



徽商銀行股份有限公司

Huishang Bank Corporation Limited

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

Stock Code : 3698



2014 Interim
Report

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Definition

In this interim report, unless the context otherwise specifies, the following terms shall have the meaning set out below.

"The Bank" or "Huishang Bank"	means Huishang Bank Corporation Limited, including its subsidiaries, branches and sub-branches
"CBRC"	means China Banking Regulatory Commission (中國銀行業監督管理委員會)
"CSRC"	means China Securities Regulatory Commission (中國證券監督管理委員會)
"CBRC Anhui Office"	means China Banking Regulatory Commission Anhui Office (中國銀行業監督管理委員會安徽監管局)
"Domestic Shares"	means ordinary shares issued by our Bank in the PRC, with a nominal value of RMB1.00
"Hong Kong"	means Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"Hong Kong Listing Rules"	means Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Listing"	means the listing of H shares of the Bank on the Hong Kong Stock Exchange
"Listing Date"	means the date on which dealings in the H shares of the Bank first commence on the Hong Kong Stock Exchange, i.e. 12 November 2013
"Non-green Industries"	means the heavily-polluting, highly energy-consuming and over-capacity industries
"Three Dimensional Rural Issues"	abbreviation for issues related to agriculture, rural areas and farmers
"PBOC"	means the People's Bank of China
"PRC"	means the People's Republic of China
"Yuan" or "RMB"	means Renminbi, the lawful currency of China. Unless otherwise specifies, any monetary amount referred to in this report will be Renminbi
"HK\$" or "Hong Kong dollars"	means Hong Kong dollars, the lawful currency of Hong Kong

Chapter I Corporate Information

1.1 CORPORATE INFORMATION

- 1.1.1 Statutory Chinese name: 徽商銀行股份有限公司
Statutory English name: Huishang Bank Corporation Limited
- 1.1.2 Statutory representative: Li Hongming
Authorized representatives: Wu Xuemin, Ngai Wai Fung
Board of Directors secretary: Hu Dongdong
Joint company secretaries: Ngai Wai Fung, Hu Dongdong
- 1.1.3 Registered and business office: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC
- 1.1.4 Contact address: Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC
Tel: +86-0551-62667787
Fax: +86-0551-62667787
Post code: 230001
Bank's website: www.hsbank.com.cn
E-mail: djb@hsbank.com.cn
- 1.1.5 Principal place of business in Hong Kong: 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
- 1.1.6 Certified public accountants: PricewaterhouseCoopers
22/F, Prince's Building, Central, Hong Kong
- 1.1.7 Legal advisor as to PRC laws: King & Wood Mallesons
Legal advisor as to Hong Kong laws: Latham & Watkins
Compliance Advisor: Guotai Junan Capital Limited
- 1.1.8 Domestic shares trustee agency: China Securities Depository and Clearing Corporation Limited
H shares registrar office: Computershare Hong Kong Investor Services Limited

Note Huishang Bank Corporation Limited is not an authorized institution within the meaning of the Banking Ordinance (Chapter 155 of Laws of Hong Kong), is not subject to the supervision of the Hong Kong Monetary Authority, and is not authorized to carry on banking/deposit-taking business in Hong Kong.

Chapter I Corporate Information

1.2 COMPANY PROFILE

Headquartered in Hefei, Anhui Province, Huishang Bank is the first regional joint stock commercial bank in the PRC established through the merger and reorganization of city commercial banks and urban credit cooperatives with the approval of the CBRC. The Bank was incorporated on 4 April 1997. The Bank changed its name to Huishang Bank Corporation Limited on 30 November 2005. On 28 December 2005, the Bank officially merged with 5 city commercial banks of Wuhu, Ma'anshan, Anqing, Huaibei and Bengbu and 7 urban credit cooperatives of Lu'an, Huainan, Tongling, Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda in Anhui Province. The Bank officially opened on 1 January 2006. The Bank holds a financial institution license numbered B0162H234010001 from CBRC Anhui Office and a legal entity business license numbered 340000000026144 from Anhui Provincial Administration of Industry and Commerce. The registered address is Block A, Tianhui Building, 79 Anqing Road, Hefei, Anhui Province, PRC.

The Bank's principal activities include the taking of deposits from corporate and retail customers, using such deposits to finance its loans and funds business, which mainly encompass money market activities, investment and trading activities and transactions on behalf of customers in the PRC. As of 30 June 2014, Huishang Bank had a registered capital of 11,050 million and 6,184 on-the-job employees. Apart from the headquarters, the Bank had 17 branches, 207 front offices (including 10 branches of business department and 197 sub-branches) and 460 self-service areas. The Bank also owned a holding subsidiary, Jinzhai Huiyin Rural Bank Co., Ltd, and holds shares in Chery Motor Finance Service Co. Ltd and Wuwei Huiyin County Bank Co., Ltd.

Huishang Bank always insists on positioning itself as a bank that: "serves the local economy; serves the SMEs; serves the general public". Its business has sustained a relatively faster growth and its comprehensive strength has improved gradually, while its operations management improved steadily alongside with the synergic development of its scale, quality and efficiency. The Bank has established favourable social images of being a "local bank", "people's bank" and "SME bank", and had now become a regional commercial bank with relatively high profile influence on the banking industry in Anhui Province and even the PRC. The Bank has been well recognised and widely praised by bank regulatory authorities as well as the community. Since 2008, the Bank has been rated by CBRC as a class two bank for five consecutive years, which attained so far the highest regulatory rating standards in the PRC. The Bank has also been chosen as one of the "Top 1000 World Banks" by The Banker, a UK magazine, for five consecutive years, in which the Bank was ranked 279th in 2013.

1.3 AWARDS FOR THE FIRST HALF OF 2014

During the first half of 2014, the Bank has won numerous accolades and rewards in contests organized by domestic authorities:

- ◆ In January, the Bank was awarded "The Best City Commercial Bank of Trading and Finance in 2013" by the Third China Trade Finance Annual Conference;
- ◆ In January, the Bank was awarded "2013 Gold Medals for Chinese Financial Institution – Annual Small and Medium-Sized Bank with the Best Potential Growth" by the Financial Times;
- ◆ In January, the Bank was awarded the First Prize of "Non-tax Agency Work of Provincial Government in 2013" awarded jointly by Anhui Provincial Department of Finance and the Hefei Central Sub-branch of PBOC;
- ◆ In March, the Bank was awarded "Outstanding Dealers in China's Bond Market" in the selection of Outstanding Members in China's Bond Market in 2013 organized by China Central Depository & Clearing Co. Ltd.;
- ◆ In March, the Bank was awarded "Excellent Trader in Inter-bank Demotic Market in 2013" as well as individual awards of "Outstanding Trading Supervisor" and "Outstanding Trader" by the national inter-bank lending center;
- ◆ In April, the Bank was awarded "A-class Agencies of the Underwriting Agencies of Saving Bonds in 2013" by the Hefei Central Sub-branch of PBOC.

Chapter II Summary of Accounting Information and Financial Index

2.1 MAIN FINANCIAL INFORMATION

Unit: in millions of RMB

	January to June 2014	January to June 2013	Changes over the corresponding period of the previous year (%)+/(-)
Results of operation			
Net operating income ⁽¹⁾	6,000	5,118	17.23
Profit before income tax	3,731	3,207	16.34
Net profit attributable to shareholders of the Bank	2,839	2,452	15.78

Unit: RMB

	January to June 2014	January to June 2013	Changes over the corresponding period of the previous year (%)+/(-)
By per share			
Basic earnings attributable to shareholders of the Bank	0.26	0.30	-13.33
Diluted earnings attributable to shareholders of the Bank	0.26	0.30	-13.33
Net closing assets attributable to shareholders of the Bank	3.01	2.71	11.07

Unit: in millions of RMB

	30 June 2014	31 December 2013	Changes over the end of the previous year (%)+/(-)
Scale indicators			
Total assets	442,966	382,109	15.93
Including: Total loans and advances	211,787	195,449	8.36
Total liabilities	409,644	350,437	16.90
Including: Total deposits from customers	306,494	272,798	12.35
Equity attributable to shareholders of the Bank	33,274	31,625	5.21

Note: (1) Net operating income comprises net interest income, net fee and commission income, net trade income, net income from investment in securities as well as other net operating income, excluding net investment income from associates and joint ventures.

Chapter II Summary of Accounting Information and Financial Index

2.2 FINANCIAL RATIOS

Profitability indicators ⁽¹⁾	January to June 2014	January to December 2013	January to June 2013	Unit: %
				Changes over the corresponding period of the previous year + / (-)
Return on average assets ("ROAA") after tax attributable to shareholders of the Bank	1.38	1.39	1.34	0.04
Return on average equity ("ROAE") after tax attributable to shareholders of the Bank	17.50	18.91	23.01	-5.51
Net interest spread	2.34	2.44	2.46	-0.12
Net interest margin	2.63	2.63	2.65	-0.02

% accounted for net operating income	January to June 2014	January to December 2013	January to June 2013	Unit: %
				Changes over the corresponding period of the previous year + / (-)
- Net interest income	89.35	94.40	92.30	-2.95
- Net non-interest income ⁽²⁾	10.65	5.60	7.70	2.95
Cost-to-income ratio (including business tax and surcharges) ⁽³⁾	30.58	33.29	29.53	1.05

Asset quality indicators	30 June 2014	31 December 2013	30 June 2013	Unit: %
				Changes over the end of the previous year + / (-)
Non-performing loan ratio	0.67	0.54	0.64	0.13
Allowance to non-performing loan ratio	323.52	396.61	359.82	-73.09
Allowance to loans	2.16	2.13	2.29	0.03

Capital adequacy indicators	30 June 2014	31 December 2013	30 June 2013	Unit: %
				Changes over the end of the previous year + / (-)
Core tier I capital adequacy ratio	12.43	12.60	9.24	-0.17
Capital adequacy ratio	14.68	15.19	11.90	-0.51
Total equity to total assets	7.52	8.29	5.42	-0.77

Notes: (1) The ratios are annualized.

(2) Net non-interest income in this indicator comprises net trade income, net income from investment in securities, and other net operating income, excluding net income from investment by joint ventures and associates.

(3) Cost-to-income ratio = Operating expenses/Operating income

Chapter III Management Discussion and Analysis

3.1 OVERALL BUSINESS REVIEW

In face of the complex domestic and international situations and increasingly fierce competition among peer banks during the first half of 2014, the Bank made efforts to overcome various adverse factors by focusing on quality and efficiency and shifting its priorities towards transformational development and structural adjustment. All these led to a steady expansion of our business scale and improved profitability, realizing steady growth in our various business segments and continuous improvement in operations' management level. Among these:

Our profits grew steadily. Net profit attributable to shareholders of the Bank for the first half of 2014 grew steadily to RMB2,839 million, representing an increase of RMB387 million or 15.78% as compared with the same period of the previous year. Net interest income for the first half of 2014 was RMB5,361 million, representing an increase of RMB637 million or 13.48% as compared with the same period of the previous year. Net fee and commission income was RMB468 million, representing an increase of RMB175 million or 59.73% as compared with the same period of the previous year. ROAA after tax attributable to shareholders of the Bank and return on ROAE after tax attributable to shareholders of the Bank on an annualized basis were 1.38% and 17.5%, respectively, a slight decrease from 1.39% and 18.91% compared to the end of last year.

Our assets and liabilities grew moderately. As at the end of June 2014, the total assets of the Bank increased by RMB60,857 million or 15.93% over the end of last year to RMB442,966 million. Gross loans and advances increased by RMB16,338 million or 8.36% over the end of last year to RMB211,787 million. Total deposits from customers were RMB306,494 million, representing an increase of RMB33,696 million or 12.35% compared to the end of last year.

Non-performing assets climbed while its allowance maintained solid. As of the end of June 2014, non-performing loan balance was RMB1,411 million, representing an increase of RMB360 million over the end of previous year. Non-performing loan ratio was 0.67%, representing an increase of 0.13 percentage points over the end of last year. Allowance to non-performing loan ratio was 323.52%, representing a decrease of 73.09 percentage points from the end of last year.

3.2 ANALYSIS OF INCOME STATEMENT

3.2.1 Particulars of financial performance

	<i>Unit: in millions of RMB</i>	
	January to June 2014	January to June 2013
Net interest income	5,361	4,724
Net fee and commission income	468	293
Other net income	172	101
Operating expenses	1,835	1,511
Share of profits of associates	39	24
Impairment losses on assets	474	424
Profit before income tax	3,731	3,207
Income tax	890	755
Net profit	2,840	2,452
Net profit attributable to shareholders of the Bank	2,839	2,452

From January to June 2014, the Bank realized a profit before income tax of RMB3,731 million, representing an increase of 16.34% as compared with the same period of the previous year. The effective income tax rate was 23.85%, representing an increase of 0.31 percentage points as compared with the same period of the previous year.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.2 Net Operating Income

From January to June 2014, the Bank had a net operating income of RMB6,040 million⁽¹⁾, representing an increase of 17.46% as compared with the same period of the previous year. Among which, the net interest income accounted for 88.76%, representing a decrease of 3.11 percentage points from the same period of the previous year; the net non-interest income accounted for 11.24%, an increase of 3.11 percentage points over the same period of the previous year.

The following table sets forth the year-on-year comparison of the net operating income of the Bank for the past three years.

	January to June 2014	January to June 2013	Unit: % January to June 2012
Net interest income	88.76	91.87	91.18
Net fee and commission income	7.74	5.70	3.81
Other net income	2.85	1.96	4.75
Shares of profits of associates	0.65	0.47	0.26
Total	100.00	100.00	100.00

Note: (1) Such analysis of net operating income comprises share of profits of associates

3.2.3 Net interest income

From January to June 2014, the Bank's net interest income amounted to RMB5,361 million, representing an increase of 13.48% from the same period of the previous year, mainly due to the expansion of the balance of interest-earning assets.

The following table sets forth the average balances of assets and liabilities, interest income/expenses and annualized average yield/cost of the Bank for the period indicated. The average balances of interest-earning assets and interest-bearing liabilities represented the daily average balances.

	January to June 2014			January to December 2013			January to June 2013		
	Average balance	Interest income	Annualized average yield (%)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Annualized average yield (%)
Interest-earning assets									
Loans and advances	201,757	7,004	6.94	184,449	12,494	6.77	173,488	5,920	6.88
Bond investments	69,256	1,531	4.42	60,194	2,524	4.19	60,074	1,173	3.94
Balances with the central bank ⁽¹⁾	56,220	430	1.53	50,489	768	1.52	48,840	374	1.54
Deposits and placements from banks and other financial institutions	80,790	2,340	5.79	69,529	3,071	4.42	77,335	1,613	4.21
Total interest-earning assets and interest income	408,023	11,305	5.54	364,661	18,857	5.17	359,737	9,080	5.09

Note: (1) These average balances from January to June 2014 do not include cash; those average balances from January to December 2013 and from January to June 2013 include cash.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.3 Net interest income (Continued)

Unit: in millions of RMB, except percentages

	January to June 2014			January to December 2013			January to June 2013		
	Average balance	Interest expenses	Annualized average cost ratio (%)	Average balance	Interest expenses	Average cost ratio (%)	Average balance	Interest expenses	Annualized average cost ratio (%)
Interest-bearing liabilities									
Borrowings from the central bank	7	0	3.25	/	/	/	/	/	/
Deposits from customers	268,100	3,141	2.34	241,728	4,928	2.04	232,392	2,237	1.94
Deposits and placements from banks and other financial institutions	94,924	2,564	5.40	89,581	3,893	4.35	95,321	1,928	4.08
Debt securities in issue	8,987	239	5.32	7,871	434	5.52	6,757	191	5.69
Total interest-bearing liabilities and interest expenses	372,018	5,944	3.20	339,180	9,254	2.73	334,470	4,356	2.63
Net interest income	/	5,361	/	/	9,603	/	/	4,724	/
Net interest spread⁽¹⁾	/	/	2.34	/	/	2.44	/	/	2.46
Net interest margin⁽²⁾	/	/	2.63	/	/	2.63	/	/	2.65

Note: (1)(2) The analysis of net interest spread and net interest margin from January to June 2014 does not include cash; and the analysis of net interest spread and net interest margin from January to December 2013 and from January to June 2013 includes cash.

From January to June 2014, the net interest spread of the Bank was 2.34 %, representing a decrease of 0.12% as compared with the same period of the previous year. The annualized average yield of interest-earning assets was 5.54%, while annualized average cost ratio of interest-bearing liabilities was 3.20%.

From January to June 2014, the net interest margin of the Bank was 2.63 %, representing a decrease of 0.02 % as compared with the same period of the previous year.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.3 Net interest income (Continued)

The following table sets forth the distribution of changes in interest income and interest expenses caused by the changes in scale and interest for the period indicated. The changes in scale were measured by the changes of average daily balances; while the changes in interests were measured by changes in average interest rates. The scale changes and interest rate changes caused changes in interest income and expenses, which is included in the impact of scale changes on interest income and expense changes.

Unit: in millions of RMB

	January to June 2014 vs. January to June 2013		Net increase (decrease)
	Increase/(decrease) due to Scale	Interest rate	
Assets			
Loans and advances	965	119	1,084
Bond investments	179	179	358
Balances with the central bank	57	(1)	56
Deposits and placements from banks and other financial institutions	72	655	727
Changes in interest income	1,273	952	2,225
Liabilities			
Borrowings from the central bank	0	0	0
Deposits from customers	344	560	904
Deposits and placements from banks and other financial institutions	(8)	644	636
Debt securities in issue	63	(15)	48
Changes in interest expenses	399	1,189	1,588
Changes in net interest income			637

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.4 Interest income

From January to June 2014, the Bank recorded an interest income of RMB11,305 million, an increase of 24.50% as compared with the same period of the last year, mainly due to the expansion in the scale of interest-earning assets. Interest income from loans and advances still constituted the majority of the interest income of the Bank.

Interest income from loans

From January to June 2014, the interest income from loans and advances of the Bank was RMB7,004 million, representing an increase of RMB1,084 million or 18.31% as compared with the same period of the last year.

The following table sets forth the average balances, interest income and annualized average yields on each component of the Bank's loans and advances for the period indicated.

Unit: in millions of RMB, except percentages

	January to June 2014			January to June 2013		
	Average balance	Interest income	Annualized average yields (%)	Average balance	Interest income	Annualized average yields (%)
Corporate loans	139,009	4,940	7.11	124,397	4,457	7.23
Retail loans	52,830	1,666	6.31	39,290	1,185	6.08
Discounted bills	9,918	398	8.03	9,801	277	5.71
Loans and advances	201,757	7,004	6.94	173,488	5,920	6.88

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.5 Interest expenses

From January to June 2014, the interest expense of the Bank was RMB5,943 million, representing an increase of RMB1,587 million or 36.43% as compared with the same period of the last year, which was primarily attributable to the expansion in the scale of interest-bearing liabilities.

Interest expense on deposits from customers

From January to June 2014, the Bank's interest expense on deposits from customers was RMB3,141 million, representing an increase of RMB904 million or 40.41% as compared with the same period of the last year, which was primarily attributable to the 15.37% increase of the average balance of deposits from customers as compared with the same period of the last year.

The following table sets forth the average balances, interest expenses and annualized average cost ratio of the Bank's corporate deposits and personal deposits for the period indicated.

Unit: in millions of RMB, except percentages

	January to June 2014			January to June 2013		
	Average balance	Interest expense	Annualized average yields (%)	Average balance	Interest expense	Annualized average yields (%)
Corporate deposits						
Demand deposits	99,374	378	0.76	96,285	331	0.69
Time deposits	72,266	1,976	5.47	54,366	1,277	4.70
Sub-total	171,640	2,354	2.74	150,651	1,608	2.13
Personal deposits						
Demand deposits	26,340	51	0.39	23,980	46	0.38
Time deposits	33,110	539	3.26	28,177	450	3.19
Sub-total	59,450	590	1.98	52,157	496	1.90
Others	37,010	197	1.06	29,584	133	0.90
Total deposits from customers	268,100	3,141	2.34	232,392	2,237	1.94

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.6 Net non-interest income

From January to June 2014, the Bank recorded a net non-interest income of RMB679 million, representing an increase of RMB261 million or 62.44% as compared with the same period of the last year.

The following table sets forth the principal components of the Bank's net non-interest income for the period indicated.

Unit: in millions of RMB

	January to June 2014	January to June 2013
Fee and commission income	508	329
Less: Fee and commission expenses	40	36
Net fee and commission income	468	293
Other net non-interest income⁽¹⁾	211	125
Total net non-interest income	679	418

Note: (1) Comprises net trade income, net income from investment in securities, net other operating income and share of profits of associates.

3.2.7 Net fee and commission income

From January to June 2014, fee and commission income of the Bank was RMB508 million, representing an increase of RMB179 million or 54.41% as compared with the same period of the last year, which was primarily attributable to the increase in commissions from custodian and other fiduciary activities, bank card fees, settlement and clearing fees as well as financial advisory services commissions.

The following table sets forth the principal components of the Bank's net fee and commission income for the period indicated.

Unit: in millions of RMB

	January to June 2014	January to June 2013
Fee and commission income	508	329
Bank card fees	70	48
Settlement and clearing fees	52	41
Agency services commissions	14	15
Consultancy and advisory fees	86	75
Guarantee and commitment fees	23	34
Custodian and other fiduciary service fees	189	55
Others ⁽¹⁾	74	61
Fee and commission expenses	(40)	(36)
Net fee and commission income	468	293

Note: (1) Mainly includes syndicated loan fees, domestic factoring fees and arrangement fees for international trade financing.

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.8 Other non-interest net income

From January to June 2014, other net non-interest income of the Bank was RMB21.1 billion, representing an increase of RMB8.6 billion or 68.80% as compared with the same period of the last year, which was mainly due to the increase in net income from investment in securities and share of profits of associates.

The following table sets forth the principal components of the Bank's other net non-interest income for the periods indicated.

Unit: in millions of RMB

	January to June 2014	January to June 2013
Net income from investment securities	42	4
Net trading income	48	29
Share of profits of associates	39	24
Other operating income	82	68
Total other net non-interest income	211	125

3.2.9 Operating expenses

From January to June 2014, operating expenses of the Bank were RMB1,835 million, representing an increase of 21.44% as compared with the same period of the last year, which is primarily attributable to the business expansion and increase in the number of employees, and in turn lead to various extents of increase in employee benefit expenses, business tax and surcharges, depreciation and amortization as well as lease expenses.

The following table sets forth the principal components of the Bank's operating expenses for the period indicated.

Unit: in millions of RMB

	January to June 2014	January to June 2013
Staff costs	787	636
Business tax and surcharges	448	371
Depreciations and amortization	133	116
Lease expenses	89	65
Other general and administrative expenses	378	323
Total operating expenses	1,835	1,511

Chapter III Management Discussion and Analysis

3.2 ANALYSIS OF INCOME STATEMENT (Continued)

3.2.10 Asset impairment losses

As of 30 June 2014, the Bank's allowance to asset impairment losses recorded RMB474 million, representing an increase of 11.79% as compared with the same period of the last year.

Unit: in millions of RMB

	30 June 2014	30 June 2013
Loans and advances to customers	474	424
– collectively-assessed	344	257
– individually-assessed	130	167

3.3 BALANCE SHEET ANALYSIS

3.3.1 Assets

As of 30 June 2014, the Bank's total assets recorded up to RMB442,966 million, representing an increase of 15.93% compared with the end of 2013. The increase of total assets was primarily due to the increase of inter-bank loans and financial assets purchased under resale agreement, investments as well as loans and advances.

Unit: in millions of RMB

Items	30 June 2014		31 December 2013	
	Amounts	% of the total	Amounts	% of the total
Total loans and advances	211,787	47.81%	195,449	51.15%
Provision for loan impairment losses	(4,565)	-1.03%	(4,169)	-1.09%
Net loans and advances	207,222	46.78%	191,280	50.06%
Investments	76,942	17.36%	60,271	15.77%
Cash	1,027	0.23%	956	0.25%
Balances with the central bank	62,747	14.17%	75,222	19.69%
Due from banks and other financial institutions	24,123	5.45%	11,000	2.88%
Inter-bank loans and financial assets purchased under resale agreement	65,683	14.83%	37,965	9.93%
Investments in associates	374	0.08%	335	0.09%
Fixed assets	1,510	0.34%	1,512	0.40%
Deferred income tax assets	954	0.22%	1,113	0.29%
Other assets	2,384	0.54%	2,455	0.64%
Total assets	442,966	100.00%	382,109	100.00%

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.1 Loans and advances

As of 30 June 2014, the Bank's total loans and advances amounted to RMB211,787 million, representing an increase of 8.36% as compared with the end of last year, and the loans and advances accounted for 47.81% of the Bank's total assets, down 3.34 percentage points from the end of last year.

Distribution of loans by product types

The following table sets forth information on the Bank's loans and advances by product types as of the date indicated.

Unit: in millions of RMB

Items	30 June 2014		31 December 2013	
	Amounts	% of the total	Amounts	% of the total
Corporate loans	145,524	68.71%	136,856	70.02%
Discounted bills	11,377	5.37%	9,725	4.98%
Retail loans	54,886	25.92%	48,868	25.00%
Total loans and advances	211,787	100.00%	195,449	100.00%

Corporate loans

As of 30 June 2014, the Bank's total corporate loans recorded RMB145,524 million, representing an increase of 6.33% as compared with the end of last year, accounted for 68.71% of the total loans and advances of the Bank, which decreased by 1.31 percentage points as compared with the end of last year. During the first half of 2014, in view of the macroeconomic environment and regulatory requirements, the Bank reasonably adjusted its total loan amount, thoroughly adjusted its loan structure, systemically prevented various risks and the Bank simultaneously achieved optimization of corporate loan structure and risk prevention.

Discounted bills

As of 30 June 2014, the balance of discounted bills of the Bank amounted RMB11,377 million, representing an increase of 16.98% as compared with the end of last year. Since this year, according to regulatory requirements, in order to control total amount of loans within an appropriate level, the Bank, by ways of adjusting the scale of bill discount loans, optimized the loan structure; accelerating the turnover and centralizing operation, improved the comprehensive return of bill assets.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.1 Loans and advances (Continued)

Retail Loans

As of 30 June 2014, retail loans of the Bank amounted to RMB54,886 million, representing an increase of 12.32% as compared with the end of last year, accounted for 25.92% to our total loans and advances to customers, which up 0.92 percentage points over the end of last year. Since 2014, the Bank has put more efforts on the retail loan business by means of price leverage and positive incentives, enabling retail loans to grow faster than the corporate loans.

Unit: in millions of RMB

Items	30 June 2014		31 December 2013	
	Amounts	% of the total	Amounts	% of the total
Residential Mortgage Loans	39,083	71.21%	34,790	71.19%
Personal Business Loans	10,343	18.84%	9,451	19.34%
Others	5,460	9.95%	4,626	9.47%
Total retail loans	54,886	100.00%	48,868	100.00%

3.3.1.2 Investments

Investments of the Bank consist of listed and unlisted securities denominated in RMB and foreign currency, including financial assets held for trading, derivative financial assets, available-for-sale financial assets, held-to-maturity financial assets and loans and investments classified as receivables.

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

Unit: in millions of RMB

Items	30 June 2014		31 December 2013	
	Amounts	% of the total	Amounts	% of the total
Financial assets held for trading	1,742	2.26%	1,805	2.99%
Derivative financial assets	10	0.01%	6	0.01%
Available-for-sale financial assets	29,683	38.58%	29,965	49.72%
Held-to-maturity financial assets	29,144	37.88%	27,772	46.08%
Loans and investments classified as receivables	16,363	21.27%	724	1.20%
Total investments	76,942	100.00%	60,271	100.00%

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Financial assets held for trading

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

Unit: in millions of RMB

	30 June	31 December
	2014	2013
Government bonds	542	275
PBOC bonds	0	10
Financial bonds	568	598
Corporate bonds	632	922
Total financial assets held for trading	1,742	1,805

Available-for-sale investments

As of 30 June 2014, the Bank's available-for-sale investments balance decreased by 0.94% from the end of 2013 to RMB29,683 million. Such investment is mainly based on the structure of assets and liabilities and the needs to improve business performance.

During the first half of 2014, as the macro economy continued to slow down accompanied by a low inflation rate, the PBOC maintained its prudent monetary policy and together with timely and appropriate fine-tuning, as a result, the overall liquidity remained loose. In response to market environment, the Bank proactively took advantage of market opportunities, increased the scope and set up of investments while moderately increased its holding of treasury and corporate bonds, and the Bank continued optimization of the structure of its investment portfolio achieving relatively outstanding results in its investments.

The following table sets forth the components of available-for-sale investments of the Bank.

Unit: in millions of RMB

	30 June	31 December
	2014	2013
Government bonds	8,785	6,963
Financial bonds	10,945	10,990
Corporate bonds	6,174	5,400
Asset management schemes by securities firms or trust companies	63	1,061
Equity securities	9	9
Others	3,707	5,542
Total available-for-sale investments	29,683	29,965

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Held-to-maturity investments

As of 30 June 2014, net held-to-maturity investments held by the Bank increased by RMB1,372 million or 4.94% as compared with the end of last year. Held-to-maturity investments will be held in the long run in line with our investment strategy. During the first half of 2014, based on the requirements of our bank account interest rate risk management, the Bank increased the proportion of fixed-rate bonds when bond market yield was high, mainly focusing on Chinese government bonds and corporate bonds.

