Notice to Hong Kong investors: With respect to Notes to be listed on the Stock Exchange of Hong Kong Limited, the Issuer confirms that the Notes are intended for purchase by Professional Investors (as defined in Chapter 37 of the Listing Rules) only and will be listed on the Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

PUBLICATION OF SUPPLEMENTAL OFFERING CIRCULAR

China Everbright Bank Co., Ltd., Hong Kong Branch (the "Issuer")

Bank 中国光大银行 CHINA EVERBRIGHT BANK

中國光大銀行股份有限公司

China Everbright Bank Company Limited

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

(Stock Code: 6818)

Issue of U.S.$550,000,000 0.929 per cent. Notes Due 2024 (the "Notes")
(Stock Code: 40610)
under its
U.S.$5,000,000,000 Medium Term Note Programme (the "Programme")

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IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES

IMPORTANT: You must read the following before continuing. The following applies to the offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND SECURITIES IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED OR SOLD OR (IN THE CASE OF NOTES IN BEARER FORM) DELIVERED WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. The Offering Circular is being sent at your request and by accepting the e-mail and accessing the Offering Circular, you shall be deemed to have represented to us that you and any customers you represent are persons outside the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of the Offering Circular by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to the offering of securities to which the Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in the Offering Circular) in such jurisdiction. For a description of certain restrictions on offers, sales and transfer of securities and on the distribution of the Offering Circular, see "*Subscription and Sale*".

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Bank, the Arrangers or the Dealers (each as defined in the Offering Circular), any person who controls any of the Arrangers or the Dealers, any director, officer, employee nor agent of the Issuer, the Bank, the Arrangers or the Dealers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Arrangers or the Dealers.

MIFID II product governance/target market — The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person offering, selling or recommending the Notes (a "**distributor**") should take into consideration such target market; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

PRIIPs/IMPORTANT — EEA AND UK RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA and UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the

United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018).

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH

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

U.S.$5,000,000,000

Medium Term Note Programme

Under the U.S.$5,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), China Everbright Bank Co., Ltd., Hong Kong Branch (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**") denominated in any currency agreed between it and the relevant Dealer(s) (as defined below).

Notes may be issued in bearer or registered form. The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.$5,000,000,000 (or its equivalent in other currencies subject to any duly authorised increase).

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" or any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") (together, "**Professional Investors**") only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*" and each term therein, a "**Condition**") of Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the Hong Kong Stock Exchange, will be delivered to the Hong Kong Stock Exchange, on or before the date of issue of the Notes of such Tranche. Notes pursuant to which the provisions of the Credit Linked Derivatives Annex (as set out in the "*Terms and Conditions of the Notes*") are specified as applicable in the relevant Pricing Supplement (the "Credit-Linked Notes") may be issued under the Programme. If Credit-Linked Notes are issued under the Programme, such Credit-Linked Notes will not be admitted to listing, trading and/or quotation on the Hong Kong Stock Exchange.

Where applicable for a relevant Tranche of Notes, registration will be completed by the Issuer pursuant to the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (Fa Gai Wai Zi [2015] No. 2044) (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知 (發改外資 [2015] 2044 號)) issued by the National Development and Reform Commission of the PRC (as defined below) (the "**NDRC**") on 14 September 2015 which came into effect on the same day, and any implementation rules, regulations, certificates, circulars or notices in connection therewith issued by the NDRC from time to time (the "**NDRC Circular**"). After the issuance of such relevant Tranche of Notes, the Issuer undertakes to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the NDRC Circular.

This Offering Circular may not be used to consummate sales of the Notes, unless accompanied by a Pricing Supplement. Notes may also be issued on the basis that they will not be admitted to fisting, trading and/or quotation by any competent authority, stock exchange and/or quotation system or that they will be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or any other stock exchange.

The Notes of each Series issued in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note (the "**Temporary Global Note**") or a permanent global note (the "**Permanent Global Note**") (collectively, the "**Global Notes**") and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Interests in Temporary Global Notes generally will be exchangeable for interests in Permanent Global Notes or, if so stated in the relevant Pricing Supplement, definitive Notes ("**Definitive Notes**"), after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Series, upon certification as to non-U.S. beneficial ownership.

The Notes of each Series issued in registered form ("**Registered Notes**") will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Notes in registered form of one Series. Certificates representing Registered Notes that are registered in the name of, or in the name of a nominee for, one or more clearing systems are referred to as global note certificates ("**Global Note Certificates**").

Global Notes and Global Note Certificates may be deposited on the relevant Issue Date with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream**"), or with a sub-custodian for the Central Moneymarkets Unit (the "**CMU**") operated by the Hong Kong Monetary Authority (the "**HKMA**"), and in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream and/or the CMU, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer. The provisions governing the exchange of interests in a Global Note for other Global Notes or Definitive Notes or a Global Note Certificate for Certificates are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. The Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States except in accordance with Regulation S under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Any Series of Notes may be subject to additional selling restrictions. The relevant Pricing Supplement in respect of such Series of Notes will specify any such restrictions. See "Subscription and Sale" and the relevant Pricing Supplement. Registered Notes are subject to certain restrictions on transfer as described in "Subscription and Sale."

MIFID II product governance/target market - The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person offering, selling or recommending the Notes (a "distributor") should take into consideration such target market; however, a distributor subject to Directive 2014/65/EU (as amended, "MiFID II") is responsible for undertaking its own target market assessment in respect of the Notes and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

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Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018).

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in the Offering Circular and in the applicable Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in Notes. Investors should not purchase Notes unless they understand and are able to bear risks associated with Notes. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations in respect of the Notes are discussed under "Risk Factors" below.

The Programme is rated "BBB" by Fitch Ratings Ltd. ("**Fitch**"). The rating is only correct as at the date of this Offering Circular. Tranches of Notes to be issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension and withdrawal at any time by the relevant rating organisation.

Arrangers

China Everbright Bank Hong Kong Branch	**CEB International**	**Citigroup**

Dealers

China Everbright Bank Hong Kong Branch	**CEB International**	**Citigroup**

The date of this Offering Circular is 22 July 2020

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer and the Notes. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge and belief (i) this Offering Circular contains all information with respect to the Issuer, China Everbright Bank Company Limited (the "**Bank**") and its subsidiaries taken as a whole (the "**Group**") and the Notes which is material in the context of the Programme or the issue, sale, distribution and offering of the Notes (including all information required by applicable laws, regulations and the Listing Rules which, according to the particular nature of the Issuer, the Bank, the Group and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Bank, the Group and of the rights attaching to the Notes); (ii) the statements contained herein relating to the Issuer, the Bank, the Group and the Notes are in every material particular true and accurate and not misleading and there are no other facts in relation to the Issuer, the Bank, the Group and the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Circular misleading or affect its import; (iii) the statements of intention, opinion and belief or expectation contained in this Offering Circular are honestly and reasonably made or held and have been reached after considering all relevant circumstances; and (iv) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" (the "**Conditions**") as amended and/or supplemented by the Pricing Supplement specific to such Tranche. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes, must be read and construed together with the relevant Pricing Supplement.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Group, the Arrangers and the Dealers to inform themselves about and to observe any such restrictions. None of the Issuer, the Group, the Arrangers or the Dealers represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Group, the Arrangers or the Dealers which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the United Kingdom, the Netherlands, Japan, Hong Kong, the PRC, Singapore and Taiwan, and to persons connected therewith. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may include Notes in bearer form that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or, in the case of bearer notes, delivered within the United States. The Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of this Offering Circular, see "*Subscription and Sale*".

This Offering Circular is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Information Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

MIFID II product governance/target market — The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person offering, selling or recommending the Notes (a "**distributor**") should take into consideration such target market; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes and determining appropriate distribution channels.

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Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are "prescribed capital markets products" (as defined in the CMP Regulations 2018).

Admission to the Hong Kong Stock Exchange and quotation of any Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Programme, the Notes, the Issuer or the Group. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

No person has been authorised by the Issuer or the Group to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Group, any Arranger or any Dealer.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or the Group since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Bank, the Group, the Arrangers, the Dealers, or any director, officer, employee, agent or affiliate of any such person or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and the Group.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed U.S.$5,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement as defined under "*Subscription and Sale*"). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (the "Stabilisation Manager") (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over allot the Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date of the Notes. However, there is no obligation on such Stabilisation Manager(s) to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

None of the Arrangers, the Dealers or any Agents (as defined under "*Terms and Conditions of the Notes*") has separately verified the information contained in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers or any Agents or any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. To the fullest extent permitted by law, none of the Arrangers, the Dealers or any Agents or any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by an Arranger, a Dealer, any Agent, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with the Issuer, the Bank, the Group, the Notes or the issue and offering of the Notes. Each Arranger, each Dealer and each Agent accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing

Supplement are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in an issue of Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Offering Circular nor any other information provided or incorporated by reference in connection with the Programme are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Group, the Arrangers or the Dealers, or any director, officer, employee, agent or affiliate of any such person that any recipient, of this Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Group. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Arrangers, the Dealers or the Agents or any agent or affiliate of any such person undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Agents or any of them.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "U.S.$" and to "U.S. dollars" are to United States dollars; all references to "HK$" and "Hong Kong dollars" are to Hong Kong dollars; all references to "pounds sterling" and "£" are to the lawful currency of the United Kingdom; all references to "euro" and "€" are to Euros, the lawful currency of the Eurozone; all references to "S$" are to Singapore dollars; all references to "yen" are to Japanese yen; all references to "Renminbi", "RMB" "Chinese Yuan" and "CNY" are to the lawful currency of the PRC; all references to "United States" or "U.S." are to the United States of America; all references to "China", "Mainland China" and the "PRC" in this Offering Circular mean the People's Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; all references to "PRC government" mean the government of the PRC; all references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China; all references to "Macau" are to the Macau Special Administrative Region of the People's Republic of China; and all references to "United Kingdom" are to the United Kingdom of Great Britain and Northern Ireland.

For convenience only, this Offering Circular contains translations of certain amounts denominated in Renminbi and U.S. dollars. Unless indicated otherwise, the translations between Renminbi and U.S. dollars were made at the rate of RMB6.9618 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 December 2019. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Further information on exchange rates are set forth in the section headed "Exchange Rates" in this Offering Circular.

As at the date of this Offering Circular, the Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 are the most recently published audited financial statements available incorporated in the F-pages of this Offering Circular. The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2018 and 2019 were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and have been audited by Ernst & Young. The Bank adopted new standards, including IFRS 9, Financial Instruments, IFRS 15 and Amendments, Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note II (1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank did not restate the comparative information of financial instruments covered by IFRS 9 for the year 2017. As a result, the audited consolidated financial information of the Bank as at and for the year ended 31 December 2018 may not be directly comparable with the audited consolidated financial information of the Bank as at and for the year ended 31 December 2017. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholder's equity as at 1 January 2018. The Group has adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact to of IFRS 9 on consolidated statements, but did not restate the comparative data. For further details of the specific impact of the adoption of the new guidelines by the Bank, please refer to Note V to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank has also adopted new standards, namely IFRS 16 — Leases, starting from 1 January 2019. The new standards require lessees to adopt a singular model to recognise the right-of-use assets and lease liabilities for all leases and recognise depreciation and interest expense respectively. Its implementation has no material impact on the financial report of the Company.

The selected consolidated quarterly financial information of the Bank as at and for the three months ended 31 March 2019 and 2020 was extracted from the unaudited and unreviewed consolidated quarterly financial statements of the Bank as at and for the three months ended 31 March 2020 (the "**2020 First Quarter Financial Statements**") included in the quarterly report of the Bank (the "**2020 First Quarter Financial Report**") published on 28 April 2020 and prepared in accordance with IFRS.

The 2020 First Quarter Financial Statements (which includes the comparative financial information as at and for the three months ended 31 March 2019) included in this Offering Circular have neither been audited nor reviewed by a certified public accountant.

Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to audit and/or review. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March in respect of any financial year should not be taken as an indication of the expected financial condition and results of operations for the Bank for the full financial year ending 31 December of the same financial year.

Certain statistical data and other information appearing in this Offering Circular, including under the headings "*Risk Factors*" and "*Description of the Bank*", have been extracted from public sources identified in this Offering Circular such as the People's Bank of China ("**PBOC**"). None of the Issuer, the Bank, the Arrangers or the Dealers accepts responsibility for the factual correctness of any such statistics or information but the Issuer accepts responsibility for accurately extracting and transcribing such statistics and information.

FORWARD LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Description of the Issuer*", "*Description of the Bank*", and elsewhere in this Offering Circular constitute "forward looking statements". The words including "believe", "intend", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Issuer, the Bank or the Group and the plans and objectives of the management of the Issuer, the Bank and the Group for its future operations (including development plans and objectives relating to the Issuer's, the Bank's or the Group's operations), are forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Issuer, the Bank or the Group to differ materially from those expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Issuer's, the Bank's and the Group's present and future business strategies of the Issuer, the Bank and the Group and the environment in which the Issuer, the Bank or the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's, the Bank's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement, the most recently published audited annual consolidated financial statements and any interim consolidated financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such annual financial statements of the Bank from time to time on (if any), in each case published on the Hong Kong Stock Exchange and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

None of the Issuer, the Bank, the Group, the Arrangers, the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March in respect of any financial year for an assessment of the Bank's financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March in respect of any financial year should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December of the same financial year.

Copies of all such documents which are so deemed to be incorporated by reference in, and to form part of, this Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the office of the Issuer at 30/F, Far East Finance Centre, No. 16, Harcourt Road, Admiralty, Hong Kong and from the specified office of the Fiscal Agent (as defined under "*Summary of the Programme*") set out at the end of this Offering Circular.

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SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this summary.

Issuer	China Everbright Bank Co., Ltd., Hong Kong Branch. The Bank's Legal Entity Identifier number is 549300U6PKQ4H1P34E17.
Programme Size	Up to U.S.$5,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Risk Factors	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer in fulfilling its obligations in respect of the Notes are discussed under the section "*Risk Factors*" below.
Arrangers	China Everbright Bank Co., Ltd., Hong Kong Branch, CEB International Capital Corporation Limited and Citigroup Global Markets Limited.
Dealers	China Everbright Bank Co., Ltd., Hong Kong Branch, CEB International Capital Corporation Limited, Citigroup Global Markets Limited and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Series of the Notes.
Issuing and Paying Agent, Registrar and Transfer Agent	Citibank, N.A., London Branch
Fiscal Agent and CMU Lodging and Paying Agent	Citicorp International Limited
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price and by the same Issuer), intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches by the Issuer (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series and issued by the Issuer) will be completed in the Pricing Supplement.
Clearing Systems	Euroclear, Clearstream and/or the CMU (each, a "**Clearing System**") and, in relation to any Tranche, such other clearing

	system as may be agreed between the Issuer and the relevant Dealer.
Form of Notes	Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and vice versa. No single Series or Tranche may comprise both Bearer Notes and Registered Notes. Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. The Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") unless (i) the relevant Pricing Supplement states that Bearer Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") or (ii) the Bearer Notes are issued other than in compliance with the TEFRA D Rules or the TEFRA C Rules but in circumstances in which the Bearer Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which TEFRA is not applicable. Each Global Note will be deposited on or around the relevant issue date with a common depositary for Euroclear and/or Clearstream or lodged with a sub-custodian for the CMU and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Registered Notes will initially be represented by Registered Global Notes. Registered Global Notes representing Registered Notes will be registered in the name of a nominee for one or more of Euroclear, Clearstream and the CMU.
Currencies	Notes may be denominated in any currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Status of the Notes	The Notes constitute direct, general, unconditional, unsecured and unsubordinated obligations of the Bank which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Bank, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Underlying	The Notes may be linked to the performance of a Reference Entity.
Maturities	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 ("**FSMA**") by the Issuer.
Redemption	Subject always to the occurrence of a Credit Event (if applicable), Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Pricing Supplement. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Pricing Supplement.
Optional Redemption	Subject always to the occurrence of a Credit Event (if applicable), Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.
Redemption for Tax Reasons	Except as described in "Optional Redemption" above, early redemption will only be permitted for tax reasons as described in Condition 11(b) (*Redemption for tax reasons*).

Redemption upon the occurrence of a Credit Event	The Pricing Supplement in respect of a Series of Notes may provide that upon the occurrence of a Credit Event and the satisfaction by the Issuer of all of the conditions specified in the Conditions as completed by the applicable Pricing Supplement, the Issuer's obligation to redeem the Notes of any Series at the Final Redemption Amount will be replaced by an obligation to redeem the Notes at such amount specified in, or calculated pursuant to the terms set out in, the Conditions as completed by the applicable Pricing Supplement (which may be less than the outstanding principal amount of such Notes) and/or by the delivery of any asset(s) as may be specified in the applicable Pricing Supplement, the market value of which may be less than the outstanding principal amount of such Notes. Payment by the Issuer of any amount so specified and/or delivery by the Issuer of any asset so specified in accordance with the Conditions and the provisions of the applicable Pricing Supplement shall satisfy the obligations of the Issuer with respect to the Notes of the relevant Series and Noteholders shall have no claim in respect of any amounts which would, but for the operation of the provisions of the Conditions and such Pricing Supplement, have been payable in respect of such Notes.
Interest	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate, floating rate or calculated by reference to a variable and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. All such information will be set out in the relevant Pricing Supplement.
Denominations	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Cross-Default	The Notes will contain a cross-default provision as further described in Condition 15 (*Events of Default*).
Withholding Tax	All payments in respect of Notes will be made free and clear of withholding taxes of the PRC and Hong Kong, as the case may be, unless the withholding is required by law. In that event, the Issuer will (subject to certain customary exceptions as described in Condition 14 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Listing and Trading	Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange.

	However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the Hong Kong Stock Exchange or listed, traded or quoted on or by any other competent authority, exchange or quotation system. Notes listed on the Hong Kong Stock Exchange will be traded on the Hong Kong Stock Exchange in a board lot size of at least HK$500,000 (or its equivalent in other currencies). Credit-Linked Notes may be issued under the Programme. If Credit-Linked Notes are issued under the Programme, such Credit-Linked Notes will not be admitted to listing, trading and/or quotation on the Hong Kong Stock Exchange.
Governing Law	English law.
Rating	The Programme is rated "BBB" by Fitch. Tranches of Notes may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension and withdrawal at any time by the relevant rating organisation.
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, the Netherlands, Japan, Hong Kong, the PRC, Singapore and Taiwan, see "*Subscription and Sale*" below. In connection with the offering and sale of a particular Series of the Notes, additional restrictions may be imposed which will be set out in the applicable Pricing Supplement.
Initial Delivery of Notes	On or before the issue date for each Tranche, the Global Note representing Bearer Notes or the Global Note Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream or deposited with a sub-custodian for the CMU or any other clearing system or may be delivered outside any clearing system *provided that* the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealers. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of a nominee or a sub-custodian for, such clearing systems.

SUMMARY FINANCIAL INFORMATION OF THE BANK

The summary consolidated financial information as at and for the years ended 31 December 2017, 2018 and 2019 set forth below is derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 and should be read in conjunction with the Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 and the notes thereto, which are included in the F-pages of this Offering Circular.

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 were prepared in accordance with IFRS and have been audited by Ernst and Young. The Bank adopted new standards, including IFRS 9, Financial Instruments, IFRS 15 and Amendments, Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note 11(1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank did not restate the comparative information of financial instruments covered by IFRS 9 for the year 2017. As a result, the audited consolidated financial information of the Bank as at and for the year ended 31 December 2018 may not be directly comparable with the audited consolidated financial information of the Bank as at and for the year ended 31 December 2017. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholder's equity as at 1 January 2018. The Group has adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact to of IFRS9 on consolidated statements, but did not restate the comparative data. For further details of the specific impact of the adoption of the new guidelines by the Bank, please refer to Note V to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank has also adopted new standards namely IFRS 16 —Leases, starting from 1 January 2019. The new standards require lessees to adopt a singular model to recognise the right-of-use assets and lease liabilities for all leases and recognise depreciation and interest expense respectively. Its implementation has no material impact on the financial report of the Company.

The selected consolidated quarterly financial information of the Bank as at and for the three months ended 31 March 2019 and 2020 was extracted from the 2020 First Quarter Financial Statements included in the 2020 First Quarter Financial Report published on 28 April 2020 and prepared in accordance with IFRS. The 2020 First Quarter Financial Statements (which include the comparative financial information as at and for the three months ended 31 March 2019) included in this Offering Circular have neither been audited nor reviewed. Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit and/or review.

None of the Issuer, the Bank, the Group, the Arrangers, the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March in respect of any financial year for an assessment of the Bank's financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March in respect of any financial year should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December of the same financial year.

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Bank's unaudited and unreviewed consolidated financial statements as at and for the three months ended 31 March 2020, which are included in the F-pages of this Offering Circular.

RECENT DEVELOPMENTS

Recent Outbreak of COVID-19

Since the outbreak of the COVID-19 pandemic from January 2020, the Bank actively responded to the country's call, fulfilled its social responsibilities, and implemented various policies and measures. It donated money and goods to the area in Hubei affected by the epidemic, allocated special additional credit to support the production of enterprises involved in the epidemic prevention and control, and provided featured financial services to small and micro enterprises. The outbreak will exert certain impact on the operation of enterprises in Hubei Province and some other provinces, cities and industries. The Bank will pay close attention to this aspect and make active response in due course. For certain risks that the COVID-19 pandemic poses on the Bank, see "*Risk factors – Risks Relating to the Bank's Business-The Bank's business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC.*" and "*Risk factors – Risks relating to the PRC - Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations*."

Equity Change Plan

In July 2020, Huijin completed transfer of 19.53 per cent. of the Bank's total issued ordinary shares to China Everbright Group Ltd. As at the date of this Offering Circular, China Everbright Group Ltd. holds 48.53 per cent. of the Bank's total issued ordinary shares. See "*Description of the Bank – Recent Developments of the Bank*".

2020 First Quarter Financial Results

On 28 April 2020, the 2020 First Quarter Financial Report was published on the website of the Hong Kong Stock Exchange. See "*Description of the Bank – Recent Developments of the Bank*".

The 2020 First Quarter Financial Statements (which includes the comparative financial information as at and for the three months ended 31 March 2019) included in this Offering Circular have neither been audited nor reviewed by a certified public accountant.

Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to audit and/or review. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2019 and 2020 should not be taken as an indication of the expected financial condition and results of operations for the Bank for the full financial year ending 31 December 2020.

Appointments and Resignations of Directors and Supervisors

As at the date of this Offering Circular, the Board of Directors consists of seventeen members, including nine Non-Executive Directors, two Executive Director and six Independent Non-Executive Directors. The re-elected directors shall perform their duties right upon their election. The newly appointed directors shall begin to perform their duties after their qualifications are approved by CBIRC (as defined below). The Board of Supervisors consists of nine members, including three Shareholder Supervisors, three External Supervisors and three Employee Supervisors.

On 20 December 2019, the 2019 Third Extraordinary General Meeting elected Mr. Wu Lijun as Non-Executive Director of the Bank, and the 8th Meeting of the Eighth Session of the Board of Directors elected Mr. Wu Lijun as Vice Chairman of the Bank. On 25 March 2020, CBIRC approved his qualification as Non-Executive Director and Vice Chairman.

On 20 December 2019, the 2019 Third Extraordinary General Meeting elected Mr. Liu Jin as Executive Director of the Bank. On 25 March 2020, CBIRC approved his qualification as Executive Director.

On 26 March 2020, the 2020 First Extraordinary General Meeting elected Mr. Li Yinquan as Independent Non-Executive Director of the Bank. On 11 June 2020, CBIRC approved his qualification as Non-Executive Director.

On 18 June 2020, the Bank announced that due to the expiry of term of office, Ms. Fok Oi Ling Catherine ceased to be the Independent Non-Executive Director of the Company, and ceased to act as the member of the Audit Committee of the Board, the member of the Nomination Committee of the Board, the member of the Remuneration Committee of the Board and the chairman of the Related Party Transactions Control Committee of the Board at the same time. Ms. Fok Oi Ling Catherine's resignation became effective from 11 June 2020.

Approval of the preparations for the establishment of Beijing Sunshine Consumer Finance Co., Ltd.

Beijing Sunshine Consumer Finance Co., Ltd. is a subsidiary controlled by the Bank. In January 2020, the Bank received the Reply on Preparations for the Establishment of Beijing Sunshine Consumer Finance Co., Ltd. from CBIRC (CBIRC reply [2020] No. 16), approving the preparations for establishing the company by the Bank.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December				For the three months ended 31 March		
	2017	2018	2019		2019	2020	
		(restated) *(audited)*			*(unaudited)*	*(unaudited)*	*(unaudited)*
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[1]	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[1]
Interest income	160,343	185,688	210,044	30,171	51,049	54,772	7,867
Interest expense	(99,393)	(107,524)	(108,126)	(15,531)	(26,816)	(27,626)	(3,968)
Net interest income	60,950	78,164	101,918	14,640	24,233	27,146	3,899
Fee and commission income	33,025	22,431	25,977	3,731	7,626	7,916	1,137
Fee and commission expense	(2,251)	(2,658)	(2,808)	(403)	(671)	(580)	(83)
Net fee and commission income	30,774	19,773	23,169	3,328	6,955	7,336	1,054
Net trading gains/(losses).	(2,751)	1,071	585	84	20	234	34
Dividend income.............	6	8	42	6	–	–	–
Net gains/(losses) arising from investment securities.........................	(193)	9,862	4,900	704	1,950	2,395	344
Net foreign exchange gains/(losses)	2,464	724	1,339	192	451	(15)	(2)
Other net operating income	768	784	986	141	267	228	32
Operating income............	92,018	110,386	132,939	19,095	33,876	37,324	5,361
Operating expenses..........	(30,802)	(33,706)	(38,429)	(5,520)	(9,143)	(9,694)	(1,392)
Operating profit before impairment......................	61,216	76,680	94,510	13,375	24,733	27,630	3,969
Impairment losses on assets[2]............................	(20,570)	(35,828)	(49,347)	(7,088)	(12,958)	(14,533)	(2,088)
Profit before tax..............	40,646	40,852	45,163	6,487	11,775	13,097	1,881
Income tax	(9,035)	(7,131)	(7,722)	(1,109)	(2,024)	(2,224)	(319)
Net profit	31,611	33,721	37,441	5,378	9,751	10,873	1,562
Other comprehensive income:							
Items that will not be reclassified to profit or loss:							
– Remeasurement of supplementary retirement benefits	63	(102)	(180)	(26)	–	–	–
– Equity instruments at fair value through other comprehensive income							
– Net change in fair value	–	3	6	1	3	(2)	(0)

	For the year ended 31 December				For the three months ended 31 March		
	2017	2018	2019		2019	2020	
	(RMB in millions)	*(restated) (audited) (RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[1]	*(unaudited) (RMB in millions)*	*(unaudited) (RMB in millions)*	*(unaudited) (U.S.$ in millions)*[1]
– Related income tax effect	–	(1)	(2)	(0)	(1)	-	-
Items that will be reclassified to profit or loss:							
– Debt instruments at fair value through other comprehensive income							
– Net Change in fair value	–	2,982	3,158	454	848	2,520	362
– Changes in allowance for expected credit losses	–	(311)	409	59	174	314	45
– Reclassified to the profit or loss upon disposal	–	1,095	(1,982)	(285)	(56)	(146)	(21)
– Related income tax effect	–	(957)	(374)	(54)	(224)	(684)	(98)
– Available-for-sale financial assets							
– Net Change in fair value	(3,458)	–	–	–	–	–	–
– Reclassified to the profit or loss upon disposal	360	–	–	–	–	–	–
– Related income tax effect	768	–	–	–	–	–	–
– Exchange differences on translation of financial statements	(87)	67	48	7	(64)	56	8
Other comprehensive income, net of tax attributable to non-controlling interests	–	–	–	–	–	–	–
Other comprehensive income, net of tax	(2,354)	2,776	1,083	156	680	2,058	296
Total comprehensive income	29,257	36,497	38,524	5,534	10,431	12,931	1,858
Net profit attributable to:							
Equity shareholders of the Bank	31,545	33,659	37,354	5,366	9,733	10,831	1,556
Non-controlling interests	66	62	87	12	18	42	6
	31,611	33,721	37,441	5,378	9,751	10,873	1,562

	For the year ended 31 December				For the three months ended 31 March		
	2017	2018	2019		2019	2020	
	(RMB in millions)	*(restated) (audited) (RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[1]	*(unaudited) (RMB in millions)*	*(unaudited) (RMB in millions)*	*(unaudited) (U.S.$ in millions)*[1]
Total comprehensive income attributable to:							
Equity shareholders of the Bank	29,191	36,434	38,436	5,521	10,413	12,887	1,852
Non-controlling interests .	66	63	88	13	18	44	6
	29,257	36,497	38,524	5,534	10,431	12,931	1,858
Basic earnings per share (in RMB/Share)	0.64	0.61	0.68	0	0.19	0.19	0
Diluted earnings per share (in RMB/Share)	0.59	0.55	0.62	0	0.17	0.17	0

Notes:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.9618 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 December 2019.

(2) Impairment losses on assets for the three months ended 31 March 2019 and 2020 and for the years ended 31 December 2018 and 2019 included credit impairment losses and other impairment losses.

Consolidated Statement of Financial Position

	As at 31 December				As at 31 March	
	2017	2018	2019		2020	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[1]	*(RMB in millions)*	*(U.S.$ in millions)*[1]
		(audited)			*(unaudited)*	
Assets						
Cash and deposits with the central bank ...	353,703	366,575	364,340	52,334	389,787	55,989
Deposits with banks and other financial institutions	44,754	41,005	31,358	4,504	115,802	16,634
Precious metals...	40,352	23,628	10,826	1,555	13,032	1,872
Placements with banks and other financial institutions	148,816	96,685	60,270	8,657	48,354	6,946
Financial assets at fair value through profit or loss...	24,196	222,737	211,406	30,367	270,730	38,888
Derivative financial assets	4,513	15,212	13,805	1,983	20,179	2,899
Financial assets held under resale agreements...	91,441	37,773	6,835	982	43,814	6,293
Interests receivable[2]	28,576	–	–	–	–	–
Loans and advances to customers	1,980,818	2,361,278	2,644,136	379,806	2,822,896	405,484
Finance lease receivables..........................	56,364	63,333	83,723	12,026	89,506	12,857

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	As at 31 December				As at 31 March	
	2017	2018	2019		2020	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)[(1)]*	*(RMB in millions)*	*(U.S.$ in millions)[(1)]*
		(audited)			*(unaudited)*	
Debt instruments at fair value through other comprehensive income	–	153,987	180,005	25,856	215,464	30,949
Equity instruments at fair value through other comprehensive income	–	367	623	90	621	89
Financial investments measured at amortised cost...	–	923,989	1,041,512	149,604	1,096,129	157,449
Available-for-sale financial assets	414,547	–	–	–	–	–
Held-to-maturity investments	344,617	–	–	–	–	–
Debt securities classified as receivables....	514,576	–	–	–	–	–
Fixed assets...	14,929	18,241	19,342	2,778	19,223	2,761
Right-of-use assets....................................	–	–	11,684	1,678	11,518	1,654
Goodwill..	1,281	1,281	1,281	184	1,281	184
Deferred tax assets....................................	7,596	10,794	16,306	2,342	18,191	2,613
Other assets...	17,164	20,447	35,979	5,169	55,484	7,970
Total assets	4,088,243	4,357,332	4,733,431	679,915	5,232,011	751,531

	As at 31 December				As at 31 March	
	2017	2018	2019		2020	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)[(1)]*	*(RMB in millions)*	*(U.S.$ in millions)[(1)]*
		(audited)			*(unaudited)*	
Liabilities and equity						
Liabilities						
Due to the central bank	232,500	267,193	224,838	32,296	239,826	34,449
Deposits from banks and other financial institutions	577,447	490,091	444,320	63,823	365,271	52,468
Placements from banks and other financial institutions..................................	106,798	152,037	166,225	23,877	186,530	26,793
Financial liabilities at fair value through profit or loss..	–	354	100	14	12	2
Derivative financial liabilities...................	6,552	14,349	13,893	1,996	20,271	2,912
Financial assets sold under repurchase agreements..	45,581	40,411	25,603	3,678	17,404	2,500
Deposits from customers	2,272,665	2,571,961	3,017,888	433,492	3,530,589	507,137
Accrued staff costs....................................	8,412	8,028	8,007	1,150	7,832	1,125
Lease liabilities...	–	–	11,069	1,590	10,806	1,552
Taxes payable	4,932	5,666	9,322	1,339	12,813	1,840
Interests payable[(2)]	40,206	–	–	–	–	–

	As at 31 December				As at 31 March	
	2017	2018	2019		2020	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[1]	*(RMB in millions)*	*(U.S.$ in millions)*[1]
		(audited)			*(unaudited)*	
Debt securities issued................................	445,396	440,449	371,904	53,421	373,790	53,692
Other liabilities	42,318	44,320	54,208	7,786	68,651	9,861
Total liabilities..	3,782,807	4,034,859	4,347,377	624,462	4,833,795	694,331
Equity				–		–
Share capital	52,489	52,489	52,489	7,540	52,489	7,540
Other equity instrument	35,108	35,108	70,067	10,064	70,067	10,064
Capital reserve	53,533	53,533	53,533	7,690	53,533	7,690
Other comprehensive income....................	(1,845)	1,655	2,737	393	4,793	688
Surplus reserve	21,054	24,371	26,245	3,770	26,245	3,770
General reserve	52,257	54,036	59,417	8,535	59,718	8,578
Retained earnings......................................	92,164	100,296	120,494	17,307	130,255	18,710
Total equity attributable to equity shareholders of the Bank...........................	304,760	321,488	384,982	55,299	397,100	57,040
Non-controlling interests	676	985	1,072	154	1,116	160
Total equity...	305,436	322,473	386,054	55,453	398,216	57,200
Total liabilities and equity	4,088,243	4,357,332	4,733,431	679,915	5,232,011	751,531

Notes:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.9618 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 December 2019.

(2) According to the Format for 2018 Financial Statements of Financial Enterprises promulgated by MOF (as defined below), the items recognised were adjusted, of which the charged interest on financial instruments was recognised in the book balance of the corresponding financial instruments and the interest that has been due but not yet paid as at the balance sheet date was recognised under the line item "other liabilities".

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including but not limited to the risks and uncertainties described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to repay principal, pay interest or other amounts or fulfil other obligations on or in connection with the Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Notes are exhaustive. The following factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Any of the risks or uncertainties described below, as well as additional risks or uncertainties, including those which are not currently known to the Bank or which the Bank currently deems to be immaterial, may affect the Group's business, financial condition or results of operations or the Issuer's ability to fulfil its obligations under the Notes.

Risks Relating to the Bank's Loan Portfolio

If the Bank is unable to effectively maintain the quality of its loan portfolio, its financial condition and results of operations may be materially and adversely affected.

The Bank's results of operations may be negatively impacted by its non-performing loans ("**NPL**"). As at 31 December 2017, 2018 and 2019, the Bank's non-performing loan ratio ("**NPL ratio**") was 1.59 per cent., 1.59 per cent. and 1.56 per cent., respectively, and the Bank's total NPL was RMB32,392 million, RMB38,421 million and RMB42,212, respectively. The Bank could experience upward pressure resulting from a number of factors including the economic cycle or economic transformations. Hence, there can be no assurance that the Bank will be able to maintain the Bank's NPL ratio at the current relatively low level in the future or that the quality of the Bank's existing or future loans and advances to customers will not deteriorate. The Bank's NPL ratios as at the above-mentioned dates may not fully reflect the actual changes to the Bank's asset quality due to the Bank's collective disposal of NPL.

The quality of the Bank's loan portfolio may deteriorate due to various reasons, most of which are beyond the Bank's control, such as slower than expected recoveries of the PRC or global economies, deterioration of the global credit environment, other adverse macroeconomic trends in the PRC or globally and the occurrence of natural disasters or other catastrophes, all of which could adversely impact the Bank's borrowers' businesses, financial conditions or liquidity and in turn impair their repayment abilities. The actual or perceived deterioration in creditworthiness of the Bank's borrowers, decline in real property prices, increases in unemployment rate and decreases in profitability of the Bank's borrowers may also have an adverse impact on the Bank's asset quality and may lead to significant increases in the provision made for the Bank's impaired loans. If the Bank's NPL or the provision made for the Bank's impaired loans increases in the future, the Bank's results of operations and financial condition may be materially and adversely affected. In addition, the sustainability of the Bank's growth also depends largely on its abilities to effectively manage its credit risk and to maintain or improve the quality of its loan portfolio. There can be no assurance that the Bank's credit risk management policies, procedures and systems are effective or free from any deficiencies or are adequate to manage all credit risks faced by the Bank. Failure of the Bank's credit risk management policies, procedures, or systems may lead to an increase in the Bank's NPL and adversely affect the quality of the Bank's loan portfolio.

CBIRC may impose administrative and regulatory measures on the Bank if the Bank's allowance to NPL falls below the ratio prescribed by CBIRC and the Bank may suffer actual losses on its loan portfolio that exceed the Bank's allowances for impairment losses.

