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

	Bank						
	2014						
	Equivalent in RMB million					Original currency in million	
	RMB	US dollar	HKD	Others	Total	US dollar	HKD
Assets							
Cash and balances with central bank	620,083	18,852	5,563	453	644,951	3,041	6,958
Amounts due from banks and other financial institutions	470,224	44,635	4,364	9,595	528,818	7,199	5,458
Loans and advances to customers	2,026,423	176,618	6,971	12,376	2,222,388	28,487	8,719
Investments (including derivatives)	933,153	27,380	10,395	790	971,718	4,416	13,002
Other assets	53,671	38,162	30,430	226	122,489	6,155	38,061
	4,103,554	305,647	57,723	23,440	4,490,364	49,298	72,198
Liabilities							
Amounts due to banks and other financial institutions	759,009	62,494	2,891	1,782	826,176	10,080	3,616
Deposits from customers	2,860,360	180,093	102,735	15,558	3,158,746	29,047	128,499
Financial liabilities at fair value through profit or loss (including derivatives)	5,352	3,793	12,966	84	22,195	612	16,218
Debt securities issued	75,118	7,242	2,199	–	84,559	1,168	2,750
Other liabilities	79,904	1,963	5,840	481	88,188	317	7,305
	3,779,743	255,585	126,631	17,905	4,179,864	41,224	158,388
Net on-balance sheet position	323,811	50,062	(68,908)	5,535	310,500	8,074	(86,190)
Net off-balance sheet position:							
Credit commitments (note)	829,573	(52,850)	109,451	7,756	893,930	(8,524)	136,899
Derivatives:							
– forward purchase	568,798	426,734	174,277	34,435	1,204,244	68,828	217,982
– forward sold	(662,521)	(432,298)	(80,827)	(38,730)	(1,214,376)	(69,725)	(101,097)
– net currency option position	–	159	–	(674)	(515)	26	–
	(93,723)	(5,405)	93,450	(4,969)	(10,647)	(871)	116,885

53 Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

	Bank						
	2013						
	Equivalent in RMB million					Original currency in million	
	RMB	US dollar	HKD	Others	Total	US dollar	HKD
Assets							
Cash and balances with central bank	504,245	10,565	2,683	527	518,020	1,746	3,438
Amounts due from banks and other financial institutions	458,175	28,642	1,135	3,699	491,651	4,733	1,454
Loans and advances to customers	1,790,305	150,199	9,528	12,003	1,962,035	24,822	12,209
Investments (including derivatives)	711,468	16,200	10,570	1,682	739,920	2,677	13,544
Other assets	54,087	2,214	33,967	100	90,368	366	43,525
	3,518,280	207,820	57,883	18,011	3,801,994	34,344	74,170
Liabilities							
Amounts due to banks and other financial institutions	701,608	27,495	889	1,337	731,329	4,544	1,139
Deposits from customers	2,458,500	143,476	37,727	15,178	2,654,881	23,711	48,343
Financial liabilities at fair value through profit or loss (including derivatives)	5,638	20,104	3,151	269	29,162	3,322	4,038
Debt securities issued	43,112	4,412	2,619	–	50,143	729	3,356
Other liabilities	64,064	3,198	2,134	779	70,175	529	2,734
	3,272,922	198,685	46,520	17,563	3,535,690	32,835	59,610
Net on-balance sheet position	245,358	9,135	11,363	448	266,304	1,509	14,560
Net off-balance sheet position:							
Credit commitments (note)	585,102	106,574	(8,500)	7,784	690,960	17,613	(10,892)
Derivatives:							
– forward purchase	117,763	297,867	71,985	37,660	525,275	49,226	92,241
– forward sold	(166,976)	(284,304)	(38,550)	(37,482)	(527,312)	(46,985)	(49,398)
– net currency option position	–	(33)	–	85	52	(5)	–
	(49,213)	13,530	33,435	263	(1,985)	2,236	42,843

Note: Credit commitments generally expire before they are drawn, therefore the above net position (net of pledged deposits) does not represent the future cash out flows.

53 Risk management *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk *(continued)*

Under the existing managed floating exchange rate regime, the Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net foreign exchange gains and losses. The following table set forth the results of the Group's foreign Exchange Risk sensitivity analysis on the assets and liabilities as at 31 December 2014 and 31 December 2013.

	2014		2013	
	Change in foreign currency exchange rate (in basis points)		Change in foreign currency exchange rate (in basis points)	
	(100)	100	(100)	100
Increase/(decrease) in annualised net profit	228	(228)	51	(51)

The above sensitivity analysis is based on a static foreign currency exposure profile of assets and liabilities. In view of the nature of the RMB exchange rate regime, the analysis is based on the following assumptions:

(i) the foreign exchange rate sensitivity is the gain and loss recognised as a result of a standard 100 basis point fluctuation in the foreign currency exchange against RMB;

(ii) the exchange rates against RMB for all foreign currencies is the change in the same direction simultaneously; and

(iii) the foreign exchange exposures calculated include spot foreign exchange exposures, forward foreign exchange exposures and options.

Based on the assumptions above, actual changes in the Group's net foreign exchange gain and loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

53 Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk

Interest rate risk arises from adverse change in interest rates and maturity profiles which may result in loss to the income and market value of financial instruments and positions held by the Group.

(1) Trading book

The Group has set up its market risk governance framework for trading book, covering interest rate risk, foreign exchange risk and commodity price risk. The Group's market risk governance framework for trading book specifies the roles and responsibilities of the Board of Directors, senior management, model validation department (team), audit department, information technology department, risk management department and front office departments. The market risk management department under the Bank's entire risk management office is responsible for execution of the management of interest rate risk under the trading book.

The Group has established market risk limits management framework, covering the interest rate risk, foreign exchange rate risk and commodity price risk under the trading book. Within this framework, the highest level indicators, which are also the trading book market risk preference quantitative indicators of the Group, adopt VaR and portfolio stress testing methodologies and directly link to the Bank's net capital. In addition, according to the product type, trading strategy and characteristics of risk of sub-portfolio, the highest level indicators are allocated to lower level indicators, and to each front office departments. These indicators are monitored and reported on a daily basis.

In 2014, the Group continued to enhance the trading book market risk management framework based on existing practice. The Group has optimised the procedures, processes and tools for the measurement and monitoring of market risk, and enhanced application of management tools in management of market risk. In April 2014, the Group was approved by the CBRC to adopt internal model approach to calculate pillar 1 market risk capital charges. The Bank became the first joint-stock bank approved by the CBRC to use the internal model approach, which evidenced that the Group's risk management practice was recognized to be consistent with international regulatory requirements. It also forms a solid foundation for the Group to further enhance the risk management and continue to improve the risk management capability.

The Group uses quantitative indicator, including risk exposure, VaR (covering interest rate, foreign exchange rate and commodity price risk factors), interest rate stress testing loss indicators, interest rate sensitivity analysis, accumulative loss indicators and etc. to manage interest rate risk. The measures in the management of interest rate risk include authorisation, setting transaction limits, daily monitoring, on-going reports and etc. VaR includes general VaR and stress VaR, which are both calculated using the historical simulation model.

In 2014, through open market operation, targeted RRR cuts, combined operations of various monetary policy tools and interest rates cuts, the central bank adjusted the market liquidity, alleviated the financing pressure of economic entities and guided the downward movement of market interest rate, resulting in the "bull market" in the RMB bonds market and significant decreased the yield curve for all kinds of bonds. The Group conducted a comprehensive research and timely track on macro economy, monetary policy and market situation, and formulated corresponding trading strategy. All risk indicators under the trading book are in good control.

53 Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

(2) Banking book

The Group has established the governance and management framework according to the interest rate risk management policy for the banking book, which specified the roles, responsibilities and reporting lines of the Board of Directors, senior management, designated committees, and relevant departments in this area, ensuring the effectiveness of interest rate risk management.

The Group has primarily adopted scenario simulation analysis, re-pricing gap analysis, duration analysis and stress testing for the measurement and analysis of interest rate risk under the banking book. Through assets and liabilities analysis meetings and reporting framework, the Group analyses the route causes of interest rate risk under the banking book, proposes management advices and implements management measures.

In 2014, the Group continued to manage interest rate risk under the banking book in an active and forward-looking manner. Through adjusting the on-balance sheet structural positions and hedging risks using off-balance derivatives, the Group proactively reduces the fluctuation in the net interest income, and controls the interest rate risk under the banking book. In addition to the adoption of active risk management measures, the Group also launch projects to optimise the market risk measurement model, improving the accuracy of the measurement of risk management and achieving a more systematic and forward-looking risk management approach.

In November 2014, PBOC cut RMB benchmark deposit and lending rate. One year benchmark deposit rate was cut by 25 basis points. One year benchmark lending rate was cut by 40 basis points. Meanwhile, the upper limits of floating range for deposit rates were expanded to 1.2 times of benchmarking deposit rate and the tenor brackets were simplified. Based on the characteristics of the Group's banking book interest rate risk, the asymmetric cut of benchmark deposit and lending rate has certain negative impacts on the Group's net interest income. However, the negative impacts have been mitigated by the Group, by taking active measures to manage the interest rate risk. In the future, the Group will continue to enhance the active management of interest rate risk under the banking book, to achieve stable increase in both net interest income and economic value.

53 Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

The following table indicates the expected next repricing dates (or maturity dates whichever are earlier) for interest bearing assets and liabilities at the end of the reporting period.