Unit: in millions of RMB

	30 June 2014	31 December 2013
Government bonds	12,438	12,017
Financial bonds	11,571	11,634
Corporate bonds	5,135	4,121
Total available-for-sale investments	29,144	27,772

Loans and investments classified as receivables

Loans and investments classified as receivables consist of the Bank's investment in wealth management products, asset management schemes by securities firms or trust companies, and certificates of PRC treasury bonds. There is no open market for these investments. During the first half of 2014, due to the relatively sufficient market liquidity as a whole, the Bank specifically increased its investments in asset management schemes to enhance its return.

Unit: in millions of RMB

	30 June 2014	31 December 2013
Government bonds	96	130
Wealth management products	0	594
Asset management schemes by securities firms or trust companies	12,900	0
Others	3,367	0
Total loans and investments classified as receivables	16,363	724

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.1 Assets (Continued)

3.3.1.2 Investments (Continued)

Carrying value and market value

All bond investments classified as financial assets held for trading or available-for sale investments are recorded at market value or fair value.

The following table sets forth the carry value and fair value of the held-to-maturity investments and loans and investments classified as receivables in the Bank's portfolio as of the date indicated.

Unit: in millions of RMB

	30 June 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value
Held-to-maturity investments	29,144	28,739	27,772	26,541
Loans and investments classified as receivables	16,363	16,358	724	713

Subsidiaries and major joint stock companies

Name	Initial investment amount	Percentage of shareholdings (%)	Number of shares held at the end of the period	Carrying value at the end of the period	Sources of shares held	Note
	(in thousands of RMB)			(in thousands of RMB)		
Jinzhai Huiyin Rural Bank Co., Ltd.	32,800	41	32,800	32,800	Promotion	Controlling
Chery Motor Finance Service Co., Ltd.	100,000	20	200,000	295,538	Promotion	Participation
Wuwei Huiyin Rural Bank Co., Ltd.	40,000	40	40,000	78,527	Promotion	Participation

Note: On 15 June 2013, the Bank entered into an acting-in-concert declaration with Anhui Jinan Stainless Steel Casting Co. Ltd. (interested in 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.), Anhui Heyi Food Co. Ltd. (interested in 9% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.) and Guan Houlong (interested in 10% of the shares of Jinzhai Huiyin Rural Bank Co., Ltd.), pursuant to which, such shareholders will act in concert when dealing with material decisions regarding financial and operating policies of Jinzhai Huiyin Rural Bank Co., Ltd. As such, the Bank has effective control over Jinzhai Huiyin Rural Bank Co., Ltd., and, in turn, Jinzhai Huiyin Rural Bank Co., Ltd. is our subsidiary.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.2 Liabilities

As of 30 June 2014, total liabilities of the Bank amounted to RMB409,644 million, an increase of 16.90% over the end of last year, mainly due to steady growth of deposits from customers, financial assets sold under repurchase agreements, deposits from banks and other financial institutions.

Unit: in millions of RMB

Items	30 June 2014		31 December 2013	
	Amounts	% of the total	Amounts	% of the total
Loans from the central bank	15	0.00%	–	0.00%
Deposits from banks and other financial institutions	24,782	6.05%	17,433	4.97%
Placements from banks and other financial institutions	1,337	0.33%	1,537	0.44%
Derivative financial liabilities	10	0.00%	5	0.00%
Financial assets sold under repurchase agreements	60,358	14.74%	42,728	12.19%
Deposits from customers	306,494	74.82%	272,798	77.85%
Taxes payable	255	0.06%	376	0.11%
Debt securities in issue	8,986	2.19%	8,986	2.56%
Other liabilities	7,407	1.81%	6,573	1.88%
Total liabilities	409,644	100.00%	350,437	100.00%

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.2 Liabilities (Continued)

Deposits from customers

The Bank has long focused on expanding its deposit business. In 2014, despite the increasingly intense competition among the peers, the Bank managed to maintain a steady growth in its deposits from customers through various effective measures. As of 30 June 2014, total deposits from customers of the Bank amounted to RMB306,494 million, representing an increase of 12.35% from the end of 2013, representing 74.82% of the total liabilities of the Bank.

The following table sets forth customer deposits of the Bank by product types and customer types as of the date indicated.

Items	30 June 2014		Unit: in millions of RMB, % 31 December 2013	
	Balance	% of the total	Balance	% of the total
Corporate Deposits				
Demand deposits	111,223	36.29%	111,788	40.98%
Time deposits	78,902	25.74%	65,915	24.16%
Subtotal	190,125	62.03%	177,703	65.14%
Retail Deposits				
Demand deposits	28,054	9.15%	24,914	9.13%
Time deposits	45,675	14.91%	37,530	13.76%
Subtotal	73,729	24.06%	62,444	22.89%
Others	42,640	13.91%	32,651	11.97%
Include: Pledged Deposits	41,705	13.61%	32,355	11.86%
Total deposits from customers	306,494	100.00%	272,798	100.00%

As of 30 June 2014, retail deposits of the Bank accounted for 24.06% of total customer deposits, representing an increase of 1.17 percentage points from the end of 2013.

The Bank's demand deposits from customers to total deposits ratio has increased since 2014. As of 30 June 2014, the Bank's demand deposits to total customer deposits ratio was 45.44%, representing a decrease of 4.67 percentage points from the end of 2013. Among them, the proportion of corporate deposits to deposits from customers was 36.29%, representing a decrease of 4.69 percentage points from the end of 2013; while the proportion of retail deposits to deposits from customers was 9.15%, representing an increase of 0.02 percentage points from the end of 2013.

Chapter III Management Discussion and Analysis

3.3 BALANCE SHEET ANALYSIS (Continued)

3.3.3 Equity

Unit: in millions of RMB

Items	30 June	31 December
	2014	2013
Share capital	11,050	11,050
Capital reserve	6,751	6,751
Surplus reserve	3,504	3,012
Statutory general reserve	3,744	3,063
Reserve for fair value changes of available-for-sale financial assets	(376)	(910)
Retained earnings	8,601	8,659
Total equity attributable to the Bank	33,274	31,625

3.4 LOAN QUALITY ANALYSIS

3.4.1 Distribution of Loans by the Five-Category Classification

The following table sets forth the distribution of the Bank's loans by the five-category classification as of the dates indicated.

Unit: in 100 millions of RMB, except percentages

	30 June 2014		31 December 2013	
	Amounts	% of the total	Amounts	% of the total
Pass	2,063.27	97.42	1,906.69	97.56
Special mention	40.48	1.91	37.29	1.91
Substandard	9.18	0.43	8.25	0.42
Doubtful	3.94	0.19	2.17	0.11
Loss	1.00	0.05	0.09	0.00
Gross loans and advances to customers	2,117.87	100.00	1,954.49	100.00
Non-performing loans	14.11	0.67	10.51	0.54

Under the five-category classification system, the non-performing loans ("NPLs") of the Bank include loans of substandard, doubtful and loss categories. In 2014, affected by the external business environment, the Bank's asset quality faced a serious challenge. By focusing on risk prevention and speeding up the disposal treatment, the Bank maintained stable quality of assets. As at the end of the reporting period, the non-performing loan ratio ("NPL ratio") of the Bank was 0.67%. Although it was 0.13 percentage points higher than that of the end of last year, the Bank was still able to maintain an outstanding position among its peers.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.2 Distribution of loans and NPLs by product type

The following table sets forth the distribution of loans and NPLs by product type as of the dates indicated.

Unit: in 100 millions of RMB, except percentages

	30 June 2014				31 December 2013			
	Loans	% of the total	NPLs	NPL ratio (%)	Loans	% of the total	NPLs	NPL ratio (%)
Corporate loans	1,455.24	68.71	12.09	0.83	1,368.56	70.02	9.03	0.66
Working capital loans	834.18	39.39	10.97	1.32	833.90	42.67	6.80	0.82
Fixed assets loans	576.52	27.22	1.00	0.17	479.17	24.52	2.04	0.43
Trade finance	40.91	1.93	0.12	0.29	51.94	2.66	0.18	0.35
Others ⁽¹⁾	3.63	0.17	0.00	0.00	3.55	0.18	0.01	0.28
Discounted bills⁽²⁾	113.77	5.37	-	-	97.25	4.98	-	-
Retail loans	548.86	25.92	2.02	0.37	488.68	25.00	1.48	0.30
Residential mortgages	339.55	16.03	0.46	0.14	301.35	15.42	0.47	0.16
Personal business loans	175.39	8.28	1.16	0.66	161.27	8.25	0.71	0.44
Credit card loans	20.77	0.98	0.30	1.44	17.18	0.88	0.12	0.70
Personal consumption loans	13.15	0.62	0.10	0.76	8.88	0.45	0.18	2.03
Total loans and advances to customers	2,117.87	100	14.11	0.67	1,954.49	100	10.51	0.54

Notes: (1) Mainly include corporate mortgage loans.

(2) Overdue discounted bills are transferred into corporate loans.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.3 Distribution of loans and NPLs by industry

The following table sets forth the distribution of loans and NPLs by industry as of the dates indicated.

Unit: in 100 millions of RMB, except percentages

	30 June 2014				31 December 2013			
	Loans	% of the total	NPLs	NPL ratio (%)	Loans	% of the total	NPLs	NPL ratio (%)
Corporate loans	1,455.24	68.71	12.09	0.83	1,368.56	70.02	9.03	0.66
Commercial services industry	416.49	19.67	6.44	1.55	414.06	21.19	5.54	1.34
Manufacturing industry	384.44	18.15	5.32	1.38	410.55	21.01	3.09	0.75
Public service industry	177.77	8.39	-	-	139.28	7.13	0.00	0.00
Real estate industry	173.93	8.21	-	-	134.59	6.89	0.00	0.00
Construction industry	147.44	6.96	0.22	0.15	112.71	5.77	0.16	0.14
Energy and chemical industry	37.72	1.78	0.06	0.16	43.95	2.25	0.01	0.02
Transportation industry	52.98	2.50	0.00	0.00	44.89	2.30	0.01	0.02
Education and media industry	25.45	1.20	0.05	0.20	21.76	1.11	0.15	0.69
Food and tourism industry	19.60	0.93	-	-	21.82	1.12	0.02	0.09
Financial industry	2.92	0.14	-	-	9.84	0.50	0.00	0.00
Others	16.50	0.78	0.00	0.00	15.12	0.77	0.05	0.33
Discounted bill	113.77	5.37	-	-	97.25	4.98	-	-
Retail loans	548.86	25.92	2.02	0.37	488.68	25.00	1.48	0.30
Total loans and advances to customers	2,117.87	100	14.11	0.67	1,954.49	100.00	10.51	0.54

Others: mainly include planting, forestry, livestock industry and fishery industry.

During the first half of 2014, our overall credit strategy was “practice green concept of credit business, optimize the allocation of credit resources, actively support the development of the real economy, strengthen risk controls of key areas and key industries, and adhere to the bottom risk line”. The Bank guided credit resources to better serve the real economy and actively allocated credit resources to the SMEs as well as developed “green credit”. The Bank implemented credit limit management over local government financing platforms real estate and industries with excess capacity, and implemented industry risk prevention and control on the non-green industries such as steel trade, PV and shipbuilding industries. During the reporting period, the increments of non-performing corporate loans were mainly from two sectors, namely manufacturing, commercial and services.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.4 Distribution of loans and NPLs by Geographical Segment

The table below sets forth the distribution of the Group's loans and NPLs by geographical segment as of the dates indicated.

Unit: in 100 millions of RMB, except percentages

	30 June 2014				31 December 2013			
	Loans	% of the total	NPLs	NPL ratio (%)	Loans	% of the total	NPLs	NPL ratio (%)
Anhui	1,979.85	93.48	13.74	0.69	1,804.37	92.32	10.18	0.56
Jiangsu	138.02	6.52	0.37	0.27	150.12	7.68	0.33	0.22
Total loans and advances to customers	2,117.87	100.00	14.11	0.67	1,954.49	100.00	10.51	0.54

The Bank has expanded business into Nanjing, Jiangsu since the beginning of 2009. During the first half of 2014, total loans of Jiangsu accounted for 6.52% of the total amount of loans and advances to customers, while NPLs of Jiangsu accounted for 2.62% of the bank's total NPLs.

3.4.5 Distribution of loans and NPLs by type of collateral

The table below sets forth the distribution of the Group's loans and NPLs by type of collateral as of the dates indicated.

Unit: in 100 millions of RMB, except percentages

	30 June 2014				31 December 2013			
	Loans	% of the total	NPLs	NPL ratio (%)	Loans	% of the total	NPLs	NPL ratio (%)
Loans secured by collateral	1,115.90	52.68	7.63	0.68	1,009.43	51.65	5.94	0.59
Loans secured by pledged assets	103.69	4.90	2.45	2.36	97.21	4.97	0.18	0.19
Guaranteed loans	668.98	31.59	3.73	0.56	620.73	31.76	1.97	0.32
Unsecured loans	115.53	5.46	0.30	0.26	129.87	6.64	2.42	1.86
Discounted Bills	113.77	5.37	-	-	97.25	4.98	-	-
Total loans and advances to customers	2,117.87	100.00	14.11	0.67	1,954.49	100.00	10.51	0.54

With the economic downturn, the Bank focused on the implementations of risk mitigation measures including increasing collaterals to prevent and control risk. As at the end of the reporting period, both NPL and NPL ratio of loans secured by collateral, loans secured by pledged assets and guaranteed loans increased as affected by overall economic environment. The Bank has adopted other risk mitigating measures such as improving its guarantee and assets preservation under litigation to handling NPL risk in a timely manner.

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.6 Loans of the top 10 borrowers

The table below sets forth the Group's loans of the top 10 borrowers as of the dates indicated.

Unit: in millions of RMB

Top 10 borrowers	Industry borrower belongs to	Amount of loans as of 30 June 2014	% of net capital
A	Public utility	1,500	3.62%
B	Public utility	1,200	2.90%
C	Commerce and services	1,200	2.90%
D	Manufacturing	1,175	2.84%
E	Commerce and services	1,050	2.54%
F	Real estate	1,000	2.42%
G	Public utility	950	2.29%
H	Manufacturing	885	2.14%
I	Manufacturing	873	2.11%
J	Public utility	865	2.08%
Total		10,698	25.84%

3.4.7 Distribution of loans and NPLs by overdue period

The table below sets forth the Group's distribution of loans and NPLs by overdue period as of the dates indicated.

Unit: in millions of RMB

	30 June 2014	31 December 2013
Total overdue customers loans and advances listed by duration:		
Within 3 months	1,072	515
3 to 6 months	374	168
6 to 12 months	264	387
Above 12 months	694	442
Total	2,404	1,512
%		
Within 3 months	44.57%	34.07%
3 to 6 months	15.58%	11.12%
6 to 12 months	10.99%	25.57%
Above 12 months	28.86%	29.24%
Total	100.00%	100.00%

Chapter III Management Discussion and Analysis

3.4 LOAN QUALITY ANALYSIS (Continued)

3.4.8 Restructuring loans

There was no restructuring loan during the reporting period.

3.4.9 Change of loan impairment

The Bank reviews its loan portfolios to assess impairment on a periodic basis. In determining whether there is an impairment loss, the Bank makes judgments on whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. For assets with similar credit risk characteristics and objective evidence of impairment, the management made estimation on loan provision based on historical loss experience for similar assets. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed by the Bank regularly to reduce any differences between the estimated impairment loss and the actual loss on loans.

The table below illustrates the changes of impairment losses on loans and advances to customers.

	<i>Unit: in millions of RMB</i>	
	30 June	31 December
	2014	2013
Balance at beginning of the year	4,169	3,853
Impairment losses for the year	474	435
Unwind of discount on allowance	(19)	(34)
Loans written-off	(60)	(87)
Loans collected	1	2
Balance at end of the year	4,565	4,169

The Bank continued to adopt a stable and prudent policy in respect of making provisions. As of the end of the reporting period, the balance of allowances for impairment losses on loans of the Bank amounted to RMB4,565 million, representing an increase of RMB396 million as compared with the end of last year. The NPL allowance coverage ratio was 323.52%, representing a decrease of 73.09 percentage points as compared with the end of last year; the allowance-to-loan ratio was 2.16%, representing an increase of 0.03 percentage points as compared with the end of last year.

Chapter III Management Discussion and Analysis

3.5 CAPITAL ADEQUACY RATIO

The Bank continued to optimize its structure and enhance capital management, and satisfied the regulatory requirements of capital adequacy ratio of the CBRC during the reporting period. The Bank gradually improved its capital management system by primarily establishing a hierarchical management system from the Board to operating level to branches. The Bank primarily established a capital management system framework and formulated improved capital management system, policies, measures and implementation rules, etc.. The Bank's working processes in respect of capital planning, budgeting, assessment and evaluation were basically formed, enabling a finer capital management

The Bank calculated the capital adequacy ratio in 2014 in accordance with the relevant requirements of the Administrative Measures for the Capital of Commercial Banks (For Trial Implementation) issued by the CBRC. As of 30 June 2014, the Bank's capital adequacy ratio was 14.68%, core Tier 1 capital adequacy ratio was 12.43%, and Tier 1 capital adequacy ratio was 12.43%.

Unit: in millions of RMB

	30 June 2014	31 December 2013
Core Tier 1 capital	35,135	31,682
Of which: Paid-up capital that may be included	11,050	11,050
Capital reserve that may be included	6,375	5,841
Surplus reserve, general reserve	7,248	6,074
Retained earnings	10,394	8,659
Non-controlling interests that may be included	68	57
Regulation of deductions for Tier 1 Capital	(89)	(66)
Total core Tier 1 capital, net of deductions	35,046	31,616
Other Tier 1 capital, net of deductions	9	8
Total Tier 1 capital, net of deductions	35,055	31,623
Tier 2 capital	6,349	6,488
Of which: Tier 2 capital instruments and premium that may be included	3,200	3,593
Surplus loan loss provisions	3,131	2,880
Non-controlling interests that may be included	18	15
Total capital, net of deductions	41,404	38,111
Total risk-weighted assets	281,954	250,822
Capital adequacy ratio	14.68%	15.19%
Tier 1 capital adequacy ratio	12.43%	12.61%
Core Tier 1 capital adequacy ratio	12.43%	12.60%

Chapter III Management Discussion and Analysis

3.6 SEGMENT PERFORMANCES

Operating segment

The Bank provides services through four main business segments: corporate banking, retail banking, treasury and others. The table below listed the performance of business segments of the Bank as at the periods indicated.

Unit: in millions of RMB, except percentages

Item	January-June 2014		January-June 2013	
	Profit before income tax	Percentage	Profit before income tax	Percentage
Corporate banking	1,698	45.51%	1,618	50.45%
Retail banking	890	23.85%	907	28.28%
Treasury	1,035	27.74%	595	18.55%
Others	108	2.90%	87	2.72%
Total	3,731	100.00%	3,207	100.00%

3.7 OTHERS

3.7.1 Off-balance sheet balances and important circumstances may have significant impacts on the financial position and operating results

The off-balance sheet items of the Bank include letter of guarantee, letter of credit, bank acceptance and commitment. Commitment includes loans commitment, operating leases, capital commitment and certificate bond honor commitments, of which loans commitment forms a major part. For details of contingencies and commitments, please refer to Note 38 to the financial statements.

3.7.2 Overdue outstanding debt

As of 30 June 2014, there was no overdue outstanding debt.

Chapter III Management Discussion and Analysis

3.8 OPERATING ENVIRONMENT, INFLUENCE OF THE CHANGE IN MACRO POLICY AND THE FOCUSES OF THE OPERATION

During the first half of 2014, though the economic recovery in the United States and Europe sustained, China's overall economic growth continued to slow down due to growing investment and consumption but decreased net export and a weak demand. Progress has been made in the economic transformation by shifting the industrial structure from an industry-led structure to a service-led structure. Domestic economy was still facing certain risks, such as the problem of excess productivity and those related to real estate and finance. Facing the downward pressure and other latent risks, the macro-economic regulatory measures continued to focus on prominent issues with targeted control measures and flexible application of various monetary policy tools. Amidst these changes, commercial banks in China were facing multiple challenges, such as slow economic growth, interest rate liberalization, competition between banks and from the internet and tightening regulations.

1. Rising risk

Facing a more complicated environment by the banking industry than ever, there emerged more intrinsic problems in the financial system. On one hand, China's economy was undergoing a painful period of growth transition and structure adjustment, and some companies were facing more difficult operational problems with tightening financial chain and higher credit default risk. On the other hand, there were increasing unconventional investment and financing modes in financial area, with more diverse counterparties, more subtle irregularities and more complex risk features. It is necessary that the banking industry and financial institution should focus on strengthening the risk management in respect of non-performing loans, financing platforms, real estate, non-standard credit business, liquidity and market risks, etc.

Under the continuous difficult operating environment, always adhering to the risk management philosophy of "caution, prudence and rationality" while centering on asset quality prevention and control, the Bank deepened the reform on its risk management system by steadily promoting various reform works in terms of enriching risk management control measures, strengthening risk management measurement approaches, optimizing risk management process, improving risk management system, in order to establish an all-round risk management system.

2. Intensified competition between banks due to interest rate liberalization

In light of interest rate becoming more liberalized, negotiable certificates of deposit for company and individual will be launched gradually after those for banks, indicating the interest rate liberalization of wholesale deposits in full swing. Currently, various preparation works introduced by deposit insurance system, which will extend full coverage over banks and are introduced by banks at the same time, are ready. As regards entry thresholds, it was proposed at the National Banking Supervision Conference of 2014 that barriers for foreign banks will be lowered and specific requirements for channels and forms for private funds entering the banking industry will be loosened. Facing a more competitive market, differentiation amongst banks will be more obvious.

Chapter III Management Discussion and Analysis

3.8 OPERATING ENVIRONMENT, INFLUENCE OF THE CHANGE IN MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

3. Rigorous prevention of non-performing loans' rebound

As the Bank's overall assets quality control has become more difficult since 2014, the Bank carried out an assets and quality "double-control" special campaign, by implementing the "Two-Line" Risk Prevention and Control Responsibility System of the CBRC and risk management policies of the Board for 2014, in order to safeguard its overall assets quality. Through issuing the Work Plan of Huishang Bank for Asset Quality "Double-control" Special Campaign(《徽商銀行資產質量“雙控”專項行動工作方案》), the Bank clarified the division of functions for each branch and each department of the head office, and objectives, time, content, measures and assessment methods for implementing the asset quality "double-control" special campaign, which completed the following major works for the first half of 2014: inspection of credit risks, setting up administrative measures on supervision of post-credit loans and identification of NPLs responsibility, supervision and instruction on resolving serious loan risks, coordination on clearing up, disposing and writing off non-performing loans, on-site inspection for the Bank's assets and quality control and post-loan management, and carrying out risk management training, etc.

4. More stringent regulation

During the first half of 2014, the CBRC issued papers concerning the improvement of the inter-bank business and factoring, making regulation of the banking business more stringent. For regulation of factoring, CBRC issued the Interim Measures for the Administration of Factoring of Commercial Banks(《商業銀行保理業務管理暫行辦法》) on 10 April 2014, which made strict provisions on standards for qualified trade receivables from factoring financing, clearly stated that no business shall be carried out based on unqualified trade receivables such as future trade receivables, trade receivables without definite ownership and securities with recourse, and required prudence management of the rapidly developing factoring finance in recent years and comprehensive credit management by banks of sellers and purchasers according to their working capital loans. The implementation of such administrative measures may show rising concerns of regulators over risks in the rapid growth of such business. For regulation of inter-bank business, the CBRC pointed out in its annual meeting in early 2014 that the key to inter-bank business reform for a bank is to return to its nature as a bank to operate temporary and short-term cash positions and regulate inter-bank business scale and proportion. On 24 April 2014, five ministries and commissions including the PBOC and CBRC jointly issued the Notice on Regulating the Interbank Business of Financial Institutions; on 8 May 2014, the CBRC further issued the Notice on Regulating the Interbank Business Governance of Commercial Banks with a view to regulating non-standard inter-bank business. Major requirements stated in such notices included scale caps, new definitions, operating procedure, allowance and provision for interbank business.

Chapter III Management Discussion and Analysis

3.8 OPERATING ENVIRONMENT, INFLUENCE OF THE CHANGE IN MACRO POLICY AND THE FOCUSES OF THE OPERATION (Continued)

5. Liquidity management

During the first half of 2014, the Bank's all liquidity indicators met the regulatory standards. As at the end of the first half of 2014, its various indicators, such as liquidity ratio, RMB over-provision ratio, deposit to loan ratio, daily deposit to loan ratio, outperformed those of the first quarter and continued to improve, and its overall liquidity indicators were in good shape. Through the platform of the asset and liability management committee, the Bank strengthened overall management of liquidity by focusing on discussing and analyzing the operation status and assets and liabilities management of the Bank and suggested solutions and possible development ideas for next step, which were instructive to the business development of the Bank. The Bank strengthened dynamic liquidity management, firstly by strengthening proactive liquidity management through preparing monthly reports based on timely projection and analysis for reference when making decisions according to changes in the capital market, liquidity management status and quota execution status, and secondly by timely adjusting liquidity management measures whenever there is a drastic fluctuation in the capital market. By enhancing the management of liquidity plans and daily management of positions while implementing deposit to loan management, average daily deposit assessment and liquidity indicator assessment, the Bank implemented daily calculation of capital positions and timely reporting of capital shortage, and carried out timely financing and bill repurchasing activities in line with business development in order to effectively regulate liquidity risks.

3.9 BUSINESS OPERATION

3.9.1 Wholesale Banking

Business overview

The Bank's wholesale banking business provides a full range of wholesale banking products and services to corporate, financial institutions and government and institutional customers. During the first half of 2014, the Bank, based on its characteristics of a city commercial bank, continued to strengthen the advantage with municipal and institutional customers in the traditional wholesale business, restructured its business, accelerated the innovation and transformation of wholesale banking business and products, and promoted the fast and healthy development of the wholesale business. As of 30 June 2014, the Bank's market share of foreign currency deposit continued to rank first in Anhui province for six consecutive years. Transformation businesses such as investment banks, interbank bills, trade finance and cash management all achieved rapid growth and were widely recognized by the market.

During the first half of 2014, wholesale business continued to grow in the local market of Anhui province. In the meanwhile, the Bank expanded to markets beyond Nanjing, fostered new sources of business growth, strengthened risk management and control to enhance the profitability of assets in a comprehensive manner, so as to promote the steady growth in interest income and a rapid increase in the proportion of non-interest income.

During the second half of 2014, whilst facing complex domestic and international economic situations, there are still many uncertainties, especially the accelerated pace of interest rate liberalization and finance "disintermediation", which brings greater challenges to the operation of commercial banks. But generally, there are more opportunities than challenges. Facing the new economic and financial situation changes, the Bank will continue focusing on reform and innovation, accelerating restructuring and business transformation, developing SME businesses, further optimizing business processes, promoting management of market-oriented assessment, enhancing the quality of professional services, and making efforts to achieve sustainable and healthy development of the wholesale banking business.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale Banking (Continued)

Corporate loans

The Bank's corporate loans include working capital loans, fixed asset loans, real estate loans and other commercial housing loans for legal persons. During the first half of 2014, the Bank further optimized the industry structure of corporate loans by prioritizing its support to structural upgrading industries, traditional industries with competitive advantages and modern services industries. At the same time, the Bank effectively controlled the growth of government financing platforms and loans to non-green industries. As of 30 June 2014, the Bank's corporate loans (including discounted bills) balance was RMB156.901 billion, increased by RMB10.32 billion from the beginning of the year.

During the first half of 2014, the Bank orderly pushed forward professional and process-oriented services to small enterprises, endeavored to strengthen the ability in marketing, products specialization and risk management, and continually enhanced the financial services ability of small businesses. The main approaches are:

Firstly, to establish financial services system for small businesses to satisfy all requirements of customers. The Bank launched micro and small loans of less than RMB5 million and other new products. Combined with regional customer characteristics and business model, the Bank developed regional financial services programmes such as "municipal-level procurement financing business". The Bank comprehensively launched a micro and small financing service system, which was close to the problems in relation to clearing, wealth management and financing, so as to properly guide financial services. Through the micro and small financing service system, Huishang Bank is able to provide high value-added, diversified and personalized financial products as well as comprehensive capital management and services to corporate customers.

Secondly, to build a specialized and characteristic operating system named "Little Giants" club to build up the club's brand image. Through building-up six service platforms, namely the "Little Giants" club focused on quality financial service, collaboration and exchange, project cooperation and joint venture, policy information, entrepreneur growth and integrity culture., the "Little Giants" club offered a comprehensive suite of diversifies, flexible and quality financial services and various value-added services to its member enterprises. The Bank established 2 new "Little Giant" clubs in the first half of the year, so the total number of clubs of the Bank increased to 20, while the customer base of quality small enterprises continued to expand. The Bank launched various types of club activities specially designed for member enterprises, continued to optimize the building of the six major platforms, so as to further standardize the operating mode of the clubs.