As at 31 December 2017, 2018 and 2019, the coverage ratio of the Bank's provisions for NPL to total NPL was 158.18 per cent., 176.16 per cent. and 181.62 per cent., respectively, which is consistently above the standard provision coverage ratio of 150 per cent. as prescribed under the Administrative Measures for the

Loan Loss Reserves of Commercial Banks (商業銀行貸款損失準備管理辦法) issued by China Banking Regulatory Commission (the "**CBRC**", which later merged with the China Insurance Regulatory Commission into China Banking and Insurance Regulatory Commission, the "**CBIRC**", which shall be responsible for the duties previously performed by the CBRC) (the "**Rules**"). The Rules provide that the standard provision coverage ratio may be adjusted by CBIRC in response to the prevailing macroeconomic environment or individually adjusted and applied to a relevant bank depending on such bank's operating conditions. In accordance with the Rules, a warning would be issued by CBIRC to a relevant bank if such provision coverage ratio was below the applicable level for three consecutive months, requesting for such bank's rectification; if such event subsists for at least six consecutive months, CBIRC may impose on the relevant bank administrative and regulatory measures as provided under the Banking Industry Supervision and Administration Law of the PRC. CBIRC may adjust the coverage ratio for NPL from time to time. There can be no assurance that the Bank's provision coverage ratio will not fall below the ratio prescribed by CBIRC.

The amount of the Bank's allowances for impairment losses on loans is determined based on the Bank's assessment of factors that may affect the quality of the Bank's loans. These factors include, among others, the Bank's borrowers' financial conditions, their repayment ability and repayment intention, the current realisable value of any collateral, the ability of the guarantors of the Bank's borrowers to fulfil their obligations, the performance of the PRC's economy, the government's macroeconomic policies, interest rates, exchange rates and the legal and regulatory environment. Most of these factors are beyond the Bank's control. The adequacy of the Bank's allowances for impairment losses depends on the reliability of, and its skills in applying, its assessment system to estimate these losses, as well as its ability to accurately collect, process and analyse relevant statistical data.

If the Bank's assessment of or expectations concerning the impact of these factors on the quality of the Bank's loans is different from actual developments or the Bank's loan quality deteriorates more than expected, then the allowances for impairment losses on loans provided by the Bank may not be sufficient to cover actual losses. Consequently, the Bank may need to make additional provisions for impairment losses in the future, which could lead to a decrease in the Bank's profit and materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank may not be able to maintain the growth of its loan portfolio.

The Bank's loans and advances to customers have grown significantly in the past few years, increasing from RMB1,980,818 million as at 31 December 2017 to RMB2,644,136 million as at 31 December 2019. The growth of the Bank's loan portfolio may be affected by various factors, such as the PRC's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow, or the balance of the Bank's loan portfolio may even decline. In addition, in response to constraints on the Bank's regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank may not be able to maintain the growth rate of its retail banking business.

As a leading commercial bank in the PRC, the Bank may not be able to maintain its competitive position or sustain its growth rate due to increasing market saturation and competition, changes in government regulations in the banking industry in the PRC and other factors, any of which may adversely affect the Bank's business, financial condition and results of operations.

For example, on 26 February 2013, the PRC State Council (the "**State Council**") promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知), which requires banking institutions to implement differentiated housing credit policies, further implement the policy of down payment ratio and mortgage rate for first-time house buyers and tighten the credit policies for buyers of second or additional homes, and the said regulation also imposes a personal income tax on the profit generated from sale of residential property. Such measures may slow down the development of the residential real estate market in the PRC, hinder an increase in residential mortgages and reduce the average amount of residential mortgages, and thus have a material adverse impact on the Bank's retail banking business. However, such policies are subject to further change and implementation by banks in the PRC. On 1 February 2016, the People's Bank of China ("**PBOC**") and CBRC issued a notice regarding purchase of second residential property and first ordinary owner-occupied residential property. Such notice requires that for a household owning one residential property with outstanding housing loans on that property and applying for housing loans for the purchase of a second ordinary owner-occupied residential property for the purpose of improving housing conditions, the minimum down payment ratio of the loan shall be not less than 30 per cent. The notice also requires that in the cities where no residential property purchase restriction policies are implemented, for households purchasing their first ordinary owner-occupied residential property, the minimum down payment ratio of the loan shall be not less than 25 per cent. in principal, but may be decreased by 5 per cent. at the discretion of the local authorities.

The expansion of the Bank's retail banking business also increases the Bank's exposure to changes in economic conditions affecting Chinese consumers. For example, a slowdown in the PRC economic development could adversely affect the ability of retail borrowers and credit card holders to make payments, thereby increasing the probability of defaults and reducing the demand for retail loans and credit cards. Such a slowdown may also reduce the demand for the Bank's non-interest-based products and services, which could result in a reduction in, among others, the Bank's credit card transaction volumes and sales of investment products. Accordingly, economic difficulties in the PRC that have a material adverse effect on PRC consumers could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank has a relatively high concentration of loans to certain industries, customers and regions, and if the conditions of these industries or these regions or the financial conditions of these customers deteriorate, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As at 31 December 2017, 2018 and 2019, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which, in aggregate, represented 40.76 per cent., 38.19 per cent. and 37.85 per cent. of the balance of the Bank's total loans and advances, respectively. If any of the industries which dominates a relatively large portion of the Bank's loans experiences a slowdown in the future, the Bank's NPL may increase and the extension of the Bank's new loans may be negatively affected. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As mentioned above, the Bank is exposed to risks relating to the real estate market through its personal residential housing mortgage loans and other loans secured by real estate collateral. As at 31 December 2019, the Bank's personal residential housing mortgage loans represented 35.78 per cent. of the Bank's total personal loans and advances. In recent years, the PRC government has been imposing and may continue to impose various macroeconomic measures with an aim of cooling the overheated real estate market in the PRC, such as setting minimum down payment requirements and minimum mortgage rates on residential housing purchases, imposing business taxes on the transfer of certain residential properties and levying mandatory personal income tax for second home sales. Such measures may adversely affect the growth and quality of the Bank's personal residential housing mortgage loans and loans to the real estate industry. In addition, a downturn in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and the Bank's ability to generate new loans and recover on its loans in the event of default, which in turn could have a material adverse effect on the Bank's business, financial condition and results of operations.

As at 31 December 2019, loans provided by the Bank to its top ten customers totalled RMB50,807 million, which represented 1.87 per cent. of the Bank's total loan portfolio and 10.91 per cent. of the Bank's net capital. However, if the quality of any of the loans to the above or other single-borrowers or group-borrowers with large borrowing amounts deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Moreover, the Bank also provides loans to small-and medium-sized enterprises ("**SMEs**"). The Bank's loans to SMEs are generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. SMEs may also be more likely to suffer from inadequate or ineffective internal control or risk management systems and may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In addition, PBOC has implemented a variety of measures to reduce the cost of borrowing for companies that have been hit hard by the outbreak of Coronavirus Disease 2019 ("**COVID-19**"), including lowering the loan interest rates. In February 2020, PBOC reduced the one-year loan prime rate from 4.15 per cent. to 4.05 per cent., and the five-year rate from 4.80 per cent. to 4.75 per cent. which was the first reduction since October 2019. One-year and five-year loan prime rate was further reduced to 3.85 per cent. and 4.65 per cent. in June 2020. There can be no assurance that the risk management measures adopted by the Bank for the loans to SMEs will effectively reduce or eliminate the risks relating to such customers. If the quality of the Bank's loans to SMEs deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank provides a majority of its corporate loans to customers in certain regions or industries. If these regions or industries encounter operational or cash flow problems due to the economic cycle or economic transformations, the Bank's NPL associated with such regions or industries could experience upward pressure. As at 31 December 2019, approximately 49.87 per cent. of the Bank's total loans and advances to customers were generated from the Bank's branches located in the Yangtze River Delta, Central and Bohai Rim regions in aggregate. If the economies in those regions experience a slowdown or deteriorate or face local, regional or systemic risks, or if the Bank's credit risk assessments of the borrowers who are located at or conduct substantial business activities in those areas are inaccurate, the Bank's NPL may increase. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

If the debt repayment abilities of the local government financing vehicles ("LGFVs") to which the Bank extends loans deteriorate, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Loans extended to LGFVs form part of the loan portfolio of the PRC's commercial banks. The State Council defines LGFVs as economic entities with an independent legal person status that assume financing functions for government investment projects and that are incorporated via fiscal allocations or the injection of assets such as land and equity by local governments and their departments or agencies. The Bank's loans to LGFVs are primarily extended to support urban development, transportation, land reserve centres, economic development zones and industrial parks. The recipients of these loans are LGFVs that generally rank at or above the municipal level, though the Bank does not lend directly to local governments. The Bank's loans to LGFVs are generally targeted at economically developed areas in the PRC, such as the Yangtze River Delta, Pearl River Delta and Bohai Rim regions. The majority of the Bank's loans to LGFVs are secured by mortgages, pledges or guarantees.

In recent years, with the aim of reinforcing the risk management of loans to LGFVs, the State Council, CBIRC and PBOC, along with several other PRC regulatory authorities, promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to LGFVs. In September 2014, the

State Council released the Opinion on Enhancing the Administration of Fiscal Debts of Local Governments (關於加強地方政府性債務管理的意見) ("**Circular 43**"), pursuant to which LGFVs shall no longer serve the fiscal financing functions nor incur new government debts. In addition, Circular 43 sets forth the general principles of dealing with existing debts of LGFVs. Based on the audit results of such debts run by the local governments, LGFVs' existing debts that should be repaid by the local governments shall be identified, reported to the State Council for approval, and then included in the budget plan of local governments. If the local government or the State Council does not approve all or any portion of such debts to be repaid with local government public funds, the LGFVs' financial condition and debt-repayment ability may be materially adversely affected. In addition, media publications have continued to express concerns about LGFV debt levels. While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to LGFVs and enhancing the mortgages and guarantees on such loans, any unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments, or other factors may adversely affect the debt repayment abilities of these LGFVs and other government-related entities, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations. For the Bank's risk management measures relating to the Bank's loans to LGFVs, see "*Risk Management − Credit Risk Management − Management of Credit Risk Associated with Corporate Credit Business*".

The Bank's loan classification and provisioning policies may be different in certain respects from those applicable to banks in certain other countries or regions.

The Bank classifies its loans using a five-tier classification system in accordance with the guidelines set forth by the PRC regulators. The five tiers are "pass", "special mention", "substandard", "doubtful" and "loss". The Bank assesses its impairment losses on loans and determines a level of allowances for impairment losses using the five-tier classification system. As of 1 January 2018, the Bank performs such assessment, determination and recognition using the concept of impairment under IFRS 9, which replaces the whole of International Accounting Standards ("**IAS**") 39, effective from 1 January 2018. The Bank's loan classification and provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, the Bank's loan classifications as well as its allowances for impairment losses, as determined under the Bank's loan classification and provisioning policies, may differ from those that would be reported by banks incorporated in other countries or regions.

The collateral or guarantees securing the Bank's loans may not be sufficient, the Bank may be unable to realise the full value of the collateral or guarantees in a timely manner or at all, and the value of the assets the Bank receives from its borrowers for repaying debts may significantly decrease.

A significant portion of the Bank's loan portfolio is secured by collateral or guarantees. As at 31 December 2019, 31.78 per cent., 13.27 per cent. and 23.50 per cent. of the Bank's total loans and advances to customers were secured by mortgages, pledges and guarantees, respectively. The collateral securing the Bank's loans primarily comprised of real estate properties and other assets located in the PRC. The value of the collateral securing the Bank's loans is usually higher than the amount of the corresponding loans but such value may significantly decline due to factors beyond the Bank's control, such as a slowdown in the PRC economic growth or a downturn of the PRC's real estate market. A slump in the PRC's real estate market may result in a decline in the value of the real estate properties securing the Bank's loans to a level below the outstanding balances of the principal and interest of such loans. Any such decline may reduce the amount the Bank may be able to recover from such collateral and, as a result, increase the Bank's impairment losses.

Some of the Bank's loans are secured by guarantees provided by the Bank's borrowers' affiliates or other third parties. Deterioration in these guarantors' financial conditions could reduce the amount the Bank may be able to recover from such guarantors. Moreover, in the event that the relevant guarantor fails to comply with his or her obligations under the guarantee, the Bank is subject to the risk that a court or other judicial or governmental bodies may declare such guarantees to be invalid or otherwise decline to enforce such guarantees. As a result, the Bank may not be able to recover all or any part of the amounts guaranteed in respect of the Bank's loans.

In addition, under certain circumstances, the Bank's rights to the collateral securing its loans may be subordinated to other rights. For example, pursuant to the PRC Enterprises Bankruptcy Law (中華人民共和國企業破產法),effective from 1 June 2007, if the other assets of a bankrupt enterprise are insufficient to cover the outstanding salaries, medical and injury allowances, death or disability compensation and basic pension and medical insurance contribution attributable to its employees' personal accounts, as well as other compensation payable to the employees as required by law and administrative regulations, the relevant claims of such employees shall prevail over the Bank's rights to the collateral.

In the PRC, the procedures for liquidating or otherwise realising the value of collateral may be protracted and it may be difficult in practice to enforce claims on such collateral. For example, pursuant to the Directive on Foreclosure of Mortgages on Residential Properties issued by the Supreme Court of the PRC (最高人民法院關於人民法院執行設定抵押的房屋的規定), effective from 21 December 2005 and further amended in December 2008, a PRC court may not enforce the eviction of an enforcee and his or her dependents from the mortgaged principal residence within six months after it has rendered its judgment on the auction, sale or liquidation of such property for repayment purpose. As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing its NPL.

If any of the Bank's borrowers are unable to repay its loans when due, the Bank will be entitled to exercise its creditor's rights and make a claim against the defaulted borrower. Through consultation or by way of judicial procedures, the Bank may take possession or dispose of the tangible assets or other property rights that such borrower is entitled to. However, due to the risk of market price fluctuations, depreciation of the assets or the property rights concerned, or the difficulty of liquidating such assets and property rights, the value of such assets may materially decrease and may not be adequate to cover the outstanding amounts due under the loans. If the Bank anticipates that the realisable value of such assets or property rights is lower than their book value in light of the occurrence of such risks, the Bank will make impairment provisions accordingly. In addition, if the Bank's borrowers become insolvent, the Bank may not be able to realise the full value of the collateral and guarantees securing the Bank's loans in a timely manner, or if the value of the assets for repayment of debts that the Bank receives substantially decrease in the future, the Bank's asset quality, financial condition, or results of operations may be materially and adversely affected.

Risks Relating to the Bank's Business

The Bank's business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC.

The Bank's business is inherently subject to global capital market fluctuations and general economic conditions. Global market factors, including economic growth rates, inflation, deflation, interest rates, credit spreads, equity prices, real estate markets, energy prices, foreign currency exchange rates, consumer spending, business investment, government spending and the volatility and strength of the capital markets all affect the business and economic environment and, ultimately, the amount and profitability of the Bank's business. In particular, uncertain economic conditions, volatility and disruptions in global capital markets, such as those that occurred in late 2008 and 2009 during the global financial crisis and in the first quarter of 2020 due to COVID-19, can have a material adverse effect on the Bank.

The economic recovery since the global financial crisis has been slow, with economic growth rates in major economies such as Europe, the United States, Japan and the PRC generally remaining persistently lower than pre-crisis levels. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's GDP in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally. In 2018, the PRC Government reported a GDP of RMB90.03 trillion, representing year-on-year growth of 6.6 per cent. In 2019, the PRC Government reported a preliminary GDP of RMB99.0865 trillion, representing year-on-year growth of 6.1 per cent. Although the PRC Government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. Furthermore, the sustained tension between the United States and China over trade policies could undermine the stability of the global economy. The United States and China have recently been involved in disputes over trade barriers that have escalated into a trade war between the two countries. Both countries have implemented tariffs on certain imported products from the other, casting uncertainty over tariffs and barrier to entry for products on both sides. The two governments have entered into an initial phase one agreement to resolve the disputes on 15 January 2020. However, there are uncertainties as to when and whether the phase two negotiations will begin and whether the two governments will fulfil their respective obligations under the phase one agreement.

In addition, on 31 January 2020, the United Kingdom officially exited the European Union following a UK-EU Withdrawal Agreement signed in October 2019. The United Kingdom and the European Union will have a transition period until 31 December 2020 to negotiate, among others, trade agreements in detail. Given the lack of precedent, it is unclear how Brexit would affect the fiscal, monetary and regulatory landscape within the UK, the EU and globally. This event has resulted in a downgrade of the credit ratings of the United Kingdom and the uncertainty before, during and after the period of negotiation may also create a negative economic impact and increase volatility in global markets. Moreover, there are ongoing concerns about European sovereign debt levels, negative interest rate and the consequences for economic growth and investor confidence in the Eurozone, political gridlock in the United States over government spending, debt levels and civil rights issues and the consequences for economic growth and investor confidence in the United States, and the uncertainty around the Federal Reserve's future monetary policies. All these would add to the uncertainties relating to the overall prospects for the global and the PRC economies, which may have a material adverse impact to the Bank's business, prospects, financial conditions and results of operations.

On 12 March 2020, the World Health Organisation declared COVID-19 as a global pandemic. The COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic will significantly disrupt the global economy and global markets and is likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. As the COVID-19 pandemic continues to adversely affect business activities globally, governments and central banks across the world have introduced or are planning fiscal and monetary stimulus measures including direct subsidies, tax cuts, interest rates cuts, quantitative easing programmes and suspension or relaxation of prudential bank capital requirements. These measures aim to contain the economic impact of the COVID-19 pandemic, stabilise the capital markets and provide liquidity easing to the markets. In addition, the PRC regulators have promulgated a series of measures to encourage PRC financial institutions to increase financial support to business and consumers to combat the challenges arising from the COVID-19 pandemic. See also "*Description of the Bank - Recent Development of the Bank – Recent Outbreak of COVID-19*" for more information on the impact of COVID-19 on the Bank.

Uncertainties in the global and the PRC's economies may adversely affect the Bank's business, financial condition and results of operations in many ways, including, among others:

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of NPL, allowances for impairment losses and write-offs;

- the increased regulation and supervision by the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase its compliance costs;
- the value of the Bank's investments in the equity and debt securities issued by overseas governments and financial institutions may significantly decline;
- the Bank's ability to raise additional capital on favourable terms, or at all, could be adversely affected; and
- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect the Bank's business prospects.

Any potential market and economic downturns, economic slowdown or geopolitical uncertainties in the PRC, its neighbouring countries or regions or the rest of the world may exacerbate the risks relating to the PRC capital markets. In addition, global economic uncertainty and the slowdown in PRC economic growth have precipitated, and may continue to raise the possibility of, fiscal, monetary, regulatory and other governmental actions. The Bank cannot predict whether or when such actions may occur, nor can the Bank predict what ultimate impact, if any, such actions or any other governmental actions could have on the Bank's business, results of operations and financial condition. There can be no assurance that the PRC's economy or the global economy will continue to improve or maintain sustainable growth. If further economic downturn occurs or continues, the Bank's business, financial condition and results of operations could be materially and adversely affected.

The Bank is subject to changes in interest rates including the potential for further interest rate liberalisation and other market risks, and the Bank's ability to hedge against market risk is limited.

As with most PRC commercial banks, the Bank's results of operations depend to a large extent on the Bank's net interest income. For the years ended 31 December 2017, 2018 and 2019, the Bank's net interest income represented 66.24 per cent., 70.81 per cent. and 76.67 per cent., respectively, of the Bank's operating income. Increasing competition in the banking industry and further liberalisation of the PRC interest rate regime may affect the volatility of interest rates. Changes in the PBOC benchmark interest rates or volatility in market interest rates may adversely affect the Bank's net interest income, which may adversely affect the Bank's business, financial condition and results of operations.

PBOC publishes and adjusts benchmark interest rates on loans and deposits from time to time. For example, since November 2014, PBOC lowered the benchmark interest rates on RMB-denominated loans and deposits six times. Moreover, the upper limit of the interest rate floating range was removed by PBOC on 24 October 2015. On the other hand, PBOC continues to liberalise the restrictions on interest rates for loans. For example, on 20 July 2013, PBOC eliminated the minimum interest rate requirements for RMB-denominated loans.

PBOC may further liberalise the existing interest rate restrictions in the future. If the existing regulations were substantially liberalised or eliminated, loan-deposit spreads in the PRC banking industry may further narrow due to market competition, which may materially reduce the Bank's net interest income. Furthermore, there can be no assurance that the Bank will be able to diversify its businesses and adjust the composition of its asset and liability portfolios and its pricing mechanism to enable the Bank to effectively respond to the further liberalisation of interest rates.

In addition, adjustments made by PBOC to the benchmark interest rates on loans or deposits, or any changes in market interest rates, may negatively impact the Bank's financial condition and results of operations. For example, changes in the PBOC benchmark interest rates could affect the average yield on the Bank's interest-earning assets and the average cost on the Bank's interest-bearing liabilities to different extents and may narrow the Bank's net interest margin, leading to a reduction in the Bank's net interest income. In addition, an increase in interest rates for loans could result in increases in the financing costs of the Bank's customers, reduce overall demand for loans and increase the risk of customer default, while a reduction in interest rates for deposits could cause the Bank's depositors to withdraw their funds from the Bank.

The Bank is also engaged in trading and investment activities involving some financial instruments in the domestic market. As the derivatives market has yet to develop in the PRC, risk management tools available to the Bank for hedging market risks are limited. Income from these activities may fluctuate due to, among other things, changes in interest rates and foreign currency exchange rates. For example, increases in interest rates will cause the value of the Bank's fixed-rate securities to decrease, which may materially and adversely affect the Bank's results of operations and financial condition.

The Bank may face difficulties in meeting regulatory requirements relating to capital adequacy in the future.

On 7 June 2012, CBRC promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (the "**Capital Management Rules**", which superseded the Capital Adequacy Regulations (商業銀行資本充足率管理辦法) and became effective on 1 January 2013. According to the Capital Management

Rules, , the minimum capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio for commercial banks are 8 per cent., 6 per cent. and 5 per cent., respectively. A commercial bank is also subject to the capital conservation buffer over and above the minimum capital requirement at 2.5 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital, and under certain circumstances, a countercyclical buffer of between 0 and 2.5 per cent. of total risk weighted assets comprised of core tier-1 capital, and if a commercial bank is designated as a domestic systematically important commercial bank by the CBIRC, such bank is subject to requirement of additiona1 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital. The overall capital adequacy ratio requirements (not counting countercyclical buffer or any other prudential requirements as may be imposed by CBIRC from time to time) are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. As at 31 December 2019, the Bank's common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio were 9.20 per cent., 11.08 per cent. and 13.47 per cent., respectively. Although these capital adequacy ratios were in compliance with the relevant PRC laws and regulations, certain developments could affect the Bank's ability to satisfy the capital adequacy requirements in the future, including but not limited to:

- losses resulting from deterioration in the Bank's asset quality;
- a decrease in the value of the Bank's investments;
- an increase in the minimum capital adequacy requirements by banking regulators;
- changes in guidelines by banking regulators regarding the calculation of capital adequacy ratios of commercial banks;
- decreases in the Bank's net profits and thus decreases in its retained earnings; and
- other factors discussed elsewhere in this section.

The Bank may also be required to raise additional capital in the future by issuing equity securities and other financial instruments in order to maintain the Bank's capital adequacy ratios above the minimum required level. In addition, the Bank's ability to raise additional capital may be limited by numerous factors, including:

- the Bank's future business and financial condition, results of operations and cash flows;

- the Bank's credit rating;
- any government regulatory approval;
- general market conditions for capital-raising activities, in particular by commercial banks and other financial institutions; and
- economic, political and other conditions in and outside of the PRC.

If the Bank requires additional capital in the future or if there are any adverse changes to any of the above factors, there can be no assurance that the Bank will be able to obtain such capital on commercially reasonable terms, in a timely manner or at all.

Furthermore, CBIRC may increase the minimum capital adequacy ratios requirements or change the methodology for calculating net capital or capital adequacy ratios or the Bank may otherwise be subject to new capital adequacy requirements.

If the Bank fails to meet the applicable capital adequacy requirements, CBIRC may take corrective measures, including, for example, restricting the growth of the Bank's loans and other assets, restricting the Bank's ability to issue subordinated debt to improve its capital adequacy ratio, declining to approve the Bank's application to introduce a new service or restricting the Bank's declaration or distribution of dividends. These measures could materially and adversely affect the Bank's reputation, financial condition and results of operations.

The Bank is subject to currency risk.

Substantially all of the Bank's revenues are denominated in Renminbi, which currently is not freely convertible into foreign currencies. A portion of the Bank's revenues must be converted into other currencies in order to meet the Bank's demand for foreign currency. The Bank is subject to currency risk arising from losses incurred due to unfavourable exchange rate fluctuations on the Bank's foreign exchange exposures resulting from the unmatched currency structure between foreign currency-denominated assets and foreign currency-denominated liabilities. The value of Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other factors, changes in the PRC's and international political and economic conditions.

Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by PBOC. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. On the same day, the value of Renminbi appreciated by approximately 2 per cent. against U.S. dollar. In August 2008, the PRC announced a further change in its exchange regime to a managed floating exchange rate regime based on market supply and demand. Since the Renminbi foreign exchange rate reform beginning on 21 July 2005, PBOC has adjusted the daily floating band of the Renminbi trading prices against U.S. dollar in the inter-bank spot foreign exchange market three times: effective from 21 July 2007, the daily floating band of the Renminbi trading prices against U.S. dollar was expanded from 0.3 per cent. to 0.5 per cent.; effective from 16 April 2012, such floating band was further expanded to 1 per cent.; and effective from 17 March 2014, such floating band was further expanded to 2 per cent. In August 2015, the PRC government thrice lowered the daily mid-point trading price of Renminbi against U.S. dollar, which was the most significant downward adjustment of Renminbi in more than a decade. In the first half of 2020, Renminbi fluctuated against the U.S. dollar amidst an uncertain trade and global economic climate and may be subject to further fluctuation. The PRC government may make further adjustments to the exchange rate system in the future. Any appreciation of Renminbi against U.S. dollar or any other foreign currency may result in a decrease in the value of the Bank's foreign currency-denominated assets. Conversely, any devaluation of Renminbi may adversely affect the value of the Bank's assets in Renminbi terms.

Furthermore, the Bank is also currently required to obtain the approval of the State Administration of Foreign Exchange of the PRC ("**SAFE**") before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect the Bank's financial condition, results of operations and compliance with the capital adequacy ratio and the operational ratio.

There may be mismatches between the maturity dates of the Bank's liabilities and assets. If the Bank fails to maintain the growth rate of its deposits from customers or if the Bank experiences a significant decrease in its deposits from customers, the Bank's business operations and liquidity may be materially and adversely affected.

Deposits from customers are the Bank's primary source of funding. From 31 December 2017 to 31 December 2019, the Bank's total deposits from customers (including accrued interest) grew from RMB2,272,665 million to RMB3,017,888 million. However, there are many factors that may affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of other investment channels and retail customers' changing perceptions toward savings.

In addition, there may be mismatches between the maturity dates of the Bank's liabilities and assets. If the Bank fails to maintain the growth of its deposits from customers or a substantial portion of the Bank's depositors withdraw their deposits and do not roll over their time deposits upon maturity, the Bank's liquidity position, financial condition, and results of operations may be materially and adversely affected. In such an event, the Bank may need to seek more expensive sources of funding and there can be no assurance that the Bank will be able to obtain additional funding on commercially reasonable terms as and when required or at all.

The Bank may not be able to obtain necessary short-term funding and inter-bank deposits through the exchange market and inter-bank market, which may have a material adverse effect on the Bank's liquidity or financial condition.

The Bank depends on short-term funding and inter-bank deposits in the exchange market and the inter-bank market for a portion of the Bank's liquidity needs. There can be no assurance that the Bank will be able to obtain additional funding on commercially reasonable terms as and when required, if at all. In order to ensure sufficient liquidity reserves, some of the Bank's branches generally obtain inter-bank deposit commitments from various local-level financial institutions on the inter-bank lending market. However, the Bank may not always be able to obtain sufficient short-term financing from such sources, which may in turn have a material adverse effect on the Bank. For example, due to sudden market changes late on 5 June 2013, two of the Bank's branches failed to receive from certain counterparties the expected proceeds from such inter-bank deposit commitments. There was an inadvertent delay of the branches notifying the Bank's head office. Then, PBOC's large amount settlement system closed on that particular day. The branches did not manage to fulfil their obligations to repay short-term inter-bank loans in the aggregate amount of RMB6.5 billion to another bank, notwithstanding that the Bank's head office had sufficient funding and liquidity. On the same day, the lending bank agreed for the Bank's branches to settle the outstanding balance in full on the next day, being 6 June 2013, which the Bank's branches complied accordingly. Although this particular incident did not have a material adverse effect on the Bank's liquidity, business, financial condition or results of operations, there can be no assurance that similar incidents will not occur in the future.

Subsequently, the Bank has implemented certain measures to address any potential future occurrences of similar incidents. See "*Risk Management − Key Recent Improvements in Risk Management*".

The Bank's expanding range of products, services and business activities may expose the Bank to new risks.

The Bank has been expanding and will continue to expand the range of its products and services to meet the increasing and changing needs of the Bank's customers and to enhance the Bank's competitiveness. For example, the Bank has continued to grow its existing businesses and develop new businesses, such as wealth management, financial derivatives transactions, investment banking, financial advisory services, assets custody, enterprise annuity, digital banking and cloud payment. Expansion of the Bank's businesses may expose the Bank to a number of risks and challenges, including but not limited to:

- lack of or insufficient experience in certain new products and services;
- inability to identify, monitor, analyse and report on risks associated with such new businesses comprehensively and effectively, which may result in damages and prevent the Bank from competing in these areas effectively;
- inability to comply with relevant laws and regulations in the course of developing, distributing, promoting and servicing new products and services, which may subject the Bank to regulatory penalties or litigations;
- inability to achieve the expected profitability of such new businesses;
- inability to recruit and retain qualified personnel on commercially reasonable terms;
- revocation or withholding of approvals by regulators for any products or services that the Bank has offered or plans to offer;
- lack of customer acceptance or expected success of the Bank's new products and services;
- inability to promptly adapt to changes in regulatory requirements and approval standards for new products or services;
- possible unsuccessful attempts to enhance the Bank's risk management and internal control capabilities to support a broader range of products and services;
- disagreements between the Bank and the joint venture partners and other entities with which the Bank offers certain of its new financial products and services, or their inability or unwillingness to continue their arrangements with the Bank due to financial difficulties or other reasons; and
- significant and/or increasing competition from other industry participants offering similar products or services.

If the Bank is not able to (i) successfully expand or develop its new products, services and related business areas due to the above or other risks or challenges, (ii) achieve the expected results with respect to its new products and services, or (iii) experience losses, the Bank's business, financial condition and results of operations may be materially and adversely affected. In addition, if the Bank is not able to make decisions to enter new business areas to meet the increasing needs of the Bank's customers for certain products and services in a timely manner, the Bank's market share may decrease and the Bank may lose some of its existing customers.

The Bank has expanded its business in jurisdictions other than the PRC, which has increased the complexity of the risks that it faces.

In recent years, the Bank has taken actions to expand its operations outside Mainland China. As at 31 December 2019, it had four branches outside Mainland China, in Hong Kong, Seoul, Luxembourg and Sydney.

The expansion into jurisdictions outside of the PRC exposes the Bank to a new variety of regulatory and business challenges and risks and has increased the complexity of risks in a number of areas, including currency risk, interest rate risk, regulatory and compliance risk, reputational risk and operational risk. Adverse market conditions in overseas jurisdictions may result in mark-to-market and realised losses on the investment assets held by the Bank and any other overseas branches that the Bank may establish and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which it operates, there may be incidences of failure to comply with the regulations in certain jurisdictions. Overseas regulators may bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third-party service providers, which could result, among other things, in suspension or revocation of one or more of its licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the regulatory changes in various jurisdictions, including those in which it has or plans to have operations could have an adverse impact on the Bank's growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its expansion outside Mainland China, its business, reputation, financial condition and results of operations may be adversely affected.

The Bank has increasingly focused on developing its wealth management business in recent years, and any adverse developments or changes in relevant regulatory policies could materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

In recent years, with the slowdown in the growth of deposits in the PRC banking industry as a whole, competition for deposits among commercial banks has become increasingly intense. In response to such competition, PRC commercial banks, including the Bank, have been expanding their offering of wealth management products and services to customers. In September 2019, CBIRC approved the establishment of Everbright Wealth Management Co., Ltd. as China's first wealth management subsidiary under a joint-stock commercial bank, driving the Bank's initiative of "building a first-class wealth management bank". The Bank's wealth management service fees amounted to RMB3,400 million, RMB876 million and RMB634 million, respectively, for the years ended 31 December 2017, 2018 and 2019.

The Bank's wealth management products primarily represent investments in, among others, bonds, deposits and highly liquid money market investment instruments, other debt instruments, equity instruments and other types of assets that are compliant with regulatory requirements. As most of the wealth management products issued by the Bank are non-principal protected products, the Bank is not liable for any loss suffered by investors in these products. However, to the extent investors suffer losses on these wealth management products, the Bank's reputation may be severely damaged, and the Bank may also suffer a loss of business, customer deposits and net income. Furthermore, the Bank may eventually bear losses for non-principal protected products if the investors bring lawsuits against the Bank and the court decides that the Bank is liable for mis-selling such products or otherwise.

In addition, the tenors of wealth management products issued by the Bank are often shorter than those of the underlying assets. This mismatch subjects the Bank to liquidity risk and requires the Bank to issue new wealth management products, sell the underlying assets or otherwise address the funding gap when existing wealth management products mature. PRC regulatory authorities have introduced regulatory policies to restrict the scale of PRC commercial banks' investments in non-standard debt-based assets with funds raised from wealth management products. In addition, the newly approved wealth management subsidiary is also under constant regulation under PRC regulatory authorities, such as Administration Measures of Wealth Management Subsidiary of Commercial Banks (《商業銀行理財子公司管理辦法》 and Administrative Measures on Net Capital of Wealth Management Subsidiary of Commercial Banks (Trial) (商業銀行理財子公司淨資本管理辦法（試行））. If PRC regulatory authorities further restrict the wealth management business of PRC commercial banks, it could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank may be exposed to credit risk relating to credit commitments and guarantees.

In the Bank's ordinary course of business, the Bank provides its customers with credit commitments and guarantees, including commitments and guarantees not reflected on the Bank's balance sheet under the relevant accounting principles, such as bank acceptance bills, letters of guarantee, letters of credit and other credit commitments to guarantee the performance of the Bank's customers. The Bank may be exposed to credit risk relating to its credit commitments and guarantees because these may need to be fulfilled by the

Bank in certain circumstances. If the Bank is unable to receive repayment from its customers in respect of the commitments and guarantees that the Bank is called upon to fulfil, the Bank's financial condition and results of prospects could be materially and adversely affected.

Certain PRC restrictive regulations governing investment portfolios of commercial banks limit the Bank's ability to diversify its investments and, as a result, a decrease in the value of a particular type of investment may have a material adverse effect on the Bank's financial condition and results of operations.

As a result of the current PRC regulatory restrictions, substantially all of the Bank's RMB-denominated investment assets are concentrated in a limited variety of products permitted to be invested by PRC commercial banks, such as bills issued by PBOC, treasury bonds issued by the Ministry of Finance of the PRC ("**MOF**"), financial bonds issued by domestic policy banks, debt securities issued by other commercial banks and commercial paper issued by qualified domestic corporations as well as domestic corporate bonds. The Bank is restricted from diversifying its investment portfolio which limits its ability to seek the best returns on its investments. If the value of a particular type of the Bank's investments decreases, the Bank may be exposed to greater losses given these regulatory restrictions. For example, an interest rate hike may cause a significant fall in the value of fixed interest and fixed income bonds held by the Bank. In addition, the Bank's ability to manage RMB-denominated investment assets risk is restricted due to the limited availability of RMB-denominated hedging instruments. A significant decrease in the value of the Bank's RMB-denominated financial assets within a short period could have a material adverse effect on the Bank's financial condition and results of operations.

If the Bank incurs losses on its investments, its financial condition and results of operations may be materially and adversely affected.

Apart from the Bank's businesses of taking deposits, providing loans and credit and providing fee- and commission-based products and services, the Bank also engages in a range of investment activities. As at 31 December 2019, financial investments measured at amortised costs were the largest component of the Bank's total investment in securities and other financial assets. The Bank's returns on investment and its profitability may be materially and adversely affected by the foreign exchange rate, credit and liquidity conditions, the performance and volatility of capital markets, asset values and macroeconomic and geopolitical conditions. Any adverse changes in one or more of these factors could reduce the value of, and the gains generated from, the Bank's investment portfolio and could have a material and adverse effect on the Bank's business, financial condition and results of operations.

If any of the issuers or guarantors of these investments goes into bankruptcy, experiences poor financial performance or becomes unable to service their debts for any other reason, or if the liquidity of such investments decreases or the economy suffers from a downturn or for other reasons, the value of such investments may decrease substantially. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank has made substantial investments in debt securities classified as receivables, and any adverse development relating to these types of investments could materially and adversely affect the Bank's profitability and liquidity.

In recent years, the Bank has made substantial investments in debt securities classified as receivables, which include investments in beneficial interest transfer plans and wealth management products offered by other domestic financial institutions. Due to the adoption of IFRS 9, debt securities classified as receivables has been reclassified, which has resulted in adjustments to the other line items recognised under total investment in securities and other financial assets. As at 31 December 2019, the Bank's investments in securities and other financial assets (which includes financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income, financial investments measured at amortised cost and derivative financial assets) amounted to RMB1,447,351 million.

