



2014

Citibank (China) Co., Ltd.
ANNUAL REPORT



Citi's Mission

Citi works tirelessly to serve individuals, communities, institutions and nations. With 200 years of experience meeting the world's toughest challenges and seizing its greatest opportunities, we strive to create the best outcomes for our clients and customers with financial solutions that are simple, creative and responsible. An institution connecting over 1,000 cities, 160 countries and millions of people, we are your global bank; we are Citi.



CITI'S MISSION & KEY PRINCIPLES

The four key principles – the values that guide us as we perform our mission – are:

Common Purpose

One team, with one goal: serving our clients and stakeholders

Responsible Finance

Conduct that is transparent, prudent and dependable

Ingenuity

Enhancing our clients' lives through innovation that harnesses the breadth and depth of our information, global network and world-class products

Leadership

Talented people with the best training who thrive in a diverse meritocracy that demands excellence, initiative and courage

CHAIRMAN'S MESSAGE



It is with pleasure that I deliver Citibank (China) Co., Ltd.'s (CCCL) annual report for the financial year of 2014.

2014 was a momentous year for CCCL, with milestones and robust financial performance that further solidify our position as a leader in the local financial industry. Our business strategy that capitalizes on three long-term trends - globalization, urbanization, digitization - coupled with our global network and expertise, continued to bear fruit.

Globally, Citi generated a net income of US\$7.3 billion, with Asia Pacific remaining as the largest contributor outside of North America. In China, CCCL delivered a strong financial performance with solid growth across both the Global Consumer Bank and Institutional Clients Group. This, combined with effective cost management, gave us an operating revenue of RMB5.51 billion (up 27 percent year-on-year) and a net profit of RMB1.60 billion (up 66 percent year-on-year). Our continued focus on core customers and tightened risk control allowed us to maintain healthy regulatory ratios, such as the Capital Adequacy Ratio, which at 15.14 percent, was well above 2013's and the regulatory requirement.

Urbanization continues to drive economic development and wealth accumulation in China,

as consumers look for ways to grow their wealth and protect their future. Over the years, Citi has been consistently investing in our people, products, services, and technology infrastructure so as to help Chinese consumers achieve their financial goals. In 2014, we launched our strategic alliance with AIA to offer insurance solutions in-country. This is a partnership that builds on the strong presence, complementary strengths and established bancassurance capabilities of both companies. We also introduced our premium and exclusive Ultima credit card for high net worth individuals to take personal service to the next level.

On the Institutional Clients Group front, we kept focus on serving our target client segments in capital markets, advisory, securities services, transaction services, rates and currencies, where we have deep strengths. We play a proactive role in the industry and actively contribute to the ongoing financial reforms in the industry. In line with the launch of our sub-branch in the Shanghai Free Trade Zone (SFTZ), we rolled out several industry-first treasury solutions during the year to help clients take advantage of the reforms in China.

Our dedicated team serving the small and medium enterprises (SMEs) in China celebrated its tenth anniversary in 2014, a testament to our deep understanding of client needs and ability to help them grow and succeed, both in China and overseas.

These feats are the results of our relentless efforts in innovation, where we merge technology with needs, opportunities with understanding, and bring ambition to achievement. They are developments that position us well for 2015 and the near future.

Citi China remains optimistic about the advancement of the financial industry in China, and we are committed to long-term growth here. We will leverage our strong brand presence, global expertise, network and talent to drive ingenuity and leadership to keep providing exceptional banking services and solutions that serve the needs of our clients.

Sincerely

Andrew Au
Chairman, Citibank (China) Co., Ltd.

Total Assets RMB 157,632 million, a 3% increase YoY

Loans RMB 66,918 million, an 8% increase YoY

Customer Deposits RMB 99,886 million, up 3% YoY

Operating Income RMB 5,511 million, a strong increase of 27% YoY

Operating Expenses RMB 3,548 million, up 14% YoY, in line with more headcount and business growth

Net Income RMB 1,598 million, 66% more than 2013

Capital Adequacy Ratio 15.14%, well above the regulatory requirement of 8%

Operating Efficiency 56%, improved 6% from 2013

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Citibank (China) Co., Ltd. saw a year of historic milestones for the business in 2014. In line with changes in the market, we grew from strength to strength across all lines of businesses, which reflects the size and potential of China and our long-term commitment to the country.

01. INSTITUTIONAL CLIENTS GROUP

Citi China helps multinational and local corporates, state-owned enterprises, financial and public sector institutions to grow and deliver products and services. We serve them with distinction, building enduring relationships and providing them a full suite of strategic advisory and financing products.

Corporate and Investment Banking

Citi's Corporate and Investment Banking arm is responsible for the coverage of large Chinese corporates. We provide comprehensive relationship coverage services to ensure the best possible service and responsiveness to our clients.

During the year, we supported clients across five continents through our eight China Desks based in key cities around the globe, offering them access to our market-leading platforms in over 100 countries around the clock.

In 2014, we hosted "China Day" events in five countries, to share with clients relevant insights and updates on their related industries and economies. We also organized "China Desk Network Day" in June and December in Beijing and Shenzhen respectively, where we gathered bankers from all our China Desks to meet our clients' headquarters executives to explore new avenues of collaboration.



Global Subsidiaries Group

Citi has traditionally been a leading financial services provider to multinational corporations and promoting their success in China. Our focus is on holistic client advisory combined with strong execution around our core banking products of debt financing, transaction banking, and markets activities.

As a result, our client satisfaction indices stay above industry norms and our business continues to grow. We help clients raise funds from capital markets and reduce transactional risks by means of innovating and implementing cross-border solutions (especially in light of developments in the Shanghai (Pilot) Free Trade Zone) and leveraging our global network and expertise.

We maintained a high level of focus on developing our relationships with emerging markets-parented clients further, and invested heavily in our traditional business –supporting subsidiaries of United States, European and Japan headquartered multinationals.

We hosted forums by vertical industries, functions and geographies for clients to discuss about their most current challenges and needs, and shared

strategic investment and corporate banking market views and ideas.

Financial Institutions Group (FIG) and Public Sector Group (PSG)

Driven by the special needs of institutional clients, the Financial Institutions Group (FIG) and Public Sector Group (PSG) provide comprehensive financial solutions to a wide range of financial institutions and the public sector, including banks, insurance companies, securities firms, fund managers, trust and leasing companies, and sovereign wealth funds.

FIG and PSG seized opportunities presented in the market and provided trade refinancing and bill discounting to domestic clients, which led to steady, consistent growth in both assets and revenue and zero asset quality issues in 2014.

As it was the second consecutive year after China Insurance Regulatory Commission (CIRC) released new guidelines for overseas investment of insurance funds, we took responsibility as a custodian bank for several Chinese insurance companies' overseas investment, and proactively updated clients with

timely market information. We also assisted our securities service product partners in their efforts to improve the comprehensiveness, convenience, and efficiency of our service offering.

In light of new capital management regulations issued by the China Banking Regulatory Commission (CBRC), FIG shared lessons in capital supplement mechanism, based on our global experience with banks operating in the country, so as to help them fully implement the changes. We also strengthened communications with clients with regards to ongoing updates in control and risk, and made significant progress in signing the National Association of Financial Market Institutional Investors (NAFMII) master agreement with non-bank financial institutional clients.

Treasury and Trade Solutions

Citi Treasury and Trade Solutions (TTS) delivers cash management and trade solutions that help clients streamline and automate processes, mitigate risk and expand their reach. Coupling our thorough understanding of the local market with the power of our market leading global product platform, we launched a series of first-to-market cross-border products along with the deregulation taking place in the country. We help clients connect China's liquidity with the rest of the world in an efficient way by leveraging the opportunities presented by the incremental reforms in the Shanghai Free Trade Zone (SFTZ).

Our strong capability in providing innovative treasury management solutions is well recognized by the industry, evident in the awards we received during the year, including 'Best Cash Management Bank' by leading Asia Pacific treasury publication The Corporate Treasurer.

Shanghai (Pilot) Free Trade Zone (SFTZ)

Citi China was proud to launch our SFTZ sub-branch in March 2014. We have launched several industry-first solutions for multinational clients, Chinese subsidiaries and local clients.

Notable examples in 2014 include:

- The launch of the world's first fully automated RMB cross-border pooling solution in the SFTZ in January. The scheme was expanded nationwide in November, and Citi became one of the first banks to execute the RMB cross-border pooling solutions outside the SFTZ with one of the world's leading consumer goods company.
- The launch of the RMB cross-border payment and receivables on-behalf-of (POBO/ROBO) solution in February.
- We launched a foreign currency cross-border treasury center solution in May to supplement our comprehensive and market-leading suite of offerings.
- Citi is the first foreign bank in China to provide an application written for tablets to support online banking, supporting account information, transaction management, media and market intelligence for corporate clients.
- We are the first in the market to launch a RMB cross-bank direct debit solution to provide clients a single communication interface for collections from their customers across the nation.

These solutions help them reduce risks, costs and foreign exchange exposure, which ultimately improve treasury efficiency. .

Our effort were recognized at the 2014 Shanghai Financial Innovation Awards, where we won the "Innovation in Cross-border Treasury Management Award".

We continue to update existing and potential clients about developments in the SFTZ, so that they can identify the right business opportunities.

Markets

With one of the largest Markets teams among international banks in China, Citi offers a broad range of market-leading and innovative financial products to corporate, institutional, government and public sector clients.

Citi China also partners with other banks and financial institutions including mutual fund, insurance, pension and sovereign fund companies, to leverage on each other's strengths and innovation and benefit customers with more comprehensive solutions tailored for their unique needs.

The team goes beyond traditional banking products and services to offer these internationalizing Chinese companies total solutions. These include setting up global risk management platforms; managing foreign exchange exposures; conducting structured finance; performing hedging transactions on- and offshore; and customized structured solutions in emerging markets.

In 2014, Citi Markets sustained strong performance and maintained its leadership position in foreign exchange, interest rates and commodities.

As many Chinese companies showed a large interest in going global during the year, the Markets team was focused on enabling them to do so.

Our work was recognized by finance publication Asiamoney as 'Best Overall FX Services' in the

Corporate category, at the magazine's 2014 Foreign Exchange (FX) survey.

Securities Services

Securities and Fund Services (SFS) offers a large portfolio of products and services including custody, fund services, prime finance and futures, as well as escrow and related services, depositary receipts, and agency and trust. We also support international securities trading and investment activities of leading institutions through efficient receipt, delivery and safekeeping of securities as well as the related cash and FX functions.

All these services are offered to a wide range of sophisticated investors, including mutual funds, pension funds, hedge funds, banks, and insurers.

Global industry surveys consistently rank us as a premier choice for custody, clearing, agency and trust, and depositary receipts services in more markets than any other bank.



02. GLOBAL CONSUMER BANKING

Citi's Global Consumer Bank (GCB) focuses on serving affluent and emerging affluent customer segments in top-tier cities, where the bank's global network, premium brand, distinctive products and services provide unique competitive advantages. GCB strives to deliver a remarkable experience through industry-leading products and services, next-generation retail formats and world-class digital channels.

In 2014, we continued to enhance our product offering and service quality with the launch of the Ultima credit card for the high-net-worth customer segment and the Citi China and AIA China bancassurance partnership.

Citi China also expanded our "Blue Wave" branding campaign, covering major cities, namely, Beijing and Shanghai. Our focus is on delivering relevant communications featuring our Global Banking capabilities and Credit Card Dining privileges to target audiences, and we continued to see improvement in our unaided brand awareness.



Citi-AIA Bancassurance Partnership

Citi China and AIA China officially announced the commencement of a new bancassurance partnership in mainland China in May 2014 in Shanghai, Beijing, Guangzhou, Shenzhen, Nanjing and Wuxi (where both parties have business licenses to operate).

The strategic alliance builds on the strong presence, complementary strengths and established bancassurance capabilities of both companies, and allows our customers to benefit from our advisory capabilities and AIA's life insurance solutions around protection, retirement, as well as tailor-made services for our high net worth customers.

The partnership launch is an extension of our Asia Pacific agreement, and China is one of the first implementations amongst the eleven markets in the region. Citibank customers in six cities across China will have access to AIA's wide range of insurance solutions via our retail network.

Credit Cards

As of December 2014, Citi China offers three sole-branded credit cards to local consumers in all 13 cities that the franchise operates in.

The Ultima card is the newest addition to the family, the card was launched in October 2014. It is an invitation-only card for high-net-worth individuals and aimed at offering an exclusive experience catered to each customer's needs. It offers card holders instant access to tailor-made, dedicated services and travel convenience including preferential air miles conversion rates, unlimited access to premium airport lounges worldwide, fast-track customs services at major international airports, limousine service in major cities in China, as well as exclusive lifestyle experiences like golf privileges, gourmet events, restaurants, and five-star hotels around the world.

The other two cards - the PremierMiles card and Rewards card - launched in 2012 ended the year with strong results that outperform market averages e.g. in retail sales and activation rates. Specifically for the PremierMiles card, we expanded the range of point redemption choices to over 70 airlines and access to 700 airport lounges worldwide (up to six times a year).

Our 60-minute card issuance service launched in 2013 was made available at 18 consumer outlets in 13 cities, allowing customers to enjoy a truly remarkable experience from application to card receipt.



Going Digital

Technology and digitization are transforming the way in which we serve our clients.

We saw strong growth in consumers who used our digital banking services; our individual digital users grew by more than 80 percent from 2013.

In September, we launched our WeChat official accounts for Credit Card and Wealth Management services.

For the second year running, Citi China was recognised at global industry magazine Global Finance's 15th World's Best Internet Banks Awards as the "Best Consumer Internet Bank".

We will continue to enhance our digital capabilities and are confident that digital banking usage will continue to experience exponential growth with the shift in consumer preferences toward digital channels.



Commercial Banking

Citi is focused on being a trusted financial advisor to each and every of our small and medium private enterprises (SMEs) customer.

Our Commercial Bank China celebrated its tenth anniversary in 2014, which is in itself testament to our targeted market focus and relationship-centric approach to the business.

During the year, the business maintained strong growth among key indicators in revenue, customer deposits, credit balance of assets.

In 2014, we started offering a wide range of cash management solutions to give our SME clients the ability to stay on top of their business finances and meet their local and global needs.

We offer a broad range of solutions to our SME customers, such as our American Depositary Receipts (ADR), syndicated loans, bonds, international funds and cross-border RMB settlement pooling services, grant SMEs the capability to expand their business abroad, thereby increasing their competitiveness.

We also tap on our global expertise and resource network to bring new, innovative and value-added

solutions that better cater to our expanding customer base and enhance our relationships with them.

We also launched our mobile collection solution, Citi Mobile Collect, launched during the year is a receivables channel for clients on our electronic banking platform via the mobile phone. It allows clients to initiate, obtain approval and receive confirmation on payments at the point of sale. It is a powerful and convenient way for clients to reduce the collection risk of cash delivery and lower operation costs.

Our innovative and dedicated work was recognized by *China CFO* magazine, which awarded us as the "Best SME Service Brand" at their 2014 Top CFOs' Most Trustworthy Bank Awards.

It is important that our SME customers are kept apprised of market movements so that they can plan better and build more sustainable business strategies. We do this through different channels, such as trainings, seminars, and networking events organized in collaboration with the Economic Information Commission, various SME associations, law firms, auditing companies, etc. These events encourage a spirit of information sharing among SMEs and the aforementioned third parties in the country.

03. UPHOLDING WORLD-CLASS CORPORATE GOVERNANCE

At Citi, we aspire to the highest standards of corporate governance and ethical conduct. We act in the best interests of all our stakeholders, maintain the highest ethical standards, and ensure full compliance with the laws and regulations that govern our company.

Board Composition

The structure of the Board of Directors has been optimized since the establishment of Citibank (China) Co., Ltd. (CCCL). As of December 31, 2014, the CCCL Board of Directors consisted of 10 directors in total,

4 non-executive directors, 4 executive directors and 2 independent directors. In addition, CCCL's headquarters has 15 senior managers approved by the China Banking Regulatory Commission (CBRC).

Title	Name	CCCL Title	Notes
Executive Directors			
Chairman/Director	Andrew Au	Legal Representative, President	
Director	Eugene Qian	Executive Vice President	
Director	Daisy Yao	Chief Risk Officer	Approved by CBRC on August 4, 2014
Director	Kai Zhang	Executive Vice President	
Non-Executive Directors			
Director	Stephen Bird		
Director	Agnes Liew		
Director	Raheel Malik		Approved by CBRC on March 13, 2014
Director	Anthony Nappi		
Independent Directors			
Independent Director	Stephen Long		
Independent Director	Zhe Sun		

The directors of CCCL fully understand the fiduciary responsibilities of a banks’ Board are more important than those of non–financial corporations. Each and every director performed his/her duties diligently.

In 2014, CCCL held 4 Board meetings at an average of once every quarter. The Board resolved or heard the reports of a total of 76 matters (including 37 resolutions and 39 reports). In addition, they exercised 8 written resolutions to 8 key matters, and held 4 Ad hoc board Meetings (to review and approve 4 motions) in the period between Board meetings. During the intersession of the board meetings, CCCL also provided 9 newsletters to the Board in terms of CCCL’s monthly financial information and other relevant matters.

Independent Directors

As of the end of December 2014, CCCL had two independent directors: Mr. Stephen Long and Mr. Zhe Sun.

Mr. Stephen Long is the voting member of the Internal Audit Committee, the Risk Management Committee and the Related Party Transaction Committee under the CCCL Board, and also chairs the Internal Audit Committee. Mr. Zhe Sun is the voting member of the Risk Management Committee and the Related Party Transaction Control Committee, and he is also the chairman of the Related Party Transaction Control Committee. Mr. Stephen Long attended all the Board meetings and the relevant committee meetings (including 4 Ad hoc meetings), and was involved in the consideration and approval of the related matters.

Mr. Zhe Sun attended 3 Board meetings and relevant committee meetings (–he was absent from the Q3 board meeting due to a family emergency), 4 Ad hoc meetings and the relevant committee meetings.

During the intersession of the Board meetings, the independent directors kept themselves apprised of CCCL’s monthly financial information etc. through the periodic newsletters from CCCL. They also issued their written opinions on material related party transactions reviewed by the Board, and actively participated in the decisions of the Board and provided their independent opinions.

Supervisor

CCCL does not have a board of supervisors, but has a supervisor designated by the shareholders – Mr. Mark Hart. Mr. Hart performed his duties diligently and attended all of the Board meetings , and issued confirmation letters to the meetings he attended accordingly.

Mr. Hart also reviewed CCCL’s financials and the performance of directors and senior management, and provided opinions on the 2013 audited financials, the performance of the directors and senior management personnel and their performance relating to management of liquidity risk.

Senior Management Team

The senior management team performed an active leadership role in optimizing corporate governance, expanding our business scope and promoting our reputation. The senior management team met regularly and worked diligently to ensure CCCL performed well in 2014. Management–level committees held several meetings and actively exercised their management functions.

Timely reports were also provided to the Board and/ or Board committees through various channels, including Board and committee meetings and newsletters.

The management ensured that adequate training was provided to employees, covering a wide range of topics including fraud policy and awareness, professional conduct, improper electronic communication, anti–money laundry and sanctions, and anti–bribery and corruption.

In 2015, the team will continue to explore and optimize its corporate governance systems and mechanisms, and constantly deepen its governance practice to ensure stable, sustainable and steady development.