Thirdly, to build a business operating system for small businesses to effectively support the development of small businesses. Using the "Geo credit + credit factory + expertise" principle, the Bank built a business operating system for small businesses to achieve organized marketing and approval, appoint risk managers in establishing a standardized credit processes within a specified time period and achieve the entire process of risk management and control through relying on professional organizations. Currently, the Bank has established 10 small business centers and 44 specialty branches for small enterprises to provide professional services to small business customers, forming a franchise system from the head office to branches, in order to achieve multi-level, urban-oriented community and county agencies. Meanwhile, the Bank made great efforts on mode pilot works on large and micro loans projects by introducing micro loan expertise and innovating micro credit model in order to further expand the coverage of financial services of small businesses and drive the continuous development of small businesses.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale Banking (Continued)

Discounted bills

During the first half of 2014, based on the overall balance of assets size, liquidity, profitability and risk, the Bank actively responded to changes in the operating environment, scientifically grasped the rhythm of bill business development, enhanced the profitability of the bill business, and promoted the healthy and compliant development of bill business. As of 30 June 2014, the Bank's balance of discounted bills amounted to RMB11,377 million, representing an increase of RMB1,652 million as compared with the end of last year.

Corporate deposits

The Bank focused on improving the efficiency of corporate deposits. Through exploring new business segments such as investment banking, cash management and trade financing, the Bank took substantial low-cost corporate deposits by continuous improving the quality of marketing activities and broadening the sources of deposits. Meanwhile, the Bank absorbed an appropriate portion of inter-bank deposits to further optimize the structure of corporate customer deposits. During the first half of 2014, the scale of the Bank's corporate deposits grew steadily. As of 30 June 2014, the balance of corporate deposits amounted to RMB232,765 million, representing an increase of RMB22,411 million from the previous year.

Cash management business

Cash management business was the basic and strategic business of the Bank in response to the challenge of the interest rate liberalization. It provide customers with a variety of comprehensive and integrated cash management services, such as account management, collection and payment management, liquidity management, investment and financing services, risk management and information services. In particular, the Bank, as an industry leader, has significant advantages in financial industry overall cash management solutions. In 2013, the Bank was named the Best Regional Treasury Management Bank again, after Treasury China, a well-known Chinese financial periodical, named us the Cash Management Bank with the Most Growth Potential in 2011 and the Most Innovative Cash Management Bank in 2012.

Investment banking business

Lead underwriting of debt financing instruments

In March 2014, the Bank obtained the qualification as a lead underwriter for Type B Debt Financing Instruments of Non-financial Enterprises, so the Bank enjoyed a leading position among city commercial banks, and it helps the Bank in promoting the development of investment banking business and operational transformation.

Securitization of credit assets

In order to accelerate business transformation, the Bank proactively explored various types of development of new businesses and projects of securitization of assets were reported to relevant departments, which helps the Bank in revitalizing its stock funds, enhancing its liquidity, lowering its debt ratio and optimizing the operational flexibility of the Bank.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.1 Wholesale Banking (Continued)

International business

In respect of international business, the Bank shared resources and complementary advantages with different companies and small enterprises by relying on its “Zhi Hui 360” product platform. It introduced 5 categories, more than 40 kinds of foreign exchange products, which include account services, international settlement, foreign guarantees, international trade financing, and financial derivatives, to provide customers with comprehensive, varied, integrated foreign exchange financial services. Leveraging its capacity as a corporate bank, the Bank actively promoted domestically guaranteed overseas loans and developed innovative trade financing products such as loan package under domestic letters of credit and forfeiting, as well as built fully integrated financing solutions for domestic and overseas trading chain, so as to positively support SMEs to “step out”.

In 2014, the Bank’s international business maintained a steady and rapid growth. As of the end of June, the annual international settlements and sale and purchase of foreign exchange amounted to USD2,541 million and USD1,881 million, an increase of 3.71% and 32.46% as compared with the corresponding period of the last year, ranking No.6 among the 25 financial institutions within Anhui Province. The Bank had 2,356 international business clients, representing an increase of 9.5% over the beginning of the year. Customer base covered the whole Anhui Province and regions in Nanjing, Jiangsu. Cross-border RMB settlement, forward foreign exchange and other innovative products developments maintained a strong momentum. In the first half of the year, cross-border RMB settlement and forward foreign exchange transactions amounted to USD1,258 million and USD84 million, representing an increase of 160% and 151% as compared with the corresponding period of the last year. The amount of international trade financing (including domestic trade financing under the line of credit) accumulated to USD1,048 million. The asset quality remained excellent with no new overdue and non-performing loan balance. International non-interest income amounted to RMB41.67 million, representing an increase of 32.92% as compared with the corresponding period of the last year. The establishment of the foreign agency banking channels was further improved. As of the end of June 2014, the Bank established agency banking relationships with 765 banks of more than 80 countries and regions on six continents across the world and opened 16 overseas settlement accounts for major currencies, enabling cross-border clearing timely and convenient, cross-border financial cooperation and exchange deepen year-on-year, and the bran influence in oversea continue to improve.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business

Business overview

In 2014, through enhancing market expansion, innovating financial products and services, accelerating channel and team building, the Bank actively built wealth management center systems, promoted customer segmentation and marketing activities so as to lay a solid foundation for retail business development and improve performance indicators and regional competitiveness of retail business.

In 2014, the Bank's active customer base maintained stable, among which high-value customers grow fast, while inactive and low-end customers were cleaned up. Customer structure was further optimized, and the number of high-value customers continued to increase. As of the end of June 2014, the number of customers with assets of RMB500,000 or above amounted to 19,702, with an increase of 26.1% from the beginning of the year. The number of customers with assets over RMB2 million increased by 37.9% from the beginning of the year. Wealth management business maintained a rapid growth rate. Apart from the significant increase in the sales of wealth management products (WMPs), sales of non-principal-guaranteed WMPs were also promoted. Debt sales were in a leading position in the province. Retail customer deposits and loans expanded rapidly. Indexes of retail loans and average daily deposits recorded their historical growth. Meanwhile, the four indexes, namely the market share of saving deposits and personal loans in the province, retail deposits and personal loans, kept rising for four consecutive years. Moreover, the growth rate of retail business deposits and loans also exceeded the average growth rate of Anhui province.

Bank card fees amounted to RMB70.39 million from January to June 2014, while bank card fees were RMB48.22 million from January to June 2013, representing a year-on-year increase of RMB22.17 million or 45.98%, which were primarily affected by a rapid growth in the income generated from the promotional campaigns of bank card consumptions and credit card installments.

In 2014, with the Bank's successful listing in Hong Kong, under the strong impact from interest rate liberalization and Internet finance, the pressures of retail business will become more acute. The Bank, through improving the retail business philosophy, management, innovation and technology, will strengthen the retail business talent pool, improve the capabilities of outlets, broaden wealth management product line, improve service quality and strengthen data analysis ability. At the same time, the Bank will accelerate the pace in conducting a series of foundation work, such as preparation of the securities investment fund custody business, establishment of inclusive finance, wealth centers and community branches, setting up of consumer finance companies as well as promotion of optimization of sales capacity of outlets. The Bank continues to maintain a rapid and healthy development for each retail business and to keep the deposit and loan growth rate above the market average and industry average so as to compressively improve the overall competitiveness of retail businesses and contribution to the entire business.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business (Continued)

Wealth management business

The Bank's personal wealth management business primarily includes personal wealth management services, agency sales of funds, agency services of insurance products and agency sales of PRC treasury bonds. Of which:

During the first half of 2014, personal wealth management business of the Bank has raised RMB20,327 million, representing an increase of 67% as compared with the same period of the previous year. Meanwhile, ownership volume of personal wealth management products amounted to RMB14,218 million, representing an increase of 129% as compared with the same period of the previous year. Also, sale of open-end funds amounted to RMB1,403 million, representing an increase of 316% as compared with the same period of the previous year. Besides, ownership volume of funds was RMB376 million, representing an increase of 327% as compared with the same period of the previous year. Furthermore, agency sales of insurance products was RMB15.6626 million, representing an increase of 65% as compared with the same period of the previous year, whereas the agency sales of government bonds amounted to RMB474 million, representing a decrease of 36% as compared with the same period of the previous year, while its ownership volume was RMB2,121 million, representing a decrease of 7% as compared with the same period of the previous year, primarily attributable to the decrease in the Bank's allocation limit of national saving bonds since its total issue volume was lower than that of the corresponding period of the previous year.

During the first half of 2014, intermediary personal wealth management business income of the Bank amounted to RMB17.7030 million, representing a decrease of RMB6.7336 million or 27% as compared with the corresponding period of the previous year. Among those, personal wealth management business achieved an intermediary business income of RMB12.5274 million, representing a decrease of 33%, whereas agency sales of funds achieved an intermediary business income of RMB528,400, representing an increase of 88% as compared with the same period of the previous year. Also, agency sales of insurance products achieved an intermediate business income of RMB1,895,100, an increase of 59% over the corresponding period of the previous year. Moreover, sales of government bonds achieved an intermediary business income of RMB2,752,000, representing a decrease of 34% as compared with the corresponding period of the previous year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business (Continued)

Bank card business

One card

During the first half of 2014, the Bank further deepened and expanded the customer base of retail business. In adherence to the customer-centric business philosophy and with an aim to cater to the customers' needs, through launching different types of branded cards, the Bank vigorously promoted the circulation of financial IC cards, enhanced the resource integration of preferential merchants, proactively carried out various kinds of marketing activities, constantly cultivated the card-using habits of customers and further enhanced its customer loyalty, so as to achieve a continuous and stable growth in Huangshan debit cards transactions. As of 30 June 2014, a total of 6.4056 million cards were issued by Huishang Bank. Total deposits of the cards amounted to RMB27,765 million, accounted to 37.69% of total retail deposits. Deposit per card amounted to RMB4,173.93. In the first half of the year, the Bank has realized a POS trading volume of RMB4,257 million, an increase of 33.70% over the corresponding period of the previous year.

Credit card

In 2014, on the basis of strengthening business management and risk control, Huishang Bank improved its products' functions and services, aiming to establish a credit card brand with influence in the province. During the period, the Bank utilized its customer base of corporate and retail business to enhance the coordination between various business lines and actively carry out cross-marketing, significantly improving marketing results. By actively innovating product functions and optimizing product structure, the Bank introduced new installment functions such as automatic installments and transfer installments and consumer credit innovative products closely tied with the markets, such as decoration installments, garage installments, and POS installments, so as to meet the needs of customers of different types. While improving services and customer services system by trying segmentation services, the Bank further improved customer experience and customer services ability by actively utilizing e-channels such as mobile terminals and wechat.

As at the end of the reporting period, the Bank issued a total of 216,728 credit cards, of which 199,029 were valid cards. The number of credit cards newly issued during the reporting period was 40,475. For the first half of 2014, the transaction amount of credit cards was RMB6,784 million; the monthly average transaction amount of valid cards was RMB6,276. The outstanding overdraft amount was RMB2,077 million, representing an increase of RMB359 million as compared with the end of last year. Credit card interest income amounted to RMB19.4418 million, representing an increase of 81.08% as compared to the same period of the previous year. Credit card non-interest income amounted to RMB39.8357 million, representing an increase of 89.35% as compared to the same period of the previous year. As of 30 June 2014, credit cards NPL ratio was 1.44%, representing an increase of 0.74 percentage points from the last year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.2 Retail banking business (Continued)

Bank card business (Continued)

Retail loans

During the first half of 2014, the Bank strengthened the development of personal loan business market, vigorously promoted the development of personal business loans and continued to expand the operating scale, while kept improving the pricing and strengthened the profitability of personal loans. The creditworthiness and solvency of certain individual customers deteriorated due to the macro-economic downturn, resulting in the increase of non-performing loans. However, the asset quality of personal loans was generally good and the level of NPL ratio was relatively lower. Meanwhile, given that the vast majority of such new NPLs were fully secured by collaterals, the possibility of sustaining eventual losses on such loans is slim. As of 30 June 2014, personal loans (excluding outstanding overdraft) of the Bank amounted to RMB52,657 million, representing an increase of RMB5,615 million or 11.9% as compared with the end of last year, while it accounted for 24.86% within the industry, with an increase of 0.80 percentage points from the beginning of the year. Among those, balance of personal business loans amounted to RMB17,882 million, representing an increase of RMB1,863 million or 11.6% as compared with the end of last year. Personal loans NPL ratio of the Bank was 0.33%, with an increase of 0.04 percentage points from the end of the last year.

Retail customer deposits

In 2014, the Bank experienced substantial development of interest rate liberalization, diversification of customer financial needs, diversion effect of heat up capital market on customer deposits, and intense competition in the industry. The Bank, by adhering to customer-oriented business philosophy, focus on customer wealth management, customer needs on demand payment settlement and loan financing, through product innovation, marketing innovation and multi-channel interaction model, achieved rapid growth in customer deposits. As at the end of June 2014, the Bank's retail customer deposits amounted to RMB73,660 million, with an increase of 18.03% as compared with the end of last year. The market share of deposits reached 4.77 % at the end of June, an increase of 0.17 percentage points from the beginning of the year. Savings deposits of the year were characterized with a fast and steady growth with low cost and optimized structure.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.3 Financial market business

Business strategy

During the first half of 2014, as the macro economy continued to slowdown accompanied by a low inflation rate, the PBOC maintained its prudent monetary policy and conducted moderate adjustment in a timely manner. Hence, the overall liquidity remained loose. The Bank, after conducting intensive study on the domestic market condition, grasped the trend of bond market and formulated its investment plan in a scientific way. Firstly, the Bank continued to broaden investment channels, optimized the investment portfolio, focused on investing in high yield products such as asset management scheme products offered by security agents and corporate bonds, in order to improve its portfolio gains. Secondly, the Bank selectively held its position on medium to long term government bonds after conducting analyses and judgments on interest rate movements. Thirdly, the Bank proactively participated in the securities transactions in secondary markets as to improve the income from transaction spread and enhance profitability of investment portfolio. As of the end of June 2014, the average duration of the RMB investment portfolio was 2.75 years. Portfolio annual yield was 4.68%, taking into account of the yield of interest income after tax rebate on treasury bonds of 5.05%.

Business development

During the first half of 2014, the Bank promoted its financial markets business area healthy growth by optimizing the Bank's investment portfolio structure, strengthening business innovation, rich varieties of business and other ways. As at the end of June 2014, the Bank's proprietary investments was RMB76.942 billion, representing an increase of 27.66% as compared with the beginning of the year. In traditional wealth management business, the Bank issued a total of 273 financial products for the first half of 2014, with total proceeds of RMB30,521 million, representing an increase of 25.52% as compared with the corresponding period of the whole year. In addition, wealth management products at the end of the period were RMB17,806 million, representing an increase of 89.71% as compared with the corresponding period of the previous year. Besides, daily average balance amounted to RMB15,835 million, representing an increase of 66.82% as compared with that in the corresponding period of the previous year.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.4 Distribution channels

The Bank uses a variety of distribution channels to provide products and services. The Bank's distribution channels are mainly divided into physical distribution channels and electronic banking channel.

Physical distribution channels

As of 30 June 2014, the Bank had a total of 460 self-service banks and 968 cash self-service equipments (of which includes 564 ATMs and 404 CRSs).

Electronic banking channels

The Bank attaches great importance to expanding and improving e-banking channels, such as online banking and mobile banking. This has effectively relieved the pressure on sales networks. During the first half of 2014, the trading of retail electronic channel accounted for 72.50%, representing an increase of 5.06 percentage points over the last year; whereas the trading of corporate electronic channel accounted for 52.96%, representing an increase of 4.66 percentage points over the last year.

Online banking

The Bank's personal online banking business continued to grow rapidly during the first half of 2014, due to the substantial growth of customer base and the increasing trading activities of customers. As of 30 June 2014, the total number of personal online banking customers amounted to 1.1811 million. Trading accounts transactions of personal online banking accounted for 31.89%, representing an increase of 6.28 percentage points over the last year. The transactions of personal online banking accumulated to 36.4572 million during the year, representing a year-on-year increase of 40.33%. The transaction amount reached RMB447,472 million during the year, representing a year-on-year increase of 48.98%. Of which, the accumulative number of online payment transactions was 2,762,200, representing a year-on-year increase of 483.15%. The accumulative total transaction value amounted to RMB1,405 million, representing a year-on-year increase of 817.94%. In recent years, the enterprise online banking platform of the Bank experienced a comprehensive and rapid development. Therefore, it has become an efficiently operated channel connecting the majority of customers across various wholesale banking areas with constant solidification of customer base and continued improvement in channels. It continued to develop under the direction of customer operation, value exploration, cross sales and industry expansion. During the first half of 2014, the Bank recorded 13.72 million transactions of enterprise online banking during the period, representing a year-on-year increase of 20.45%. The amounts of enterprise online banking during the period accumulated to RMB648,267 million, representing a year-on-year increase of 15.61%.

Mobile banking

The personal mobile banking service of the Bank continued to maintain a rapid growth during the first half of 2014 and was awarded the "Best Regional Commercial Bank of Innovative Mobile Bank for 2013". As of 30 June 2014, the total number of mobile banking customers reached 192,500, representing an increase of 101.52% over the beginning of the year. During the year, the trading transactions were 1,511,800, with transaction amount of RMB1,786 million.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.5 Subsidiaries and major joint stock companies

Subsidiaries

Jinzhai Huiyin Rural Bank Co., Ltd

The company officially opened on 28 June 2013, registered in Jinzhai, Lu'an, with registered capital of RMB80 million, jointly established by the Bank and Anhui GuoYuan Investment Co., Ltd, along with other enterprises and individuals. The Bank invested RMB32.8 million, accounted for 41% of total shares. The principal activities include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement as agents; (4) bill acceptance and discounting; (5) engaging in inter-bank lendings; (6) engaging in banking card business; (7) issuing, redemption of and underwriting government bonds as agents; (8) acting as agent for collection and payments and bank assurance business; (9) other businesses approved by the banking regulatory institution of the State Council.

A year since opening, with the strong support from the shareholders, it actively sought government support, based in Jinzhai, served "Three Dimensional Rural Issues" operating principals, adhered to agriculture, supported small business positioning, took advantage of flexibility, effectiveness and efficiency. The business development achieved good results with main business indicators for the year completed.

As of the end of June 2014, its total assets reached RMB486 million, total liabilities of RMB404 million; deposits of RMB386 million, loan balance of RMB244 million and non-performing loan ratio of 0. The operating income was RMB8.4724 million, operating profit of RMB2.6776 million and net profit of RMB2.8189 million.

As a city commercial bank positioned with "Three Dimensional Rural Issues" strategy, it will continue to adhere to the "based in Jinzhai", serving "Three Dimensional Rural Issues", giving full support to old district economy to accelerate development" requirement, vigorously expand the deposit and operation scale, actively support "Three Dimensional Rural Issues" and the credit needs of small and micro enterprises, optimise the corporate governance, management and risk control mechanism, strengthen ethics of the employees and avoid wastage, take advantage of small and medium financial institutions mechanisms, efficiency and other aspects of the business to ensure rapid and sustainable healthy development.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.5 Subsidiaries and major joint stock companies (Continued)

Major joint stock companies

Chery Motor Finance Service Co., Ltd

Established on 21 April 2009, as the first domestic independent brand auto financing company, it was jointly established by the Bank and Chery Automobile Co., Ltd. The company was registered in the city of Wuhu, with registered capital of RMB500 million, of which the Bank contributed RMB100 million with a stake interest of 20% whereas Chery Automobile Co., Ltd. contributed RMB400 million with a stake interest of 80%. According to the resolution passed at the 2011 annual general meeting, the company increased its registered capital by RMB500 million. As of 6 January 2013, the company transferred retained earnings of RMB167.70 million to registered capital, and received the new registered capital (paid-in capital) from the Bank and Chery Automobile Co., Ltd., for a total amount of RMB332.30 million. The registered capital has increased to RMB1 billion.

In September 2013, the Bank and Chery Automobile Co., Ltd. entered into a written agreement on “change of equity and adjustment to equity structure and modify the articles of association”. Based on the agreement, Chery Automobile Co., Ltd. will transfer 31% out of the 80% shares it holds to a related party Chery Holding Co., Ltd. After the change in equity structure, Chery Automobile Co., Ltd. contributed RMB490 million, accounted for 49%; Chery Holdings Co., Ltd. contributed RMB310 million, accounted for 31%; The Bank contributed RMB200 million, accounted for 20% of the share capital.

Approved by the CBRC, the company’s principal business includes: (1) accepting domestic shareholders time deposits of above 3 months (inclusive); (2) accepting loan security deposits from the purchase of auto dealers and car rental deposits from lessees; (3) issuing financial bonds after approval; (4) engaging in inter-bank lending; (5) borrowing loans from financial institutions; (6) providing car loans; (7) providing loans to auto dealer for purchases of vehicles and operating equipment, including showrooms construction loans and spare parts loans and maintenance equipment loans; (8) providing car financing and leasing business (excluding leaseback); (9) businesses in relation to the sale of auto loan receivables and automobile finance lease services to or the repurchase of the same from financial institutions; (10) handling operations in relation to the sale and disposal of the residual value of rental cars; (11) engaging in the consulting and agency businesses of car-purchasing related financing activities; (12) engaging in the equity investment business of financial institutions in relation to auto finance business.

As of the end of June 2014, the company recorded operating income of RMB394 million and operating profit of RMB194 million. As of the end of June 2014, the company had total assets of RMB12.013 billion, total liabilities of RMB10.535 billion and total owners’ equity of RMB1.478 billion, of which total profit amounted to RMB203 million and net profit after tax amounted to RMB156 million.

Chapter III Management Discussion and Analysis

3.9 BUSINESS OPERATION (Continued)

3.9.5 Subsidiaries and major joint stock companies (Continued)

Major joint stock companies (Continued)

Wuwei Huiyin Rural Bank Co., Ltd

The company officially opened on 8 August 2010, registered in Wuwei, Wuhu. The registered capital was RMB100 million, of which the Bank contributed RMB40 million, accounted for 40% of the total capital. Other major shareholders were local natural individuals of Wuwei. The principal activities include: (1) taking deposits from the public; (2) issuing short-term, medium-term and long-term loans; (3) domestic settlement; (4) bill acceptance and discounting; (5) engaging in inter-bank lending; (6) bank card business; (7) issuing, redemption and underwriting government bonds as an agent; (8) acting as an agent for the collection and payment as well as the insurance business; (9) other businesses as approved by the banking regulatory institution of the State Council.

Since the opening, the company has been adhered to Huishang Bank's operating philosophy, which upholds the principles of scientific development. As the company is based in Wuwei and relies on the town, it strongly supports the development of "Three Dimensional Rural Issues" (economy, individual business and SME). In accordance with the operating philosophy of "close to the towns, serve rural", the bank took advantage of its comprehensive governance structure, sound internal control mechanism, leading management skills and strong brand influence. Under effective risk control mechanism, the bank innovated a variety of loans with different nature and operation processes; it tailored to provide flexible, high quality and efficient financial services to the "Three Dimensional Rural Issues" customers, and supported the county's economic development, extended the service to the wider rural areas and provided financial support to farmers' production and development. Gaogou branch officially opened on 18 December 2013, which is the bank's third outlet in Wuwei, and it is also the first town branch.

As of the end of June 2014, the company had total assets of RMB2,062 million, total liabilities of RMB1,865 million, deposit balance of RMB1,667 million, loan balance of RMB1,107 million, net profit of RMB20.54 million, and non-performing loan ratio of 0. The main business indicators complied with regulatory standards.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT

During the first half of 2014, risks associated with the banking industry continued to rise due to the complex domestic and international economic environment. The Bank adhered to implement its “prudent, rational and stable” risk preference so as to improve its comprehensive risk management system to proactively avoid various risks.

3.10.1 Credit Risk Management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Bank. The Bank’s credit risk primarily comes from loan business, interbank lending, investment business and off-balance sheet business.

During the first half of 2014, guided by comprehensive risk management and focused on the stabilization of asset quality, the Bank commenced its asset quality “double control” special campaign and continued to strengthen its credit risk management. The Bank implemented a mechanism on the warning, screening and reporting of risks. It conducted specific risk inspection on loans in sensitive industries, such as coal industry, steel trade industry and ship-building industry. In addition, the Bank promoted risk management in key areas and continued to implement quota control on government financing platforms and the real estate industry. Furthermore, the Bank improved its credit orientation, gained full control on business exposure for loans to government financing platforms, urban investment bonds and various other platforms. The Bank also implemented the differentiation of mortgage policies, strictly implemented state policies on industries suffering from overcapacity and industries with environmental concerns. Besides, the Bank strengthened its designed capacity of risk mitigation for credit approval, improved the way of lending out loans issued and optimized the credit structure. The Bank proactively mitigated potential risks by strengthening its follow up management for loans with significant risks, setting up a watch list of debtors for dynamic management, and formulating solutions for loans with potential risks on a “one-customer-one-policy” basis. In addition, the Bank put greater efforts in the collection of non-performing loans, with an aim to deal with NPLs through different channels and ways. During the reporting period, the Bank’s non-performing loan balance had increased. However, through implementing a number of measures while reducing old loans and controlling new loans, the overall asset quality remained stable. Please refer to 3.4 Loan Quality Analysis in this report for the distribution structure.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.2 Market Risk Management

Market risk is the risk of loss in respect of the Bank's on and off-balance sheet activities, arising from movements in interest rates, foreign exchange rates and other market factors.

During the first half of 2014, the Bank strived to enhance market risk management tools and optimized market risk management processes in order to achieve better daily market risk management. The Bank made use of various analytical tools such as cash flow analysis, sensitivity analysis and scenario analysis to conduct quantitative analysis on treasury business. The Bank conducted stress testing on interest rate risk while enhancing market risk quotas management. With the improved market risk control and measurement capacity, the Bank managed to avoid market risk in an effective way. The Bank insisted on optimizing procedures while creating innovative technologies. Under comprehensive risk management framework, the Bank fully identified, accurately measured and constantly monitored market risks in each of our businesses to control market risks within a reasonably bearable range.

3.10.3 Operational Risk Management

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

In terms of operational risk management, the Bank further strengthened the overall operational risk management system. On one hand, the Bank implemented hierarchical operational risk management, established operational risk management guidance, strengthened the operation risk monitoring, warning and control, and implemented a two-way reporting system. The Bank also carried out a series of risk screening activities, collected internal and external operational risk incidents and shared typical cases in relation to operational risk. On the other hand, the Bank continued to improve the operational risk management system, incorporated operational risks into the Bank's economic capital management and completed the preparation work for the establishment of the operational risk management project, with the aim of improving operational risk management techniques.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.4 Liquidity Risk Management

Liquidity risk refers to the risk that the Bank is unable to satisfy its customers' needs for repayment of liabilities due, new loans and reasonable financing, or the risk of being unable to satisfy these needs at a reasonable cost. The Risk Management Committee under the Board of the Bank and the Assets and Liabilities Management Committee and the Risk and Internal Control Management Committee under the senior management share joint responsibility for establishing policies and strategies on overall liquidity risk management. The Assets and Liabilities Management Department of the Head Office is the leading executive department of liquidity management for the entire bank. The Risk Management Department, the Financial Market Department, the Financial Industry Department and the International Business Department and other relevant departments are responsible for the full implementation of various tasks as required by the Assets and Liabilities Management Committee.

The Bank's liquidity risk management aims to ensure the Bank, whether or not it is under normal operating environment or under pressure, maintains sufficient fund for expected and unexpected capital requirements (including the increase in loans, deposit withdrawal, debts due and changes in off-balance sheet irrecoverable commitments) and provides a stable liquidity environment for ongoing operations, which forms positive interaction between liquidity management and the development of each of our businesses. The Bank made reasonable adjustments to the scale and structure of assets and liabilities with reference to changes in market conditions and our needs in business development. Under the premise of ensuring liquidity, the Bank is in pursuit of growth in profitability and value in order to achieve unity in the "liquidity, security and profitability" of bank funds.

The Bank's liquidity risk management adheres to its stable, prudent and rational principles, putting strong emphasis on the prevention and mitigation of risks while promoting business development and profitability growth. The Bank stressed on the importance of "ensuring sufficient liquidity". Through adopting flexible management approach and controlling the proportion of current asset portfolio with the highest efficiency, the Bank formulated liquidity stress scenarios according to its internal situation and external market environment to ensure that there is no liquidity risk under any stress scenario or during the shortest survival period. Meanwhile, the Bank has emergency plans to prevent potential liquidity crisis and will take effective measures to prevent the risks from spreading under liquidity crisis.

The Bank paid close attention to the macro-control policy and the trend of capital market. It dynamically adjusted its liquidity management strategy and capital operation tempo in accordance with the bank's assets and liabilities, business development and liquidity status, effectively minimized the impact of periodical and seasonal factors on the Bank's liquidity and practically improved its ability to deal with liquidity risks.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.5 Interest Rate Risk Management

Interest rate risk refers to the risk of fluctuation in interest rates which results in adverse impact to the financial condition of the Bank. Interest rate risks of the Bank primarily arise from the mismatch of maturity structure in the maturity or re-pricing periods of our banking portfolio. Mismatch of maturity structure may cause the Bank's net interest income to be affected by changes in the prevailing interest rate level. In addition, different pricing benchmarks for different products may also lead to interest rate risk for our assets and liabilities within the same re-pricing period. Currently, the Bank primarily assesses its exposure to interest rate risk through gap analysis, sensitivity analysis and duration analysis. The Bank manages its interest rate risk exposure primarily by adjusting the maturity profile of our banking portfolio based on our assessment of potential changes in the interest rate environment.

The Bank's financial assets and liabilities are mainly denominated in RMB. As the benchmark interest rates for RMB deposits and loans are determined by the PBOC, the Bank follows the interest rate policies promulgated by the PBOC when carrying out deposit taking and lending activities.