These investments, which typically have predetermined rates of return and fixed terms, and are guaranteed by the issuers or third-party financial institutions, carry certain risks. The Bank relies on the issuers and underlying companies for such products to make investment decisions to achieve the agreed-upon rates of return. If they are unable to fully achieve such returns or maintain the principal of the Bank's investments, the Bank would rely on the issuers to reduce its losses and would exercise its rights under the related contracts and guarantees to recover any losses from the issuers and guaranteeing entities. In addition, as there has not yet been an active secondary market for such investment and the majority of the Bank's investments in such products have terms of more than one year, their liquidity is limited. As a result, the Bank generally holds such investment to maturity, and enter into forward sales contracts with the issuers or third-party institutions for those that the Bank does not plan to hold to maturity. For the above reasons, such investment primarily expose the Bank to counterparty credit risk, which the Bank manages by setting certain minimum requirements for such counterparties.

PRC regulatory authorities have not prohibited commercial banks from making such investments. However, there can be no assurance that future changes in regulatory policies will not restrict the Bank or its counterparties with respect to such investments. Any adverse development relating to these types of investments could cause a significant decline in the value of the Bank's investments and, as a result, may materially and adversely affect the Bank's profitability and liquidity.

The Bank recorded net cash outflows for the year ended 31 December 2017 and 2019, respectively, and there can be no assurance that the Bank will not record net cash outflow positions in the future.

For the year ended 31 December 2017, the Bank recorded net cash outflows of RMB93,584 million, which were primarily due to net cash outflows from operating activities of RMB142,721 million, and was partially offset by net cash inflows from investment activities of RMB12,318 million and net cash inflows from financing activities of RMB39,284 million. The Bank's net cash outflows from operating activities were primarily due to changes in operating assets. The Bank recorded net cash inflows of RMB39,757 million for the year ended 31 December 2018. For the year ended 31 December 2019, the Bank recorded net cash outflows of RMB70,181 million, which were primarily due to net cash outflows from investing activities of RMB74,423 million and net cash outflows from financing activities of RMB61,453 million, and were partially offset by net cash inflows from operating activities of RMB65,100 million. The Bank's net cash outflows from investing activities were primarily due to acquisition of investment, and net cash outflows from financing activities were primarily due to payment of debt principal. There can be no assurance that the Bank will not record net cash outflow positions in the future due to the same reason or other reasons, including the risk factors disclosed herein. If the Bank has net cash outflow positions in the future, the Bank's working capital may be constrained and the Bank may be forced to seek additional external funding at a cost higher than the Bank's existing financial arrangements. Any such development could materially and adversely affect the Bank's liquidity condition and results of operations.

The Bank is subject to various PRC and overseas regulatory requirements, and the Bank's failure to fully comply with such requirements could materially and adversely affect the Bank's business, reputation, financial condition and results of operations.

The Bank is subject to the regulatory requirements and guidelines set forth by the PRC regulatory authorities. The Issuer is subject to Hong Kong laws and regulations as set forth by the Hong Kong legislative and regulatory authorities.

The PRC regulatory authorities include but are not limited to MOF, PBOC, CBIRC, the China Securities Regulatory Commission ("**CSRC**"), the State Administration of Taxation of the PRC ("**SAT**"), the National Audit Office of the PRC ("**NAO**"), the State Administration for Market Regulation of the PRC ("**SAMR**") and SAFE. These regulatory authorities inspect the Bank on a periodic or non-periodic basis and conduct spot checks of the Bank's compliance with the relevant laws, regulations and guidelines and have the authority to take corrective or punitive measures on the basis of their supervision and checks.

The Bank is subject to various PRC and overseas regulatory requirements, and PRC and overseas regulatory authorities conduct periodic inspections of, examinations of and inquiries into the Bank's compliance with such requirements. In the past, the Bank has failed to meet certain requirements and guidelines set by the PRC regulatory authorities and the Bank was found to have violated certain regulations.

In addition, the Bank in the past was subject to fines and other penalties for cases of the Bank's non-compliance. For example, in May 2020, CBIRC fined the Bank RMB1.6 million for non-compliance of reporting requirement under CBIRC's Examination & Analysis System Technology system and providing inaccurate information to CBIRC. There can be no assurance that the Bank will be able to meet all the regulatory requirements and guidelines, or comply with all the laws and regulations at all times, or that the Bank will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the Bank's business, reputation, financial condition and results of operations may be materially and adversely affected. See also "*The Bank may not be able to fully detect money laundering and other illegal or improper activities completely or on a timely basis, which could expose the Bank to additional liability and harm the Bank's business or reputation*" and "*The Bank may not be able to detect and prevent fraudulent acts or other misconduct committed by the Bank's staff, customers or other entities.*"

Apart from the penalties imposed by regulatory authorities, the Bank may also be sued by its shareholders and other related parties in relation to the Bank's business operations and capital markets activities which may materially and adversely affect the Bank's business, reputation, financial condition and results of operations.

The Bank's major shareholders have the ability to exercise significant influence over the Bank.

As at 31 December 2019, Central Huijin Investment Ltd. ("**Huijin**"), China Everbright Group Ltd. and China Reinsurance (Group) Corporation ("**China Reinsurance (Group)**")[1] held approximately 19.53 per cent., 29.00 per cent. and 1.50 per cent., respectively, of the Bank's total issued ordinary shares. See "*Substantial Shareholders*". In July 2020, Huijin completed transfer of 19.53 per cent. of the Bank's total issued ordinary shares to China Everbright Group Ltd. As at the date of this Offering Circular, China Everbright Group Ltd. holds 48.53 per cent. of the Bank's total issued ordinary shares. See also "*Description of the Bank - Recent Development of the Bank – Equity Change Plan*" for the share transfer between Huijin and China Everbright Group Ltd. for further details.

In accordance with the relevant laws and regulations and the Bank's articles of association, China Everbright Group Ltd. has the ability to exercise its control over certain of the Bank's important matters, including matters relating to:

- the Bank's business strategies and policies;
- the timing for the distribution of dividends and the amount of dividends;
- the issuance of new securities;
- the nomination and election of the Bank's directors and supervisors;
- the composition of the Bank's management, especially the senior management;

[1] Although China Reinsurance (Group) holds less than 5% of the shares of the Bank, it still constitutes a substantial shareholder of the Bank since it appoints its nominees as directors to the Bank. Its controlling shareholder is Central Huijin Investment Ltd., with a shareholding percentage of up to 71.56%.

- any plans relating to mergers, acquisitions, joint ventures, investments, changes of business scope or sale of investment;
- amendments to the Bank's articles of association; and
- increase or reduction of the Bank's registered capital.

The interests of China Everbright Group Ltd. may conflict with the Bank's interests or those of the Bank's other shareholders or holders of Notes issued under the Programme.

In addition, the Bank, China Everbright Group Ltd., and many of its group member companies share the common brand name "Everbright" and other brand names, which are important to the Bank. The Bank may not be able to protect "Everbright" and other brand names as the Bank is not in a position to control or influence the conduct of the other parties that share such brand names with the Bank. Any failure to protect these brand names could reduce the value of goodwill associated with the Bank's names, result in the loss of the Bank's competitive advantage and materially harm the Bank's business and profitability.

If the Bank's risk management and internal control policies and procedures fail to be implemented effectively, the Bank's business and prospects may be materially and adversely affected.

The Bank has in the past suffered from certain internal control deficiencies and risk management weaknesses and was subject to fines and other penalties for non-compliance with the relevant legal or regulatory requirements. The Bank has significantly revamped and enhanced its risk management and internal control policies and systems in a continual effort to improve its risk management capabilities and enhance its internal controls. See "*Risk Management − Overview*". However, there can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit risks and other risks faced by the Bank. Some of these risks are unforeseeable or unidentifiable and may be more severe than what the Bank may anticipate.

The Bank's risk management capabilities and ability to effectively monitor credit risk and other risks are restricted by the information, tools, models and technologies available to the Bank. In addition, given the short implementation period of some aspects of the Bank's risk management and internal control policies and procedures, the Bank will require additional time to implement these policies and procedures in order to fully assess the impact of and evaluate the Bank's compliance with them. Moreover, the Bank's employees will require time to adjust to these policies and procedures and there can be no assurance that the Bank's employees will be able to consistently comply with or accurately apply them.

If the Bank's risk management and internal control policies, procedures and systems fail to be implemented effectively, or if the intended results of such policies, procedures or systems are not achieved in a timely manner (including the Bank's ability to maintain an effective internal control system to monitor the Bank's financial obligations as they become due), the Bank's asset quality, business, financial condition, results of operations and reputation may be materially and adversely affected.

The Bank is subject to operational risks.

The Bank is subject to operational risks such as internal and external fraud, risks related to customers, products and business activities, execution risks, closing and process management risks, employment system and workplace safety and damage to physical assets.

The Bank has established a series of policies and procedures to identify, assess, monitor, manage and report operational risks according to the Guidance to the Operational Risk Management of Commercial Banks (商業銀行操作風險管理指引) issued by CBRC. Operational risks may cause losses to the Bank if these measures are not put in place effectively or do not adequately cover all aspects of the Bank's operations.

The Bank's business is dependent to a large extent on the proper functioning and continuous improvement of the Bank's information technology systems.

The Bank depends on the capabilities of its information technology systems to process the Bank's transactions on a timely and accurate basis and to store and process the Bank's business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between the Bank's branches and its main data processing centres, is critical for the Bank to conduct its business in an orderly manner and to increase its competitiveness. The Bank's business activities could be materially disrupted if there is a partial failure or complete breakdown of any of the Bank's information technology systems or communication networks. Such failure can be caused by a variety of reasons, including natural disasters, extended power outages, breakdown of key hardware and systems, software malfunction and computer viruses. The proper functioning of the Bank's information technology systems also depends on accurate and reliable data input and installation of ancillary systems, which are subject to error. Any failure or delay in recording or processing the Bank's transaction data could expose the Bank to significant financial risk and subject the Bank to the risk of claims for losses and regulatory fines and penalties.

In particular, the secure transmission of confidential information is critical to the Bank's operations. The Bank's networks and systems may be vulnerable to unauthorised access and other security problems. There can be no assurance that the Bank's existing security measures will prevent unforeseeable security loopholes, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons who circumvent the Bank's security measures could use the Bank's or the Bank's clients' confidential information illegally. Any material security loopholes or other disruptions could expose the Bank to risk of loss or regulatory actions, which may in turn harm the Bank's reputation or results of operations.

Although the Bank owns and operates most of its information technology systems, some applications and information technology functions that are necessary for and form an integral part of the Bank's business operations are currently outsourced to third parties. Due to the inherent risks associated with outsourcing, such as lack or limitation of control and supervision over these third parties, abrupt discontinuance of a contractual relationship, divergent views and approaches on implementing business plans and leakage of important confidential information and business secrets, there can be no assurance that such third parties will always be able to provide the Bank with the stable and quality information technology support which is indispensable to the Bank's business operations. There can be no assurance that, after the Bank's current outsourcing expires or is otherwise terminated, the Bank will be able to timely find a satisfactory substitute.

The Bank's competitiveness will, to some extent, depend on the Bank's ability to upgrade and optimise its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by the Bank through its existing information technology systems may not be timely or sufficient for the Bank to manage risks and prepare for, and respond to, market changes and other developments in the Bank's current operating environment. As the Bank continues to apply and develop and implement new technology such as artificial intelligence, big data, blockchain and cloud computing technologies, the Bank's information technology system may be in need of upgrade, optimisation or expansion. Any failure to improve or upgrade the Bank's information technology systems effectively or on a timely basis could materially and adversely affect the Bank's competitiveness, results of operations and financial condition.

The Bank relies on independent contract workers.

The Bank engages a number of independent contract workers by signing contracting agreements with third-party human resources agencies. According to the contracting agreements with the third-party human resources agencies, the Bank is obliged to make salary payments, social insurance contributions and other related payments for the independent contract workers by payment to the third-party human resources agencies in advance. The third-party human resources agencies are responsible for the payment of salaries to the independent contract workers and social insurance contributions for the independent contract workers to the relevant governmental authorities. If the third-party human resources agencies fail to make social insurance contributions in relation to these independent contract workers under PRC law, the Bank may be jointly liable for any claims brought by them.

Although the Bank closely monitors the performance of its independent contract workers, there can be no assurance that their performance will meet the service level requirements and any substandard performance by such independent contract workers may have an adverse impact on the reputation of the Bank and its business operations. Any defaults or neglects on the part of such independent contract workers may also have an adverse impact on the profitability and financial position of the Bank as the Bank may be liable for any such defaults or neglects.

The Bank may not be able to fully detect money laundering and other illegal or improper activities completely or on a timely basis, which could expose the Bank to additional liability and harm the Bank's business or reputation.

The Bank is required to comply with applicable anti-money laundering and anti-terrorism laws and regulations stipulated in the PRC, Hong Kong and other relevant jurisdictions. These laws and regulations require the Bank to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and large transactions to the relevant regulatory authorities in different jurisdictions. In light of the Bank's short implementation period of the relevant policies and procedures, and due to other reasons such as the complexity and secrecy of money-laundering activities and other illegal or improper activities, such policies and procedures may not completely identify and eliminate such illegal or improper activities at the time when the Bank may be used by other parties to engage in these activities. To the extent that the Bank fails to fully comply with such laws and regulations, the relevant government agencies which regulate the Bank have the power and authority to impose fines and other penalties on the Bank. See also "*The Bank is subject to various PRC and overseas regulatory requirements, and the Bank's failure to fully comply with such requirements could materially and adversely affect the Bank's business, reputation, financial condition and results of operations*" and "*The Bank may not be able to detect and prevent fraudulent acts or other misconduct committed by the Bank's staff, customers or other entities.*". For example, in February 2020, the Banks was fined RMB18.2 million by PBOC for (1) failure to perform customer identification obligations; (2) failure to keep customer identity data and transaction records; (3) failure to submit large transaction reports and suspicious transaction reports; and (4) conducting transaction with unidentified customers. The Bank has taken corrective measures to strengthen the enforcement of its "know-your-customer" policies, such as improving the internal control system, strengthening its money laundering and terrorism financing assessment, conducting enhanced training for its employees and implementing anti-money laundering data governance, and to optimise its monitoring system, but there can be no assurances by the Bank that there will be no such fines or penalties against the Bank in the future. The Bank's business and reputation could be negatively impacted if customers manipulate their transactions with the Bank for money laundering or other illegal or improper purposes.

The Bank may not be able to detect and prevent fraudulent acts or other misconduct committed by the Bank's staff, customers or other entities.

The Bank may be unable to fully detect and completely prevent any fraudulent act and other misconduct committed by the Bank's staff, customers or other entities, which could therefore subject the Bank to lawsuits, financial losses and sanctions imposed by governmental authorities as well as result in serious harm to the Bank's reputation. Such misconduct could take a variety of forms including, among others:

- improper extension of loans;

- misapplying or failing to apply the loan classification standards thereby resulting in misclassifications within the Bank's loan portfolio;
- deposit fraud;
- falsifying or concealing information, including illegal or unlawful activities or credit information, during the credit application or loan classification process;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products to the Bank's customers;
- hiding unauthorised or illegal activities that may result in unknown and unmanaged risks or losses;
- engaging in unauthorised transactions to the Bank's detriment, breaching applicable laws or its internal control procedures or violating financial accounting rules;
- binding the Bank to transactions that exceed authorised limits;
- extension of RMB-denominated loans with foreign currency pledged as collateral in violation of the relevant regulations;
- illegal fundraising and other financing activities;
- settlement, sale and payment of foreign exchange in violation of the relevant regulations; and
- opening of bank acceptance bills without underlying transactions.

In the past, the Bank has been sanctioned and fined for the misconducts of its employees, and there can be no assurance by the Bank that it can prevent its employees from engaging in misconducts in the future. The misconducts may also include making or accepting bribery activities, conducting inside dealing, improperly using or disclosing confidential information and otherwise not complying with applicable laws and regulations. There have been instances previously where employees of the Bank have been investigated for bribery or otherwise not complying with applicable laws and regulations, and there can be no assurance by the Bank that there will be no such investigations against the employees of the Bank in the future. Types of misconduct conducted by other entities against the Bank include, among others, fraud, theft and robbery. The types and incidents of fraud and other misconduct by staff, customers or other entities against the Bank in the future may be more difficult to detect compared to certain fraudulent acts and misconducts found in the past. For example, it was discovered that the Bank’s company website was imitated by others on several occasions. By the use of such fraudulent websites on the internet, the imitators solicited and successfully acquired certain important confidential bank account information from some of the Bank’s customers. As a result, some of these customers’ funds were obtained by deception. Such imitators usually plagiarise the Bank’s company website by imitating the Bank’s company website’s layout and applying for similar website addresses with an intention to confuse the Bank’s customers, to deceive the Bank’s customers into providing their key account information and to steal their funds by using such confidential information obtained through these fraudulent websites.

In addition, the Bank’s staff may commit errors or take improper actions, resulting in the risk that the Bank could be liable for economic compensation, or be subject to regulatory actions, litigation or other legal proceedings. As at 31 December 2019, the Bank had a total of 1,287 branches and outlets in the PRC, comprising 39 tier-one branches, 111 tier-two branches and 1,137 outlets, and 45,618 employees. As at 31 December 2019, the Bank had four branches outside Mainland China, in Hong Kong, Seoul, Luxembourg and Sydney. There can be no assurance that all of the Bank’s staff will comply with the Bank’s risk management and internal control policies and procedures. There can be no assurance that the Bank can adequately detect and prevent the Bank’s staff and any other third-party from engaging in fraudulent acts or any other misconduct. Any fraudulent acts or other misconduct, whether involving an act in the past that has not been detected or an act in the future, may have a material adverse effect on the Bank's reputation, results of operations and business prospects.

The Bank may not be able to recruit, train or retain a sufficient number of qualified employees.

The Bank requires the continued service and performance of its employees, including the Bank's senior management, as most of the Bank's businesses depend on the quality of the Bank's professional employees. Therefore, the Bank devotes considerable resources to recruiting, training and retaining talent. However, the Bank faces intense competition in recruiting and retaining these individuals as other banks are competing for the same pool of potential employees. In addition, the Bank's employees may resign at any time and may seek to divert customer relationships that they have developed while working for the Bank. The loss of members of the Bank's senior management team or professional employees may have a material adverse effect on the Bank's business and results of operations.

The Bank does not possess the relevant land use right certificates or building ownership certificates for some of its properties, and the Bank may be required to seek alternative premises for some of the Bank's offices or business premises due to the Bank's landlords' lack of relevant title certificates for some leased properties.

For some of the properties the Bank holds and occupies in the PRC, the Bank has not obtained the relevant land use right certificates and/or building ownership certificates. There can be no assurance that the Bank will be able to obtain title certificates for all of these properties. There can also be no assurance that the Bank's ownership rights would not be adversely affected in respect of properties for which the Bank was unable to obtain the relevant title certificates. If the Bank is forced to relocate any of the Bank's business operations located at the affected properties, the Bank may incur additional costs as a result of such relocation.

In addition, for some of the Bank's leased properties in the PRC, the lessors were not able to provide the title certificates or documents evidencing the authorisation or consent of the landlord of such properties. As a result, such leases may be invalid. In addition, there can be no assurance that the Bank would be able to renew the Bank's leases on terms acceptable to the Bank upon their expiration or at all. If any of the Bank's leases is terminated as a result of challenges by third parties or if the Bank fails to renew them upon expiration, the Bank may be forced to relocate affected branches and sub-branches and incur the relevant additional costs, and the Bank's business, financial condition and results of operations may be adversely affected accordingly.

The Bank may be involved in legal and other disputes from time to time arising out of its operations and may face potential liabilities as a result.

The Bank may be involved in legal and other disputes for a variety of reasons, which generally arise because it seeks to recover outstanding amounts from borrowers or because customers or other claimants bring actions against it during the usual course of business. The majority of these cases arise in the ordinary course of the Bank's business. Where the Bank assesses that there is a probable risk of loss, it is the Bank's policy to make provisions for the loss. The Bank has made provisions with respect to pending legal proceedings and other disputes against it.

However, there can be no assurance that the judgments in any of the litigation in which the Bank is involved would be favourable to it or that its litigation provisions are adequate to cover the losses arising from legal proceedings or other disputes. In addition, if the Bank's assessment of the risk changes, its view on provisions will also change. It is expected that the Bank will continue to be involved in various legal and other disputes in the future, which may subject it to additional risks and losses. These disputes may relate to, among others, the amount of the unpaid obligations of the relevant borrowers, the terms for such borrowers to perform their obligations and the application of statute of limitations. In addition, the Bank may have to advance legal costs associated with such disputes, including fees relating to appraisal, notarisation, auction, execution and counsel's legal services. These and other disputes may lead to legal, administrative or other proceedings and may result in damage to the reputation of the Bank, additional operational costs and a diversion of resources and management's attention from its core business operations. There can be no assurance that the outcome of future or current disputes or proceedings will not materially and adversely affect the business, reputation, financial condition and results of operations of the Bank.

The Bank may fail to protect its intellectual property rights which may undermine its competitive position, and litigation to protect intellectual property rights may be costly.

The Bank relies on a combination of trademarks, patents, domain names, copyright and other methods to protect its intellectual property rights. Nevertheless, the actions taken to protect the Bank's intellectual property rights may not be adequate to provide meaningful protection or commercial advantage. There can be no assurance that any patent, trademark, copyright will be issued or granted as a result of the Bank's applications or that, if issued, it will sufficiently protect the Bank's intellectual property rights. Implementation of the intellectual property-related laws in the PRC has historically been lacking, primarily because of ambiguities in the laws of the PRC and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in the PRC may not be as effective as in other countries. Policing unauthorised use of proprietary technology is difficult and expensive. The steps taken by the Bank may be inadequate to prevent the misappropriation of the Bank's proprietary technology. The Bank may fail to protect its intellectual property rights which may undermine its competitive position. Litigation relating to the Bank's intellectual property might result in diversion of resources and management attention and such litigation might be costly. In addition, the Bank has no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent the Bank is unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse effect on the Bank's business, results of operations and financial condition.

The Bank or the Bank's customers may engage in certain transactions in or with countries or persons that are the subject of U.S. and other sanctions.

The United States imposes a range of economic sanctions against certain foreign countries, terrorists, international narcotics traffickers and those engaged in activities related to the proliferation of weapons of mass destruction. The U.S. sanctions are intended to advance certain U.S. foreign policy and national interests, such as discouraging certain countries from acquiring weapons of mass destruction or engaging in human rights abuses. The U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") is the principal government agency charged with administering and enforcing U.S. economic sanctions programmes. These economic sanctions, as administered by OFAC, generally apply to U.S. entities and, in certain cases, to foreign affiliates of U.S. entities, or to transactions that involve, in some manner, U.S. products or otherwise come within the jurisdiction of the United States. Other governments and international or regional organisations also administer similar economic sanctions. While the Bank is not currently engaged in any of these activities, but if any of the Bank's overseas branches engages in any prohibited transactions by any means, or if it is otherwise determined that any of the Bank's transactions violated OFAC-administered or other sanctions regulations, the Bank could be subject to penalties, and the Bank's reputation and ability to conduct future business in the United States or with U.S. entities, or in other affected jurisdictions, could be affected, which may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank may enter into transactions subject to the European Market Infrastructure Regulation.

The Bank may, from time to time, enter into transactions which subject the Bank to the European Market Infrastructure Regulation (the "**EMIR**"). This regulation on derivatives, central counterparties and trade repositories introduces new requirements to improve transparency and reduce the risks associated with the derivatives market. However, any failure by the Bank to adhere to the policies set forth by the EMIR could result in penalties or other negative consequences, any of which could have a material adverse effect on the Bank's business, financial condition or results of operations.

The Bank's business, financial condition, results of operations and prospects may be adversely affected as a result of negative media coverage relating to the Bank or the PRC banking industry.

In recent years, the PRC banking industry has been the subject of negative reports or criticism by various media, including in relation to incidents of fraud and issues relating to loan quality, capital adequacy, solvency, internal controls and management. In particular, there have been negative publications in the media regarding two of the Bank's branches being unable to fulfil their obligations to repay short-term inter-bank loans. See "*− The Bank may not be able to obtain necessary short-term funding and inter-bank deposits through the exchange market and inter-bank market, which may have a material adverse effect on the Bank's liquidity or financial condition*". In addition, the Bank shares a common major shareholder with a company that has received negative publicity due to sanctions and penalties levied by the PRC government in connection with such company's improper behaviour in its trading of securities. Furthermore, the Bank's practices of selecting third party service providers have been questioned by and subject to negative media coverage, which the Bank believes is without merit. In response, the Bank has made timely clarifications of such negative publications. However, if the Bank or the PRC banking industry as a whole suffers from similar negative media reports or criticism in the future, the Bank cannot make any representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Any negative coverage, whether or not related to the Bank or the Bank's related parties and regardless of truth or merit, may have an impact on the Bank's reputation and, consequently, may undermine the confidence of the Bank's customers and investors, which may in turn materially and adversely affect the Bank's business, results of operations, financial condition, reputation and prospects.

The Bank is subject to counterparty risks in its derivative transactions.

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has exchange rate contracts, interest rate contracts and commodity derivatives contracts with a number of domestic and international banks, financial institutions and other entities. As a result, the Bank is subject to credit risk from its various counterparties. As at 31 December 2019, the notional amount of the Bank's outstanding derivative financial instruments amounted to RMB2,775,126 million, and the fair value of the Bank's outstanding derivative assets and liabilities amounted to RMB13,805 million and RMB13,893 million, respectively. Although the Bank cautiously evaluates the credit risks from its counterparties in its derivative transactions and believe that the overall credit quality of the Bank's counterparties is adequate, there can be no assurance that parties with significant risk exposure will not have difficulty in fulfilling derivative contracts that may cause losses for the Bank.

Due to restrictions in certain PRC regulations, the Bank's investments are concentrated in certain types of investment products. The Bank may experience significant decreases in the value of a particular type of investment.

As a result of current PRC regulatory restrictions, substantially all of the Bank's RMB-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as PRC government bonds, bills and open market instruments issued by PBOC, bonds issued by PRC policy banks and credit products issued by PRC financial and non-financial institutions (including bonds and subordinated notes issued by PRC commercial banks and insurance companies). These restrictions limit the Bank's ability to diversify its investment portfolio and seek higher returns by making investments comparable with those of banks in other countries as well as the Bank's ability to manage its liquidity in the same manner as banks in other countries. In addition, the Bank is exposed to a certain level of risk as a result of the concentration of the Bank's RMB-denominated fixed income securities investments. For example, fluctuation in interest rates or deterioration of the financial condition of the issuers of such fixed income securities may cause their value to decrease. A decrease in the value of any of these types of investments could have a material adverse effect on the Bank's business, financial condition and results of operations.

Risks Relating to the PRC

The slowdown of the PRC's economy caused in part by the recent challenging global economic conditions may adversely affect the Bank.

A substantial part of the Bank's revenue is derived from the PRC. The Bank relies, to a significant degree, on its domestic operations to achieve revenue growth. Domestic demand for banking services is materially affected by growth of private consumption and overall economic growth in the PRC. The global crisis in financial services and credit markets in 2008 caused a slowdown in the economic growth in many countries, including the PRC. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally. In 2018, the PRC government reported a gross domestic product ("**GDP**") of RMB90.03 trillion, representing year-on-year growth of 6.6 per cent. In 2019, the PRC Government reported a preliminary GDP of RMB99.09 trillion, representing year-on-year growth of 6.1 per cent., which was a record-low figure for the past 27 years. Although the PRC government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. There are uncertainties relating to the overall prospects for the global and the PRC economies this year and beyond, which may have a material adverse impact on the Bank's business, prospects, financial conditions and results of operations. See also "*Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations.*"

Turmoil in the financial markets could increase the Bank's cost of borrowing and impede access to or increase the cost of financing the Bank's operations and investments.

The availability of credit to entities operating within emerging markets, including the Bank, is significantly influenced by levels of investor confidence in such markets as a whole. Any factors that may affect market confidence could affect the costs or availability of funding for entities within emerging markets. Historically, challenging market conditions in emerging markets have resulted in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. The United Kingdom's withdrawal from the European Union has resulted in volatility in the global financial market, and are expected to create mid- to long-term economic uncertainty to the economy in the United Kingdom, the European Union and globally. In the United States, the current administration policies have created uncertainty for the global economy and financial markets. In 2015, the PRC stock markets have experienced significant turmoil and disruption. Throughout June and early July of 2015 and more recently, the Shanghai Composite Index experienced significant declines and many PRC-listed companies were subject to trading suspensions on major stock exchanges. The PRC government responded by cutting interest rates, suspending initial public offering and starting investigations into market manipulation in an effort to stabilise the market. Due to its increasing financial reliance upon PRC, Hong Kong's stock markets experienced a similar fluctuation during the relevant times and the Hang Seng Index had a record-breaking slump in a single day in the recent decade. As the Bank's shares are listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange, significant fluctuations in these financial markets could cause substantial adverse effects on the Bank's business operations and investments as a whole.

Certain facts and statistics in this Offering Circular are derived from publications not independently verified by the Issuer, the Bank, the Group, the Dealers or their respective directors, officers, employees, affiliates or advisers.

Some of the facts and statistics in this Offering Circular relating to the PRC, the PRC economy and industries in which the Group operates and its related industry sectors are derived from various publications and obtained in communications with various agencies that the Issuer and the Bank believe to be reliable.

However, none of the Issuer, the Bank, the Group, the Dealers or their respective directors, officers, employees, affiliates or advisers can guarantee the quality or reliability of certain source materials. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this Offering Circular relating to the PRC economy and the industries in which the Group operates and its related industry sectors may be inaccurate. In all cases, Noteholders should consider how much weight or importance they should attach to or place on such facts and statistics.

The PRC's economic, political and social conditions, as well as government policies, could affect the Bank's businesses.

A substantial majority of the Bank's businesses, assets and operations is located in the PRC. Accordingly, the Bank's business prospects, financial condition and results of operations are, to a significant degree, subject to the economic, political and legal developments in the PRC. The PRC's economy differs from the economies of most developed countries in many respects, including, among others, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. A substantial portion of productive assets in the PRC is still owned by the PRC government. The government also exercises significant control over the PRC's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has pushed forward a large number of economic reform measures to introduce market forces and promote the establishment of sound corporate governance structures. Such economic reform measures may be adjusted, modified or applied differently depending on the industries and regions of the country. As a result, the Bank may not benefit from certain of such measures.

The PRC government has the power to implement macroeconomic controls affecting the PRC's economy. The government has implemented various measures in an effort to control the growth rate of certain industries and restrain inflation. As measured by GDP, the PRC has been one of the world's fastest growing economies in recent years. The PRC's real GDP growth was 6.9 per cent., 6.6 per cent. and 6.1 per cent. in 2017, 2018 and 2019, respectively. However, the PRC may not be able to sustain such a growth rate. During the recent global financial crisis and economic slowdown, the growth of the PRC's GDP slowed. If the PRC's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's business, financial condition and results of operations may be materially and adversely affected.

Interpretation and enforcement of the laws in the PRC may involve uncertainties.

As a substantial part of the Group's business is conducted in the PRC and a substantial part of the Group's assets is located in the PRC, its operations are affected by and subject to the PRC legal system and PRC laws and regulations.

Since 1979, the PRC government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group.

In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainties. The interpretation of PRC laws may be subject to domestic political and policy changes. For example, on 14 September 2015, the NDRC issued the NDRC Circular, which came into effect on the same date. According to the NDRC Circular, domestic enterprises and/or their overseas controlled entities shall procure the registration of any issue of debt securities outside the PRC with the NDRC prior to such issue, and notify the particulars of such issue within prescribed timeframe after such issue. The NDRC Circular also indicates that several provinces and large banks with strong comprehensive economic strength and sound risk prevention and control mechanisms will be selected by the NDRC to expand the pilot reform of managing the amount of foreign debt by segment (外債規模切塊管理), under which the NDRC will, based on the actual need of each of such pilot regions and enterprises, verify and determine its yearly maximum quota of foreign debt at one time. The NDRC Circular is a recent regulation and its interpretation may involve significant uncertainty. In addition, the administration of the NDRC Circular may be subject to a certain degree of executive and policy discretion by the NDRC.

Further, there can be no assurance that the Bank will be able to comply with the NDRC requirements to provide the notification of the particulars of the issue of the Notes to the NDRC within the prescribed timeframe. In addition, while the NDRC Circular does not expressly state the legal consequences of non-compliance with such post-issue notification requirements, the NDRC has indicated that issuers, underwriters, counsels and other parties involved in the transaction may be blacklisted and punished for non-compliance with the NDRC Circular requirements. Therefore, there can be no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for the Issuer, the Bank, the Notes or the investors in the Notes. There can also be no assurance that the registration with the NDRC, if applied for or the quota granted to the Bank will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the performance or validity and enforceability of the Notes in the PRC. Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

On 29 April 2016, PBOC issued the Circular on Implementing Overall Macro-prudential Management System for Cross-border Financing on a Nationwide Scale (中國人民銀行關於在全國範圍內實施全口徑跨境融資宏觀審慎管理的通知) (the "**2016 Macro-prudential Management Circular**") which came into effect on 3 May 2016. The 2016 Macro-prudential Management Circular established a mechanism aimed at regulating cross border financing activities conducted by domestic institutions, including domestic enterprises and financial institutions other than governmental financing platforms and real estate enterprises, based on the capital or net asset of the borrowing entities using a prudent management principle on a macro nationwide scale.

The 2016 Macro-prudential Management Circular was replaced by the Circular on Matters Concerning Macro-prudential Management on Overall Cross-border Financing (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知) (the "**2017 Macro-prudential Management Circular**"), promulgated by PBOC on 12 January 2017, and the 2017 Macro-prudential Management Circular does not change the filing, reporting and other requirements on PRC domestic enterprises and financial institutions that engage in cross-border financing activities.

In connection with the establishment of the Programme or any issuance by the Issuer, the Bank has not made and does not intend to make any filing with PBOC under the 2017 Macro-prudential Management Circular. The establishment of the Programme and an issuance by the Issuer, as an overseas branch, do not involve any "cross-border financing activities" under the 2017 Macro-prudential Management Circular given the proceeds will not be remitted into the Mainland China. Accordingly, the filing requirements under the 2017 Macro-prudential Management Circular do not apply.

The 2017 Macro-prudential Management Circular is a newly published regulation. Neither PBOC nor SAFE has promulgated implementation rules for the 2017 Macro-prudential Management Circular as at the date of this Offering Circular. The filing process of and legal consequences of non-compliance with the aforesaid regulations and the interpretation and enforcement of the 2017 Macro-prudential Management Circular thus involve substantial uncertainties due to its recent promulgation and publication. Following the date of this Offering Circular, if the Bank is required to make or take other steps to comply with the 2017 Macro-prudential Management Circular, the Issuer will also take the necessary steps to comply with such requirements.

In addition, the Group cannot predict the effects of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the inconsistencies between local rules and regulations and national law. As a result, there is substantial uncertainty as to the legal protection available to the Group and investors in the Notes. The Group may be required in the future to procure additional permits, authorisations and approvals for the Group's existing and future operations, which may not be obtainable in a timely fashion or at all. Any failure to obtain such permits or authorisations may have an adverse effect on the Group's financial condition and results of operations.

There may be difficulties in effecting service of legal process and enforcing judgments against the Bank and its management.

The Bank is a company incorporated under the laws of the PRC, and a substantial majority of the Bank's businesses, assets and operations are located in the PRC. In addition, a substantial majority of the Bank's directors, supervisors and executive officers reside in the PRC, and substantially all of their assets are located in the PRC. As a result, it may not be possible to serve legal written process within the United States or elsewhere outside the PRC upon the Bank or such directors, supervisors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable State securities laws.

Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan and many other countries. According to the Civil Procedure Law of the PRC (as amended in 2017), the PRC courts can recognise and enforce foreign judgments in accordance with the principal of reciprocity in the absence of international treaties. In addition, pursuant to the Arrangement of the Supreme People's Court between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), if the parties have expressly agreed in writing that the Hong Kong Court has sole jurisdiction over civil and commercial cases, the Chinese courts may recognise and enforce final judgments made by specific courts in Hong Kong (including the Court of Final Appeal, Court of Appeal, Court of First Instance and District Court) in relation to payments if such judgments have come into effect without fraud or any other procedural problems and the enforcement of which is not considered to be contrary to the social and public interest of the PRC. Other than that, judgments made by courts in the United States and other courts in Hong Kong may not be recognised or enforced in the PRC.

As a result, recognition and enforcement in the PRC of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible.

Increases in the costs of labour may have an adverse impact on the Group's results of operations.

The PRC Labour Contract Law(中華人民共和國勞動合同法) became effective on 1 January 2008, and it was amended on 28 December 2012, which has taken effect on 1 July 2013. The current PRC Labour Contract Law has imposed greater liabilities on employers and significantly increased the cost of an employer's decision to reduce its workforce. Further it requires certain terminations to be based upon seniority instead of merit. In the event that the Group decides to significantly change or decrease the Group's workforce within the PRC, the PRC Labour Contract Law could adversely affect the Group's financial condition and results of operations. In addition, the PRC government has continued to introduce various new labour-related regulations after the promulgation of the PRC Labour Contract Law. Among other things, the Paid Annual Leave Provisions (職工帶薪年休假條例), which became effective on 1 January 2008, require that paid annual leaves ranging from five to fifteen days be available to nearly all employees and further require that employers compensate an employee for any annual leave days the employee is unable to take in the amount of three times of such employee's daily salary, subject to certain exceptions.

On 28 October 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law (中華人民共和國社會保險法) which has taken effect on 1 July 2011. According to the PRC Social Insurance Law, employees will participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay for the social insurance premiums for such employees.

To further strengthen the protection on labour remuneration, rest and vacations, social insurance and other basic rights and interests of labourers, the Opinion of the Central Committee of the Communist Party of China and the State Council on Building Harmonious Labour Relationships (中共中央、國務院關於構建和諧勞動關係的意見) was issued on 21 March 2015, which acts as a guideline on PRC labour legislation.