Internal Audit Committe	
Chairman	Stephen Long (Independent Director)
Committee Voting Member	Andrew Au
Committee Voting Member	Anthony Nappi
Committee Voting Member	Daisy Yao
Committee Non–Voting Member	Simon Nie
Related Party Transaction Control Committee	
Chairman	Zhe sun (Independent Director)
Committee Voting Member	Andrew Au
Committee Voting Member	Agnes Liew
Committee Voting Member	Stephen Long (Independent Director)
Committee Non–Voting Member	Lili Qin
Committee Non–Voting Member	Tim Sedgwick
Risk Management Committee	
Chairman	Raheel Malik
Committee Voting Member	Andrew Au
Committee Voting Member	Anthony Nappi
Committee Voting Member	Stephen Long (Independent Director)
Committee Voting Member	Zhe Sun (Independent Director)
Committee Non–Voting Member	Daisy Yao
Committee Non–Voting Member	Lili Qin
Committee Non–Voting Member	Marine Mao
Committee Non–Voting Member	Wai–Ling Wong
Remuneration Committee	
Chairman	Stephen Bird
Committee Voting Member	Andrew Au
Committee Voting Member	Anthony Nappi

Professional Board Committees

As of December 31, 2014, there were four professional committees under the CCCL Board. These committees emphasized equally on quality and effectiveness and assisted the board to make sound decisions. They are the:

- Internal Audit Committee (“IAC”) established on June 13th, 2007;
- Related Party Transaction Control Committee (“RPTCC”) established on June 13th, 2007;
- Risk Management Committee (“RMC”) established on September 12th, 2007; and
- Remuneration Committee (“RC”) established on January 10th, 2014.

The committees held 13 meetings in total, reviewed 41 motions and heard 65 reports.

Each committee effectively operated with distinct division of responsibilities and provided professional advice and suggestions in their respective focus areas. They provided good ground and guidance for the Board to review and discuss matters efficiently.

Risk Management and Internal Control

The Risk Management Committee

Risk Management Committee has held four meetings and the average rate of personal attendance of voting-members of the Committee reached 90%. The Committee made 16 resolutions and heard 54 reports. Risk portfolio seasonal report, classified portfolios, NPLs and loss provisions, and key risk limits against actual exposures were reviewed at each Committee meeting. In addition, in 2014, Risk Management Committee also paid attention to credit card portfolio, derivative risk assessment, stress test and country risk policy, and continued to focus on the following key risk areas facing CCCL according to regulatory requirement and market changes: reputation risk, information technology risk, fraud case prevention and outsourcing risk, etc.

The Internal Audit Committee

In 2014, the Internal Audit Committee held four meetings at an average of once every quarter. The average rate of personal attendance of voting-

members of Internal Audit Committee reached 92.82%. The Committee resolved on 9 motions and heard 9 special reports, and also made one written resolutions during the intersession of meetings (i.e., the approval 2013 Audit Report). In addition, to ensure timely and effective communication with external auditors, external auditors were invited to participate in each Internal Audit Committee meeting. The resolutions made by Internal Audit Committee include: 2013 internal audit work summary, 2014 internal audit plan, extension of appointment of external auditor, update of internal audit Charter, and quarterly reports of internal audit.

Related Party Transaction Control Committee

Related Party Transaction Control Committee has held four meetings (and an additional 2 Ad Hoc meetings), and the average rate of personal attendance of voting-members of the Committee reached 87.5%. Those voting-members who could not attend the meeting also authorized other voting members to present and vote on their behalf by issuing power of attorney before the meeting. The committee made 15 resolutions in total (returned 1 motion in Q3 2014 committee meeting) and heard 2 reporting items. The Committee considered and confirmed a list of all related parties of CCCL, reviewed new related party transactions and the intra-group payments under intra-Citi outsourcing agreements in 2014 and amendment of related party policy. When the matters subject to Committee's discussion involves any conflict of interest, the relevant voting member would abstain from voting on such matters. The Committee's work ensured CCCL's compliance with regulators' requirements.

Remuneration Committee

Remuneration Committee has held one meeting and the average rate of personal attendance of voting members of the Committee reached 100%. The Committee made 2 resolutions which were 2013 Performance linked compensation and 2014 Salary Increase Budget.

At each committee meeting, members fully expressed their opinions and provided constructive and timely suggestions to the management team. All members played an active role to support the Board in making scientific and effective decisions.

04. GIVING BACK TO THE COMMUNITY

Citizenship is an integral part of our business model. All our efforts are targeted at a simple, powerful goal: enabling people to make a difference in their lives, businesses and communities. This goal includes financial, social and environmental as well as economic progress.

Corporate citizenship is a unifying theme across our business operations and locations. Our approach is rooted in our commitment to Responsible Finance – business conduct that is transparent, prudent and dependable. In pursuing our citizenship agenda, we consider the viewpoints of our stakeholders, the lessons of Citi's experiences and the risks and opportunities of our business.

In China, we give back to our local communities in a manner that is results-oriented and that contributes to the sustainable development of the communities we support. We aim to put part of our experience, talent and money where we can help accelerate economic opportunity and include more people in the financial system. We support specific causes that fit our mission of financial inclusion, as well as those where philanthropic capital can seed the development and testing of new ideas with the potential to attain scale.

We partner with on-the-ground non-governmental organizations that promote financial inclusion, employment opportunity and economic empowerment. Our efforts are fueled by the engagement of our employees, and catalyzed partially by Citi Foundation, which works to promote economic progress and improve the lives of people in low-income communities around the world. We partner with non-governmental organizations to create measurable and sustainable economic improvements for disadvantaged families and communities. We also encourage employees to participate actively in activities that complement our community efforts.

In 2014, Citi China supported 12 programs in 13 cities in China under four areas of focus: financial capability, youth economic opportunities, microfinance, and enterprise development.

Microfinance

As a leading corporate supporter of microfinance in China, Citi has, over the decade, been advocating for the sector's development by enlarging the capacity of non-profit microfinance institutions (NGO MFIs) and sector networks to support financial education initiatives for microfinance clients, many of whom are a less fortunate population.





Case Study: The Citi - China Banking Association (CBA) Micro-entrepreneurship Awards

Citi celebrates microentrepreneurs and microfinance practitioners with the annual Citi Microentrepreneurship Awards (CMA). The Awards that started in 2005 has a primary mission to raise awareness of the role of microfinance: increasing access to finance and poverty alleviation.

The CMA is today the largest and most influential recognition for Chinese microfinance enterprises in China. Besides being a platform for them to network and learn, the Awards are highly regarded as an industry yardstick for success. To date, the Awards have recognized over 1200 microentrepreneurs, credit officers and financiers.

2014 was the 10th anniversary of the CMA. We celebrated the event in Beijing with more than 500 participants from government, microfinance institutions, and relevant sector influencers, supporters, academia and media.

Enterprise Development

Citi focuses on initiatives that address key community needs, and we collaborate with external stakeholders to address these economic issues through impactful, multi-year public-private sector partnerships that include non-profit partners and local governments.

In China, we pay particular attention to disaster-stricken and poor villages. We desire to create effective and sustainable vehicles to help the communities to reap triple benefits - economic, environmental and social.

We do so by building their living quarters, increasing their income levels by way of establishing or expanding household and micro enterprises, coaching them on adopting better and greener farming practices and technology, and expanding their market access, while preserving their indigenous traditional cultural heritage like art and agriculture.

Solutions to many complex community challenges require sustained investment and collaboration over time. Here are some examples of how our long-term commitments have made a real difference:

Case Study: China Sustainable Bamboo Enterprise Program

This is the first initiative in China focusing on repairing and rebuilding disaster-affected areas in a way that benefits them in the long-term. This is done by means of helping them creating sustainable bamboo business models that impact their production, marketing, sales, etc.

Started in 2009 in the aftermath of the Wenchuan earthquake, we collaborate with International Network for Bamboo and Rattan (INBAR) and local governments and agencies to train these entrepreneurs, workers, farmers in technology knowledge, skills to build their capacity, as well as gain access to bigger markets.

In 2014, we celebrated five years of success. The project has since benefitted more than 240 small and middle bamboo enterprises in 45 poverty-stricken villages in Sichuan and Zhejiang province, an equivalent of 50,000 individuals.

Case Study: Rural Green Microenterprise Development Program

The program's primary purpose is to increase consumers' trust in farmers so as to advance the development of green farming. Farmers in the program follow an innovative eco-trust agriculture development model which includes a set of standards and practices that encourages soil conservation and environment protection. They also receive training on more advanced and systematic eco-farming methods and built their capabilities.

The program celebrated its fifth anniversary in 2014.

To date, 80 community leaders, 8,200 rural household microenterprises (which represents 32,800 individuals) and 42 small rural cooperatives in 8 provinces have been trained. The average household now receives 10 to 15 percent more income annually, generating a "triple bottom-line" - economic, environmental and social benefits.





Youth Economic Opportunities

Youth ages 13–25 represent a growing percentage of the Chinese population, with a large proportion of them being low-income, migrant youth. Through Citi Foundation, Citi is committed to supporting programs that increase the number of these youth being employed, whether by learning skills, starting their own business, or obtaining higher education or training.

In 2014, we renewed our commitment to the BN Vocational School (BNVS) and Save the Children to provide soft and vocational skills training to migrant students to secure skill-based employment and an opportunity to break their families' poverty cycles.



Case Study: BN Vocational School (BNVS)

Established in 2005, BN Vocational School (BNVS) is China's first tuition-free, non-profit charitable vocational school providing two-year vocational education to youth from disadvantaged families. To date, BNVS has campuses in Beijing, Chengdu, Dalian, Nanjing, Sanya, Wuhan, Yinchuan, Zhengzhou, Lijiang, and Luanda of Angola. This program has to date benefited more than 2,000 migrant youth who have graduated from the school, passed their internships and secured skill-based employment.

Citi Foundation continued to support BNVS in 2014 in the school's bid to advance its organizational capacity in human resources management, curriculum and management manual development, training as well as an electronic management system to improve operational efficiency.

In November, Citi co-organized with the school the first BNVS workshop, a full-day program which gathered hundreds of attendees including teachers, educational professionals, sector regulators and supporters, students and media, in Beijing to discuss about innovative practices for vocational education and exchange teaching ideas and best practices in this area.

Financial Capability

Citi sees financial knowledge and skill sets as an important life skill. As such, we support an extensive array of financial education programs, such as Agent Penny and Aflateen Youth Financial Education, that have benefitted more than 13,000 children and youth in 2014.

We and our NGO partners are heartened by the changes we have witnessed in their financial behaviors of the people the programs support, like developing personal monthly budgets and keeping track of monthly expenditures.

Case Study: Aflateen Youth Financial Education program

The Aflateen Social and Financial Education program is targeted at youth aged 16–23 who are either in college or vocational schools. It teaches them basic financial knowledge and skills, as well as social skills such as critical thinking and citizen responsibility so that they are inspired and empowered to become good citizens and positive agents of change.

Through a series of tailored sessions in the format of small group project assignments, participants learn how to examine and reflect on their identities, values, beliefs, and relationships with family, friends and communities, and make realistic personal career and financial plans that will help them achieve their goals.

In 2014, the program benefited more than 5000 youth and over 160 teachers in nine cities across China.

In May, one of the projects 'Hiking in the City' that took place in Guizhou was recognized by the United Nations at the Global Youth Economic Citizenship Summit in the U.S. The project won the 'Youth Social Entrepreneurship Award' in recognition of how it supports impoverished youth obtain skills and dare to dream for a better future.

In December, the Aflateen program coordinators successfully conducted the first nation-wide Aflateen Carnival themed 'Meeting a Different You' in Shanghai. More than 500 youth from vocational schools, universities, corporate and academic supporters, media and teachers joined the event to exchange ideas, inspire each other and share best practices for teaching underprivileged youth.



05. AWARDS AND RECOGNITION

Best Treasury Management Bank
Trade Finance

Innovation in Cross-border Treasury Management
2014 Shanghai Financial Innovation Award

Stars of China 2014
(Best Foreign Consumer Bank, Best Foreign Bank in Cross
Border Payments, Best Foreign Bank for Foreign Exchange)
Best Internet Bank in China
Global Finance

2014 Best Marketing Financial Institution
Oriental Morning Post

The Best Transaction Bank in China
Corporate Treasurer

2014 China Consumer Banking Summit –
Best Foreign Bank Consumer Experience
yinhang.com

2014 China Financial Industry Champions Award:
Best Foreign Bank
jrj.com

2014 Best Bank in China
the Asset

2014 Best Bank in SFTZ Financial Innovation
CBN, Lujiazui Magazine

2014 Annual Most Trusted Bank by CFOs" –
Best SME Service Brand
TOP CFO

2014 Best Premier Client Wealth
Management Service in China
Securities Times

2014 China CSR Excellence Award – INBAR program
China Philanthropy Times

Best Program on Motivating CSR in Universities
China Foundation For Poverty Alleviation

2014 Best Responsible Brand Award
2014 China CSR Award – group award
China Charity Festival

06. BRANCH NETWORK - CORPORATE BRANCHES & SUB-BRANCH

BEIJING

Room 101, 1F/16–18F, Excel Center, No.6 Wu Ding Hou Street
Xi Cheng District, Beijing, 100032
Tel: (8610) 59376000 Fax: (8610) 59376002

CHANGSHA

2F, No.110, Furong Middle Road, 2nd Section, Changsha, 410015
Tel: (86731) 89860518 Fax: (86731) 89860488, 89860428

CHENGDU

Unit 101, 1F/Unit A–E, 30F, City Tower, No.86 Section 1 South Ren Min Road
Chengdu, Sichuan, 610016
Tel: (8628) 86110066 Fax: (8628) 86202328, 86202160

CHONGQING

Ground Unit 1~3, 12, 18F, No 38, Qingnian Rd, International Trade Center
Yuzhong district, Chongqing, P.R.China 400010
Tel: (8623) 63106395 Fax: (8623) 63106312

DALIAN

Unit 12, 01–03, 18F, Wanda Center, No 6, Gangxing Road
Zhongshan District, Dalian, 116001
Tel: (86411) 39763976 Fax: (86411) 39027599

GUANGZHOU

7201–7202, Office Tower, CITIC Plaza, No.233 Tian He North Road, Guangzhou, 510613
Tel: (8620) 38771333 Fax: (8620) 38770990

GUIYANG

Unit 1–01, No.215 South Fu Shui Road, Nan Ming District, Guiyang, 550002
Tel: (86851) 5285888 Fax: (86851) 5258007, 5258009

HANGZHOU

1F/ Unit A, B, G, 13F, Jia De Plaza, No. 118 Qing Chun Road, Hangzhou, 310003
Tel: (86571) 87229088 Fax: (86571) 87222827

NANJING

1F–2F, Nanjing World Trade Center, No. 2 Hanzhong Road, Nanjing
Tel: (8625) 88011088 Fax: (8625) 89602700

SHANGHAI

1F, 28–35F, Citigroup Tower, No.33 Hua Yuan Shi Qiao Road
Lu Jia Zui Finance and Trade Area, Shanghai, 200120
Tel: (8621) 28966000 Fax: (8621) 28963590

SHANGHAI PILOT FREE TRADE ZONE

Unit 1, No 2001, North Yang Gao Road
Shanghai Free Trade Zone, P.R.China 200131
Tel: (8621) 38627777 Fax: (8621) 31084318

SHENZHEN

34F, Duty Free Building, No. 6 1st Fu Hua Road, Fu Tian CBD, Shenzhen, 518048
Tel: (86755) 82371888 Fax: (86755) 25988829

TIANJIN

Room 1801, 18/F, The Exchange Tower, No.189 Nanjing Road
Heping District, Tianjin, 300051
Tel: (8622) 58900988 Fax: (8622) 83191688

WUXI

1F, 2F, & unit 0701–0703, 0712, 0715–0722, 7F
No.218 Jin Jiang Hotel, Zhongshan Road, Wuxi
Tel: (86510) 82799668 Fax: (86510) 82796900

06. BRANCH NETWORK - CONSUMER SUB-BRANCHES

BEIJING

Beijing Chang-an Sub-branch

1/F, Tower 1, Bright China Chang An Building, No.7 Jianguomennei Avenue
Beijing, P.R.China 100005
Tel: (8610) 59379366 Fax: (8610) 65102450

Beijing Zhong Guan Cun Sub-branch

Room 04 & 05, 1st Floor, Ideal Plaza, No. 58 West Road, North Fourth Ring
Haidian District Beijing, P.R.China 100080
Tel: (8610) 59379288 Fax: (8610) 82607211

Beijing Kerry Centre Sub-branch

Unit 201, 2F, North Office Building and Unit 02, 1F, Kerry Center, No.1 Guang Hua Road
Chao Yang District, Beijing, P.R.China 100020
Tel: (8610) 59379000 Fax: (8610) 85298755

Beijing Upper East Side Sub-branch

A09-A15, Upper East Side Central Plaza, No.6 North Ave, East 4th Ring Road
Chaoyang District, Beijing, P.R.China 100016
Tel: (8610) 59379100 Fax: (8610) 51307131

Beijing Pacific Century Sub-Branch

Unit 109, First Floor, Pacific Century Shopping Mall, Jia 2 Gongti North Road
Beijing, P.R.China 100027
Tel: (8610) 59379200 Fax: (8610) 65392716

Beijing Asian Games Village Sub-branch

Unit 1012, 1013, Tower C, No 103, Huizhongli, Chaoyang District Beijing, P.R.China, 100027
Tel: (8610) 59379050 Fax: (8610) 84871619

Beijing Jin Bao Jie Sub-branch

Room F1-1, F1-2, CITS Plaza shopping center, No.1 North Dong Dan Street
Dong Cheng District Beijing, P.R.China 100005
Tel: (8610) 59379188 Fax: (8610) 65597386

Beijing Wangjing Sub-branch

Unit 105, No. 429 Wangjing Xiyuan, Guangshun North Street
Chaoyang, Beijing, P.R.China 100102
Tel: (8610) 59379333 Fax: (8610) 64716804

CHENGDU

Chengdu Fund International Plaza Sub-branch

1F, Unit 4~5, No 6, Hangkong Road, Wuhou District, Chengdu, P.R.China 610041
Tel: (8628) 61517766 Fax: (8628) 61517878

Chengdu Dong Da Jie Sub-branch

Unit A, Room 103 and 105, 1F, Building 1, No 35, Zi Dong Lou Duan,
Dongdajie Street, Chengdu, P.R.China 610061
Tel: (8628) 65280016 Fax: (8628) 65280019

CHONGQING

Chongqing Airport Sub-branch

Terminal T2A (Departure Hall, beside Gate 4), Chongqing Jiangbei International Airport
Chongqing, P.R.China 401120
Tel: (8623) 67155079 Fax: (8623) 67155432

Chongqing Bei Cheng Tian Jie Sub-branch

Unit 16, No. 12 Bei Cheng Tian Jie, Jiang bei District, Chongqing, P.R.China 400020
Tel: (8623) 67855956 Fax: (8623) 67857217

DALIAN

Dalian Xinghai Bay Sub-branch

No 451-13, Zhongshan Road, Shahekou district, Dalian, P.R.China 116021
Tel: (86411) 39570188 Fax: (86411) 39570166

Dalian Xigang Sub-branch

No.232 & 234 Zhongshan Road, Xigang District, Dalian, P.R.China 116021
Tel: (86411) 83729700 Fax: (86411) 83729726

06. BRANCH NETWORK - CONSUMER SUB-BRANCHES

GUANGZHOU

Guangzhou Fortune Plaza Sub-branch

Unit 101, Fortune Plaza, No.118 Tiyu East Road, Tian He District
Guangzhou, P.R.China 510620
Tel: (8620) 38171888 Fax: (8620) 38931628

Guangzhou Huan Shi Dong Sub-branch

1/F, Asian International Hotel, No.326 Huanshidong Road, Guangzhou, P.R. China 510133
Tel: (8620) 38171021 Fax: (8620) 83866918

Guangzhou Wanguo Plaza Sub-branch

Unit 1002, 1st Floor, No.131,133,135,137, Jiangnan Middle Avenue
Haizhu District, Guangzhou, Guangdong, P.R.China
Tel: (8620) 38171099 Fax: (8620) 84499860

Guangzhou Nong Jiang Suo Sub-branch

Unit 3, 1F, No 34-2, Zhongshan Fourth Road, Yuexiu District
Guangzhou, Guangdong, P.R.China 5100530
Tel: (8620) 38171688 Fax: (8620) 83893730