	Group					
	2014					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central bank	654,785	632,518	–	–	–	22,267
Amounts due from banks and other financial institutions	525,051	394,447	86,569	41,218	–	2,817
Loans and advances to customers (note)	2,448,754	1,294,461	962,393	150,223	41,677	–
Investments (including derivatives)	996,217	147,862	244,913	378,652	212,029	12,761
Other assets	107,022	–	–	–	–	107,022
Total assets	4,731,829	2,469,288	1,293,875	570,093	253,706	144,867
Liabilities						
Amounts due to banks and other financial institutions	879,039	663,147	193,298	20,526	–	2,068
Deposits from customers	3,304,438	2,278,910	681,858	335,500	1,444	6,726
Financial liabilities at fair value through profit or loss (including derivatives)	23,615	6,035	927	6,213	165	10,275
Debt securities issued	106,155	20,793	38,380	15,817	31,165	–
Other liabilities	103,522	23	61	917	94	102,427
Total liabilities	4,416,769	2,968,908	914,524	378,973	32,868	121,496
Asset-liability gap	315,060	(499,620)	379,351	191,120	220,838	23,371

53 Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

	Group					
	2013					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non–interest bearing
Assets						
Cash and balances with central bank	523,872	498,494	–	–	–	25,378
Amounts due from banks and other financial institutions	505,802	327,070	96,675	80,100	–	1,957
Loans and advances to customers (note)	2,148,330	1,107,124	923,482	90,771	26,891	62
Investments (including derivatives)	763,401	128,044	207,603	272,736	147,072	7,946
Other assets	74,994	–	–	–	–	74,994
Total assets	4,016,399	2,060,732	1,227,760	443,607	173,963	110,337
Liabilities						
Amounts due to banks and other financial institutions	792,478	583,879	180,077	27,258	12	1,252
Deposits from customers	2,775,276	1,981,305	515,757	258,315	13,858	6,041
Financial liabilities at fair value through profit or loss (including derivatives)	30,126	9,523	10,359	1,748	167	8,329
Debt securities issued	68,936	12,582	24,686	18,812	12,856	–
Other liabilities	83,627	89	40	50	–	83,448
Total liabilities	3,750,443	2,587,378	730,919	306,183	26,893	99,070
Asset-liability gap	265,956	(526,646)	496,841	137,424	147,070	11,267

53 Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

	Bank					
	2014					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non-interest bearing
Assets						
Cash and balances with central bank	644,951	630,661	–	–	–	14,290
Amounts due from banks and other financial institutions	528,818	404,461	83,697	39,381	–	1,279
Loans and advances to customers (note)	2,222,388	1,183,950	851,028	146,788	40,622	–
Investments (including derivatives)	971,718	136,231	241,784	372,360	212,029	9,314
Other assets	122,489	806	806	–	–	120,877
Total assets	4,490,364	2,356,109	1,177,315	558,529	252,651	145,760
Liabilities						
Amounts due to banks and other financial institutions	826,176	654,388	157,106	14,471	–	211
Deposits from customers	3,158,746	2,174,789	649,901	332,454	1,444	158
Financial liabilities at fair value through profit or loss (including derivatives)	22,195	6,034	927	5,803	165	9,266
Debt securities issued	84,559	13,747	33,355	7,491	29,966	–
Other liabilities	88,188	–	–	–	–	88,188
Total liabilities	4,179,864	2,848,958	841,289	360,219	31,575	97,823
Asset-liability gap	310,500	(492,849)	336,026	198,310	221,076	47,937

53 Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

	Bank					
	2013					
	Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Non–interest bearing
Assets						
Cash and balances with central bank	518,020	496,469	–	–	–	21,551
Amounts due from banks and other financial institutions	491,651	314,771	95,551	80,100	–	1,229
Loans and advances to customers (note)	1,962,035	1,006,015	843,028	86,725	26,267	–
Investments (including derivatives)	739,920	112,681	204,846	268,939	147,072	6,382
Other assets	90,368	–	–	–	–	90,368
Total assets	3,801,994	1,929,936	1,143,425	435,764	173,339	119,530
Liabilities						
Amounts due to banks and other financial institutions	731,329	560,885	143,030	27,258	12	144
Deposits from customers	2,654,881	1,898,058	488,462	253,949	13,858	554
Financial liabilities at fair value through profit or loss (including derivatives)	29,162	9,486	10,359	1,348	167	7,802
Debt securities issued	50,143	8,935	16,038	13,485	11,685	–
Other liabilities	70,175	–	–	–	–	70,175
Total liabilities	3,535,690	2,477,364	657,889	296,040	25,722	78,675
Asset-liability gap	266,304	(547,428)	485,536	139,724	147,617	40,855

Note: For loans and advances to customers, the "3 months or less" category includes overdue amounts as at 31 December 2014 and 31 December 2013, net of allowances for impairment losses. Overdue amounts represent loans of which the whole or part of the principals was overdue.

53 Risk management *(continued)*

(b) Market risk *(continued)*

(ii) Interest rate risk *(continued)*

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income. The following table sets forth, as at 31 December 2014 and 31 December 2013, the results of the Group's interest rate sensitivity analysis on the assets and liabilities at the same date.

	2014		2013	
	Change in interest rates (in basis points)		Change in interest rates (in basis points)	
	25	(25)	25	(25)
(Decrease)/increase in annualised net interest income	(995)	995	(790)	790

This sensitivity analysis is based on a static interest rate risk profile of assets and liabilities. The analysis measures only the impact of changes in the interest rates within a year, as reflected by the repricing of the Group's assets and liabilities within a year, on annualised interest income. The analysis is based on the following assumptions:

(i) all assets and liabilities that reprice or are due within one year reprice or are due at the beginning of the respective periods;

(ii) there is a parallel shift in the yield curve and in interest rates; and

(iii) there are no other changes to the portfolio.

Actual changes in the Group's net interest income resulting from increase or decrease in interest rates may differ from the results of this sensitivity analysis.

53 Risk management *(continued)*

(c) Liquidity risk

Liquidity risk arises when the Group fails to satisfy customers' demand for drawing down on maturing liabilities, new loans and reasonable finances, or when it fails to meet their needs at a normal cost.

In line with its liquidity risk management policies, the Group sets out and implements the principle of supervisory duty segregation. It also puts in place a governing framework under which the roles, responsibilities and reporting lines of the Board of Directors, Supervisors, senior management, special-purpose committees and relevant departments in this area are specified for better liquidity risk management. The Group is prudent in managing the risk, which better suits its current development stage. Basically, the Group's existing liquidity risk management polices and systems meet regulatory requirements and its own management needs.

The Bank's liquidity risk management is coordinated by Head Office with branches acting in concert. The Asset and Liability management department of Head Office as the treasurer of the Bank is in charge of routine liquidity risk management. The treasurer is responsible for managing liquidity on a prudent basis under regulatory requirement, and conducting centralised liquidity management through quota management, budget control as well as internal fund transfer pricing ("FTP").

The Group measures, monitors and identifies liquidity risk by short-term reserves as well as duration structures and contingencies. It closely monitors various limit indicators at regular intervals, performs regular stress testing to judge whether it can address liquidity needs under extreme circumstances. In addition, the Group draws up liquidity contingency plans and conducts liquidity contingency drills to prepare for liquidity crises.

In 2014, the central bank maintained a prudent monetary policy, while took an oriented loose and open market operations to release liquidity into the market. The entire interbank capital surface kept to be loose. In consideration of the influence of concentrate purchase of new shares, division of funds in capital market and time point deposit balance appraising, the liquidity of the Group appear to be tight. The Group has arranged the liquidity in advance to insure the stableness of operating. The Group adopted the following measures to improve its capital efficiency: (a) using FTP flexibly to insure the liquidity safety when developing business; (b) strengthening the management of interbank business of assets and liabilities, solving maturity mismatches in assets and liabilities to maintain the stable development of interbank business; (c) strengthening the integration management of foreground, middleground and background, building up a good interaction mechanism and firming up the effectiveness of the management; and (d) strengthening active liability management and optimising the structure of assets and liabilities. In 2014, the Group launched a series of active liabilities, including agreement savings, government term deposits, tier two capital debts, offshore Renminbi bonds and negotiable interbank certificates of deposit, to insure the stableness of the sources of funds.

In 2014, PBOC lowered the statutory reserve ratios for Renminbi deposits of some banks, including the Bank. As at the end of 2014, the Group had to place 17.5% (2013: 18.0%) of its gross RMB deposits and 5.0% (2013: 5.0%) of its gross foreign currency deposits with the PBOC.