As a result of the implementation of these and any future rules and regulations designed to enhance the standard for labour protection, the Group's labour costs may continue to increase. If the costs of labour increase significantly, and the Group cannot offset such increase by reducing other costs or cannot pass on such increase to for example, the buyers or tenants of its commercial properties in the PRC, its business, the Group's results of operations and financial position may be materially and adversely affected.

In addition, a labour shortage required for the Group's business operation may cause similar adverse effects, particularly if the Group is unable to identify and employ other appropriate means to reduce the costs. In such circumstances, the profit margin may decrease and the financial results may be adversely affected. Inflation in the PRC has also increased in recent years. Inflation in the PRC increases the costs of labour, and rising labour costs may increase the Group's operating costs and partially erode the cost advantage of the Group's PRC-based operations and therefore negatively impact the Group's profitability.

Future fluctuations in the value of the currencies in which the Group uses in its business could have an adverse effect on the Group's financial condition and results of operations.

While the Group's recording currencies are Renminbi, for the purposes of its financial statements, a portion of the Group's revenue, expenses and bank borrowings is denominated in currencies other than Renminbi as a result of the Group's use of financial instruments in its ordinary course of operating and its investment activities. The Group monitors its financial risks and seeks to mitigates its currency risk through investments denominated in U.S. dollars. As a result, fluctuations in exchange rates, particularly between Renminbi or U.S. dollar, could affect the Group's profitability and may result in foreign currency exchange losses with respect to its foreign currency-denominated assets and liabilities.

The exchange rate of Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's, as well as international, political and economic conditions and the PRC government's fiscal and currency policies. Starting from 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, was based on rates set daily by PBOC based on the previous business day's inter-bank foreign exchange market rates and the current exchange rates on the world financial markets. For more than 10 years, the official exchange rate for conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by approximately 2 per cent. against U.S. dollar. In July 2008, the PRC government announced that its exchange rate regime would change to a managed floating mechanism based on market supply and demand. Given domestic and overseas economic developments, PBOC decided to further adjust the Renminbi exchange rate regime in April 2012 to enhance the flexibility of the RMB exchange rate. On 17 March 2014, PBOC continued to expand the floating range of Renminbi against U.S. dollar. PBOC surprised markets in August 2015 by devaluing Renminbi several times, lowering its daily mid-point trading price significantly against U.S. dollar.

The currency devaluation of Renminbi was intended to bring it more in line with the market by taking market signals into account, but also boosts the competitiveness of PRC's exports. The PRC government may make further adjustments to the exchange rate system in the future. There can be no assurance that Renminbi will not experience significant appreciation or depreciation against U.S. dollar in the future. Any significant increase or decrease in the value of Renminbi against U.S. dollar could affect the value of the Group's financial instrument and financing cost and may materially and adversely affect the financial condition and results of operation of the Group.

There is foreign exchange control in the PRC.

The Group's PRC subsidiaries are subject to PRC laws and regulations on currency conversion. In the PRC, SAFE regulates the conversion of Renminbi into foreign currencies. Currently, foreign-invested enterprises ("**FIEs**") are required to apply to SAFE for "Foreign Exchange Registration Certificates for FIEs." With such registration certifications, FIEs are allowed to open foreign currency accounts including the "basic account" and "capital account." Currently, conversion within the scope of the "basic account" for current account type purposes such as the remittance of foreign currencies for payment of dividends, can be effected without the approval of SAFE. However, the conversion of currency in the "capital account," for capital items such as direct investments, loans and securities, still requires the approval of SAFE.

The Group has PRC subsidiaries that are FIEs and the ability of these subsidiaries to pay dividends or make other distributions to the Group may be restricted by, among other things, the availability of funds, and statutory and other legal restrictions including PRC foreign exchange control restrictions. To the extent that the ability of the Group's subsidiaries to distribute to the Group is restricted, it may have an adverse effect on the Group's cash flows.

Inflation in the PRC could materially and adversely affect the Group's profitability and growth.

While the PRC economy has grown rapidly, the growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for the Group's products and services rise at a rate that is insufficient to compensate for the rise in its costs, the Group's business may be materially and adversely affected. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austerity policy can lead to a slowing of economic growth. A slowdown in the PRC economy could also materially and adversely affect the Group's business and prospects.

Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations.

Any occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, Severe Acute Respiratory Syndrome ("**SARS**"), Ebola virus disease ("**Ebola**"), Middle East Respiratory Syndrome corona virus ("**MERS**"), H5N1 influenza, H1N1 influenza, H7N9 influenza or COVID-19, may adversely affect the Bank's business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business, financial condition and results of operations. In particular, the on-going COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic will significantly disrupt the global economy and global markets and is likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. There is no assurance that the outbreak will not lead to decreased demand for services the Bank provides; nor is there assurance that the outbreak's adverse impact on the PRC economy and the Bank's customers will not adversely affect the level of non-performing loans. The outbreak may also adversely affect the Group's ability to keep normal operations and provide uninterrupted services to its customers. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn the Bank's business, financial condition and results of operations. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, Ebola, SARS, MERS, H5N1 influenza, H1N1 influenza, H7N9 influenza, COVID-19 or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of these epidemics, will not seriously interrupt the Bank's operations or those of the Bank's customers, which may have a material adverse effect on the Bank's business, financial condition and results of operations.

Risks Relating to the PRC Banking Industry

The Bank faces increasingly intense competition in the PRC's banking industry and competition from other investment and financing channels.

The banking industry in the PRC is becoming increasingly competitive. The Bank faces competition from commercial banks in all of its principal areas of business where the Bank has operations. On 1 July 2013, the General Office of the State Council of the PRC issued the Guidance Letter regarding Financial Support for Promoting Economic Restructuring and Transformation (國務院辦公廳關於金融支持經濟結構調整和轉型升級的指導意見) (the "**Guidance Letter**"). The Guidance Letter, among others, encourages investment by private-sector capital in financial institutions and the establishment of privately-owned banks. The Guidance Letter provides a policy direction to the increasing involvement of private-sector capital in the financial industry in the PRC. In addition, the Mainland and Hong Kong Closer Economic Partnership Arrangement, which allows Hong Kong banks to operate in the PRC, may also increase competition in the PRC banking industry. The Bank faces increasing competition from privately owned banks, foreign-invested banks and financial institutions. The Bank competes with its competitors for substantially the same loan, deposit and fee and commission-based products and services customers. Moreover, the PRC Government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including those relating to interest rates and fee-and-commission based products and services, which, together with the emergence of internet finance, are changing the basis on which the Bank competes with other banks for customers. Such competition may materially and adversely affect the Bank's business and future prospects by, for example, reducing the Bank's market share in its principal products and services, reducing the Bank's fee and commission income, affecting the growth of the Bank's loan or deposit portfolios and their related products and services, reducing the Bank's interest income, increasing the interest expenses and decreasing its net interest margin, reducing the Bank's fees and commission income, leading to a deterioration of the Bank's asset quality and increasing competition for soliciting senior management talent and qualified professional personnel.

In addition, the Bank may face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of the Bank's customers choose alternative ways of financing to fund their capital needs, this may adversely affect the Bank's interest income, which could in turn materially and adversely affect the Bank's business, financial condition and results of operations.

In addition to competition from other banks and financial institutions, the Bank also faces competition from other forms of investment alternatives in the PRC. In recent years, financial disintermediation, which involves the movement of funds by investors from intermediary financial institutions such as savings and deposit-taking banks to direct investments, has increased in the PRC. The Bank's deposit customers may elect to convert their funds into stocks, bonds and wealth management products, which may result in a decrease in the Bank's customer deposits, therefore further affecting the level of funds available to the Bank for its lending business to generate net interest income. Meanwhile, financial disintermediation may result in a decrease in the enterprise demand for loans, which could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to risks related to uncertain changes in the regulatory environment of the PRC's banking industry.

The Bank's businesses are directly affected by changes in the PRC's banking regulatory policies, laws and regulations. The regulatory system and the laws and regulations governing the banking sector are subject to future changes, and there can be no assurance that such changes will not materially and adversely affect the Bank's business, financial condition and results of operations.

In addition, the Bank's overseas branches, subsidiaries and representative offices have to comply with the local laws and regulations of the relevant jurisdiction and are subject to regulation and approval by the local regulatory authorities in the relevant jurisdiction. There can be no assurance that the Bank's overseas branches, subsidiaries and representative offices can always satisfy applicable laws and regulatory requirements. If the Bank does not meet such requirements, its business in the relevant jurisdiction may be affected, which may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to risks related to changes in monetary policy.

PRC monetary policy is set by PBOC in accordance with the macroeconomic environment. In addition, PBOC controls monetary supply through open market operations and adjustments to the deposit reserve ratio and rediscount rate in order to achieve targeted control over the economy. As commercial banks are a major means to implement monetary policy, changes in monetary policy will affect their operations and profitability. If the Bank cannot timely adjust its operating strategy in response to the changes in monetary policy, the Bank's business, financial condition and results of operations may be materially and adversely affected.

The growth rate of the banking industry in the PRC may not be sustainable.

The Bank expects the banking industry in the PRC to expand as a result of anticipated growth in the PRC's economy, increases in household income, further social welfare reforms, demographic changes and the opening of the PRC's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of the PRC's economic growth, the PRC's implementation of its commitments to World Trade Organisation accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system, will affect the PRC's banking industry. In addition, the banking industry in the PRC may be affected by systemic risks. Consequently, there can be no assurance that the growth and development of the PRC's banking industry will be sustainable.

The effectiveness of the Bank's credit risk management is affected by the quality and scope of information available in the PRC.

National credit information databases developed by PBOC have been operational only since 2006. Due to the short operational history, such databases are not able to provide complete credit information on many of the Bank's credit applicants. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. As a result, the Bank's ability to manage effectively its credit risk may be adversely affected, which may materially and adversely affect the Bank's business, financial condition and results of operations.

Risks Relating to Financial Information

The unaudited and unreviewed consolidated quarterly financial information of the Bank as at and for the three months ended 31 March 2019 and 2020 included in this Offering Circular has not been audited or reviewed by a certified public accountant.

The unaudited and unreviewed consolidated quarterly financial information of the Bank as at and for the three months ended 31 March in respect of any financial year included in this Offering Circular has not been audited or reviewed by a certified public accountant, and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit and/or a review. None of the Issuer, the Bank, the Group, the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited and unreviewed consolidated quarterly financial information for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Bank's financial condition and results of operations. In addition, the unaudited and unreviewed consolidated financial information of the Bank as at and for the three months ended 31 March in respect of any financial year should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year ending 31 December of the same financial year.

Historical consolidated financial information of the Bank is not indicative of its current or future results of operations.

The historical financial information of the Bank included in this Offering Circular is not indicative of its future financial results. Such financial information is not intended to represent or predict the Bank's results of operations of any future periods. The Bank's future results of operations may change materially if its future growth deviates from the historical trends for various reasons, including factors beyond its control, such as changes in economic environment, PRC rules and regulations and the competitive landscape of the banking industry.

The Bank's new accounting standard differs from its old standard, as a result of which certain historical financials may be difficult to compare.

The Bank adopted new standards, including IFRS 9, Financial Instruments, IFRS 15 and Amendments, Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note II (1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank did not restate the comparative information of financial instruments covered by IFRS 9 for the year 2017. As a result, the audited consolidated financial information of the Bank as at and for the year ended 31 December 2018 may not be directly comparable with the audited consolidated financial information of the Bank as at and for the year ended 31 December 2017. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholder's equity as at 1 January 2018. The Group has adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact to of IFRS 9 on consolidated statements, but did not restate the comparative data. For further details of the specific impact of the adoption of the new guidelines by the Bank, please refer to Note V to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank has also adopted new standards, namely IFRS 16 – Leases, starting from 1 January 2019. The new standards require lessees to adopt a singular model to recognise the right-of-use assets and lease liabilities for all leases (except short-term leases and lease of low-value assets elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. According to the transitional regulations, enterprises are not subject to restating comparable figures for previous periods. Therefore, the Bank has disclosed its accounting statements in accordance with IFRS 16 without restating the comparable figures for the end of 2018. Its implementation has no material impact on the financial report of the Company. Investors must therefore exercise caution when making such comparisons and when evaluating the Bank's financial condition, results of operations and results.

Risks Relating to the Notes Issued under the Programme

The Notes are unsecured obligations.

As the Notes are unsecured obligations, their repayment may be compromised if:

- the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

The ratings of the Programme and the Notes may be downgraded or withdrawn.

The Programme is rated "BBB" by Fitch. The rating is only correct as at the date of this Offering Circular. Each Tranche of Notes may be rated or unrated, as specified in the applicable Pricing Supplement. The rating represents the opinion of the relevant rating agency and its assessment of the ability of the Issuer and the Bank to perform their respective obligations under the Notes, and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold securities. The rating can be lowered or withdrawn at any time. The Issuer is not obliged to inform holders of the Notes if a rating is lowered or withdrawn. A reduction or withdrawal of a rating may adversely affect the market price of the Notes.

Any downgrading of the Bank's corporate ratings, or those of its subsidiaries, by rating agencies could adversely affect the Group's business and the Group's liquidity.

Any adverse revision to the Bank's corporate ratings, or those of its subsidiaries, for domestic and international debt by rating agencies such as Fitch, Moody's Investors Service, Inc. and S&P Global Ratings may adversely affect the Bank's business, its financial performance and the trading price of the Notes. Further, the Bank's ability to obtain financing or to access to capital markets may also be limited, thereby lowering its liquidity.

The credit ratings assigned to the Programme and the Notes may not reflect all risks.

The Programme is rated "BBB" by Fitch. One or more independent credit rating agencies may also assign credit ratings to an issue of the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to the Programme or any Notes will remain in effect for any given period or that the ratings will not be revised or withdrawn by the rating agencies in the future if, in their judgement, the circumstances so warrant. The Bank has no obligation to inform holders of the Notes of any such suspension, revision, downgrade or withdrawal. A suspension, downgrade or withdrawal of the ratings of the programme or any Notes at any time may adversely affect the market price of the Notes.

Difficulties may be experienced in effecting service of legal process and enforcing judgments against the Bank and its management.

The Bank is a company incorporated under the laws of the PRC, and substantially all of the Bank's business, assets and operations are located in China. In addition, a majority of the Bank's directors, supervisors and executive officers reside in China, and substantially all of the assets of such directors, supervisors and executive officers are located in China. Therefore, it may not be possible for investors to effect service of process upon the Bank or those persons inside China.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts and the Noteholders would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There can also be no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.

The Conditions and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders' ability to initiate a claim outside Hong Kong will be limited.

The Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular, any applicable supplement to this Offering Circular or any Pricing Supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to the purchaser's overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase of any Notes.

Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

The Notes are redeemable in the event of certain withholding taxes being applicable.

No assurances are made by the Issuer as to whether or not payments on the Notes may be made without withholding taxes or deductions applying from the date of issue of the first Tranche of Notes for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the PRC or Hong Kong or any political subdivision therein, territory, possession thereof or authority therein or thereof having power to tax. Although, pursuant to the Conditions, the Issuer (or, if the Bank is required to make payment on the Notes, the Bank) is required to gross up payments on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Notes at any time subject to certain specified exceptions in the event that it or the Bank has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the PRC, Hong Kong or any political subdivision, territory, possession thereof or any authority therein having power to tax as a result of any change in, or amendment to, the laws of the PRC, Hong Kong or any regulations or rulings promulgated thereunder, or any change in the application or official interpretation of such laws, rulings or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of Notes.

The Notes do not restrict the Group's ability to incur additional debt or to take other actions that could negatively impact holders of the Notes.

The Bank is not restricted under the Conditions from incurring additional debt, including secured debt, or from repurchasing the Notes. In addition, the covenants applicable to the Notes do not require the Bank to achieve or maintain any minimum financial results relating to the Bank's financial position or results of operations. The Group's ability to recapitalise, incur additional debt and take other actions that are not limited by the Conditions could diminish the Group's ability to make payments on the Notes and amortising bonds when due.

Modifications — Notes may be amended without the consent of the Noteholders or with the consent of only some of the Noteholders binding all of the Noteholders.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of Noteholders may be adverse to the interests of the individuals.

The Conditions also provide that the Agents may, without the consent of Noteholders or Couponholders agree to any modification of any of the provisions of the Agency Agreement that is of a formal, minor or technical nature or is made to correct a manifest error, and any other modification (except as mentioned in the Agency Agreement) that is in the opinion of the parties to the Agency Agreement, not materially prejudicial to the interests of the Noteholders.

A change in English law which governs the Notes may adversely affect Noteholders.

The Conditions are governed by English law in effect as at the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

The Notes may be represented by Global Notes or Global Note Certificates and holders of a beneficial interest in a Global Note or Global Note Certificate must rely on the procedures of the relevant Clearing System(s).

Notes issued under the Programme may be represented by one or more Global Notes or Global Note Certificates. Such Global Notes and Global Note Certificates will be deposited with a common depositary for Euroclear and Clearstream, or lodged with a sub-custodian for the CMU (each of Euroclear, Clearstream and the CMU, a "**Clearing System**").

Except in the circumstances described in the relevant Global Note or Global Note Certificate, investors will not be entitled to receive definitive Notes. The relevant Clearing System(s) will maintain records of the beneficial interests in the Global Notes and the Global Note Certificates. While the Notes are represented by one or more Global Notes or Global Note Certificates, investors will be able to trade their beneficial interests only through the Clearing Systems.

While the Notes are represented by one or more Global Notes or Global Note Certificates, the Issuer will discharge its payment obligations under the Notes by making payments to the relevant Clearing Systems for distribution to their account holders. A holder of a beneficial interest in a Global Note or Global Note Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes and the Global Note Certificates.

Holders of beneficial interests in the Global Notes and the Global Note Certificates will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

Noteholders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade.

Notes may be issued with a minimum denomination. The Pricing Supplement of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note or a Global Note Certificate and the relevant Clearing System(s) so permit, the Notes will be tradable in nominal amounts (a) equal to, or integral multiples of, the minimum denomination, and (b) the minimum denomination plus integral multiples of an amount lower than the minimum denomination.

Definitive Notes will only be issued if the relevant Clearing System(s) is/are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business. The Pricing Supplement may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

Risk factors relating to potential conflicts of interest.

The Issuer and its affiliates may act in a number of capacities in respect of Notes issued under the Programme including, without limitation, Dealer and Calculation Agent. The Issuer and its affiliates acting in such capacities in connection with such Notes shall have only the duties and responsibilities expressly agreed to by such entities in the relevant capacity and shall not, by virtue of acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to hold a standard of care other than as expressly provided with respect to each such capacity.

As the Calculation Agent will generally be the Issuer or an affiliate of the Issuer, potential conflicts of interest may exist between the Calculation Agent and the investors, including with respect to the exercise of the very broad discretionary powers of the Calculation Agent. For example, the Calculation Agent has the authority (i) to determine whether certain specified events and/or matters so specified in the conditions relating to a Series of Notes have occurred and (ii) to determine any resulting adjustments and calculations or substitutions as described in such conditions. Potential investors should be aware that any determination made by the Calculation Agent may have an impact on the value and financial return of the Notes. Any such discretion exercised by, or any calculation made by, the Calculation Agent (in the absence of manifest error) shall be binding on the Issuer and all investors.

The Issuer or certain of its affiliates may from time to time, by virtue of its status as underwriter, advisor or otherwise, possess or have access to information relating to the Notes, the underlying asset(s) and any derivative securities referencing them. None of the Issuer or its affiliates will be obliged to disclose any such information to a purchaser of the Notes.

The Issuer and/or other affiliates may in the ordinary course of business: (i) effect transactions for its own account or for the account of its customers and hold long or short positions in the underlying asset(s) or related derivatives; (ii) in connection with an offering of Notes, enter into one or more hedging transactions with respect to the underlying assets(s) or related derivatives; and/or (iii) in connection with such hedging or market-making activities or with respect to proprietary or other trading activities, enter into transactions in the underlying asset(s) or related derivatives which may adversely (or positively) affect the price, liquidity or value of the relevant Notes and which could therefore be adverse to the interests of the relevant holders.

The Issuer and its affiliates in their various capacities in connection with the Notes may also enter into business dealings, from which they may derive revenues and profits in addition to any fees, without any duty to account therefor.

Risks Relating to a Particular Issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features.

The Financial Institutions (Resolution) Ordinance may adversely affect the Notes.

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which include the Bank and other members of the Bank (a "**FIRO Group Entity**"). The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, in the context of a resolution of any FIRO Group Entity, the relevant resolution authority will have the ability to resolve the Issuer as if it were a within scope financial institution for the purposes of FIRO and take certain actions and make certain directions in relation to it. Any such actions could potentially affect contractual and property rights relating to the Bank. In addition, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result.

Holders of Notes (whether senior or subordinated) may become subject to and bound by the FIRO. The implementation of FIRO remains untested and certain detail relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Bank is unable to assess the full impact of FIRO on the financial system generally, the Bank's counterparties, the Bank, any of its consolidated subsidiaries or other Group entities, the Bank's operations and/or its financial position.

The regulation and reform of "benchmark" rates of interest and indices may adversely affect the value of Notes linked to or referencing such "benchmarks".

Interest rates and indices such as the London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other indices which are deemed to be or used as "benchmarks", are the subject of recent national, international regulatory and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Note linked to or referencing such a benchmark.

Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**") was published in the Official Journal of the EU on 29 June 2016 and will apply from 1 January 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the European Union. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities (such as the Issuers) of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Notes linked to a rate or index deemed to be a "benchmark", in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the "benchmark".

More broadly, any of the international, national, or other proposals, for reforms or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of the LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the "**FCA Announcement**"). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. At this time, no consensus exists as to what rate or rates may become accepted alternatives to LIBOR and it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities such as the notes. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates during the term of the notes and investors' return on the Notes and the trading market for LIBOR-based securities. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Conditions. or result in other consequences, in respect of any Notes linked to such benchmark. Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to or referencing a benchmark.

In circumstances where LIBOR is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available. Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent. Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of LIBOR), the Rate of Interest may ultimately revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR was discontinued. Uncertainty as to the continuation of LIBOR, the availability of quotes from reference banks, and the rate that would be applicable if LIBOR is discontinued may adversely affect the value of, and return on, the Notes.

In the event that LIBOR is permanently discontinued in circumstances that would constitute a Benchmark Event (as defined in Condition 7(k) (*Benchmark Discontinuation*)), the Issuer shall, after using its reasonable endeavours to appoint an Independent Adviser for the determination (with the Issuer's agreement) of a Successor Rate or, alternatively, if the Independent Adviser and the Issuer agree that there is no Successor Rate, an alternative rate (the "**Alternative Benchmark Rate**") and, in either case, an alternative screen page or source (the "**Alternative Relevant Screen Page**") and the applicable Adjustment Spread, to be used in place of LIBOR as the Reference Rate to determine the Rate of Interest. The use of any such Successor Rate, Alternative Benchmark Rate or Alternative Relevant Screen Page to determine the Rate of Interest may result in Notes linked to or referencing LIBOR performing differently (including paying a lower Rate of Interest) than they would do if LIBOR were to continue to apply in its current form.

Furthermore, if a Successor Rate, Alternative Benchmark Rate or Alternative Relevant Screen Page for LIBOR is determined by the Issuer, the Conditions provide that these Issuer may vary the Conditions as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Rate is determined by the Independent Adviser, the Conditions also provide that (i) an Adjustment Spread, and (ii) the quantum of, or a formula or methodology for determining such Adjustment Speed, may be determined by the Issuer following consultation with the Independent Adviser (if appointed) to be applied to such Successor Rate or Alternative Rate. The aim of the Adjustment Spread is to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of LIBOR with the Successor Rate or the Alternative Rate. However, there is no guarantee that such an Adjustment Spread will be determined or applied, or that the application of an Adjustment Spread will either reduce or eliminate economic prejudice to Noteholders. If no Adjustment Spread is determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Rate of Interest.

In certain circumstances, the ultimate fallback for the purposes of calculation of Rate of Interest for a particular Interest Period will result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for the Notes based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of a Successor Rate, Alternative Benchmark Rate and Alternative Relevant Screen Page, any determinations that may need to be made by the Issuer with the involvement of an Independent Adviser involves a risk that the relevant fallback provisions may not operate as intended at the relevant time. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation or any other international or national reforms, in making any investment decision with respect to the Notes.

The value of, and return on, Floating Rate Notes linked to or referencing LIBOR or other similar indices may be adversely affected in the event of a permanent discontinuation of LIBOR or other similar indices.

Where Screen Rate Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, and LIBOR (or other similar indices) has been selected as the Reference Rate, the Conditions provide that the Rate of Interest shall be determined by reference to the Relevant Screen Page (or its successor or replacement). In circumstances where LIBOR (or other similar indices) is discontinued, neither the Relevant Screen Page, nor any successor or replacement may be available.

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, the Conditions provide for the Rate of Interest to be determined by the Calculation Agent by reference to quotations from banks communicated to the Calculation Agent. Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of LIBOR (or other similar indices)), the Rate of Interest may revert to the Rate of Interest applicable as at the last preceding Interest Determination Date before LIBOR (or other similar indices) was discontinued, and if LIBOR (or other similar indices) is discontinued permanently, the same Rate of Interest will continue to be the Rate of Interest for each successive Interest Period until the maturity of the Floating Rate Notes, so that the Floating Rate Notes will, in effect, become fixed rate notes utilising the last available LIBOR (or other similar indices) rate. In the event that a published LIBOR (or other similar indices) rate is unavailable after 2021 and banks are unwilling to provide quotations for the calculation of LIBOR (or other similar indices), the rate of interest on the Notes will become fixed and the value of the Notes may be adversely affected. Uncertainty as to the continuation of LIBOR (or other similar indices), the availability of quotes from reference banks, and the rate that would be applicable if LIBOR (or other similar indices) is discontinued may adversely affect the value of, and return on, the Floating Rate Notes.

Where ISDA Determination is specified as the manner in which the Rate of Interest in respect of Floating Rate Notes is to be determined, the Conditions provide that the Rate of Interest in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions. Where the Floating Rate Option specified is a “LIBOR” (or other similar indices) Floating Rate Option, the Rate of Interest may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If LIBOR (or other similar indices) is permanently discontinued and the relevant screen rate or, failing that, quotations from banks are not available, the operation of these provisions may lead to uncertainty as to the Rate of Interest that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Notes.

Notes subject to optional redemption by the Issuer may have a lower market value than Notes that cannot be redeemed.

The Notes may be redeemed at the option of the Issuer pursuant to Condition 11(b), Condition 11(c) and Condition 11(d) of the Conditions. An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Dual Currency Notes have features which are different from single currency issues.

The Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) payment of principal or interest may occur at a different time or in a different currency than expected; and

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Failure by an investor to pay a subsequent instalment of partly paid Notes may result in an investor losing all of its investment.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalments could result in an investor losing all of its investment.

The market price of variable rate Notes with a multiplier or other leverage factor may be volatile.

Notes with variable interest rates can be volatile securities. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include such features.

Inverse Floating Rate Notes are typically more volatile than conventional floating rate debt. Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as the London Inter-bank Offered Rate. The market values of such Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Notes carrying an interest rate which may be converted from fixed to floating interest rates and vice versa, may have lower market values than other Notes.

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

The market prices of Notes issued at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities.

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Investors may lose part or all of their investment in any Index Linked Notes issued.

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

(iv) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates or other indices;

(v) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and

(vi) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

Risks Relating to Credit-Linked Notes

Set out below is a brief description of certain risks relating to credit-linked notes which may be issued under the Programme:

Credit risk on Reference Entity.

The Issuer may issue Notes which are credit linked securities linked to the performance of one or more third parties (a "**Reference Entity**") and certain obligations of such Reference Entity. The likelihood of a Credit Event (as defined in "**Credit linked Derivatives Annex**") occurring in respect of a Reference Entity will generally fluctuate with, among other things, the financial condition and other characteristics of the Reference Entity, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates. Investors should note that such Notes differ from ordinary debt securities issued by the Issuer in that the amount of principal and interest payable by the Issuer is dependent on whether a Credit Event in respect of the Reference Entity has occurred. In certain circumstances as detailed in the Conditions as completed by the relevant Pricing Supplement, the Notes will cease to bear interest meaning the amount paid to Noteholders on redemption could be less than their original investment amount and could be as low as zero.

Credit losses will be calculated for the purposes of the Notes irrespective of whether the Issuer or any of its affiliates has suffered an actual loss in relation to the Reference Entity or any obligations thereof. Neither the Issuer nor its affiliates is obliged to account for any recovery which it may subsequently make in relation to such Reference Entity or its obligations.

Investors should have sufficient knowledge and experience in financial and business matters to evaluate the merits and risks of investing in the Notes as well as access to, and knowledge of, appropriate analytical tools to evaluate such merits and risks in the context of their financial situation.

Limited provision of information about Reference Entity and conflicts of interest.

The Issuer has not provided nor will it provide prospective investors of Notes with any information or advice with respect to the Reference Entity, nor has it made nor will it make any representation as to the credit quality of the relevant Reference Entity. The Issuer may have acquired, or during the term of the Notes may acquire, non-public information with respect to the Reference Entity, which will not be disclosed to the holders of the Notes. The timing and limited scope of the information provided to Noteholders regarding the relevant Reference Entity and/or the occurrence of a Credit Event may affect the liquidity of the Notes and the ability of Noteholders to value the Notes accordingly. In addition, the Issuer may have existing or future business relationships with the Reference Entity (including, but not limited to, lending, depositary, risk management, advisory and banking relationships), and will pursue actions and take steps that it deems necessary or appropriate to protect its interests arising therefrom without regard to the consequences for Noteholders.

No interest in obligations of Reference Entity.

The Notes will not represent a claim against the Reference Entity and, in the event of any loss, a Noteholder will not have recourse under the Notes to the Reference Entity.

Rights of the Calculation Agent and the Issuer.

The Calculation Agent will exercise its rights under the terms of the Notes, including in particular the right to designate a Credit Event and the right to select obligations of the affected Reference Entity for valuation or delivery, in the interests of itself and of its affiliates, and not in the interests of investors in the Notes. The exercise of such rights in such manner, for example by the selection of the eligible obligations of the Reference Entity having the lowest possible market value, may result in an increased loss for holders of the Notes.

Until delivery of any Deliverable Obligation (as defined in "**Credit linked Derivatives Annex**") is made to the relevant Noteholder, the Issuer or any person holding such asset on its behalf may amend the terms of such asset but is under no obligation to exercise any rights appertaining to such asset.

The Calculation Agent may require a Noteholder to provide a confidentiality undertaking prior to delivery of a Notice of Publicly Available Information (as defined in "**Credit linked Derivatives Annex**"), failing which the Notice of Publicly Available Information shall not be required to be delivered to the Noteholder.

The determination by the Calculation Agent of any amount or of any state of affairs, circumstance, event or other matter, or the formation of any opinion or the exercise of any discretion required or permitted to be determined, formed or exercised by the Calculation Agent shall (in the absence of manifest error) be final and binding on the Noteholders. In performing its duties pursuant to the Notes, the Calculation Agent shall act in its sole and absolute discretion and is not bound to follow or act in accordance with any determination of the relevant Credit Derivatives Determinations Committee (as defined in "**Credit linked Derivatives Annex**"). In making any determinations expressed to be made by it, for example as to substitute Reference Obligations or Successors (as defined in "**Credit linked Derivatives Annex**"), the Calculation Agent is under no obligation to the holders of the Notes, and will not be liable to account for any profit or other benefit which may accrue to it as a result of such determination.

The exercise of any option by the Issuer or determination by the Issuer of any amount or of any state of affairs, circumstance, event or other matter, or the formation of any opinion or the exercise of any discretion required or permitted to be determined, formed or exercised by the Issuer shall be final and binding on the Noteholders and shall not be required to be notified to the Calculation Agent or the Noteholders. The Issuer shall act in its sole and absolute discretion and is not bound to follow or act in accordance with any determination of the relevant Credit Derivatives Determinations Committee.

Credit Observation Period.

Holders of the Notes may suffer a loss of some or all of the principal amount of the Notes in respect of one or more Credit Events that occur on or after the Credit Event Backstop Date (as defined in "**Credit linked Derivatives Annex**") which may fall prior to the Trade Date or the Issue Date. Neither the Calculation Agent or the Issuer nor any of their respective affiliates has any responsibility to avoid or mitigate the effects of a Credit Event that has taken place prior to the Trade Date (being a date specified in the Pricing Supplement or, as applicable, the Additional Conditions relating to the Notes) or the Issue Date (being a date specified in the Pricing Supplement).

Deferral of Payments.

In certain circumstances — for example where a Credit Event has occurred and the related credit loss has not been determined as at the relevant date for payment, where a potential Credit Event exists as at the scheduled maturity of the Notes, or pending a resolution of a Credit Derivatives Determinations Committee — payment of the redemption amount of the Notes and/or interest on the Notes may be deferred for a material period in whole or part without compensation to the holders of the Notes.

Valuation.

If the Notes are cash settled, then, following the occurrence of a Credit Event, the Calculation Agent will be required to seek quotations in respect of selected obligations of the affected Reference Entity. Quotations obtained will be "bid-side" — that is, they will be reduced to take account of a bid-offer spread charged by the relevant dealer. Such quotations may not be available, or the level of such quotations may be substantially reduced as a result of illiquidity in the relevant markets or as a result of factors other than the credit risk of the affected Reference Entity (for example, liquidity constraints affecting market dealers). Accordingly, any quotations so obtained may be significantly lower than the value of the relevant obligation which would be determined by reference to (for example) the present value of related cashflows. Quotations will be deemed to be zero in the event that no such quotations are available. Where credit losses are determined on the basis of a market protocol, such losses may be greater than the losses which would have been determined in the absence of such protocol. If the Issuer, the Calculation Agent or any affiliate thereof participates in any auction for the purposes of such a protocol, then it will do so without regard to the interests of the holders of the Notes. Such participation may have a material effect on the outcome of the relevant auction and the value of the Notes.

"Cheapest-to-Deliver" risk.

Since the Calculation Agent has discretion to choose the portfolio of obligations to be valued or delivered to Noteholders following a Credit Event in respect of a Reference Entity, it is likely that the portfolio of obligations selected will be obligations of the Reference Entity with the lowest market value that are permitted to be selected pursuant to the Notes. This could result in a lower recovery value and hence greater losses for investors in the Notes.

Credit Derivatives Determination Committee and Market Auctions.

The institutions on the Credit Derivatives Determinations Committee owe no duty to the Noteholders and have the ability to make determinations that may materially affect the Noteholders, such as the occurrence of a Credit Event or a Succession Event. The Credit Derivatives Determinations Committee will be able to make determinations without action or knowledge of the Noteholders.

Noteholders will have no role in the composition of the Credit Derivatives Determinations Committee. Separate criteria apply with respect to the selection of dealer and non-dealer institutions to serve on the Credit Derivatives Determinations Committee and the Noteholders will have no role in establishing such criteria. In addition, the composition of the Credit Derivatives Determinations Committee will change from time to time in accordance with the Rules (as defined in "**Credit linked Derivatives Annex**"), as the term of an institution may expire or an institution may be required to be replaced. The Noteholders will have no control over the process of selecting institutions to participate on the Credit Derivatives Determinations Committee and, to the extent provided for in the Notes will be subject to the determinations made by such selected institutions in accordance with the Rules.

Noteholders will have no recourse against either the institutions serving on the Credit Derivatives Determinations Committee or the external reviewers. Institutions serving on the Credit Derivatives Determinations Committee and the external reviewers, among others, disclaim any duty of care or liability arising in connection with the performance of duties or the provision of advice under the Rules, except in the case of gross negligence, fraud or wilful misconduct. Furthermore, the institutions on the Credit Derivatives Determinations Committee do not owe any duty to the Noteholders and the Noteholders will be prevented from pursuing claims with respect to actions taken by such institutions under the Rules.

Noteholders should also be aware that institutions serving on the Credit Derivatives Determinations Committee have no duty to research or verify the veracity of information on which a specific determination is based. In addition, the Credit Derivatives Determinations Committee is not obligated to follow previous determinations and, therefore, could reach a conflicting determination on a similar set of facts. If the Issuer or the Calculation Agent or any of their respective affiliates serve as a member of the Credit Derivatives Determinations Committee at any time, then they will act without regard to the interests of the Noteholders.

Noteholders are responsible for obtaining information relating to deliberations of the Credit Derivatives Determinations Committee. Notices of questions referred to the Credit Derivatives Determinations Committee, meetings held to deliberate such questions and the results of binding votes will be published on the ISDA website and neither the Issuer, the Calculation Agent nor any of their respective affiliates shall be obliged to inform the Noteholders of such information (other than as expressly provided in respect of the Notes). Failure by the Noteholders to be aware of information relating to deliberations of a Credit Derivatives Determinations Committee will have no effect under the Notes and Noteholders are solely responsible for obtaining any such information.

Investors should read the Credit Derivatives Determinations Committees Rules as published by ISDA from time to time and reach their own views prior to making any investment decisions. Investors should however note that the Rules may be amended from time to time without the consent or input of the Noteholders and the powers of the Credit Derivatives Determinations Committee may be expanded or modified as a result.