HANGZHOU

Hangzhou Huanglong Sub-branch

Room 109-110, Floor 1, Jiahua International Business Center, No.15 Hangda Road
Hangzhou, P.R.China 310007
Tel: (86571) 87687028 Fax: (86571) 87687027

Hangzhou Chengxi Sub-branch

No 81, Wen Er West Road, Hangzhou, P.R.China 310012
Tel: (86571) 88250866 Fax: (86571) 88255603

Hangzhou Xin Tang Road Sub-branch

Unit 110, 111, No. 99 Xintang Road, Hangzhou, P.R.China 310020
Tel: (86571) 88908018 Fax: (86571) 28972758

SHANGHAI

Shanghai Lujiazui Sub-branch

1/F, Marine Tower, No.1 Pudong Avenue, Shanghai, P.R.China 200120
Tel: (8621) 38627188 Fax: (8621) 68860028

Shanghai Puxi Sub-branch

1/F, North Building, Peace Hotel, No.19 Zhong Shan Dong Yi Road,
Shanghai, P.R.China 200002
Tel: (8621) 38627000 Fax: (8621) 63297676

Shanghai Gubei Sub-branch

1F Unit 102, Golden Garden, No.1078, Gubei Road, Shanghai, P.R.China 201103
Tel: (8621) 38627488 Fax: (8621) 62709509

Shanghai Xujiahui Sub-branch

No 955-5, Zhaojiabang Road, Shanghai, P.R. China 200030
Tel: (8621) 38627511 Fax: (8621) 54246182

Shanghai Hongqiao Road Sub-branch

1F, Xizang building, No. 100, Hongqiao Road, Xuhui district, Shanghai, P.R. China 200030
Tel: (8621) 38627222 Fax: (8621) 34771316

Shanghai Hongkou Sub-branch

Unit 605-608 6F and Unit 707-708 7F and Unit 803A, 806, 807 8F and Unit 103, 1F,
No.1500, North Sichuan Road, Shanghai, P.R.China 200080
Tel: (8621) 26012288 Fax: (8621) 63071396

Shanghai Yalong Plaza Sub-branch

Unit S01, 1F and Unit S13, B2, No.500, East Jinling Road, Shanghai, P.R.China 200021
Tel: (8621) 38627333 Fax: (8621) 63732685

Shanghai Xin Tian Di Sub-branch

Unit F, Building 1-6, No 222, Madang Road, Shanghai, P.R.China 200021
Tel: (8621) 38627588 Fax: (8621) 53068396

06. BRANCH NETWORK - CONSUMER SUB-BRANCHES

Shanghai People Square Metro Station Sub-branch

Unit 1-116, Interchange Hall, People Square Station, Shanghai Metro Line 1
Shanghai, P.R.China 200021
Tel: (8621) 38627600 Fax: (8621) 22057282

Shanghai West Yan An Road Sub-branch

Unit 01, 02, 7F, unit 01 02, 2F and unit 01, 1F, No 500
West Yan An Road, Shanghai, P.R.China 200050
Tel: (8621) 38627388 Fax: (8621) 32200960

Shanghai West Nanjing Road Sub-branch

Unit A, 1F and 2F, No 762, West Nanjing Road, Shanghai, P.R.China 200040
Tel: (8621) 38627650 Fax: (8621) 62188572

SHENZHEN

Shenzhen Shum Yip Sub-branch

1/F, Shum Yip Center (Beside the Book City), No. 5045 Shen Nan East Road,
Shenzhen, P.R.China 518010
Tel: (86755) 22945188 Fax: (86755) 82083401

Shenzhen Futian Sub-branch

Room 105, Duty Free Building, No 6, Fuhua 1st Road
Futian district, Shenzhen, P.R.China 518048
Tel: (86755) 82766333 Fax: (86755) 88820518

Shenzhen Nanshan Sub-branch

North 1F, Jinhai Building, No.2748, Nanhai Avenue, Nanshan District
Shenzhen, P.R.China 518054
Tel: (86755) 86122988 Fax: (86755) 86121161

Shenzhen Qianhai Sub-branch

No. 2041-1, 1st Floor, Xi Long Building, Renmin South Road
Luohu, Shenzhen, P.R.China 518001
Tel: (86755) 82257866 Fax: (86755) 82235166

TIANJIN

Tianjin Binhai Sub-branch

Level 1&2, 23 Fortune Plaza, No.21 Third Avenue, TEDA, Tianjin, P.R.China 300457
Tel: (8622) 66209229 Fax: (8622) 66219980

Tianjin Youyi Road Sub-branch

Unit 101 & 201, Zhongfu Tower, No.1 Youyi Road, Hexi District, Tianjin, P.R.China 300201
Tel: (8622) 28353003 Fax: (8622) 28350282

Tianjin Jin Tower Sub-branch

Unit 3, No 160, Zhang Zi Zhong Road, Heping District, Tianjin, P.R. China 300041
Tel: (8622) 58356150 Fax: (8622) 58356162

Tianjin Qi Xiang Tai Road Sub-branch

Unit 6, No. 89 Qi Xiang Tai Road, Hexi District, Tianjin, P.R. China 300074
Tel: (8622) 83118000 Fax: (8622) 83118058

07. AUDITORS' REPORT

The Board of Directors of
Citibank (China) Company Limited:

We have audited the accompanying financial statements of Citibank (China) Company Limited (the "Bank") on pages 33 to 122, which comprise the balance sheet as at 31 December 2014, the income statement, the cash flow statements, the statement of changes in owner's equity for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Bank's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing these financial statements in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China, and fairly presenting them; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with China Code of Ethics for Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and the financial performance and the cash flows of the Bank for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

KPMG Huazhen (Special General Partnership)
Shanghai Branch
China Shanghai

Certified Public Accountants
Registered in the People's Republic of China
Shi haiyun
Xue Chenjun

CITIBANK (CHINA) COMPANY LIMITED

ENGLISH TRANSLATION OF FINANCIAL STATEMENTS
FOR THE YEAR 1 JANUARY 2014 TO 31 DECEMBER 2014
IF THERE IS ANY CONFLICT BETWEEN THE CHINESE VERSION AND ITS
ENGLISH TRANSLATION, THE CHINESE VERSION WILL PREVAIL

Citibank (China) Company Limited
Balance Sheet as at 31 December 2014
(Expressed in Renminbi Yuan)

	Note	2014	2013
Assets			
Cash on hand and deposits			
with central bank	6	27,625,131,061	26,885,794,247
Deposits with inter-banks and			
non-bank financial institutions	7	13,731,316,224	7,650,815,916
Placements with inter-banks and			
non-bank financial institutions	8	16,583,106,736	30,707,510,787
Financial assets			
at fair value through profit or loss	9	8,506,538,388	3,266,961,398
Derivative financial assets	10	2,238,549,098	2,828,654,593
Interest receivable		617,321,657	520,846,457
Loans and advances to customers	11	66,158,687,004	61,387,928,396
Available-for-sale financial assets	12	20,322,383,530	17,228,779,130
Fixed assets	13	49,614,382	62,383,285
Intangible assets	14	56,131,813	69,355,354
Deferred tax assets	15	203,174,424	213,529,169
Other assets	16	1,539,962,259	1,925,037,788
Total assets		157,631,916,576	152,747,596,520

The notes on pages 41 to 122 form part of these financial statements.

Citibank (China) Company Limited
Balance Sheet as at 31 December 2014 (continued)
(Expressed in Renminbi Yuan)

	Note	2014	2013
Liabilities and owner's equity			
Liabilities			
Deposits from inter-banks and			
non-bank financial institutions	17	23,930,800,080	20,601,138,894
Borrowings from inter-banks	18	9,105,409,697	10,492,510,490
Derivative financial liabilities	10	2,222,005,781	2,844,811,150
Deposits from customers	19	99,885,561,822	96,624,103,633
Employee benefits payable	20	297,081,028	241,120,930
Taxes payable	5(3)	246,082,632	214,014,543
Interest payable		385,327,849	451,104,989
Other liabilities	21	8,416,060,304	9,891,133,757
Total liabilities		144,488,329,193	141,359,938,386
Owner's equity			
Paid-in capital	22	3,970,000,000	3,970,000,000
Capital reserve	23	24,842,427	24,942,842
Other comprehensive income	24	46,712,731	-111,187,923
Surplus reserve	25	861,856,214	702,043,313
General reserve	26	1,582,402,522	1,476,690,285
Retained earnings		6,657,773,489	5,325,169,617
Total owner's equity		13,143,587,383	11,387,658,134
Total liabilities and owner's equity		157,631,916,576	152,747,596,520

These financial statements were approved by the Board of Directors of Citibank (China) Company Limited.

Andrew Au
Chief Executive Officer

Timothy Robert Sedgwick
Chief Financial Officer

Company stamp

Date: 14 April 2015

The notes on pages 41 to 122 form part of these financial statements.

Citibank (China) Company Limited
Income Statement for the year ended 31 December 2014
(Expressed in Renminbi Yuan)

	Note	2014	2013
Operating income		5,511,105,525	4,352,882,044
Net interest income	28	2,792,407,099	2,602,809,464
Interest income		4,486,713,195	4,393,500,690
Interest expense		(1,694,306,096)	(1,790,691,226)
Net fee and commission income	29	938,273,379	617,919,568
Fee and commission income		1,028,039,746	713,879,351
Fee and commission expenses		(89,766,367)	(95,959,783)
Investment income	30	1,092,109,762	736,869,649
Gains/(losses) from changes in fair value	31	47,812,643	(266,550,720)
Foreign exchange gains		602,330,139	626,739,267
Other operating income		38,172,503	35,094,816
Operating expenses		(3,548,359,494)	(3,125,942,378)
Business taxes and surcharges	5(1)	(317,101,421)	(242,237,669)
General and administrative expenses	32	(3,087,297,605)	(2,715,335,079)
Impairment losses	33	(143,960,468)	(168,369,630)
Operating profit		1,962,746,031	1,226,939,666
Add: Non-operating income		6,163,801	6,634,513
Less: Non-operating expenses		(2,097,802)	(2,649,273)
Profit before income tax		1,966,812,030	1,230,924,906
Less: Income tax expense	5(2), 34	(368,683,020)	(266,804,510)
Net profit for the year		1,598,129,010	964,120,396
Other comprehensive income, net of tax:	35		
Item that may be reclassified to profit or loss			
- Gains or losses arising from changes in fair value of available-for-sale financial assets		157,900,654	(119,969,171)
Total comprehensive income for the year		1,756,029,664	844,151,225

The notes on pages 41 to 122 form part of these financial statements.

Citibank (China) Company Limited
Cash Flow Statement for the year ended 31 December 2014
(Expressed in Renminbi Yuan)

	Note	2014	2013
Cash flows from operating activities			
Net decrease in deposits with central bank and inter-banks		80,642,349	95,488,384
Net decrease in loans and advances to customers		-	1,396,002,432
Net increase in borrowings from inter-banks and non-bank financial institutions		6,261,198,954	-
Net increase in deposits from customers, inter-banks and non-bank financial institutions		4,197,422,530	3,033,219,006
Investment returns received from financial assets at fair value through profit or loss		287,623,290	29,395,650
Interest, fee and commission receipts		5,247,653,122	5,001,433,123
Refund of taxes		11,855,876	5,687,000
Proceeds from other operating activities		596,734,844	532,657,662
Sub-total of cash inflows from operating activities		16,683,130,965	10,093,883,257
Net increase in loans and advances to customers		(5,042,569,024)	-
Net decrease in borrowings from inter-banks and non-bank financial institutions		-	(10,255,221,634)
Net increase in deposits with inter-banks with limited usage		(5,371,966,886)	-
Payment for acquisition of financial assets at fair value through profit or loss		(2,209,424,387)	(790,357,194)
Interest, fee and commission payments		(1,833,262,020)	(1,687,816,800)
Payment to and for employees		(1,484,200,677)	(1,381,371,282)
Payment of various taxes		(697,713,036)	(888,425,895)
Payment for other operating activities		(711,452,945)	(52,057,594)
Sub-total of cash outflows from operating activities		(17,350,588,975)	(15,055,250,399)
Net cash outflow from operating activities	36(1)	(667,458,010)	(4,961,367,142)

The notes on pages 41 to 122 form part of these financial statements.

Citibank (China) Company Limited
Cash Flow Statement for the year ended 31 December 2014 (continued)
(Expressed in Renminbi Yuan)

	Note	2014	2013
Cash flows from investing activities			
Proceeds from disposals of			
available-for-sale financial assets		15,575,151,569	11,283,281,490
Investment returns received from			
available-for-sale financial assets		600,050,715	573,694,845
Proceeds from disposals of fixed assets		81,000	103,000
Sub-total of cash inflows from investing activities		16,175,283,284	11,857,079,335
Payment for acquisition of			
available-for-sale financial assets		(16,181,911,629)	(11,587,141,324)
Payment for acquisition of fixed assets, intangible assets and other long-term assets		(76,806,038)	(55,916,647)
Sub-total of cash outflows from investing activities		(16,258,717,667)	(11,643,057,971)
Net cash (outflow) / inflow from investing activities		(83,434,383)	214,021,364
Effect of foreign exchange rate changes on cash and cash equivalents		(239,049,166)	(507,423,612)
Net decrease in cash and cash equivalents	36(2)	(989,941,559)	(5,254,769,390)
Add: Cash and cash equivalents at the beginning of the year		35,289,366,558	40,544,135,948
Cash and cash equivalents at the end of the year	36(3)	34,299,424,999	35,289,366,558

The notes on pages 41 to 122 form part of these financial statements.

Citibank (China) Company Limited
Statement of Changes in Owner's Equity for
the year ended 31 December 2014
(Expressed in Renminbi Yuan)

	Note	Paid-in capital	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 Dec. 2013		3,970,000,000	(86,245,081)	-	702,043,313	1,476,690,285	5,325,169,617	11,387,658,134
Changes in accounting policies		-	111,187,923	(111,187,923)	-	-	-	-
Balance at 1 Jan. 2014		3,970,000,000	24,942,842	(111,187,923)	702,043,313	1,476,690,285	5,325,169,617	11,387,658,134
Changes in equity for the year								
1. Total comprehensive income		-	-	157,900,654	-	-	1,598,129,010	1,756,029,664
2. Owner's contributions								
- Equity-settled share-based payment	23	-	(100,415)	-	-	-	-	(100,415)
3. Appropriation of profits								
- Appropriation for surplus reserve	25, 27	-	-	-	159,812,901	-	(159,812,901)	-
- Appropriation for general reserve	26, 27	-	-	-	-	105,712,237	(105,712,237)	-
Subtotal of 1 to 3		(100,415)	157,900,654	159,812,901	105,712,237	1,332,603,872	1,755,929,249	1,755,929,249
Balance at 31 December 2014		3,970,000,000	24,842,427	46,712,731	861,856,214	1,582,402,522	6,657,773,489	13,143,587,383

The notes on pages 41 to 122 form part of these financial statements.

Citibank (China) Company Limited
Statement of Changes in Owner's Equity for
the year ended 31 December 2013
(Expressed in Renminbi Yuan)

	Note	Paid-in capital	Capital reserve	Other compre- hensive income	Surplus reserve	General reserve	Retained earnings	Total
Balance at 31 December 2012		3,970,000,000	33,724,090	-	605,631,273	1,305,394,495	4,628,757,051	10,543,506,909
Changes in accounting policies		-	(8,781,248)	8,781,248	-	-	-	-
Balance at 1 January 2013		3,970,000,000	24,942,842	8,781,248	605,631,273	1,305,394,495	4,628,757,051	10,543,506,909
Changes in equity for the year								
1. Total comprehensive income		-	-	(119,969,171)	-	-	964,120,396	844,151,225
2. Appropriation of profits								
- Appropriation for surplus reserve	25, 27	-	-	-	96,412,040	-	(96,412,040)	-
- Appropriation for general reserve	26, 27	-	-	-	-	171,295,790	(171,295,790)	-
Subtotal of 1 and 2		-	-	(119,969,171)	96,412,040	171,295,790	696,412,566	844,151,225
Balance at 31 December 2013		3,970,000,000	24,942,842	(111,187,923)	702,043,313	1,476,690,285	5,325,169,617	11,387,658,134

The notes on pages 41 to 122 form part of these financial statements.

Citibank (China) Company Limited
Notes to the Financial Statements
(Expressed in Renminbi Yuan)

01 General information

Citibank (China) Company Limited (“Citibank China” or the “Bank”) is a wholly foreign-owned bank incorporated in Shanghai, the People’s Republic of China (“PRC”), established by Citibank, N.A. (“Citibank”).

With the approval of the China Banking Regulatory Commission (“CBRC”) issued on 22 December 2006, Citibank transformed its Shanghai Branch, Shenzhen Branch, Guangzhou Branch, Beijing Branch, Tianjin Branch and Chengdu Branch which were set up in China during 1988 to 2005 into Citibank China, a wholly foreign-owned bank invested solely by Citibank.

The Bank obtained a financial license on 20 March 2007 and a business license (qi du hu zong zi No. 043865) [Municipal Bureau] issued by the Shanghai Administration for Industry and Commerce on 29 March 2007, and subsequently obtained a revised license (No. 310000400507900) [Municipal Bureau] from the Shanghai Administration for Industry and Commerce after commencement of operation. The Bank’s registered capital is Renminbi 3,970,000,000. In accordance with the Bank’s business license, the Bank has an undefined operating period from 29 March 2007. The Bank commenced operation on 2 April 2007 and its scope of operation includes partial or full scope foreign currency business and Renminbi business, approved by relevant regulators.

As at 31 December 2014, the Bank had 13 branches and 42 sub-branches in Shanghai, Shenzhen, Guangzhou, Beijing, Tianjin, Chengdu, Hangzhou, Dalian, Chongqing, Guiyang, Nanjing, Changsha, and Wuxi. The Bank’s head office is in Shanghai.

02 Basis of preparation

These financial statements have been translated into English from the Bank’s statutory financial statements issued in the PRC in Chinese.

The financial statements have been prepared on the going concern basis.

(1) tatement of compliance

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises (“CAS”). These financial statements present truly and completely the financial position of the Bank as at 31 December 2014, financial performance and the cash flows of the Bank for the year then ended.

(2) Accounting year

The Bank’s accounting year is from 1 January to 31 December.

(3) Functional currency and presentation currency

The Bank’s functional currency is Renminbi. These financial statements are presented in Renminbi. Functional currency is determined by the Bank on the basis of the currency in which major income and costs are denominated and settled.

03 Significant accounting polices and accounting estimates

(1) Translation of foreign currencies

When the Bank receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates on the dates of the transactions. A spot exchange rate is an exchange rate quoted by the People’s Bank of China (“PBOC”), the State Administration of Foreign Exchanges or a cross rate determined based on quoted exchange rates.

03 Significant accounting policies and accounting estimates (continued)

(1) Translation of foreign currencies (continue)

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are generally recognised in profit or loss. Non-monetary items that are measured at historical cost in foreign currencies are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined; the resulting exchange differences are recognised in profit or loss, except for the differences arising from the retranslation of available-for-sale financial assets, which are recognised in other comprehensive income.

(2) Financial instruments

Financial instruments of the Bank include cash on hand and deposits with central bank, deposits with inter-banks and non-bank financial institutions, placements with inter-banks and non-bank financial institutions, financial assets at fair value through profit or loss, derivative financial assets, interest receivable, loans and advances to customers, available-for-sale financial assets, deposits from inter-banks and non-bank financial institutions, borrowings from inter-banks, derivative financial liabilities, deposits from customers, interest payable and paid-in capital

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

A financial asset or financial liability is recognised in the balance sheet when the Bank becomes a party to the contractual provisions of a financial instrument.

The Bank classifies financial assets and liabilities into the different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through

profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs.

Subsequent to initial recognition, financial assets and liabilities are measured as follows:

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

A financial asset or financial liability is classified as at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is a derivative. Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method.

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments

and fixed maturity that the Bank has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method.

As at balance sheet date, the Bank did not hold any held-to-maturity investments.

- Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for sale and other financial assets which do not fall into any of the above categories.

Available-for-sale financial assets are measured at fair value subsequent to initial recognition and changes therein are generally recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses from monetary financial assets which are recognised directly in profit or loss. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Interest is recognised in profit or loss using the effective interest method.

- Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Other financial liabilities include liabilities arising from financial guarantee contracts. Financial guarantees are contracts that require the Bank (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Where the Bank issues a financial guarantee, subsequent to initial recognition, the guarantee is measured at the higher of the amount initially recognised less accumulated amortisation and the amount of a provision determined in accordance with the principles for contingencies liabilities (see Note 3(11)).

Liabilities other than those arising from financial guarantee contracts are measured at amortised cost using the effective interest method.

(b) Derivative financial instruments and embedded derivatives financial instruments

The Bank uses derivative financial instruments such as forward, swap and option contracts to manage its risks associated with interest rate, foreign currency and other price fluctuation respectively. A derivative financial instrument has all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or similar variables;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;
- it is settled at a future date.

Derivatives are recognised at fair value upon initial recognition. The positive fair value is recognised as an asset while the negative fair value is recognised as a liability. The gain or loss on re-measurement to fair value is recognised in profit or loss.

An embedded derivative financial instrument is a component of a hybrid contract that includes a non-derivative host contract (the “host contract”), and the derivative financial instrument causes some or all of the cash flows that otherwise would be required by the contract to be modified, according to a specified interest rate, financial instrument price, foreign exchange rate, index of prices or similar variables. The embedded derivative is separated from the host contract and accounted for as a separate derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the host contract;

03 Significant accounting policies and accounting estimates (continued)

(b) Derivative financial instruments and embeded derivatives financial instruments (continued)

(ii) a separate instrument with the same terms as the embedded derivative would meet the defi nition of a derivative; and (iii) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

If an embedded derivative is separated, the host contract shall be accounted for as financial assets or liabilities, if it is a financial instrument.

(c) Presentation of financial assets and financial liabilities.

Financial assets and financial liabilities are generally presented separately in the balance sheet and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- the Bank currently has a legally enforceable right to set off the recognised amounts; and
- he Bank intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

(d) Derecognition of financial assets and financial liabilities

A financial asset is derecognised if the Bank’s contractual rights to the cash flows from the financial asset expire or if the Bank transfers substantially all the risks and rewards of ownership of the financial asset to another party. Where a transfer of a financial asset in its entirety meets the criteria of derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred
- the sum of the consideration received from the transfer and

any cumulative gain or loss that has been recognised directly in equity.

The Bank derecognises a financial liability (or part of it) only when its obligation (or part of it) specified in the contract is discharged or cancelled or expires.

(3) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, deposits with inter-banks and non-bank financial institutions, placements with inter-banks and non-bank financial institutions, and short-term, highly liquid investments, that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

(4) Fixed assets

Fixed assets represent the tangible assets held by the Bank for administrative purposes with useful lives over one year. Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(7)(b)).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour, capitalised borrowing costs, and any other costs directly attributable to bringing the asset to working condition for its intended use.

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Bank in a different pattern, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets if the criteria to recognised fixed assets are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred. Gains or losses arising from the retirement or disposal of an item of fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

The cost of fixed assets, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life, unless the fixed assets are classified as held for sale. The estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

Asset type	Estimated useful life	Residual value rate	Depreciation rate
Office and other equipment	3-5 years	0%	20%-33.33%
Motor vehicles	5 years	0%	20%

Useful lives, residual value and depreciation methods are reviewed at least at each year-end.

(5) Operating lease charges

Rental payments under operating leases are recognised as part of the cost of another related asset or as expenses on a straight-line basis over the lease term. Contingent rental payments are expensed as incurred.

(6) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 3(7)(b)). For an intangible asset with a finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its

estimated useful life, unless it is classified as held for sale. At the balance sheet date, the Bank’s intangible assets consisted of software, which is amortised over three to ten years.

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Bank. At the balance sheet date, the Bank did not have any intangible assets with indefinite useful lives.

(7) Impairment of assets

Except for impairment of assets set out in Note 3(10), impairment of assets is accounted for using the following principles:

(a) Impairment of financial assets

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised.

Objective evidence that a financial asset is impaired includes but is not limited to:

- (i) significant financial difficulty of the issuer or obligor;
 - (ii) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
 - (iii) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (iv) the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer.
- Loans and receivables and held-to-maturity investments
- Loans and receivables and held-to-maturity investments

03 Significant accounting policies and accounting estimates (continued)

(a) Impairment of financial assets (continue)

are assessed for impairment on an individual basis and/or on a collective group basis as followings.

Where impairment is assessed on an individual basis, an impairment loss in respect of a loan and receivable or held-to-maturity investment is calculated as the excess of its carrying amount over the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

The assessment is made collectively where loans and receivables or held-to-maturity investments share similar credit risk characteristics (including those not individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting current economic conditions.

If, after an impairment loss has been recognised on loans and receivables or held-to-maturity investments, there is a recovery in the value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding what the amortised cost would have been had no impairment loss been recognised in prior years.

- Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual basis and/or a collective group basis as followings. When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that has been recognised directly in equity is reclassified to profit or loss even though the financial asset

has not been derecognised. If, after an impairment loss has been recognised on an available-for sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss.

(b) Impairment of other assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on the internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets
- intangible assets

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Bank estimates the recoverable amounts of intangible assets with indefinite useful lives that have yet to reach a working condition at least once during each year irrespective of whether there is any indication of impairment.

An asset group is the smallest identifiable group of assets that generates cash inflows and that is largely independent of the cash inflows from other assets or asset groups. An asset group is composed of assets directly related to cash-generation. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Bank also considers how management monitors the Bank's operations and how management makes decisions about continuing or disposing of the Bank's assets.

The recoverable amount of an asset (or asset group, set of asset groups, same as below), is the higher of its fair

value (see Note 3(8)) less costs to sell and the present value of expected future cash flows.

The present value of the expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

(8) Fair value measurement

Unless otherwise specified, the Bank determines fair value measurement as below:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Bank takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

(9) Employee benefits

(a) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

(b) Post-employment benefits - defined contribution plans

The defined contribution plans participated by the Bank include pension insurance in the social insurance system and annuity plan.

Pursuant to the relevant laws and regulations of the PRC, the Bank participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Bank makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Contributions are recognised as a liability as the employee provides services, with corresponding charge to profit or loss or included in the case of assets where appropriate.

Besides, the Bank provides an annuity plan to the eligible employees. The Bank makes annuity contribution in proportion to its employees' gross salaries on accrual basis.

(c) Share-based payments

Share-based payment transactions in the Bank are equity-settled share-based payments.

When the Bank uses shares or other equity instruments

03 Significant accounting policies and accounting estimates (continued)

(c) Share-based payments (continue)

as consideration for services received from employees, the payment is measured at the fair value of the equity instruments granted to the employees, in accordance with CAS 11 - Share-based payments. If the equity instruments granted to employees vest immediately, the fair value of the equity instruments granted is fully recognised as costs or expenses on the grant date, with a corresponding increase in capital reserve. If the equity instruments granted do not vest until the completion of services for a period, or until the achievement of a specified performance condition, the Bank recognises during the vesting period, based on the best estimate of the number of equity instruments expected to vest. The Bank measures the services received as the grant-date fair value of the equity instruments and recognises the costs or expenses, as the service are received with a corresponding increase in capital reserve.

When the Bank receives services but has no obligation to settle the transaction because the relevant equity instruments are issued by the Bank's ultimate parent, the Bank also classifies the transaction as equity-settled.

(d) Termination benefits

When the Bank terminates the employment with employees before the employment contracts expire, or provides compensation as an offer to encourage employesss to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Bank cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or an employee termination agreement. When the Bank has a formal detailed restructuring plan or termination agreement involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring

by starting to implement that plan or agreement or announcing its main features to those affected by it.

(10) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset only if the Bank has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax deductible loss).

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from

the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and assets, and
- hey relate to income taxes levied by the same tax authority on either:
- the same taxable entity; or
- different taxable entities which either to intend to settle the current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(11) Provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Bank has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimates. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows.

A contingent liability is disclosed for:

- A possible obligation resulting from past transactions or events and, whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events, or
- A present obligation resulting from past transactions or events, where it is not probable that its settlement will result in an outflow of economic benefits, or where the amount of the outflow can not be estimated reliably.

(12) Fiduciary activities

The Bank acts in a fiduciary capacity as a custodian, trustee or an agent for its customers. Assets held by the Bank and the related undertakings to return such assets to customers are excluded from the financial statements as the risks and rewards of the assets reside with the customers.

Entrusted lending is the business where the Bank enters into entrusted loan agreements with customers, whereby the customers provide funding (entrusted funds) to the Bank, and the Bank grants loans to third parties (entrusted loans) at the instruction of the customers. As the Bank does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

Wealth management business refers to agreements between the Bank and its customers to raise funds from them for investment in the assets of the Bank or third parties. In this business, the Bank performs its management duties and collects corresponding fees in accordance with the relevant agreements. As the Bank does not assume the risks and rewards of the funds and investments of the wealth management business, the corrensponding funds and investments are recorded as off-balance sheet items.

03 Significant accounting policies and accounting estimates (continued)

(13) Revenue recognition

Revenue is the gross inflow of economic benefits in the periods arising in the course of the Bank's ordinary activities when the inflows result in increase in shareholders' equity, other than increases relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Bank, the revenue and costs can be measured reliably and the following conditions are met:

(a) Interest income

Interest income arising from the use by others of entity assets is recognised in the income statement based on the duration and the effective interest rate. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Bank estimates cash flows considering all the contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets ("unwinding of discount") is calculated and recognised using the rate

of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

(b) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided.

Origination or commitment fees received by the Bank which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the Bank making a loan, the fee is recognised as revenue on expiry.

(14) Government grants

Government grants are non-reciprocal transfers of monetary or non-monetary assets from the government to the Bank except for capital contribution from the government in the capacity as a shareholder of the Bank. Special transfers from the government, such as investment grants that have been clearly defined in official documents as part of "capital reserve" are also dealt with as capital contributions rather than government grants.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Bank will comply with the conditions associated with the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value.

A government grant related to an asset is recognised initially as deferred income and amortised to profit

or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Bank for expenses to be incurred in the future is recognised initially as deferred income, and released to profit or loss in the periods in which the expenses are recognised. A grant that compensates the Bank for expenses already incurred is recognised in profit or loss immediately.

(15) Profit distributions to owners

Distributions of profit proposed in the profit appropriation plan to be authorised by the Board of Directors and declared after the balance sheet date are not recognised as a liability at the balance sheet date but disclosed in the notes separately.

(16) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Bank is under common control only from the State and that have no other related-party relationships are not regarded as related parties of the Bank. Related parties of the Bank include, but are not limited to:

- (a) the Bank's parent;
- (b) the Bank's subsidiaries;
- (c) enterprises that are controlled by the Bank's parent;
- (d) investors that have joint control or exercise significant influence over the Bank;
- (e) enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Bank;
- (f) oint ventures of the Bank, including subsidiaries of joint ventures;
- (g) associates of the Bank, including subsidiaries of associates;
- (h) rincipal individual investors and close family members of such individuals;

- (i) key management personnel of the Bank and close family members of such individuals;
- (j) key management personnel of the Bank's parent and close family members of such individuals;
- (k) other enterprises that are controlled or jointly controlled by principal individual investors or key management personnel of the Bank, or close family members of such individuals; and
- (l) annuity plan of the Bank for the benefit of employees.

(17) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Bank's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, whose financial performance are regularly reviewed by the Bank's management to make decisions about recourses to be allocated to the segment and assess its performance, and for which financial information regarding financial position, financial performance and cash flows is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of;

- the nature of each products and services
- the nature of production processes
- the type or class of customers for the products and services
- the methods used to distribute the products or provide the services
- the nature of the regulatory environment.

03 Significant accounting policies and accounting estimates (continued)

(17) Segment reporting (continued)

- Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the Bank’s financial statement.

(18) Significant accounting estimates and judgments

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Note 3(9)(c) contains information about the assumptions and their risk factors relating to share-based payments. Other key sources of estimation uncertainty are as follows:

(a) Impairment losses of loans and advances

The Bank reviews the portfolios of loans and advances periodically to assess whether impairment losses exist and if they exist, an impairment loss is recognised. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan. It also includes observable data indicating adverse changes in the repayment status of borrowers or issuers in the assets portfolio or national or local economic conditions that correlate with defaults on the assets in the portfolio. The impairment loss for a loan that is individually assessed for impairment is the decrease in the estimated discounted future cash flow of that asset. When loans and advances are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances.

Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management reviews the methodology and assumptions used in estimating future cash flows periodically to reduce any difference between estimated and actual losses.

(b) Fair value of financial instruments

Financial instruments are carried at fair value in the financial statements. The Bank adopts the valuation techniques applicable in current circumstance and supported by sufficient available data and other information, to make the estimate on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In adopting the valuation techniques, the Bank makes sure of the priority of use on observable inputs. However, in the case that the observable inputs are not able to be obtained or it is not feasible to obtain such inputs, the Bank will use unobservable inputs and makes sure that the relevant valuation techniques reflects the observable market data. The unobservable inputs reflect the most proper assumptions used by information-obtainable market participants in relevant assets or liabilities pricing. It shall be noted that some valuation techniques require management estimates and assumptions. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

(c) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Bank carefully evaluates the tax implications of transactions and sets up tax provisions accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax

losses not yet used and deductible temporary differences. As deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised, management’s judgement is required to assess the probability of future taxable profits. Management’s assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be utilized.

(d) Impairment of fixed assets and intangible assets

As described in Note 3(7)(b), fixed assets and intangible assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, related assets are regarded as impaired and impairment losses recognised accordingly.

The recoverable amount of an asset (or the asset group) is the greater of its fair value less costs to sell and its present value of the expected future cash flows. Since a market price for the asset (or the asset group) cannot be obtained reliably, and the fair value of the asset cannot be estimated reliably, the recoverable amount was calculated based on the present value of estimated future cash flows. In assessing the present value of estimated future cash flows, significant judgements are exercised over the asset’s (or the asset group’s) selling price, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used to estimate the recoverable amount, including an estimation of the production, selling price and related operating expenses based on reasonable and supportable assumptions.

(e) Depreciation and amortization of assets such as fixed assets, intangible assets

(f) As described in Note 3(4) and 3(6), fixed assets and intangible assets are depreciated and amortised over their useful lives after taking into account residual value. The useful lives of the assets are regularly reviewed to

determine the depreciation and amortisation costs charged in each reporting period. The useful lives of the assets are determined based on historical experiences of similar assets and estimated technical changes. If there have been significant changes in the factors used to determine the depreciation or amortisation, the rate of depreciation or amortisation is revised prospectively.

04 Changes in accounting policies and their effects

Description of and reasons for changes in accounting policies:

- (i) The Bank has adopted the following new standards and revised standards from 1 July 2014:
- (ii) Accounting Standards for Business Enterprises No. 2 - Long-term Equity Investments (“CAS 2 (2014)”)
- (iii) Accounting Standards for Business Enterprises No. 9 - Employee Benefits (“CAS 9 (2014)”)
- (iv) Accounting Standards for Business Enterprises No. 30 - Presentation of Financial Statements (“CAS 30 (2014)”)
- (v) Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements (“CAS 33 (2014)”)
- (vi) Accounting Standards for Business Enterprises No. 39 - Fair Value Measurement (“CAS 39”)
- (vi) Accounting Standards for Business Enterprises No. 40 - Joint Arrangements (“CAS 40”)
- (vii) Accounting Standards for Business Enterprises No. 41 - Disclosure of Interests in Other Entities (“CAS 41”)

In addition, the Bank has adopted “Accounting Rules on Classification between Financial Liabilities and Equity Instruments as well as the Related Accounting Treatment” (“Caikuai [2014] No. 13”) since 17 March 2014 and “Accounting Standards for Business Enterprises No. 37 - Financial Instruments: Presentation and Disclosures” (“CAS 37 (2014)”) in the 2014 annual financial statements.

04 Changes in accounting policies and their effects (continued)

The significant accounting policies after adopting the above Accounting Standards for Business Enterprises are summarised in Note 3.

Impacts of the adoption of the accounting standards mentioned above are discussed below:

(i) Accounting Standards for Business Enterprises No. 2 - Long-term Equity Investments

CAS 2 (2014) requires equity investments recognised as other long-term equity investments and accounted for using the cost method before adopting CAS 2 (2014), where the Bank does not have control, joint control or significant influence over the investees, and the investments are not quoted in an active market and their fair value cannot be reliably measured, to be now accounted for using the accounting policy related to financial instruments (see Note 3(2)). In addition, CAS 2 (2014) revised the equity method. The revisions do not have any material impact on the Bank’s financial statements.

(ii) Accounting Standards for Business Enterprises No. 9 - Employee Benefits

According to the requirements in CAS 9 (2014) with respect to the classification, recognition and measurement of short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits, the Bank has reviewed the treatments for current employee benefits and changed its accounting policy accordingly (see Note 3(9)). The adoption of CAS 9 (2014) does not have any material impact on the financial position and the financial results of the Bank.

To the extent that the information disclosed prior to 1 January 2014 is inconsistent with CAS 9(2014), the Bank has not restated it. It also has not provided comparative information according to the new disclosure requirements.

(iii) Accounting Standards for Business Enterprises No. 30 - Presentation of Financial Statements

In accordance with CAS 30 (2014), the Bank has modified the presentation of its financial statements, including presenting separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that will never be reclassified to profit or loss in its income statement.

The presentation of the comparative information has been adjusted.

(iv) Accounting Standards for Business Enterprises No. 33 - Consolidated Financial Statements

CAS 33 (2014) revised the definition of control and particular principles of judgment. CAS 33 (2014) introduces a single control model to determine whether an investee shall be consolidated, by focusing on whether the Bank has power over the investee, exposure or rights to variable returns from its involvements with the investee and ability to use its power to affect those returns. CAS 33 (2014) also introduces the assessment of substantive control and the judgment of whether the investor exercises as a principal or an agent, and revised the requirements of consideration on potential voting rights. As a result of the adoption of CAS 33 (2014), the Bank has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates an investee. The adoption of CAS 33 (2014) does not have any material impact on the Bank’s financial statements.

(v) Accounting Standards for Business Enterprises No. 39 - Fair Value Measurement

CAS 39 redefines fair value, establishes a single

framework for fair value measurement and revises the requirements for fair value disclosures. The adoption of CAS 39 does not have any material impact on the fair value measurements of the Bank’s assets and liabilities. The Bank’s disclosures in accordance with CAS 39 are set out in Note 44.

For fair value measurements that are inconsistent with the requirements of CAS 39 prior to 1 July 2014, no retrospective application is required. For information disclosed in comparative financial statements that is inconsistent with the requirements of CAS 39, no adjustments are made.

(vi) Accounting Standards for Business Enterprises No. 40 - Joint Arrangements

CAS 40 requires the interests in joint arrangements classified into jointly controlled operations, jointly controlled assets or jointly-controlled enterprises before adopting CAS 40 to be classified into joint operations or joint ventures after adopting CAS 40, considering the structure of the arrangements, the legal form, the contractual terms of the arrangements and other facts and circumstances. The adoption of CAS 40 does not have any material impact on the Bank’s financial statements.

(vii) Accounting Standards for Business Enterprises No. 41 - Disclosure of Interests in Other Entities

CAS 41 modifies and specifies disclosure requirements relevant to an enterprise’s interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The adoption of CAS 41 does not have any material impact on the Bank’s financial statements.

(viii) Classification between financial liabilities and equity instruments and presentation and Accounting Standards for Business Enterprises No. 37 - Disclosures of financial instruments

Caikuai [2014] No. 13 provided guidance on the classification of financial liabilities and equity instruments. The adoption

of Caikuai [2014] No. 13 does not have any material impact on the Bank’s financial statements (including current and comparative periods).