53 Risk management *(continued)*

(c) Liquidity risk *(continued)*

Analysis of the Group's assets and liabilities by remaining maturity is as follows:

	2014							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	149,938	–	–	–	–	–	504,847	654,785
Amounts due from banks and other financial institutions	8,481	327,078	75,539	69,849	43,562	–	542	525,051
Loans and advances to customers (note (ii))	1,532	118,394	388,499	970,897	518,480	427,737	23,215	2,448,754
Investments (note (iii))	–	45,842	66,444	214,129	430,664	227,195	11,943	996,217
– Financial assets at fair value through profit or loss (including derivatives)	–	3,815	11,041	7,540	15,872	1,476	9,761	49,505
– Available-for-sale financial assets	–	7,542	10,711	38,749	183,495	35,863	2,166	278,526
– Held-to-maturity investments	–	792	3,163	15,147	78,302	162,019	11	259,434
– Debt securities classified as receivables	–	33,693	41,529	152,693	152,995	27,837	5	408,752
Other assets	11,916	5,735	5,868	9,142	901	324	73,136	107,022
Total assets	171,867	497,049	536,350	1,264,017	993,607	655,256	613,683	4,731,829
Amounts due to banks and other financial institutions	4,569	419,093	234,423	193,695	26,765	494	–	879,039
Deposits from customers (note (iv))	1,618,482	196,234	447,982	681,507	357,289	2,944	–	3,304,438
Financial liabilities at fair value through profit or loss (including derivatives)	977	2,380	1,622	670	7,332	359	10,275	23,615
Debt securities issued	–	5,859	31,757	9,145	28,610	30,784	–	106,155
Other liabilities	40,836	25,641	12,450	13,100	8,005	1,193	2,297	103,522
Total liabilities	1,664,864	649,207	728,234	898,117	428,001	35,774	12,572	4,416,769
(Short)/long position	(1,492,997)	(152,158)	(191,884)	365,900	565,606	619,482	601,111	315,060

53 Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2013							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	118,598	–	–	–	–	–	405,274	523,872
Amounts due from banks and other financial institutions	30,325	233,149	68,355	93,867	80,106	–	–	505,802
Loans and advances to customers (note (ii))	2,017	69,933	319,005	939,006	416,354	356,785	45,230	2,148,330
Investments (note (iii))	112	44,456	40,423	177,753	323,551	169,644	7,462	763,401
– Financial assets at fair value through profit or loss (including derivatives)	82	2,950	2,961	4,428	11,343	1,459	5,925	29,148
– Available-for-sale financial assets	30	12,592	12,992	52,745	179,731	30,284	1,537	289,911
– Held-to-maturity investments	–	692	4,248	9,385	67,431	127,171	–	208,927
– Debt securities classified as receivables	–	28,222	20,222	111,195	65,046	10,730	–	235,415
Other assets	9,124	4,243	4,654	6,075	395	542	49,961	74,994
Total assets	160,176	351,781	432,437	1,216,701	820,406	526,971	507,927	4,016,399
Amounts due to banks and other financial institutions	86,568	301,420	199,440	174,757	29,722	571	–	792,478
Deposits from customers (note (iv))	1,408,373	324,901	288,927	471,148	270,924	11,003	–	2,775,276
Financial liabilities at fair value through profit or loss (including derivatives)	1,233	1,814	6,492	10,359	1,826	167	8,235	30,126
Debt securities issued	–	5,798	5,926	11,322	24,843	21,047	–	68,936
Other liabilities	38,468	16,917	4,251	7,814	8,463	1,263	6,451	83,627
Total liabilities	1,534,642	650,850	505,036	675,400	335,778	34,051	14,686	3,750,443
(Short)/long position	(1,374,466)	(299,069)	(72,599)	541,301	484,628	492,920	493,241	265,956

53 Risk management *(continued)*

(c) Liquidity risk *(continued)*

Analysis of the Bank's assets and liabilities by remaining maturity is as follows:

	2014							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	141,854	–	–	–	–	–	503,097	644,951
Amounts due from banks and other financial institutions	5,831	324,441	70,211	83,809	44,526	–	–	528,818
Loans and advances to customers (note (ii))	–	109,470	370,814	901,935	415,845	401,304	23,020	2,222,388
Investments (note (iii))	–	44,963	64,495	207,222	418,551	227,130	9,357	971,718
– Financial assets at fair value through profit or loss (including derivatives)	–	3,815	11,041	7,205	13,681	1,476	8,346	45,564
– Available-for-sale financial assets	–	7,174	10,206	33,782	174,947	35,838	995	262,942
– Held-to-maturity investments	–	281	1,719	13,650	77,028	162,019	11	254,708
– Debt securities classified as receivables	–	33,693	41,529	152,585	152,895	27,797	5	408,504
Other assets	11,610	3,578	5,154	8,449	549	254	92,895	122,489
Total assets	159,295	482,452	510,674	1,201,415	879,471	628,688	628,369	4,490,364
Amounts due to banks and other financial institutions	1,653	438,320	212,985	156,366	16,852	–	–	826,176
Deposits from customers (note (iv))	1,580,084	162,367	409,558	649,549	354,244	2,944	–	3,158,746
Financial liabilities at fair value through profit or loss (including derivatives)	977	2,380	1,622	670	6,921	359	9,266	22,195
Debt securities issued	–	3,316	27,101	2,220	21,957	29,965	–	84,559
Other liabilities	40,160	24,087	11,044	9,752	2,593	121	431	88,188
Total liabilities	1,622,874	630,470	662,310	818,557	402,567	33,389	9,697	4,179,864
(Short)/long position	(1,463,579)	(148,018)	(151,636)	382,858	476,904	595,299	618,672	310,500

53 Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2013							
	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite	Total
Cash and balances with central bank (note (i))	114,701	–	–	–	–	–	403,319	518,020
Amounts due from banks and other financial institutions	27,830	220,354	65,938	97,423	80,106	–	–	491,651
Loans and advances to customers (note (ii))	1,030	63,708	302,830	887,882	324,125	337,793	44,667	1,962,035
Investments (note (iii))	–	43,332	37,204	171,017	312,342	169,643	6,382	739,920
– Financial assets at fair value through profit or loss (including derivatives)	–	2,872	2,961	4,308	8,795	1,459	5,515	25,910
– Available-for-sale financial assets	–	12,085	12,781	47,146	170,760	30,284	867	273,923
– Held-to-maturity investments	–	153	1,240	8,368	66,570	127,170	–	203,501
– Debt securities classified as receivables	–	28,222	20,222	111,195	66,217	10,730	–	236,586
Other assets	9,214	3,134	3,980	5,488	263	243	68,046	90,368
Total assets	152,775	330,528	409,952	1,161,810	716,836	507,679	522,414	3,801,994
Amounts due to banks and other financial institutions	85,489	292,812	182,746	142,978	27,259	45	–	731,329
Deposits from customers (note (iv))	1,376,050	297,648	259,773	443,847	266,560	11,003	–	2,654,881
Financial liabilities at fair value through profit or loss (including derivatives)	1,216	1,814	6,456	10,359	1,348	167	7,802	29,162
Debt securities issued	–	3,766	4,434	2,552	20,715	18,676	–	50,143
Other liabilities	36,921	15,817	3,508	5,667	3,651	220	4,391	70,175
Total liabilities	1,499,676	611,857	456,917	605,403	319,533	30,111	12,193	3,535,690
(Short)/long position	(1,346,901)	(281,329)	(46,965)	556,407	397,303	477,568	510,221	266,304

Notes:

(i) For balances with central bank, indefinite amount represents statutory deposit reserve and fiscal balances maintained with the PBOC.

(ii) For loans and advances to customers, indefinite amounts represent loans of which the whole or part of the principals or interest was overdue for more than one month. The indefinite amounts are stated net of appropriate allowances for impairment losses.

(iii) The remaining maturities of financial assets at fair value through profit or loss included in investments do not represent the Bank's intention to hold them to maturity.

(iv) The deposits from customers that are repayable on demand included time deposits matured and awaiting for customers' instructions.

53 Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following table provides an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Group as at the end of the reporting period. The Group's expected cash flow on these instruments may vary significantly from this analysis.

	2014								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	654,785	654,785	149,938	–	–	–	–	–	504,847
Amounts due from banks and other financial institutions	525,051	532,092	9,660	329,040	77,311	71,531	44,008	–	542
Loans and advances to customers	2,448,754	2,915,660	1,532	128,084	408,216	1,031,943	659,299	662,767	23,819
Investments assets									
– Financial assets at fair value through profit or loss	40,190	44,355	–	4,018	11,312	7,920	18,306	2,077	722
– Available-for-sale financial assets	278,526	346,918	–	8,066	11,784	42,673	227,113	55,094	2,188
– Held-to-maturity investments	259,434	378,053	–	1,553	4,393	17,684	98,688	255,724	11
– Debt securities classified as receivables	408,752	421,755	–	33,909	42,134	154,585	157,185	33,937	5
Other assets	17,313	17,313	8,741	1,650	350	490	276	70	5,736
	4,632,805	5,310,931	169,871	506,320	555,500	1,326,826	1,204,875	1,009,669	537,870
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	879,039	903,677	5,787	422,184	242,362	203,853	28,945	546	–
Deposits from customers	3,304,438	3,413,620	1,633,583	202,376	463,474	712,440	398,580	3,167	–
Financial liabilities at fair value through profit or loss	13,369	13,425	977	2,393	1,659	676	7,332	388	–
Debt securities issued	106,155	110,672	–	5,942	31,895	10,896	30,880	31,059	–
Other liabilities	58,174	58,174	23,741	21,529	1,218	3,338	5,410	1,072	1,866
	4,361,175	4,499,568	1,664,088	654,424	740,608	931,203	471,147	36,232	1,866
Gross loan commitments		293,850	293,850	–	–	–	–	–	–

53 Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2013								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	523,872	523,872	118,598	–	–	–	–	–	405,274
Amounts due from banks and other financial institutions	505,802	524,737	31,108	240,008	73,950	98,260	80,944	–	467
Loans and advances to customers	2,148,330	2,534,256	2,649	75,861	337,386	999,338	533,860	538,156	47,006
Investments									
– Financial assets at fair value through profit or loss	23,223	27,248	82	3,024	3,069	4,724	13,569	2,780	–
– Available-for-sale financial assets	289,911	332,034	30	13,291	14,206	55,609	205,521	41,840	1,537
– Held-to-maturity investments	208,927	274,367	–	1,199	5,195	11,306	78,906	177,761	–
– Debt securities classified as receivables	235,415	243,513	–	28,426	20,590	112,100	66,438	15,959	–
Other assets	10,382	10,382	7,015	1,332	298	527	132	300	778
	3,945,862	4,470,409	159,482	363,141	454,694	1,281,864	979,370	776,796	455,062
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	792,478	890,412	90,720	309,596	222,174	201,695	63,966	2,261	–
Deposits from customers	2,775,276	3,074,967	1,485,801	382,881	352,394	533,187	303,152	17,552	–
Financial liabilities at fair value through profit or loss	21,891	21,929	1,233	1,814	6,497	10,392	1,826	167	–
Debt securities issued	68,936	74,487	–	5,851	6,671	11,959	28,543	21,463	–
Other liabilities	51,869	51,869	27,290	15,754	743	2,147	4,811	1,043	81
	3,710,450	4,113,664	1,605,044	715,896	588,479	759,380	402,298	42,486	81
Gross loan commitments		253,091	253,091	–	–	–	–	–	–

53 Risk management *(continued)*

(c) Liquidity risk *(continued)*

The following table provides an analysis of the contractual undiscounted cash flow of the non-derivative financial assets, liabilities and gross loan commitments of the Bank as at the end of the reporting period. The Bank's expected cash flow on these instruments may vary significantly from this analysis.