If a Credit Derivatives Determinations Committee publishes auction settlement terms in respect of a Reference Entity (and the relevant seniority of the Reference Obligation), then the Calculation Agent may elect to determine the Final Price (as defined in "**Credit linked Derivatives Annex**") of the Reference Obligation in accordance with such auction settlement terms to be consistent with the provisions of such auction settlement terms. The losses determined pursuant to a market auction process may be greater than the losses which would have been determined in the absence of the auction. In particular, the auction process may be affected by technical factors or operational errors which would not otherwise apply or may be the subject of actual or attempted manipulation. Auctions may be conducted by ISDA or by a relevant third party. Neither the Calculation Agent, the Issuer nor any of their respective affiliates has any responsibility for verifying that any auction price is reflective of current market values for establishing any auction methodology or for verifying that any auction has been conducted in accordance with its rules. If the Calculation Agent or the Issuer or any of their respective affiliate thereof participates in any auction for the purposes of such an auction, then it will do so without regard to the interests of the holders of the Notes. Such participation may have a material effect on the outcome of the relevant auction and the value of the Notes.

Modification of the terms of the Notes.

The Calculation Agent may, following its determination that there has been a change in the prevailing market standard terms or market trading conventions that affects any hedging transaction, (such as, for example, but without limitation, if ISDA publishes changes to the standard terms on which credit default swap contracts affecting a Reference Entity are traded in the over-the-counter market or if the Credit Derivatives Determinations Committee amends the terms of the Credit Derivatives Determinations Committees Rules) modify the terms of the Notes to the extent necessary to preserve any consistency between the Notes and such market standard terms or market trading conventions.

Historical performance may not predict future performance.

Individual Reference Entities may not perform as indicated by the historical performance of similar entities and no assurance can be given with respect to the future performance of any Reference Entities. Historical default statistics may not capture events that would constitute Credit Events for the purposes of the Notes.

Risks Relating to the Market Generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances, investors may not be able to sell their Notes at all or at their fair market value. Although application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange, there can be no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. In addition, the market for investment grade securities has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there can be no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of Notes.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected.

The Issuer will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of Fixed Rate Notes.

The Noteholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Notes, resulting in a capital loss for the Noteholders. However, the Noteholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Notes may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

Gains on the transfer of the Notes may become subject to income taxes under PRC tax laws.

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules, as amended from time to time, any gain realised on the transfer of the Notes by non-PRC resident enterprise or individual Holders may be subject to PRC enterprise income tax ("**EIT**") or PRC individual income tax ("**IIT**") if such gain is regarded as income derived from sources within the PRC. While the PRC Enterprise Income Tax Law levies PRC enterprise income tax at the rate of 20 per cent. of the PRC-sourced gains derived by such non-PRC resident enterprise Noteholders from the transfer of the Notes, its implementation rules have reduced the enterprise income tax rate to 10 per cent. The PRC Individual Income Tax Law levies IIT at a rate of 20 per cent. of the gains derived by such non-PRC resident individual Noteholder from the transfer of the Notes.

However, there remains uncertainty as to whether the gains realised from the transfer of the Notes by non-PRC resident enterprises or individual Noteholders would be treated as income derived from sources within the PRC and be subject to PRC income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong, for avoidance of double taxation, Noteholders who are residents of Hong Kong, including enterprise Noteholders and individual Noteholders, will not be subject to EIT or IIT on capital gains derived from a sale or exchange of the Notes.

Therefore, if non-PRC enterprise or individual resident Noteholders are required to pay PRC income tax on gains derived from the transfer of the Notes, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC enterprise or individual resident holders of the Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in the Notes may be materially and adversely affected.

Risks Relating to Renminbi Denominated Notes

Notes denominated in Renminbi (the "**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Renminbi Notes.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar. However, there has been significant reduction in control by the PRC government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being adjusted from time to time to reflect the policies of the PRC government.

Although the PBOC has implemented policies improving accessibility to Renminbi to settle cross-border transactions in the past, there is no assurance that the PRC government will liberalise control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite a Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and the Issuer's ability to source Renminbi outside the PRC to service Renminbi Notes.

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While PBOC has entered into agreements (the "**Settlement Arrangements**") on the clearing of Renminbi business with financial institutions (the "**Renminbi Clearing Banks**") in a number of financial centres and cities, including but not limited to Hong Kong, has established the Cross-Border Inter-Bank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBOC, although PBOC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer is required to source Renminbi in the offshore market to service the Renminbi Notes, there can be no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Investment in Renminbi Notes is subject to interest rate risks.

The PRC government has gradually liberalised the regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. In addition, the interest rate for Renminbi in markets outside the PRC may significantly deviate from the interest rate for Renminbi in the PRC as a result of foreign exchange controls imposed by PRC law and regulations and prevailing market conditions.

As Renminbi Notes may carry a fixed interest rate, the trading price of the Renminbi Notes will consequently vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Renminbi Notes before their maturity, they may receive an offer lower than the amount they have invested.

Payments with respect to the Renminbi Notes may be made only in the manner designated in the Renminbi Notes.

All payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by Global Note Certificates held with the common depositary for Clearstream and Euroclear or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles

Renminbi, if so specified in the Pricing Supplement, (ii) for so long as the Renminbi Notes are represented by Global Note Certificates lodged with a sub-custodian for or registered with the CMU, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures or (iii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or a financial centre in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

Remittance of proceeds in Renminbi into or out of the PRC may be subject to PRC regulatory approval.

In the event that the Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there can be no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, that they will not be revoked or amended in the future. There can be no assurance that the PRC government will continue gradually to liberalise the control over cross-border Renminbi remittances in the future, that the PRC government will not impose any interim or long-term restrictions on capital inflow or outflow which may restrict cross-border Renminbi remittances, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that the Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer subsequently is not able to repatriate funds out of the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the Renminbi Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used for general funding purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

FORMS OF THE NOTES

BEARER NOTES

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note, without interest coupons, or a Permanent Global Note, without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the CMU.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether the TEFRA C Rules or the TEFRA D Rules are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(a) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Fiscal Agent; and

(b) receipt by the Fiscal Agent of a certificate or certificates of non-U.S. beneficial ownership.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership **provided, however, that** in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

If:

(a) the Permanent Global Note has not been delivered or the principal amount thereof increased by 5:00 p.m. (Hong Kong time) on the seventh day after the bearer of the Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note) will become void at 5:00 p.m. (Hong Kong time) on such seventh day (in the case of (a) above) or at 5:00 p.m. (Hong

Kong time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

The Permanent Global Note will become exchangeable, in whole but not in part only and at the request of the bearer of the Permanent Global Note, for Bearer Notes in definitive form ("**Definitive Notes**"):

(a) on the expiry of such period of notice as may be specified in the Pricing Supplement; or

(b) at any time, if so specified in the Pricing Supplement; or

(c) if the Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

(i) Euroclear or Clearstream or the CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

(ii) any of the circumstances described in Condition 15 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5:00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note was originally issued in exchange for part only of a Temporary Global Note representing the Notes and such Temporary Global Note becomes void in accordance with its terms; or

(c) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5:00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (Hong Kong time) on the date on which such Temporary Global Note becomes void (in the case of (b) above) or at 5:00 p.m. (Hong Kong time) on such due date ((c) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5:00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Temporary Global Note for Definitive Notes; or

(b) the Temporary Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver Definitive Notes) will become void at 5:00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Deed of Covenant).

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(b) at any time, if so specified in the relevant Pricing Supplement; or

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following events occurs:

    (i) Euroclear or Clearstream or the CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; or

    (ii) any of the circumstances described in Condition 15 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the Pricing Supplement), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been duly delivered by 5:00 p.m. (Hong Kong time) on the thirtieth day after the bearer has requested exchange of the Permanent Global Note for Definitive Notes; or

(b) the Permanent Global Note (or any part thereof) has become due and payable in accordance with the Conditions or the date for final redemption of the Permanent Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5:00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (Hong Kong time) on such due date ((b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant).

Rights under Deed of Covenant

Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream and/or the CMU and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note or a Permanent Global Note which becomes void will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note or Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream and/or the CMU and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Note Certificates in registered form ("**Individual Note Certificates**") or a Global Note Certificate, in each case as specified in the relevant Pricing Supplement.

Each Global Note Certificate will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system and registered in the name of a nominee for such depositary and will be exchangeable for Individual Note Certificates in accordance with its terms.

If the relevant Pricing Supplement specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Pricing Supplement specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Note Certificate which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(a) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(b) at any time, if so specified in the relevant Pricing Supplement; or

(c) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Global Note Certificate", then if either of the following events occurs:

    (i) Euroclear or Clearstream or the CMU or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or

    (ii) any of the circumstances described in Condition 15 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5:00 p.m. (Hong Kong time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Note Certificate; or

(b) any of the Notes represented by a Global Note Certificate (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Note Certificate in accordance with the terms of the Global Note Certificate on the due date for payment,

then the Global Note Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5:00 p.m. (Hong Kong time) on such thirtieth day (in the case of (a) above) or at 5:00 p.m. (Hong Kong time) on such due date (in the case of (b) above) and the holder of the Global Note Certificate will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Note Certificate or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream and/or the CMU and/or any other relevant clearing system as being entitled to an interest in a Global Note Certificate will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Global Note Certificate became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream and/or the CMU and/or any other relevant clearing system.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

TERMS AND CONDITIONS OF THE NOTES

The following (including the Annexes hereto) is the text of the terms and conditions which, as supplemented, amended and/or replaced by the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes while in Global Form" below.

1. INTRODUCTION

(a) *Programme*: China Everbright Bank Co., Ltd., Hong Kong Branch (the "**Issuer**") has established a Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$5,000,000,000 in aggregate principal amount of notes (the "**Notes**"). Notes under the Programme may be issued by the Issuer, which is a branch of China Everbright Bank Company Limited (the "**Bank**").

(b) *Pricing Supplement*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes issued by the Issuer. Each Tranche is the subject of a pricing supplement (the "**Pricing Supplement**") which supplements, amends and/or replaces these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

(c) *Agency Agreement*: The Notes are the subject of an issue and paying agency agreement dated 7 September 2016, as amended and restated on 22 July 2020, and otherwise as amended and/or supplemented from time to time (the "**Agency Agreement**") between the Issuer, Citicorp International Limited as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and registrar in respect of Notes to be cleared through the CMU (the "**CMU Registrar**", which expression includes any successor CMU registrar appointed from time to time in connection with the Notes), Citicorp International Limited as CMU lodging and paying agent (the "**CMU Lodging and Paying Agent**", which expression includes any successor CMU lodging and paying agent appointed from time to time in connection with the Notes), any registrar appointed in respect of Credit Linked Notes or Index Linked Notes, Citibank, N.A., London Branch as registrar in respect of Notes other than Credit Linked Notes, Index Linked Notes and Notes to be cleared through the CMU (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes and, together with the CMU Registrar, any such registrar appointed in respect of Credit Linked Notes or Index Linked Notes, the "**Registrars**" and each a Registrar), the issuing and paying agents named therein (together with the Fiscal Agent and the CMU Lodging and Paying Agent, the "**Issuing and Paying Agents**", which expression includes any successor or additional issuing and paying agents appointed from time to time in connection with the Notes) and the transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes). In these Conditions references to the "**Agents**" are to the Issuing and Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them. For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Fiscal Agent shall, with respect to a Series of Notes to be held in the CMU (as defined below), be deemed to be a reference to the CMU Lodging and Paying Agent and all such reference shall be construed accordingly.

(d) *Deed of Covenant*: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). Registered Notes are constituted by a deed of covenant dated 7 September 2016, as amended and restated on 21 May 2018 and otherwise as amended and/or restated from time to time (the "**Deed of Covenant**") entered into by the Issuer.

(e) *The Notes*: All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing and copies may be obtained from the Specified Office of each of the Issuing and Paying Agents and Transfer Agents.

(f) *Summaries*: Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Covenant and are subject to their detailed provisions. Noteholders and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Agents, the initial Specified Offices of which are set out below.

2. INTERPRETATION

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"Business Day" means:

(a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre;

(b) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; and

(c) for the purposes of Notes denominated in Renminbi only, any day (other than a Saturday, a Sunday and any public holiday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments in Hong Kong and are not authorised or obligated by law or executive order to be closed;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(a) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(b) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;

(c) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(d) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred **provided, however, that**:

(i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(e) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Issuing and Paying Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"**Calculation Amount**" has the meaning given in the relevant Pricing Supplement;

"**CMU**" means the Central Moneymarkets Unit, operated by the Hong Kong Monetary Authority;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Credit Linked Derivatives Annex**" means, if specified as applicable in the Pricing Supplement, the Credit Linked Derivatives Annex annexed to these Conditions;

"**Credit Event**" shall, if applicable, have the meaning specified in the Credit Linked Derivatives Annex;

"**Credit Linked Notes**" means Notes of a Series which permit the Issuer to redeem the Notes upon the occurrence of a Credit Event, as specified in the Pricing Supplement;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

(a) if "**Actual/Actual (ICMA)**" is so specified, means:

(i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(ii) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(b) if "Actual/Actual (ISDA)" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(c) if "Actual/365 (Fixed)" is so specified, means the actual number of days in the Calculation Period divided by 365;

(d) if "Actual/360" is so specified, means the actual number of days in the Calculation Period divided by 360;

(e) if "30/360" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30";

(f) if "30E/360" or "Eurobond Basis" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(g) if "30E/360 (ISDA)" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"**Event Determination Date**" shall, if applicable, have the meaning specified in the Credit Linked Derivatives Annex;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement. Where "**Redemption – CLN**" is specified as applicable in the Pricing Supplement, subject to no Credit Event having occurred, the Final Redemption Amount per Calculation Amount shall be equal to 100 per cent. of such Calculation Amount;

"**First Interest Payment Date**" means the date specified in the relevant Pricing Supplement;

"**Fitch**" means Fitch Ratings Ltd., a subsidiary of the Fitch Group, a jointly owned subsidiary of Fimalae, S.A. and Hearst Corporation, and its successors;

"**Fixed Coupon Amount**" has the meaning given in the relevant Pricing Supplement;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer– Title to Registered Notes*);

"**Hong Kong**" means the Hong Kong Special Administrative Region of the PRC;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date**" has the meaning given in the relevant Pricing Supplement;

"**Interest Payment Date**" means the First Interest Payment Date and any date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(a) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.) unless otherwise specified in the relevant Pricing Supplement;

"**Issue Date**" has the meaning given in the relevant Pricing Supplement; "**Margin**" has the meaning given in the relevant Pricing Supplement;

"**Maturity Date**" has the meaning given in the relevant Pricing Supplement unless a Credit Event has occurred in which case the provisions of the Credit Linked Derivatives Annex shall apply;

"**Maximum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Moody's**" means Moody's Investors Service, Inc. and its successors;

"**Minimum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**NDRC**" means the National Development and Reform Commission of the PRC or its relevant competent local counterpart;

"**NDRC Circular**" means the Circular on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044 號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules, reports, certificates and guidelines and applicable policies issued by the NDRC from time to time;

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Pricing Supplement;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Pricing Supplement;

"**Participating Member State**" means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(a) if the currency of payment is euro, any day which is:

(i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any)

Additional Financial Centre; or

(b) if the currency of payment is not euro, any day which is:

(i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" or "**China**" means the People's Republic of China excluding Hong Kong, the Macau Special Administrative Region and Taiwan;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided, however, that**:

(a) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(b) in relation to New Zealand dollars, it means either Wellington or Auckland as is specified (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(c) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the applicable Pricing Supplement;

"**Put Option Notice**" means a notice which must be delivered to an Issuing and Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by an Issuing and Paying Agent to a depositing Noteholder upon deposit of a Note with such Issuing and Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"**Rating Agencies**" means (a) S&P, (b) Moody's or (c) Fitch, **provided that** if S&P, Moody's or Fitch shall not make a rating of the Notes publicly available, a nationally recognised securities rating agency or agencies, as the case may be, as selected by the Issuer;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"**Reference Banks**" has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the relevant Pricing Supplement;

"**Reference Rate**" has the meaning given in the relevant Pricing Supplement; "**Regular Period**" means:

(a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Issuing and Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Financial Centre**" has the meaning given in the relevant Pricing Supplement; "**Relevant Indebtedness**" means any indebtedness, for money borrowed or raised which (i) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) outside the PRC and (ii) has an original maturity in excess of 365 days;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Pricing Supplement;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**S&P**" means S&P Global Ratings and its affiliates and successors;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Settlement Basis**" means, upon the occurrence of a Credit Event, the basis (being either Auction Settlement, Cash Settlement, Physical Settlement or Settlement Method at Issuer Option, each as further described in the Credit Linked Derivatives Annex) upon which the Issuer may redeem the Notes as specified in the Pricing Supplement;

"**Specified Currency**" has the meaning given in the relevant Pricing Supplement;

"**Specified Denomination(s)**" has the meaning given in the relevant Pricing Supplement; "**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Pricing Supplement;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

"**Talon**" means a talon for further Coupons;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**Treaty**" means the Treaty establishing the European Communities, as amended; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 14 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 14 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "**outstanding**" shall be construed in accordance with the Agency Agreement;

(vii) if an expression is stated in Condition 2(a) (*Interpretation − Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Agency Agreement and the Deed of Covenant shall be construed as a reference to the Agency Agreement or, as the case may be, the Deed of Covenant as amended and/or supplemented up to and including the Issue Date of the Notes.

3. FORM, DENOMINATION, TITLE AND TRANSFER

(a) *Bearer Notes*: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

(b) *Title to Bearer Notes*: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes*: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a smaller amount specified in the relevant Pricing Supplement.

(d) *Title to Registered Notes*: The relevant Registrar will maintain the register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership*: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes*: Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the relevant Registrar or any Transfer Agent, together with such evidence as such Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the relevant Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the relevant Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the relevant Registrar or any Transfer Agent but against such indemnity as such

Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods*: Noteholders may not require transfers to be registered:

(i) during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes;

(ii) during the period of 15 days ending on any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 11(c) (*Redemption for tax reasons*) or Condition 11(d) (*Redemption at the option of the Issuer*); and

(iii) after a Put Option Notice has been delivered in respect of the relevant Note(s) in accordance with Condition 11(f) (*Redemption at the option of Noteholders*).

(j) *Regulations concerning transfers and registration*: All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the relevant Registrar. A copy of the current regulations will be mailed (free of charge) by such Registrar to any Noteholder who requests in writing a copy of such regulations.

4. STATUS

Status of the Notes: The Notes issued by the Issuer constitute direct, general, unconditional, unsecured and unsubordinated obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. COVENANTS

(a) *Undertakings relating to the Notes*: The Issuer shall comply with all applicable laws and regulations of the PRC and all other relevant jurisdiction in relation to the relevant Notes.

(b) *Covenant to Maintain Ratings*: So long as any Note remains outstanding, save with the approval of an Extraordinary Resolution of the Holders of the Notes, the Issuer undertakes that it will use all its reasonable endeavours to maintain the rating on the Notes by a Rating Agency if it is specified in the relevant Pricing Supplement that such Notes are to be rated.

(c) *Reporting to the NDRC*: Where the NDRC Circular applies to the Tranche of Notes to be issued in accordance with these Conditions and the Agency Agreement, the Issuer undertakes to:

(i) file or cause to be filed with the NDRC the requisite information and documents (the "**NDRC Post-issue Information Report**") within the prescribed timeframe after the Issue Date in accordance with the NDRC Circular; and

(ii) within ten PRC Business Days after submission of such NDRC Post-issue Information Report set out in Condition 5(c)(i) (*Reporting to the NDRC*) above, provide a notice confirming the due filing of the NDRC Post-issue Information Report for dissemination to the Noteholders in accordance with Condition 21 (*Notices*).

6. FIXED RATE NOTE PROVISIONS

(a) *Application*: This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable and, in respect of Credit Linked Notes, is subject to Condition 10 (*Occurrence of Credit Event*).

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 12 (*Payments – Bearer Notes*) and Condition 13 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (*Fixed Rate Note Provisions*) (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. FLOATING RATE NOTE AND INDEX LINKED INTEREST NOTE PROVISIONS

(a) *Application*: This Condition 7 (*Floating Rate Note and Index Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable and, in respect of Credit Linked Notes, is subject to Condition 10 (*Occurrence of Credit Event*).

(b) *Accrual of interest*: The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 12 (*Payments – Bearer Notes*) and Condition 13 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to major banks in the Principal Financial Centre of the Specified Currency for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time, and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(v) notwithstanding the foregoing, if the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as CNH HIBOR:

(A) the Rate of Interest for each Interest Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears on the Relevant Screen Page as at 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then 2.30 p.m. (Hong Kong time) on the Interest Determination Date in question as determined by the Calculation Agent.

(B) and the Relevant Screen Page is not available or, if sub-paragraph (v)(A)(1) above applies and no such offered quotation appears on the Relevant Screen Page, or, if subparagraph (v)(A)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request the principal Hong Kong office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.15 a.m. (Hong Kong time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent. If all four Reference Banks provide the Calculation Agent with such offered quotations, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations;

(C) if subparagraph (v)(B) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date, deposits in CNH for a period equal to that which would have been used for the Reference Rate by leading banks in the Hong Kong inter-bank market. If fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest shall be (i) the offered rate for deposits in CNH for a period equal to that which would have been used for the Reference Rate by a bank, or (ii) the arithmetic mean of the offered rates for deposits in CNH for a period equal to that which would have been used for the Reference Rate by two or more banks, in each case as informed to the Calculation Agent by such bank or banks (which shall be such bank or banks being in the opinion of the Issuer suitable for such purpose) as being quoted by each such bank at approximately 11.15 a.m. (Hong Kong time) on the relevant Interest Determination Date to leading banks in the Hong Kong inter-bank market, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period); and

(D) in no event shall the Rate of Interest be less than zero per cent. per annum.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement; and

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on (x) the London inter-bank offered rate (LIBOR), (y) the Eurozone inter-bank offered rate (EURIBOR) or (z) the Hong Kong inter-bank offered rate (HIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement.

(e) *Index-Linked Interest*: If the Index-Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable, the Rate(s) of Interest applicable to the Notes for each Interest Period will be determined in the manner specified in the relevant Pricing Supplement.

(f) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(g) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(h) *Calculation of other amounts*: If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

(i) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuing and Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(j) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Issuing and Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(k) *Benchmark Discontinuation*: Notwithstanding the provisions of this Condition 7, if the Issuer (in consultation with the Calculation Agent) determines that a Benchmark Event has occurred (or will occur on or prior to the Interest Determination Date relating to the next succeeding Interest Period), when the Rate of Interest (or any relevant component part thereof) remains to be determined by reference to the Reference Rate, then the following provisions shall apply:

(i) the Issuer shall use reasonable endeavours to appoint an Independent Adviser for the determination (with the Issuer's agreement) of a Successor Rate or, alternatively, if the Independent Adviser and the Issuer agree that there is no Successor Rate, an alternative rate (the "**Alternative Benchmark Rate**") and, in either case, an alternative screen page or source (the "**Alternative Relevant Screen Page**") and the applicable Adjustment Spread, all by no later than three (3) Business Days prior to the relevant Interest Determination Date relating to the next succeeding Interest Period (the "**Interest Determination Cut-off Date**") for purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 7(k)).

In the absence of bad faith or fraud, neither the Issuer nor any Independent Adviser shall have any liability whatsoever to the Fiscal Agent or the Noteholders for any determination made by it pursuant to this Condition 7(k);

(ii) the Alternative Benchmark Rate shall be such rate as the Independent Adviser and the Issuer acting in good faith agree has replaced the Reference Rate in customary market usage for the purposes of determining floating rates of interest in respect of eurobonds denominated in the Specified Currency, or, if the Independent Adviser and the Issuer agree that there is no such rate, such other rate as the Independent Adviser and the Issuer acting in good faith agree is most comparable to the Reference Rate, and the Alternative Relevant Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate;

(iii) if the Issuer is unable to appoint an Independent Adviser, or if the Independent Adviser and the Issuer cannot agree upon, or cannot select a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page prior to the Interest Determination Cut-off Date in accordance with sub-paragraph (i) and (ii) above, then the Issuer (acting in good faith and in a commercially reasonable manner) may determine which (if any) rate has replaced the Reference Rate in customary market usage for purposes of determining floating rates of interest in respect of eurobonds denominated in the Specified Currency, or, if it determines that there is no such rate, which (if any) rate is most comparable to the Reference Rate, and the Alternative Benchmark Rate shall be the rate so determined by the Issuer and the Alternative Relevant Screen Page shall be such page of an information service as displays the Alternative Benchmark Rate; *provided*, *however*, that if this sub-paragraph (iii) applies and the Issuer is unable or unwilling to determine an Alternative Benchmark Rate and Alternative Relevant Screen Page prior to the Interest Determination Date relating to the next succeeding Interest Period in accordance with this sub- paragraph (iii), the Reference Rate applicable to such Interest Period shall be equal to the Reference Rate for a term equivalent to the relevant Interest Period published on the Relevant Screen Page as at the last preceding Interest Determination Date. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period, and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 7(k);

(iv) if a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page is determined in accordance with the preceding provisions, such Successor Rate or Alternative Benchmark Rate and Alternative Relevant Screen Page (in each case as adjusted by the applicable Adjustment Spread determined as provided in sub-paragraph (v) below) shall subsequently be used in place of the Reference Rate to determine the Rate of Interest (or the relevant component part(s) thereof) for all relevant future payments of interest on the Notes (subject to the subsequent operation of this Condition 7(k));

(v) if a Successor Rate or an Alternative Benchmark Rate and an Alternative Relevant Screen Page is determined in accordance with the preceding provisions, the Issuer, following consultation with the Independent Adviser (if appointed) and acting in good faith, shall determine (A) the Adjustment Spread to be applied to the Successor Rate or Alternative Benchmark Rate (as applicable) and (B) the quantum of, or a formula or methodology for determining, such Adjustment Spread, and such Adjustment Spread shall be applied to the Successor Rate or Alternative Benchmark Rate for each subsequent determination of the Rate of Interest and Interest Amount(s) (or a component part thereof) by reference to such Successor Rate or Alternative Benchmark Rate;

(vi) if a Successor Rate or an Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread is determined in accordance with the above provisions, the Independent Adviser (with the Issuer's agreement) or, failing which, the Issuer, may also specify changes to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Day, Interest Determination Date and/or the definition of Reference Rate applicable to the Notes, and the method for determining the fallback rate in relation to the Notes, as are necessary to ensure the proper operation (having regard to prevailing market practice, if any) of the Successor Rate, Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**"), which changes shall (subject to the subsequent operation of this Annex) apply to the Notes for all future Interest Periods, without any requirement for the consent or approval of Noteholders; and

(vii) the Issuer shall promptly following the determination of any Successor Rate or Alternative Benchmark Rate and Alternative Relevant Screen Page and Adjustment Spread give notice thereof and of any Benchmark Amendments pursuant to sub-paragraph (vi) above to the Calculation Agent, the Fiscal Agent and the Noteholders in accordance with Condition 21 (*Notices*); and

the Successor Rate or Alternative Benchmark Rate and (in either case) the applicable Adjustment Spread and the Benchmark Amendments (if any) specified in such notice will (in the absence of manifest error or bad faith in the determination thereof) be binding on the Issuer, the Fiscal Agent, the Calculation Agent, the other Agents and the Noteholders.

(viii) As used in this Condition 7(k):

"**Adjustment Spread**" means either a spread (which may be positive, negative or zero) or a formula or methodology for calculating a spread, which in each case is to be applied to the relevant Successor Rate or the relevant Alternative Benchmark Rate (as applicable), and is the spread, formula or methodology which:

(A) in the case of a Successor Rate, is formally recommended or formally provided as an option for parties to adopt, in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(B) in the case of a Successor Rate for which no such recommendation has been made, or option provided, or in the case of an Alternative Benchmark Rate, is the spread, formula or methodology which the Issuer, following consultation with the Independent Adviser (if appointed) and acting in good faith, determines to be appropriate as a result of the replacement of the Reference Rate with the Successor Rate or Alternative Benchmark Rate;

"**Benchmark Event**" means:

(A) the Reference Rate has ceased to be published for a period of at least five Business Days; or

(B) the making of a public statement by the administrator of the Reference Rate that it has ceased, or will cease, publishing such Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of such Reference Rate); or

(C) the making of a public statement by the supervisor of the administrator of the Reference Rate that such Reference Rate has been or will be permanently or indefinitely discontinued; or

(D) the making of a public statement by the supervisor of the administrator of the Reference Rate that means that such Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in circumstances where the same shall be applicable to the Notes; or

(E) the making of a public statement by the supervisor of the administrator of the Reference Rate that, in the view of such supervisor, such Reference Rate is no longer representative of its underlying market, in circumstances where the same shall be applicable to the Notes; or

(F) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent or the Issuer to calculate any payments due to be made to any Noteholder using the Reference Rate (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable),

provided that in the case of paragraphs (B) to (E) above, the Benchmark Event shall occur on:

(1) in the case of (B) above, the date of the cessation of the publication of the Reference Rate;

(2) in the case of (C) above, the discontinuation of the Reference Rate;

(3) in the case of (D) above, the date on which the Reference Rate is prohibited from use or becomes subject to restrictions or adverse consequences (as applicable); or

(4) in the case of (E) above, the date on which the Reference Rate is deemed no longer to be representative,

(5) and not (in any such case) the date of the relevant public statement (unless the date of the relevant public statement coincides with the relevant date in (1), (2), (3) or (4) above, as applicable);

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser of recognised standing with relevant experience in the international capital markets, in each case appointed by the Issuer at its own expense;

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities or (d) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means the reference rate (and related alternative screen page or source, if available) that is a successor to or replacement of the Reference Rate which is formally recommended by any Relevant Nominating Body.

8. ZERO COUPON NOTE PROVISIONS

(a) *Application*: This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero-Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Issuing and Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. DUAL CURRENCY NOTE PROVISIONS

(a) *Application*: This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Rate of Interest*: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. OCCURRENCE OF CREDIT EVENT

The obligation of the Issuer to pay interest on any interest-bearing Note that is a Credit Linked Note is subject, at all times, to the operation of Condition 11(b) (*Redemption of Credit Linked Notes following a Credit Event*).

11. REDEMPTION AND PURCHASE

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, subject always to Condition 11(b) (*Redemption of Credit Linked Notes following a Credit Event*) in the case of a Credit Linked Note, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 12 (*Payments – Bearer Notes*) and Condition 13 (*Payments – Registered Notes*), **provided that** in the case of a Credit Linked Note, if a Credit Event has occurred on or prior to the Maturity Date, the Notes of such Series shall be redeemed as specified in Condition 11(b) (*Redemption of Credit Linked Notes following a Credit Event*).

Notwithstanding anything to the contrary herein, in the event that the Pricing Supplement specifies that the Credit Linked Derivatives Annex applies and an Event Determination Date occurs, the Final Redemption Amount shall be calculated in accordance with the Credit Linked Derivatives Annex.

(b) *Redemption of Credit Linked Notes following a Credit Event*

(i) Upon the occurrence of a Credit Event and the satisfaction of any conditions that may be specified in the Credit Linked Derivatives Annex as completed by the Pricing Supplement, the Issuer may redeem all but not some only of the Notes in accordance with the Settlement Basis and the terms of the Credit Linked Derivatives Annex.

(ii) If the Notes are redeemed in accordance with this Condition 11(b) (*Redemption of Credit Linked Notes following a Credit Event*), upon redemption of each Note in accordance with the terms thereof the Issuer shall have discharged its obligations in respect of such Note and shall have no other liability or obligation whatsoever in respect thereof.

(iii) Each holder of Notes or Coupons, by subscribing for or purchasing such Notes or Coupons (if any), will be deemed to accept and acknowledge that it is fully aware that:

(A) upon the occurrence of a Credit Event, the obligations of the Issuer to make payments in respect of the Notes and Coupons (if any) may be limited to the amount payable or the value of the assets deliverable by the Issuer and the holder of the Notes and Coupons (if any) shall have no further recourse to the Issuer in respect of the Notes and Coupons (if any), respectively;

(B) without prejudice to the foregoing, any right of the holder of the Notes and Coupons (if any) to claim payment of any amount exceeding the amount so payable or the value of the assets so deliverable shall be automatically extinguished; and

(C) the holder of the Notes and Coupons (if any) shall not be able to petition for the winding up of the Issuer as a consequence of the non-payment by the Issuer of any sum which but for this Condition 11(b) (*Redemption of Credit Linked Notes following a Credit Event*) would have been payable by the Issuer in respect of the Notes and Coupons (if any).

(c) *Redemption for tax reasons*: **Provided that** no Credit Event has occurred, the Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (if neither the Floating Rate Note Provisions or the Index Linked Interest Note Provisions are not specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions or the Index Linked Interest Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 14 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Hong Kong, the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes and (2) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (1) a certificate signed by a duly authorised officer of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 11(c) (*Redemption for tax reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 11(c) (*Redemption for tax reasons*).

(d) *Redemption at the option of the Issuer*: If the Call Option is specified in the relevant Pricing Supplement as being applicable, **provided that** no Credit Event has occurred, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(e) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 11(d) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 11(d) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed, and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(f) *Redemption at the option of Noteholders*: If the Put Option is specified in the relevant Pricing Supplement as being applicable, **provided that** no Credit Event has occurred, the Issuer shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 11(f) (*Redemption at the option of Noteholders*), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Issuing and Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Issuing and Paying Agent. The Issuing and Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 11(f) (*Redemption at the option of Noteholders*), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Issuing and Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by an Issuing and Paying Agent in accordance with this Condition 11(f) (*Redemption at the option of Noteholders*), the depositor of such Note and not such Issuing and Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(g) *No other redemption*: Neither the Issuer nor the Bank shall be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (d) (*Redemption at the option of the Issuer*) above.

(h) *Early redemption of Zero-Coupon Notes*: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 11(h) (*Early redemption of Zero Coupon Notes*) or, if none is so specified, a Day Count Fraction of 30E/360.

(i) *Purchase*: The Bank or any of its Subsidiaries or branches may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith. The Notes so purchased, while held by or on behalf of the Bank or any such branch or Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 19 (*Meetings of Noteholders and Modification*).

(j) *Cancellation*: All Notes so redeemed or purchased by the Bank or any of its Subsidiaries or branches and any unmatured Coupons attached to or surrendered with them may be reissued, resold or surrendered to the Fiscal Agent for cancellation. Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

12. PAYMENTS − BEARER NOTES

This Condition 12 (*Payments − Bearer Notes*) is only applicable to Bearer Notes.

(a) *Principal*: Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Issuing and Paying Agent outside the United States (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the relevant Principal Financial Centre.

(b) *Interest*: Payments of interest shall, subject to paragraph (g) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Issuing and

Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.

Payments of principal and interest in respect of Bearer Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU, which notification shall be conclusive evidence of the records of the CMU (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments subject to fiscal laws*: All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 14 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 14 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(d) *Deductions for unmatured Coupons*: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(e) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 12(e) (*Unmatured Coupons void*) is applicable or that the Floating Rate Note Provisions or the Index Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 11(b) (*Redemption of Credit Linked Notes following a Credit Event*), Condition 11(c) (*Redemption for tax reasons*), Condition 11(d) (*Redemption at the option of the Issuer*), Condition 11(f) (*Redemption at the option of Noteholders*) or Condition 15 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(f) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(g) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Issuing and Paying Agent outside the United States.

(h) *Partial payments*: If an Issuing and Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment other than by reason of the operation of Condition 11(b) (*Redemption of Credit Linked Notes following a Credit Event*) in the case of Credit Linked Notes, such Issuing and Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(i) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 16 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

13. PAYMENTS − REGISTERED NOTES

This Condition 13 (*Payments − Registered Notes*) is only applicable to Registered Notes.

(a) *Principal*: Payments of principal shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Issuing and Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Issuing and Paying Agent.

(b) *Interest*: Payments of interest shall (i) in the case of a currency other than Renminbi, be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the Specified Office of the Issuing and Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in Hong Kong, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Issuing and Paying Agent.

Payments of principal and interest in respect of Registered Notes held in the CMU will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU in *accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU, which notification shall be conclusive evidence of the records of the CMU (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.*

(c) *Payments subject to fiscal laws*: All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 14 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 14 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of an Issuing and Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 13 (*Payments – Registered Notes*) arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*: If an Issuing and Paying Agent makes a partial payment in respect of any Registered Note (otherwise than by reason of the operation of Condition 11(b) (*Redemption of Credit Linked Notes following a Credit Event*) in the case of Credit-Linked Notes), the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the relevant Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

14. TAXATION

Gross up: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the PRC or Hong Kong or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law.

Where such withholding or deduction is made by the Issuer at the rate applicable in the PRC on the date on which agreement is reached to issue the first Tranche of Notes (the "**Applicable Rate**"), the Issuer will pay such additional amounts to the extent required as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required.

If the Issuer is required to make (i) such deduction or withholding by or within the PRC in excess of the Applicable Rate or (ii) any deduction or withholding by or within Hong Kong, the Issuer shall pay such additional amounts (the "**Additional Amounts**") as will result in receipt by the Noteholders and the

Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note or Coupon:

(a) held by or on behalf of a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(b) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon would have been entitled to such Additional Amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days.