CAS 37 (2014) provided further guidance on the offsetting of a financial asset and a financial liability and revised the disclosure requirements for financial instruments. The offsetting guidance does not have any material impact on the presentation of the Bank’s financial statements. In addition, the Bank has revised disclosures in related notes in accordance with this standard.

05 Taxation

The major types of taxes applicable to the Bank and the tax rates are as follows:

(1) Business tax

Business tax is charged at 5% on taxable income (2013: 5%).

(2) Income tax

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

(3) Taxes payable

	2014	2013
Income tax payable	111,489,967	112,346,356
Business taxes and surcharges payable	89,738,459	59,239,334
Withholding taxes payable	44,854,206	42,428,853
Total	246,082,632	214,014,543

06 Cash on hand and deposits with central bank

	Note	2014	2013
Cash on hand		240,275,817	217,035,028
Statutory deposit reserves with central bank	(1)	15,462,192,754	15,542,835,103
Surplus deposit reserves with central bank	(2)	11,922,662,490	11,125,924,116
Total		27,625,131,061	26,885,794,247

- (1) The Bank places statutory deposit reserves with the PBOC in accordance with the Regulation of the PRC on the Administration of Foreign-funded Banks (Administrative Regulation) and relevant regulations. The statutory deposit reserves are not available for use in the Bank's daily business. As at the balance sheet date, the statutory deposit reserve rates applicable to the Bank were as follows:

	2014	2013
Renminbi deposits	18%	18%
Foreign currency deposits	5%	5%

- (2) The surplus deposit reserves are maintained with the PBOC mainly for settlement purposes.

07 Deposits with inter-banks and non-bank financial institutions

	Note	2014	2013
Deposits with inter-banks			
- in Mainland China		803,496,887	1,140,335,808
- outside Mainland China	(1)	12,828,837,068	6,442,308,143
Subtotal		13,632,333,955	7,582,643,951
Deposits with non-bank financial institutions in Mainland China		98,982,269	68,171,965
Total		13,731,316,224	7,650,815,916

- (1) As at 31 December 2014, the Bank's deposits with other banks outside Mainland China included the part of the investment funds regarding custodian services absorbed from Qualified Domestic Institutional Investors business ("QDII"), which was temporarily placed in investment settlement accounts of other custodian bank outside Mainland China, amounting to equivalent Renminbi 5,371,966,886. The Bank operates these deposits with inter-banks upon receiving instruction from QDII customers. These deposits with inter-banks were with limited usage (2013: nil).

As at 31 December 2014, management considered that no impairment provision of deposits with inter-banks and non-bank financial institutions was necessary (2013: nil).

08 Placements with inter-banks and non-bank financial institutions

	2014	2013
Placements with inter-banks		
- in Mainland China	2,850,474,887	19,858,944,162
- outside Mainland China	6,094,231,849	3,663,076,625
Subtotal	8,944,706,736	23,522,020,787
Placements with non-bank financial institutions		
- in Mainland China	7,638,400,000	7,185,490,000
Total	16,583,106,736	30,707,510,787

09 Financial assets at fair value through profit or loss

	2014	2013
Bond investments held for trading	8,506,538,388	3,266,961,398
The Ministry of Finance of the PRC ("MOF")	4,324,113,883	459,936,228
Policy banks	3,656,658,905	2,494,194,090
Inter-banks and non-bank institutions	266,445,240	252,920,110
The PBOC	259,320,360	-
Enterprises	-	59,910,970
Total	8,506,538,388	3,266,961,398

The bonds investments held for trading are issued by the following institutions and stated at fair value:

10 Derivatives financial instruments

	2014			2013		
	Notional Amounts	Fair Value		Notional Amounts	Fair Value	
	Total	Assets	Liabilities	Total	Assets	Liabilities
Interest rate derivatives:						
Interest rate swap	181,881,600,728	486,441,692	362,643,955	135,049,948,534	956,074,626	931,897,543
Interest rate option	4,154,280,213	191,243	1,445,952	4,015,236,292	148,593	1,450,812
	186,035,880,941	486,632,935	364,089,907	139,065,184,826	956,223,219	933,348,355
Currency derivatives:						
Currency option	7,712,243,434	19,282,910	17,722,854	4,832,778,514	15,828,793	7,933,033
Forward	239,038,215,303	1,693,613,230	1,801,172,997	247,342,477,351	1,834,152,533	1,881,079,714
	246,750,458,737	1,712,896,140	1,818,895,851	252,175,255,865	1,849,981,326	1,889,012,747
Other derivatives:						
Commodity swap	721,669,913	27,654,152	27,654,152	1,307,427,374	17,553,683	17,553,683
Equity swap	1,667,981,344	11,365,871	11,365,871	743,907,668	4,896,365	4,896,365
	2,389,651,257	39,020,023	39,020,023	2,051,335,042	22,450,048	22,450,048
Total	435,175,990,935	2,238,549,098	2,222,005,781	393,291,775,733	2,828,654,593	2,844,811,150

The notional amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date; they do not represent the amounts at risk.

11 Loans and advances to customers

(1) Analysed by nature

	Note	2014	2013
Corporate loans and advances			
- loans		37,922,507,225	36,474,959,601
- discounted bills		8,687,433,758	7,233,387,443
Personal loans and advances			
- residential mortgages		15,654,968,528	15,435,894,174
- personal consumer loans		1,637,858,312	1,330,960,452
- credit cards loans		3,015,114,530	1,580,481,382
Gross loans and advances		66,917,882,353	62,055,683,052
Less: Allowances for impairment losses	11(6)	(759,195,349)	(667,754,656)
Net loans and advances to customers		66,158,687,004	61,387,928,396

11 Loans and advances to customers (continued)

(2) Analysed by industry sector

		2014		2013	
	Note	Amount	%	Amount	%
Manufacturing		17,551,524,789	26%	17,492,488,183	28%
Wholesale and retail trade		6,694,202,615	10%	7,956,768,198	13%
Financial services		5,891,362,273	9%	-	-
Leasing and commercial services		2,335,956,866	4%	3,959,409,971	6%
Transportation, storage and postal services		1,690,586,671	3%	3,065,219,941	5%
Telecommunications, IT services and software		1,243,521,389	2%	1,479,145,952	2%
Mining		945,849,378	1%	995,234,050	2%
Hotel and restaurant		839,806,501	1%	795,078,689	1%
Culture, sports and entertainment		400,384,158	1%	379,482,882	1%
Production and supply of electricity, gas and water		127,275,200	*0%	-	-
Construction		104,319,603	*0%	15,871,566	*0%
Real estate		-	-	135,875,278	*0%
Fisheries and agriculture		58,689,346	*0%	96,704,645	*0%
Others		39,028,436	*0%	103,680,246	*0%
Subtotal		37,922,507,225	57%	36,474,959,601	58%
Discounted bills		8,687,433,758	13%	7,233,387,443	12%
Personal loans and advances		20,307,941,370	30%	18,347,336,008	30%
Gross loans and advances		66,917,882,353	100%	62,055,683,052	100%
Less: Allowances for impairment losses	11(6)	(759,195,349)		(667,754,656)	
Net loans and advances to customers		66,158,687,004		61,387,928,396	

* The percentages of these items are less than 1%.

(3) Analysed by geographical sector

		2014		2013	
	Note	Amount	%	Amount	%
Yangtze River Delta		37,982,885,118	57%	34,508,693,193	56%
Pearl River Delta		13,086,388,018	20%	11,164,614,499	18%
Bohai Rim		12,923,573,721	19%	13,876,184,228	22%
Middle and western region		2,312,020,342	3%	2,071,002,611	3%
Northeastern region		613,015,154	1%	435,188,521	1%
Gross loans and advances		66,917,882,353	100%	62,055,683,052	100%
Less: Allowances for impairment losses	11(6)	(759,195,349)		(667,754,656)	
Net loans and advances to customers		66,158,687,004		61,387,928,396	

(4) Analysed by security type

	Note	2014	2013
Unsecured loans		31,298,405,222	22,929,128,346
Guaranteed loans		13,641,901,139	13,418,533,793
Secured loans		21,977,575,992	25,708,020,913
- by tangible assets other than monetary assets		17,066,971,949	16,950,022,186
- by monetary assets		4,910,604,043	8,757,998,727
Gross loans and advances		66,917,882,353	62,055,683,052
Less: Allowances for impairment losses	11(6)	(759,195,349)	(667,754,656)
Net loans and advances to customers		66,158,687,004	61,387,928,396

11 Loans and advances to customers (continued)

(5) Overdue loans analysed by overdue period

2014					
	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and three years (inclusive)	Over three years	Total
Unsecured loans	78,141,901	109,540,971	8,329,541	1,644,430	197,656,843
Guaranteed loans	43,744,545	69,066,913	15,251,076	2,799,503	130,862,037
Secured loans	60,853,579	74,603,414	73,534,912	94,472,314	303,464,219
- by tangible assets other than monetary assets	57,007,631	74,603,414	73,534,912	94,472,314	299,618,271
- by monetary assets	3,845,948	-	-	-	3,845,948
Total	182,740,025	253,211,298	97,115,529	98,916,247	631,983,099
2013					
	Within three months (inclusive)	Between three months and one year (inclusive)	Between one year and three years (inclusive)	Over three years	Total
Unsecured loans	210,085,416	33,707,258	4,066,540	661,218	248,520,432
Guaranteed loans	3,925,000	41,997,095	38,009,531	24,716,259	108,647,885
Secured loans	92,689,699	1,910,344	67,221,614	106,285,878	268,107,535
- by tangible assets other than monetary assets	90,888,153	1,910,344	67,221,614	106,285,878	266,305,989
- by monetary assets	1,801,546	-	-	-	1,801,546
Total	306,700,115	77,614,697	109,297,685	131,663,355	625,275,852

Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for more than 1 day.

(6) Movements of allowances for impairment losses

2014				
	Note	Collective assessment	Individual assessment	Total
As at 1 January		404,269,271	263,485,385	667,754,656
(Reversal) /charge for the year	33	(57,464,166)	194,382,817	36,918,651
Unwinding of discount		-	(50,084)	(50,084)
Written off for the year		-	(46,126,853)	(46,126,853)
Exchange differences		680,042	18,937	698,979
As at 31 December		347,485,147	411,710,202	759,195,349
2013				
	Note	Collective assessment	Individual assessment	Total
As at 1 January		258,165,446	243,010,357	501,175,803
Charge for the year		147,710,273	20,659,357	168,369,630
Unwinding of discount	33	-	(16,476)	(16,476)
Exchange differences		(1,606,448)	(167,853)	(1,774,301)
As at 31 December		404,269,271	263,485,385	667,754,656

As at 31 December 2014, the Bank's loan provision ratio was 1.13% (2013: 1.08%), the provision coverage ratio was 155.55% (2013: 230.86%).

Loan provision ratio represents ratio of loan loss provision over gross loans and advances to customers at the balance sheet

date. Provision coverage ratio represents ratio of loan loss provision over non-performing loans. According to the five-tier risk classification in China Banking Regulatory Commission's Notice on Distributing Guidelines on Loan Risk classification (Yin Jian Fa [2007] No. 54), non-performing loans represent loans and advances classified as substandard, doubtful and loss.

(7) Restructured loans and advances to customers

	2014	2013
Restructured loans and advances to customers	93,636,519	117,076,000

12 Available-for-sale financial assets

	2014	2013
Bond investments	20,322,383,530	17,228,779,130

The available-for-sale bonds investments are issued by the following institutions and stated at fair value:

	2014	2013
The MOF	20,222,644,930	9,059,992,400
The PBOC	99,738,600	8,168,786,730
Total	20,322,383,530	17,228,779,130

As at 31 December 2014, management considered that no impairment provision of available-for-sale financial assets was necessary (2013: nil).

13 Fixed Assets

	Office & other equipment	Motor vehicles	Total
Cost			
As at 1 January 2013	360,188,484	3,995,159	364,183,643
Additions during the year	17,954,927	1,354,324	19,309,251
Disposals during the year	(14,302,749)	(851,328)	(15,154,077)
As at 31 December 2013	363,840,662	4,498,155	368,338,817
Additions during the year	16,361,590	-	16,361,590
Disposals during the year	(35,373,426)	(387,938)	(35,761,364)

As at 31 December 2014	344,828,826	4,110,217	348,939,043
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Less: Accumulated depreciation			
As at 1 January 2013	(286,454,868)	(3,593,211)	(290,048,079)
Charge for the year	(30,629,732)	(424,490)	(31,054,222)
Written off on disposal	14,295,441	851,328	15,146,769
As at 31 December 2013	(302,789,159)	(3,166,373)	(305,955,532)
Charge for the year	(27,735,028)	(383,756)	(28,118,784)
Written off on disposal	34,361,717	387,938	34,749,655

As at 31 December 2014	(296,162,470)	(3,162,191)	(299,324,661)
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Carrying amount			
As at 31 December 2014	48,666,356	948,026	49,614,382
As at 31 December 2013	61,051,503	1,331,782	62,383,285

As at 31 December 2014, management considered that no impairment provision of fixed assets was necessary (2013: nil).

14 Intangible assets

	Software
Cost	
As at 1 January 2013	168,767,408
Additions	7,817,033
Disposals	(1,885,015)
As at 31 December 2013	174,699,426
Additions	3,293,152

As at 31 December 2014	177,992,578
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Less: Accumulated amortisation	
As at 1 January 2013	(88,206,405)
Charge for the year	(17,499,721)
Written back on disposal	362,054
As at 31 December 2013	(105,344,072)
Charge for the year	(16,516,693)

As at 31 December 2014	(121,860,765)
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Carrying amounts	
As at 31 December 2014	56,131,813
As at 31 December 2013	69,355,354

As at 31 December 2014, management considered that no impairment provision of intangible assets was necessary (2013: nil).

15 Deferred tax assets

Deferred tax assets/(liabilities)				
	As at 1 January 2014	Current year increase/decrease charged to profit or loss	Current year increase/decrease recognised in equity	As at 31 December 2014
Fair value adjustments			-	
for derivatives financial instruments	4,041,045	(7,565,706)		(3,524,661)
Fair value adjustments for available-for-sale financial assets	37,830,225	-	(53,401,136)	(15,570,911)
Fair value adjustments for financial assets at fair value through profit or loss	861,445	(2,406,525)	-	(1,545,080)
Adjustments for accrued expenses	155,159,226	41,717,309	-	196,876,535
Others	15,637,228	11,411,968	(110,655)	26,938,541
Total	213,529,169	43,157,046	(53,511,791)	203,174,424

At the balance sheet dates, the deferred tax assets and liabilities on the balance sheet, after offsetting each other, were as follows:

	2014	2013
Deferred tax assets	223,815,076	213,529,169
Deferred tax liabilities	(20,640,652)	-
Total	203,174,424	213,529,169

16 Other assets

	Note	2014	2013
Suspense settlement		1,072,864,785	1,500,940,390
Deferred expenses		196,376,697	210,603,390
Leasehold improvements		164,991,776	146,149,304
Refundable deposits		140,173,905	94,497,451
Receivables		37,871	189,103
Subtotal		1,574,445,034	1,952,379,638
Less: provisions for impairment losses		(34,482,775)	(27,341,850)
Total		1,539,962,259	1,925,037,788

(1) Movements of provisions for other assets

	Note	2014	2013
As at 1 January		27,341,850	28,187,636
Charge for the year	33	7,041,817	-
Exchange differences		99,108	(845,786)
As at 31 December		34,482,775	27,341,850

17 Deposits from inter-banks and non-bank financial institutions

	2014	2013
Deposits from inter-banks		
- in Mainland China	114,825,373	113,948,602
- outside Mainland China	11,492,284,833	12,297,468,094
Subtotal	11,607,110,206	12,411,416,696
Deposits from non-bank financial institutions		
- in Mainland China	849,646,326	894,667,156
- outside Mainland China	11,474,043,548	7,295,055,042
Subtotal	12,323,689,874	8,189,722,198
Total	23,930,800,080	20,601,138,894

18 Borrowings from other banks

	2014	2013
Borrowings from other banks	9,105,409,697	10,492,510,490
- outside Mainland China		

19 Deposits from customers

	2014	2013
Current deposits		
- corporate customers	56,077,137,472	49,236,320,228
- personal customers	5,401,036,277	4,999,357,184
Subtotal of current deposits	61,478,173,749	54,235,677,412
Time deposits (including call deposits)		
- corporate customers	29,385,696,708	33,243,212,636
- personal customers	8,917,560,941	8,840,279,854
Subtotal of time deposits	38,303,257,649	42,083,492,490
Other deposits		
- inward and outward remittances	104,130,424	304,933,731
Total	99,885,561,822	96,624,103,633

20 Employee benefits payable

	Note	2014
short-term employees benefits	(1)	271,078,110
post-employment benefits		
- defined contribution plans	(2)	16,837,177
Termination benefits		9,165,741
Total		297,081,028

(1) Short-term employee benefits

	2014			
	Balance at 1 January 2014	Accrued during the year	Paid during the year	Balance at 31 December 2014
Salaries, bonuses, allowances	215,014,504	1,209,422,902	(1,171,325,088)	253,112,318
Social insurances	6,282,057	54,218,872	(46,148,671)	14,352,258
Medical insurance	5,578,338	47,861,619	(40,182,333)	13,257,624
Work-related injury insurance	329,306	2,161,542	(2,030,959)	459,889
Maternity insurance	374,413	4,195,711	(3,935,379)	634,745
Housing fund	2,812,929	40,167,200	(39,366,595)	3,613,534
Non-monetary benefits	-	39,372,312	(39,372,312)	-
Other short-term employee benefits	-	62,773,720	(62,773,720)	-
Total	224,109,490	1,405,955,006	(1,358,986,386)	271,078,110

Non-monetary benefits mainly include rental residence and other services provided to employees. Relevant amounts are measured based on the rent or service charges paid by the Bank.

20 Employee benefits payable (continued)

(2) Post-employment benefits-defined contribution plans

	2014			
	Balance at 1 January 2014	Accrued during the year	Paid during the year	Balance at 31 December 2014
Basic pension insurance	10,384,238	94,060,112	(91,886,788)	12,557,562
Unemployment insurance	690,915	6,440,643	(6,050,447)	1,081,111
Annuity	2,977,504	34,083,642	(33,862,642)	3,198,504
Total	14,052,657	134,584,397	(131,799,877)	16,837,177

The movement of the Bank's employee benefits payable during the year ended 31 December 2013 is as following:

	2013			
	Balance at the beginning of the year	Accrued during the year	Paid during the year	Balance at the beginning of the year
Salaries, bonuses and allowances	207,695,315	1,109,167,665	(1,098,889,693)	217,973,287
Social insurances	12,361,724	135,325,853	(130,330,367)	17,357,210
Medical insurance premium	3,418,432	42,281,096	(40,121,190)	5,578,338
Pension insurance premium	8,054,260	81,856,655	(79,526,677)	10,384,238
Unemployment insurance premium	551,384	5,971,974	(5,832,443)	690,915
Work-related injury insurance premium	124,991	2,018,213	(1,813,898)	329,306
Maternity insurance premium	212,657	3,197,915	(3,036,159)	374,413
Housing fund	4,542,256	33,832,722	(35,562,049)	2,812,929
Others	3,651,817	101,744,085	(102,418,398)	2,977,504
Total	228,251,112	1,380,070,325	(1,367,200,507)	241,120,930

21 Other liabilities

	2014	2013
Cash collaterals	4,981,001,523	7,374,698,368
Suspended settlement	2,759,526,735	2,047,180,081
Accrued expenses	349,461,505	251,593,516
Deferred income	130,875,135	54,941,612
Others	195,195,406	162,720,180
Total	8,416,060,304	9,891,133,757

22 Paid-in capital

As at 31 December, the Bank's registered capital and paid-in capital are as follows:

2014 and 2013		
Registered capital and paid-in capital	Amount	%
Citibank	3,970,000,000	100%

Capital contributions in foreign currency were translated into Renminbi at the exchange rate at the date of the contributions received as quoted by the PBOC.