During the first half of 2014, the Bank further promoted its in-depth strategic transformation, proactively coped with interest rate liberalization and increased its effort in optimizing asset-liability structure and customer base structure. Firstly, the Bank actively optimized its loan structure to accelerate business development of retail and small-micro enterprises. Secondly, the Bank proactively strengthened its loan pricing management in an effort to improve its risk pricing capability and return on loans. Thirdly, the Bank further promoted the rapid development of its intermediary business, refined its income structure and reduced its reliance on interest spread between deposits and loans. Fourthly, the Bank strengthened the analysis of customers' overall contribution using data from management accounting, so as to effectively improve pricing management.

The Bank believes that interest rate liberalization has an impact on the banking industry in long-term, for which the Bank will expand its retail business and intermediary business to identify new niche for profit growth. However, in short-term, it is believed that its impact to the Group is limited. Against the background of continuous promotion of interest rate liberalization, during the first half of the year, the Bank achieved a net interest margin of 2.63%, unchanged from the end of last year, thus maintaining a relatively steady net interest margin. It is anticipated that the net interest margin may drop during the second half of the year, but the overall decrease rate is expected to be limited.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.6 Exchange Rate Risk Management

Exchange rate risk represents, under the international economic transactions within a particular period of time, the possibility of upward or downward movements in the value of assets (or equity) and liabilities (or debts) denominated in foreign currency due to fluctuations in exchange rates. From the perspective of foreign exchange trading in the international foreign exchange market, profits or losses of foreign exchange trading which cannot be eliminated will be exposed to the risks arising from fluctuations in foreign exchanges. Generally, such part of foreign currency amount exposed to foreign exchange risks is called "foreign currency exposure". The Bank adhered to the principles of comprehensive management, responsibility implementation, honest reporting and quick response, so as to adequately identify, precisely measure and continuously monitor the foreign exchange risks, as well as strictly executed relevant risk management systems of foreign exchange capital business for the purpose of controlling market risks and operational risks within a reasonable range which is affordable. Hence, the benefits of capital business were maximized after conducting risk adjustments.

The Bank incorporated foreign exchange risk management into its risk management system, and it is managed by the Risk Management Department on a consolidated basis. Through duration analysis, sensitivity analysis, VAR analysis and foreign exchange exposure analysis, the Bank assessed, monitored daily and analyzed monthly the risks of foreign currency exposure. The Bank formulated as well as periodically refined and updated the administrative measures for limitation of foreign currency exposure, while the setting of limit indicators was incorporated into risk limit indicators system established by the Risk Management Department. In order to prevent exchange rate risks due to drastic fluctuations in foreign exchange rate, macroeconomic policies, changes to regulatory requirements and manipulation mistakes, the Bank formulated, updated and refined its emergency contingency plan in a timely manner by the means of irregular assessment and stress tests, so as to prevent and reduce losses which may be generated from changes in exchange rate.

Increase in fluctuations of foreign currency market has also increased the exchange rate risks of commercial banks. In our daily operation, the Bank adopted the following several measures to control exchange rate risks. Firstly, foreign exchange exposure of each branch is automatically terminated with that of the Head Office in a real-time manner. The Head Office will manage the liquidity of foreign exchange exposure on a consolidated basis and foreign exchange exposure shall not be kept within each branch. Secondly, the Bank, on a daily basis, will strictly control foreign exchange exposure within the quota approved by the regulatory authorities as well as risk limits and stop-loss limits determined by the Risk Management Department. Thirdly, dealers of the Head Office will monitor the market in the real-time manner and timely fill in the liquidity of foreign exchange exposure in the foreign exchange market, so as to control exchange rate risks.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.7 Reputation Risk Management

Reputation risk refers to the risk of commercial banks being negatively evaluated by relevant interested parties due to commercial banks' operations, management and other activities or external events.

Reputation risk management is an important component of the corporate governance and the comprehensive risk management system, which covers all activities, operations and business scopes of the Bank and its subsidiaries. The Bank established and formulated the reputation risk management system and relevant requirements to proactively and effectively prevent and deal with reputation risk and respond to any reputation events, so as to reduce loss and negative impact to the greatest extent. Firstly, the Bank reinforced its precautionary management of reputation risks and perfected the risk mitigation system, resulting in an improved reputation risk accountability mechanism. Secondly, the Bank improved the risk monitoring and analyzing system, so as to ensure reputation risk events are identified and dealt with in a timely manner. Thirdly, the Bank enhanced reputation risk inspection on key periods, business and areas, and accordingly contingency plans were prepared in advance. Fourthly, the Bank enhanced the capability and efficiency in reputation risk event management to ensure reputation risk events are dealt with in a timely manner. Fifthly, the Bank strengthened reputation risk training and publicity, raised the awareness of its employees on reputation risks, and cultivated a reputation risk management culture across the entire bank through regular professional trainings and precautionary notices.

3.10.8 Compliance Risk Management

Compliance risk refers to the risks of commercial banks being subject to legal sanctions, regulatory punishments, major financial losses, or reputation damage as a result of violation of the laws, rules and guidelines. The Bank adhered to its compliant and prudent management philosophy and adopted a compliance management mode of centralizing management, classifying responsibilities and stratifying control. In terms of the compliance of the operating activities, the Board of the Bank will have the ultimate responsibility, the supervisors will have supervising responsibility and the senior management will have direct responsibility. The Bank have established a compliance risk management system commensurate with its operating range, organization structure and business scope, improved the three defense lines for compliance risk management and the double-line reporting mechanism, and continued to improve the compliance risk management mechanism and the risk management techniques and procedures, so as to ensure effective management of compliance risk.

During the reporting period, the Bank proactively adapted to adjustments in regulatory policy that prioritized risk control, devoted to building a solid foundation for internal compliance management, effectively prevented and mitigated compliance risk and risk of economic sanctions, deeply exploited the value of compliance-driven development without compromising the compliance bottom line, carried out legal compliance verification covering all businesses, products, systems and procedures, and carefully identified and assessed the compliance risk associated with new businesses and key projects. In addition, the Bank actively encouraged business innovation to the extent that legal compliance framework permits. The Bank also proactively launched theme events such as the "Compliance Establishment Year", thus raising its staff's and compliance management personnel's capability in risk management and awareness of compliance during the deepening of management reform, promotion of business innovation and steady development. Furthermore, the Bank optimized its compliance risk management techniques, strengthened the identification, assessment and monitoring of compliance risk and improved the efficiency of legal compliance risk management.

Chapter III Management Discussion and Analysis

3.10 RISK MANAGEMENT (Continued)

3.10.9 Anti-money laundering Management

The Bank attaches great importance to anti-money laundering through fully implementing anti-money laundering laws and regulations, fulfilling its statutory obligations and promoting in-depth anti-money laundering activities.

During the reporting period, based on the changes in the risk of money laundering, the Bank built a firewall against money laundering by perfecting the withdrawal rules on unusual transactions, screening client lists that have to be closely monitored and effectively commenced risk inspection on money laundering. The Bank also improved the incentive mechanism for anti-money laundering, organized the election of the advanced units for anti-money laundering, fully mobilized business lines, field units and activated the enthusiasm, initiatives and creativity of our basic employees network for anti-money laundering. In addition, the Bank improved its risk indicator system by making dynamic adjustments to the level of risk relating to money laundering by customers in accordance with the qualitative and quantitative principles. Furthermore, based on the suspicious transactions reported by our branches, the Bank strengthened its collection, analysis and application of data and information in order to make timely risk alert. Nevertheless, The Bank launched anti-money laundering training through various channels to different level of staff, raised their sense of duty on anti-money laundering, and nurtured an anti-money laundering compliance environment.

Currently, with complex international economic and financial conditions, the methods of money laundering are getting more subtle and diverse. Anti-money laundering is facing increasingly severe challenges. The Bank will proactively practice its risk-based anti-money laundering methods to continue to strengthen the internal control mechanisms and to raise the level of money laundering prevention.

3.10.10 Implementation of Basel Accord

The Bank is one of earliest city commercial banks in China which dedicated itself to the implementation of the Basel New Capital Accord. With the measurements of the three main risks under the first pillar as the main theme, the Bank gradually promoted the development and application of the advanced methods for capital measurement in accordance with the requirements of the Administrative Measures for the Capital of Commercial Banks (for Trial Implementation) and other regulatory policies. Currently, the Bank has established a non-retail credit risk internal grading system by customers and officially launched it in 2012. The non-retail credit risk internal grading system by loan types is currently in the business consultation stage. The non-retail credit risk internal grading system was completed at the end of 2013 and is now in promotion for application. The project on operational risk standards has been approved and is currently preparing for tendering whereas the market risk internal modeling is in the observation and exchange stage.

Chapter III Management Discussion and Analysis

3.11 INFORMATION TECHNOLOGY

During the reporting period, the Bank continued to proactively promote the development of information technology projects, strengthened the security management of information technology, and supported innovations in business products and services. Our capability in IT supporting services has been rising and our IT system operated in a highly efficient, secured and stable manner. Firstly, the Bank continued to improve our IT governance structure, carried out security checks, risk analyses and assessments to further enhance our capability on the prevention and management of IT risks. Secondly, the Bank completed our core system database upgrade, which boosted our processing efficiency of major businesses. Thirdly, the Bank strengthened product innovation and the research and development of new services, with a total of 355 tasks in relation to system development being completed in the first half of the year. In addition, the fund management system, the financial assets management system and the risks monitoring system for operations became operational. Furthermore, the Bank completed the development of IT platforms for Weixin banking, small and micro financial services and mobile marketing, which provided excellent technical support for our market expansion and management service. Fourthly, the Bank continued to make improvements in operating and monitoring information system in managing transactions. The Bank also completed the development of the operation service platform, which further enhanced our ability in the continuous provision of information system services.

3.12 PROSPECTS AND MEASURES

In 2014, the economy shall continue to recover slowly with unsteady and uncertain factors. Exposure may be triggered by tapering of liquidity in many countries, deep domestic economic transformation, more dynamic economic developments, adjustments in real estate market, or matters of local debts and shadow banking. Traditional banking shall also be challenged by intensified regulations, tightened liquidity, disintermediation, interest rate liberalization, admittance of private capital and online financial innovation. At the same time, institutional bonus from intensified reform, increase driving forces by urbanization, together with steady and faster economic development in Anhui Province, brings ample opportunities to the Bank.

The Bank shall actively adapt to the changes in the economic situation by putting effort into perfecting the corporate governance mechanism in accordance with the requirements by capital market and domestic and offshore regulators, as well as by solidifying and amplifying the traditional business strengths, accelerating exploration of new business, continuing promotion of technological innovation, effectively implementing institutional reform, and strengthening risk management and internal control so as to improve the profitability and competitiveness in all respects.

Chapter III Management Discussion and Analysis

3.13 PROFIT DISTRIBUTION

Profit distribution plan for 2013

The 2013 Annual General Meeting held on 30 June 2014 passed the profit distribution plan for 2013.

Audited net profit attributable to Shareholders of the Bank in 2013 was RMB4,926 million. Pursuant to the Bank's Articles, the profit distribution plan for 2013 is as follow:

- (1) 10% of the net profit of the Bank for 2013 of RMB493 million was transferred to the statutory surplus reserve;
- (2) 10% of the net profit of the Bank for 2013 of RMB493 million was transferred to the discretionary surplus reserve;
- (3) RMB681 million was transferred to the general risk provision;
- (4) Cash dividend of RMB1,724 million (tax inclusive) or RMB0.156 per Share (tax inclusive) was declared to all Shareholders of the Bank.

The Dividend for 2013 is payable to the holders of Domestic Shares and holders of H Shares whose names appear on the register of members of the Bank on 10 July 2014. The Dividend shall be denominated in Renminbi. The Dividend payable to holders of Domestic Shares shall be paid in Renminbi whilst the Dividend payable to holders of H Shares shall be paid in Hong Kong dollars. The exchange rate of dividend payable in Hong Kong dollars shall be the central parity rate of the average exchange rate of Renminbi to Hong Kong dollars as announced by The People's Bank of China for the five working days immediately prior to the date of dividend declaration of the 2013 Annual General Meeting, that was, 30 June 2014 (such day inclusive).

Interim distribution for 2014

The Bank has no profit distribution for the Interim period of 2014.

3.14 SOCIAL RESPONSIBILITIES

During the first half of 2014, the Bank adhered to its mission of "committed to civic responsibility" to serve the local economy. It constantly improved customer service and customer experience and held charity projects to fulfill its corporate social responsibility. During the reporting period, the Bank initiated extensive campaigns to popularize financial knowledge, pushed forward the innovation of financial products and optimized customer experience to satisfy customer's various financial needs. In addition, the Bank took full advantage of its edges in the system, mechanism and geographic location to provide comprehensive professional financial services to micro, small and medium enterprises. The Bank also strengthened its team building by promoting talent cultivation in different tiers, improving organizational structure and establishing a performance evaluation mechanism. The Bank made efforts to contribute to the community by constantly initiating charitable activities. It also actively promoted green credit to support low-carbon economy.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.1 CHANGES IN SHARES OF THE COMPANY DURING THE REPORTING PERIOD

	30 June 2014		Changes during the reporting period Number of shares	31 December 2013	
	Number of shares	Percentage (%)		Number of shares	Percentage (%)
I. Shares subject to selling restrictions					
Domestic Shares	7,887,319,283	71.38	0	7,887,319,283	71.38
II. Shares not subject to selling restrictions					
Overseas listed foreign investment shares (H shares)	3,162,500,000	28.62	0	3,162,500,000	28.62
III. Total number of shares	11,049,819,283	100.00	0	11,049,819,283	100.00

Notes:

- (1) As at the end of the reporting period, the Bank had 18,713 shareholders, including 2,391 shareholders of H Shares and 16,322 shareholders of Domestic Shares.
- (2) Shares subject to selling restrictions represent the shares of a shareholder which are subject to transfer restrictions by the requirements of laws and regulations.
- (3) Based on the public information available and as far as the Directors are aware, As of 30 June 2014, the Bank had met the public float requirement under the Hong Kong Listing Rules.

4.2 INFORMATION ON SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS

No.	Name of shareholder	Nature of shareholder	Shares held by the end of the period (share)	Percentage of total share capital (%)	Type of share	Share change in the reporting period (share)	Number of shares subject to selling restrictions (share)	Number of shares pledged or frozen (share)
1	HKSCC Nominees Limited ⁽¹⁾	-	3,156,813,000	28.57	H Share	353,000	-	-
2	Anhui Guoyuan Holding (Group) Company Ltd. ⁽²⁾	State-owned legal person	794,476,206	7.19	Domestic Share	-	794,476,206	-
3	Anhui Energy Group Company Ltd.	State-owned legal person	766,694,381	6.94	Domestic Share	-	766,694,381	-
4	Anhui Credit Guaranty Group Company Ltd.	State-owned legal person	752,416,446	6.81	Domestic Share	-	752,416,446	-
5	Anhui Highway Holding Group Company Ltd.	State-owned legal person	469,032,613	4.24	Domestic Share	-	469,032,613	-
6	Zhongjing Sihai Company Ltd.	Domestic non-state owned legal person	444,696,160	4.02	Domestic Share	-	444,696,160	229,666,700
7	Hefei Xingtai Holding Group Company Ltd.	State-owned legal person	343,591,483	3.11	Domestic Share	-	343,591,483	100,000,000
8	Wuhu Construction Investment Company Ltd.	State-owned legal person	267,284,394	2.42	Domestic Share	-	267,284,394	-
9	CCB Trust Company Ltd.	State-owned legal person	225,548,176	2.04	Domestic Share	-	225,548,176	-
10	Xiuning Xinhua Asset Investment Management Company Ltd.	Domestic non-state owned legal person	204,346,570	1.85	Domestic Share	-	204,346,570	204,200,000

Notes:

- (1) Shares held by HKSCC Nominees Ltd. are the total shares in the accounts of holders of H Shares of the Bank trading on the transaction platform of HKSCC Nominees Ltd.
- (2) The shareholding of Anhui Guoyuan Holding (Group) Company Ltd. includes the domestic shares of the Bank held by its subsidiaries, Anhui Guoyuan Ma'anshan Asset Management Company Ltd., Anhui Guoyuan Trust Company Ltd. and Guoyuan Securities Company Ltd.

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS

As of 30 June 2014, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Bank) had interests and short positions in the shares of the Bank as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO (chapter 571 of the Laws of Hong Kong).

Name of Substantial Shareholder	Type of share	Long/short position	Capacity	Number of shares	Percentage of the relevant type of shares in issue (%)	Percentage of all issued shares (%)	Note
Anhui Guoyuan Holding (Group) Company Ltd.	Domestic Share	Long	Interest of controlled corporation	149,087,330	1.89	1.35	1
	Domestic Share	Long	Beneficial owner	645,388,876	8.18	5.84	
Anhui Energy Group Company Ltd.	Domestic Share	Long	Beneficial owner	766,694,381	9.72	6.94	4
Anhui Credit Guaranty Group Company Ltd.	Domestic Share	Long	Beneficial owner	752,416,446	9.54	6.81	
Anhui Highway Holding Group Company Ltd.	Domestic Share	Long	Beneficial owner	469,032,613	5.95	4.24	
Zhongjing Sihai Company Ltd.	Domestic Share	Long	Beneficial owner	444,696,160	5.64	4.02	6
China Vanke Co., Ltd.	H Share	Long	Interest of controlled corporation	883,986,000	27.95	8.00	2
Wkland Finance Holding Company Limited	H Share	Long	Beneficial owner	511,140,000	16.16	4.63	2
Wkland Finance Holding II Company Limited	H Share	Long	Beneficial owner	372,846,000	11.79	3.37	2
Sunshine Insurance Group Corporation Limited	H Share	Long	Interest of controlled corporation	543,722,000	17.19	4.92	3
Sunshine Life Insurance Corporation Limited	H Share	Long	Beneficial owner	543,722,000	17.19	4.92	3
Zhu Mingliang	H Share	Long	Interest of controlled corporation	328,521,000	10.39	2.97	5
Jiangsu Huijin Investment Holdings Group Co.,Ltd	H Share	Long	Interest of controlled corporation	328,521,000	10.39	2.97	5
Nanjing Overseas Trade Co., Ltd.	H Share	Long	Interest of controlled corporation	328,521,000	10.39	2.97	5
Vasari Investment Holdings Limited	H Share	Long	Beneficial owner	328,521,000	10.39	2.97	5
Anhui Energy Group Company Ltd.	H Share	Long	Interest of controlled corporation	280,000,000	8.85	2.53	4
Shanghai Soong Ching Ling Foundation	H Share	Long	Interest of controlled corporation	228,645,000	7.23	2.07	6
Zhongjing Industry (Group) Limited	H Share	Long	Interest of controlled corporation	228,645,000	7.23	2.07	6
Zhongjing Industry (Group) Hong Kong Limited	H Share	Long	Interest of controlled corporation	228,645,000	7.23	2.07	6
Zhongjing Finance (HK) Limited	H Share	Long	Interest of controlled corporation	228,645,000	7.23	2.07	6
Wealth Honest Limited	H Share	Long	Beneficial owner	228,645,000	7.23	2.07	6

Chapter IV Changes in Share Capital and Particulars of Shareholders

4.3 SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER HONG KONG LAWS AND REGULATIONS (Continued)

Notes:

- (1) The shareholding of Anhui Guoyuan Holding (Group) Company Ltd. included the domestic shares of the Bank held by its subsidiaries, Anhui Guoyuan Ma'anshan Asset Management Company Ltd., Anhui Guoyuan Trust Company Ltd. and Guoyuan Securities Company Ltd.
- (2) China Vanke Co., Ltd. was deemed to hold interests in a total of 883,986,000 H shares (long position) of the Bank by virtue of its control over the following corporations, which held direct interests in the Bank:
 - "2.1" Wkland Finance Holding Company Limited held 511,140,000 H shares (long position) of the Bank. Wkland Finance Holding Company Limited is an indirect wholly-owned subsidiary of China Vanke Co., Ltd.
 - "2.2" Wkland Finance Holding II Company Limited held 372,846,000 H shares (long position) of the Bank. Wkland Finance Holding II Company Limited is an indirect wholly-owned subsidiary of China Vanke Co., Ltd.
- (3) Sunshine Life Insurance Corporation Limited held 543,722,000 H shares (long position) of the Bank. Sunshine Life Insurance Corporation Limited is a directly controlled subsidiary of Sunshine Insurance Group Corporation Limited. As such, Sunshine Insurance Group Corporation Limited was deemed to be interested in the shares of the Bank held by Sunshine Life Insurance Corporation Limited.
- (4) Xing An Holdings Limited held 280,000,000 H shares (long position) of the Bank. Xing An Holdings Limited is a direct wholly-owned subsidiary of Anhui Energy Group Company Ltd. As such, Anhui Energy Group Company Ltd. was deemed to be interested in the shares held by Xing An Holdings Limited. At the same time, Anhui Energy Group Company Ltd. held 766,694,381 domestic shares of the Bank.
- (5) Vasari Investment Holdings Limited held 328,521,000 H shares (long position) of the Bank. Vasari Investment Holdings Limited is an indirectly controlled subsidiary of Nanjing Overseas Trade Co., Ltd., which is a wholly-owned subsidiary of Jiangsu Huijin Investment Holdings Group Co., Ltd., which in turn is controlled by Zhu Mingliang. As such, Zhu Mingliang, Jiangsu Huijin Investment Holdings Group Co., Ltd. and Nanjing Overseas Trade Co., Ltd. were deemed to be interested in the shares of the Bank held by Vasari Investment Holdings Limited.

In addition, the total number of shares purchased by Vasari Investment Holdings Limited from 14 February 2014 to 28 March 2014 amounted to 4,048,000 shares, which did not meet the disclosure requirements under the SFO. Therefore no disclosure was made in the Stock Exchange of Hong Kong. As such, as of 30 June 2014, 332,569,000 shares were ultimately held by Vasari Investment Holdings Limited and its actual controllers.

- (6) Wealth Honest Limited held 228,645,000 H shares (long position) of the Bank. Wealth Honest Limited is a direct wholly-owned subsidiary of Zhongjing Finance (HK) Limited, which is a wholly-owned subsidiary of Zhongjing Industry (Group) Hong Kong Limited, which in turn is a wholly-owned subsidiary of Zhongjing Industry (Group) Limited. Zhongjing Industry (Group) Limited is controlled by Shanghai Soong Ching Ling Foundation. As such, Shanghai Soong Ching Ling Foundation, Zhongjing Industry (Group) Limited, Zhongjing Industry (Group) Hong Kong Limited, Zhongjing Finance (HK) Limited were deemed to be interested in the shares of the Bank held by Wealth Honest Limited.

In addition, the total number of shares purchased by Wealth Honest Limited from 16 June 2014 to 30 June 2014 amounted to 2,232,000 shares, which did not meet the disclosure requirements under the SFO. Therefore no disclosure was made in the Stock Exchange of Hong Kong. As such, as of 30 June 2014, 230,877,000 shares were ultimately held by Wealth Honest Limited and its actual controllers.

Save as disclosed above, the Bank 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 Bank) having any interests or short positions in the shares and underlying shares of the Bank as of 30 June 2014 as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

Chapter V Profile of Directors, Supervisors, Senior Management, Employees and Institutions

5.1 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Gender	Position Held
Li Hongming	Male	Chairman, Executive Director
Xu Demei	Female	Vice Chairman, Executive Director
Wu Xuemin	Male	President, Executive Director
Zhang Renfu	Male	Executive Director
Ci Yaping	Male	Vice President, Executive Director
Zhang Feifei	Male	Non-Executive Director
Zhu Jiusheng ^{Note 1}	Male	Non-Executive Director
Qian Zheng	Male	Non-Executive Director
Guo Shigang	Male	Non-Executive Director
Zhao Zongren ^{Note 1}	Male	Non-Executive Director
Wu Tian	Male	Non-Executive Director
Gao Yang	Male	Non-Executive Director
Dai Genyou	Male	Independent Non-Executive Director
Wang Shihao	Male	Independent Non-Executive Director
Zhang Shenghuai	Male	Independent Non-Executive Director
Au Ngai, Daniel	Male	Independent Non-Executive Director
Fung Weichang ^{Note 1}	Male	Independent Non-Executive Director
Zhu Hongjun ^{Note 1}	Male	Independent Non-Executive Director
Zhang Zhen	Male	Chairman of the Board of Supervisors
Xu Chongding	Male	Employee Supervisor, Chairman of Labor Union
He Tao	Male	Employee Supervisor
Cheng Rulin	Male	Supervisor
Qian Xiaojun ^{Note 2}	Male	Supervisor
Cheng Hong	Male	Supervisor
Cheng Junpei	Female	External Supervisor
Fan Libo	Male	External Supervisor
Pan Shujuan	Female	External Supervisor
Wang Guisheng	Male	Vice President
Gao Guangcheng	Male	Vice President
Zhang Youlin	Male	Vice President
Yi Feng	Male	Assistant President
Yan Dongshun	Male	Assistant President
Hu Dongdong	Male	Board of Directors secretary
Xia Min	Male	Assistant President
Liu Ming	Male	Chief Executive Officer

Notes:

- (1) In the 2013 AGM of the Bank, Mr. Zhu Jiusheng and Mr. Zhao Zongren were elected as non-executive directors while Mr. Fung Weichang and Mr. Zhu Hongjun were elected as independent non-executive directors. Their qualifications of serving are still subject to approval by the banking regulator(s) in the PRC. Their tenures are same with those of the third session of the Board of Directors and become effective from the date of approval their qualification as Directors by banking regulators in PRC, and are expected to expire at the AGM to be held in 2016.
- (2) In the 2013 AGM of the Bank, Mr. Qian Xiaojun was elected as a Supervisor, his tenure is same with that of the third session of the Board of Supervisors and become effective from 30 June 2014, and is expected to expire at the AGM to be held in 2016.

Chapter V Profile of Directors, Supervisors, Senior Management, Employees and Institutions

5.2 APPOINTMENT AND RESIGNATION DURING THE REPORTING PERIOD

The Bank made an announcement on 8 January 2014 and 13 January 2014, respectively, announced that Mr. Wen Jinghui has tendered his resignation as an independent non-executive Director (with effect from the date of formal appointment of his replacement as independent non-executive Director) and he has been under investigation by the CSRC in relation to alleged breaches to certain securities laws and regulations of PRC. The Board of the Bank was informed by Mr. Wen Jinghui on 15 April 2014 that the CSRC has published its ruling of the investigation on the night of 14 April 2014. Pursuant to the ruling, Mr. Wen was prohibited from undertaking any securities related work in any organization, acting as director, supervisor or senior management of any listed company for a period of 10 years commencing from the date of publication of the ruling. Given the disqualification order, Mr. Wen Jinghui is no longer qualified to act as the Bank's independent non-executive director, and accordingly, Mr. Wen Jinghui's all positions in the Bank were terminated on 15 April 2014. The Bank has accordingly made an announcement of "Termination of Independent Non-Executive Directorship" on 16 April 2014. On 15 April 2014, after termination of Mr. Wen Jinghui's all positions in the Bank, there were a total of 14 directors in the Bank's Board of Directors. According to Rule 3.10A and 3.21 of the Hong Kong Listing Rules, during the period from 15 April 2014 to 30 June 2014, (1) despite the number of independent directors of the Bank must represent at least one-third of the Board, the number of independent directors of the Bank represented less than one-third of the Board; (2) there was a vacancy for chairman of the Audit Committee of the Bank. Upon the Mr. Wen's termination on 15 April 2014, the appointment of Mr. Zhu Hong Jun as the successor of Mr. Wen Jinghui was approved at the general meeting of the Bank held on 30 June 2014. During the period from 15 April 2014 to 30 June 2014, the Bank did not fully comply with the Hong Kong Listing Rules as mentioned above.

The Bank made an announcement on 12 August 2014, announced that Mr. He Tao has tendered his resignation to the Board of Supervisors on August 11, 2014 with effect from the date of formal appointment of his replacement as employee representative supervisor, due to his desire to devote more time to his other business commitments. Mr. He Tao has also ceased to be a member of the Supervisor Committee of the Board of Supervisors with effect from August 11, 2014.

In the 2013 AGM of the Bank, Mr. Zhu Jiusheng and Mr. Zhao Zongren were elected as non-executive directors while Mr. Fung Weichang and Mr. Zhu Hongjun were elected as independent non-executive directors. Their qualifications of serving are still subject to approval by the banking regulator(s) in the PRC. Their tenures are same with those of the third session of the Board of Directors and become effective from the date of approval their qualification as Directors by banking regulators in PRC, and are expected to expire at the AGM to be held in 2016.

Mr. Wu Guozhong, a Supervisor of the Bank, has tendered his resignation as a Supervisor and other relevant responsibilities in the Committees of the Board of Supervisors due to his desire to devote more time to other business commitments with effect from 4 May 2014. In the 2013 AGM, Mr. Qian Xiaojun was elected as a Supervisor, for the period from 30 June 2014 until the expiry of the Third Board of Supervisors.