	2014								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	644,951	644,951	141,854	–	–	–	–	–	503,097
Amounts due from banks and other financial institutions	528,818	535,719	7,009	326,369	71,953	85,417	44,971	–	–
Loans and advances to customers	2,222,388	2,680,266	–	118,758	389,657	960,643	553,354	634,239	23,615
Investments									
– Financial assets at fair value through profit or loss	37,218	41,124	–	4,016	11,292	7,530	16,210	2,076	–
– Available-for-sale financial assets	262,942	329,872	–	7,637	11,187	37,371	217,615	55,067	995
– Held-to-maturity investments	254,708	373,195	–	1,040	2,946	16,136	97,339	255,723	11
– Debt securities classified as receivables	408,504	421,507	–	33,908	42,135	154,477	157,085	33,897	5
Other assets	49,321	49,321	8,434	–	–	–	–	–	40,887
	4,408,850	5,075,955	157,297	491,728	529,170	1,261,574	1,086,574	981,002	568,610
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	826,176	850,766	2,891	441,387	220,888	166,517	19,083	–	–
Deposits from customers	3,158,746	3,265,979	1,594,764	168,590	424,736	679,521	395,201	3,167	–
Financial liabilities at fair value through profit or loss	12,929	12,985	977	2,393	1,659	676	6,921	359	–
Debt securities issued	84,559	105,586	–	3,333	27,140	4,237	30,772	40,104	–
Other liabilities	44,317	44,317	24,145	20,172	–	–	–	–	–
	4,126,727	4,279,633	1,622,777	635,875	674,423	850,951	451,977	43,630	–
Gross loan commitments		278,860	278,860	–	–	–	–	–	–

53 Risk management *(continued)*

(c) Liquidity risk *(continued)*

	2013								
	Carrying amount	Total	Repayable on demand	Within 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years	Indefinite
Non-derivative financial assets									
Cash and balances with central bank	518,020	518,020	114,701	–	–	–	–	–	403,319
Amounts due from banks and other financial institutions	491,651	497,168	27,830	220,758	66,818	100,351	80,944	–	467
Loans and advances to customers	1,962,035	2,330,358	1,658	69,620	320,153	944,053	432,300	516,537	46,037
Investments									
– Financial assets at fair value through profit or loss	20,394	23,788	–	2,917	3,043	4,473	10,882	2,473	–
– Available-for-sale financial assets	273,923	315,289	–	12,727	13,934	49,707	196,221	41,833	867
– Held-to-maturity investments	203,501	268,816	–	656	2,171	10,240	77,988	177,761	–
– Debt securities classified as receivables	236,586	244,684	–	28,426	20,590	112,100	67,608	15,960	–
Other assets	42,597	42,597	7,153	–	–	–	–	–	35,444
	3,748,707	4,240,720	151,342	335,104	426,709	1,220,924	865,943	754,564	486,134
Non-derivative financial liabilities									
Amounts due to banks and other financial institutions	731,329	804,592	87,277	296,888	191,791	165,654	61,308	1,674	–
Deposits from customers	2,654,881	2,702,244	1,385,440	298,454	262,558	448,935	289,305	17,552	–
Financial liabilities at fair value through profit or loss	21,360	21,399	1,216	1,815	6,461	10,392	1,348	167	–
Debt securities issued	50,143	61,323	–	3,792	4,476	4,716	27,231	21,108	–
Other liabilities	40,396	40,396	25,743	14,653	–	–	–	–	–
	3,498,109	3,629,954	1,499,676	615,602	465,286	629,697	379,192	40,501	–
Gross loan commitments		237,858	237,858	–	–	–	–	–	–

53 Risk management *(continued)*

(d) Operational risk

Operational risk arises from the direct and indirect loss due to technique, procedure, infrastructure and staff deficiency, as well as other risks which have effect on operation.

During the reporting period, the Group continued to enhance its operational risk management by further improving operational risk management framework and methodologies, strengthening operational risk appraisal and assessment mechanisms, stepping up the identification, evaluation and monitoring of operational risk in key areas, and subjecting operational risk to its economic capital management. Various key risk indicators were compliant with the Group's risk preference requirements.

In face of challenges from internal and external operations and management, the Group will, based on its risk preference, continue to upgrade its risk management skills, strengthen operational risk monitoring and controls, as well as endeavour to prevent and reduce operational risk losses.

(e) Capital management

The objectives of the Group's capital management are to:

- Keep capital adequacy ratios at reasonable levels, satisfy capital-specific regulatory provisions and policy requirements on an ongoing basis, and maintain a solid capital base in support of its business expansion and strategic planning implementation for comprehensive and coordinated and sustainable growth;
- Comply with capital regulatory requirements, perform procedures to assess internal capital adequacy, openly disclose information related to capital management, fully cover all risks and ensure safe operation of the entire group;
- Put in place an economic capital-centred banking value management system by fully applying various risk-specific quantitative deliverables, enhance decision-making processes and management application regimes, strengthen capital restraint and capital incentive mechanisms, reinforce capabilities to facilitate client pricing and decision-making, and increase capital deployment efficiency; and
- Reasonably use all kinds of capital instruments, continue to upgrade capital strengths, improve capital structures, raise capital quality, lower capital costs, and create the best returns to shareholders.

The Group manages its capital structure and adjust it based on the economic condition and the risk characteristics of its operations. To maintain or adjust its capital structure, the Group may modify its profit distribution policy, issue or repurchase shares, other tier-1 capital instruments, eligible tier-2 capital instruments, and convertible debentures. The Group's management regularly monitors capital adequacy ratio levels under an approach regulated by the CBRC. The Group and the Bank file required information to the CBRC in a half-yearly and quarterly manner.

The Group's capital adequacy ratio calculation covers the Bank and its subsidiaries. The Bank's capital adequacy ratio calculation covers the Bank's all branch entities at home and abroad. As at 31 December 2014, the Group's subsidiaries that were within the scope of consolidated statements in respect of the capital adequacy ratio included: WLB, CMBICC, CMBFLC and CMFM.

53 Risk management *(continued)*

(e) Capital management *(continued)*

Since 1 January 2013, the Group has calculated its capital adequacy ratio in accordance with the CBRC's Administrative Measures on the Capital of Commercial Banks (Trial) and other relevant regulations. On 18 April 2014, the CBRC approved the Bank to adopt the advanced capital management approach. Within the scope of approval of the CBRC, the Bank could calculate corporation and financial institutions risk exposure using the primary internal rating-based approach, retail risk exposure using the internal rating-based approach, market risk using the internal model approach, and operational risk using the standardised approach. At the same time, the CBRC implemented a transition period for commercial banks approved to use the advanced approach to calculate capital. During the transition period, the commercial banks should use both the advanced approach and other approaches to calculate capital adequacy ratios, and comply with minimum capital requirements. During the period, the Group has complied with the capital requirement set by the regulatory authority.

Capital adequacy ratio management is the focus of the Group's capital management. The capital adequacy ratio reflects the Group's capability of sound operations and risk resisting. The Group's capital adequacy ratio management's objective is to carefully determine capital adequacy ratio, as legally required by regulators, according to actual risk profiles and with reference to capital adequacy ratio levels of globally leading market peers and the Group's operating conditions.

The Group adopts the scenario simulation and stress testing methods to forecast, plan and manage its capital adequacy ratio with considerations of factors such as strategic development planning, business expansion status, and risk movement trends.

(f) Use of derivatives

Derivatives include forward, swap and option transactions undertaken by the Group in the foreign exchange and interest rate markets. All of the Group's derivative financial instruments are traded over the counter.

The Group enters into interest rate, currency and other financial derivative transactions for treasury business and its assets and liabilities management purpose. The Group's derivative financial instruments can be divided into trading derivative financial instruments, cash flow hedge financial instruments and derivative financial instruments managed in conjunction with financial instruments designated at fair value through profit or loss.

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

The Group is exposed to risk on assets or liabilities denominated in foreign currencies. Such risk can be offset through the use of forward foreign exchange contracts or foreign exchange option contracts.

In cash flow hedge, the Bank uses interest rate swaps as hedging instruments to hedge the cash flows arising from the interest risk of RMB loans and interbank assets.

The following tables provide an analysis of the notional amounts of derivatives of the Group by maturity groupings based on the remaining periods to settlement and the corresponding fair value at the end of the reporting period. The notional amounts of the derivatives indicate the transaction volume outstanding at the end of the reporting period, not representing amounts at risk.