Certified Public Accountants have verified the above paid-in capital and issued related capital verification reports.

23 Capital reserve

			2014
	Balance at the beginning of the year	Decrease during the year	Balance at the end of the year
Equity-settled share-based payments	24,942,842	(100,415)	24,842,427
			2013
	Balance at the beginning of the year	Changes during the year	Balance at the end of the year
Equity-settled share-based payments	24,942,842	-	24,942,842

24 Other comprehensive income

Gain or losses arising from changes in fair value of available-for-sale financial assets	
Balance at 1 January 2013	8,781,248
Decrease during the year	(119,969,171)
Balance at 31 December 2013	(111,187,923)
Increase during the year	157,900,654
Balance at 31 December 2014	46,712,731

25 Surplus reserve

The statutory surplus reserve is as follows:

	Note	Statutory surplus reserve
Balance at 1 January 2013		605,631,273
Profit appropriation	27(1)	96,412,040
Balance at 31 December 2013	27(1)	702,043,313
Profit appropriation		159,812,901
Balance at 31 December 2014		861,856,214

26 General reserve

	Note	General reserve appropriated in accordance with the regulations issued by the MOF
Balance at 1 January 2013		1,305,394,495
Profit appropriation	27(2)	171,295,790
Balance at 31 December 2013	27(2)	1,476,690,285
Profit appropriation		105,712,237
Balance at 31 December 2014		1,582,402,522

According to the Notice on Administrative Measures on Accrual of Provisions by Financial Enterprises (Cai Jin [2012] No.20) issued by the MOF on 30 March 2012, a financial enterprise shall appropriate from net profits an amount of not less than 1.5% of its risk-bearing assets at the year end as general reserve. Where the general provision ratio cannot reach 1.5% immediately, it is acceptable to reach the ratio gradually over a period of not more than five years in principle. This notice came effective on 1 July 2012. The Bank appropriates the general reserve in according with the requirements of this notice.

As at 31 December 2014, the Bank appropriated an accumulated amount of Renminbi 1,582,402,522 as general reserve which reperesents 1.3% of the assets bearing risks and losses according to the above requirements (2013: 1.2%). The remaining part will be appropriated progressively according to future operating conditions to comply with the regulatory requirements.

27 Profit appropriation

	Note	2014	2013
Appropriations to surplus reserve	(1)	159,812,901	96,412,040
Appropriations to general reserve	(2)	105,712,237	171,295,790
		<u>265,525,138</u>	<u>267,707,830</u>

(1) Appropriations to surplus reserve

The Bank appropriated an amount of Renminbi 159,812,901, representing 10% of profit after tax for the year as surplus reserve in accordance with relevant regulations and its articles (2013: Renminbi 96,412,040).

(2) Appropriations to general reserve

In accordance with the Notice on Administrative Measures on Accrual of Provisions by Financial Enterprises (Cai Jin [2012] No.20) (see Note 26), the Bank appropriated an amount of Renminbi 105,712,237 from profit after tax for the year as general reserve (2013: 171,295,790). Such general reserve forms part of the owner's equity of the Bank.

28 Net interest income

	Note	2014	2013
Interest income:			
Loans and advances to customers			
- corporate loans and advances	(1)	2,060,689,694	1,507,553,346
- discounted bills		423,840,283	697,351,582
- personal loans and advances		1,200,388,562	843,408,651
Placements with inter-banks and non-bank financial institutions		496,995,506	1,034,107,517
Deposits with central bank		274,775,031	283,897,507
Deposits with inter-banks and non-bank financial institutions		25,825,465	21,252,029
Others		4,198,654	5,930,058
Total interest income		<u>4,486,713,195</u>	<u>4,393,500,690</u>
Interest expenses:			
Deposits from customers		(1,276,896,083)	(1,400,740,133)
Deposits from inter-banks and non-bank financial institutions		(280,334,585)	(241,946,324)
Borrowings from inter-banks		(122,414,967)	(103,649,690)
Financial assets sold under repurchase agreements		(14,660,461)	(44,355,079)
Total interest expenses		<u>(1,694,306,096)</u>	<u>(1,790,691,226)</u>
Net interest income		<u>2,792,407,099</u>	<u>2,602,809,464</u>

(1) The interest income from loans and advances to customers of the Bank for the year ended 31 December 2014 includes interest income from impaired financial assets amounting to Renminbi 50,084 (2013: Renminbi 16,476).

29 Net fee and commission income

	2014	2013
Fee and commission income:		
Commission on trust and custodian activities	427,614,720	359,549,539
Fees for agency services	308,202,407	101,610,718
Trade finance and guarantee services fees	69,534,343	52,557,332
Bank card fees	65,424,309	38,878,308
Credit commitment fees	54,102,522	71,723,520
Settlement and clearance fees	52,873,379	53,340,966
Others	50,288,066	36,218,968
Total fee and commission income	1,028,039,746	713,879,351
Fee and commission expenses:		
Inter-bank transaction fees	(43,652,534)	(47,209,234)
Brokerage fees	(35,058,785)	(31,280,223)
Bank card	(6,410,048)	(4,952,417)
Trust and custodian fees	(631,993)	(661,733)
Others	(4,013,007)	(11,856,176)
Total fee and commission expenses	(89,766,367)	(95,959,783)
Net fee and commission income	938,273,379	617,919,568

30 Investment income

	2014	2013
Available-for-sale financial assets		
- Interes income	655,690,165	515,471,661
- Net gains on sale of financial		
- Assets and transferred from other		
- Comprehensive income	11,619,792	15,155,700
Financial assets at fair value		
through profit or loss		
- Interes income	241,535,758	156,066,436
- Net gains / (losses) on sale of		
financial assets	146,244,365	(109,725,117)
Derivatives financial instruments	37,019,682	159,900,969
Total	1,092,109,762	736,869,649

31 Gains/(losses) from changes in fair value

	2014	2013
Derivative financial instruments	38,186,542	(263,170,308)
Financial assets at fair value through profit or loss	9,626,101	(3,380,412)
Total	47,812,643	(266,550,720)

32 General and administrative expenses

	2014	2013
Staff costs		
- Salaries, bonuses and allowances, etc.	1,211,258,635	1,063,816,546
- Staff welfare	307,588,657	270,902,661
	1,518,847,292	1,334,719,207
Service fees	473,908,302	372,765,434
Rental and property maintenance fees	312,138,113	297,574,342
Business promotion expenses	190,650,611	147,005,837
Depreciation and amortisation	82,755,602	82,661,395
IT equipment maintenance fees	77,701,866	121,776,443
Meetings and office expenses	61,203,176	50,765,471
Travelling expenses	30,460,818	23,929,158
Union fees	23,527,845	20,606,494
Utilities	15,905,217	15,930,783
Business entertainment expenses	7,471,951	9,771,537
Stamp duties	6,292,190	7,339,166
Others	286,434,622	230,489,812
Total	3,087,297,605	2,715,335,079

33 Impairment losses

	Note	2014	2013
Impairment losses charge for loans and advances to customers	11(6)	136,918,651	168,369,630
Impairment losses charge for other assets	16(1)	7,041,817	-
Total		143,960,468	168,369,630

34 Income tax expense

(1) Income tax expense for the year represents

	2014	2013
Current tax expense for the year	414,156,804	343,296,758
Tax filling differences	(2,316,738)	883,836
Changes in deferred tax assets / liabilities	(43,157,046)	(77,376,084)
Total	368,683,020	266,804,510

(2) Reconciliation between income tax expense and accounting profit is as follows:

	2014	2013
Profits before taxation	1,966,812,030	1,230,924,906
Expected income tax expense at a tax rate of 25%	491,703,008	307,731,227
- Tax effect of non-deductible expenses	7,601,202	5,261,669
- Tax effect of non-taxable income	(128,304,452)	(47,072,222)
- Tax filling differences	(2,316,738)	883,836
Income tax expense	368,683,020	266,804,510

35 Other comprehensive income, net of tax

	2014	2013
Items that may be reclassified to profit or loss		
Gains/(losses) arising from available-for-sale financial assets	134,239,329	(167,006,634)
Add: Reclassification adjustments for amounts transferred to profit or loss	77,062,461	6,169,500
Less: Income tax	(53,401,136)	40,867,963
Total	157,900,654	(119,969,171)

36 Supplement to cash flow statement

(1) Reconciliation of net profit to cash flows from operating activities:

	2014	2013
Net profit	1,598,129,010	964,120,396
Add: Impairment losses charge		
for loans and advances to customers	136,918,651	168,369,630
Impairment losses charge for other assets	7,041,817	-
Depreciation of fixed assets	28,118,784	31,054,222
Amortisation of intangible assets	16,516,693	17,499,721
Amortisation of leasehold improvement	38,120,125	34,107,452
Losses on disposal of fixed assets, intangible assets and other long-term assets	1,119,408	8,243,040
Investment income	(681,950,377)	(549,336,732)
(Gains)/losses on changes in fair value	(47,812,643)	266,550,720
Increase in deferred tax assets	(43,157,046)	(77,376,084)
Interest income from impaired financial assets	(50,084)	(16,476)
Unrealised foreign exchange losses	247,173,983	516,254,958
Increase in operating receivables	(5,716,529,995)	(4,499,201,633)
Increase / (decrease) in operating payables	3,748,903,664	(1,841,636,356)
Net cash outflow from operating activities	(667,458,010)	(4,961,367,142)

(2) Change in cash and cash equivalents:

	2014	2013
Cash and cash equivalents at the end of the year	34,299,424,999	35,289,366,558
Less: cash and cash equivalents at the beginning of the year	(35,289,366,558)	(40,544,135,948)
Net decrease in cash and cash equivalents	(989,941,559)	(5,254,769,390)

(3) Cash and cash equivalents held by the Bank are as follows:

	2014	2013
Cash on hand	240,275,817	217,035,028
Central bank deposits available on demand	11,922,662,490	11,125,924,116
Deposits with inter-banks and non-bank financial institutions	13,731,316,224	7,650,815,916
Placements with inter-banks and non-bank financial institutions	7,327,704,897	14,078,000,008
Financial assets at fair value through profit or loss	3,224,282,457	1,218,800,490
Available-for-sale financial assets	3,225,150,000	998,791,000
Total	39,671,391,885	35,289,366,558
Less: Deposits with inter-banks with limited usage	(5,371,966,886)	-
Cash and cash equivalents	34,299,424,999	35,289,366,558

37 Share-based payments

Expenses recognised for the year arising from share-based payments are as follows:

	2014	2013
Equity-settled share-based payments	17,898,575	29,703,934

The Bank's share-based payment scheme is devised to reward staff for their services.

As at 31 December 2014, the outstanding number of shares in connection with share-based payments which the Bank granted to its staff but not exercised is 244,858 (2013: 323,324). The above shares are the shares of Citigroup Inc.

38 Fiduciary activities

(1) Entrusted lending business

At the balance sheet dates, the entrusted loans and funds were as follows:

	2014	2013
Entrusted loans	13,050,691,094	16,294,361,580
Entrusted funds	13,050,691,094	16,294,361,580

(2) Custodian business

At the balance sheet dates, the Bank's Qualified Foreign Institutional Investors business ("QFII") and the Bank's Qualified Domestic Institutional Investors business ("QDII") balances were as follows:

	2014	2013
QFII	130,930,626,603	81,385,783,540
QDII	42,609,330,573	37,041,939,069

(3) Off-shore wealth management services

At the balance sheet dates, the Bank's off-shore wealth management services balances were as follows:

	2014	2013
Off-shore wealth management services	1,878,023,228	11,237,251,655

39 Commitments and contingent liabilities

(1) Credit commitments

At any given time the Bank has outstanding commitments to extend credit. The Bank provides loan commitments, unused credit card facilities, financial guarantees and letters of credit to guarantee the performance of customers to third parties. The Bank assesses the potential loss of credit commitment on a periodic basis and recognises liabilities if necessary.

The contractual amounts for loan commitments and credit card unused facilities represent the total amounts if the Bank makes the fully payments. The amounts in the table for guarantees and letters of credit represent the maximum potential loss that would be recognised at the balance sheet date if counterparties failed to completely perform as contracted. Acceptances comprise undertakings by the Bank to pay bills of exchange drawn by customers. The Bank expects most acceptances to be settled simultaneously with reimbursement from customers.

As the credit facilities may not be fully used upon maturity, the contractual amount sets out below does not represent the expected cash flow out in the future.

	2014	2013
Contractual amount		
Unused credit card facilities	11,996,975,373	4,786,616,569
Loan commitments		
- with an original maturity over one year	123,428,000	391,984,000
- with an original maturity over one year (inclusive)	2,228,571,105	1,194,156,563
Subtotal	14,348,974,478	6,372,757,132
Standby letters of credit and guarantee letters issued	5,451,032,810	3,893,181,680
Bank drafts accepted	799,910,000	645,835,153
Letters of credit accepted	309,600,625	325,388,974
Letters of credit issued	561,958,811	186,691,939
Letters of credit confirmed	26,512,004	59,432,664
Subtotal	7,149,014,250	5,110,530,410
Total	21,497,988,728	11,483,287,542

39 Commitments and contingent liabilities (continued)

(2) Credit risk weighted amount of contingent liabilities and commitments

	2014	2013
Credit risk weighted amount of contingent liabilities and commitments	6,517,415,509	3,662,655,242

The credit risk weighted amount refers to the amount as computed in accordance with the Administrative Measures on Capitals of Commercial Bank (For Trial Implementation) (Yin Jian Hui Ling [2012] No.1) set out by the CBRC and depends on the credit status of the counterparty and the maturity characteristics. The range of risk weights applied for contingent liabilities and commitments is from 0% to 100%.

(3) Operating lease commitments

As at 31 December, the total future minimum lease payments under non-cancellable operating leases of properties were payable as follows:

	2014	2013
Within 1 year (inclusive)	298,776,205	290,439,790
After 1 year but within 2 years (inclusive)	216,548,341	166,231,090
After 2 years but within 3 years (inclusive)	148,952,678	74,718,038
After 3 years	70,152,000	40,106,719
Total	734,429,224	571,495,637

(4) Capital commitments

As at 31 December, the capital commitments of the Bank were as follows:

	2014	2013
Leasehold improvement contracts entered into but not performed or performed partially	6,695,492	11,640,981

40 Related party relationships and transactions

(1) Information on the parent of the Bank is listed as follows:

Company name	Registered place	Principal activities	Stockholder's equity	Shareholding percentage	Proportion of voting rights
Citibank	United States	Banking and financial services	USD 147,375 million	100%	100%

The Bank's ultimate controlling party is Citigroup Inc.

(a) Transactions with the parent:

	2014	2013
Interest income	40,077,830	37,757,204
Interest expenses	(290,525,777)	(241,363,097)
Fee and commission income	59,906,446	16,027,519
Fee and commission expenses	(23,004)	(1,067)
Investment losses	(38,799,850)	(28,910,779)
Losses from changes in fair value	(249,731,082)	(117,418,227)
Other operating income	3,432,172	20,549,173
General and administrative expenses	(225,415,112)	(174,706,757)

(b) The balances of transactions with the parent at 31 December are set out as follows:

	2014	2013
Deposits with inter-banks and non-bank financial institutions	12,827,220,477	6,569,526,780
Placements with inter-banks and non-bank financial institutions	6,094,231,849	3,663,076,625
Derivative financial assets	191,821,508	279,495,024
Interest receivable	3,146,721	1,747,181
Other assets	275,151,010	18,942,208
Deposits from inter-banks and non-bank financial institutions	(11,416,792,221)	(12,205,915,844)
Borrowings from inter-banks	(7,388,975,451)	(8,054,585,181)
Derivative financial liabilities	(505,440,616)	(340,381,722)
Interest payable	(67,181,406)	(52,105,399)
Other liabilities	(227,998,373)	(181,847,596)

40 Related party relationships and transactions (continued)

(c) The national amounts of derivative contracts with the parent at 31 December are set out as follows:

	2014	2013
Forwards	11,394,621,636	20,506,936,203
Interest rate options	4,154,280,213	4,015,236,292
Interest rate swaps	3,153,892,397	3,352,575,453
Equity swaps	833,990,672	371,953,833
Commodity swaps	213,301,800	622,828,508
Currency options	533,442	237,809,030

(d) The balances of commitments with the parent at 31 December are set out as follows:

	2014	2013
Operating lease commitments	5,944,878	11,000,612

(e) The Bank outsourced the non-Renminbi cash operation, funds and securities operation and technology related service to Citibank N.A. Singapore Branch. Such outsourcing services cost the Bank Renminbi 213,605,184 in general and administrative expenses in the year 2014 (2013: Renminbi 162,536,098).

A significant related party transaction represents a single transaction conducted between the Bank and a related party where the transaction amount is 1% or more of the total eq-

uity of the Bank, or after this transaction, the total balance with the connected party is 5% or more of the total equity of the Bank.

Transactions between the Bank and its key management personnel and their close family members

Transactions with the key management personnel and their close family members:

(2) Transactions between the Bank and its key management personnel and their close family members

(a) Transactions with the key management personnel and their close family members:

	2014	2013
Remuneration of key management personnel	97,877,776	90,636,875
Maximum loans and advances issued to key management personnel and their close family members	2,646,477	2,614,538

(b) The balances of transactions with the Bank's key management personnel and their close family members at 31 December are set out as follows:

	2014	2013
Residential mortgages	1,159,807	1,299,985
Credit cards loans	766,779	559,601
Deposits from customers	(12,589,787)	(15,389,283)
Employee benefits payable	(25,284,121)	(28,289,560)

(c) The balance of credit commitments with the Bank's key management personnel and their close family members at 31 December are set out as follows:

	2014	2013
Credit commitments	8,433,221	5,890,399

Related parties of the Bank include close family members of its key management personnel, key management personnel of the Bank's parent, close family members of key management personnel of the Bank's parent, other enterprises that are controlled or jointly controlled by its key management personnel and close family members of such individuals. The Bank's transactions with these related parties are insignificant, thus not disclosed separately.

40 Related party relationships and transactions (continued)

(3) Credit transactions between the Bank and its related personnel

Besides the key management personnel information listed in Note 40(2), the Bank discloses the credit transactions between the Bank and its related personnel according to the requirement of paragraph 38 of Administrative Measures for the Related Party Transactions between Commercial Banks and their Insiders or Shareholders (Order of the CBRC (2004) No.3).

The Bank’s related personnel include the Bank’s insiders, controlling shareholders, directors or key management personnel of the Bank’s related legal entities or other organisations. Insiders include the Bank’s directors, senior management personnel of the head office and branches and other personnel who have the power to decide or participate in the extension of credit or transfer of assets by the Bank.

(a) Basic information of the related personnel that have residential mortgage transactions with the Bank

Name	Title
Yu Jin	Executive vice president
Zhang Xiaomeng	Vice president of Shanghai Branch
Ye Yan	Branch manager of Shanghai West Nanjing Road Sub-branch
Yuan Ying	Branch manager of Guangzhou Fortune Plaza Sub-branch

The credit transaction information relating to the Bank’s executive vice president, Yu Jin, is disclosed in Note 40(2) and thus not included here.

(b) 75 other related personnels are involved in credit card transactions with the Bank.

(c) The credit balance with the Bank’s other related personnel is set out as follows:

	2014	2013
Loans and advances to customers		
- Residential mortgage	1,717,050	902,141
- Credit card loans	767,036	1,130,561

(d) The credit commitments with the Bank’s other related personnel is set out as follows:

	2014	2013
Credit commitments	5,805,964	4,335,439

he Bank has credit commitments with 102 other related personnels.