15. EVENTS OF DEFAULT

If any of the following events (each, an "**Event of Default**") occurs and is continuing:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 30 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant or the Agency Agreement and such default is incapable of remedy, or if capable of remedy, remains unremedied for 45 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) *Cross-default of Bank, Issuer or Subsidiary*:

(i) any Relevant Indebtedness of the Bank or any of its Subsidiaries or of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any Relevant Indebtedness becomes due and payable prior to its stated maturity by reason of any default or event of default (howsoever described) in respect of the terms thereof; or

(iii) the Bank or any of its Subsidiaries or the Issuer fails to pay when due (or (as the case may be) within any originally applicable grace period) any amount payable by it under any guarantee or indemnity of any Relevant Indebtedness,

provided that the amount of the Relevant Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above, individually or in the aggregate (without duplication), exceeds U.S.$20,000,000 (or its equivalent in any other currency or currencies); or

(d) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a material part of the undertaking, assets and revenues of the Issuer or any Material Subsidiary and such action is not discharged or stayed within 45 days; or

(e) *Insolvency, etc*: (i) the Bank or any of its Material Subsidiaries becomes insolvent or is unable to pay all or a material part of its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Bank or any of its Material Subsidiaries or the whole or a material part of the undertaking, assets and revenues of the Bank or any of its Material Subsidiaries, (iii) the Bank or any of its Material Subsidiaries takes any action for a readjustment or deferment of all or a material part of its debts or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of all or a material part of its indebtedness or any guarantee or indemnity of all or a material part of indebtedness given by it or (iv) the Bank or any of its Material Subsidiaries ceases or threatens to cease to carry on all or a material part of its business, except (x) in the case of any Material Subsidiary of the Bank, where the cessation is for the purpose of and followed by a solvent winding-up, dissolution, reconstruction, amalgamation, merger or consolidation whereby the business, undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Bank and/or another Material Subsidiary, or (y) on terms approved by an Extraordinary Resolution of the Noteholders; or

(f) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Bank or any of its Material Subsidiaries or the Issuer except for (A) the purpose of and followed by a solvent winding-up, dissolution, a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders, or (ii) in the case of any Material Subsidiary, whereby all or substantially all the undertaking, assets and revenues of such Material Subsidiary are transferred or otherwise vested in the Issuer or any of the Bank's Subsidiaries; or (B) a solvent winding up of any Material Subsidiary; or (C) a disposal of or by a Material Subsidiary on an arm's length basis where the assets (whether in cash or otherwise) from such disposal shall be transferred to or otherwise vested in the Issuer or any of the Bank's Subsidiaries; or

(g) *Analogous event*: any event occurs which under the laws of the PRC has an analogous effect to any of the events referred to in paragraphs (e) (*Security enforced*) to (g) (*Winding up, etc*) above; or

(h) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Deed of Covenant; or

then any Noteholder may, by written demand given to the Issuer and delivered to the Fiscal Agent at the Specified Office of the Fiscal Agent, declare the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their Early Termination Amount together with accrued interest without further action or formality unless prior to receipt of such demand, all such events or defaults have been cured. The Issuer shall notify Noteholders and the Fiscal Agent promptly upon becoming aware of the occurrence of any Event of Default.

In these Conditions:

"**Material Subsidiary**" means any Subsidiary of the Bank:

(i) whose gross revenue (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries), whose gross assets (consolidated in the case of a Subsidiary which itself has consolidated Subsidiaries) or whose net profit (consolidated in the case of Subsidiary which itself has consolidated Subsidiaries) represent not less than 5 per cent. of the consolidated gross revenue, the consolidated gross assets, or, as the case may be, the consolidated net profit of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the latest audited or reviewed financial statements (consolidated or, as the case may be, unconsolidated) of the Subsidiary and the then latest audited or reviewed consolidated financial statements of the Bank, *provided that*:

(A) in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited or reviewed consolidated financial statements of the Bank relate for the purpose of applying each of the foregoing tests, the reference to the Bank's latest audited or reviewed consolidated financial statements shall be deemed to be a reference to such audited or reviewed financial statements as if such Subsidiary had been shown therein by reference to its then latest relevant audited or reviewed financial statements, adjusted as deemed appropriate by the auditor for the time being, after consultation with the Bank;

(B) if at any relevant time in relation to the Bank or any Subsidiary no financial statements are prepared and audited, its gross revenue, gross assets and net profit (consolidated, if applicable) shall be determined on the basis of pro forma consolidated financial statements (consolidated, if applicable) prepared for this purpose; and

(C) if the financial statements of any Subsidiary (not being a Subsidiary referred to in proviso (A) above) are not consolidated with those of the Bank, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements (determined on the basis of the foregoing) of the Bank; or

(ii) to which is transferred all or substantially all of the business, undertaking and assets of another Subsidiary which immediately prior to such transfer is a Material Subsidiary, whereupon (i) in the case of a transfer by a Material Subsidiary, the transferor Material Subsidiary shall immediately cease to be a Material Subsidiary and (ii) the transferee Subsidiary shall immediately become a Material Subsidiary, **provided that** on or after the date on which the relevant financial statements for the financial period current at the date of such transfer are published, whether such transferor Subsidiary or such transferee Subsidiary is or is not a Material Subsidiary shall be determined pursuant to the provisions of sub-paragraph (i) above.

A certificate signed by an authorised signatory of the Issuer on behalf of the Bank that in his/her opinion (making such adjustments (if any) as he/she shall deem appropriate) a Subsidiary is or is not or was or was not at any particular time or during any particular period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Bank, the Issuer and the Noteholders.

16. PRESCRIPTION

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

17. REPLACEMENT OF NOTES AND COUPONS

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, in the case of Bearer Notes, or the relevant Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of an Issuing and Paying Agent or Transfer Agent in any particular place, the Issuing and Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

18. AGENTS

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor fiscal agent or registrar or Calculation Agent and additional or successor issuing and paying agents; **provided, however, that**:

(a) the Issuer shall at all times maintain a fiscal agent and a registrar; and

(b) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent;

(c) the Issuer shall at all times maintain a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU; and

(d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of an Issuing and Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain an Issuing and Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

19. MEETINGS OF NOTEHOLDERS AND MODIFICATION

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing a clear majority of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than 75 per cent. or, at any adjourned meeting, not less than 25 per cent. of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of holders of not less than 90 per cent. in aggregate principal amount of the Notes outstanding who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*: Notwithstanding Condition 19(a) (*Meetings of Noteholders*) above, the Notes, these Conditions and the Deed of Covenant may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

20. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes issued by the Issuer in all respects (or in all respects except for the first payment of interest and the timing for reporting to the NDRC) so as to form a single series with the Notes. However, such further securities may only be issued if (i) the Rating Agency which has provided credit ratings in respect of the Notes has been informed of such issue and (ii) such issue will not result in any adverse change in the then credit rating of the Notes.

21. NOTICES

(a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Hong Kong or if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of (i) Euroclear or Clearstream, or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by these Conditions or (ii) the CMU, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in a CMU Instrument Position Report issued by the Hong Kong Monetary Authority on the business day preceding the date of despatch of such notice.

22. CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

23. ROUNDING

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

24. GOVERNING LAW AND JURISDICTION

(a) *Governing law*: The Notes and all non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) *Jurisdiction*: The Issuer has in the Deed of Covenant and the Agency Agreement (i) agreed that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Deed of Covenant and the Agency Agreement and the

Notes (including any non-contractual obligation arising out of or in connection with the Notes); and (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient.

(c) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or their respective assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

Annex to the Terms and Conditions of the Notes – Credit-Linked Derivatives Annex

Where specified as applicable in any Pricing Supplement relating to the issue of Notes under the Programme, the provisions of this Credit Linked Derivatives Annex shall apply to such Notes as if expressly set out in the relevant Pricing Supplement.

1. AMENDMENT TO THE CONDITIONS

The following shall be inserted as Conditions 11(a)A, 11(a)B, 11(a)C, 11(a)D, 11(a)E, 11(a)F, 11(a)G, 11(a)H, 11(a)I, 11(a)J, 11(a)K and 11(a)L (together, the "**Additional Conditions**"):

11(a)A. Redemption

(a) Redemption absent Satisfaction of Conditions to Settlement

Unless previously redeemed, purchased and/or cancelled and notwithstanding Condition 11(a) (*Scheduled redemption*), if the Conditions to Settlement have not been satisfied, the Issuer shall redeem the Notes at the Final Redemption Amount of each Note (together with interest, if any, accrued to the Scheduled Termination Date) on:

(i) the Scheduled Termination Date; or

(ii) the Termination Date, if the Calculation Agent determines a Potential Credit Event has occurred.

(b) Redemption following Satisfaction of Conditions to Settlement

Unless previously redeemed, purchased and/or cancelled, upon satisfaction of the Conditions to Settlement, no further amounts in respect of interest or principal will become due or payable and interest will cease to accrue in respect of the Notes with effect from the immediately preceding Interest Payment Date (or, if none, the Interest Commencement Date) and the Issuer will instead redeem the Notes:

(i) if Auction Settlement applies, in accordance with Condition 11(a)E (*Auction Settlement*), unless a Fallback Settlement Event occurs, in which event the Issuer will instead redeem the Notes in accordance with the applicable Fallback Settlement Method;

(ii) if Cash Settlement applies, in accordance with Condition 11(a)F (*Cash Settlement*); or

(iii) if Physical Settlement applies, in accordance with Condition 11(a)G (*Physical Settlement*).

Upon discharge by the Issuer of such payment or delivery obligation on or by the relevant Settlement Date (or, if the Auction Settlement Amount or Cash Settlement Amount is zero, upon the occurrence of the Auction Settlement Date or Cash Settlement Date), or otherwise as provided herein, the Issuer's obligations in respect of the Notes shall be discharged.

11(a)B Suspension of the Issuer's Payment Obligations in relation to a Potential Credit Event or a Credit Event Resolution Request Date

(a) Potential Credit Events

Where the Calculation Agent determines that a Potential Credit Event (including without limitation, a Potential Failure to Pay or Potential Repudiation/Moratorium) has occurred on or prior to the Scheduled Termination Date (or in the case of paragraph (d) of the definition of Potential Credit Event, on or prior to the last day of the Notice Delivery Period), no further payments shall become due hereunder (whether of principal or interest) unless the Calculation Agent determines that such Potential Credit Event is cured (a "**Cure Event**" or that the Conditions to Settlement have not been satisfied in accordance with Condition 11(a)C (*Satisfaction of Conditions to Settlement*) in which event any amounts which would have already fallen due but for this Condition 11(a)B(a) shall become payable (without any additional interest thereon) on or prior to the second Local Business Day after the date of such Cure Event and all other amounts shall remain payable in accordance with the Terms and Conditions of the Notes.

The Calculation Agent may give a Potential Credit Event Notice at any time specified in the definition of "**Potential Credit Event Notice**" (including after the occurrence of a Potential Credit Event) but failure to give a Potential Credit Event Notice shall not render invalid the determination of the Calculation Agent that a Potential Credit Event has occurred.

(b) Settlement Suspension following Credit Event Resolution Request Date

If, at any time after the delivery of a Credit Event Notice and, if applicable, a Notice of Publicly Available Information but prior to the Cash Settlement Date or Physical Settlement Date, a Credit Derivatives Determinations Committee is requested to determine whether a Credit Event has occurred or the date of occurrence of such Credit Event with respect to the Reference Entity in respect of which such Credit Event Notice has been served, the Issuer may elect (in its sole discretion) to suspend settlement of the Notes and if so, the timing requirements of Condition 11(a)D (*Auction or Cash or Physical Settlement at the Issuer's Option*), Condition 11(a)G(a) (*Delivery of Notice of Physical Settlement*), Condition 11(a)G(b) (*Delivery on the Physical Settlement Date*), Condition 11(a)G(c) (*Partial Cash Settlement following Extended Physical Settlement Date*), the Cash Settlement Date, the Valuation Date, the Physical Settlement Period, the Physical Settlement Date, the Notice of Physical Settlement, the Extension Date, the Notice Delivery Period, as applicable, and any other provision in this Credit Linked Derivatives Annex that pertains to valuation or settlement, and any obligation of the Issuer to redeem any Note (including pursuant to Condition 11(a)A (*Redemption*)) or pay any amount of interest which would otherwise be due thereon, shall, in each case insofar as they relate to the relevant Reference Entity, be and remain suspended until:

(i) a DC Credit Event Announcement or a DC No Credit Event Announcement has occurred; or

(ii) the Credit Derivatives Determinations Committee has Resolved not to determine whether a Credit Event has occurred or the date of occurrence of such Credit Event,

after which such suspension shall terminate and any obligations so suspended shall resume on the Business Day following public announcement by ISDA of (i) or (ii) above, with the Issuer having the benefit of the full day notwithstanding when the suspension began.

Any amount of interest so suspended shall, subject always to Condition 11(a)A (Redemption), become due on the date designated by the Calculation Agent, in its sole discretion but not later than 15 Business Days following such public announcement by ISDA.

During the period of any suspension of settlement as contemplated herein, the Issuer shall not be obliged to take any action in connection with the settlement of the Notes, (to the extent only that the Notes relate to the relevant Reference Entity) and no interest shall accrue on any payment of interest or principal which is deferred in accordance with this Condition 11(a)B(b) (*Settlement Suspension following Credit Event Resolution Request Date*).

11(a)C. Satisfaction of the Conditions to Settlement

The "**Conditions to Settlement**" will be satisfied:

(i) if, at any time during either:

(A) the Notice Delivery Period; or

(B) at the Issuer's option, the period (I) from, and including, the date on which ISDA publicly announces (1) that the relevant Credit Derivatives Determinations Committee has Resolved not to determine whether a Credit Event has occurred or the date of occurrence of such Credit Event or (2) the occurrence of a DC Credit Event Announcement (II) to, and including, the date that is 14 calendar days thereafter (**provided that** the relevant Credit Event Resolution Request Date occurred on or prior to the end of the last day of the Notice Delivery Period (including prior to the Trade Date)),

the Calculation Agent sends Noteholders a Credit Event Notice and (if (1) Notice of Publicly Available Information is specified as a Condition to Settlement in the Pricing Supplement, (2) where required by the Calculation Agent in its discretion, each Noteholder has provided to the Issuer a confidentiality undertaking in the form (if any) required by the Calculation Agent, and (3) no DC Credit Event Announcement has occurred) a Notice of Publicly Available Information; or

(ii) if a DC Credit Event Announcement occurs (**provided that** the Issuer may in its sole discretion determine that any DC Credit Event Announcement does not fulfil the Conditions to Settlement for the purposes of any Notes).

The Issuer will not be obliged to send such notices or to redeem the Notes following any occurrence or event which would otherwise permit it to do so. The date on which the Conditions to Settlement have been satisfied (or, at the Issuer's option in the case of a DC Credit Event Announcement, the Credit Event Resolution Request Date) is the "**Event Determination Date**".

If, pursuant to the above, different Event Determination Dates have been determined with respect to different portions of the relevant Reference Entity Notional Amount or an Event Determination Date has been determined with respect to only a portion of the Reference Entity Notional Amount, the provisions of this Credit Linked Derivatives Annex shall, with effect from each such Event Determination Date, be deemed to apply separately to an aggregate outstanding principal amount of the Notes equal to each such portion and all the provisions hereof shall be construed accordingly with such modifications as the Calculation Agent shall determine are required in order to preserve the economic effects of the Notes considered in aggregate.

11(a)D. Auction or Cash or Physical Settlement at the Issuer's Option

If the Pricing Supplement specify that "**Settlement Method at Issuer Option**" is applicable, on or before the 30th calendar day (subject to adjustment in accordance with the Following Business Day Convention) after the Event Determination Date, the Calculation Agent shall notify the Noteholders whether the Notes will redeem in accordance with Condition 11(a)E (*Auction Settlement*), Condition 11(a)F (*Cash Settlement*) or Condition 11(a)G (*Physical Settlement*) (in each case, if specified as applicable for election in the Pricing Supplement).

Notwithstanding the foregoing, if at any time after notification by the Calculation Agent that the Notes will redeem in accordance with Condition 11(a)F (*Cash Settlement*) or Condition 11(a)G (*Physical Settlement*) but prior to the Cash Settlement Date or Physical Settlement Date, a Credit Derivatives Determinations Committee is requested to determine whether a Credit Event has occurred or the date of occurrence of such Credit Event with respect to the Reference Entity in respect of which a Credit Event Notice has been served, the Calculation Agent may, at the Issuer's option, notify the Noteholders at any time that such notification is revoked and the Notes will instead redeem in accordance with Condition 11(a)E (*Auction Settlement*).

If Auction Settlement applies and the Pricing Supplement specify that "Fallback Settlement Method at Issuer Option" is applicable, on or before the 30th calendar day (subject to adjustment in accordance with the Following Business Day Convention) after the Event Determination Date, the Calculation Agent shall notify the Noteholders whether the Fallback Settlement Method will be Cash Settlement or Physical Settlement.

Such notification(s) may be substantially in the form in the relevant Appendix hereto, contained within the Credit Event Notice or Notice of Publicly Available Information or in such other form as the Issuer or the Calculation Agent may determine from time to time.

11(a)E. Auction Settlement

(a) Auction Settlement

If Auction Settlement applies, on the Auction Settlement Date the Issuer shall redeem each Note, upon presentation and surrender of the same in accordance with Condition 12 or Condition 13, as the case may be, by payment of the Auction Settlement Amount.

(b) Auction Settlement Amount

The "**Auction Settlement Amount**" in respect of each Note shall be:

(i) the amount specified as such in the Pricing Supplement; or

(ii) if no such amount is specified, an amount determined by the Calculation Agent to be the greater of (a) zero and (b) the product of (I) the outstanding principal amount of such Note divided by the aggregate outstanding principal amount of the Notes, (II) the Reference Entity Notional Amount in respect of the relevant Reference Entity, and (III) the relevant Auction Final Price or, if so determined by the Issuer in its sole discretion, a Parallel Auction Final Price.

In each case the Auction Settlement Amount shall be reduced by the value of the Break Costs.

11(a)F. Cash Settlement

(a) Cash Settlement

If Cash Settlement applies, subject to Condition 11(a)B(b) (*Settlement Suspension following Credit Event Resolution Request Date*), on the Cash Settlement Date the Issuer shall redeem each Note, upon presentation and surrender of the same in accordance with Condition 12 or Condition 13, by payment of the Cash Settlement Amount.

(b) Cash Settlement Amount

The "**Cash Settlement Amount**" in respect of each Note shall be:

(i) the amount specified as such in the Pricing Supplement; or,

(ii) if no such amount is specified, an amount determined by the Calculation Agent to be the greater of (a) zero and (b) the product of (I) the outstanding principal amount of such Note divided by the aggregate outstanding principal amount of the Notes, (II) the Reference Entity Notional Amount in respect of the relevant Reference Entity (or, as the case may be, the outstanding principal balance in respect of the relevant Valuation Obligation or Deliverable Obligation thereof), and (III) the relevant Final Price or, if the Calculation Agent selects more than one Valuation Obligation with respect to a Reference Entity, the relevant Weighted Average Final Price.

In each case the Cash Settlement Amount shall be reduced by the value of the Break Costs.

(c) Final Price

The "**Final Price**" shall be the Market Value of the relevant Valuation Obligations or Deliverable Obligations as determined by the Calculation Agent in accordance with the provisions below:

(i) the Calculation Agent shall attempt to obtain Full Quotations with respect to the Valuation Date from three Dealers. If at least two such Full Quotations are not available on the Valuation Date, then on the next following Business Day (and, if necessary, on each Business Day thereafter until the fifth Business Day following the Valuation Date) the Calculation Agent shall attempt to obtain Full Quotations from three Dealers and, if at least two Full Quotations are not available, a Weighted Average Quotation;

(ii) if the Calculation Agent is unable to obtain at least two Full Quotations or a Weighted Average Quotation on the same Business Day on or prior to the fifth Business Day following the applicable Valuation Date the Quotations shall be deemed to be zero; and

(iii) the Market Value of the relevant Valuation Obligations or Deliverable Obligations shall be: (A) if at least two Full Quotations are obtained, the highest Full Quotation; (B) if only a Weighted Average Quotation is obtained, such Weighted Average Quotation; and (C) if the Quotations are deemed to be zero, the Calculation Agent shall determine the Market Value in good faith in its absolute discretion and this may result in the Market Value being zero.

11(a)G. Physical Settlement

(a) Delivery of Notice of Physical Settlement

If Physical Settlement applies, the Calculation Agent will use reasonable endeavours to deliver to the Noteholders a Notice of Physical Settlement on or before:

(i) subject to paragraph (ii) below, the later of:

(A) the 30th calendar day (subject to adjustment in accordance with the Following Business Day Convention) after the Event Determination Date, subject, where applicable, to Condition 11(a)B(b) (*Settlement Suspension following Credit Event Resolution Request Date*); or

(B) at the Issuer's option, the 10th calendar day after (I) the date on which ISDA publicly announces that the relevant Credit Derivatives Determinations Committee has Resolved not to determine whether a Credit Event has occurred or the date of occurrence of such Credit Event or (II) the date of the relevant DC Credit Event Announcement, if any; or

(ii) if so determined by the Issuer in its sole discretion, the (A) 30th calendar day after an Auction Cancellation Date or No Auction Announcement Date or (B) the Relevant City Business Day immediately following the later of the Parallel Auction Final Price Determination Date, if any (or, if more than one should occur, the last Parallel Auction Final Price Determination Date), and the Parallel Auction Cancellation Date, if any (or, if more than one should occur, the last Parallel Auction Cancellation Date).

For the purposes of determining whether a Notice of Physical Settlement has been delivered, the effective date of delivery of the first Notice of Physical Settlement (whether or not subsequently re-issued or changed) shall be used.

(b) Delivery on the Physical Settlement Date

If Physical Settlement applies, the Issuer shall use reasonable efforts, subject to Condition 11(a)G(e) (*Asset Transfer Notice*), to Deliver to each Noteholder or to the Noteholder's order the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations. In the event that the Issuer, for any reason whatsoever (other than as a result of an event or circumstance contemplated in Condition 11(a)G(g) (*Partial Cash Settlement due to impossibility, impracticability or illegality*)), does not affect Delivery of all or a portion of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations to any Noteholder by the Physical Settlement Date, such failure shall not constitute an Event of Default and the Issuer may continue to attempt such Delivery until the Extended Physical Settlement Date.

(c) Partial Cash Settlement following Extended Physical Settlement Date

If, as at the relevant Extended Physical Settlement Date, any such Deliverable Obligations have not been Delivered, then, subject to Condition 11(a)G(e) (*Asset Transfer Notice*) and Condition 11(a)G(g) (*Partial Cash Settlement due to impossibility, impracticability or illegality*), Partial Cash Settlement shall apply with respect to such Deliverable Obligations and the Issuer shall pay to the relevant Noteholders an amount equal to the Partial Cash Settlement Amount to be apportioned *pro rata* amongst the relevant Noteholders on the Partial Cash Settlement Date.

"**Extended Physical Settlement Date**" means such date as the Calculation Agent may determine in its absolute discretion, **provided that** such date falls no later than the 180th calendar day following the Physical Settlement Date or, in the absence of such determination, such 180th calendar day.

(d) Delivery

To "**Deliver**" the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations pursuant to Condition 11(a)G (*Physical Settlement*) means to deliver, novate, transfer (including in the case of a Guarantee, transfer of the benefit of the Guarantee), assign or sell, as appropriate, in the manner customary for the settlement of the applicable Deliverable Obligations, in order to convey all right, title (or, with respect to Deliverable Obligations where only equitable title is customarily conveyed, all equitable title) and interest in the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations specified in the Notice of Physical Settlement or any NOPS Amendment Notice, as applicable, to the Noteholder or its designated nominee free and clear of any and all liens, charges, claims or encumbrances (excluding any liens routinely imposed on all securities in a relevant clearance system, but including without limitation any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a) to (d) (inclusive) of the definition of "**Credit Event**" or right of set-off by or of the Reference Entity or as applicable an Underlying Obligor); **provided that** (A) if a Deliverable Obligation is a Direct Loan Participation, "**Deliver**" means to create (or procure the creation of) a participation in favour of the relevant Noteholder or its designated nominee and (B) if a Deliverable Obligation is a Guarantee, "**Deliver**" shall mean to Deliver both the Guarantee and the Underlying Obligation, provided further that if the Guarantee has a Fixed Cap, (X) "**Deliver**" means to Deliver the Underlying Obligation, the Guarantee and all claims to any amounts which are subject to such Fixed Cap and (Y) those claims shall be deemed to be Deliverable Obligations. "**Delivery**" and "**Delivered**" shall be construed accordingly.

In the case of a Loan, Delivery may, at the option of the Issuer, be effected by granting a participation in all or part of the Loan or such other arrangement or using documentation specified by the Calculation Agent for such purpose. Each Noteholder agrees to comply, for the purposes of the Notes, with the provisions of any such documentation. Each Noteholder is deemed to further agree, that compliance by the Issuer with the provisions of any such documentation shall, without further action, constitute, Delivery for the purposes of this definition (to the extent that such documentation contains provisions describing how Delivery should be effected) and no Noteholder shall be permitted to request that the Issuer take nor shall the Issuer be required to take, any action or make any payment in connection with such Delivery, as applicable.

If Asset Package Delivery applies, (i) Delivery of a Prior Deliverable Obligation or a Package Observable Bond specified in the Notice of Physical Settlement or NOPS Amendment Notice, as applicable, may be satisfied by Delivery of the related Asset Package, and such Asset Package shall be treated as having the same currency, Outstanding Principal Balance or Due and Payable Amount, as applicable, as the Prior Deliverable Obligation or Package Observable Bond to which it corresponds had immediately prior to the Asset Package Credit Event, (ii) each Asset in the Asset Package shall be Delivered **provided that** if any such Asset is not a Bond, it shall be treated as if it were a Loan for these purposes, (iii) if the Asset Package is zero, the Outstanding Amount of the Prior Deliverable Obligation or Package Observable Bond shall be deemed to have been Delivered in full three Business Days following the date on which the Calculation Agent has notified the Noteholders of the detailed description of the Asset Package that the Issuer shall Deliver in the Notice of Physical Settlement, (iv) the Issuer may satisfy its obligation to make Delivery of the Prior Deliverable Obligation or Package Observable Bond in part by Delivery of each Asset in the Asset Package in the correct proportion and (v) if the relevant Asset is a Non-Transferable Instrument or Non-Financial Instrument, the Asset shall be deemed to be an amount of cash equal to the Asset Market Value.

(e) Asset Transfer Notice

In order to obtain Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations each Noteholder must deliver to the Issuer or the Registrar (if different) within five Business Days of the date of delivery of the Notice of Physical Settlement or, if there is any NOPS Amendment Notice, the most recent NOPS Amendment Notice (the "**Cut-Off Date**"), a duly completed Asset Transfer Notice in accordance with Condition 11(a)G(f) (*Asset Transfer Notice Requirements*) and, in the case of a holding of a Definitive Note or Registered Note, the Note (which expression shall, for the purposes of this Condition 11(a)G(e) (*Asset Transfer Notice*), include Certificate(s) and, if applicable, all unmatured Coupons and unmatured and unexchanged Talons, in accordance with the provisions of Condition 12(e) (*Deduction for unmatured Coupons*) and (f) (*Unmatured Coupons*). In the event that the Note is represented by a Global Note, an Asset Transfer Notice must be delivered to the Issuer via the relevant Clearing System, by such method of delivery as the relevant Clearing System shall have approved.

After delivery of an Asset Transfer Notice, no transfers of the Notes specified therein which are represented by a Global Note will be effected by any relevant Clearing System and no transfers of Registered Notes specified therein will be effected by the Registrar.

Upon receipt of a duly completed Asset Transfer Notice and, in the case of Definitive Notes or Registered Notes, the Note to which such notice relates, the Issuer, any relevant Clearing System or the Registrar, as the case may be, shall verify that the person specified therein as the accountholder or registered holder, as the case may be, is the Holder of the Note referred to therein according to its books or the Register, as the case may be.

Subject as provided herein, in relation to each Note, the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations will be Delivered to the relevant Noteholder at the risk of such Noteholder.

If the Asset Transfer Notice and (with respect to Definitive Notes and Registered Notes) the relevant Note are delivered to the Issuer later than close of business in London on the Cut-Off Date, then the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations will be Delivered as soon as practicable after the date on which Delivery of the same would otherwise be made, at the risk of such Noteholder in the manner provided above. For the avoidance of doubt, such Noteholder shall not be entitled to any payment or to other assets, whether in respect of interest or otherwise, in the event of the Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations taking place after the date on which Delivery of the same would otherwise be made pursuant to the provisions of this Condition 11(a)G (*Physical Settlement*) or otherwise due to circumstances beyond the control of the Issuer.

If any Noteholder fails to deliver an Asset Transfer Notice in the manner set out herein or delivers an Asset Transfer Notice on any day falling after the day that is 180 calendar days after the date of delivery of the Notice of Physical Settlement or, in the case of Definitive Notes or Registered Notes, fails to deliver the Note related thereto or fails to pay the Delivery Expenses as referred to in Condition 11(a)G(i) (Costs and Expenses), the Issuer shall be discharged from its obligations in respect of such Note and shall have no further obligation or liability whatsoever in respect thereof.

Until Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations is made to the relevant Noteholder, the Issuer or any person holding such assets on behalf of the Issuer shall continue to be the legal owner of those assets. None of the Issuer and any such other person shall (i) be under any obligation to deliver or procure delivery to such Noteholder or any subsequent transferee any letter, certificate, notice, circular or any other document or payment whatsoever received by that person in its capacity as the holder of such assets, (ii) be under any obligation to exercise or procure the exercise of any or all rights (including voting rights) attaching or appertaining to such assets until the date of Delivery or (iii) be under any liability to such Noteholder or subsequent transferee for any loss, liability, damage, cost or expense that such Noteholder or subsequent transferee may sustain or suffer as a result, whether directly or indirectly, of that person not being the legal owner of such assets until the date of Delivery. For the avoidance of doubt, each Noteholder further acknowledges and agrees that the terms of any Deliverable Obligation may be subject to amendment by the Issuer, the Calculation Agent or the parties thereto prior to Delivery or otherwise.

(f) Asset Transfer Notice Requirements

An Asset Transfer Notice is irrevocable and must:

(i) specify the account details and name of the person to whom Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligation is to be made;

(ii) specify the number of Notes which are the subject of such notice;

(iii) in the event such Notes are represented by a Global Note:

(A) specify the number of the Noteholder's account at the relevant Clearing System to be debited with such Notes; and

(B) irrevocably instruct and authorise the relevant Clearing System to debit the relevant Noteholder's account with such Notes on the due date for redemption of the Notes;

(iv) in the event that such Notes are Registered Notes, irrevocably instruct and authorise the Registrar to effect the transfer of the relevant Notes;

(v) authorise the production of such notice in any applicable administrative or legal proceedings;

(vi) authorise the Issuer to deduct from the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations to be delivered in accordance with such notice, the Delivery Expenses as referred to in Condition 11(a)G(i) (Costs and Expenses) below; and

(vii) must be in the form in the relevant Appendix hereto with any amendments as determined by the Issuer or the Calculation Agent from time to time or in such other form made available by the Issuer or the Calculation Agent from time to time.

Failure properly to complete and deliver an Asset Transfer Notice and, in the case of Definitive Notes or Registered Notes, to deliver the relevant Note in accordance with Condition 11(a)G(e) (*Asset Transfer Notice*), may result in such notice being treated as null and void. Any determination as to whether such notice has been properly completed and delivered as provided in these Conditions shall be made by the Issuer in its sole and absolute discretion and shall be conclusive and binding on the relevant Noteholder.

(g) Partial Cash Settlement due to impossibility, impracticability or illegality

(i) If due to an event beyond the control of the Issuer it is impossible, impracticable or illegal for the Issuer to Deliver, or due to an event beyond the control of any Noteholder or its designated nominee, it is impossible or illegal for such Noteholder to accept Delivery of, all or a portion of the Deliverable Amount of any of the Deliverable Obligations by the Physical Settlement Date (including, without limitation, failure of the relevant Clearing System or due to any law, regulation or court order, but not including market conditions or failure to obtain any requisite consent with respect to the Delivery of Loans) then by such date the Issuer or, as the case may be, the Noteholder shall provide a description in reasonable detail of the facts giving rise to such impossibility, impracticability or illegality and the Issuer shall Deliver and such Noteholder or its designated nominee shall take

Delivery of that portion (if any) of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations for which it is possible, practicable and legal to take Delivery. As soon as possible thereafter, the Issuer shall Deliver and such Noteholder, its originally designated nominee or any new designated nominee shall take Delivery of the remaining portion of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations.

(ii) If following the occurrence of any impossibility, impracticability or illegality referred to in (i) above, all or a portion of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations is not Delivered on or prior to the Latest Permissible Physical Settlement Date, then Partial Cash Settlement pursuant to Condition 11(a)G(g)(iii) shall be deemed to apply with respect to that portion of the Deliverable Amount of the Deliverable Obligations that cannot be Delivered for the reasons specified above (and/or, together with any other Deliverable Obligation which have not been delivered under Condition 11(a)G(c) (*Partial Cash Settlement following Extended Physical Settlement Date*), the "**Undeliverable Obligations**").

(iii) On the Partial Cash Settlement Date, the Issuer shall pay to the relevant Noteholders the Partial Cash Settlement Amount to be apportioned *pro rata* amongst the relevant Noteholders and upon discharge by the Issuer of such payment obligation on the Partial Cash Settlement Date, the Issuer's obligations in respect of the relevant Note shall be discharged.

(h) Fractional Entitlement

If the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations comprises less than a multiple of a whole number of the Deliverable Obligations at the relevant time, then (i) the Issuer shall not Deliver and the relevant Noteholder shall not be entitled to receive in respect of its Notes that fraction of an asset which is less than a whole number (the "**Fractional Entitlement**") and (ii) the Issuer shall pay to the relevant Noteholder a cash amount (to be paid at the same time as Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations) equal to the value (as determined by the Calculation Agent) of such Fractional Entitlement.

(i) Costs and expenses

(i) The costs and expenses (the "**Delivery Expenses**") of effecting any delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations (except for the expenses of delivery by uninsured regular mail (if any), which shall be borne by the Issuer) shall be borne by the Noteholder and shall at the option of each Noteholder as specified in the Asset Transfer Notice either be:

(A) paid to the Issuer by such Noteholder prior to the Delivery of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations (and, for the avoidance of doubt, the Issuer shall not be required to Deliver any portion of the Deliverable Amount of the Deliverable Obligations to such Noteholder until it has received such payment); or

(B) deducted by the Issuer from the amount which may be payable to such Noteholder, in accordance with Condition 11(a)G(h) (*Fractional Entitlement*).

(ii) If there is not a cash amount owing to a Noteholder sufficient to cover the Delivery Expenses, the Issuer may convert such amount of the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations into cash sufficient to cover the Delivery Expenses in respect of such Note from which the Issuer shall deduct such Delivery Expenses. Each Note will then be redeemed by delivery of the remaining portion of the Deliverable Amount of the Deliverable Obligations in respect of such Note and, if applicable, payment of a cash amount in respect of any Fractional Entitlement arising, together with any other amounts to which such Noteholder is entitled upon redemption of such Note.

(j) No Obligation to Register Noteholder

The Issuer shall not be under any obligation to register or procure the registration of any Noteholder or any other person as the registered holder of any of the Deliverable Obligations to be delivered in the register of members or holders of debt securities of any company whose securities form part of the Deliverable Obligations. The Issuer shall not be obliged to account to any Noteholder for any entitlement received or receivable in respect of any of the Deliverable Obligations to be delivered if the date on which such are first traded ex such entitlement is on or prior to the date of Delivery. The Issuer shall determine, in its sole and absolute discretion, the date on which such assets are so first traded ex any such entitlement.

(k) Asset Package Delivery

Asset Package Delivery will apply if an Asset Package Credit Event occurs, unless (i) such Asset Package Credit Event occurs prior to the Credit Event Backstop Date determined in respect of the Credit Event specified in the Credit Event Notice or DC Credit Event Announcement applicable to the Event Determination Date, or (ii) if the Reference Entity is a Sovereign, no Package Observable Bond exists immediately prior to such Asset Package Credit Event.

11(a)H. Restructuring Credit Event

(a) Multiple Credit Event Notices

Where Restructuring is an applicable Credit Event in relation to any Reference Entity upon the occurrence of a Restructuring Credit Event in relation to such Reference Entity for which either "Modified Modified Restructuring Applicable", or "Modified Restructuring Applicable" is specified in the Pricing Supplement or is applicable in respect of the Transaction Type:

(i) the Calculation Agent may deliver multiple Credit Event Notices with respect to such Restructuring Credit Event, each such notice setting forth the amount of the relevant Reference Entity Notional Amount to which such Restructuring Credit Event applies (the "**Exercise Amount**"), **provided that** if the Credit Event Notice does not specify an Exercise Amount, the then outstanding Reference Entity Notional Amount will be deemed to have been specified as the Exercise Amount; and

(ii) the provisions of this Credit Linked Derivatives Annex shall be deemed to apply to an aggregate outstanding principal amount of the Notes equal to the Exercise Amount only and all the provisions hereof shall be construed accordingly.

The Exercise Amount in connection with a Credit Event Notice describing a Restructuring must be an amount that is at least 1,000,000 units of the currency (or, if Japanese Yen, 100,000,000 units) in which the Reference Entity Notional Amount is denominated or any integral multiple thereof or the entire Reference Entity Notional Amount.

If any Note is subject to partial redemption in accordance with this Condition 11(a)H(a) (*Multiple Credit Event* Notices), the relevant Note or, if the Notes are represented by a Global Note, such Global Note shall be endorsed to reflect such partial redemption.

(b) ***Restructuring Maturity Limitation and Fully Transferable Obligation Applicable***

If "**Modified Restructuring Applicable**" is specified in the Pricing Supplement or is applicable in respect of the Transaction Type, and Restructuring is the only Credit Event specified in a Credit Event Notice, then a Deliverable Obligation or, as applicable, Valuation Obligation, may be specified in a Notice of Physical Settlement or specified in any NOPS Amendment Notice or, as applicable, selected by the Calculation Agent as a Valuation Obligation only if it:

(i) is a Fully Transferable Obligation; and

(ii) has a final maturity date not later than the Restructuring Maturity Limitation Date, in each case, as of both the NOPS Effective Date and the Delivery Date.