5.3 CHANGE OF POSITIONS HELD BY DIRECTORS AND SUPERVISORS

Pursuant to Rule 13.51B of the Hong Kong Listing Rules, the updated biographies of Directors and Supervisors of the Bank are as follows:

1. Dai Genyou, an independent non-executive director of the Bank, his tenure as independent non-executive director of Shanghai Zhangjiang Hi-tech Park Development Co., Ltd. and Haitong Securities Co., Ltd. expired without re-election.
2. Gao Yang, an independent non-executive director of the Bank, has ceased to be the director of Beijing Automobile Investment Co. Ltd. and BAIC Motor Corporation, Ltd.
3. He Tao, the Staff Supervisor, has ceased to be the deputy general manager of the Compliance Department. He will be the president of Huainan Branch of the Bank instead.

Chapter V Profile of Directors, Supervisors, Senior Management, Employees and Institutions

5.4 EMPLOYEE

1. Size and Changes

As of 30 June 2014, the Bank had a total of 6,184 employees in service.

2. Professional Structure

As of 30 June 2014, the professional structure of the Bank is as follows:

Unit: person

Categories	30 June 2014	
	Persons	Percentage(%)
Management Personnel	1,140	18.43%
Marketing Personnel	3,607	58.33%
Supporting Personnel	1,437	23.24%
Total	6,184	100.00%

3. Educational Structure

Unit: person

Classifications	30 June 2014	
	Persons	Percentage(%)
Master's degrees or above	488	7.89%
Full-time bachelor's degrees	2,410	38.97%
Part-time bachelor's degrees	1,934	31.27%
Junior college degrees or below	1,352	21.86%
Total	6,184	100.00%

4. Age Structure

Unit: person

Classifications	30 June 2014	
	Persons	Percentage(%)
Aged below 30	2,614	42.27%
Aged 30-40	1,756	28.40%
Aged 41-50	1,602	25.91%
Aged 51-60	212	3.43%
Total	6,184	100.00%

Chapter V Profile of Directors, Supervisors, Senior Management, Employees and Institutions

5.4 EMPLOYEE (Continued)

Staff Remuneration Policy

The Bank's remuneration policy aims to establish a sound, scientific, effective performance evaluation and rewarding system for realizing shareholders value, enhancing corporate efficiency, and maximizing employees' interest. The policy facilitates the stable operation and sustainable development of the Bank, thus is conducive to the implementation of strategic objectives, enhancement of competitiveness, cultivation of talents and management of risks. Following the principal of being "advanced, sustainable, compliant, timely, and practical" under the framework of uniform rules, the Bank will, being initiative and creative, give priority to efficiency while giving consideration to fairness.

The Bank manages remuneration through the Board, head office and branches. The Board is responsible for the total amount of remuneration and senior management's remuneration. Under the board's request, the head office allocates the total amount of remuneration and carries out policy-based management. All branches manage employee salary under the framework of uniform rules.

Staff training plan

According to our development strategies and education and training development plans, the Bank will develop and implement the annual training plan to provide guarantees for our training and enhance staff professionalism and support their career development. During the reporting period, the Bank arranged various important training programmes such as new staff orientation training, training of secondments on branch level, business manner training, training for financial planner examination, training for registered credit analyst examination and training for new accountants, further formalize the on-duty- with-the-certificate mechanism. During the first half of 2014, the Bank conducted 269 line assembly training sessions, with a total enrolment of 19,880 persons.

Chapter V Profile of Directors, Supervisors, Senior Management, Employees and Institutions

5.5 BRANCHES

As of 30 June 2014, the composition of branches is as follows:

Region	Name of the Institution	Business Address	Postcode	Number of Institutions
Head Office	Head Office	Huishang Bank Building, No. 79, Anqing Road, Luyang District, Hefei, Anhui Province	230001	1
Anhui Province	Hefei Branch	No. 235, Anqing Road, Hefei	230001	42
	Wuhu Branch	No. 45, Beijingxi Road, Wuhu	241000	21
	Ma'anshan Branch	No. 75, Hunan Xi Road, Huashan District, Ma'anshan	243000	17
	Anqing Branch	No. 528, Renmin Road, Anqing	246000	16
	Huaibei Branch	No. 282, Huaihai Road, Huaibei	235000	13
	Bengbu Branch	No. 1018, Huaihe Road, Bengbu	233000	18
	Lu'an Branch	Kaixuan International Square, Meishan Nan Road, Lu'an	237000	14
	Huinan Branch	No. 39, Shungeng Xi Road, Huinan	232000	11
	Tonglin Branch	No. 999, Yanjiashan Road, Tonglin	244000	10
	Fuyang Branch	No. 666, Yidaohe Road, Fuyang	236000	10
	Huangshan Branch	No. 39, Huangshan Xi Road, Huangshan	245000	5
	Chizhou Branch	No. 515, Changjiangzhong Road, Chizhou	247000	5
	Chuzhou Branch	No. 286, North Fengle Road, Chuzhou	239000	7
	Suzhou Branch	No. 32, Huaihaizhong Road, Suzhou	234000	7
Xuancheng Branch	No. 1, West Aofeng Road, Xuancheng	242000	5	
Bozhou Branch	No. 277, Plaza Xiangzhang, West Shaohua Road, Bozhou	236000	5	
Jiangsu Province	Nanjing Branch	No. 231, Zhongyan Road, Nanjing	210000	8
Total				215

Chapter VI Corporate Governance

6.1 OVERVIEW OF CORPORATE GOVERNANCE

The Bank is committed to maintaining high standard of corporate governance and endeavours to adhere to international and domestic corporate governance best practices, so as to safeguard the interests of shareholders and enhance corporate value. The Bank established a relatively comprehensive corporate governance structure, clarifying the responsibilities of general meetings, the Board, the Board of Supervisors and senior management, constantly improving the Bank's decision-making, execution and supervision mechanism, to ensure the independent operation and an effective check and balance.

During the reporting period, the general meetings, the Board, the Board of Supervisors and the Committees of the Board of Supervisors of the Bank have played their corresponding roles and operated effectively, so as to guarantee the compliant operation and the steady healthy development of the Bank. During the reporting period, the Bank convened a total of 20 various meetings, among which, there were 1 general meeting, 3 Board of Directors meetings, 9 Board of Directors Committees meetings, 3 Board of Supervisors meetings and 4 Board of Supervisors Committees meetings.

6.2 GENERAL MEETINGS

During the reporting period, the Bank held only 1 general meeting. On 30 June 2014, the Bank held the 2013 AGM in Hefei, Anhui, PRC. The notification, convening, holding and voting procedures of the meeting were in compliance with the Company Law, the Articles of Association and the Hong Kong Listing Rules. For the details of resolutions for consideration, please see the announcement of the 2013 AGM resolutions which was published on the website of the Stock Exchange and the Bank on 30 June 2014.

6.3 BOARD AND BOARD COMMITTEE MEETINGS

During the reporting period, the Bank held 3 Board of Directors meetings, at which 47 resolutions were considered and approved. The Bank held 9 Board Committee meetings, (among which, there were 2 Nomination and Remuneration Committee meetings, 2 Strategy Development Committee meetings, 2 Risk Management Committee meetings, 2 Related Party Transaction Supervision Committee meetings and 1 Audit Committee meeting) at which 51 issues were studied and considered.

6.4 BOARD OF SUPERVISORS AND BOARD OF SUPERVISORS COMMITTEES MEETINGS

During the reporting period, the Bank held 3 Board of Supervisors meetings, (among which, 2 times physically held and 1 time via written resolution) at which, 18 resolutions were considered. The Company held 4 Committees of the Board of Supervisors meetings, (among which, there were 2 nomination committee meetings and 2 Supervisory Committee meetings) at which, 17 resolutions were considered.

The Board of Supervisors attended 3 physical Board meetings and 1 general meeting.

Chapter VI Corporate Governance

6.5 SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND THE RELEVANT EMPLOYEES

The Bank 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 Bank in respect of their dealings in the Company's securities.

Having made specific enquiries to all the directors and supervisors, the Bank confirmed that they had complied with the aforesaid Model Code throughout the period ended 30 June 2014.

6.6 INTERNAL CONTROL

Following the operation philosophy of compliant and steady development, according to laws and regulations such as the Basic Internal Control Norms for Enterprises and its relevant guidelines, the Guidelines for Internal Control of Commercial Banks as well as the requirements of the Hong Kong Stock Exchange; the Bank has established an internal control system consisting of five elements, namely internal environment, risk assessment, control measures, information and communication and internal supervision, clearly defined the objectives, principles and organizational system of internal control; exerted full control over the whole process of various operation management of the Bank, and in the course of carrying out internal control, continued to enhance the integrity, rationality and effectiveness of our internal control system so as to ensure the compliant and steady development of the Bank.

Pursuant to relevant state laws and regulations, the Bank established a standard governance structure and rules of procedure; formed scientific and effective segregation of duties as well as check and balance mechanism. The Board of the Bank takes ultimate responsibility for the establishment of internal control system as well as the effectiveness of its implementation. The Board of Supervisors is in charge of overseeing the Board and senior management to establish and improve internal control system; and overseeing directors and senior management to perform their duty of internal control. Senior management is responsible for the execution of internal control system and policies approved by the Board. According to the internal control requirements of checks and balances, the Bank established an internal control and management structure which specifies clear division of responsibilities and separation of duties and requires everyone to play his/her functional role. The Risk Management and Internal Control Committee of the head office shall consider and decide on material events and management measures regarding internal control. Each of the operation management departments and sales networks is "the first-line defense of internal control" of the Bank, taking on the primary responsibility of developing and implementing internal control. Each functional department and internal control management position and Compliance Management Department of the head office and branches comprises "the second-line defense of internal control", providing guidance and supervision on development and implementation of internal control of the first-line defense as well as reporting to the management on the establishment and implementation of internal control system of the Bank. Being "the third-line defense of internal control", the Audit Department monitors and checks the effectiveness of internal control.

During the reporting period, the Bank has launched projects including the "Compliance Building Year", 2013 working performance trial assessment, 2013 new branches internal control operation assessment, compliance risk management identification and assessment for the first half of 2014, AML management system improvement, which established a comprehensive risk management system, further improved market risk, credit risk and operational risk management system so that the internal control system can operate in an effective way. In addition, the Bank has undertaken assessments of the internal control of the head office and the branches in 2013, each of the management department and branches, after the reviewed by the Board, no significant deficiencies regarding the integrity, rationality and effectiveness of the internal control were found.

Chapter VI Corporate Governance

6.7 STATEMENT OF COMPLIANCE WITH THE HONG KONG LISTING RULES

The Bank made an announcement on 8 January 2014 and 13 January 2014, respectively, announced that Mr. Wen Jinghui has tendered his resignation as an independent non-executive Director (with effect from the date of formal appointment of his replacement as independent non-executive Director) and he has been under investigation by the CSRC in relation to alleged breaches to certain securities laws and regulations of the PRC. The Board of the Bank was informed by Mr. Wen Jinghui on 15 April 2014 that the CSRC has published its ruling of the investigation on the night of 14 April 2014. Pursuant to the ruling, Mr. Wen was prohibited from undertaking any securities related work in any organization, acting as director, supervisor or senior management of any listed company for a period of 10 years commencing from the date of publication of the ruling. Given the disqualification order, Mr. Wen Jinghui is no longer qualified to act as the Bank's independent non-executive director, and accordingly, Mr. Wen Jinghui's all positions in the Bank were terminated on 15 April 2014. The Bank has accordingly made an announcement of "Termination of Independent Non-Executive Directorship" on 16 April 2014. On 15 April 2014, after termination of Mr. Wen Jinghui's all positions in the Bank, there were a total of 14 directors in the Bank's Board of Directors. According to Rule 3.10A and 3.21 of the Hong Kong Listing Rules, during the period from 15 April 2014 to 30 June 2014, (1) despite the number of independent directors of the Bank must represent at least one-third of the Board, the number of independent directors of the Bank represented less than one-third of the Board; (2) there was a vacancy for chairman of the Audit Committee of the Bank. Upon the Mr. Wen's termination on 15 April 2014, the appointment of Mr. Zhu Hong Jun as the successor of Mr. Wen Jinghui was approved at the general meeting of the Bank held on 30 June 2014. During the period from 15 April 2014 to 30 June 2014, the Bank did not fully comply with the Hong Kong Listing Rules as mentioned above.

Save as disclosed above, during the reporting period, the Company has applied to the principles of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules, and has complied with all the code provisions and recommended practices (if applicable).

Chapter VII Material Events

7.1 HOLDING AND TRADING OF SHARES OF OTHER LISTED COMPANIES

There was no holding and trading of shares of other listed companies by the Bank during the reporting period.

7.2 PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE BANK

There was no purchase, sale or redemption by the Bank or any of its subsidiaries of the listed securities of the Bank during the reporting period.

7.3 INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES UNDER THE REGULATIONS IN HONG KONG

As of 30 June 2014, the Directors, Supervisors and senior management of the Bank and their associates had the following interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO of Hong Kong or as otherwise notified to the Bank and Hong Kong Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules:

Name	Position	Type of Shares	Status	Number of shares (share) (Long position)	Percentage of related issued shares (%)	Percentage of all issued shares (%)
Ci Yaping	Director	Domestic Shares	Beneficial Owner	133,451	0.0017	0.0012
Xu Demei	Director	Domestic Shares	Beneficial Owner	84,861	0.0011	0.0008
Qian Zheng	Director	Domestic Shares	Beneficial Owner	32,212	0.0004	0.0003
Xu Chongding	Supervisor	Domestic Shares	Beneficial Owner	497,801	0.0063	0.0045
He Tao	Supervisor	Domestic Shares	Beneficial Owner	97,376	0.0012	0.0009

Note: Save as disclosed above, as of 30 June 2014, none of the directors, supervisors and senior management of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations.

7.4 PENALTY AND INVESTIGATION OF THE BANK, DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

The Bank made an announcement on 8 January 2014 and 13 January 2014, respectively, announced that Mr. Wen Jinghui has tendered his resignation as an independent non-executive Director (with effect from the date of formal appointment of his replacement as independent non-executive Director) of the Bank and he has been under investigation by the CSRC in relation to alleged breaches to certain securities laws and regulations of the PRC. The Board of the Bank was informed by Mr. Wen Jinghui on 15 April 2014 that CSRC has published its ruling of the investigation on the night of 14 April 2014. Pursuant to the ruling, Mr. Wen has been prohibited from undertaking any securities related work in any organization, acting as director, supervisor or senior management of any listed company for a period of 10 years commencing from the date of publication of the Ruling. Given the disqualification order, Mr. Wen Jinghui is no longer qualified to act as the Bank's independent non-executive director, and accordingly, Mr. Wen Jinghui's all positions in the Bank were terminated on 15 April 2014. The Bank has accordingly made an announcement of "Termination of Independent Non-Executive Directorship" on 16 April 2014.

Chapter VII Material Events

7.5 CONTINUING CONNECTED TRANSACTION

In the ordinary course of the business, the Bank provides commercial banking service and products to the public, including the Bank's directors, supervisors and/or their respective associates. During the reporting period, related party transactions are conducted under normal commercial terms and conditions, which is not superior to similar conditions for non-related party transactions. The transaction terms are fair and reasonable and in line with whole interests of the Bank and shareholders. All these transactions are conducted under normal commercial terms and are exempt from the requirements of reporting, annual review, disclosure and independent shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

Commercial banking services in the ordinary and usual course of the business – deposit taking

The Bank is taking deposit from its connected persons (including directors, supervisors and/or their respective associates) under normal deposits interest rate and normal commercial terms.

The Bank takes deposits from its connected persons in the ordinary and usual course of the Bank's business and on normal commercial terms that are comparable or no more favorable than those offered to independent third parties. These transactions will be exempt continuing connected transactions under rule 14A.65 (4) of the Hong Kong Listing Rules, and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements under rule 14A.35 and 14A.45 to 14A.48 of the Hong Kong Listing Rules.

Commercial banking services in the ordinary and usual course of the business – loans and credit facilities

The Bank extends loans and credit facilities to its connected persons (including the directors, supervisors and/or their respective associates) in the ordinary and usual course of its business on normal commercial terms with reference to prevailing market rates.

The loans and credit facilities offered by the Bank to its connected persons are in the ordinary and usual course of its business and on normal commercial terms and on comparable terms to independent third parties. Therefore, these transactions will constitute exempt continuing connected transactions under rule 14A.65(1) of the Listing Rules, and thus will be exempt from the reporting, announcement and independent shareholders' approval requirements under rule 14A.35 and 14A.45 to 14A.48 of the Hong Kong Listing Rules.

Commercial banking services in the ordinary and usual course of the business – other banking service and products

The Bank provides various commercial banking services and products (including credit/debit cards and wealth-management products) in the ordinary and usual course of its business to its connected persons (including the directors, supervisors and/or their respective associates) at normal prescription fees, service fees and charges and on normal commercial terms and conditions.

It is expected that none of the applicable percentage ratios (as defined under Rule 14A.10 of the Hong Kong Listing Rules) in respect of the annual aggregate service and/or product fees paid to us by a particular connected person and its associates will exceed 0.1%. Therefore, these transactions will constitute exempt continuing connected transactions pursuant to Rule 14A.33(3)(a) of the Hong Kong Listing Rules, and thus, will be exempt from the reporting, announcement and independent shareholders' approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Hong Kong Listing Rules.

Please refer to Note 43 in the Financial Statement for details of related party transaction of the Bank.

Chapter VII Material Events

7.6 MATERIAL LITIGATIONS AND ARBITRATIONS

As was known to the Bank, as of 30 June 2014, the Bank was involved in the following litigation cases in its regular course of business: the number of pending litigation and arbitration cases involving the Bank totaled 245, with a total principal amount of RMB700 million. Of which, there were a total of 5 pending litigation and arbitration cases against the Bank, with a total principal amount of RMB1.8464 million. The Bank made full provision for allowances for doubtful accounts of loans involved in the above cases according to expected losses. All the cases have no material adverse effect on the Bank's financial position and operating results.

7.7 USE OF PROCEEDS

The funds raised from the Bank's fundraising activities were used for the purposes as disclosed in the prospectuses, namely, strengthening the capital base to support the ongoing growth of the Bank.

For future development and planning disclosed in the public disclosure documents such as the offering prospectuses and fund raising prospectuses issued by the Bank which has continued during the reporting period, its implementation progress conformed to the planning as described upon verification and analysis.

7.8 ASSET ACQUISITION, DISPOSAL AND REORGANIZATION

During the reporting period, some assets have been pledged to other banks and the Ministry of Finance as pledge of repurchase agreement and treasury deposits. Apart from that, the Bank has no other material asset acquisition, disposal or reorganization outside material business operations. Please refer to Note 39 to Financial Statement for details of asset pledge.

7.9 USE OF FUNDS BY RELATED PARTIES

As was known to the Bank, during the reporting period, neither the major shareholders of the Bank nor their related parties had used any funds of the Bank for non-operating purposes, nor none of them had used the funds of the Bank through any unfair related party transactions.

Chapter VII Material Events

7.10 INVESTMENT IN THE ESTABLISHMENT OF A FINANCE LEASING COMPANY

As approved by shareholders at the general meeting held on 30 June 2014, the Bank intends to invest and establish a finance leasing company, with its basic information as follows:

- (1) Name of company: Huiyin Finance Leasing Co., Ltd. (tentative);
- (2) Registered capital: RMB2 billion;
- (3) Registered place: Hefei, Anhui Province;
- (4) Capital contribution: The Bank will contribute 51% of the capital with an amount of RMB1.02 billion and the amount contributed shall be fully paid in full a lump sum;
- (5) Contributors of company: In accordance with the relevant provisions of the Measures for the Administration of Financial Leasing Companies¹(《金融租賃公司管理辦法》) (Order No. 1 [2007] of the CBRC) and the Measures of China Banking Regulatory Commission for the Implementation of Administrative Licensing Matters Concerning Non-bank Financial Institutions (《中國銀行業監督管理委員會非銀行金融機構行政許可事項實施辦法》) (Order No. 13 [2007] of the CBRC) on the contributors of a finance leasing company, the contributors were determined to be: Major Contributor: Huishang Bank Corporation Limited with a shareholding ratio of 51%; General Contributor: To be determined (other than the connected party (as defined in the Hong Kong Listing Rules) of the Bank).
- (6) Scope of business: Financial leasing; transfers of subject assets of financial leases; investment businesses in securities with fixed revenues; acceptance of lease deposit from lessee; accepting non-bank shareholders time deposits of more than three months (inclusive); interbank lending; borrowing from financial institutions; overseas loan; sales and disposals of leased objects; economic consulting; issuing bonds; establishment of project companies to engage in financing and leasing business in the bonded areas in the PRC; asset securitization; provide guarantees for the external financing of subsidiaries and project companies; other businesses approved by the CBRC;
- (7) Approval from regulatory authorities: This investment is subject to the approval from the CBRC;
- (8) Conditions Precedent: There is expected to be customary conditions precedent to this transaction;
- (9) Termination of arrangement: There is expected to be customary termination provisions; and
- (10) Transfer of investment: There is expected to be customary transfer restrictions.

¹ These administrative measures were amended on 13 March 2014 and issued and effective according to Order No. 3 [2014] of the CBRC and the original Measures for the Administration of Financial Leasing Companies (Order No. 1 [2007] of the CBRC) were repealed simultaneously.

Chapter VII Material Events

7.11 INVESTMENT IN THE ESTABLISHMENT OF A CONSUMER FINANCE COMPANY

As approved by shareholders at the general meeting held on 30 June 2014, the Bank proposed to invest and establish a consumer finance company, with its basic information as follows:

- (1) Name of company: Huiyin Consumer Finance Co., Ltd.;
- (2) Registered capital: RMB500 million;
- (3) Registered place: Hefei, Anhui Province;
- (4) Capital contribution: The Bank will contribute no more than 51% of the capital with a limit of RMB255 million;
- (5) Nature of institute: Enterprise legal person;
- (6) Form of organization: Limited liability company;
- (7) Contributors of company: In accordance with the relevant provisions of the Pilot Measures for the Administration of Consumer Finance Companies (《消費金融公司試點管理辦法》) (Order No. 2 [2013] of the CBRC) and the Measures of China Banking Regulatory Commission for the Implementation of Administrative Licensing Matters Concerning Non-bank Financial Institutions (《中國銀行業監督管理委員會非銀行金融機構行政許可事項實施辦法》) (Order No. 13 [2007] of the CBRC) on the contributors of a consumer finance company, the contributors were determined to be: Major Contributor: Huishang Bank Corporation Limited with a shareholding ratio less than 51% and contribution amount less than RMB255 million; General Contributor: To be determined (other than the connected party (as defined in the Hong Kong Listing Rules) of the Bank).
- (8) Scope of business: Issuing of individual consumer loans; accepting of deposits from domestic subsidiaries of shareholders and domestic shareholders; borrowing from domestic financial institutions; issuing of financial bonds with approval; domestic interbank lending; consulting and agent business related to finance; agent and sale of insurance products related to consumer loans; investment businesses in securities with fixed revenues; other businesses approved by the CBRC;
- (9) Approval from regulatory authorities: This investment is subject to the approval from the CBRC;
- (10) Profit distribution: It is expected that profits will be distributed according to the promoters' respective shareholdings, subject to the profitability of Huiyin Consumer Finance Co., Ltd.;
- (11) Termination of arrangement: There is expected to be customary termination provisions; and
- (12) Transfer of investment: There is expected to be customary transfer restrictions.

Chapter VII Material Events

7.12 ISSUE OF FINANCIAL BONDS

As approved by shareholders at the general meeting held on 30 June 2014, and subject to obtaining necessary approvals from the China Banking Regulatory Commission and other regulatory authorities, the Bank will offer to members of the China national inter-bank bond market financial bonds used for loans for agricultural businesses in an aggregate principal amount of RMB6 billion to RMB8 billion (the "Bonds"). The Bonds will not be listed on The Stock Exchange. For details, please refer to the announcement on proposed issue of financial bonds dated 21 January 2014 of the Bank.

7.13 REVIEW ON INTERIM RESULTS

Financial statements disclosed in the Bank's 2014 Interim Report have not been audited. PricewaterhouseCoopers, being the external auditor of the Bank, has reviewed the interim financial report of the Bank prepared in accordance with the disclosure requirements of the International Accounting Standards and the Hong Kong Listing Rules. In addition, the Audit Committee under the Board of the Bank has also reviewed and approved the interim results and financial report of the Bank for the six months ended 30 June 2014.

7.14 PUBLICATION OF INTERIM REPORT

The Bank has prepared its interim report under IFRS and Hong Kong Listing Rules in both Chinese and English versions, which are available on the website of the Hong Kong Stock Exchange and the Bank's website. In case of any discrepancies, the Chinese version shall prevail.

Chapter VIII Interim Financial Statement Report On Review Of Interim Financial Information



羅兵咸永道

To the Board of Directors of Huishang Bank Corporation Limited
(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 73 to 132, which comprises the interim condensed consolidated statement of financial position of Huishang Bank Corporation Limited (the "Bank") and its subsidiaries (together, the "Group") as at 30 June 2014 and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Bank are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 August 2014

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Condensed Consolidated Statement of Comprehensive Income

For six months ended 30 June 2014
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Six months ended 30 June	
		2014	2013
Interest income	5	11,304,574	9,079,852
Interest expense	5	(5,943,376)	(4,355,746)
Net interest income		5,361,198	4,724,106
Fee and commission income	6	507,910	329,317
Fee and commission expense	6	(40,333)	(36,012)
Net fee and commission income		467,577	293,305
Net trading income	7	48,752	28,725
Net gains on investment securities		41,700	4,150
Other operating income, net	8	81,180	68,134
Operating income		6,000,407	5,118,420
Operating expenses	9	(1,834,834)	(1,511,386)
Impairment losses on assets	11	(474,277)	(424,316)
Operating profit		3,691,296	3,182,718
Share of profits of associates		39,324	24,024
Profit before income tax		3,730,620	3,206,742
Income tax expense	12	(890,379)	(754,717)
Profit for the period		2,840,241	2,452,025
Other comprehensive income			
Fair value changes on available-for-sale financial assets		711,681	31,479
Less: related income tax impact		(177,920)	(7,870)
Net other comprehensive income		533,761	23,609
Comprehensive income for the period		3,374,002	2,475,634
Net profit attributable to:			
Shareholders of the Bank		2,838,689	2,452,020
Non-controlling interests		1,552	5
		2,840,241	2,452,025
Total comprehensive income attributable to:			
Shareholders of the Bank		3,372,450	2,475,629
Non-controlling interests		1,552	5
		3,374,002	2,475,634
Earnings per share for profit attributable to the shareholders of the Bank (express in RMB per share)			
Basic/Diluted	13	0.26	0.30

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2014

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

	Note	As at 30 June 2014	As at 31 December 2013
Assets			
Cash and balances with central bank	14	63,774,090	76,178,455
Due from banks and other financial institutions	15	24,122,986	10,999,655
Placements with and loans to banks and other financial institutions	16	7,835,100	1,192,253
Financial assets held for trading	17	1,741,562	1,805,291
Derivative financial assets	18	10,288	5,698
Financial assets held under resale agreements	19	57,848,012	36,772,428
Loans and advances to customers	20	207,221,940	191,280,398
Investment securities			
– loans and receivables	21	16,363,478	723,568
– available-for-sale	21	29,682,654	29,964,720
– held-to-maturity	21	29,143,715	27,772,207
Investment in associates	23	374,065	334,741
Property, plant and equipment	24	1,509,544	1,512,190
Deferred income tax assets	33	954,475	1,113,242
Other assets	25	2,384,075	2,454,244
Total assets		442,965,984	382,109,090
Liabilities			
Due to central bank		15,000	–
Deposits from banks and other financial institutions	27	24,782,013	17,433,406
Placements from banks and other financial institutions	28	1,336,507	1,537,045
Derivative financial liabilities	18	9,803	5,052
Financial assets sold under repurchase agreements	29	60,358,425	42,727,917
Deposits from customers	30	306,494,263	272,798,242
Taxes payable	31	254,775	375,775
Debt securities in issue	34	8,986,011	8,986,415
Other liabilities	32	7,407,025	6,573,306
Total liabilities		409,643,822	350,437,158
Equity			
Share capital	35	11,049,819	11,049,819
Capital reserve	35	6,751,041	6,751,041
Surplus reserve	36	3,504,232	3,011,585
General reserve	36	3,743,460	3,062,782
Reserve for fair value changes of available-for-sale financial assets	36	(375,786)	(909,547)
Retained earnings		8,601,033	8,659,441
Total equity attributable to shareholders of the Bank		33,273,799	31,625,121
Non-controlling interests		48,363	46,811
Total equity		33,322,162	31,671,932
Total equity and liabilities		442,965,984	382,109,090

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

Approved and authorized for issue by the Board of Directors on 21 August 2014.