53 Risk management *(continued)*

(f) Use of derivatives *(continued)*

	Group						
	2014						
	Notional amounts with remaining life of					Fair value	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	161,828	107,663	29,995	752	300,238	204	(240)
Currency derivatives							
Spot	20,019	–	–	–	20,019	874	(793)
Forwards	285,302	395,102	46,906	–	727,310	5,362	(4,142)
Foreign exchange swaps	138,277	77,173	3,332	–	218,782	1,393	(1,270)
Options purchased	16,626	5,883	–	–	22,509	1,233	–
Options sold	21,331	6,921	–	–	28,252	–	(3,365)
	481,555	485,079	50,238	–	1,016,872	8,862	(9,570)
Other derivatives							
Credit default swaps	–	775	93	–	868	1	(2)
Equity options purchased	53	29	24	36	142	15	–
Equity options sold	29	–	–	–	29	–	–
	82	804	117	36	1,039	16	(2)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	6,300	13,540	29,510	–	49,350	143	(360)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	124	515	9,941	377	10,957	73	(29)
Currency derivatives							
Foreign exchange swaps	–	343	3,286	–	3,629	17	(45)
Other derivatives							
Equity options sold	–	–	–	–	–	–	–
	124	858	13,227	377	14,586	90	(74)
Total						9,315	(10,246)

53 Risk management *(continued)*

(f) Use of derivatives *(continued)*

	Group						
	2013						
	Notional amounts with remaining life of					Fair value	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	9,439	15,291	19,565	261	44,556	390	(435)
Currency derivatives							
Spot	16,908	–	–	–	16,908	5	(10)
Forwards	169,746	254,607	18,603	–	442,956	4,519	(5,153)
Foreign exchange swaps	77,019	21,327	550	–	98,896	391	(568)
Options purchased	4,375	464	–	–	4,839	357	–
Options sold	5,046	479	1	–	5,526	–	(580)
	273,094	276,877	19,154	–	569,125	5,272	(6,311)
Other derivatives							
Credit default swaps	–	780	605	–	1,385	2	–
Equity options purchased	88	3	–	–	91	2	–
Equity options sold	88	3	–	–	91	–	(2)
	176	786	605	–	1,567	4	(2)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	12,300	2,863	49,350	–	64,513	134	(1,402)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	224	4,525	4,512	186	9,447	32	(30)
Currency derivatives							
Foreign exchange swaps	–	1,993	2,135	–	4,128	62	(55)
Other derivatives							
Equity options sold	–	–	555	–	555	31	–
	224	6,518	7,202	186	14,130	125	(85)
Total						5,925	(8,235)

53 Risk management *(continued)*

(f) Use of derivatives *(continued)*

	Bank						
	2014						
	Notional amounts with remaining life of					Fair value	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	159,333	106,863	29,852	639	296,687	203	(235)
Currency derivatives							
Spot	20,019	–	–	–	20,019	874	(793)
Forwards	280,537	384,733	44,089	–	709,359	5,237	(4,037)
Foreign exchange swaps	119,515	62,357	3,200	–	185,072	577	(406)
Options purchased	16,609	5,883	–	–	22,492	1,233	–
Options sold	21,316	6,921	–	–	28,237	–	(3,365)
	457,996	459,894	47,289	–	965,179	7,921	(8,601)
Other derivatives							
Credit default swaps	–	775	93	–	868	1	(2)
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	6,300	13,540	29,510	–	49,350	143	(360)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	124	186	7,771	377	8,458	61	(23)
Currency derivatives							
Foreign exchange swaps	–	343	3,286	–	3,629	17	(45)
	124	529	11,057	377	12,087	78	(68)
Total						8,346	(9,266)

53 Risk management *(continued)*

(f) Use of derivatives *(continued)*

	Bank						
	2013						
	Notional amounts with remaining life of					Fair value	
	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total	Assets	Liabilities
Derivatives held for trading							
Interest rate derivatives							
Interest rate swaps	9,439	15,291	19,455	121	44,306	385	(428)
Currency derivatives							
Spot	16,908	–	–	–	16,908	5	(10)
Forwards	168,872	251,022	17,422	–	437,316	4,498	(5,137)
Foreign exchange swaps	52,034	12,344	437	–	64,815	61	(175)
Options purchased	4,328	463	–	–	4,791	357	–
Options sold	5,022	475	–	–	5,497	–	(580)
	247,164	264,304	17,859	–	529,327	4,921	(5,902)
Other derivatives							
Credit default swaps	–	780	605	–	1,385	2	–
Cash flow hedge derivatives							
Interest rate derivatives							
Interest rate swaps	12,300	2,863	49,350	–	64,513	134	(1,402)
Derivatives managed in conjunction with financial instruments designated at fair value through profit or loss							
Interest rate derivatives							
Interest rate swaps	188	4,464	1,955	186	6,793	11	(15)
Currency derivatives							
Foreign exchange swaps	–	1,993	2,135	–	4,128	62	(55)
	188	6,457	4,090	186	10,921	73	(70)
Total						5,515	(7,802)

53 Risk management *(continued)*

(f) Use of derivatives *(continued)*

(i) Credit risk weighted amount

The credit risk weighted amounts in respect of these derivatives are as follows. These amounts have taken the effects of bilateral netting arrangements into account.

	2014	2013
Default risk weighted assets of counterparties		
Interest rate derivatives	214	389
Currency derivatives	3,003	2,181
Other derivatives	2	4
Credit valuation adjustment risk weighted assets	5,830	3,879
Total	9,049	6,453

Note: The credit risk weighted amounts in respect of derivatives are calculated in accordance with the Administrative Measures on Capital of Commercial Banks (Trial) issued by the CBRC, covering default risk weighted assets of counterparties and credit valuation adjustment risk weighted assets. The amount within the scope approved by the CBRC in April 2014 was calculated using the internal rating-based approach, and the risk-weighted approach is adopted to calculate those not eligible to the internal rating-based approach.

(g) Fair value information

(i) Financial assets

The Group's financial assets mainly include cash, balances with central banks, balances and placements with banks and other financial institutions, loans and advances to customers and investments.

Except for loans and advances and held-to-maturity investments, most of the financial assets will mature within 1 year or have been already stated at fair value, and their carrying value approximate their fair value.

Loans and advances are stated at amortised costs less allowances for impairment loss (Note 19). Loans and advances are mostly priced at floating rates close to the PBOC rates and repriced at market rates annually at least, and impairment allowance is made to reduce the carrying amount of impaired loans to estimate the recoverable amount. Accordingly, the carrying value of loans and advances are close to the fair value.

Held-to-maturity investments are stated at amortised costs less impairment, and the fair value of listed debt securities classified as held-to-maturity investments are disclosed in Note 21(c).

The carrying value, fair value and fair value hierarchy of held-to-maturity investments not measured at fair value are listed as below:

The fair value measurements for level 1 are based on quoted price of foreign currency bonds in active market released by Bloomberg. For level 2, the latest valuation results released by China bond pricing system are used to measure fair value of bonds denominated in RMB. The level 2 category also includes foreign currency bonds without active quoted price, which are measured by Bloomberg comprehensive valuation. Level 3 adopts expected cash flow valuation technique to measure fair value.

53 Risk management *(continued)*

(g) Fair value information *(continued)*

(i) Financial assets *(continued)*

Group

	2014					2013	
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Held-to-maturity investments	259,434	264,612	4,549	260,052	11	208,927	195,614

(ii) Financial liabilities

Financial liabilities mainly include deposits from customers, amounts due to banks and other financial institutions, and debts issued by the Group. The carrying value of financial liabilities approximate their fair value at the end of the reporting period of the year presented, except the financial liabilities set out below:

Group

	2014					2013	
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value
Subordinated notes issued	32,396	32,898	–	32,898	–	21,047	19,285
Long-term debt securities issued	27,636	27,248	–	27,248	–	23,980	22,874
	60,032	60,146	–	60,146	–	45,027	42,159

54 Significant accounting estimates and judgements

In determining the carrying amounts of some assets and liabilities, the Group makes assumptions for the effects of uncertain future events on the assets and liabilities at the end of the reporting period. These estimates involve assumptions about cash flows and the discount rates used. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to the assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

54 Significant accounting estimates and judgements

(continued)

(a) Impairment losses on loans and advances

Loan portfolios are assessed periodically to assess whether impairment losses exist and the amounts of impairment losses if they do. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows from an individual loan. Objective evidence for impairment is described in accounting policy 2(n)(i). The impairment loss for a loan that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loan. When loans and advances are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(b) Impairment of available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data on market volatility and historical share price of the specific financial assets as well as other factors, such as sector performance and financial information regarding the investee.

(c) Fair value of financial instruments

For a number of financial instruments, no quoted prices in an active market exist. The fair value for these financial instruments is established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The Group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the Group make the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the Group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to-maturity investments are met, management makes significant judgements. Failure in correctly assessing the Group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale financial assets.

54 Significant accounting estimates and judgements

(continued)

(e) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(f) Defined benefit plan

Actuarial assumptions are made in valuing future pension obligations as set out in note 37(b). There is uncertainty that these assumptions will hold true in the future. They are reviewed periodically and are updated where necessary.

(g) Ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is one of the Group's critical accounting estimates. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of loss events that have been incurred but not reported ("IBNR") to the Group as of the end of the reporting period. The estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim events is available. IBNR claims may not be apparent to the insured until many years after the event that gives rise to the claim has happened.

Estimation of the ultimate cost of certain liability claims can be a complex process. There are several sources of uncertainty that need to be considered in the estimating of the liability that the Group will ultimately pay for such claims. In particular, the claims arising from the employees' compensation and other liability policies can be longer in tail and difficult to estimate. The Group has appointed an independent actuary to estimate the claim liabilities using established actuarial methodologies. The methodologies are statistical in nature and can be affected by various factors. The more significant factors that can affect the reliability of the liability estimation include jurisprudence that can broaden the intent and scope coverage of the protections offered in the insurance contracts issued by the Group, the extent to which actual claim results differ from historical experience and the time lag between the occurrence of the event and the report of such claim to the Group.