(c) ***Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Applicable***

If "**Modified Modified Restructuring Applicable**" is specified in the Pricing Supplement or is applicable in respect of the Transaction Type, and Restructuring is the only Credit Event specified in a Credit Event Notice, then unless the Deliverable Obligation is a Prior Deliverable Obligation and Asset Package Delivery applies due to a Governmental Intervention, a Deliverable Obligation or, as applicable, Valuation Obligation, may be specified in the Notice of Physical Settlement or specified in any NOPS Amendment Notice or, as applicable, selected by the Calculation Agent as a Valuation Obligation, only if it:

(i) is a Conditionally Transferable Obligation; and

(ii) has a final maturity date not later than the applicable Modified Restructuring Maturity Limitation Date,

in each case as, of both the NOPS Effective Date and the Delivery Date. Notwithstanding the foregoing, for the purposes of this Condition 11(a)H(c) (*Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Applicable*), in the case of a Restructured Bond or Loan with a final maturity date on or prior to the 10 year Limitation Date, the final maturity of such Loan or Bond shall be deemed to be the earlier of such final maturity date or the final maturity date of such Bond or Loan immediately prior to the relevant Restructuring.

In the event that the requisite consent in relation to a Deliverable Obligation which is a Conditionally Transferable Obligation is refused (whether or not a reason is given for such refusal and, where a reason is given for such refusal, regardless of that reason) or is not received by the Physical Settlement Date, the Issuer shall promptly notify the relevant Noteholders of such refusal (or deemed refusal) and:

(a) each such Noteholder may designate a third party (which may or may not be an Affiliate of such Noteholder) to take Delivery of the Deliverable Obligation on its behalf; and

(b) if a Noteholder does not designate a third party that takes Delivery on or prior to the date which is three Business Days after the Physical Settlement Date, then the Issuer may (but shall not be obliged to) continue to attempt such Delivery until the Extended Physical Settlement Date and failing which, Condition 11(a)(C)(b) (*Partial Cash Settlement following Extended Physical Settlement Date*) shall apply.

11(a)I. Provisions relating to Obligation Category and Characteristics and Deliverable Obligation Category and Characteristics

(a) ***Obligation Characteristics***

If the Obligation Characteristic "Listed" or "Not Domestic Issuance" is specified in the Pricing Supplement or is applicable in respect of the applicable Transaction Type, the Pricing Supplement and this Credit Linked Derivatives Annex shall be construed as though the relevant Obligation Characteristic had been specified as an Obligation Characteristic only with respect to Bonds.

(b) ***Deliverable Obligation Category and Characteristics***

If:

(i) any of the Deliverable Obligation Characteristics "Listed", "Not Domestic Issuance" or "Not Bearer" is specified in the applicable Pricing Supplement or is applicable in respect of the applicable Transaction Type, the Pricing Supplement shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Bonds and shall only be relevant if Bonds are covered by the selected Deliverable Obligation Category;

(ii) the Deliverable Obligation Characteristic "Transferable" is specified in the applicable Pricing Supplement or is applicable in respect of the applicable Transaction Type, the Pricing Supplement shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Deliverable Obligations that are not Loans;

(iii) any of the Deliverable Obligation Characteristics "Assignable Loan", "Consent Required Loan" or "Direct Loan Participation" is specified in the applicable Pricing Supplement or is applicable in respect of the applicable Transaction Type, the Pricing Supplement shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Loans; or

(iv) more than one of "Assignable Loan", "Consent Required Loan" and "Direct Loan Participation" are specified in the applicable Pricing Supplement as Deliverable Obligation Characteristics or is applicable in respect of the applicable Transaction Type, the Deliverable Obligations may include any Loan that satisfies any one of such Deliverable Obligation Characteristics specified and need not satisfy all such Deliverable Obligation Characteristics.

(c) ***Qualifying Guarantees***

If an Obligation or a Deliverable Obligation is a Relevant Guarantee, the following will apply:

(i) for purposes of the application of the Obligation Category or the Deliverable Obligation Category, the Relevant Guarantee shall be deemed to be described by the same category or categories as those that describe the Underlying Obligation;

(ii) for purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, both the Relevant Guarantee and the Underlying Obligation must satisfy on the relevant date each of the applicable Obligation Characteristics or the Deliverable Obligation Characteristics, if any, specified in the applicable Pricing Supplement from the following list: "Not Subordinated", "Specified Currency", "Not Sovereign Lender", "Not Domestic Currency" and "Not Domestic Law";

(iii) for purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics, only the Underlying Obligation must satisfy on the relevant date or dates each of the applicable Obligation Characteristics or the Deliverable Obligation Characteristics, if any, specified in the applicable Pricing Supplement or the applicable Transaction Type from the following list: "Listed", "Not Domestic Issuance", "Assignable Loan", "Consent Required Loan", "Direct Loan Participation", "Transferable", "Maximum Maturity", "Accelerated" or "Matured" and "Not Bearer";

(iv) for purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics to an Underlying Obligation, references to the Reference Entity shall be deemed to refer to the Underlying Obligor;

(v) the terms "**outstanding principal balance**" and "**Due and Payable Amount**" (as they are used in the terms of the Notes, including without limitation, the definitions of "**Cash Settlement Amount**" and "**Quotation Amount**"), when used in connection with Qualifying Guarantees are to be interpreted to be the then "**outstanding principal balance**" or "**Due and Payable Amount**", as applicable, of the Underlying Obligation which is supported by a Qualifying Guarantee; and

(vi) for the avoidance of doubt the provisions of this Condition 11(a)I (*Provision relating to Obligation Category and Characteristics and Deliverable Obligation Category and Characteristics*) apply in respect of the definitions of "Obligation" and "Deliverable Obligation" as the context admits.

(d) Determinations of Deliverable Obligation Category Characteristics

(i) For purposes of the application of the Deliverable Obligation Characteristic "Maximum Maturity", remaining maturity shall be determined on the basis of the terms of the Deliverable Obligation in effect at the time of making such determination and, in the case of a Deliverable Obligation that is due and payable, the remaining maturity shall be zero.

(ii) *If "*__Financial Reference Entity Terms__" and "**Governmental Intervention**" are specified as applicable in the relevant Pricing Supplement, if an obligation would otherwise satisfy a particular Obligation Characteristic or Deliverable Obligation Characteristic, the existence of any terms in the relevant obligation in effect at the time of making the determination which permit the Reference Entity's obligations to be altered, discharged, released or suspended in circumstances which would constitute a Governmental Intervention, shall not cause such obligation to fail to satisfy such Obligation Characteristic or Deliverable Obligation Characteristic.

(iii) For the purposes of determining the applicability of Deliverable Obligation Characteristics and the requirements specified in Condition 11(a)H(b) (*Restructuring Maturity Limitation and Fully Transferable Obligation Applicable*) and Condition 11(a)H(c) (*Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Applicable*) to a Prior Deliverable Obligation or a Package Observable Bond, any such determination shall be made by reference to the terms of the relevant obligation in effect immediately prior to the Asset Package Credit Event.

(iv) If "**Subordinated European Insurance Terms**" is specified as applicable in the relevant Pricing Supplement, if an obligation would otherwise satisfy the "**Maximum Maturity**" Deliverable Obligation Characteristic, the existence of any Solvency Capital Provisions in such obligation shall not cause it to fail to satisfy such Deliverable Obligation Characteristic.

11(a)J. Provisions relating to LPN Reference Entities

The following provisions shall apply if the relevant Pricing Supplement provide that "**LPN Reference Entity**" is applicable:

(i) Multiple Holder Obligation will not be applicable with respect to any Reference Obligation and any Underlying Loan;

(ii) each Reference Obligation will be an Obligation notwithstanding anything to the contrary in this Credit Linked Derivatives Annex, and in particular, that the obligation is not an obligation of the Reference Entity;

(iii) each Reference Obligations will be a Deliverable Obligation notwithstanding anything to the contrary in this Credit Linked Derivatives Annex, and in particular, that the obligation is not an obligation of the Reference Entity;

(iv) for the avoidance of doubt, with respect to any LPN Reference Obligation that specifies an Underlying Loan or an Underlying Financial Instrument, the outstanding principal balance shall be determined by reference to the Underlying Loan or Underlying Finance Instrument (as applicable) relating to such LPN Reference Obligation; and

(v) the "Not Subordinated" Obligation Characteristic and Deliverable Obligation Characteristic shall be construed as if no Reference Obligation was specified in respect of the Reference Entity.

11(a)K. Succession Event

(a) Single Reference Entity

Where the Notes are linked to a single Reference Entity and more than one Successor has been identified, the following terms will apply:

(i) each Successor will be a Reference Entity for the purposes of the Notes;

(ii) the Reference Entity Notional Amount of each such Successor will be the Reference Entity Notional Amount applicable to the original Reference Entity divided by the number of Successors;

(iii) the Notes will redeem or settle in part upon the occurrence of an Event Determination Date in respect of a Successor;

(iv) the amount of interest accruing and payable in respect of the Notes will be reduced with effect from the date on which it would have been reduced upon the occurrence of an Event Determination Date in respect of the original Reference Entity but the balance on which interest is calculated shall only be reduced by the Reference Entity Notional Amount of the Successor in respect of which the relevant Event Determination Date occurred;

(v) more than one Event Determination Date may occur but not more than one Event Determination Date may occur with respect to a single Successor; and

(vi) upon the identification of more than one Successor, the Calculation Agent acting in its sole discretion may, without the consent of the Issuer, the Noteholders or the Paying Agent, revise the terms and conditions of the Notes to account for such Successors and the Issuer will cause such revised terms and conditions to be substituted for the original terms and conditions and such revised terms and conditions shall be binding on the Issuer, the Noteholders, the Couponholders and the Paying Agent.

(b) Nth-to-Default CLNs

Where the Notes are linked to more than one Reference Entity and the Notes are issued on the basis that they will be redeemed in whole on the occurrence of an Event Determination Date in respect of a single Reference Entity and one or more Successors have been identified, the following terms will apply:

(i) each Successor and each of the Reference Entities that do not have a Successor will be a Reference Entity for the purposes of the Notes, and the provisions of Condition 11(a)K(a)(ii) (*Single Reference Entity*) shall apply thereto;

(ii) if "Substitution" is specified as not being applicable in the Pricing Supplement, where any Reference Entity (the "**Surviving Reference Entity**") would be a Successor to any other Reference Entity (the "**Legacy Reference Entity**"), such Surviving Reference Entity shall be deemed to be a Successor to the Legacy Reference Entity;

(iii) if "Substitution" is specified as being applicable in the Pricing Supplement, where any Reference Entity (the "**Surviving Reference Entity**") would be a Successor to any other Reference Entity (the "**Legacy Reference Entity**"):

(A) such Surviving Reference Entity shall be deemed not to be a Successor to the Legacy Reference Entity; and

(B) a replacement Reference Entity selected by the Calculation Agent acting in its sole discretion shall be deemed to be a Successor to the Legacy Reference Entity; and

(iv) the Calculation Agent acting in its sole discretion may, without the consent of the Issuer, the Noteholders or the Paying Agent, revise the terms and conditions of the Notes to account for such Successors and the Issuer will cause such revised terms and conditions to be substituted for the original terms and conditions and such revised terms and conditions shall be binding on the Issuer, the Noteholders, the Couponholders and the Paying Agent.

(c) Basket CLNs

Where the Notes are linked to more than one Reference Entity but the Notes are not issued on the basis that they will be redeemed in whole on the occurrence of an Event Determination Date in respect of a single Reference Entity and one or more Successors have been identified, the following terms will apply:

(i) the Reference Entity that has one or more Successors (the "**Affected Entity**") will no longer be a Reference Entity (unless it is a Successor as described in (ii) below);

(ii) each Successor will be deemed a Reference Entity (in addition to each Reference Entity which is not an Affected Entity);

(iii) the Reference Entity Notional Amount for each such Successor will equal the Reference Entity Notional Amount of the Affected Entity divided by the number of Successors; and

(iv) the Calculation Agent acting in its sole discretion may, without the consent of the Issuer, the Noteholders or the Paying Agent, revise the terms and conditions of the Notes to account for such Successors and the Issuer will cause such revised terms and conditions to be substituted for the original terms and conditions and such revised terms and conditions shall be binding on the Issuer, the Noteholders, the Couponholders and the Paying Agent.

(d) Substitute Reference Obligation on determination of one or more Successors

Where:

(i) a Reference Obligation is specified in the applicable Pricing Supplement;

(ii) one or more Successors to the Reference Entity have been identified; and

(iii) any one or more such Successors have not assumed the Reference Obligation, a Substitute Reference Obligation will be determined in accordance with the definition of "**Substitute Reference Obligation**".

11(a)L. Other Provisions

(a) Participation CLN

If the Pricing Supplement specifies that Participation CLN is applicable, the following terms will apply:

(i) in addition to the provisions on interest ceasing to accrue under Condition 11(a)A(b) (Redemption following Satisfaction of Conditions to Settlement), the obligation of the Issuer to redeem any Note or pay any interest on the Notes shall be conditional upon there being no Potential Failure to Pay or Failure to Pay in respect of any relevant Reference Entity (which need not be continuing on the relevant Interest Payment Date);

(ii) the Payment Requirement and the Default Requirement shall be zero; and

(iii) Notice of Publicly Available Information will not be applicable as a Condition to Settlement.

(b) Determinations of the Calculation Agent and Determinations at Issuer's option

The determination by the Calculation Agent of any amount or of any state of affairs, circumstance, event or other matter, or the formation of any opinion or the exercise of any discretion required or permitted to be determined, formed or exercised by the Calculation Agent pursuant to this Credit Linked Derivatives Annex shall (in the absence of manifest error) be final and binding on the Issuer, the Noteholders and the Couponholders. In performing its duties pursuant to the Notes, the Calculation Agent shall act in its sole and absolute discretion and, unless otherwise expressly stated, is not bound to follow or act in accordance with any determination of the relevant Credit Derivatives Determinations Committee. Whenever the Calculation Agent is required to make any determination it may, *inter alia*, decide issues of construction and legal interpretation. If the Calculation Agent chooses to rely on the determinations of the relevant Credit Derivatives Determinations Committee it may do so without liability. Any delay, deferral or forbearance by the Calculation Agent in the performance or exercise of any of its obligations or its discretion under the Notes including, without limitation, the giving of any notice by it to any person, shall not affect the validity or binding nature of any later performance or exercise of such obligation or discretion, and none of the Calculation Agent or the Issuer shall, in the absence of wilful misconduct and gross negligence, bear any liability in respect of, or consequent upon, any such delay, deferral or forbearance.

The exercise of any option of the Issuer or determination by the Issuer of any amount or of any state of affairs, circumstance, event or other matter, or the formation of any opinion or the exercise of any discretion required or permitted to be determined, formed or exercised by the Issuer pursuant to this Credit Linked Derivatives Annex shall be final and binding on the Calculation Agent, the Noteholders and the Couponholders and shall not be required to be notified to the Calculation Agent, the Noteholders or the Couponholders. The Issuer shall act in its sole and absolute discretion and, unless otherwise expressly stated, is not bound to follow or act in accordance with any determination of the relevant Credit Derivatives Determinations Committee. Whenever the Issuer is required to make any determination it may, *inter alia*, decide issues of construction and legal interpretation. If the Issuer chooses to rely on the determinations of the relevant Credit Derivatives Determinations Committee it may do so without liability. Any delay, deferral or forbearance by the Issuer in the performance or exercise of any of its obligations or its discretion under the Notes including, without limitation, the giving of any notice by it to any person, shall not affect the validity or binding nature of any later performance or exercise of such obligation or discretion, and none of the Calculation Agent or the Issuer shall, in the absence of wilful misconduct and gross negligence, bear any liability in respect of, or consequent upon, any such delay, deferral or forbearance.

(c) Calculation Agent Responsibility

The Calculation Agent shall be responsible for:

(i) determining whether a Credit Event or Potential Credit Event has occurred

(ii) determining the identity of any Successor to the Reference Entity;

(iii) determining whether an event specified in paragraph (i) of the definition of "**Substitute Reference Obligation**" has occurred;

(iv) identifying and determining a Substitute Reference Obligation;

(v) obtaining Quotations (and, if necessary, determining whether such Quotations shall include or exclude accrued but unpaid interest) and determining the Final Price, Cash Settlement Amount and Partial Cash Settlement Amount;

(vi) converting the Quotation Amount into the relevant Obligation Currency;

(vii) determining the Dealers and substituting Dealers;

(viii) determining the Currency Rate;

(ix) determining the Auction Settlement Amount and Cash Settlement Amount;

(x) determining the Break Costs;

(xi) determining the Outstanding Principal Balance and/or any Due and Payable Amount;

(xii) determining the Largest Asset Package;

(xiii) determining the Asset Market Value; and

(xiv) determining the Partial Cash Settlement Amount.

The Calculation Agent shall, as soon as practicable after obtaining any Quotation, notify the Noteholders in writing of each such Quotation that it receives in connection with the calculation of the Final Price and shall provide to the Noteholders a written computation showing its calculation of the Final Price. Whenever the Calculation Agent is required to act or to exercise judgment, it will do so in good faith and in a commercially reasonable manner.

(d) Changes in Standard Terms and Market Conventions

If the Calculation Agent determines, acting reasonably, that from time to time there has been a change in prevailing market standard terms or market trading conventions, which change affects any Hedge Transaction such that the terms of such Hedge Transaction are or may thenceforth be inconsistent with corresponding provisions of this Credit Linked Derivatives Annex, then it may, without the consent of the Issuer, the Noteholders, the Couponholders or the Paying Agent, modify this Credit Linked Derivatives Annex to the extent necessary to preserve such consistency. The Calculation Agent shall notify the Issuer and the Paying Agent as soon as reasonably practicable upon making any such determination.

(e) Effectiveness of Notices

Any Credit Event Notice, Notice of Publicly Available Information, Notice of Physical Settlement (or amendment or correction thereto) or Potential Credit Event Notice from the Calculation Agent which is delivered on or prior to 5:00 p.m. (London time) on a London Business Day is effective on such date and if delivered after such time or on a day that is not a London Business Day, is deemed effective on the next following London Business Day. Any such notice may be in writing (including by facsimile and/or email) and/or by telephone. For so long as the Notes are held on behalf of a Clearing System, for the purpose of this Credit Linked Derivatives Annex, any notice in writing delivered to the relevant Clearing System shall be treated as "**delivered**" to Noteholders when delivered to the relevant Clearing System, whether by email, by facsimile, by hand or any other method of delivery accepted by the relevant Clearing Systems for notices for onward transmission to its accountholders.

(f) Prevailing terms

In the event of any inconsistency between the Conditions and this Credit Linked Derivatives Annex, this Credit Linked Derivatives Annex will prevail. In the event of any inconsistency between the Pricing Supplement and the Conditions and this Credit Linked Derivatives Annex, the Pricing Supplement will prevail.

(g) Time Zones

In order to determine the day on which an event occurs for purposes of these Additional Conditions, the demarcation of days shall be made by reference to Greenwich Mean Time (or, if the Transaction Type of the Reference Entity relates to Japan, Tokyo time), irrespective of the time zone in which such event occurred. Any event occurring at midnight shall be deemed to have occurred immediately prior to midnight.

(h) Payment Timing

Notwithstanding the definition of Credit Event Notice and paragraph (g) (*Time Zones*) above, if a payment is not made by the Reference Entity on its due date or, as the case may be, on the final day of the relevant Grace Period, then such failure to make a payment shall be deemed to have occurred on such day prior to midnight Greenwich Mean Time (or, if the Transaction Type of the Reference Entity relates to Japan, Tokyo time), irrespective of the time zone of its place of payment.

2. DEFINITIONS

For the purposes of Conditions 11(a)A, 11(a)B, 11(a)C, 11(a)D, 11(a)E, 11(a)F, 11(a)G, 11(a)H, 11(a)I, 11(a)J, 11(a)K and 11(a)L, the following words shall have the following meaning:

"**Accelerated or Matured**" means an obligation under which the principal amount owed, whether by reason of maturity, acceleration, termination or otherwise, is due and payable in full in accordance with the terms of such obligation, or would have been but for, and without regard to, any limitation imposed under any applicable insolvency laws;

"**Accrued Interest**" means with respect to Notes for which:

(a) "Physical Settlement" applies (or for which Physical Settlement is applicable as the Fallback Settlement Method in accordance with the terms relating to Auction Settlement), the Outstanding Principal Balance of the Deliverable Obligations being Delivered will exclude accrued but unpaid interest, unless "Include Accrued Interest" is specified as applicable in the related Pricing Supplement, in which case, the Outstanding Principal Balance of the Deliverable Obligations being Delivered will include accrued but unpaid interest (as the Calculation Agent shall determine);

(b) "Cash Settlement" applies (or if Cash Settlement is applicable as the Fallback Settlement Method in accordance with the terms relating to Auction Settlement), and:

(i) "Include Accrued Interest" is specified as applicable in the related Pricing Supplement, the Outstanding Principal Balance of the Reference Obligation shall include accrued but unpaid interest;

(ii) "Exclude Accrued Interest" is specified as applicable in the related Pricing Supplement, the Outstanding Principal Balance of the Reference Obligation shall not include accrued but unpaid interest; or

(iii) neither "Include Accrued Interest" nor "Exclude Accrued Interest" is specified as applicable in the related Pricing Supplement, the Calculation Agent shall determine, based on the then current market practice in the market of the Reference Obligation whether the Outstanding Principal Balance of the Reference Obligation shall include or exclude accrued but unpaid interest and, if applicable, the amount thereof; or

(c) Condition 11(a)G(g) (*Partial Cash Settlement due to impossibility, impracticability or illegality*) is applicable, the Calculation Agent shall determine, based on the then current market practice in the market of the relevant Undeliverable Obligation, Undeliverable Loan Obligation, Undeliverable Participation or Unassignable Obligation, whether such Quotations shall include or exclude accrued but unpaid interest;

"**Additional LPN**" means any bond issued in the form of a loan participation note (an "**LPN**") by an entity (the "**LPN Issuer**") for the sole purpose of providing funds for the LPN Issuer to:

(a) finance a loan to the Reference Entity (the "**Underlying Loan**"); or

(b) provide finance to the Reference Entity by way of a deposit, loan or other Borrowed Money instrument (the "**Underlying Finance Instrument**"); **provided that**:

(i) either:

(A) in the event that there is an Underlying Loan with respect to such LPN, the Underlying Loan satisfies the Obligation Characteristics specified in respect of the Reference Entity; or

(B) in the event that there is an Underlying Finance Instrument with respect to such LPN the Underlying Finance Instrument satisfies the Not Subordinated, Not Domestic Law and Not Domestic Currency Obligation Characteristics;

(ii) the LPN satisfies the following Deliverable Obligation Characteristics: Transferable, Not Bearer, Specified Currencies − Standard Specified Currencies, Not Domestic Law, Not Domestic Issuance; and

(iii) the LPN Issuer has, as of the issue date of such obligation, granted a First Ranking Interest over or in respect of certain of its rights in relation to the relevant Underlying Loan or Underlying Finance Instrument (as applicable) for the benefit of holders of the LPNs;

"**Additional Obligation**" means each of the obligations listed as an Additional Obligation of the Reference Entity in the relevant "LPN Reference Obligation List" as published by IHS Markit Ltd., or any successor thereto, which list is currently available at https://ihsmarkit.com/products/red- cds.html;

"**Additional Provisions**" means any additional provisions from time to time published by ISDA for use in the over the counter credit derivatives market and specified in the Pricing Supplement as applicable in relation to a Reference Entity which may include:

(a) the Additional Provisions for Physically Settled Default Swaps – Monoline Insurer as Reference Entity, as published by ISDA on 21 January 2005; or

(b) any other provisions specified in the Pricing Supplement in relation to such Reference Entity;

"**Affiliate**" means, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose "**control**" of any entity or person means ownership of a majority of the voting power of the entity or person;

"**Asset**" means each obligation, equity, amount of cash, security, fee (including any "**early-bird**" or other consent fee), right and/or other asset, whether tangible or otherwise and whether issued, incurred, paid or provided by the Reference Entity or a third party (or any value which was realised or capable or being realised in circumstances where the right and/or asset no longer exists);

"**Asset Market Value**" means the market value of an Asset, as the Calculation Agent shall determine by reference to an appropriate specialist valuation or in accordance with the methodology determined by the Credit Derivatives Determinations Committee.

"**Asset Package**" means, in respect of an Asset Package Credit Event, all of the Assets in the proportion received or retained by a Relevant Holder in connection with such relevant Asset Package Credit Event (which may include the Prior Deliverable Obligation or Package Observable Bond, as the case may be). If the Relevant Holder is offered a choice of Assets or a choice of combinations of Assets, the Asset Package will be the Largest Asset Package. If the Relevant Holder is offered, receives and retains nothing, the Asset Package shall be deemed to be zero;

"**Asset Package Credit Event**" means:

(a) if "Financial Reference Entity Terms" and "Governmental Intervention" are specified as applicable in the Pricing Supplement:

(i) a Governmental Intervention; or

(ii) a Restructuring in respect of the Reference Obligation, if "Restructuring" is specified as applicable in the Pricing Supplement and such Restructuring does not constitute a Governmental Intervention; and

(b) if the Reference Entity is a Sovereign and "Restructuring" is specified as applicable in the Pricing Supplement, a Restructuring,

in each case, whether or not such event is specified as the applicable Credit Event in the Credit Event Notice or the DC Credit Event Announcement;

"**Asset Transfer Notice**" means a notice that complies with Condition 11(a)G(f) (*Asset Transfer Notice Requirements*), issued by a Noteholder to the Issuer and copied to the Calculation Agent and the Paying Agent, in connection with a redemption of any Note wholly or in part by way of Physical Settlement (substantially in the form in the relevant Appendix hereto or as subsequently provided or made available to Noteholders by the Issuer or the Calculation Agent from time to time);

"**Assignable Loan**" means a Loan that is capable of being assigned or novated to at a minimum, commercial banks or financial institutions (irrespective of their jurisdiction of organisation) that are not then a lender or a member of the relevant lending syndicate without the consent of the Reference Entity or the guarantor, if any, of such Loan (or the consent of the applicable borrower if the Reference Entity is guaranteeing such Loan) or any agent;

"**Auction**" has the meaning set forth in the relevant Transaction Auction Settlement Terms; "**Auction Cancellation Date**" has the meaning set forth in the Transaction Auction Settlement Terms;

"**Auction Covered Transaction**" has the meaning set forth in the Transaction Auction Settlement Terms;

"**Auction Final Price**" has the meaning set forth in the Transaction Auction Settlement Terms; "**Auction Final Price Determination Date**" has the meaning set forth in the Transaction Auction Settlement Terms;

"**Auction Settlement Amount Notice**" means a notice (which may be in writing (including by facsimile and/or email) and/or by telephone) given by the Calculation Agent to the Noteholders within 30 Business Days from the Auction Final Price Determination Date or, if so determined by the Issuer in its sole discretion, a Parallel Auction Final Price Determination Date, specifying the Auction Settlement Amount;

"**Auction Settlement Date**" means the date that is three Business Days following delivery by the Calculation Agent of the Auction Settlement Amount Notice;

"**Bankruptcy**" means with respect to a Reference Entity, such Reference Entity (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger), (b) becomes insolvent or is unable to pay its debts or fails or admits in writing in a judicial, regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due, (c) makes a general assignment, arrangement, scheme or composition with or for the benefit of its creditors generally, or such a general assignment, arrangement, scheme or composition becomes effective, (d) institutes or has instituted against it a proceeding seeking a judgement of insolvency or bankruptcy or any other similar relief under any bankruptcy or insolvency law or other law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgement of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation, or (ii) is not dismissed, discharged, stayed or restrained in each case within 30 calendar days of the institution or presentation thereof, (e) has a resolution passed for its winding-up or liquidation (other than pursuant to a consolidation, amalgamation or merger), (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets, (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 calendar days thereafter, or (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in (a) to (g) (inclusive) above;

"**Best Available Information**" means:

(a) in the case of a Reference Entity which files information with its primary securities regulator or primary stock exchange that includes unconsolidated, *pro forma* financial information which assumes that the relevant Succession Event has occurred or which provides such information to its shareholders, creditors or other persons whose approval of the Succession Event is required, that unconsolidated, *pro forma* financial information and, if provided subsequently to the provision of unconsolidated, *pro forma* financial information but before the Calculation Agent makes its determination for the purposes of the definition of "Successor", other relevant information that is contained in any written communication provided by the Reference Entity to its primary securities regulator, primary stock exchange, shareholders, creditors or other persons whose approval of the Succession Event is required; or

(b) in the case of a Reference Entity which does not file with its primary securities regulators or primary stock exchange, and which does not provide to shareholders, creditors or other persons whose approval of the Succession Event is required, the information contemplated in (a) above, the best publicly available information at the disposal of the Calculation Agent or the Credit Derivatives Determinations Committee to allow it to make a determination for the purposes of the definition of "Successor",

provided that information which is made available more than 14 calendar days after the legally effective date of the Succession Event shall not constitute Best Available Information;

"**Bond**" means any obligation of a type included in the "Borrowed Money" Obligation Category that is in the form of, or represented by, a bond, note (other than notes delivered pursuant to Loans), certificated debt security or other debt security and shall not include any other type of Borrowed Money;

"**Bond or Loan**" means any obligation that is either a Bond or a Loan;

"**Borrowed Money**" means any obligation (excluding an obligation under a revolving credit arrangement for which there are no outstanding, unpaid drawings in respect of principal) for the payment or repayment of money, (which term shall include, without limitation, deposits and reimbursement obligations arising from drawings pursuant to letters of credit);

"**Break Costs**" shall, in respect of each Note, be the product of (a) the outstanding principal amount of such Note divided by the aggregate outstanding principal amount of the Notes, and (b) the amount (the "**Aggregate Break Costs**") determined by the Calculation Agent as the costs and/or loss incurred by the Issuer and/or any of its Affiliates under any Hedge Transaction(s) as the result of adjusting, unwinding or terminating such Hedge Transaction(s) (or that it would have incurred had it entered into any such Hedge Transaction), subject to a minimum of zero;

"**Cash Settlement Amount**" of any Note means an amount determined in accordance with Condition 11(a)F (*Cash Settlement*);

"**Cash Settlement Date**" means the date that is three Business Days following the calculation of the Final Price or, as the case may be, the Weighted Average Final Price;

"**Conditionally Transferable Obligation**" means a Deliverable Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Modified Eligible Transferees without the consent of any person being required, in the case of any Deliverable Obligation other than Bonds, in each case, as of both the NOPS Effective Date and the Delivery Date, **provided that** a Deliverable Obligation other than Bonds will be a Conditionally Transferable Obligation notwithstanding that consent of the Reference Entity or the guarantor, if any, of a Deliverable Obligation other than Bonds (or the consent of the relevant obligor if a Reference Entity is guaranteeing such Deliverable Obligation) or any agent is required for such novation, assignment or transfer so long as the terms of such Deliverable Obligation provide that such consent may not be unreasonably withheld or delayed. Any requirement that notification of novation, assignment or transfer of a Deliverable Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Deliverable Obligation shall not be considered to be a requirement for consent for purposes of this definition of "Conditionally Transferable Obligation".

For purposes of determining whether a Deliverable Obligation satisfies the requirements of the definition of "Conditionally Transferable Obligation", such determination shall be made as of the Delivery Date for the Deliverable Obligation, taking into account only the terms of the Deliverable Obligation and any related transfer or consent documents which have been obtained by the Calculation Agent;

"**Conditions to Settlement**" shall have the meaning specified in Condition 11(a)C (*Satisfaction of Conditions to Settlement*);

"**Conforming Reference Obligation**" means a Reference Obligation which is a Deliverable Obligation determined in accordance with paragraph (a) of the definition of "Deliverable Obligation";

"**Consent Required Loan**" means a Loan that is capable of being assigned or novated with the consent of the Reference Entity or the guarantor, if any, of such Loan (or the consent of the relevant borrower if the Reference Entity is guaranteeing such Loan) or any agent;

"**Credit Derivatives Auction Settlement Terms**" means, in relation to any Reference Entity, any Credit Derivatives Auction Settlement Terms a form of which will be published by ISDA on its website at www.isda.org (or any successor website thereto) from time to time and may be amended from time to time;

"**Credit Derivatives Definitions**" means the 2014 ISDA Credit Derivatives Definitions, as published by ISDA and, in addition, if Additional Provisions are specified to be applicable in the Pricing Supplement, as supplemented by the Additional Provisions;

"**Credit Derivatives Determinations Committee**" means each committee established pursuant to the DC Rules for purposes of reaching certain DC Resolutions in connection with Credit Derivative Transactions;

"**Credit Event**" means the occurrence of one or more of Bankruptcy, Failure to Pay, Obligation Acceleration, Obligation Default, Repudiation/Moratorium, Restructuring or Governmental Intervention as specified in the Pricing Supplement with respect to a Reference Entity.

If an occurrence would otherwise constitute a Credit Event, such occurrence will constitute a Credit Event whether or not such occurrence arises directly or indirectly from, or is subject to a defence based upon:

(a) any lack or alleged lack of authority or capacity of the Reference Entity to enter into any Obligation or, as applicable, an Underlying Obligor to enter into any Underlying Obligation;

(b) any actual or alleged unenforceability, illegality, impossibility or invalidity with respect to any Obligation or, as applicable, any Underlying Obligation, however described;

(c) any applicable law, order, regulation, decree or notice, however described, or the promulgation of, or any change in, the interpretation by any court, tribunal, regulatory authority or similar administrative or judicial body with competent or apparent jurisdiction of any applicable law, order, regulation, decree or notice, however described; or

(d) the imposition of, or any change in, any exchange controls, capital restrictions or any other similar restrictions imposed by any monetary or other authority, however described;

"**Credit Event Backstop Date**" means (a) for purposes of any event that constitutes a Credit Event (or with respect to Repudiation/Moratorium, the event described in paragraph (i)(B) of the definition thereof) as determined by DC Resolution, the date that is 60 calendar days prior to the Credit Event Resolution Request Date, or (b) otherwise, the date that is 60 calendar days prior to the earlier of (i) the Notice Delivery Date, if the Notice Delivery Date occurs during the Notice Delivery Period and (ii) the Credit Event Resolution Request Date, if the Notice Delivery Date occurs during the Post Dismissal Additional Period. The Credit Event Backstop Date shall not be subject to adjustment in accordance with any Business Day Convention;

"**Credit Event Notice**" means an irrevocable notice (which may be in writing (including by facsimile and/or email) and/or by telephone) from the Issuer or the Calculation Agent to the Noteholders that describes a Credit Event that occurred on or after the Credit Event Backstop Date (if specified as applicable in the Pricing Supplement), or, otherwise, the Trade Date (in each case, determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)) and on or prior to the Extension Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)).

The Credit Event Notice shall contain a description in reasonable detail of the facts relevant to the determination that a Credit Event has occurred. The Credit Event that is the subject of the Credit Event Notice need not be continuing on the date the Credit Event Notice is effective. The Credit Event Notice may be substantially in the form in the relevant Appendix hereto with any amendments as determined by the Issuer or the Calculation Agent from time to time;

"**Credit Event Resolution Request Date**" means, with respect to a DC Credit Event Question, the date as publicly announced by the DC Secretary that the relevant Credit Derivatives Determinations Committee Resolves to be the date on which the DC Credit Event Question was effective and on which the relevant Credit Derivatives Determinations Committee was in possession of Publicly Available Information with respect to such DC Credit Event Question.

"**Currency Amount**" means with respect to:

(a) a Deliverable Obligation specified in a Notice of Physical Settlement that is denominated in a currency other than the Settlement Currency, an amount converted to the Settlement Currency using a conversion rate determined by reference to the Currency Rate; and

(b) a Replacement Deliverable Obligation specified in a NOPS Amendment Notice, an amount converted to the Settlement Currency (or, if applicable, back into the Settlement Currency) using a conversion rate determined by reference to the Currency Rate, if any, and each Revised Currency Rate used to convert each Replaced Deliverable Obligation Outstanding Amount specified in each NOPS Amendment Notice with respect to that portion of the relevant Reference Entity Notional Amount into the currency of denomination of the relevant Replacement Deliverable Obligation;

"**Currency Rate**" means with respect to:

(a) a Deliverable Obligation specified in the Notice of Physical Settlement or a selected Valuation Obligation, the rate of conversion between the Settlement Currency and the currency in which the Outstanding Amount of such Deliverable Obligation is denominated that is either:

 (i) determined by reference to the Currency Rate Source as at the Next Currency Fixing Time; or

 (ii) if such rate is not available at such time, determined by the Calculation Agent in a commercially reasonable manner; and

(b) a Replacement Deliverable Obligation specified in a NOPS Amendment Notice, the Revised Currency Rate;

"**Currency Rate Source**" means any source as determined by the Calculation Agent in its sole discretion, including without limitation, the mid-point rate of conversion published by WM/Reuters at 4:00 p.m. (London time), or any successor rate source approved by the relevant Credit Derivatives Determinations Committee;

"**Cut-Off Date**" shall have the meaning specified in Condition 11(a)G(e) (*Asset Transfer Notice*);

"**DC Announcement Coverage Cut-off Date**" means, with respect to a DC Credit Event Announcement, the Auction Final Price Determination Date, the Auction Cancellation Date, or the date that is fourteen calendar days following the No Auction Announcement Date, if any, as applicable.