Li Hongming

Chairman

Wu Xuemin

President

Xia Min

Vice President In-charge of Finance

Li Dawei

Head of Financial Department

Condensed Consolidated Statement of Changes in Equity

For six months ended 30 June 2014
(All amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to shareholders of the Bank							
	Share	Capital	Surplus	General	Reserve for fair	Retained	Non-	Total
	capital	reserve	reserve	reserve	value changes of	earnings	controlling	equity
	Note 35	Note 35	Note 36	Note 36	available-for-sale financial assets	Note 37	interests	
					Note 36			
As at 1 January 2014	11,049,819	6,751,041	3,011,585	3,062,782	(909,547)	8,659,441	46,811	31,671,932
Profit for the period	-	-	-	-	-	2,838,689	1,552	2,840,241
Changes in fair value taken to other comprehensive income	-	-	-	-	533,761	-	-	533,761
Total comprehensive income	-	-	-	-	533,761	2,838,689	1,552	3,374,002
Dividends	-	-	-	-	-	(1,723,772)	-	(1,723,772)
Appropriation to surplus reserve	-	-	492,647	-	-	(492,647)	-	-
Appropriation to general reserve	-	-	-	680,678	-	(680,678)	-	-
As at 30 June 2014	11,049,819	6,751,041	3,504,232	3,743,460	(375,786)	8,601,033	48,363	33,322,162
As at 1 January 2013	8,174,819	1,806,700	2,088,299	1,472,380	(125,683)	7,064,409	-	20,480,924
Profit for the period	-	-	-	-	-	2,452,020	5	2,452,025
Changes in fair value taken to other comprehensive income	-	-	-	-	23,609	-	-	23,609
Total comprehensive income	-	-	-	-	23,609	2,452,020	5	2,475,634
Capital injection by non-controlling interests in setting up subsidiary	-	-	-	-	-	-	47,200	47,200
Dividends	-	-	-	-	-	(817,482)	-	(817,482)
Appropriation to surplus reserve	-	-	430,639	-	-	(430,639)	-	-
Appropriation to general reserve	-	-	-	1,590,402	-	(1,590,402)	-	-
As at 30 June 2013	8,174,819	1,806,700	2,518,938	3,062,782	(102,074)	6,677,906	47,205	22,186,276
As at 1 January 2013	8,174,819	1,806,700	2,088,299	1,472,380	(125,683)	7,064,409	-	20,480,924
Profit for the year	-	-	-	-	-	4,926,202	(389)	4,925,813
Changes in fair value taken to other comprehensive income	-	-	-	-	(783,864)	-	-	(783,864)
Total comprehensive income	-	-	-	-	(783,864)	4,926,202	(389)	4,141,949
Capital injection by non-controlling interests in setting up subsidiary	-	-	-	-	-	-	47,200	47,200
Shares issued	2,875,000	4,944,341	-	-	-	-	-	7,819,341
Dividends	-	-	-	-	-	(817,482)	-	(817,482)
Appropriation to surplus reserve	-	-	923,286	-	-	(923,286)	-	-
Appropriation to general reserve	-	-	-	1,590,402	-	(1,590,402)	-	-
As at 31 December 2013	11,049,819	6,751,041	3,011,585	3,062,782	(909,547)	8,659,441	46,811	31,671,932

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

Condensed Consolidated Statement of Cash Flows

For six months ended 30 June 2014

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

	Six months ended 30 June	
	2014	2013
Cash flows from operating activities:		
Profit before income tax	3,730,620	3,206,742
Adjustments:		
Depreciation and amortization	132,778	115,643
Loan impairment provision	474,277	424,316
Recovery of written-off loans	1,408	875
Net gains on disposals of property, plant and equipment	(20)	(4,826)
Net gains on de-recognition of investment securities	(41,700)	(4,150)
Fair value changes in financial assets held for trading and derivatives	(25,660)	(17,665)
Share of results of associates	(39,324)	(24,024)
Interest income arising from investment securities	(1,530,607)	(1,173,497)
Investment income arising from derivative financial assets	(501)	–
Cash payments for IPO activity expenses	15,881	–
Interest expense arising from debt securities in issue	239,035	190,631
Net changes in operating assets:		
Net increase in balances with the central bank	(3,632,655)	(3,789,421)
Net (increase)/decrease in due from and placements with and loans to banks and other financial institutions	(9,296,321)	1,358,846
Net decrease/(increase) in financial assets held for trading	89,550	(52,038)
Net increase in financial assets held under resale agreements	(21,075,584)	(54,082,771)
Net increase in loans and advances to customers	(16,396,723)	(19,331,586)
Net increase in other assets	148,723	96,853
Net changes in operating liabilities:		
Net increase in deposits and placements from banks and other financial institutions	7,128,920	13,739,803
Net increase in financial assets sold under repurchase agreements	17,630,508	52,786,639
Net increase in deposits from customers	33,696,021	12,594,184
Net increase in other liabilities	(444,104)	(304,276)
Income taxes paid	(1,087,716)	(927,980)
Net cash inflow from operating activities	9,716,806	4,802,298

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

Condensed Consolidated Statement of Cash Flows

For six months ended 30 June 2014
(All amounts expressed in thousands of RMB unless otherwise stated)

	Six months ended 30 June	
	2014	2013
Cash flows from investing activities:		
Proceeds from disposal of property, plant and equipment, intangible assets and other long-term assets	436	9,588
Purchase of property, plant and equipment, intangible assets and other long-term assets	(151,155)	(106,754)
Cash received from investment securities' interest income	1,444,970	1,098,144
Cash received from investment securities	35,584,842	18,914,004
Purchase of investment securities	(51,560,312)	(30,688,269)
Cash paid in increasing the investment in associates	–	(66,460)
Net cash outflow from investing activities	(14,681,219)	(10,839,747)
Cash flows from financing activities:		
Proceeds from issuance of debt securities	–	4,992,700
Cash received from non-controlling interests in investing in subsidiary	–	47,200
Cash payments for IPO activity expenses	(147,076)	–
Dividends and interests paid on debt issued	(481,544)	(1,000,681)
Net cash (outflow)/inflow from financing activities	(628,620)	4,039,219
Impact on cash and cash equivalents resulted from interest rate changes	6,721	(18,465)
Net decrease in cash and cash equivalents	(5,586,312)	(2,016,695)
Cash and cash equivalents at beginning of period	37,548,361	19,901,283
Cash and cash equivalents at end of period (Note 42)	31,962,049	17,884,588

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

Notes to the Condensed Consolidated Financial Statements

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

1 GENERAL INFORMATION

Huishang Bank Corporation Limited (the “Bank”) is a joint stock commercial bank registered in Anhui Province, the People’s Republic of China (the “PRC”). The Bank was formerly known as Hefei City Cooperatives Bank, which was established on 4 April 1997. The Bank acquired five former city commercial banks in Wuhu, Ma’anshan, Anqing, HuaiBei and Bengbu and seven city credit cooperatives in Lu’an, Huainan, Tongling and Fuyang Technology, Fuyang Xinying, Fuyang Yinhe and Fuyang Jinda on 28 December 2005. The Bank holds the financial institution license B0162H234010001 from CBRC Anhui Branch and the legal entity business license No. 340000000026144(1-1) from Anhui Provincial Administration of Industry and Commerce. The registered address of the Bank is Block A, Tianhui Building, No. 79, Anqing Road, Hefei, China. On 12 November 2013, the Bank’s H-shares were listed on the Hong Kong Stock Exchange (Stock Code: 3698). As at 30 June 2014, the registered and paid-in capital of the Bank is RMB11.05 billion.

The Bank and its subsidiary (together the “Group”) provide corporate, banking, retail banking, and treasury operations which mainly encompass money market activities, investment and trading activities and transactions for customers in the PRC.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on 21 August 2014.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” and with all applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The unaudited interim condensed financial statements contain selected explanatory notes, which provide explanations of events and transactions that are significant to the understanding of the changes in financial position and performance of the Group since the financial statements for the year ended 31 December 2013. The selected notes do not include all of the information and disclosures required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”), and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2013.

Notes to the Condensed Consolidated Financial Statements

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) Significant accounting policies

The condensed consolidated financial information has been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013. The condensed consolidated financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013.

New and revised IFRSs effective by 1 January 2014 applied by the Group

Amendment to IFRS10/IFRS 12 and IAS 27	Investment Entities
Amendment to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendment to IAS 36	Impairment of Assets – Recoverable Amount for Non-Financial Assets
Amendment to IAS 39	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

The application of these new and revised IFRSs didn't have significant impact on the Group's operating results, comprehensive income and financial position.

Standards and amendments that are not yet effective and have not been adopted by the Group

		Effective for annual period beginning on or after
Amendment to IFRS19	Employee benefits on defined benefit plans	1 July 2014
IFRS(revised)	Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014
IFRS(revised)	Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014
IFRS 9	Financial instruments	1 January 2018
Amendment to IFRS 9	A set of amendments to requirement of financial instruments measurement	1 January 2018
IFRS14	Regulatory deferral accounts	1 January 2016
IFRS15	Revenue from contacts with customers	1 January 2016

Notes to the Condensed Consolidated Financial Statements

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) Significant accounting policies (Continued)

Standards and amendments that are not yet effective and have not been adopted by the Group (Continued)

Amendment to IAS19, Employee benefits – To plans that require employees or third parties to contribute towards the cost of benefits.

The amendment to IAS 19 (revised) – Employee Benefits will affect any postemployment benefit plans where employees or third parties are required to bear some of the cost of the plan. The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period. Entities with plans that require contributions that vary with service will be required to recognize the benefit of those contributions over employees' working lives.

Annual Improvements to IFRSs 2010-2012 Cycle

The annual improvements to IFRSs 2010 – 2012 Cycle include amendments to IFRSs include the amendments to IFRS 2 – Share-Based Payment, the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 8 – Operating Segments, the amendments to IFRS 13 – Fair Value Measurement, the amendments to IAS 24 – Related Party Disclosures, the amendments to IAS 16 – Property, Plant and Equipment, and the amendments to IAS 38 – Intangible Assets.

Annual Improvements to IFRSs 2011 – 2013 Cycle

The annual improvements to IFRSs 2011 – 2013 Cycle include amendments to IFRSs include the amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards, the amendments to IFRS 3 – Business Combinations, the amendments to IFRS 13 – Fair Value Measurement, and the amendments to IAS 40 – Investment Property.

IFRS 9 Financial Instruments

IFRS 9 – Financial Instruments is the first standard issued as part of a wider project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 retains, but simplifies, the mixed measurement model for financial instruments. The basis of classification will depend on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets continues to apply. The IASB completed a package of amendments to IFRS 9 on 19 November 2013, which are described in the section below.

Notes to the Condensed Consolidated Financial Statements

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(2) Significant accounting policies (Continued)

Standards and amendments that are not yet effective and have not been adopted by the Group (Continued)

Amendments to IFRS 9

The amendments bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; allow the changes to address the so-called “own credit” issue that were already included in IFRS 9 to be applied in isolation without the need to change any other accounting for financial instruments; and remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

IFRS 14 Regulatory deferral accounts

This standard as transition rules specifies the accounting for certain balances that arise from rate -regulated activities (regulatory deferral accounts). This standard is only applicable to entities that apply IFRS 1 as first-time adopters of IFRS. It permits such entities, on adoption of IFRS, to continue to apply their previous GAAP accounting policies for the recognition, measurement, and impairment and de-recognition of regulatory deferral accounts. The interim standard also provides guidance on selecting and changing accounting policies (on first-time adoption or subsequently) and on presentation and disclosure.

IFRS 15 Revenue from contracts with customers

The standard moves away from a revenue recognition model based on an earnings processes to an “asset-liability” approach based on transfer of control. Performance obligations are the building blocks in the new revenue recognition model. The amount and timing of revenue recognition are determined at the performance obligation level. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to the customer. It replaces the separate models for goods, services and construction contracts under current IFRS.

The directors of the Group are in the process of assessing the impact on the Group’s financial statements from these new standards.

Notes to the Condensed Consolidated Financial Statements

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(3) Summary of significant accounting policies and accounting estimates

The preparation of the interim condensed financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions.

When preparing the interim condensed financial statements, judgements, estimates and assumptions made by the management which affect the application of policies are consistent with those of the previous financial year ended 31 December 2013.

(4) Consolidation

The interim financial statements comprise the Bank and its subsidiaries and the Group's interests in associates and jointly controlled entities.

The results and affairs of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Necessary adjustments on the accounting period and accounting policies of subsidiaries are made to comply with those of the Bank. Intragroup balances and transactions, and any profits or losses arising from intragroup transactions are eliminated in full in preparing the consolidated financial statements.

The Group's interest in associates or jointly controlled entities is included from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Profits and losses resulting from transactions between the Group and its associates or jointly controlled entities are eliminated to the extent of the Group's interest in the associates or jointly controlled entities.

3 INTERIM FINANCIAL STATEMENTS

The interim financial statements have been reviewed by the Audit Committee of the Bank, and were approved by the Board of Directors of the Bank on 21 August 2014. The interim financial statements have also been reviewed by the Bank's auditors, PricewaterhouseCoopers, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial statements as previously reported information derived from those financial statements. The auditor has expressed an unqualified opinion on those financial statements in the report dated 26 March 2014.

Notes to the Condensed Consolidated Financial Statements

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

4 TAXATION

The principal taxes to which the Group is subject to are listed below:

	Tax basis	Tax rate
Corporate income tax	Taxable profit	25%
Business tax	Taxable operating income	5%
City construction and maintenance tax	Business tax paid	7%
Education surcharges	Business tax paid	3%

5 NET INTEREST INCOME

	Six months ended 30 June	
	2014	2013
Interest income		
Balances with central bank	430,049	373,658
Due from and placement with and loans to banks and other financial institutions	2,340,213	1,613,127
Loans and advances to customers	7,003,705	5,919,570
Investment securities and financial assets held for trading	1,530,607	1,173,497
	11,304,574	9,079,852
Including: Interest income accrued on impaired loans to customers	19,096	17,316
Interest expense		
Due to central bank	(119)	–
Deposits and placements from banks and other financial institutions	(2,563,420)	(1,928,192)
Deposits from customers	(3,140,802)	(2,236,923)
Debt securities in issue	(239,035)	(190,631)
	(5,943,376)	(4,355,746)
Net interest income	5,361,198	4,724,106

Notes to the Condensed Consolidated Financial Statements

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

6 NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2014	2013
Fee and commission income		
Custodian and other fiduciary service fees	189,439	55,359
Consultancy and advisory fees	85,982	74,974
Bank card fees	70,389	48,219
Settlement and clearing fees	51,625	40,825
Guarantee and commitment fees	22,665	34,250
Agency commissions	13,679	15,230
Syndicated loan fees	8,948	23,694
Domestic factoring fees	6,860	11,538
Arrangement fees for international trade financing	5,181	9,253
Others	53,142	15,975
	507,910	329,317
Fee and commission expense	(40,333)	(36,012)
Net fee and commission income	467,577	293,305

7 NET TRADING INCOME

	Six months ended 30 June	
	2014	2013
Net gains from foreign exchange	22,931	11,179
Net gains from interest rate instruments	25,821	17,546
	48,752	28,725

Net gains from interest rate instruments include gains or losses arising from fair value changes of financial assets held for trading.

8 OTHER OPERATING INCOME

	Six months ended 30 June	
	2014	2013
Net gains on bills	71,939	55,327
Others	9,241	12,807
	81,180	68,134

Notes to the Condensed Consolidated Financial Statements

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

9 OPERATING EXPENSES

	Six months ended 30 June	
	2014	2013
Employee benefit expenses (Note 10)	(787,248)	(636,339)
Administrative expenses	(366,840)	(322,323)
Business tax and surcharges	(447,789)	(370,599)
Depreciation (Note 24)	(88,294)	(77,931)
Amortization expenses for intangible assets	(15,593)	(12,320)
Amortization expenses for land use rights	(131)	(131)
Amortization expenses for long-term prepaid expenses	(28,760)	(25,261)
Operating lease rental expenses	(89,200)	(64,779)
Others	(10,979)	(1,703)
	(1,834,834)	(1,511,386)

10 EMPLOYEE BENEFIT EXPENSES

	Six months ended 30 June	
	2014	2013
Salaries and bonuses	(563,486)	(460,017)
Pension costs	(65,140)	(63,709)
Labor union fee and staff education fee	(17,387)	(11,321)
Other social insurance and welfare costs	(141,235)	(101,292)
	(787,248)	(636,339)

11 IMPAIRMENT LOSSES ON ASSETS

	Six months ended 30 June	
	2014	2013
Loans and advances to customers (Note 20(b))		
– Collectively assessed	(344,617)	(257,281)
– Individually assessed	(129,660)	(167,035)
	(474,277)	(424,316)

Notes to the Condensed Consolidated Financial Statements

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

12 INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
Current income tax		
– PRC mainland income tax	(909,532)	(772,273)
Deferred income tax (Note 33)	19,153	17,556
	(890,379)	(754,717)

The provision for China mainland income tax includes income tax based on the statutory tax rate of 25% of the taxable income of the Group as determined in accordance with the relevant PRC income tax rules and regulations.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the taxation rate of 25%. The major reconciliation items are as follows:

	Six months ended 30 June	
	2014	2013
Profit before tax	3,730,620	3,206,742
Tax calculated at applicable statutory tax rate of 25%	(932,655)	(801,686)
Income not subject to tax ^(a)	92,593	76,834
Items not deductible for tax purposes ^(b)	(3,217)	(5,213)
Tax filing differences from previous years	(47,100)	(24,652)
Income tax expense	(890,379)	(754,717)

- (a) The income not subject to tax mainly represents interest income arising from PRC treasury bonds, which is income tax free in accordance with the PRC tax regulations.
- (b) The items that are not deductible for tax purposes mainly represent marketing and entertainment expenses in excess of the relevant deductible threshold under the relevant PRC tax regulations.

Notes to the Condensed Consolidated Financial Statements

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

13 EARNINGS PER SHARE

- (a) Basic earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2014	2013
Profit attributable to shareholders of the Bank (in RMB thousands)	2,838,689	2,452,020
Weighted average number of ordinary shares in issue (in thousands)	11,049,819	8,174,819
Basic earnings per share (in RMB Yuan)	0.26	0.30

(b) **Diluted earnings per share**

For the six months ended 30 June 2014 and 2013, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

14 CASH AND BALANCES WITH THE CENTRAL BANK

	As at 30 June 2014	As at 31 December 2013
Cash	1,026,935	956,373
Balances with the central bank		
– Statutory reserves (a)	51,991,947	48,359,292
– Surplus reserves (b)	10,755,208	26,862,790
	63,774,090	76,178,455

- (a) The Group places statutory deposit reserves with the People's Bank of China ("PBOC"). The statutory deposit reserves are not available for use in the Group's daily business.

As at the end of the reporting period, the statutory deposit reserve rates of the bank were as follows:

	As at 30 June 2014	As at 31 December 2013
Statutory reserve rate for RMB deposits	17.5%	18%
Statutory reserve rate for foreign currency deposits	5.0%	5%

- (b) The surplus deposit reserve maintained with the PBOC is mainly for the purpose of clearing.

Notes to the Condensed Consolidated Financial Statements

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

15 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2014	As at 31 December 2013
Due from banks in PRC mainland	23,785,483	10,519,882
Due from banks in other countries and regions	337,506	479,776
	24,122,989	10,999,658
Less: allowances for impairment loss		
– Individually assessed	(3)	(3)
	24,122,986	10,999,655

16 PLACEMENT WITH AND LOANS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2014	As at 31 December 2013
Placement with and loans to:		
– Banks in PRC mainland	66,639	41,285
– Other financial institutions in PRC mainland	2,330,000	1,150,000
Re-discounted Bills	5,438,461	968
	7,835,100	1,192,253

17 FINANCIAL ASSETS HELD FOR TRADING

	As at 30 June 2014	As at 31 December 2013
Government bonds		
– Listed outside Hong Kong	541,778	274,838
Other debt securities		
– Listed outside Hong Kong	1,199,784	1,530,453
	1,741,562	1,805,291

As at 30 June 2014 and 31 December 2013, no major restrictions were imposed on the realization of financial assets held for trading of the Group.

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

Notes to the Condensed Consolidated Financial Statements

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

17 FINANCIAL ASSETS HELD FOR TRADING (Continued)

Financial assets held for trading analyzed by categories of issuers are as follows:

	As at 30 June 2014	As at 31 December 2013
Debt securities		
Issuers in PRC mainland		
– Government	541,778	274,838
– Public sector and quasi-government	–	9,975
– Other financial institutions	567,750	597,921
– Corporates	632,034	922,557
	1,741,562	1,805,291

18 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments held for trading:

	As at 30 June 2014			As at 31 December 2013		
	Notional Amount	Fair value		Notional Amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange forwards	1,145,193	10,288	(9,803)	1,644,002	5,698	(5,052)

19 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 30 June 2014	As at 31 December 2013
Securities held under resale	2,317,469	734,800
Bills held under resale	55,030,543	35,537,628
Trust of beneficiary under resale ^(a)	500,000	500,000
	57,848,012	36,772,428

(a) The investment orientation of beneficiary rights under trust mainly is the trust loan managed by trust company as the trustee.

Notes to the Condensed Consolidated Financial Statements

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

20 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis of loans and advances to customers:

	As at 30 June 2014	As at 31 December 2013
Corporate loans and advances		
– Corporate loans	145,524,082	136,855,920
– Discounted bills	11,376,505	9,725,240
Subtotal	156,900,587	146,581,160
Retail loans		
– Mortgage loans	39,083,213	34,790,468
– Revolving loans for individual businesses	10,343,092	9,451,425
– Others	5,460,158	4,626,383
Subtotal	54,886,463	48,868,276
Total	211,787,050	195,449,436
Less: Allowance for impairment losses		
– Collectively assessed	(4,084,346)	(3,797,825)
– Individually assessed	(480,764)	(371,213)
Total allowance for impairment losses	(4,565,110)	(4,169,038)
Loans and advances to customers, net	207,221,940	191,280,398

(b) Reconciliation of allowance for impairment losses on loans and advances to customers by collective and individual assessments:

	Six months ended 30 June 2014		Year ended 31 December 2013	
	Collectively assessed allowance	Individually assessed allowance	Collectively assessed allowance	Individually assessed allowance
Balance at beginning of the period/(year)	3,797,825	371,213	3,598,626	254,665
Impairment losses for the period/(year) (Note 11)	344,617	129,660	267,223	168,167
Unwinding of discount on allowance	(4,044)	(15,052)	(7,585)	(26,508)
Recoveries	466	942	521	1,279
Loans written-off	(54,518)	(5,999)	(60,960)	(26,390)
Balance at end of the period/(year)	4,084,346	480,764	3,797,825	371,213

Notes to the Condensed Consolidated Financial Statements

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

21 INVESTMENT SECURITIES

	As at 30 June 2014	As at 31 December 2013
Loans and receivables		
Debt securities		
– Unlisted	95,778	130,067
Wealth management products issued by other financial institutions		
– Unlisted	–	593,501
Asset management schemes by securities firms or trust companies		
– Unlisted	12,900,000	–
Others		
– Unlisted	3,367,700	–
Subtotal	16,363,478	723,568
Available-for-sale financial assets		
Debt securities		
– Listed outside Hong Kong	25,903,875	23,352,439
Asset management schemes by securities firms or trust companies		
– Unlisted	62,352	1,061,231
Equity securities		
– Unlisted	9,500	9,500
Others		
– Unlisted	3,706,927	5,541,550
Subtotal	29,682,654	29,964,720
Held-to-maturity investments		
Debt securities		
– Listed outside Hong Kong	28,197,429	27,025,214
– Unlisted	946,286	746,993
Subtotal	29,143,715	27,772,207
Total	75,189,847	58,460,495
Including: fair value of listed held-to-maturity securities	27,810,786	25,818,564

Debt securities traded on the China Domestic Interbank Bond Market are included in the category “Listed outside Hong Kong”.

Notes to the Condensed Consolidated Financial Statements

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

21 INVESTMENT SECURITIES (Continued)

Investment securities analyzed by issuers as follows:

	As at 30 June 2014	As at 31 December 2013
Loans and receivables		
Issuers in PRC mainland		
– Government	95,778	130,067
– Wealth management products issued by other financial institutions	–	593,501
– Asset management schemes by securities firms or trust companies ⁽¹⁾	12,900,000	–
– Others ⁽²⁾	3,367,700	–
	16,363,478	723,568
Available-for-sale financial assets		
Issuers in PRC mainland		
– Government	8,784,959	6,962,867
– Financial institutions	10,945,388	10,989,891
– Corporate	6,173,528	5,399,681
– Asset management schemes by securities firms or trust companies	62,352	1,061,231
– Equity securities	9,500	9,500
– Others ⁽²⁾	3,706,927	5,541,550
	29,682,654	29,964,720
Held-to-maturity investments		
– Government	12,438,275	12,016,981
– Other financial institutions	11,571,184	11,634,176
– Corporate	5,134,256	4,121,050
	29,143,715	27,772,207

(1) Asset management schemes issued by securities firms or trust companies classified as loan and receivable are deposits with financial institutions that the Group entrusted securities firms or trust companies to invest in.

(2) As at 30 June 2014, the Group's investment funds, raised from issuing the principal-guaranteed wealth management products, are mainly invested in bonds issued by government, corporate and financial institutions, and other fixed-income financial instruments. The Group's investments are categorized as available-for-sale financial assets or loans and receivables respectively according to whether there is open market quotation.

Notes to the Condensed Consolidated Financial Statements

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

22 INVESTMENT IN SUBSIDIARY

As at 30 June 2014, background of the subsidiary is as follows:

Corporate Name	Incorporation Date	Place of incorporation	Registered capital	Proportion of ownership	Proportion of voting power	Business sector
Jinzhai Huiyin Rural Bank Co., Ltd.	25 June 2013	Lu An, PRC	80,000	41%	41%	Banking

The Bank has control of this company, and this company is in scope of consolidation.

23 INVESTMENT IN ASSOCIATES

Investments in associates of the Group comprise of ordinary shares of unlisted companies as follows:

As at 30 June 2014

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Motor Finance Service Co., Ltd.	PRC	12,013,082	10,535,398	492,052	155,535	20%
Wuwei Huiyin Rural Bank Co., Ltd.	PRC	2,061,627	1,865,307	117,677	20,543	40%

As at 31 December 2013

Associates	Place of incorporation	Assets	Liabilities	Revenue	Net profit	Percentage of share
Chery Motor Finance Service Co., Ltd.	PRC	8,880,046	7,557,899	492,052	196,912	20%
Wuwei Huiyin Rural Bank Co., Ltd.	PRC	2,376,866	2,201,089	117,677	30,152	40%

	Six months ended 30 June 2014	Year ended 31 December 2013
Balance at beginning of the period/(year)	334,741	220,246
Additions	–	66,460
Share of results, net of tax	39,324	48,035
Balance at end of the period/(year)	374,065	334,741

Notes to the Condensed Consolidated Financial Statements

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

24 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor Vehicles	Electronic and other equipments	Construction in progress	Total
Cost					
As at 1 January 2014	1,225,610	60,594	824,811	310,312	2,421,327
Additions	663	2,566	66,914	22,592	92,735
Transfers in/(out)	–	–	49	(49)	–
Disposals	–	(788)	(13,069)	–	(13,857)
Other transfers out	–	–	–	(6,671)	(6,671)
As at 30 June 2014	1,226,273	62,372	878,705	326,184	2,493,534
Accumulated depreciation					
As at 1 January 2014	(419,475)	(34,839)	(454,823)	–	(909,137)
Depreciation charge	(43,508)	(3,830)	(40,956)	–	(88,294)
Disposals	–	764	12,677	–	13,441
As at 30 June 2014	(462,983)	(37,905)	(483,102)	–	(983,990)
Net book value					
As at 30 June 2014	763,290	24,467	395,603	326,184	1,509,544

	Buildings	Motor Vehicles	Electronic and other equipments	Construction in progress	Total
Cost					
As at 1 January 2013	1,189,975	57,963	704,693	225,616	2,178,247
Additions	28,155	12,209	124,625	128,220	293,209
Transfers in/(out)	23,593	–	1,911	(25,504)	–
Disposals	(16,113)	(9,578)	(6,418)	–	(32,109)
Other transfers out	–	–	–	(18,020)	(18,020)
As at 31 December 2013	1,225,610	60,594	824,811	310,312	2,421,327
Accumulated depreciation					
As at 1 January 2013	(376,882)	(36,056)	(360,896)	–	(773,834)
Depreciation charge	(55,530)	(8,013)	(99,028)	–	(162,571)
Disposals	12,937	9,230	5,101	–	27,268
As at 31 December 2013	(419,475)	(34,839)	(454,823)	–	(909,137)
Net book value					
As at 31 December 2013	806,135	25,755	369,988	310,312	1,512,190

For the six months ended 30 June 2014, net gains from disposals of property, plant and equipment of the Group were RMB20,000 (for the year ended 2013: RMB8,743,000).

All lands and buildings of the Group are located outside Hong Kong.