(4) Transactions between the Bank and other related parties

(a) Transactions with other related parties:

	2014	2013
Interest income	14,891,800	10,634,895
Interest expenses	(818,900)	(645,291)
Fee and commission income	3,674,768	4,789,606
Fee and commission expenses	(2,495,838)	(3,307,269)
Investment losses	(124,552,482)	(38,096,359)
Gains from changes in fair value	83,007	802,459
Other operating income	3,432,130	3,004,354
General and administrative expenses	(399,137,967)	(376,618,749)

The transactions and percentage between the Bank and its non-bank related parties are set out as follows:

	2014	%	2013	%
General and administrative expenses				
- Service received	330,671,696	10.72%	293,412,645	10.81%
- Rental of properties	68,466,271	2.22%	83,206,103	3.06%

40 Related party relationships and transactions (continued)

(4) Transactions between the Bank and other related parties. (continued)

(b) The balances of transactions with other related parties at 31 December are set out as follows:

	2014	2013
Deposits with inter-banks and non-bank financial institutions	86,571	13,033
Placements with inter-banks and non-bank financial institutions	296,500,000	249,458,809
Derivative financial assets	8,493,269	1,146,384
Loans and advances to customers	-	23,658,809
Interest receivable	1,793,889	1,682,338
Other assets	8,195,795	8,223,809
Deposits from inter-banks and non-bank financial institutions	(307,983,593)	(35,826,539)
Derivative financial liabilities	(26,664,777)	(779,758)
Deposits from customers	(376,673,435)	(167,403,681)
Interest payable	(60,899)	(25,162)
Other liabilities	(66,046,281)	(34,477,571)

The balance of transactions with non-bank related parties at 31 December are set out as follows:

	2014	%	2013	%
Placement with non-bank financial institutions	239,500,000	1.44%	249,458,809	0.81%
Loans and advances to customers	-	-	23,658,809	0.04%
Other liabilities				
- Service fee payables	59,453,019	0.71%	34,477,571	0.35%
- Rental fee payables	6,593,262	0.08%	-	-

(c) The notional amounts of derivative contracts with other related parties at 31 December are set out as follows:

	2014	2013
Currency option	2,279,674,519	2,063,394,482
Interest rate swap	1,817,417,697	1,641,082,638
Commodity swap	142,732,240	-
Forward	8,558,420	-

(d) The balances of commitments with other related parties at 31 December are set out as follows:

	2014	2013
Operating lease commitments	155,025,232	60,377,381

(e) In addition, the significant related party transactions with other related parties approved by the Bank's Related Party Transaction Control Committee and the Board of Directors are set out as follows:

Outsourcing of China Data Centre processing and management services, software application and enhancement and technical

support to Citigroup Services and Technology (China) Limited (previously called "Citigroup Software Technology and Services (China) Limited"), was approved in prior years. Such outsourcing services cost the Bank Renminbi 323,351,484 in general and administrative expenses in the year 2014 (2013: Renminbi 266,964,917).

40 Related party relationships
and transactions (continued)

(4) Transactions between the Bank and other related parties (continued)

(f) Relationships between the Bank and related parties under the transactions stated in 40(4)(a) to (e) above

Company name	Relationships with the Bank	Company type	Principle activities	Legal representative	Registered place	Registered capital	Changes in registered capital for the year
Citigroup Services and Technology (China) Limited (previously called "Citicorp Software and Technology Services (China) Ltd.")	Group subsidiary	Limited liabilities company (WOFE)	Software development, back office operation and consulting and training on finance knowledge	Low Fatt Leong	PRC	USD 17,350 thousand	No changes
Hubei Jingzhou Gong'an Citi Lending Co., Ltd.	Group subsidiary	Limited liabilities company (WOFE)	Credit business	Jie Liu	PRC	RMB 34,000 thousand	No changes
Dalian Wafangdian Citi Lending Co., Ltd	Group subsidiary	Limited liabilities company (WOFE)	Credit business	Shilu Liu	PRC	RMB 34,000 thousand	No changes
Hubei Xian' ning Chibi Citi Lending Co., Ltd.	Group subsidiary	Limited liabilities company (WOFE)	Credit business	Sizhen Li	PRC	RMB 34,000 thousand	No changes
Chongqing Beibei Citi Lending Co., Ltd.	Group subsidiary	Limited liabilities company (WOFE)	Credit business	Zhengquan Li	PRC	RMB 38,800 thousand	No changes
CitiRealty China (BVI) Limited	Group subsidiary	company (WOFE)	Property holding	*	British Virgin Island	USD 50 thousand	No changes
Citigroup Trade Services (Malaysia) Sendirian Berhad	Group subsidiary	Private company	Outsourcing service	*	Malaysia	MYR 5,000 thousand	No changes
Citicorp International Limited	Group subsidiary	Private company	Banking	*	Hong Kong	HKD 187,556 thousand	Decreased by USD 24,000 thousand and HKD 12,444 thousand
Citicorp Service India Limited	Group subsidiary	Public company	Decision supportand vendor oversight	*	India	INR 2,500 million	No changes
Diners Club International (Hong Kong) Ltd.	Group subsidiary	Private company		*	Hong Kong	HKD 800 thousand	Decreased by HKD 1,200 thousand
Citishare Corporation	Group subsidiary	Private company	Charge card business	*	United States	USD 1 thousand	No changes
Citibank Singapore Ltd.	Group subsidiary	Private company	ATM processing	*	Singapore	SGD 1,527,730 thousand	No changes
Citigroup Global Market Asia Ltd.	Group subsidiary	Private company	Banking	*	Hong Kong	HKD 301,951 thousand	Decreased by HKD 18,183
Citi Ventures Shanghai Representative office (Footnote)	Group subsidiary's representative office	Representative of fice	Invesment banking business Marketing and coordinating efforts	Wei Hopeman	United States	N/A	No changes
Citibank Taiwan Limited	Group subsidiary	of foreign enterprise		Guolin Guan	Taiwan	NT\$ 66,033 million	No changes
Citibank Nigeria Limited	Group subsidiary	Public company Limited liabilities	Banking Banking	*	Nigeria	Naira 50,700 million	Increased by Naira 600 million
Citibank Uganda Limited	Group subsidiary			*	Uganda	UGX 43,923,900 thousand	No changes
Citibank Japan Ltd.	Group subsidiary	Private company	Banking	*	Japan	JPY 123,100 million	No changes
Citibank Pty Ltd. (Footnote)	Group subsidiary	Private company	Banking	*	Australia	AUD 459.80 million	No changes
Citibank Europe PLC	Group subsidiary	Private company Public compa	Banking Banking	*	Ireland	USD10,071 thousand	No changes

Footnote: As at 31 December 2014, these related parites have been deregistered and dismissed.

These related parties were registered outside Mainland China where legal representatives are not required.

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40 Related party relationships
and transactions (continued)

(5) Transactions with the annuity plan

Apart from the obligations for defined contributions to the annuity plan, no other transactions were conducted between the Bank and the annuity plan during the year.

41 Segment reporting

The Bank has two reportable segments, which are corporate banking and personal banking segment, determined based on the structure of its internal organisation, management requirements and internal reporting system. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Bank's management to make decisions about resources to be allocated to each segment and assess its performance.

Corporate banking

This segment provides a range of financial products and services to corporations and financial institutions, including: corporate deposit taking activities, corporate short-term, medium-term and long-term loans, bank acceptances and bills discounted, government bonds and financial bonds transactions, foreign currency securities transactions other than stocks, letters of credit and guarantees, corporate domestic and foreign settlements, foreign exchange trade and agent services, inter-bank placements and borrowings, safe deposit box services, credit investigation and advisory services.

Personal banking

This segment provides a range of financial products and services to individual customers, including: personal deposit taking activities, personal short-term, medium-term and long-term loans, personal domestic and foreign settlement, foreign exchange trade and agent services, insurance agent services, bank card services and safe deposit box services.

Unallocated items

This segment mainly includes assets, liabilities, income and expenses which cannot be attributed to directly or divided reasonably to segments.

(1) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Bank's management regularly reviews the assets, liabilities, revenue, expenses and financial performance, attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible, other non-current and current assets such as receivables, with the exception of deferred tax assets and other unallocated corporate assets. Segment liabilities include deposits from customers, deposits from inter-banks and non-bank financial institutions, borrowings from inter-banks and other liabilities attributable to the individual segments.

Financial performance of each segment is operating income (including operating income from external customers and inter-segment operating income) after deducting expenses, depreciation, amortisation and impairment losses attributable to the individual segments. Inter-segment sales are determined with reference to prices charged to external parties for similar orders. Non-operating income and expenses and tax expenses are not allocated to individual segments. Information regarding the Bank's reportable segments set out below includes the information used for assessing segment performance and allocating segment assets and liabilities by the Bank's management or not used but regularly reviewed by the Bank's management:

41 Segment reporting (continued)

	Corporate banking		Personal banking		Unallocated items		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
1. Operating income	3,713,713,003	3,249,936,744	1,797,392,522	1,102,945,300	-	-	5,511,105,525	4,352,882,044
Net interest income	1,753,167,156	1,939,987,885	1,039,239,943	662,821,579	-	-	2,792,407,099	2,602,809,464
Net fee and commission income	236,825,906	201,694,997	701,447,473	416,224,571	-	-	938,273,379	617,919,568
Other income (Footnote)	1,723,719,941	1,108,253,862	56,705,106	23,899,150	-	-	1,780,425,047	1,132,153,012
2. Operating expenses	(1,625,240,325)	(1,630,348,676)	(1,923,119,169)	(1,495,593,702)	-	-	(3,548,359,494)	(3,125,942,378)
Include: depreciation and	(36,252,351)	(37,050,698)	(46,503,251)	(45,610,697)	-	-	(82,755,602)	(82,661,395)
amortisation impairment losses	(27,112,628)	(100,516,075)	(116,847,840)	(67,853,555)	-	-	(143,960,468)	(168,369,630)
3. Operating profit/(loss)	2,088,472,678	1,619,588,068	(125,726,647)	(392,648,402)	-	-	1,962,746,031	1,226,939,666
Add:Non-operating income	-	-	-	-	6,163,801	6,634,513	6,163,801	6,634,513
Less:Non-operating expenses	-	-	-	-	(2,097,802)	(2,649,273)	(2,097,802)	(2,649,273)
4. Profit / (loss) before tax	2,088,472,678	1,619,588,068	(125,726,647)	(392,648,402)	4,065,999	3,985,240	1,966,812,030	1,230,924,906
5. Total assets	136,236,998,744	133,516,400,273	21,191,743,408	19,017,667,078	203,174,424	213,529,169	157,631,916,576	152,747,596,520
6. Total liabilities	120,557,561,181	119,777,171,197	23,930,768,012	21,582,767,189	-	-	144,488,329,193	141,359,938,386

Footnote: Other income includes investment income, gains or losses from changes in fair value, foreign exchange gains or losses and other operating income.

41 Segment reporting
(continued)

(2) Geographic information

The following table sets out information about the geographical location of the Bank's operating income from external customers and the Bank's non-current assets (excluding financial instruments, deferred tax assets, same as below). The geographical information is based

on the location of customers receiving services. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of fixed assets; and the location of the operation to which they are allocated, in the case of intangible assets.

	Operating income from external customers		Specified non-current assets	
	2014	2013	2014	2013
In Mainland China	6,549,150,043	5,833,614,039	270,737,971	277,877,943
Outside Mainland China	746,027,945	405,919,014	-	-
	<u>7,295,177,988</u>	<u>6,239,533,053</u>	<u>270,737,971</u>	<u>277,877,943</u>

(3) Major customers

Operating income from each individual customer of the Bank is below 10% of the Bank's total operating income in both 2014 and 2013.

42 Risk management

The Bank is exposed to many financial risks due to its operating activities. The Bank analyses, evaluates, accepts and manages risks, or risk portfolios at different levels. The Bank's main operating risks include credit risk, market risk, liquidity risk and country risk. Market risks include interest rate risk, foreign currency risk and other price risk. The Bank's objective is to reach an appropriate balance between risks and rewards, while minimising the negative impact on its financial statements.

The Bank's risk management policies aim to identify and analyse risks to establish appropriate risk limits and control measures, and to monitor risks and risk limits via an information system.

The Bank's Board of Directors is responsible for establishing the Bank's risk management strategy. The Bank's Risk Management Committee is in charge of the management and supervision responsibilities related to risk control of the Bank, including periodically assess the Bank's overall risk exposures, provide guidance for developing a sound risk management and internal control strategies and policies, and monitor their implementation. The Risk Management Committee reports to the Board of Directors. The Bank's senior management is responsible for establishing risk management policies and procedures, including specific risk management policies for credit risk, interest rate risk and foreign currency risk based on the risk management strategy approved by Risk Management Committee and Board of Directors. These risk management policies are performed by different head office departments upon approval from the Board of Directors. The internal audit department of the Bank is responsible for independently inspecting risk management and internal control.

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from credit business. In treasury transactions, credit risk refers to the possibility that the value of the assets held by the Bank may decrease due to a fall in the rating of the issuer of the debt security.

Credit business

Considering the market economic environment, business development strategy and the requirements of clients, the Bank provides various direct credit, credit commitment and derivative financial businesses in the scope of risk control to foreign-invested companies set up in the PRC by multinationals, domestic companies with good credit standing, as well as individual customers of good credit.

The Bank has established a strict credit management system, including credit approval, daily credit monitoring, remedial management, policies for loan loss provisioning and loan write-off and restructuring.

The Bank adopts the loan risk classification approach introduced by Citigroup to monitor the risk condition of its loan portfolios. Loans are classified by a five-tier grading system: pass / Pass Watch List (PWL), special mention/substandard (accruing), substandard (non-accruing), doubtful and loss, according to risk levels. The five-tier grading for loans and advances is defined as follows:

42 Risk management (continued)

(1) Credit risk (continued)

Internal credit grading	Definition of corporate banking	Definition of consumer banking*/corporate banking
Pass	No evident weakness	No overdue records
PWL	Has potential weakness, yet the borrower is in stable condition and can fulfil the contract at present. There is no doubt that the principal and interest will overdue for the borrower will not be affected by weakness incoming twelve to eighteen months.	No overdue records
Special Mention	Has potential weakness that deserve management's close attention. If left uncorrected, the potential weakness may result in deterioration of the repayment capacity or credit position of the borrower in the future.	Overdue 1-89 days
Substandard (accruing)	Has potential weakness, yet no material impact on overall repayment capacity of the borrower.	Overdue 1-89
Substandard (non-accruing)	Inadequately protected by the current net assets and paying capacity of the borrower. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardise the timely repayment of its obligations,certain losses might incur even if collaterals are realised.	Overdue 90-179 days

* The definition is taking personal mortgage loan for example. The consumer bank sets out different internal credit gradings according to the overdue days for different products.

A comparison of the Bank's loan risk classification criteria and Yin Jian Fa [2007] No. 54 has been filed with the CBRC as follows:

Internal grading	Definition	Five-tier grading	Definition
Pass/PWL	No evident weakness	Normal	Normal loans
Special mention / substandard (accruing)	Has potential weakness that deserves close attention	Special mention	The repayment might be adversely affected by some factors
Substandard (non-accruing)	Has evident weakness that jeopardise the repayment capacity of the borrower	Substandard	The obligor's capacity to repay is apparently in question and certain losses might occur even when guarantees are executed
Doubtful		Doubtful	Cannot repay principal and interest in full and significant losses will occur even when guarantees are executed
Loss	Uncollectible	Loss	Principal and interest cannot be recovered after taking all possible measures

42 Risk management (continued)

(1) Credit risk (continued)

The last three gradings of the CBRC’s five-tier classification are regarded as impaired loans and advances (so called “non-performing loan”, see Note 11(6)). If there is any indication of objective evidence that impairment and impairment loss has occurred, the loan is classified as an impaired loans and advances. The provision for impairment of impaired loans and advances shall be assessed collectively or individually based on the actual condition.

The Bank manages, restricts and controls identified centralised credit risks, especially credit risks centralised in a single borrower, group or industry. The Bank sets limits on the same borrower, group or industry to optimise its credit risk structure. The Bank monitors these risks regularly, and reviews them annually or more frequently if necessary. The Bank manages credit risk via timely analysis of the borrower’s ability to repay the principal and interest, and adjusts its credit lines accordingly. Other specific risk management and mitigation measures include the following:

The Bank mitigates credit risk by obtaining collateral, guarantees and security from companies or individuals. The Bank has specified categories of acceptable collateral, including properties, commercial assets (commercial properties and accounts receivables), and financial instruments (bonds and stocks). To reduce credit risk, the Bank has stipulated discount rates for different collaterals (the ratio between the fast cash realisable value to the market fair value of the collateral) to reflect the cash realisable value. For a loan guaranteed by a third party, the Bank assesses the guarantor’s financial condition, historical credit record and ability to settle the debts on behalf of the borrower.

Except for loans, collaterals or guarantees needed for other financial assets shall be determined by the nature of the instruments. Generally, no collaterals are designated for investments in debt securities, treasury bonds and other notes.

Treasury business

The Bank sets credit limits based on the credit risk inherent in the products, counterparties and geographical area. The system closely monitors the credit exposure on a real-time basis. The Bank regularly reviews its credit limit policies and routinely updates the credit limits.

(a) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note 39(1).

(1) Credit risk (continued)

(b) Distribution of loans and advances to customers in terms of credit quality

	Note	2014	2013
Impaired			
Allowances for Impairment losses		(411,710,202)	(263,485,385)
Individually assessed and impaired gross amount		488,076,462	289,243,568
Carrying amount subtotal		76,366,260	25,758,183
Overdue but not impaired	(i)		
- less than 90 days		143,906,637	305,702,824
- 90 days to 180 days		-	30,335,116
Allowances for Impairment losses	(ii)	(1,705,370)	(31,846,719)
Carrying amount subtotal		142,201,267	304,191,221
Neither overdue nor impaired			
Gross amount		66,285,899,254	61,430,401,544
Allowances for Impairment losses	(ii)	(345,779,777)	(372,422,552)
Carrying amount subtotal		65,940,119,477	61,057,978,992
Total carrying amount		66,158,687,004	61,387,928,396

(i) As at 31 December 2014, the overdue but not impaired loans and advances amounted to Renminbi 143,906,637 (2013: Renminbi 336,037,940). The covered portion and uncovered portion of these loans and advances were Renminbi 60,853,579 (2013: Renminbi 92,689,699) and Renminbi 83,053,057 (2013: Renminbi 243,348,241), respectively. The fair value of collaterals held against these loans and advances amounted to Renminbi 170,564,586 (2013: Renminbi 270,277,236).

The fair value of these collaterals was estimated by the Bank based on the external valuations adjusted after taking into account the current realisation experience in view of the collaterals and pledges as well as the latest market situation.

(ii) The balances represent collectively assessed allowances of impairment losses.

42 Risk management (continued)

(1) Credit risk (continued)

(c) Distribution of amounts due from inter-banks in terms of credit ratings of counterparties

Amounts due from inter-banks include deposits and placements with inter-banks and non-bank financial institutions.

As at balance sheet date, distribution of amounts due from inter-banks in terms of credit quality mainly with reference to the external rating agency Standard & Poors' was as follows (counterparties without external ratings are presented using their parent companies' ratings):

	2014	2013
Neither overdue nor impaired		
- A to AAA	27,226,293,199	25,113,108,914
- B to BBB+	1,212,451,750	11,434,475,857
- unrated	1,875,678,011	1,810,741,932
Total	30,314,422,960	38,358,326,703

(d) Distribution of debt securities in terms of credit quality

Debt securities include financial assets at fair value through profit or loss and available-for-sale financial assets.

The carrying amounts of debt securities analysed by the external rating agency Standard & Poors' designations at the balance sheet dates were as follows:

	2014	2013
AAA	266,445,240	252,920,110
AA - to AA+	28,562,476,678	20,242,820,418
Total	28,828,921,918	20,495,740,528

(2) Market risk

Market risk management involves an overall process of market risks identification, measurement, monitoring and control. Market risk refers to the risk of financial instruments' fair value or future cash flow fluctuations due to changes in market prices, including interest rate risk, foreign currency risk and other price risk. Interest rate risk refers to the risk of financial instruments' fair value or future cash flow fluctuations due to changes in interest rates; foreign currency risk refers to the risk of financial instruments' fair value or future cash flow fluctuations due to changes in foreign exchange rates; other price risk refers to the market risks other than foreign currency risk and interest rate risk.