(h) Provisions

The Group uses judgement to assess whether the Group has a present legal or constructive obligation as a result of past events at each financial reporting date, and judgement is used to determine if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and to determine a reliable estimate of the amount of the obligation.

55 Material related-party transactions

(a) Material connected person information

The Bank's largest shareholder and its parent company and the Bank's subsidiaries.

Company name	Registered location	Issued and fully paid capital	Proportion of the Bank held by the Company	Proportion of the Company held by the Bank	Business	the relationship with the Bank	Legal form	Legal representative
China Merchants Group (CMG)	Beijing	RMB11,550 million	20.00% (note (i))	–	Transportation, shipping agency, warehousing and storage, leasing, manufacturing building and facility, repair and contracting, sales operating management service	Largest shareholder's parent company	Limited company	Li Jianhong
China Merchants Steam Navigation Company Limited (CMSNCL)	Beijing	RMB4,300 million	12.54% (note (ii))	–	Transportation, building and repair, procurement, supply chain management and distribution, shipping agency services	Largest shareholder	Joint stock limited company	Li Jianhong
CMB International Capital Corporation Limited (CMBICC)	Hong Kong	HKD1,000 million	–	100%	Financial advisory and services	Subsidiary	Limited company	Ding Wei
CMB Financial Leasing Corporation Limited (CMBFLC)	Shanghai	RMB6,000 million	–	100%	Financial leasing and advisory	Subsidiary	Limited company	Lian Bolin
Wing Lung Bank Limited (WLB)	Hong Kong	HKD1,161 million	–	100%	Banking	Subsidiary	Limited company	Ma Weihua
China Merchants Fund Management Corporation Limited (CMFM)	Shenzhen	RMB210 million	–	55%	Fund launching and establishing	Subsidiary	Limited company	Zhang Guanghua

Note:

(i) CMG holds 20.00% of the Bank (2013: 18.80%) through its subsidiaries.

(ii) As the largest shareholder, CMSNCL who is the subsidiary of CMG, holds 12.54% of the Bank as at 31 December 2014 (2013: 12.54%).

55 Material related-party transactions *(continued)*

(a) Material connected person information *(continued)*

The registered capital of each company (RMB)

Connected person	2014	2013
CMG	RMB11,550,000,000	RMB11,550,000,000
CMSNCL	RMB4,300,000,000	RMB3,700,000,000
CMBICC	HKD1,000,000,000	HKD250,000,000
CMBFLC	RMB6,000,000,000	RMB4,000,000,000
WLB	HKD1,160,950,575	HKD1,160,950,575
CMFM	RMB210,000,000	RMB210,000,000

The change of proportion of the Bank held by the largest shareholder and the portion of the subsidiaries held by the Bank

	The Bank held by the largest shareholder		The subsidiaries held by the Bank							
	CMSNCL		CMBICC		CMBFLC		WLB		CMFM	
	RMB	%	HKD	%	RMB	%	HKD	%	RMB	%
At 1 January 2014	3,162,424,323	12.54	250,000,000	100.00	4,000,000,000	100.00	1,160,950,575	100.00	115,500,000	55.00
Change	–	–	750,000,000	–	2,000,000,000	–	–	–	–	–
At 31 December 2014	3,162,424,323	12.54	1,000,000,000	100.00	6,000,000,000	100.00	1,160,950,575	100.00	115,500,000	55.00

(b) Transaction terms and conditions

In each year, the Group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit, securities trading, agency services, trust services, and off-balance sheet transactions. The directors are of the opinion that the Group's material related-party transactions were all entered into on normal commercial terms. The banking transactions were priced at the market rates at each time of transaction. Interest rates on loans and deposits are required to be set in accordance with the following benchmark rates set by the PBOC:

	2014	2013
Short-term loans	5.60% p.a.	5.60% to 6.00% p.a.
Medium to long-term loans	6.00% to 6.15% p.a.	6.15% to 6.55% p.a.
Saving deposits	0.35% p.a.	0.35% p.a.
Time deposits	2.35% to 4.00% p.a.	2.60% to 4.75% p.a.

There were no individually assessed allowances for impairment losses made against loans and advances granted to related parties during the year.

55 Material related-party transactions *(continued)*

(c) Shareholders and their related companies

The Bank's largest shareholder CMSNCL and its related companies hold 20.00% (2013: 18.80%) shares of the Bank as at 31 December 2014 (among them 12.54% shares is held by CMSNCL (2013: 12.54%)). The Group's transactions and balances with CMSNCL and its related companies are disclosed as follows:

	Group		Bank	
	2014	2013	**2014**	2013
On-balance sheet:				
– Loans and advances to customers	**4,395**	4,428	**3,944**	3,830
– Investments	**5,282**	2,966	**5,281**	2,965
– Deposits from customers	**40,038**	18,645	**39,566**	18,358
Off-balance sheet:				
– Irrevocable guarantee	**1,237**	880	**1,237**	880
– Irrevocable letters of credit	**1,186**	487	**1,186**	487
– Bills of acceptances	**47**	59	**47**	59
Interest income	**318**	430	**290**	407
Interest expense	**487**	372	**480**	371
Net fees and commission	**175**	97	**175**	96
Net trading gain or loss	**6**	27	**6**	27

(d) Companies controlled by directors and supervisors other than those under Note 55(b) above

	Group		Bank	
	2014	2013	**2014**	2013
On-balance sheet:				
– Loans and advances to customers	**8,390**	3,555	**7,371**	2,560
– Investments	**2,149**	4,870	**2,149**	4,870
– Deposits from customers	**10,454**	35,393	**10,454**	35,393
Off-balance sheet:				
– Irrevocable guarantee	**1,320**	458	**1,320**	458
Interest income	**200**	154	**178**	154
Interest expense	**546**	180	**546**	174
Net fees and commission	**144**	208	**144**	189
Net trading gain or loss	**–**	88	**–**	88

55 Material related-party transactions *(continued)*

(e) Investment in associates and joint ventures other than those under Note 55(b) above

	Group		Bank	
	2014	2013	**2014**	2013
On-balance sheet:				
– Loans and advances to customers	**7**	9	**–**	–
– Deposits from customers	**102**	420	**37**	271
Interest expense	**4**	2	**3**	1
Net fees and commission	**349**	249	**344**	247

(f) Other equity shareholders with 5% or more shareholding of the Bank

	Group		Bank	
	2014	2013	**2014**	2013
On-balance sheet:				
– Investments	**200**	200	**200**	200
– Deposits from customers	**3,520**	1,108	**3,520**	1,108
Off-balance sheet:				
– Irrevocable guarantee	**6,000**	14	**6,000**	14
Interest income	**6**	6	**6**	6
Interest expense	**13**	115	**13**	115
Net fees and commission	**71**	3	**71**	3

55 Material related-party transactions *(continued)*

(g) Subsidiaries

	2014	2013
On-balance sheet		
– Loans and advances to customers	310	–
– Investments	2,052	1,611
– Deposits from customers	1,374	733
– Balances with banks and other financial institutions	2,439	715
– Placement with other banks	29,826	7,489
– Deposits from banks and other financial institutions	18,688	11,385
– Placement from other banks	164	428
Off-balance sheet		
– Irrevocable guarantee	117	117
– Bills of acceptances	112	–
Interest income	661	150
Interest expense	354	23
Net fees and commission	868	315
Net trading gain or loss	(2)	(95)

Any significant balances and transactions between the Bank and its subsidiaries have been offset in the consolidated financial statements.

(h) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive officers.

	2014 RMB'000	2013 RMB'000 (Note 8)
Salaries and other emoluments	42,534	37,790
Discretionary bonuses (note 8(i))	–	12,577
Share-based payment	15,169	(3,515)
Contributions to defined contribution retirement schemes	5,427	4,813
	63,130	51,665

The above share-based payments represent the estimated fair value of the share appreciation rights granted (note 37(a)(iii)) to senior management under the Bank's H share Appreciation Rights Scheme. The fair value is measured by using the Black-Scholes model and according to the accounting policy set out in note 2(u)(iii); and the amounts have been charged to the consolidated statement of profit or loss and other comprehensive income. As the share options may expire without being exercised, the directors consider the amounts disclosed are not representative of actual cash flows received or to be received by senior management.

55 Material related-party transactions *(continued)*

(i) Annuity scheme

Apart from the obligation for defined contributions to the annuity scheme and normal banking transactions, no other transactions were conducted between the Group and the annuity scheme for the years ended 31 December 2014 and 31 December 2013.

56 Non-controlling interests

Non-controlling interests represent the interests that the Group does not hold in the non-wholly owned subsidiaries. There is no subsidiary of the Group which has material non-controlling interests during the reporting period.

57 Transfer of financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose trusts. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognize the transferred assets.

Securitisation of credit assets

The Group sells the credit assets to special purpose trust, and then the special purpose trust issues the assets backed securities to investors.

The Group's book value of securitised credit assets on transfer day is RMB24,545 million for the year ended 31 December 2014. The asset value of senior tranches of securitisation of credit assets which are classified as held-to-maturity investment is RMB1,124 million at Group level. The asset value of subordinated tranches of securitisation of credit assets which are classified as receivables is RMB108 million at Group level.