Notes to the Condensed Consolidated Financial Statements

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

25 OTHER ASSETS

	As at 30 June 2014	As at 31 December 2013
Interest receivable	1,733,574	1,550,199
Funds to be settled	203,561	540,707
Other receivables (a)	190,780	136,473
Less: impairment allowance	(32,123)	(33,134)
Long-term prepaid expenses	175,360	177,089
Land use rights	89,617	66,277
Intangible assets	8,541	8,671
Foreclosed assets	92	-
Others	14,673	7,962
	2,384,075	2,454,244

(a) Other receivables

The Group's other receivables are analyzed by age as follows:

As at 30 June 2014	Within 1 year	1-3 years	Over 3 years	Total
Other receivables	127,290	19,572	43,918	190,780
Bad debt allowance	(1,477)	(5,567)	(25,079)	(32,123)
Net	125,813	14,005	18,839	158,657

As at 31 December 2013	Within 1 year	1-3 years	Over 3 years	Total
Other receivables	65,772	5,724	64,977	136,473
Bad debt allowance	(2,773)	(4,544)	(25,817)	(33,134)
Net	62,999	1,180	39,160	103,339

26 IMPAIRMENT ALLOWANCE

	As at 1 January 2014	Additions	Recovery	Reversal	Write-off	As at 30 June 2014
Loans and advances	(4,169,038)	(474,277)	(1,408)	19,096	60,517	(4,565,110)
Due from banks and other financial institutions	(3)	-	-	-	-	(3)
Available-for-sale financial assets	(60)	-	-	-	-	(60)
Other receivables	(33,134)	(224)	-	-	1,235	(32,123)
	(4,202,235)	(474,501)	(1,408)	19,096	61,752	(4,597,296)

Notes to the Condensed Consolidated Financial Statements

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

26 IMPAIRMENT ALLOWANCE (Continued)

	As at 1 January 2013	Additions	Recovery	Reversal	Write-off	As at 31 December 2013
Loans and advances	(3,853,291)	(435,390)	(1,800)	34,093	87,350	(4,169,038)
Due from banks and other financial institutions	(6,003)	-	-	-	6,000	(3)
Placement with and loan to banks and other financial institutions	(38,417)	-	-	-	38,417	-
Foreclosed assets	(1,542)	-	-	-	1,542	-
Available-for-sale financial assets	(2,077)	-	-	-	2,017	(60)
Other receivables	(76,039)	-	-	-	42,905	(33,134)
	(3,977,369)	(435,390)	(1,800)	34,093	178,231	(4,202,235)

27 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2014	As at 31 December 2013
Banks in PRC mainland	22,964,608	16,846,652
Other financial institutions in PRC mainland	1,677,534	439,065
Banks outside PRC mainland	139,871	147,689
	24,782,013	17,433,406

28 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 30 June 2014	As at 31 December 2013
Banks in PRC mainland	1,271,948	1,476,220
Banks outside PRC mainland	64,559	60,825
	1,336,507	1,537,045

29 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 30 June 2014	As at 31 December 2013
Securities sold under repurchase agreements	19,119,700	18,983,950
Bills sold under repurchase agreements	41,238,725	23,743,967
	60,358,425	42,727,917

Notes to the Condensed Consolidated Financial Statements

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

30 DEPOSITS FROM CUSTOMERS

	As at 30 June 2014	As at 31 December 2013
Corporate demand deposits	111,222,819	111,787,682
Corporate time deposits	78,902,343	65,915,544
Retail demand deposits	28,053,990	24,913,935
Retail time deposits	45,674,781	37,530,458
Other deposits	42,640,330	32,650,623
	306,494,263	272,798,242
Including:		
Pledged deposits held as collateral	41,704,979	32,354,660

31 TAX PAYABLE

	As at 30 June 2014	As at 31 December 2013
Corporate income tax	13,631	123,971
Business tax and surcharges	198,913	224,633
Others	42,231	27,171
	254,775	375,775

32 OTHER LIABILITIES

	As at 30 June 2014	As at 31 December 2013
Interest payable	3,388,013	2,897,809
Dividends payable	1,792,506	68,878
Salary and welfare payable	1,011,298	1,101,371
Funds to be settled	913,691	1,120,191
Payable relevant to IPO	77,527	575,753
Suspense accounts	35,922	36,859
Project funds payable	15,232	15,699
Entrusted service	10,146	635,955
Others	162,690	120,791
	7,407,025	6,573,306

Notes to the Condensed Consolidated Financial Statements

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

33 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities related to income taxes levied by the same taxation authority. The movement in the deferred income tax account is as follows:

	Six months ended 30 June 2014	Year ended 31 December 2013
Balance at beginning of the period/(year)	1,113,242	851,158
Charged to income statement	19,153	797
(Debited)/Credited to shareholders' equity	(177,920)	261,287
Balance at end of the period/(year)	954,475	1,113,242

Items included in deferred income tax assets and liabilities are as follows:

	As at 30 June 2014	As at 31 December 2013
Deferred income tax assets		
Impairment allowance for assets	639,272	595,408
Salary and welfare payable	181,799	200,333
Fair value changes of available-for-sale financial assets	125,262	303,182
Fair value changes of financial assets held for trading	-	4,513
Others	10,205	9,968
	956,538	1,113,404
Deferred income tax liabilities		
Fair value changes of derivative financial instruments	(121)	(162)
Fair value changes of financial assets held-for-trading	(1,942)	-
	(2,063)	(162)
Deferred income tax assets, net	954,475	1,113,242

Deferred taxes taken to the statement of comprehensive income comprise the following temporary differences:

	Six months ended 30 June 2014	Year ended 31 December 2013
Impairment allowance for assets	43,864	8,337
Salary and welfare payable	(18,534)	(17,924)
Fair value changes of financial assets held for trading	(6,414)	5,887
Others	237	4,497
	19,153	797

Notes to the Condensed Consolidated Financial Statements

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

34 DEBT SECURITIES IN ISSUE

	As at 30 June 2014	As at 31 December 2013
Subordinated debts		
Subordinated debts with fixed rate – 2026	3,992,423	3,992,219
Financial bonds		
Financial bonds for SMEs – 2016	2,796,404	2,796,944
Financial bonds for SMEs – 2018	2,197,184	2,197,252
	8,986,011	8,986,415

As of and for the six months ended 30 June 2014, there are no defaults on principal and interest or other breaches to the terms with respect to these debt securities.

35 SHARE CAPITAL AND CAPITAL RESERVE

The Bank's share capital is comprised of fully paid common shares in issue, with par value of RMB1 per share. The number of shares is as follows:

	As at 30 June 2014	As at 31 December 2013
Number of authorized shares fully paid in issue (in thousands)	11,049,819	11,049,819

Generally speaking, transactions of the following nature are recorded in the capital reserve:

- (I) share premium arising from the issuance of shares at prices in excess of their par value;
- (II) donations received from shareholders; and
- (III) any other items required by the PRC regulations.

Capital surplus can be utilized for the issuance of stock dividends or for increasing paid-up capital as approved by the shareholders.

The Group's capital surplus is as follows:

	As at 30 June 2014	As at 31 December 2013
Share premium	6,751,041	6,751,041

Notes to the Condensed Consolidated Financial Statements

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

36 OTHER RESERVE

	Surplus reserve (a)	General reserve	Reserve for fair value changes of available-for-sale financial assets	Total
As at 1 January 2013	2,088,299	1,472,380	(125,683)	3,434,996
Changes in fair value taken to other comprehensive income	-	-	(783,864)	(783,864)
Appropriation to surplus reserve	923,286	-	-	923,286
Appropriation to general reserve	-	1,590,402	-	1,590,402
As at 31 December 2013	3,011,585	3,062,782	(909,547)	5,164,820
Changes in fair value taken to other comprehensive income	-	-	533,761	533,761
Appropriation to surplus reserve	492,647	-	-	492,647
Appropriation to general reserve	-	680,678	-	680,678
As at 30 June 2014	3,504,232	3,743,460	(375,786)	6,871,906

(a) Surplus reserve

As at 30 June 2014 and 31 December 2013, the Bank's statutory surplus reserve balances were both RMB1,961 million. The others were discretionary surplus reserve.

37 DIVIDENDS

In the Annual General Meeting held on 30 June 2014, the shareholders approved the profit distribution for the year ended 31 December 2013. The Bank appropriated cash dividend for the year ended 31 December 2013 in an aggregate amount of RMB1,723.77 million.

38 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantees and credit commitments

The following tables indicate the contractual amounts of the Group's financial guarantees and credit commitments that the Group has committed to extend to its customers:

	As at 30 June 2014	As at 31 December 2013
Bank bill acceptance	66,390,491	52,567,298
Unused credit card lines	2,370,448	2,675,056
Letters of guarantee issued	2,636,536	2,490,218
Letters of credit issued	2,998,605	1,445,716
Loan commitment	488,400	468,400
	74,884,480	59,646,688

Notes to the Condensed Consolidated Financial Statements

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

38 FINANCIAL GUARANTEES AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Capital commitments

	As at 30 June 2014	As at 31 December 2013
Contracted but not provided for	128,939	41,531
Authorized but not contracted for	6,528	116,574
	135,467	158,105

(c) Operating lease commitments

Where the Group is the lessee, the future minimum lease payments on buildings under non-cancellable operating leases are as follows:

	As at 30 June 2014	As at 31 December 2013
Within 1 year	179,470	145,910
Between 1 year to 5 years	527,050	441,867
Later than 5 years	78,746	75,826
	785,266	663,603

(d) Treasury bond redemption commitments

The Group is entrusted by the Ministry of Finance to underwrite certain treasury bonds. The investors of these treasury bonds have a right to redeem the bonds at any time prior to maturity and the Group is obligated to redeem these treasury bonds. The redemption price is the principal value of the bonds plus unpaid interest in accordance with the early redemption arrangement.

As at 30 June 2014 and 31 December 2013, the outstanding principal value of the treasury bonds sold by the Group were RMB1.48 billion and RMB1.46 billion respectively.

(e) Legal proceedings

As at 30 June 2014 and 31 December 2013, there were no significant legal proceedings outstanding against the Group.

Notes to the Condensed Consolidated Financial Statements

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

39 PLEDGED ASSETS

Assets are pledged as collateral under repurchase agreements and for treasury deposits with other banks and Ministry of Finance.

	As at 30 June 2014	As at 31 December 2013
Available-for-sale financial assets	9,425,944	7,810,600
Held-to-maturity investments	7,515,376	10,663,981
Securities held under resale	2,017,331	–
Bills held under resale agreements	39,287,404	21,571,270
Discounted bills	2,265,841	2,119,283
Total	60,511,896	42,165,134

40 CREDIT RISK WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT COMMITMENTS

	As at 30 June 2014	As at 31 December 2013
Financial guarantees and credit related commitments	42,747,756	35,830,827

The credit risk weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit related commitments.

Notes to the Condensed Consolidated Financial Statements

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

41 STRUCTURED ENTITIES

Unconsolidated structured entities

a) *Unconsolidated structured entities managed by the Group*

The unconsolidated structure entities managed by the Group are mainly wealth management products ("WMP") issued and managed by the Bank acting as an agent. Based on the analysis and research of the potential target customers, the Group designs and offers wealth management products to meet the needs of the customers. The raised funds were invested in related financial markets or financial products in accordance with the product contracts. Gains would be allocated to investors after the Group gained from investment. The Group receives commission income as the manager of these wealth management products. The Group considered its variable returns from the structured entities are insignificant and hence they are not consolidated.

As at 30 June 2014, the carrying value of the off-balance sheet wealth management the Group issued and managed is RMB4.52 billion. In the first half of 2014, the Group's interest in the WMP vehicles included in Net Fee and Commission Income was RMB6.44 million. As at 30 June 2014, the Group's maximum exposure to these unconsolidated structured entities is zero.

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group's risk from or reduce its interest in WMP vehicles disclosed above during the period ended 30 June 2014. The Group is not required to absorb any losses incurred by WMPs before other parties. In the first half of 2014, no loss was incurred by the WMP vehicles relating to the Group's interests in the WMP vehicles, and the WMP vehicles did not experience difficulty in financing their activities.

b) *Unconsolidated structured entities invested by the Group*

The Group invests in a number of other unconsolidated structured entities which are sponsored and managed by other entities for investment return, and records trading gains or losses and interest income therefrom. As at 30 June 2014, The Group has no balance of investment in these unconsolidated structured entities.

c) *Consolidated structured entities*

The Group's consolidated structured entities consist principally of WMP vehicles that issue and distribute WMPs with respect to which the Group has guaranteed the investors' principal investment and/or return upon maturity of the WMP, regardless of its actual performance. During the first six months of 2014, the Group did not enter into financing transactions with any of these WMP vehicles.

42 NOTES TO THE STATEMENT OF CASH FLOWS

For the purpose of the statement of cash flow, cash and cash equivalents comprises the following balances with an original maturity of less than three months and are used for the purpose of meeting short-term cash commitments:

	As at 30 June 2014	As at 30 June 2013
Cash	1,026,935	986,510
Surplus reserve with central bank	10,755,208	13,962,947
Due from banks and other financial institutions	20,179,906	2,935,131
	31,962,049	17,884,588

Notes to the Condensed Consolidated Financial Statements

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

43 RELATED PARTY TRANSACTIONS

(1) Related parties

The table below listed major related legal entities of the Group:

Major related legal entities with the Group	Relationship with the Group	Share percentage (%)
Anhui Province Energy Group Co.,	Major shareholder	9.47
China Vanke Co., Ltd.	Major shareholder	8.00
Anhui Guoyuan Holding (Group) Co.,	Major shareholder	7.19
Anhui Credit Guaranty Group Co.,	Major shareholder	6.81
Chery Motor Finance Service Co., Ltd.	Associate	
Wuwei Huiyin Rural Bank Co., Ltd.	Associate	

(2) Related party transactions and balances

Related-party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

a) Transactions with major shareholders

As at balance sheet dates stated above, the balances and interest rate ranges of transactions with major shareholders of the Group are as follows:

	As at 30 June 2014	As at 31 December 2013
Loans and advances to customers	90,000	181,000
Investment securities	29,792	48,892
Placements from banks and other financial institutions	194,620	153,126
Deposits from customers	574,456	416,668

	As at 30 June 2014	As at 31 December 2013
Loans and advances to customers	6.77%	5.89%-8.40%
Investment securities	4.72%	4.72%~5.38%
Placements from banks and other financial institutions	0.72%~5.00%	0.72%~5.45%
Deposits from customers	0.385%~3.3%	0.385%~3.3%

Notes to the Condensed Consolidated Financial Statements

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

43 RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions and balances (Continued)

a) Transactions with major shareholders (Continued)

As for the periods stated above, the interest income and expense of loans and deposits with respect to major shareholders are as follows:

	Six months ended 30 June	
	2014	2013
Interest income	5,277	10,094
Interest expense	2,746	6,095

b) Transactions with other related parties

As at the balance sheet date, the balances and interest rate ranges of transactions with other related parties of the Group are as follows:

	As at 30 June 2014	As at 31 December 2013
Placements with and loans to banks and other financial institutions	819,424	500,499
Loans and advances to customers	936	1,111
Placements from banks and other financial institutions	20,040	401,915
Deposits from customers	9,652	13,861

	As at 30 June 2014	As at 31 December 2013
Placements with and loans to banks and other financial institutions	4.4%~6.8%	4.4%~7.5%
Loans and advances to customers	4.58%~6.45%	4.58%~6.45%
Placements from banks and other financial institutions	0.39%~0.72%	0.72%
Deposits from customers	0.385%~5.225%	0.385%~5.225%

The interest income and expense of loans and deposits with respect to other related parties are as follows:

	Six months ended 30 June	
	2014	2013
Interest income	30	31
Interest expense	69	23

Notes to the Condensed Consolidated Financial Statements

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

44 SEGMENT ANALYSIS

The Group manages the business mainly from business lines perspectives. From the business lines perspective, the Group provides services through four main business segments listed below:

Corporate banking

- Services to corporate customers, government authorities and financial institutions including current accounts, deposits, overdrafts, loans, trade related products and other credit facilities, foreign currency, and wealth management products.

Retail banking

- Services to retail customers including savings deposits, retail loans, credit cards and debit cards, payments and settlements, wealth management products and funds and insurance agency services.

Treasury

- Treasury segment conducts securities investment, money market and repurchase transactions. The results of this segment include the intersegment funding income and expenses, resulting from interest bearing assets and liabilities and foreign currency translation gains and losses.

Others

- Other operations of the Group comprise investment holding and other miscellaneous activities, none of which constitutes a separately reportable segment.

Notes to the Condensed Consolidated Financial Statements

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

44 SEGMENT ANALYSIS (Continued)

	Six months ended 30 June 2014				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	5,405,440	1,660,112	4,228,020	11,002	11,304,574
Net interest expense to external customers	(2,549,493)	(588,663)	(2,802,455)	(2,765)	(5,943,376)
Intersegment net interest income/(expense)	66,689	332,422	(399,111)	-	-
Net interest income	2,922,636	1,403,871	1,026,454	8,237	5,361,198
Net fee and commission income	290,996	147,346	29,242	(7)	467,577
Net trading income	-	-	48,752	-	48,752
Net gains from investment securities	-	-	41,700	-	41,700
Other operating income	-	-	-	81,180	81,180
Operating expenses	(1,223,304)	(534,754)	(56,747)	(20,029)	(1,834,834)
– Depreciation and amortization	(70,451)	(61,567)	(364)	(396)	(132,778)
Impairment losses on assets	(292,810)	(126,286)	(54,038)	(1,143)	(474,277)
Share of profits of associates	-	-	-	39,324	39,324
Profit before income tax	1,697,518	890,177	1,035,363	107,562	3,730,620
Capital expenditure	69,857	61,049	361	8	131,275

	As at 30 June 2014				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	154,216,282	55,972,854	230,414,605	1,407,768	442,011,509
<i>Including: investment in associates</i>				374,065	374,065
Deferred income tax assets					954,475
Total assets					442,965,984
Segment liabilities	(235,412,957)	(75,150,440)	(95,665,947)	(3,414,478)	(409,643,822)
Off-balance sheet credit commitments	72,514,032	2,370,448	-	-	74,884,480

Notes to the Condensed Consolidated Financial Statements

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

44 SEGMENT ANALYSIS (Continued)

	Six months ended 30 June 2013				
	Corporate banking	Retail banking	Treasury	Others	Total
Net interest income from external customers	4,779,766	1,184,972	3,115,114	–	9,079,852
Net interest expense to external customers	(1,740,421)	(496,502)	(2,118,823)	–	(4,355,746)
Intersegment net interest income/(expense)	(230,282)	632,024	(401,742)	–	–
Net interest income	2,809,063	1,320,494	594,549	–	4,724,106
Net fee and commission income	194,426	81,385	17,494	–	293,305
Net trading income	–	–	28,725	–	28,725
Net gains/losses from investment securities	–	–	4,150	–	4,150
Other operating income	–	–	–	68,134	68,134
Operating expenses	(1,041,694)	(414,329)	(50,107)	(5,256)	(1,511,386)
– Depreciation and amortization	(62,815)	(52,520)	(308)	–	(115,643)
Impairment losses on assets	(343,271)	(81,045)	–	–	(424,316)
Share of profits of associates	–	–	–	24,024	24,024
Profit before income tax	1,618,524	906,505	594,811	86,902	3,206,742
Capital expenditure	47,763	39,936	234	–	87,933

	As at 31 December 2013				
	Corporate banking	Retail banking	Treasury	Others	Total
Segment assets	144,164,140	49,981,854	185,421,270	1,428,584	380,995,848
<i>Including: investment in associates</i>				334,741	334,741
Deferred income tax assets					1,113,242
Total assets					382,109,090
Segment liabilities	(212,724,029)	(63,811,822)	(71,113,524)	(2,787,783)	(350,437,158)
Off-balance sheet credit commitments	56,971,632	2,675,056	–	–	59,646,688

There were no material transactions with any single external customer that the Group mainly relies on.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in the business. The Group's aim is therefore to achieve an appropriate balance between risks and returns and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The most important types of risks are credit risk, liquidity risk and market risk which includes currency risk and interest rate risk.

The Board of Directors is responsible for establishing the overall risk appetite of the Group. Management establishes corresponding risk management policies and procedures covering areas of credit risk, market risk and liquidity risk under the risk appetite approved by the Board of Directors.

45.1 Credit risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk increases when counterparties are within similar industry segments or geographical regions. Credit exposures arise principally in loans and advances to banks, customers and securities. There is also credit risk in off-balance sheet financial arrangements: such as loan commitments. The Group mainly conducts its business in Anhui Province of the PRC, indicating a concentration risk in the Group's credit portfolio, which makes it vulnerable to economic changes in the region. Management therefore carefully manages its exposure to credit risks. The credit risk management and control are centralized in the Risk Management Department of Head Office who reports to management regularly.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

45.1.1 Credit risk measurement

(i) *Loans and advances and off-balance sheet commitments*

The Group measures and manages the credit quality of its credit assets through five-category system based on the "Guideline for Loan Credit Risk Classification" (the "Guideline") issued by the CBRC. The Guideline requires commercial banks to classify their credit assets into five categories, namely pass, special-mention, sub-standard, doubtful and loss categories, among which loan classified in sub-standard, doubtful and loss categories are regarded as non-performing loans.

The five categories are defined by the Guideline as follows:

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

Special-mention: loans for which borrowers are still able to service the loans currently, although the repayment of loans might be adversely affected by some factors.

Substandard: loans for which borrowers' ability to service the loans is apparently in question and borrowers cannot depend on their normal business revenues to pay back the principal and interest of loans. Certain losses might be incurred by the Group even when guarantees are executed.

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

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

(ii) *Investment securities and other bills*

The Group manages the credit risk through restriction on the types of and management of issuers of investment securities and other bills invested. So far, the Group holds no foreign currency bonds.

(iii) *Loans and advances to banks and other financial institutions*

The Group's Head Office executes regular review and management of credit risk related to individual financial institutions, and sets credit lines for individual banks and other financial institutions that it conducts business with.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

45.1.2 Risk limit control and mitigation policies

The Group manages and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and regions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The Group grants branches and business departments operational authority from Head Office. Based on the status of geographical economy, management level of branches, types of credit products, types of credit rating, collateral type, and scale of customers, Head Office gives dynamic authority to its branches with respect to credit business. Such authorities are monitored on a revolving basis and subject to a regular review to make sure operations of the branches are within limits of authority granted.

(i) Credit risk mitigation policies

The Group employs a range of policies and practices to mitigate credit risk. The most prevalent of these is taken by the Group include the taking of physical or cash collaterals, cash deposit and corporate or individual guarantees.

The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types are:

- Property and land use rights
- General movable assets
- Time deposit certificates, debt securities and commodity warehouse receipts, etc.

The fair value of collaterals should generally be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral) for different collaterals. The principal collateral types and maximum loan-to-value ratio for corporate and retail loans are as follows:

Collateral	Maximum loan-to-value ratio
Residential property, commercial property, and construction land use rights	70%
Office buildings	60%
General movable assets	50%
RMB deposit receipts, bank notes, government bonds	90%
Debt securities issued by financial institutions	80%
Commodity warehouse receipt	60%

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

45.1.2 Risk limit control and mitigation policies (Continued)

(ii) Credit-related off-balance sheet commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees are irrevocable commitments made by the Group for which the Group must make payments to the third party when its customers fail to satisfy this obligation. Hence, they carry the same credit risks as loans. The Group usually takes cash collateral to mitigate such credit risk. The Group's maximum exposure to credit risk equals the total amount of credit-related off-balance sheet commitments.

45.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements

	As at 30 June 2014	As at 31 December 2013
Credit risk exposures relating to on-balance sheet financial assets are as follows:		
Balances with the central bank	62,747,155	75,222,082
Due from banks and other financial institutions	24,122,986	10,999,655
Placement with and Loans to banks and other financial institutions	7,835,100	1,192,253
Financial assets held for trading	1,741,562	1,805,291
Derivative financial assets	10,288	5,698
Financial assets held under resale agreements	57,848,012	36,772,428
Loans and advances to customers	207,221,940	191,280,398
Investment securities-loans and receivables	16,363,478	723,568
Investment securities-available-for-sale	29,673,154	29,955,220
Investment securities-held-to-maturity	29,143,715	27,772,207
Other financial assets	2,095,792	2,194,245
	438,803,182	377,923,045
Credit risk exposures relation to off-balance sheet items are as follows:		
Bank acceptance	66,390,491	52,567,298
Letters of credit	2,998,605	1,445,716
Letters of guarantee	2,636,536	2,490,218
Loan commitments	488,400	468,400
Unused credit card lines	2,370,448	2,675,056
	74,884,480	59,646,688

The above table represents the worst case scenario of credit risk exposure to the Group at 30 June 2014 and 31 December 2013, without taking into account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As mentioned above, 47.22% of on-balance-sheet exposure is attributable to loans and advances to customers (2013: 50.61%).

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

45.1.3 Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from its loans and advances portfolio to the Group based on the following:

- 97.42% of the loans and advances portfolio is categorized as Pass of the five-category system (2013: 97.55%);
- Collateralized loans and mortgage loans, which represents the biggest group in the corporate and retail portfolio respectively, are backed by collateral;
- 98.82% of the loans and advances portfolio are considered to be neither past due nor impaired (2013: 99.22%);

45.1.4 Placement with and loans to banks and other financial institutions and financial assets held under resale agreements

	As at 30 June 2014	As at 31 December 2013
Neither overdue nor impaired (i)	65,683,112	37,964,681
Impaired (ii)	–	–
	65,683,112	37,964,681
Less: impairment allowance	–	–
Net	65,683,112	37,964,681

(i) Neither past due nor impaired

	As at 30 June 2014	As at 31 December 2013
Commercial banks in PRC mainland	61,966,378	27,320,204
Other financial institutions in PRC mainland	3,716,734	10,644,477
	65,683,112	37,964,681

(ii) Impaired

As at 30 June 2014 and 31 December 2013, the Group has no impaired placement with and loans to banks or impaired financial assets held under resale agreements.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

45.1.5 Loans and advances to customers

(a) Analysis of loans and advances to customers by industry

Concentrations of credit risk of loans and advances to customers by industry are analysed as follow:

	As at 30 June 2014		As at 31 December 2013	
	Amount	%	Amount	%
Corporate loans				
Commerce and Service	41,648,616	20	41,405,678	21
Manufacturing	38,444,367	18	41,055,136	21
Public utility	17,776,913	8	13,927,546	7
Real estate	17,393,311	8	13,458,953	7
Construction	14,744,337	7	11,271,145	6
Transportation	5,297,533	3	4,488,747	2
Energy and chemistry	3,771,626	2	4,395,490	2
Education and media	2,545,307	1	2,176,267	1
Catering and travelling	1,960,473	1	2,181,588	1
Financial services	291,701	–	983,815	1
Others	1,649,898	1	1,511,555	1
Discounted bills	11,376,505	5	9,725,240	5
Subtotal	156,900,587	74	146,581,160	75
Retail loans				
Mortgages	39,083,213	18	34,790,468	18
Revolving loans for private business	10,343,092	5	9,451,425	5
Others	5,460,158	3	4,626,383	2
Subtotal	54,886,463	26	48,868,276	25
Total loans and advances to customers, before impairment allowance	211,787,050	100	195,449,436	100

Analysis of loans and advances to customers by industry is conducted based on the industries of the borrowers.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

45.1.5 Loans and advances to customers (Continued)

(b) Analysis of loans and advances to customers by collateral type

The contractual amounts of loans and advances to customers are analyzed by security type:

	As at 30 June 2014	As at 31 December 2013
Unsecured loans	11,553,468	12,987,004
Guaranteed loans	66,898,059	62,073,305
Collateralized loans	111,589,922	100,942,694
Pledged loans	21,745,601	19,446,433
Total loans and advances to customers	211,787,050	195,449,436

(c) Analysis of loans and advances to customers by overdue and impaired status

	As at 30 June 2014		As at 31 December 2013	
	Corporate loans	Retail loans	Corporate loans	Retail loans
Neither overdue nor impaired	155,148,630	54,137,344	145,573,013	48,357,106
Overdue but not impaired	542,539	547,451	105,368	362,771
Impaired (d)	1,209,418	201,668	902,779	148,399
Total	156,900,587	54,886,463	146,581,160	48,868,276
Less: collectively assessed impairment allowance	(3,416,586)	(667,760)	(3,225,644)	(572,181)
Individually assessed impairment allowance	(480,764)	-	(371,213)	-
Total impairment allowance	(3,897,350)	(667,760)	(3,596,857)	(572,181)
Net	153,003,237	54,218,703	142,984,303	48,296,095

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

45.1.5 Loans and advances to customers (Continued)

(d) Impaired loans and advances

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

	As at 30 June 2014	As at 31 December 2013
Corporate loans	1,209,418	902,779
Retail loans	201,668	148,399
Total	1,411,086	1,051,178
Fair value of collateral		
Corporate loans	907,392	750,475
Retail loans	145,200	97,977
Total	1,052,592	848,452

The fair value of collateral is estimated based on the latest external valuations available, the realization experience of the current collateral and the market conditions.

(e) Loans and advances renegotiated

As of 30 June 2014, there were no renegotiated loans with significant balance for the Group (As of 31 December 2013: Nil).

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.1 Credit risk (Continued)

45.1.6 Investment securities

The table below presents an analysis of investment securities by external credit rating companies:

As at 30 June 2014	Held-for-trading	Available-for-sale	Held-to-maturity	Loans and receivables	Total
RMB securities					
AAA	139,222	1,294,574	2,460,746	–	3,894,542
AA- to AA+	492,812	4,370,017	2,948,626	–	7,811,455
A- to A+	–	458,522	1,248,788	–	1,707,310
Unrated ^(a)	1,109,528	23,550,041	22,485,555	16,363,478	63,508,602
Total	1,741,562	29,673,154	29,143,715	16,363,478	76,921,909

As at 31 December 2013	Held-for-trading	Available-for-sale	Held-to-maturity	Loans and receivables	Total
RMB securities					
AAA	135,391	1,410,288	2,112,452	–	3,658,131
AA- to AA+	776,723	4,085,640	3,184,447	–	8,046,810
A- to A+	10,443	51,404	596,447	–	658,294
Unrated ^(a)	882,734	24,407,888	21,878,861	723,568	47,893,051
Total	1,805,291	29,955,220	27,772,207	723,568	60,256,286

(a) Unrated investment securities held by the Group mainly represent debt securities issued by Ministry of Finance of the PRC ("MOF"), the PBOC and policy banks which are creditworthy issuers in the market, but are not rated by independent rating agencies as well as trust schemes and targeted asset management schemes of brokers. Loans and receivables mainly include the principal-guaranteed wealth management products issued by other banks.