The Bank's interest rate risk includes the risks arising from mismatches of the term structures of assets and liabilities related to banking business and from positions held for trading purpose in treasury transactions. The Bank calculates its interest rate risk exposure according to the maturity dates of all its interest-bearing assets and liabilities, and performs daily interest rate sensitivity analysis and periodical stress test. Meanwhile, by closely observing interest rate trends (both in Renminbi and foreign currency) and market interest rate changes, the Bank conducts proper scenario analysis and makes timely adjustments to the loan and deposit interest rates (both in Renminbi and foreign currency) in line with the benchmark interest rates to reduce its interest rate risk.

The Bank's foreign currency risk exposures mainly arise from on balance sheet assets and liabilities designated in foreign currencies and off balance sheet derivatives designated in foreign currencies. The Bank's main principle of currency risk control is to match the assets and liabilities of the respective individual currency to minimize the foreign exchange risk, and to control the currency risk within limits set by the Bank. The Bank, based on the guiding principles of Risk Management Committee, relevant laws and regulations and the management's evaluation of the current environment, has set risk tolerance limits, and minimises the

mismatch of assets and liabilities in different currencies via reasonable arrangements on the source and usage of foreign currency capital. Foreign currency exposures are managed based on business category, delegated trader authorisation limits, currencies and risk factors. The Bank conducts hedge transactions with overseas branches of Citibank to offset foreign currency risks for derivatives designated in foreign currencies.

The Bank classifies financial instruments into investment portfolios held for trading and non-trading investment portfolios to effectively monitor market risk. The Bank mainly manages market risk via its market risk limit policy. According to the CBRC's Market Risk Management Guidelines for Commercial Banks and Citigroup's global risk management policy, the Bank has established market risk limits and measurement policies to set related limits and approval mechanism on all market risk exposures. The policies illustrate the structure and approval system of market risk limits. Market risk limits mainly include risk factor limits, position limits, value-at-risk (VaR) limits and stop-loss trigger.

VaR analysis

For investment portfolios held for trading, the Bank adopts VaR analysis to evaluate market risk. VaR estimates potential losses arising from changes in market interest rates and prices within a defined period and confidence interval. The Bank's market risk management department calculates the VaR of investment portfolios held for trading according to the historical changes of the market interest rates and prices (confidence interval: 99%, observation time: 1 trading day).

42 Risk management (continued)

(2) Market risk (continued)

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99% confidence level does not reflect losses that may occur beyond this level. Even with the model used there is 1% probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day; and
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

A summary of the VaR of the Bank’s trading portfolios at the balance sheet date and during the respective year is as follows: (Renminbi million)

2014				
	As at 31 December	Average	Maximum	Minimum
Interest rate risk	13.23	19.98	29.47	6
Foreign currency risk	10.96	8.74	18.81	1.07
Total VaR	17.66	22.45	34.82	6.76
2013				
	As at 31 December	Average	Maximum	Minimum
Interest rate risk	8.9	19.47	34.87	7.67
Foreign currency risk	8.83	12.8	26.87	3.58
Total VaR	11.02	20.77	36.56	8.29

To address the above limitations in VaR analysis, the Bank performs retrospective tests periodically to ensure the effectiveness of the relevant models. Furthermore, the Bank performs market risk stress testing periodically to assess the maximum losses under extreme price fluctuation scenarios.

(3) Liquidity risk

Liquidity risk is the risk that a financial institution may encounter deficiency of funds in meeting its obligations associated with the settlement of financial liabilities using cash or other financial assets, caused by mismatches between the amounts and maturity dates of assets and liabilities.

The primary liquidity risk management measure adopted by the Bank is to match the maturity date structures between assets and liabilities. Due to differences between various businesses and maturity tenors, it is impractical to maintain a perfect match between assets and liabilities. To meet relevant liquidity requirements, the Bank has established a set of thresholds for managing, measuring, monitoring and reporting liquidity risk, including liquidity limits for normal operations, liquidity ratios, market triggers and regular stress testing. In addition, the Bank established Liquidity Funding Plan and Contingency Funding Plan to maintain an appropriate balance of cash flows and to ensure all the required funds can be provided at maturity.

The Finance department provides a daily calculation of regulatory liquidity ratios to relevant departments of the Bank. Global Markets department is responsible for managing the liquidity risk on daily basis and executes the liquid funds instructions. Market Risk Management monitors the liquidity risk independently. The Asset Liability Committee will also regularly review the liquidity status of the Bank.

The following tables provide an analysis of the contractual undiscounted cashflows of the Bank’s financial assets and liabilities at the balance sheet dates. Interest receivable and payable of financial assets and liabilities with fixed terms are presented according to the due dates of interest stipulated in the contracts; current financial assets and liabilities (including interest receivable and payable as at the balance sheet dates) are presented under the item “repayable on demand”.

42 Risk management (continued)

(3) Liquidity risk (continued)

									2014
	Carrying amount	Contractual undiscounted cashflows	Terms undated / Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	
Financial assets									
Cash on hand and deposits with central bank	27,625,131,061	27,625,131,061	27,625,131,061	-	-	-	-	-	
Deposits and placements with inter-banks and non-bank financial institutions	30,314,442,960	30,579,768,525	13,735,356,409	7,216,684,080	1,474,005,883	6,191,311,318	1,962,410,835	-	
Financial assets at fair value through profit or loss	8,506,538,388	8,907,441,353	-	1,867,697,353	1,608,806,876	2,174,649,892	3,113,087,433	143,199,799	
Derivative financial assets (Footnote 1)	2,238,549,098	2,238,549,098	2,238,549,098	-	-	-	-	-	
Available-for-sale financial assets	20,322,383,530	21,105,886,691	-	4,681,487,610	2,791,178,090	4,301,446,131	9,331,774,860	-	
Loans and advances to customers (Footnote 2)	66,917,882,353	67,662,787,229	1,616,834,581	14,594,637,950	14,834,242,290	18,047,772,569	5,290,681,767	13,278,618,072	
Other assets	1,830,398,218	1,830,398,218	1,293,399,524	68,491,144	43,675,399	127,523,609	296,225,812	1,082,730	
Subtotal	157,755,325,608	159,949,962,175	46,509,270,673	28,428,998,137	20,751,908,538	30,842,703,519	19,994,180,707	13,422,900,601	
Financial liabilities									
Deposits and borrowings from inter-banks and non-bank financial institutions	(33,036,209,777)	(33,097,528,546)	(12,881,500,082)	(10,365,030,666)	(2,976,649,108)	(5,233,049,230)	(1,641,299,460)	-	
Derivative financial liabilities (Footnote 1)	(2,222,005,781)	(2,222,005,781)	(2,222,005,781)	-	-	-	-	-	
Deposits from customers	(99,885,561,822)	(100,216,024,067)	(61,338,226,479)	(18,861,562,014)	(7,977,534,280)	(6,153,416,707)	(34,557,601)	(5,850,726,986)	
Other liabilities	(8,967,594,046)	(9,044,642,299)	(3,821,377,201)	(646,447,512)	(1,918,877,606)	(1,880,729,790)	(777,210,190)	-	
Subtotal	(144,111,371,426)	(144,580,200,693)	(80,263,109,543)	(29,873,040,192)	(12,873,060,994)	(13,267,195,727)	(2,453,067,251)	(5,850,726,986)	
Net position	13,643,954,182	15,369,761,482	(33,753,838,870)	(1,444,042,055)	7,878,847,544	17,575,507,792	17,541,113,456	7,572,173,615	

Footnote 1: The derivative financial assets and derivative financial liabilities are presented under the item "repayable on demand/terms undated" to reflect the short-term characters of such transactions.

Footnote 2: Loans and advances to customers are presented by the gross amount before deducting the allowances for impairment losses.

42 Risk management (continued)

(3) Liquidity risk (continued)

2013

	Carrying amount	Contractual undiscounted cashflows	Terms undated / Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Financial assets								
Cash on hand and deposits with central bank	26,885,794,247	26,885,794,247	26,885,794,247	-	-	-	-	-
Deposits and placements with inter-banks and non-bank financial institutions	38,358,326,703	39,267,095,616	7,406,939,918	8,139,828,895	7,755,659,646	12,598,408,255	3,366,258,902	-
Financial assets at fair value through profit or loss	3,266,961,398	3,357,516,120	-	919,786,684	300,655,584	1,508,782,051	547,939,618	80,352,183
Derivative financial assets (Footnote 1)	2,828,654,593	2,828,654,593	2,828,654,593	-	-	-	-	-
Available-for-sale financial assets	17,228,779,130	17,776,458,652	-	998,791,000	49,567,550	12,091,942,652	4,636,157,450	-
Loans and advances to customers (Footnote 2)	62,055,683,052	62,835,072,529	2,108,620,087	16,408,864,106	12,043,627,332	11,594,015,919	7,309,496,856	13,370,448,229
Other assets	2,116,473,400	2,116,473,400	1,668,074,187	76,444,600	46,070,466	209,384,459	116,306,373	193,315
Subtotal	152,740,672,523	155,067,065,157	40,898,083,032	26,543,715,285	20,195,580,578	38,002,533,336	15,976,159,199	13,450,993,727
Financial liabilities								
Deposits and borrowings from inter-banks and non-bank financial institutions	(31,093,649,384)	(31,208,775,590)	(8,871,124,754)	(5,161,804,036)	(4,925,593,245)	(8,613,011,423)	(3,637,242,132)	-
Derivative financial liabilities (Footnote 1)	(2,844,811,150)	(2,844,811,150)	(2,844,811,150)	-	-	-	-	-
Deposits from customers	(96,624,103,633)	(96,829,178,027)	(57,028,076,206)	(21,096,401,268)	(11,026,635,586)	(5,292,226,575)	(15,514,273)	(2,370,324,119)
Other liabilities	(10,528,418,064)	(10,705,280,438)	(3,049,049,378)	(328,368,663)	(1,327,101,438)	(4,178,347,135)	(1,822,413,824)	-
Subtotal	(141,090,982,231)	(141,588,045,205)	(71,793,061,488)	(26,586,573,967)	(17,279,330,269)	(18,083,585,133)	(5,475,170,229)	(2,370,324,119)
Net position	11,649,690,292	13,479,019,952	(30,894,978,456)	(42,858,682)	2,916,250,309	19,918,948,203	10,500,988,970	11,080,669,608

Footnote 1: The derivative financial assets and derivative financial liabilities are presented under the item "repayable on demand/terms undated" to reflect the short-term characters of such transactions.

Footnote 2: Loans and advances to customers are presented by the gross amount before deducting the allowances for impairment losses.

42 Risk management (continued)

(4) Country risk

Country risk is the risk that due to the economic, political or social changes or events in a certain country or region, the borrowers or debtors in that country or region are unable to or refuse to repay debts to the Bank, which caused that the Bank suffers losses. The Bank's country risk management strategy which matches with the operating principles of the Bank aims at ensuring the security of the Bank's assets and being compliance with relevant regulartory requirements. Such strategy is to maintain the sustainable development of cross-board transactions and concerts with the businss development strategy, the available resources and the scale and complexity of exposures to country risk. In accordance with the Guidelines on the Management of Country Risk by Banking Financial Institutions issued by CBRC, the Bank sets out policy and operating manual regarding country risk management to ensure indentifying, measuring, monitoring and controlling the exposure of the Bank to country risk.

43 Capital management

The capital management of the Bank covers the calculation and reporting of capital adequacy ratio ("CAR"), capital assessment and capital planning. The CAR of the Bank represent its ability to operating healthily and dealing with risks. The CAR management of the Bank aims to ensure the Bank held adequate capital, which is appropriate to risk exposure and consistent with risk assessment result of the Bank, to meet the demand of business operation and the requirement of relavant regulatory. The capital planning aims to set a target CAR which satisfies the Bank with the demand of future business development strategy, risk appetite, risk management, external business environment and long-term sustainability of various capital sources.

The prudent and solid concept of capital management ensures the Bank to retain its capital at an adequate level to support business development under all conditions and to adjust CAR to a reasonable level timely and effectively, if necessary.

The Bank calculates CAR according to the guidance of CBRC. The capital of the Bank is composed of core tier one capital, other tier one capital and tier two capital. The management monitor the utilisation of CAR and regulatory capital according to the requirement of CBRC. The Bank reported relevant information to CBRC on a quarterly basis.

The scope of the Bank's CAR calculation of the Bank covers all branches and sub-branches located in mainland China. Currently, the Bank does not have any oversea branches.

Commercial banks shall conform to the regulatory requirements relating to capital adequacy ratio required by CBRC. For the Bank, the adequacy ratio of core tier one capital shall not be less than 7.5%; the adequacy ratio of tier one capital shall not be less than 8.5%; and the capital adequacy ratio shall not be less than 10.5%, as at 31 December 2018.

As at 31 December 2014, the capital adequacy ratio of the Bank has been calculated in accordance with Administrative

Measures on Capitals of Commercial Bank (For Trial Implementation) issued by the CBRC and other related laws and regulations, and the calculation result is in compliance with the regulatory capital requirements (2013: in compliance).

The risk weighted assets of on-balance sheet assets are calculated based on various risk weights. The risk weights are determined in consideration of the risk factors of various assets, counterparties, markets and other relevant aspects, as well as qualified collateral and guarantee. The off-balance sheet exposures are calculated by the similar methodology with adjustments of contingent losses. The credit risk weighted assets for counter parties in terms of over-the-counter derivative transactions are the summation of defaulted risk weighted assets and credit valuation adjustment risk weighted assets. The market risk weighted assets are measured by standard method. The operational risk weighted assets are measured by basic indicator method.

The capital adequacy ratio and relevant data of the Bank are calculated on the basis of the financial statements prepared in accordance with the CAS. The Bank is in compliance with the regulatory capital requirements during the year.

The adequacy ratio of core tier one capital, the adequacy ratio of tier one capital and the capital adequacy ratio as at 31 December 2013 calculated in accordance with Administrative Measures on Capitals of Commercial Bank (For Trial Implementation) and other related laws and regulations are as follows:

43 Capital management (continued)

	Note	2014	2011
Net core tier one capital		13,087,455,583	11,387,658,134
Net tier one capital		13,087,455,583	11,387,658,134
Net capital		13,358,574,825	11,766,169,034
Total risk assets	(1)	88,255,084,468	82,770,443,222
Adequacy ratio of core tier one capital		14.83%	13.76%
Adequacy ratio of tier one capital		14.83%	13.76%
Capital adequacy ratio		15.14%	14.22%

(1) The total risk assets are composed of weighted credit risk assets, weighted market risk assets and weighted operational risk assets. Weighted market risk assets include 12.5x market risk assets.

44 Fair value

(1) Fair value measurement

(a) Fair value hierarchy

The following table presents fair value information and the fair value hierarchy, at the end of the current reporting period, of the Bank's assets and liabilities which are measured at fair value at each balance sheet date on a recurring or non-recurring basis. As at end of each reporting period, the Bank did not have any assets which were measured at fair value on non-recurring basis.

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels of inputs are defined as follows:

Level 1 input: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

Level 2 input: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities;

Level 3 input: inputs that are unobservable for underlying assets or liabilities

44 Fair value (continued)

(a) Fair value hierarchy (continued)

				2014	
	Note	Total	Level 1	Level 2	Level 3
Recurring fair value measurement					
Assets					
Financial assets at fair value through profit or loss	9	8,506,538,388	8,506,538,388	-	-
Derivative financial assets	10	2,238,549,098	-	2,238,136,068	413,030
Available-for-sale financial assets	12	20,322,383,530	20,322,383,530	-	-
Total		31,067,471,016	28,828,921,918	2,238,136,068	413,030
Liabilities					
Derivative financial liabilities	10	2,222,005,781	-	2,221,592,751	413,030

				2013	
	Note	Total	Level 1	Level 2	Level 3
Assets					
Financial assets at fair value through profit or loss	9	3,266,961,398	3,207,050,428	59,910,970	-
Derivative financial assets	10	2,828,654,593	-	2,828,397,726	256,867
Available-for-sale financial assets	12	17,228,779,130	17,228,779,130	-	-
Total		23,324,395,121	20,435,829,558	2,888,308,696	256,867
Liabilities					
Derivative financial liabilities	10	2,844,811,150	-	2,844,554,283	256,867

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free interest rates, benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, price index and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

For more complex financial instruments, the Bank uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over the counter structured derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of

management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterpart default and prepayments and selection of appropriate discount rates. For those more complex financial instruments, the Bank performs calibration and back testing of models against observed market transactions and conduct regular stress testing.

The Bank has an established control framework with respect to the measurement of fair values. The Bank's processes include a number of key controls that are designed to ensure that fair value is measured appropriately, particularly where a fair value model is internally developed and used to price a significant product. Such controls include a model validation policy requiring that valuation models be validated by qualified personnel, independent from those who created the models and escalation procedures, to ensure that valuations using unverifiable inputs are identified and monitored on a regular basis by senior management. Approvals from both market risk department and product control department must be obtained prior to the use of valuation methodologies. The Bank's valuation models are reviewed and approved by market risk department which is independent from the front office.

44 Fair value (continued)

(b) Level 2 fair value measurement

This category includes instruments using valuation technique: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

The fair value of forward exchange contracts included in derivative financial assets is determined by discounting the difference between the contractual exercise price and the market forward price.

The fair value of interest rate swaps included in derivative financial assets is the estimated amount that would be received or paid to terminate the swap at the end of reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

During the year ended 31 December 2014, there were no changes in valuation techniques for Level 2 fair value measurements.

(c) Level 3 fair value measurement

This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank's Level 3 financial instruments are mainly structured derivatives. The fair value of such structured derivatives is determined using discounted cash flow model and the significant unobservable input used in the fair value measurement is expected volatility of the market interest

rates. The fair value measurement is negatively correlated to the expected volatility.

During the year ended 31 December 2014, there were no changes in valuation techniques for the Level 3 fair value measurements.

Reconciliation between the opening and closing balances of the assets and liabilities under the recurring Level 3 fair value measurements is as follows:

2014			
	Derivative Financial assets	Derivative financial liabilities	Total
Balance at the beginning of the year	256,867	(256,867)	-
Total gains / (losses) for the year			
- in profit or loss	4,169,915	(4,169,915)	-
Settlements	(4,013,752)	4,013,752	-
Balance at the end of the year	413,030	(413,030)	-
Changes of unrealised gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year	413,030	(413,030)	-

2013			
	Derivative Financial assets	Derivative financial liabilities	Total
Balance at the beginning of the year	2,265,855	(2,265,855)	-
Total gains / (losses) for the year			
- in profit or loss	8,302,169	(8,302,169)	-
Settlements	(10,311,157)	10,311,157	-
Balance at the end of the year	256,867	(256,867)	-
Changes of unrealised gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year	256,867	(256,867)	-

44 Fair value (continued)

- (c) During the year ended 31 December 2014, there were no transfers, between Level 3 and other levels, of the Bank's assets and liabilities above which are measured at fair value on a recurring basis.

Sensitivity analysis on fair value measurements in Level 3 of the fair value hierarchy

Any deals between the Bank and its customers are fully squared with other financial institutions and there is no open position. Thus, although fair value measurements of Level 3 use unobservable inputs and the measurement is uncertain, there is no impact on the Bank's items listed in the income statement, profit for the year or equity if such judgement and estimation on unobservable inputs changes.

- (2) Fair value of other financial instruments (items not measured at fair value at the end of year)

The Bank's other financial assets mainly include deposits with central bank, deposits with inter-banks and non-bank financial institutions, placements with inter-banks and non-bank financial institutions, loans and advances to customers, deposits from inter-banks and non-bank financial institutions, borrowings from inter-banks, deposits from customers. There are no significant difference between the carrying amount and the fair value of these financial assets and liabilities.

45 Comparative figures

As described in Note 4, the Bank has changed certain accounting policies and made corresponding adjustments on the presentation of comparative figures.