58 Interests in unconsolidated structured entities

(a) Interest in the structured entities sponsored by third party institutions

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include wealth management products, asset management plans, trust beneficiary rights, assets backed securities and investments in funds, and the Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and are financed through the issue of notes to investors.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at 31 December 2014 in the structured entities sponsored by third party institutions and an analysis of the line items in the statement of financial position as at 31 December 2014 in which assets are recognised relating to the Group's interests in structured entities sponsored by third parties:

	Group					
	2014					
	Carrying amount					
	Amounts held under resale agreements	Available-for-sale financial assets	Held-to-maturity investments	Debt securities classified as receivables	Total	Maximum exposure
Wealth management products	–	–	–	6,140	6,140	6,140
Asset management plans	45,492	–	–	247,484	292,976	292,976
Trust beneficiary rights	63,484	–	–	112,038	175,522	175,522
Asset backed financings	–	2,135	1,367	–	3,502	3,502
Investment in funds	–	317	–	–	317	317
	108,976	2,452	1,367	365,662	478,457	478,457

The maximum exposures to loss in the above subordinated tranches of asset backed financings and investments in funds are the fair value of the assets held by the Group at the reporting date. The maximum exposures to loss in the above wealth management products, asset management plans, trust beneficiary rights, senior tranches of asset backed securities are the amortised cost of the assets held by the Group at the reporting date in accordance with the line items of these assets recognised in the statement of financial positions.

58 Interests in unconsolidated structured entities *(continued)*

(b) Interest in the unconsolidated structured entities sponsored by the Group

The unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services.

As at 31 December 2014, the amount of the unconsolidated non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB831.473 million.

As at 31 December 2014, the balance of reverse repurchase transactions and money market placement between the Group and its non-principal-guaranteed wealth management products, which are sponsored by the Group, is RMB117,333 million (2013: RMB79,881 million) and RMB11,470 million respectively. The above transactions were made in accordance with normal business terms and conditions.

During the year of 2014, the amount of fee and commission income received from such category of non-principal-guaranteed wealth management products by the Group is RMB5,373 million (2013: RMB2,977 million).

The total amount of non-principal-guaranteed wealth management products issued by the Group after 1 January 2014 with a maturity date before 31 December 2014 was RMB2,420,525 million (2013: RMB1,302,514 million).

59 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2014

Up to the date of issue of the financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
IFRS 9, Financial instruments	1 January 2018
IFRS 15, Revenue from Contracts with Customers	1 January 2017

So far the Group has concluded that the adoption of other standards is unlikely to have a significant impact on its operating results and financial position, except for IFRS 9 "Financial instruments". Since the Group is in the process of making an assessment on overall impact of IFRS 9, the Group cannot quantify the impact on its operating results and financial position.

60 Non-adjusting events after the reporting period

Save as otherwise disclosed in Note 46, the Group has no significant post reporting date event subsequent to the end of the reporting period as at the date of approval to the financial statements.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi unless otherwise stated)

(A) Capital adequacy ratio

The Group's capital adequacy ratio was prepared solely in accordance with the *CBRC's Administrative Measures on the Capital of Commercial Banks (Trial)* issued in 2012 and effective on 1 January 2013. The bases used herein may differ from those adopted in Hong Kong or other countries.

In accordance with the advanced capital management approach approved by CBRC in April 2014, the Group calculated core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio as follows:

	31 December 2014
Core tier-1 capital adequacy ratio	10.44%
Tie-1 capital adequacy ratio	10.44%
Capital adequacy ratio	12.38%
Components of capital base	
Core tier-1 capital:	
Share capital	25,220
Qualifying portion of capital reserve	69,227
Surplus reserves	28,664
Regulatory general reserve	53,979
Retained earnings	137,910
Qualifying portion of non-controlling interests	288
Others (Note (i))	(1,308)
Total core tier-1 capital	313,980
Regulatory deductions from core tier-1 capital:	12,003
Net core tier-1 capital	301,977
Other tier-1 capital	5
Net tier-1 capital	301,982
Tier-2 capital:	
Qualifying portion of tier-2 capital instruments and their premium	30,000
Surplus provision for loan impairment	24,190
Qualifying portion of non-controlling interests	2,162
Total tier-2 capital	56,352
Regulatory deductions from core tier-2 capital:	–
Net tier-2 capital	56,352
Net capital	358,334
Total risk-weighted assets	2,893,732

Note (i): Others' represent translation differences of foreign currency financial statements under the *CBRC's Administrative Measures on the Capital of Commercial Banks (Trial)*.

Note (ii): The Group's other tier-1 capital is qualifying portion of non-controlling interests.

(A) Capital adequacy ratio *(continued)*

In 2014, in accordance with the advanced capital management approach approved by CBRC in April 2014, the Bank calculated core tier-1 capital adequacy ratio is 10.00%, tier-1 capital adequacy ratio is 10.00%, capital adequacy ratio is 11.93%, net capital is RMB320,740 million and total risk-weighted assets is RMB2,687,891 million.

In 2014, by the method of calculating credit risk using the risk-weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Group's core tier-1 capital adequacy ratio is 9.60%, tier-1 capital adequacy ratio is 9.60%, capital adequacy ratio is 11.74%, net capital is RMB369,532 million and total risk-weighted assets is RMB3,146,571 million.

In 2014, by the method of calculating credit risk using the risk-weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach, the Bank's core tier-1 capital adequacy ratio is 9.12%, tier-1 capital adequacy ratio is 9.12%, capital adequacy ratio is 11.27%, net capital is RMB331,937 million and total risk-weighted assets is RMB2,946,283 million.

In 2013, the Group calculated credit risk using the risk-weighted approach, market risk using the standardised approach and operational risk using the basic indicator approach in accordance with the *Administrative Measures on Capital of Commercial Banks (Trial)* issued by CBRC. Core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio are calculated as follows:

	2013
Core tier-1 capital adequacy ratio	9.27%
Tie-1 capital adequacy ratio	9.27%
Capital adequacy ratio	11.14%

(B) Liquidity ratios

	Bank	
	2014	2013
RMB current assets to RMB current liabilities	**56.3%**	57.0%
Foreign currency current assets to foreign currency current liabilities	**78.1%**	74.4%

The above liquidity ratios are calculated in accordance with the formula promulgated by the PBOC and the CBRC and based on PRC GAAP.

(C) Currency concentrations other than RMB

	Group			
	2014			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Non-structural position				
Spot assets	360,138	146,351	30,426	536,915
Spot liabilities	(299,403)	(211,982)	(28,423)	(539,808)
Forward purchased	450,254	184,254	45,259	679,767
Forward sold	(460,064)	(84,592)	(46,091)	(590,747)
Net option position	151	7	(674)	(516)
Net long position	51,076	34,038	497	85,611
Net structural position	22	32,713	2	32,737

	Group			
	2013			
	US Dollars	HK Dollars	Others	Total
	(in millions of RMB)			
Non-structural position				
Spot assets	257,253	110,677	24,618	392,548
Spot liabilities	(236,045)	(106,077)	(29,536)	(371,658)
Forward purchased	317,668	77,911	48,319	443,898
Forward sold	(308,801)	(47,766)	(42,729)	(399,296)
Net option position	(34)	2	84	52
Net long position	30,041	34,747	756	65,544
Net structural position	1,291	35,964	5	37,260

The net option position is calculated using the delta equivalent approach required by the Hong Kong Monetary Authority (the "HKMA"). The net structural position of the Group includes the structural positions of the Bank's branches substantially involved in foreign exchange. Structural assets and liabilities include:

– Investments in property and equipment, net of depreciation charges;

– Capital and statutory reserves of overseas branches; and

– Investments in subsidiaries.

(D) Cross-border claims

The Group is principally engaged in business operations within the Mainland China, and regards all claims on third parties outside the Mainland China as cross-border claims.

Cross-border claims include loans and advances, balances and placements with banks and other financial institutions, holdings of trade bills and certificates of deposit and investment securities.

Cross-border claims have been disclosed by different countries or geographical areas. A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of cross-border claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	2014			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	30,496	81,319	63,951	175,766
– of which attributed to Hong Kong	19,040	74,570	60,718	154,328
Europe	2,971	16,275	213	19,459
North and South America	8,303	1,438	3,131	12,872
	41,770	99,032	67,295	208,097

	2013			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding the PRC	24,036	15,986	123,727	163,749
– of which attributed to Hong Kong	17,417	15,246	112,653	145,316
Europe	2,354	–	2,160	4,514
North and South America	7,399	1,066	10,322	18,787
	33,789	17,052	136,209	187,050

(E) Further analysis on loans and advances to customers analysed by industry sector

Operation in Mainland China

	Group			
	2014		2013	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Manufacturing	342,005	41	373,458	41
Wholesale and retail	259,298	51	258,251	59
Property development	143,952	80	98,367	81
Transportation, storage and postal services	140,548	37	120,598	29
Production and supply of electric power, heating power, gas and water	98,514	49	58,028	18
Construction	98,350	40	89,314	50
Mining	61,179	44	64,199	45
Leasing and commercial services	49,343	43	37,561	41
Water, environment and public utilities management	30,328	32	34,383	49
Telecommunications, software and IT services	20,092	25	15,535	26
Others	65,045	41	47,217	36
Corporate loans and advances	1,308,654	47	1,196,911	47
Discounted bills	75,007	100	71,035	100
Credit cards	219,621	–	154,971	–
Residential mortgage	321,424	100	261,501	100
Micro-finance loans	336,924	89	284,758	86
Others	78,731	94	87,209	96
Retail loans and advances	956,700	73	788,439	75
Gross loans and advances to customers	2,340,361	59	2,056,385	59

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China

	Group			
	2014		2013	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Wholesale and retail	42,097	86	36,923	93
Property development	36,031	67	32,694	69
Financial concerns	29,410	68	18,677	74
Manufacturing	18,265	44	14,882	63
Transport and transport equipment	7,925	61	6,818	61
Information technology	2,221	83	841	93
Recreational activities	431	96	35	50
Others	22,551	68	18,029	68
Corporate loans and advances	158,931	70	128,899	76
Credit cards	267	–	264	–
Residential mortgage	7,754	100	7,105	100
Micro-finance loans	1,889	99	1,527	99
Others	4,717	53	2,914	75
Retail loans and advances	14,627	83	11,810	92
Gross loans and advances to customers	173,558	71	140,709	77