There are no overdue or impaired securities investment as of 30 June 2014 and 31 December 2013. The Group holds no collateral, and no impairment provision has been provided against the gross amount.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.2 Market risk

45.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

The Groups' market risk mainly includes trading risks arising from trading portfolio and interest rate and foreign exchange rate risks for non-trading portfolio resulted from changes in interest rates, foreign exchange rates and term structures.

The market risks arising from trading and non-trading activities are monitored by the Bank's Risk Management Department. Market risks arising from non-trading activities at the Bank level are monitored and controlled by Financial Planning Department while market risks resulting from trading activities at Bank level and non-trading activities of Financial Market Department are monitored and controlled by Financial Market Department. The Group also established daily, monthly and quarterly reporting mechanism in relation to market risk in which Financial Planning Department and Financial Market Department monitor and analyze market risk changes and quota execution before reporting to Risk Management Department and management on a regular basis.

45.2.2 Market risk measurement techniques

The Group adopts sensitivity analysis to evaluate the exposure to interest rate and foreign exchange rate risks for its trading and non-trading investment portfolio, in which the Group calculates the gap between interest-bearing assets and liabilities which will mature within certain period or require re-pricing on a regular basis and performs sensitivity analysis under changes of benchmark rates, market rates and foreign exchange rates based on the gap computed above.

45.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The Group conducts business in PRC mainland in accordance with interest rate system set by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest bearing loans and deposits in the same direction but not in parallel.

According to PBOC's requirement, RMB loan rates could differ from PBOC's stipulated rates, while the ceiling for RMB deposit rate is 10% above the stipulated rate. Discount rate for RMB bills is market-oriented.

The table below summarizes the Group's exposure to interest rate risks. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.2 Market risk (Continued)

45.2.3 Interest rate risk (Continued)

As at 30 June 2014	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the central bank	62,745,050	-	-	-	-	1,029,040	63,774,090
Due from banks and other financial institutions	16,991,679	3,116,810	3,674,670	-	-	339,827	24,122,986
Placements with and loans to banks and other financial institutions	526,633	836,128	6,272,338	200,001	-	-	7,835,100
Financial assets held for trading	58,756	229,730	218,154	881,804	353,118	-	1,741,562
Derivatives financial assets	-	-	-	-	-	10,288	10,288
Financial assets held under resale agreements	27,489,546	18,614,200	11,244,266	500,000	-	-	57,848,012
Loans and advances to customers	24,530,235	18,233,279	149,605,914	13,492,305	1,360,207	-	207,221,940
Investment securities							
- loans and receivables	281,700	2,581,359	13,415,826	84,593	-	-	16,363,478
- available-for-sale	2,395,926	2,975,884	8,163,161	9,811,651	6,326,532	9,500	29,682,654
- held-to-maturity	871,948	1,656,471	4,965,775	12,271,407	9,378,114	-	29,143,715
Other financial assets	-	-	-	-	-	2,095,792	2,095,792
Total assets	135,891,473	48,243,861	197,560,104	37,241,761	17,417,971	3,484,447	439,839,617
Liabilities							
Due to central bank	-	(15,000)	-	-	-	-	(15,000)
Deposits from banks and other financial institutions	(1,602,066)	(4,470,076)	(17,888,647)	(774,592)	(46,632)	-	(24,782,013)
Placements from banks and other financial institutions	(1,336,507)	-	-	-	-	-	(1,336,507)
Derivatives financial liabilities	-	-	-	-	-	(9,803)	(9,803)
Financial assets sold under repurchase agreements	(34,099,912)	(18,552,378)	(7,706,135)	-	-	-	(60,358,425)
Deposits from customers	(170,047,877)	(30,960,358)	(63,651,963)	(40,934,506)	(899,559)	-	(306,494,263)
Debt securities in issue	-	-	-	(4,993,588)	(3,992,423)	-	(8,986,011)
Other financial liabilities	-	-	-	-	-	(6,145,364)	(6,145,364)
Total liabilities	(207,086,362)	(53,997,812)	(89,246,745)	(46,702,686)	(4,938,614)	(6,155,167)	(408,127,386)
Total interest rate sensitivity gap	(71,194,889)	(5,753,951)	108,313,359	(9,460,925)	12,479,357	(2,670,720)	31,712,231

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.2 Market risk (Continued)

45.2.3 Interest rate risk (Continued)

As at 31 December 2013	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with the central bank	75,222,080	-	-	-	-	956,375	76,178,455
Due from banks and other financial institutions	6,919,425	2,897,530	1,182,700	-	-	-	10,999,655
Placements with and loans to banks and other financial institutions	42,253	-	1,150,000	-	-	-	1,192,253
Financial assets held for trading	58,856	303,653	545,191	788,667	108,924	-	1,805,291
Derivatives financial assets	-	-	-	-	-	5,698	5,698
Financial assets held under resale agreements	1,338,078	2,619,878	32,314,472	500,000	-	-	36,772,428
Loans and advances to customers	90,204,526	17,812,161	75,815,858	6,893,123	554,730	-	191,280,398
Investment securities							
- loans and receivables	-	438,220	214,706	70,642	-	-	723,568
- available-for-sale	2,672,568	5,018,295	6,668,846	11,718,167	3,877,344	9,500	29,964,720
- held-to-maturity	572,201	949,408	4,756,409	11,546,417	9,947,772	-	27,772,207
Other financial assets	-	-	-	-	-	2,194,245	2,194,245
Total assets	177,029,987	30,039,145	122,648,182	31,517,016	14,488,770	3,165,818	378,888,918
Liabilities							
Deposits from banks and other financial institutions	(3,473,011)	(1,106,200)	(6,206,506)	(6,500,000)	(147,689)	-	(17,433,406)
Placements from banks and other financial institutions	(1,537,045)	-	-	-	-	-	(1,537,045)
Derivatives financial liabilities	-	-	-	-	-	(5,052)	(5,052)
Financial assets sold under repurchase agreements	(19,477,436)	(4,123,931)	(19,126,550)	-	-	-	(42,727,917)
Deposits from customers	(164,904,150)	(26,855,870)	(49,432,677)	(31,442,261)	(163,284)	-	(272,798,242)
Debt securities in issue	-	-	-	(4,994,195)	(3,992,220)	-	(8,986,415)
Other financial liabilities	-	-	-	-	-	(4,139,436)	(4,139,436)
Total liabilities	(189,391,642)	(32,086,001)	(74,765,733)	(42,936,456)	(4,303,193)	(4,144,488)	(347,627,513)
Total interest rate sensitivity gap	(12,361,655)	(2,046,856)	47,882,449	(11,419,440)	10,185,577	(978,670)	31,261,405

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.2 Market risk (Continued)

45.2.4 Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The major principle for control over currency risk of the Group is to match assets and liabilities in different currencies and to keep currency risk within limits. Based on the guidelines provided by Risk Management Committee, relevant laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimizes the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. Authorization management of foreign currency exposure is categorized by business type and traders' limits.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at balance sheet date. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by the original currency:

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.2 Market risk (Continued)

45.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
As at 30 June 2014					
Assets					
Cash and balances with the central bank	63,740,404	33,558	27	101	63,774,090
Due from banks and other financial institutions	23,358,758	529,580	90,538	144,110	24,122,986
Placements with and loans to banks and other financial institutions	7,768,461	24,678	41,961	–	7,835,100
Financial assets held for trading	1,741,562	–	–	–	1,741,562
Derivative financial assets	233	10,023	–	32	10,288
Financial assets held under resale agreements	57,848,012	–	–	–	57,848,012
Loans and advances to customers	204,928,912	2,205,018	23,498	64,512	207,221,940
Investment securities					
– loans and receivables	16,363,478	–	–	–	16,363,478
– available-for-sale	29,682,654	–	–	–	29,682,654
– held-to-maturity	29,143,715	–	–	–	29,143,715
Other financial assets	2,094,799	993	–	–	2,095,792
Total assets	436,670,988	2,803,850	156,024	208,755	439,839,617
Liabilities					
Due to central bank	(15,000)	–	–	–	(15,000)
Deposits from banks and other financial institutions	(24,642,069)	(72)	(139,872)	–	(24,782,013)
Placements from banks and other financial institutions	(7,200)	(1,264,747)	–	(64,560)	(1,336,507)
Derivative financial liabilities	(9,634)	(169)	–	–	(9,803)
Financial assets sold under repurchase agreements	(60,358,425)	–	–	–	(60,358,425)
Deposits from customers	(305,743,021)	(704,009)	(15,615)	(31,618)	(306,494,263)
Debt securities in issue	(8,986,011)	–	–	–	(8,986,011)
Other financial liabilities	(6,141,567)	(3,626)	(147)	(24)	(6,145,364)
Total liabilities	(405,902,927)	(1,972,623)	(155,634)	(96,202)	(408,127,386)
Net on-balance sheet financial position	30,768,061	831,227	390	112,553	31,712,231
Financial guarantees and credit commitments	72,100,685	2,685,208	82,600	15,987	74,884,480

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.2 Market risk (Continued)

45.2.4 Currency risk (Continued)

	RMB	USD	EUR	Others	Total
As at 31 December 2013					
Assets					
Cash and balances with the central bank	76,160,053	17,100	31	1,271	76,178,455
Due from banks and other					
financial institutions	10,486,059	132,241	94,831	286,524	10,999,655
Placements with and loans to banks					
and other financial institutions	1,150,717	–	41,536	–	1,192,253
Financial assets held for trading	1,805,291	–	–	–	1,805,291
Derivative financial assets	5,698	–	–	–	5,698
Financial assets held under					
resale agreements	36,772,428	–	–	–	36,772,428
Loans and advances to customers	189,446,121	1,829,451	4,826	–	191,280,398
Investment securities					
– loans and receivables	723,568	–	–	–	723,568
– available-for-sale	29,964,720	–	–	–	29,964,720
– held-to-maturity	27,772,207	–	–	–	27,772,207
Other financial assets	2,194,230	15	–	–	2,194,245
Total assets	376,481,092	1,978,807	141,224	287,795	378,888,918
Liabilities					
Deposits from banks and other					
financial institutions	(17,285,645)	(71)	(147,690)	–	(17,433,406)
Placements from banks and other					
financial institutions	(512,053)	(1,024,992)	–	–	(1,537,045)
Derivative financial liabilities	–	(5,052)	–	–	(5,052)
Financial assets sold under					
repurchase agreements	(42,727,917)	–	–	–	(42,727,917)
Deposits from customers	(272,334,964)	(416,126)	(1,798)	(45,354)	(272,798,242)
Debt securities in issue	(8,986,415)	–	–	–	(8,986,415)
Other financial liabilities	(3,489,323)	(8,118)	(2)	(641,993)	(4,139,436)
Total liabilities	(345,336,317)	(1,454,359)	(149,490)	(687,347)	(347,627,513)
Net on-balance sheet financial position	31,144,775	524,448	(8,266)	(399,552)	31,261,405
Financial guarantees and					
credit commitments	58,342,077	1,228,528	65,682	10,401	59,646,688

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Liquidity risk

45.3.1 Overview

Keeping a match between the maturity dates of assets and liabilities and maintaining an effective control over mismatch is of great importance to the Group. Due to the uncertainty of terms and types of business, it is difficult for banks to keep a perfect match. Unmatched position may increase revenues but it also exposes the Group to greater risks of losses.

The match between maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are all key factors when evaluating its exposure to liquidity, interest rate and foreign exchange rate risks.

The Group is exposed to daily calls on its available cash resources from overnight deposits, demand accounts, time deposits fall due, debt securities payable, loan draw downs, guarantees and from margin and other calls on cash settled derivatives. According to previous experience, a large portion of matured deposits are not withdrawn on the maturity date. The Group sets limits on the minimum proportion of funds to be made available to cover different levels of unexpected withdrawals.

45.3.2 Maturity analysis

The table below analyzes the Group's net assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Liquidity risk (Continued)

45.3.2 Maturity analysis (Continued)

As at 30 June 2014	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	1,029,040	62,745,050	-	-	-	-	-	-	63,774,090
Due from banks and other financial institutions	2,159,826	15,171,680	3,116,810	3,674,670	-	-	-	-	24,122,986
Placements with and loans to banks and other financial institutions	-	526,633	836,128	6,272,338	200,001	-	-	-	7,835,100
Financial assets held for trading	-	-	19,976	179,844	1,188,624	353,118	-	-	1,741,562
Derivative financial assets	-	1,512	3,065	5,711	-	-	-	-	10,288
Financial assets held under resale agreements	-	27,489,546	18,614,200	11,244,266	500,000	-	-	-	57,848,012
Loans and advances to customers	-	13,455,476	19,649,141	78,247,222	47,583,113	47,204,584	1,082,404	-	207,221,940
Investment securities									
- loans and receivables	-	281,700	2,581,359	13,415,826	84,593	-	-	-	16,363,478
- available-for-sale	-	1,306,061	1,424,263	5,134,659	12,724,709	9,083,462	-	9,500	29,682,654
- held-to-maturity	-	298,681	863,434	3,937,507	14,591,212	9,452,881	-	-	29,143,715
Other assets (including deferred income tax assets)	28,521	584,227	728,923	620,003	164,340	2,602,984	24,392	468,769	5,222,159
Total assets	3,217,387	121,860,566	47,837,299	122,732,046	77,036,592	68,697,029	1,106,796	478,269	442,965,984
Due to central bank	-	-	(15,000)	-	-	-	-	-	(15,000)
Deposits from banks and other financial institutions	(210,059)	(1,392,007)	(4,470,076)	(17,888,647)	(765,265)	(55,959)	-	-	(24,782,013)
Placements from banks and other financial institutions	-	(1,336,507)	-	-	-	-	-	-	(1,336,507)
Derivative financial liabilities	-	(1,361)	(2,948)	(5,494)	-	-	-	-	(9,803)
Financial assets sold under repurchase agreements	-	(34,099,912)	(18,552,378)	(7,706,135)	-	-	-	-	(60,358,425)
Deposits from customers	(150,724,044)	(19,325,773)	(30,961,403)	(63,786,304)	(40,800,944)	(895,795)	-	-	(306,494,263)
Debt securities in issue	-	-	-	-	(4,993,588)	(3,992,423)	-	-	(8,986,011)
Other liabilities (including deferred income tax liabilities)	(101,835)	(1,729,021)	(630,476)	(3,167,011)	(1,645,682)	(334,995)	-	(52,780)	(7,661,800)
Total liabilities	(151,035,938)	(57,884,581)	(54,632,281)	(92,553,591)	(48,205,479)	(5,279,172)	-	(52,780)	(409,643,822)
Net liquidity gap	(147,818,551)	63,975,985	(6,794,982)	30,178,455	28,831,113	63,417,857	1,106,796	425,489	33,322,162

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.3 Liquidity risk (Continued)

45.3.2 Maturity analysis (Continued)

As at 31 December 2013	Repayable on demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Overdue	Indefinite	Total
Cash and balances with the central bank	956,373	75,222,082	-	-	-	-	-	-	76,178,455
Due from banks and other financial institutions	1,543,391	5,376,034	2,897,530	1,182,700	-	-	-	-	10,999,655
Placements with and loans to banks and other financial institutions	-	42,253	-	1,150,000	-	-	-	-	1,192,253
Financial assets held for trading	-	58,856	303,653	545,191	788,667	108,924	-	-	1,805,291
Derivative financial assets	-	767	1,507	3,424	-	-	-	-	5,698
Financial assets held under resale agreements	-	1,338,078	2,619,878	32,314,472	500,000	-	-	-	36,772,428
Loans and advances to customers	-	10,819,533	19,078,932	83,326,651	33,941,261	43,485,679	628,342	-	191,280,398
Investment securities									
- loans and receivables	-	-	438,220	214,706	70,642	-	-	-	723,568
- available-for-sale	-	2,674,373	5,016,490	6,668,846	11,718,167	3,877,344	-	9,500	29,964,720
- held-to-maturity	-	572,201	949,408	4,756,409	11,546,417	9,947,772	-	-	27,772,207
Other assets (including deferred income tax assets)	18,895	808,012	694,754	585,960	161,507	2,737,839	14,462	392,988	5,414,417
Total assets	2,518,659	96,359,850	31,986,671	130,847,964	58,565,154	57,419,719	642,804	3,221,729	381,562,550
Deposits from banks and other financial institutions	(2,573,011)	(900,000)	(1,106,200)	(6,206,506)	(6,500,000)	(147,689)	-	-	(17,433,406)
Placements from banks and other financial institutions	-	(1,537,045)	-	-	-	-	-	-	(1,537,045)
Derivative financial liabilities	-	(716)	(1,319)	(3,017)	-	-	-	-	(5,052)
Financial assets sold under repurchase agreements	-	(19,477,436)	(4,123,931)	(19,126,550)	-	-	-	-	(42,727,917)
Deposits from customers	(147,615,529)	(17,288,621)	(26,855,870)	(49,432,677)	(31,442,261)	(163,284)	-	-	(272,798,242)
Debt securities in issue	-	-	-	-	(4,994,195)	(3,992,220)	-	-	(8,986,415)
Other liabilities (including deferred income tax liabilities)	(79,335)	(2,361,035)	(1,107,395)	(1,759,660)	(1,248,242)	(338,729)	-	(54,685)	(6,949,081)
Total liabilities	(150,267,875)	(41,564,853)	(33,194,715)	(76,528,410)	(44,184,698)	(4,641,922)	-	(54,685)	(350,437,158)
Net liquidity gap	(147,749,216)	54,794,997	(1,208,044)	54,319,554	14,380,456	52,777,797	642,804	3,167,044	31,125,392

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.4 Fair value of financial assets and liabilities

(a) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts and issued structured debt in interbank market. The sources of input parameters like LIBOR yield curve or counterparty credit risk are China Bond and Bloomberg.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments.

(b) Financial instruments not measured at fair value

Financial assets and liabilities which are not measured at fair value mainly include: balances with the central bank, due from and placements with and loans to banks and other financial institutions, financial assets held under resale agreements, loan and advances to customers, investment securities held-to-maturity, investment securities loans and receivables, deposits and placements from banks and other financial institutions, financial liabilities sold for repurchase, deposits from customers and debt securities in issue.

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented at their fair value on the Group's balance sheet, including investment securities-held-to-maturity, investment securities-loans and receivables and debt securities in issue.

	Carrying value	As at 30 June 2014			Total
		Level 1	Level 2	Level 3	
Financial assets					
Investment securities					
– Held-to-maturity	29,143,715	–	28,739,385	–	28,739,385
Investment securities					
– Loans and receivables	16,363,478	–	90,245	16,267,700	16,357,945
Financial liabilities					
Debt securities in issue	8,986,011	–	9,006,592	–	9,006,592

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value (Continued)

	Carrying value	As at 31 December 2013			Total
		Level 1	Level 2	Level 3	
Financial assets					
Investment securities					
– Held-to-maturity	27,772,207	–	26,541,484	–	26,541,484
Investment securities					
– Loans and receivables	723,568	–	119,312	593,501	712,813
Financial liabilities					
Debt securities in issue	(8,986,415)	–	(8,625,448)	–	(8,625,448)

(i) Loans and receivables and held-to-maturity investments

Investment securities loans and receivables and investment securities held-to-maturity whose fair value is based on quoted market prices are included in level 1. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received based on observable yield curves or quoted market prices for products with similar credit, maturity and yield characteristics are used where applicable, the fair value measurement will be included in level 2 or level 3.

(ii) Debt securities in issue

If the fair value is based on quoted market prices, the fair value measurement will be included in level 1. When the fair value of debt securities in issue is determined by valuation techniques and all significant inputs required to fair value are observable, it is included in level 2.

The other financial instruments not measured at fair value in the financial statements are calculated as the present value of the estimated future cash flows based on observable yield curves. The difference between carrying value and fair value are not significant.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value

As at 30 June 2014	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt securities	–	1,741,562	–	1,741,562
Derivative financial assets	–	10,288	–	10,288
Available-for-sale				
– Debt securities	–	25,903,875	–	25,903,875
– Asset management schemes by securities firms or trust companies	–	62,352	–	62,352
– Equity securities	–	–	9,500	9,500
– Others	–	3,706,927	–	3,706,927
Total assets	–	31,425,004	9,500	31,434,504
Derivative financial liabilities	–	(9,803)	–	(9,803)
Total liabilities	–	(9,803)	–	(9,803)

As at 31 December 2013	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt securities	–	1,805,291	–	1,805,291
Derivative financial assets	–	5,698	–	5,698
Available-for-sale				
– Debt securities	–	23,352,438	–	23,352,438
– Asset management schemes by securities firms or trust companies	–	–	1,061,232	1,061,232
– Equity securities	–	–	9,500	9,500
– Others	–	5,541,550	–	5,541,550
Total assets	–	30,704,977	1,070,732	31,775,709
Derivative financial liabilities	–	(5,052)	–	–
Total liabilities	–	(5,052)	–	–

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available.

The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are all observable and obtainable from open market.

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.4 Fair value of financial assets and liabilities (Continued)

(c) Financial instruments measured at fair value (Continued)

For unlisted equities (private equity) held by the Group, the fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments. Instruments which have been valued using unobservable inputs have been classified by the Group as level 3. Management determines the fair value of the Group's level 3 financial instruments using a variety of techniques, including examining correlations of these fair values with macro-economic factors, engaging external values, and using valuation models that incorporate unobservable inputs such as loss coverage ratios. The Group has established internal control procedures to control the Group's exposure to such financial instruments.

The following table presents the changes in level 3 instruments:

	Available-for-sale
Balance at 1 January 2014	1,070,732
– Additions	–
– Disposals	–
Impact of consolidated structured entities	(1,061,232)
Balance at 30 June 2014	9,500
Total gains for the period included in profit or loss for assets/liabilities held at 30 June 2014	–

	Available-for-sale
Balance at 1 January 2013	9,909
– Additions	1,061,232
– Disposals	(409)
Balance at 31 December 2013	1,070,732
Total gains for the year included in profit or loss for assets/liabilities held at 31 December 2013	320

Notes to the Condensed Consolidated Financial Statements

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

45 FINANCIAL RISK MANAGEMENT (Continued)

45.5 Capital management

The Group takes sufficient measures of capital management to prevent inherent risks associated with Group's business for the purpose of meeting external regulators' requirements and shareholders' expectation on returns. Capital management also aims to stimulate expansion of capital scale and to improve risk management.

The Group prudently sets the objective of capital ratio, taking into account regulatory requirements and the risk situation the Group faces. The Group takes a variety of actions, like limit management to ensure the realization of the objectives and proactively adjust its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

From 1 January 2013 onward, the Group started to implement "The Trial Measures for Capital Management of Commercial Banks" promulgated by the CBRC on 7 June 2012.

The tables below summarize the capital adequacy ratio of the Group for the period ended 30 June 2014 and 31 December 2013:

	As at 30 June 2014	As at 31 December 2013
Core Tier 1 capital	35,134,373	31,682,102
Including: Paid-up capital	11,049,819	11,049,819
Capital reserve	6,375,255	5,841,494
Surplus reserve, general and statutory reserve	7,247,691	6,074,367
Retained earnings	10,393,539	8,659,441
Non-controlling interests	68,069	56,981
Regulatory deductions for core Tier 1 capital	(88,971)	(66,426)
Total core Tier 1 capital, net of deductions	35,045,402	31,615,676
Other Tier 1 capital	9,076	7,598
Total Tier 1 capital, net of deductions	35,054,478	31,623,274
Tier 2 capital	6,349,065	6,488,062
Total capital, net of deductions	41,403,543	38,111,336
Total risk-weighted assets	281,953,789	250,821,841
Capital adequacy ratio	14.68%	15.19%
Tier 1 capital adequacy ratio	12.43%	12.61%
Core Tier 1 capital adequacy ratio	12.43%	12.60%

According to regulatory requirement, the capital adequacy ratio calculation by the Group above is based on the consolidated results of both Jinzhai Huiyin Rural Bank Co., Ltd. and Wuwei Huiyin Rural Bank Co., Ltd.

Notes to the Condensed Consolidated Financial Statements

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

45.6 FINANCIAL RISK MANAGEMENT (Continued)

45.6 Fiduciary activities

The Group provides custodian and trustee services to third parties. These assets arising thereon are excluded from the financial statements. The Group also grants entrusted loans on behalf of third-party lenders, which are not included in the financial statements either.

	As at 30 June 2014	As at 31 December 2013
Entrusted loans	32,892,791	25,207,053
Off-balance sheet wealth management schemes	4,516,820	2,520,770

46 SUBSEQUENT EVENT

No audited financial statements have been prepared by the Group in respect of any period subsequent to 30 June 2014 and up to the date of this report. Same as disclosed in this report, no dividend distribution has been declared or made by the Group in respect of any period subsequent to 30 June 2014.

Appendix I – Unreviewed Supplementary Financial Information

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

According to Hong Kong Listing Rules and disclosure regulations of the banking industry, the Group discloses the following supplementary financial information:

1 LIQUIDITY RATIOS

	As at 30 June 2014	As at 31 December 2013
RMB current assets to RMB current liabilities	35.56%	27.75%
Foreign currencies current assets to foreign currencies current liabilities	48.50%	60.38%

2 CURRENCY CONCENTRATIONS

	USD	EUR	Others	Total
As at 30 June 2014				
Spot assets	2,803,850	156,024	208,755	3,168,629
Spot liabilities	(1,972,623)	(155,634)	(96,202)	(2,224,459)
Forward purchases	591,333	–	7,056	598,389
Forward sales	(581,430)	–	(7,056)	(588,486)
Net long position	841,130	390	112,553	954,073
As at 31 December 2013				
Spot assets	1,978,807	141,224	287,795	2,407,826
Spot liabilities	(1,454,359)	(149,490)	(687,347)	(2,291,196)
Forward purchases	815,484	–	–	815,484
Forward sales	(815,517)	–	–	(815,517)
Net long/(short) position	524,415	(8,266)	(399,552)	116,597

Appendix I – Unreviewed Supplementary Financial Information

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

3 CROSS-BORDER CLAIMS

The Bank is principally engaged in business operations in China mainland, and we regard all claims on third parties outside China mainland as cross-border claims.

Cross-border claims include “Due from banks and other financial institutions”.

Cross-border claims are disclosed by country or geographical area. A country or geographical area claim is reported where it constitutes 10% or more of the aggregate amount of total cross-border claims. Risk transfers where the claim is guaranteed by a party whose location is different from that of the counterparty or the claimant is an overseas branch of the bank whose Head Office is in another country.

	Banks and other financial institutions
As at 30 June 2014	
Asia Pacific excluding China mainland	146,034
– Hong Kong	145,556
Europe	28,733
North and South America	160,724
Subtotal	335,491
As at 31 December 2013	
Asia Pacific excluding China mainland	284,436
– Hong Kong	264,487
Europe	94,719
North and South America	98,603
Subtotal	477,758

Appendix I – Unreviewed Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS

4.1 Overdue loans and advances to customers

Total amount of overdue loans and advances to customers:

	As at 30 June 2014	As at 31 December 2013
Total loans and advances to customers which have been overdue for		
– within 3 months	1,071,531	515,379
– between 3 to 6 months	374,504	168,228
– between 6 to 12 months	264,317	386,675
– over 12 months	693,826	442,178
Total	2,404,178	1,512,460
Percentage		
– within 3 months	44.57%	34.07%
– between 3 to 6 months	15.58%	11.12%
– between 6 to 12 months	10.99%	25.57%
– over 12 months	28.86%	29.24%
Total	100.00%	100.00%

Total amount of overdue loans and advances to customers and allowance assessment by geographic segment:

	Anhui Province	Pan Yangtze River Delta	Total
As at 30 June 2014			
Overdue loans and advances to customers	2,317,055	87,123	2,404,178
– Individually assessed	(434,114)	(9,713)	(443,827)
– Collectively assessed	(360,381)	(7,742)	(368,123)
As at 31 December 2013			
Overdue loans and advances to customers	1,475,050	37,410	1,512,460
– Individually assessed	(357,810)	(13,403)	(371,213)
– Collectively assessed	(177,892)	(37)	(177,929)

Appendix I – Unreviewed Supplementary Financial Information

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

4 LOANS AND ADVANCES TO CUSTOMERS (Continued)

4.1 Overdue loans and advances to customers (Continued)

Fair value of collaterals against overdue loans and advances to customers:

	As at 30 June 2014	As at 31 December 2013
Fair value of collaterals		
– Corporate loans	1,207,788	835,168
– Retail loans	1,127,746	703,105
Total	2,335,534	1,538,273

4.2 Identified impaired loans and advances

	Anhui Province	Pan Yangtze River Delta	Total
As at 30 June 2014			
Identified impaired loans and advances for which allowance is	1,373,676	37,410	1,411,086
– Individually assessed	(471,050)	(9,713)	(480,763)
– Collectively assessed	(251,010)	(1,945)	(252,955)
As at 31 December 2013			
Identified impaired loans and advances for which allowance is	1,017,963	33,215	1,051,178
– Individually assessed	(433,988)	(13,403)	(447,391)
– Collectively assessed	(45,328)	–	(45,328)



徽商银行股份有限公司
Huishang Bank Corporation Limited