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation in Mainland China

	Bank			
	2014		2013	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Manufacturing	320,462	37	350,145	37
Wholesale and retail	256,138	51	248,361	58
Property development	140,848	81	96,432	82
Transportation, storage and postal services	118,440	26	118,917	28
Construction	94,406	38	70,236	36
Production and supply of electric power, heating power, gas and water	65,575	23	57,517	18
Mining	48,896	30	51,378	32
Leasing and commercial services	47,185	41	33,663	35
Water, environment and public utilities management	29,866	31	27,561	36
Telecommunications, software and IT services	19,364	22	15,400	25
Others	52,864	30	41,497	33
Corporate loans and advances	1,194,044	43	1,111,107	43
Discounted bills	66,712	100	61,592	100
Credit cards	219,621	–	154,971	–
Residential mortgage	321,362	100	261,432	100
Micro-finance loans	335,637	89	282,015	86
Others	78,656	94	87,107	96
Retail loans and advances	955,276	73	785,525	75
Gross loans and advances to customers	2,216,032	57	1,958,224	57

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Operation outside Mainland China

	Bank			
	2014		2013	
	Amount	% of gross loans and advances covered by collateral or other security	Amount	% of gross loans and advances covered by collateral or other security
Wholesale and retail	31,847	90	23,136	97
Property development	9,451	81	6,229	100
Manufacturing	11,662	30	6,112	55
Transport and transport equipment	1,529	100	1,567	100
Information technology	1,876	83	696	100
Financial concerns	1,206	100	209	100
Recreational activities	100	100	–	–
Others	11,852	64	13,084	77
Corporate loans and advances	69,523	75	51,033	87
Gross loans and advances to customers	69,523	75	51,033	87

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

Overdue loans, impaired loans and advances and the individual and collective assessment allowances, impairment losses charged to profit and loss and impaired loans and advances written off during the year made on the following industry sectors which constitute not less than 10% of total loans and advances to customers are:

	Group					
	2014					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of profit or loss during the year	Impaired loans and advances written off during the year
Manufacturing	14,639	9,627	4,753	11,055	9,633	5,550
Wholesale and retail	10,686	6,547	2,761	8,231	6,663	3,427
Residential mortgage	3,015	870	–	3,273	476	276
Micro-finance loans	9,610	3,612	–	8,458	4,796	2,884

	Group					
	2013					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of profit or loss during the year	Impaired loans and advances written off during the year
Manufacturing	7,609	6,903	3,396	9,177	4,505	1,052
Wholesale and retail	4,987	4,249	2,232	6,078	3,204	402
Residential mortgage	3,505	913	–	3,066	95	43
Micro-finance loans	5,599	1,624	–	6,481	3,649	27

(E) Further analysis on loans and advances to customers analysed by industry sector *(continued)*

	Bank					
	2014					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of profit or loss during the year	Impaired loans and advances written off during the year
Manufacturing	14,451	9,356	4,684	10,787	9,577	5,550
Wholesale and retail	10,592	6,516	2,733	8,188	6,639	3,427
Residential mortgage	2,714	868	–	3,266	469	276
Micro-Finance loans	8,695	3,612	–	8,433	4,758	2,884

	Bank					
	2013					
	Overdue loans and advances	Impaired loans and advances	Individually assessed impairment allowance	Collectively assessed impairment allowance	Impairment losses charged to consolidated statement of profit or loss during the year	Impaired loans and advances written off during the year
Manufacturing	7,437	6,755	3,359	8,822	4,335	1,050
Wholesale and retail	4,941	4,227	2,213	5,937	3,172	402
Residential mortgage	3,248	910	–	3,058	91	43
Micro-finance loans	4,242	1,624	–	6,420	3,646	27

(F) Overdue loans and advances to customers

(i) By geographical segments

	2014	2013
Headquarter	2,237	2,520
Yangtze River Delta region	8,262	6,929
Bohai Rim region	2,459	1,202
Pearl River Delta and West Coast region	3,656	2,139
Northeast region	1,717	529
Central region	3,851	1,499
Western region	2,207	774
Subsidiaries	835	386
Total	25,224	15,978

(ii) By overdue period

	2014	2013
Gross loans and advances to customers which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months	10,295	3,843
– between 6 and 12 months	9,247	4,846
– over 12 months	5,682	7,289
Total	25,224	15,978
As a percentage of total gross loans and advances:		
– between 3 and 6 months	0.41%	0.18%
– between 6 and 12 months	0.37%	0.22%
– over 12 months	0.23%	0.33%
Total	1.01%	0.73%

(F) Overdue loans and advances to customers *(continued)*

(iii) Collateral information

	2014	2013
Secured portion of overdue loans and advances	8,647	5,106
Unsecured portion of overdue loans and advances	16,577	10,872
Present value of collaterals held against overdue loans and advances	9,384	5,396
Provision of overdue loans and advances for which impairment losses are individually assessed	8,336	6,090

The amount of the Group's overdue loans and advances to financial institutions as at 31 December 2014 was RMB1 million (2013: RMB1 million).

Note:

The above analysis, includes loans and advances overdue for more than 90 days as required and defined by the HKMA.

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

For loans and advances repayable by regular installments, if part of the installments is overdue, the whole amount of these loans would be classified as overdue.

Loans and advances repayable on demand are classified as overdue when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instructions. If the loans and advances repayable on demand are outside the approved limit that was advised to the borrower, they were also considered as overdue.

The collaterals of the Group included cash deposit, shares, land use right, property, motor vehicles and other equipment, etc. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation. Where collateral values are greater than gross advances, only the amount of the gross loans and advances had been included in the "secured portion of overdue loans and advances" as set out in the above tables.

(G) Rescheduled loans and advances to customers

	2014		2013	
		% of total loans and advances		% of total loans and advances
Rescheduled loans and advances to customers	996	0.04%	1,068	0.05%
Less:				
– rescheduled loans and advances but overdue more than 90 days	534	0.02%	687	0.03%
Rescheduled loans and advances overdue not more than 90 days	462	0.02%	381	0.02%

The amount of the Group's rescheduled loans and advances to financial institutions as at 31 December 2014 was RMB1 million (2013: RMB1 million).

(H) Non-bank Mainland exposures

The Bank is a commercial bank incorporated in the Mainland with its banking business primarily conducted in the Mainland. As of 31 December 2014 and 31 December 2013, most of the Bank's exposures arose from businesses with Mainland non-bank institutions or individuals. Analyses of various types of exposure by counterparty have been disclosed in the notes to the financial statements.

(I) Corporate governance

Board committees

The Board of Directors has established six committees including the Strategy Committee, Audit committee, Related Party Transactions Control Committee, Risk and Capital Management Committee, Remuneration and Appraisal Committee and Nomination Committee.

(i) Strategy Committee

Main authorities and duties of the Strategy Committee are:

- to formulate the operational goals and medium-to-long term development strategies of the Bank;
- to supervise and review the implementation of the annual operational plan and investment plan;
- to evaluate and monitor the implementation of the Board of Directors resolutions; and
- to put forth proposals and plans on important issues for discussion and determination by the Board of Directors.

(ii) Audit Committee

Main authorities and duties of the Audit Committee are:

- to propose the engagement or replacement of external auditor;
- to monitor the internal audit system of the Bank and its implementation;
- to be responsible for the liaison between internal auditors and external auditor;
- to review the financial information of the Bank and its disclosure;
- to examine the internal control system of the Bank; and
- to deal with other matters authorised by the Board of Directors.

(iii) Related Party Transactions Control Committee

Main authorities and duties of the Related Party Transactions Control Committee are:

- to identify related parties of the Bank according to relevant laws and regulations;
- to inspect, supervise and review material related party transactions and continuing related party transactions and to control the risks associated with related party transactions;
- to review the administrative measures on related party transactions of the Bank, and to monitor the establishment and improvement of the related party transactions management system of the Bank; and
- to review the announcement on related party transactions of the Bank.

(I) Corporate governance *(continued)*

Board committees *(continued)*

(iv) **Risk and Capital Management Committee**

Main authorities and duties of the Risk and Capital Management Committee are:

- to monitor the risk control of the Bank's exposures to credit risks, market risks and operational risks, etc. by senior management;
- to conduct regular assessment of the risk position of the Bank and to conduct evaluations of the procedures and performances of internal auditors;
- to put forward proposals on the improvement of the risk management and internal control of the Bank; and
- other matters that authorised by the Board of Directors.

(v) **Remuneration and Appraisal Committee**

Main authorities and duties of the Remuneration and Appraisal Committee are:

- to study the standard for appraising directors and senior management personnel, conduct appraisals and put forward proposals based on the actual situation of the Bank;
- to study and review the remuneration policies and plans for directors and senior management personnel; and
- any other matters authorised by the Board of Directors.

(vi) **Nomination Committee**

Main authorities and duties of the Nomination Committee are:

- to put forward proposals to the Board of Directors on the size and composition of the Board of Directors according to the business operations, asset scale and shareholding structure of the Bank;
- to study the standards and procedures for the election of directors and senior management personnel, and propose suggestion to the Board of Directors;
- to conduct extensive searches for qualified candidates as directors and senior management personnel;
- to conduct preliminary examination on the qualifications of the candidates for directors and senior management personnel and put forward proposals; and
- any other matters authorised by the Board of Directors.