"**DC Credit Event Announcement**" means, with respect to the Reference Entity, a public announcement by the DC Secretary that the relevant Credit Derivatives Determinations Committee has Resolved that an event that constitutes a Credit Event for purposes of the Notes has occurred on or after the Credit Event Backstop Date and on or prior to the Extension Date, **provided that** if the Credit Event occurred after the Scheduled Termination Date, the DC Credit Event Announcement must relate to the relevant Potential Failure to Pay, in the case of a Grace Period Extension Date, or the relevant Potential Repudiation/Moratorium, in the case of a Repudiation/Moratorium Evaluation Date.

"**DC Credit Event Meeting Announcement**" means, with respect to the Reference Entity, a public announcement by the DC Secretary that a Credit Derivatives Determinations Committee will be convened to Resolve the matters described in a DC Credit Event Question.

"**DC Credit Event Question Dismissal**" means, with respect to the Reference Entity, a public announcement by the DC Secretary that the relevant Credit Derivatives Determinations Committee has Resolved not to determine the matters described in a DC Credit Event Question.

"**DC Credit Event Question**" means a notice to the DC Secretary requesting that a Credit Derivatives Determinations Committee be convened to Resolve whether an event that constitutes a Credit Event for purposes of the Notes has occurred.

"**DC No Credit Event Announcement**" means, with respect to the Reference Entity, a public announcement by the DC Secretary that the relevant Credit Derivatives Determinations Committee has Resolved that an event that is the subject of a DC Credit Event Question does not constitute a Credit Event.

For the avoidance of doubt, a DC No Credit Event Announcement shall not apply in respect of the Notes unless the Issuer otherwise elects in its sole discretion;

"**DC Party**" has the meaning given to that term in the DC Rules;

"**DC Resolution**" shall have the meaning given to that term in the DC Rules;

"**DC Rules**" means the Credit Derivatives Determinations Committees Rules, as published by ISDA on its website at www.isda.org (or any successor website thereto) from time to time and as amended from time to time in accordance with the terms thereof;

"**DC Secretary**" has the meaning given to the that term in the DC Rules;

"**Dealer**" means a dealer (other than the Issuer or any Affiliate of the Issuer) in obligations of the type of Obligation(s) for which Quotations are to be obtained, as selected by the Calculation Agent;

"**Default Requirement**" means, if a Transaction Type is specified, the amount (if any) specified as such in the Physical Settlement Matrix, or otherwise U.S.$10,000,000 or its equivalent in the Obligation Currency (or as specified in relation to a "Participation CLN" in the Pricing Supplement), in either case as of the occurrence of the relevant Credit Event;

"**Deliver**", "**Delivered**" and "**Delivery**" shall have the meaning specified in Condition 11(a)G(d) (*Delivery*);

"**Deliverable Amount**" means Deliverable Obligations having an Outstanding Amount (or the equivalent specified Currency Amount converted at the Currency Rate) on or around any day on or prior to the Delivery Date as selected by the Calculation Agent in its sole discretion (**provided that** if a Notice of Physical Settlement is given or, as the case may be, amended or changed at any time after such day, such other date after such Notice of Physical Settlement is given or, as the case may be, amended or changed) or otherwise as determined by the Calculation Agent in its sole discretion equal to the Reference Entity Notional Amount (or, as applicable, Exercise Amount), subject to any Physical Settlement Adjustment;

"**Deliverable Obligation**" means, subject to Condition 11(a)H(b) (Restructuring Maturity Limitation and Fully Transferable Obligation Applicable) and Condition 11(a)H(c) (Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation Applicable):

(a) any obligation of the Reference Entity described by the Deliverable Obligation Category specified in the applicable Pricing Supplement and, subject to Condition 11(a)I (*Provisions relating to Obligation Category and Characteristics and Deliverable Obligation Category and Characteristics*), having each of the Deliverable Obligation Characteristics, if any, specified in the applicable Pricing Supplement, in each case as of both the NOPS Effective Date and the Delivery Date (unless otherwise specified in the related Pricing Supplement);

(b) the Reference Obligation;

(c) solely in relation to a Restructuring Credit Event applicable to a Reference Entity which is a Sovereign, and unless Asset Package Delivery is applicable, any Sovereign Restructured Deliverable Obligation;

(d) if Asset Package Delivery is applicable, any Prior Deliverable Obligation (if "Financial Reference Entity Terms" is specified as applicable in the relevant Pricing Supplement) or any Package Observable Bond (if the Reference Entity is a Sovereign); and

(e) any other obligation of a Reference Entity specified as such in the Pricing Supplement;

in each case, (i) unless it is an Excluded Deliverable Obligation and (ii) provided that the obligation has an Outstanding Principal Balance or Due and Payable Amount that is greater than zero (determined for purposes of sub-paragraph (d) above, immediately prior to the relevant Asset Package Credit Event);

"**Deliverable Obligation Category**" means one of Payment, Borrowed Money, Reference Obligations Only, Bond, Loan, or Bond or Loan (each as defined herein, except that, for the purpose of determining Deliverable Obligations, the definition of Reference Obligations Only shall be amended to state that no Deliverable Obligation Characteristics shall be applicable to Reference Obligations Only);

"**Deliverable Obligation Characteristics**" means (a) any one or more of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law, Listed, Not Domestic Issuance, Assignable Loan, Consent Required Loan, Direct Loan Participation, Transferable, Maximum Maturity, Accelerated or Matured and Not Bearer as specified in the Pricing Supplement or (b) none if not specified in the Pricing Supplement;

"**Deliverable Obligation Provisions**" has the meaning set forth in the relevant Credit Derivatives Auction Settlement Terms;

"**Deliverable Obligation Terms**" has the meaning set forth in the relevant Credit Derivatives Auction Settlement Terms;

"**Delivery Date**" means, with respect to a Deliverable Obligation or an Asset Package, the date on which such Deliverable Obligation is Delivered or deemed to be Delivered;

"**Delivery Expenses**" shall have the meaning specified in Condition 11(a)G(i) (*Costs and Expenses*);

"**Direct Loan Participation**" means a Loan in respect of which, pursuant to a participation agreement, the Issuer is capable of creating, or procuring the creation of a contractual right in favour of the Noteholder that provides such Noteholder with recourse to the participation seller for a specified share in any payments due under the relevant Loan which are received by such participation seller, any such agreement to be entered into between such Noteholder and either (a) the Issuer (to the extent the Issuer is then a lender or a member of the relevant lending syndicate), or (b) a Qualifying Participation Seller (if any) (to the extent such Qualifying Participation Seller is then a lender or a member of the relevant lending syndicate);

"**Domestic Currency**" means the currency specified as such in the Pricing Supplement and any successor currency thereto (or if no such currency is specified, the lawful currency and any successor currency of (a) the Reference Entity, if the Reference Entity is a Sovereign, or (b) the jurisdiction in which the Reference Entity is organised, if the Reference Entity is not a Sovereign);

"**Domestic Law**" means each of the laws of (a) the Reference Entity, if such Reference Entity is a Sovereign, or (b) the jurisdiction in which the Reference Entity is organised, if such Reference Entity is not a Sovereign;

"**Downstream Affiliate**" means an entity whose outstanding Voting Shares were, at the date of issuance of the Qualifying Guarantee, more than 50 per cent. owned, directly or indirectly, by the Reference Entity;

"**Due and Payable Amount**" means the amount that is due and payable by the Reference Entity under the obligation whether by reason of maturity, acceleration, termination or otherwise (excluding sums in respect of default interest, indemnities, tax gross-ups and other similar amounts) less all or any portion of such amount which, pursuant to the terms of the obligation (a) is subject to any Prohibited Action, or (b) may otherwise be reduced as a result of the effluxion of time or the occurrence or non-occurrence of an event or circumstance (other than by way of (i) payment or (ii) a Permitted Contingency), in each case, determined in accordance with the terms of the obligation in effect on either (A) the NOPS Effective Date (or if the terms of the obligation are amended after such date but on or prior to the Delivery Date, the Delivery Date) or (B) the Valuation Date, as applicable;

"**Eligible Information**" means information which is publicly available or which can be made public without violating any law, agreement, understanding or other restriction regarding the confidentiality of such information;

"**Eligible Transferee**" means each of the following:

(a) each of:

(i) any bank or other financial institution;

(ii) an insurance or reinsurance company;

(iii) a mutual fund, unit trust or similar collective investment vehicle (other than an entity specified in (c)(i) below); and

(iv) a registered or licensed broker or dealer (other than a natural person or proprietorship),

provided however, in each case that such entity has total assets of at least U.S.$500 million;

(b) an Affiliate of an entity specified in (a) above;

(c) each of a corporation, partnership, proprietorship, organisation, trust or other entity:

(i) that is an investment vehicle (including, without limitation, any hedge fund, issuer of collateralised debt obligations, commercial paper conduit or other special purpose vehicle) that (A) has total assets of at least U.S.$100 million or (B) is one of a group of investment vehicles under common control or management having, in the aggregate, total assets of at least U.S.$100 million; or

(ii) that has total assets of at least U.S.$500 million; or

(iii) the obligations of which under an agreement, contract or transaction are guaranteed or otherwise supported by a letter of credit or keepwell, support or other agreement by an entity described in (a), (b), (c)(ii) or (d) hereof;

(d) a Sovereign; and

(e) any entity or organisation established by treaty or other arrangement between two or more Sovereigns including, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development, and where all references in this definition to U.S.$ include equivalent amounts in other currencies; "**Event Determination Date**" shall have the meaning specified in Condition 11(a)C (*Satisfaction of the Conditions to Settlement*);

"**Excluded Deliverable Obligation**" means:

(a) any obligation of the Reference Entity specified as such or of a type specified in the relevant Pricing Supplement;

(b) any principal only component of a Bond from which some or all of the interest components have been stripped; and

(c) if Asset Package Delivery is applicable, any obligation issued or incurred on or after the date of the relevant Asset Package Credit Event;

"**Excluded Obligation**" means:

(a) any obligation of the Reference Entity specified as such or of a type described in the applicable Pricing Supplement;

(b) if "Financial Reference Entity Terms" is specified as applicable in the relevant Pricing Supplement and the Note is a Senior Security, then for purposes of determining whether a Governmental Intervention or Restructuring has occurred, any Subordinated Obligation; and

(c) if "Financial Reference Entity Terms" is specified as applicable in the relevant Pricing Supplement and the Note is a Subordinated Security, then for purposes of determining whether a Governmental Intervention or Restructuring has occurred, any Further Subordinated Obligation;

"**Extension Date**" means the latest of (a) the Scheduled Termination Date, (b) the Grace Period Extension Date if (i) "Failure to Pay" and "Grace Period Extension" are specified as applicable in the related Pricing Supplement and (ii) the Potential Failure to Pay with respect to the relevant Failure to Pay occurs on or prior to the Termination Date and (c) the Repudiation/Moratorium Evaluation Date (if any) if "Repudiation/Moratorium" is specified as applicable in the related Pricing Supplement, as applicable.

"**Failure to Pay**" means, after the expiration of any applicable Grace Period (after the satisfaction of any conditions precedent to the commencement of such Grace Period), the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations in accordance with the terms of such Obligations at the time of such failure, save that if an occurrence that would constitute a Failure Pay (a) is the result of a redenomination that occurs as a result of action taken by a Governmental Authority which is of general application in the jurisdiction of such Governmental Authority and (b) a freely available market rate of conversion existed at the time of redenomination, then such occurrence will be deemed not to constitute a Failure to Pay unless the redenomination itself constituted a reduction in the rate or amount of interest, principal or premium payable (as determined by reference to such freely available market rate of conversion) at the time of such redenomination;

"**Fallback Settlement Event**" means:

(a) an Auction Cancellation Date occurs;

(b) a No Auction Announcement Date occurs (unless otherwise determined by the Issuer in its sole discretion, in circumstances where such No Auction Announcement Date occurs pursuant to paragraph (b) of the definition of "No Auction Announcement Date");

(c) ISDA publicly announces that the relevant Credit Derivatives Determinations Committee has Resolved, following a Credit Event Resolution Request Date, not to determine the matters described in paragraphs (a) and (b) of the definition of "Credit Event Resolution Request Date" for the purposes of credit derivatives transactions for such Reference Entity in the over the counter market (including any Hedge Transaction);

(d) an Event Determination Date has occurred pursuant to paragraph (i) of the definition of "Conditions to Settlement" and no Credit Event Resolution Request Date has occurred on or prior to the date falling three Business Days after such Event Determination Date; or

(e) any other event whether or not relating to any Hedge Transaction as determined by the Issuer in its sole discretion;

"**Fallback Settlement Method**" means, Cash Settlement or Physical Settlement, as specified in the Pricing Supplement or if "Fallback Settlement Method at Issuer Option" applies, as specified in the relevant notice from the Calculation Agent;

"**Final List**" has the meaning given to that term in the DC Rules;

"**Final Price**" means, with respect to any Valuation Obligation or Deliverable Obligation, the price of such Valuation Obligation or Deliverable Obligation, expressed as a percentage of its Outstanding Principal Balance or Due and Payable Amount, as applicable, determined by the Calculation Agent in accordance with Condition 11(a)F(c) (*Final Price*);

"**Fixed Cap**" means, with respect to a Guarantee, a specified numerical limit or cap on the liability of the Reference Entity in respect of some or all payments due under the Underlying Obligation, **provided that** a Fixed Cap shall exclude a limit or cap determined by reference to a formula with one or more variable inputs (and for these purposes, the outstanding principal or other amounts payable pursuant to the Underlying Obligation shall not be considered to be variable inputs);

"**Fractional Entitlement**" shall have the meaning specified in Condition 11(a)G(h) (*Fractional Entitlement*);

"**Full Quotation**" means a firm quotation (expressed as a percentage of the outstanding principal balance) obtained from a Dealer at the Valuation Time, to the extent reasonably practicable, for an amount of any Valuation Obligation or Deliverable Obligation with an Outstanding Principal Balance or Due and Payable Amount equal to the Quotation Amount;

"**Fully Transferable Obligation**" means a Deliverable Obligation that is either Transferable, in the case of Bonds, or capable of being assigned or novated to all Eligible Transferees without the consent of any person being required, in the case of any Deliverable Obligation other than Bonds, in each case as of both the NOPS effective Date and the Delivery Date. Any requirement that notification of novation, assignment or transfer of a Deliverable Obligation be provided to a trustee, fiscal agent, administrative agent, clearing agent or paying agent for a Deliverable Obligation shall not be considered to be a requirement for consent for purposes of this definition;

"**Further Subordinated Obligation**" means, if the Reference Obligation or Prior Reference Obligation, as applicable, is a Subordinated Obligation, any obligation which is Subordinated thereto;

"**Governmental Authority**" means:

(a) any de facto or de jure government (or any agency, instrumentality, ministry or department thereof);

(b) any court, tribunal, administrative or other governmental, inter-governmental or supranational body;

(c) any authority or any other entity (private or public) either designated as a resolution authority or charged with the regulation or supervision of the financial markets (including a central bank) of the Reference Entity or some or all of its obligations; or

(d) any other authority which is analogous to any of the entities specified in (a) to (c) above;

"**Governmental Intervention**" means that, with respect to one or more Obligations and in relation to an aggregate amount of not less than the Default Requirement, any one or more of the following events occurs as a result of action taken or an announcement made by a Governmental Authority pursuant to, or by means of, a restructuring and resolution law or regulation (or any other similar law or regulation), in each case, applicable to the Reference Entity in a form which is binding, irrespective of whether such event is expressly provided for under the terms of such Obligation:

(a) any event which would affect creditors' rights so as to cause:

(i) a reduction in the rate of amount of interest payable or the amount of scheduled interest accruals (including by way of redenomination);

(ii) a reduction in the amount of principal or premium payable at redemption (including by way of redenomination);

(iii) a postponement or other deferral of a date or dates for either (I) the payment or accrual of interest, or (II) the payment of principal or premium;

(iv) a change in the ranking in priority of payment of any Obligation, causing the Subordination of such Obligation to any other Obligation;

(b) an expropriation, transfer or other event which mandatorily changes the beneficial holder of the Obligation;

(c) a mandatory cancellation, conversion or exchange; or

(d) any event which has analogous effect to any of the effects specified above,

For the purposes of this definition, the term "**Obligation**" shall be deemed to include Underlying Obligation for which the Reference Entity is acting as provider of a Guarantee;

"**Grace Period**" means:

(a) subject to paragraphs (b) and (c) below, the applicable grace period with respect to payments under the relevant Obligation under the terms of such Obligation in effect as of the date as of which such Obligation is issued or incurred;

(b) if "Grace Period Extension" is specified in the Pricing Supplement in relation to the relevant Reference Entity as applicable, a Potential Failure to Pay has occurred on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)) and the applicable grace period cannot, by its terms, expire on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)), the Grace Period shall be deemed to be the lesser of such grace period and the period specified as such in the Pricing Supplement or, if no period is specified, 30 calendar days; and

(c) if, at the date as of which an obligation is issued or incurred, no grace period with respect to payments or a grace period with respect to payments of less than three Grace Period Business Days is applicable under the terms of such Obligation, a Grace Period of three Grace Period

Business Days shall be deemed to apply to such Obligation, **provided that**, unless Grace Period Extension is specified in the Pricing Supplement as applicable in relation to the relevant Reference Entity, such deemed Grace Period shall expire no later than the Scheduled Termination Date;

"**Grace Period Business Day**" means a day on which commercial banks and foreign exchange markets are generally open to settle payments in the place or places and on the days specified for that purpose in the relevant Obligation or, if a place or places are not so specified (a) if the Obligation Currency is the euro, a TARGET Settlement Day, or (b) otherwise, a day on which commercial banks and foreign exchange markets are generally open to settle payments in the principal financial city in the jurisdiction of the Obligation Currency;

"**Grace Period Extension Date**" means, if (a) "Grace Period Extension" is specified in the Pricing Supplement as applicable in relation to a Reference Entity and (b) a Potential Failure to Pay occurs on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)), the date that is the number of days in the Grace Period after the date of such Potential Failure to Pay. If "Grace Period Extension" is not specified in the Pricing Supplement as applicable in relation to the relevant Reference Entity, Grace Period Extension shall not apply;

"**Guarantee**" means a Relevant Guarantee or a guarantee which is the Reference Obligation;

"**Hedge Transaction**" means any transaction or trading position entered into or held by the Issuer and/or any of its Affiliates to hedge, directly or indirectly, the Issuer's obligations or positions (whether in whole or in part) in respect of the Notes or any hypothetical transaction or trading position relating to the Issuer's obligations or positions (whether in whole or in part) in respect of the Notes, as determined by the Calculation Agent;

"**ISDA**" means the International Swaps and Derivatives Association, Inc. (or any successor thereto);

"**Largest Asset Package**" means, in respect of a Prior Deliverable Obligation or a Package Observable Bond, as the case may be, the package of Assets for which the greatest amount of principal has been or will be exchanged or converted (including by way of amendment), as determined by the Calculation Agent by reference to Eligible Information. If this cannot be determined, the Largest Asset Package, will be the package of Assets with the highest immediately realisable value, determined by the Calculation Agent in accordance with the methodology, if any, determined by the relevant Credit Derivatives Determination Committee;

"**Latest Permissible Physical Settlement Date**" means the date that, in respect of Condition 11(a)G(g)(ii) (*Partial Cash Settlement due to impossibility, impracticability or illegality*), is 30 calendar days after the Physical Settlement Date;

"**Limitation Date**" means the first of March 20, June 20, September 20 or December 20 in any year to occur on or immediately following the date that is one of the following numbers of years after the Restructuring Date: 2.5 years (the "**2.5-year Limitation Date**"), 5 years, 7.5 years, 10 years (the "**10-year Limitation Date**"), 12.5 years, 15 years, or 20 years, as applicable. Limitation Dates shall not be subject to adjustment in accordance with any Business Day Convention unless the parties specify in the Pricing Supplement that Limitation Dates will be adjusted in accordance with a specified Business Day Convention;

"**Listed**" means an obligation that is quoted, listed or ordinarily purchased and sold on an exchange;

"**Loan**" means any obligation of a type included in the Borrowed Money Obligation Category that is documented by a term loan agreement, revolving loan agreement or other similar credit agreement and shall not include any other type of Borrowed Money;

"**London Business Day**" means a day other than a Saturday or Sunday on which commercial banks are generally open for business in London;

"**LPN Reference Obligation**" means each Reference Obligation other than any Additional Obligation which is issued for the sole purpose of providing funds to the LPN Issuer to finance an Underlying Loan. For the avoidance of doubt, any change to the Issuer of an LPN Reference Obligation in accordance with its terms shall not prevent such LPN Reference Obligation from constituting a Reference Obligation;

"**Market-maker**" means a hypothetical dealer in the market for swap transactions;

"**Market Value**" means, with respect to a Valuation Obligation or Deliverable Obligation on a Valuation Date, the price determined by the Calculation Agent on the basis of bid Quotations provided by Dealers and expressed as a percentage of the Reference Obligation's Outstanding Principal Balance or Due and Payable Amount, as applicable, with respect to a Valuation Date;

"**Maximum Maturity**" means an obligation that has a remaining maturity of not greater than the period specified in relation to a Reference Entity in the Pricing Supplement (or, if no such period is specified, 30 years);

"**Minimum Quotation Amount**" means the amount specified in relation to a Reference Entity in the Pricing Supplement or its equivalent in the relevant Obligation Currency (or, if no amount is specified, the lower of (a) U.S.$1,000,000 (or its equivalent in the Obligation Currency), and (b) the Quotation Amount);

"**M(M)R Restructuring**" means a Restructuring Credit Event in respect of which either "Modified Restructuring" or "Modified Modified Restructuring" is specified as applicable in the Pricing Supplement;

"**Modified Eligible Transferee**" means any bank, financial institution or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities and other financial assets;

"**Modified Restructuring Maturity Limitation Date**" means, with respect to a Deliverable Obligation or Valuation Obligation, the Limitation Date occurring on or immediately following the Scheduled Termination Date.

Subject to the foregoing, if the Scheduled Termination Date is later than the 10-year Limitation Date, the Modified Restructuring Maturity Limitation Date will be the Scheduled Termination Date.

"**Multiple Holder Obligation**" means an Obligation that:

(a) at the time of the event which constitutes a Restructuring Credit Event is held by more than three holders that are not Affiliates of each other; and

(b) with respect to which a percentage of holders (determined pursuant to the terms of such Obligation as in effect on the date of such event) at least equal to sixty-six-and-two-thirds is required to consent to the event that constitutes a Restructuring Credit Event,

provided that any Obligation that is a Bond shall be deemed to satisfy the requirement in paragraph (b) above;

"**Next Currency Fixing Time**" means such time on any day on or prior to the Delivery Date or, as applicable, Cash Settlement Date, as selected by the Calculation Agent in its sole discretion;

"**No Auction Announcement Date**" means, with respect to a Credit Event, the date on which the DC Secretary first publicly announces that:

(a) no Transaction Auction Settlement Terms and, if applicable, no Parallel Auction Settlement Terms will be published;

(b) following the occurrence of an M(M)R Restructuring no Transaction Settlement Terms will be published, but Parallel Auction Settlement Terms will be published; or

(c) the relevant Credit Derivatives Determinations Committee has Resolved that no Auction will be held following a prior public announcement by the DC Secretary to the contrary where either (i) no Parallel Action will be held, or (ii) one or more Parallel Auctions will be held;

"**Non-Conforming Reference Obligation**" means a Reference Obligation which is not a Conforming Reference Obligation;

"**Non-Conforming Substitute Reference Obligation**" means an obligation which would be a Deliverable Obligation determined in accordance with paragraph (a) of the definition of "Deliverable Obligation" on the Substitution Date but for one or more of the same reasons which resulted in the Reference Obligation constituting a Non-Conforming Reference Obligation on the date it was issued or incurred and/or immediately prior to the Substitution Event Date (as applicable);

"**Non-Financial Instrument**" means any Asset which is not of the type typically traded in, or suitable for being traded in, financial markets;

"**Non-Standard Reference Obligation**" means the Original Non-Standard Reference Obligation or, if a Substitute Reference Obligation has been determined, the Substitute Reference Obligation.

"**Non-Transferable Instrument**" means any Asset which is not capable of being transferred to institutional investors, excluding due to market conditions;

"**NOPS Effective Date**" means the date on which an effective Notice of Physical Settlement or NOPS Amendment Notice, as the case may be, is delivered by the Calculation Agent;

"**Not Bearer**" means any obligation that is not a bearer instrument unless interests with respect to such bearer instrument are cleared via the Euroclear system, Clearstream International or any other internationally recognised clearing system;

"**Not Domestic Currency**" means any obligation that is payable in any currency other than the Domestic Currency, **provided that** a Standard Specified Currency shall not constitute a Domestic Currency;

"**Not Domestic Issuance**" means any obligation other than an obligation that was issued (or reissued, as the case may be), or intended to be offered for sale primarily in the domestic market of the Reference Entity. Any obligation that is registered or, as a result of some other action having been taken for such purpose, is qualified for sale outside the domestic market of the Reference Entity (regardless of whether such obligation is also registered or qualified for sale within the domestic market of the Reference Entity) shall be deemed not to be issued (or reissued, as the case may be), or intended to be offered for sale primarily in the domestic market of the Reference Entity;

"**Not Domestic Law**" means any obligation that is not governed by the applicable Domestic Law, **provided that** the laws of England and the laws of the State of New York shall not constitute a Domestic Law;

"**Not Sovereign Lender**" means any obligation that is not primarily owed to (A) a Sovereign or (B) any entity or organisation established by treaty or other arrangement between two or more Sovereigns including, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development, which shall include, without limitation, obligations generally referred to as "Paris Club debt";

"**Not Subordinated**" means an obligation that is not Subordinated to (a) the Reference Obligation or, (b) the Prior Reference Obligation, if applicable;

"**Notice Delivery Date**" means the first date on which both an effective Credit Event Notice and, unless "Notice of Publically Available Information" is specified as not applicable in the related Pricing Supplement, an effective Notice of Publicly Available Information, have been delivered by the Calculation Agent to the Noteholders;

"**Notice Delivery Period**" means the period from and including the Trade Date to and including the second Business Day falling after the date that is 14 calendar days after the Extension Date;

"**Notice of Physical Settlement**" means a notice (which may be in writing (including by facsimile and/or email) and/or by telephone) that:

(a) irrevocably confirms that the Issuer will redeem the Notes by physical delivery;

(b) contains a detailed description of each Deliverable Obligations that the Issuer will Deliver (or procure Delivery of) to the Noteholders including if available and applicable the CUSIP or ISIN number (or, if such identifying number is not available, the rate and tenor) of each such Deliverable Obligation; and

(c) specifies the Outstanding Principal Balance or Due and Payable Amount, as applicable, or the equivalent amount in the Settlement Currency (in each case, the "**Outstanding Amount**") and, if different, the face amount of each such Deliverable Obligation and the aggregate Outstanding Amount of all Deliverable Obligations specified in the Notice of Physical Settlement that the Calculation Agent intends to deliver to the Noteholders.

The Notice of Physical Settlement may be substantially in the form in the relevant Appendix hereto with any amendments as determined by the Issuer or the Calculation Agent from time to time.

The Calculation Agent may, from time to time, notify the Noteholders in the manner specified above (each such notification, a "**NOPS Amendment Notice**") that the Issuer is replacing, in whole or in part, one or more Deliverable Obligations specified in the Notice of Physical Settlement or a prior NOPS Amendment Notice, as applicable, (to the extent the relevant Deliverable Obligation has not been Delivered as of the date such NOPS Amendment Notice is effective) or the detailed description(s) thereof. A NOPS Amendment Notice shall contain a revised detailed description of each replacement Deliverable Obligation that the Issuer will, subject to Condition 11(a)G, Deliver to the Noteholders (each, a "**Replacement Deliverable Obligation**") and shall also specify the Outstanding Amount of each Deliverable Obligation identified in the Notice of Physical Settlement or a prior NOPS Amendment Notice, as applicable, that is being replaced (with respect to each such Deliverable Obligation, the "**Replaced Deliverable Obligation Outstanding Amount**"). The Outstanding Amount of each Replacement Deliverable Obligation identified in a NOPS Amendment Notice shall be determined by applying the Revised Currency Rate to the relevant Replaced Deliverable

Obligation Outstanding Amount. The Outstanding Amount of the Replacement Deliverable Obligations specified in any NOPS Amendment Notice in aggregate with the Outstanding Amount of the Deliverable Obligations specified in the Notice of Physical Settlement or any earlier NOPS Amendment Notice which, in each case are not being replaced must not be greater than the Aggregate Outstanding Amount. Each such NOPS Amendment Notice must be effective on or prior to the Physical Settlement Date (determined without reference to any change resulting from such NOPS Amendment Notice).

Notwithstanding the foregoing, (i) the Calculation Agent may correct any errors or inconsistencies in the detailed description of each Deliverable Obligation contained in the Notice of Physical Settlement or any NOPS Amendment Notice, as applicable, by notice to the Noteholders (given in the manner specified above) prior to the relevant Delivery Date and (ii) if Asset Package Delivery is applicable, Buyer shall on the NOPS Effective Date, or as soon as reasonably practicable thereafter (but in any case, prior to the Delivery Date), notify the Noteholders of the detailed description of the Asset Package, if any, that it intends to Deliver to the Noteholders in lieu of the Prior Deliverable Obligation or Package Observable Bond, if any, specified in the Notice of Physical Settlement or NOPS Amendment Notice, as applicable, it being understood that such notice of correction shall not constitute a NOPS Amendment Notice.

The NOPS Amendment Notice may be substantially in the form in the relevant Appendix hereto with any amendments as determined by the Issuer or the Calculation Agent from time to time;

"**Notice of Publicly Available Information**" means an irrevocable notice (which may be in writing (including by facsimile and/or email) and/or by telephone) from the Calculation Agent to the Noteholders that cites Publicly Available Information confirming the occurrence of the Credit Event or Potential

Repudiation/Moratorium, as applicable, described in the Credit Event Notice or Repudiation/Moratorium Extension Notice. The notice given must contain a copy, or a description in reasonable detail, of the relevant Publicly Available Information. If "Notice of Publicly Available Information" is applicable and a Credit Event Notice or Repudiation/Moratorium Extension Notice, as applicable, contains Publicly Available Information, such Credit Event Notice or Repudiation/Moratorium Extension Notice will also be deemed to be a Notice of Publicly Available Information.

"**Obligation**" means:

(a) each obligation of each Reference Entity described by the Obligation Category specified in the applicable Pricing Supplement and having each of the Obligation Characteristics, if any, specified in the applicable Pricing Supplement, in each case immediately prior to the Credit Event which is the subject of either the Credit Event Notice or the DC Credit Event Question resulting in the occurrence of the Credit Event Resolution Request Date, as applicable; and

(b) the Reference Obligation, in each case, unless it is an Excluded Obligation;

"**Obligation Acceleration**" means one or more Obligations in an aggregate amount of not less than the Default Requirement have become due and payable before they would otherwise have been due and payable as a result of, or on the basis of, the occurrence of a default, event of default or other similar condition or event (however described), other than a failure to make any required payment, in respect of the Reference Entity under one or more Obligations;

"**Obligation Category**" means Payment, Borrowed Money, Reference Obligations Only, Bond, Loan, or Bond or Loan, only one of which shall be specified in the Pricing Supplement in relation to a Reference Entity;

"**Obligation Characteristics**" means any one or more of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law, Listed and Not Domestic Issuance as specified in the Pricing Supplement in relation to a Reference Entity;

"**Obligation Currency**" means, with respect to an Obligation, the currency in which the Obligation is denominated;

"**Obligation Default**" means one or more Obligations in an aggregate amount of not less than the Default Requirement have become capable of being declared due and payable before they would otherwise have been due and payable as a result of, or on the basis of, the occurrence of a default, event of default or other similar condition or event (however described), other than a failure to make any required payment, in respect of the Reference Entity under one or more Obligations;

"**Original Non-Standard Reference Obligation**" means the obligation of the Reference Entity (either directly or as provider of a guarantee) which is specified as the Reference Obligation in the related Pricing Supplement (if any is so specified) **provided that** if an obligation is not an obligation of the Reference Entity, such obligation will not constitute a valid Original Non-Standard Reference Obligation for purposes of the Notes (other than for the purposes of determining the Seniority Level and for the "Not Subordinated" Obligation Characteristic or "Not Subordinated" Deliverable Obligation Characteristic) unless otherwise specified in the related Pricing Supplement;

"**Outstanding Principal Balance**" means, in respect of an obligation, an amount calculated as follows:

(a) first, by determining, in respect of the obligation, the amount of the Reference Entity's principal payment obligations and, where applicable in accordance with the definition of Accrued Interest, the Reference Entity's accrued but unpaid interest payment obligations (which, in the case of a Guarantee will be the lower of (A) the Outstanding Principal Balance (including accrued but unpaid interest, where applicable) of the Underlying Obligation (determined as if references to the Reference Entity were references to the Underlying Obligor) and (B) the amount of the Fixed Cap, if any);

(b) second, by subtracting all or any portion of such amount which, pursuant to the terms of the obligation, (A) is subject to any Prohibited Action, or (B) may otherwise be reduced as a result of the effluxion of time or the occurrence or non-occurrence of an event or circumstance (other than by way of (I) payment or (II) a Permitted Contingency) (the amount determined pursuant to sub-paragraph (a) above less any amounts subtracted in accordance with accordance with this sub-paragraph (b), the "**Non-Contingent Amount**"); and

(c) third, by determining the Quantum of the Claim, which shall then constitute the Outstanding Principal Balance, in each case, determined:

(d) unless otherwise specified, in accordance with the terms of the obligation in effect on either (I) the NOPS Effective Date (or if the terms of the obligation are amended after such date but on or prior to the Delivery Date, the Delivery Date), or (II) the Valuation Date, as applicable; and

(e) with respect to the Quantum of the Claim only, in accordance with any applicable laws (insofar as such laws reduce or discount the size of the claim to reflect the original issue price or accrued value of the obligation);

"**Package Observable Bond**" means, in respect of a Reference Entity which is a Sovereign, any obligation (a) which is identified as such and published by ISDA on its website at www.isda.org from time to time (or any successor website thereto) or by a third party designated by ISDA on its website from time to time and (b) which fell within paragraphs (a) or (b) of the definition of Deliverable Obligation, in each case, immediately preceding the date on which the relevant Asset Package Credit Event was legally effective;

"**Parallel Auction**" means "Auction" as defined in the relevant Parallel Auction Settlement Terms;

"**Parallel Auction Cancellation Date**" means "Auction Cancellation Date" as defined in the relevant Parallel Auction Settlement Terms;

"**Parallel Auction Final Price**" means "Auction Final Price" as defined in the relevant Parallel Auction Settlement Terms;

"**Parallel Auction Final Price Determination Date**" means "Auction Final Price Determination Date" as defined in the relevant Parallel Auction Settlement Terms;

"**Parallel Auction Settlement Terms**" means, following the occurrence of an M(M)R Restructuring, any Credit Derivatives Auction Settlement Terms published by ISDA with respect to such M(M)R Restructuring, and for which the Deliverable Obligation Terms are the same as the Deliverable Obligation Provisions applicable to a credit derivative transaction (including any Hedge Transaction) and for which such credit derivative transaction (including any Hedge Transaction) would not be an Auction Covered Transaction;

"**Partial Cash Settlement Amount**" means, for each Undeliverable Obligation, the greater of (A) the product of the Outstanding Principal Balance, Due and Payable Amount or Currency Amount, as applicable, of each Undeliverable Obligation multiplied by the Final Price of such Undeliverable Obligation, as determined by the Calculation Agent and (B) zero;

"**Partial Cash Settlement Date**" means the date specified in the Pricing Supplement, or, if such date is not so specified, means the date that is three Business Days after the calculation of the Final Price;

"**Payment**" means any obligation (whether present or future, contingent or otherwise) for the payment or repayment of money, including, without limitation, Borrowed Money;

"**Payment Requirement**" means the amount specified in the Pricing Supplement or its equivalent in the Obligation Currency or, if no such amount is specified, U.S.$1,000,000 or its equivalent in the Obligation Currency (or as specified in relation to a "Participation CLN"), in each case as of the occurrence of the relevant Failure to Pay;

"**Permissible Deliverable Obligations**" has the meaning set forth in the relevant Credit Derivatives Auction Settlement Terms, being either all or the portion of the Deliverable Obligations included on the Final List pursuant to the Deliverable Obligation Terms that are applicable to that Auction;

"**Permitted Contingency**" means, with respect to an obligation, any reduction to the Reference Entity's payment obligations:

(a) as a result of the application of:

(i) any provisions allowing a transfer, pursuant to which another party may assume all of the payment obligations of the Reference Entity;

(ii) provisions implementing the Subordination of the obligation;

(iii) provisions allowing for a Permitted Transfer in the case of a Qualifying Guarantee (or provisions allowing for the release of the Reference Entity from its payment obligations in the case of any other Guarantee);

(iv) any Solvency Capital Provisions, if "Subordinated European Insurance Terms" is specified as applicable in the related Pricing Supplement; or

(v) provisions which permit the Reference Entity's obligations to be altered, discharged, released or suspended in circumstances which would constitute a Governmental Intervention, if "Financial Reference Entity Terms" is specified as applicable in the related Pricing Supplement; or

(b) which is within the control of the holders of the obligation or a third party acting on their behalf (such as an agent or trustee) in exercising their rights under or in respect of such obligation;

"**Permitted Transfer**" means, with respect to a Qualifying Guarantee, a transfer to and the assumption by any single transferee of such Qualifying Guarantee (including by way of cancellation and execution of a new guarantee) on the same or substantially the same terms, in circumstances where there is also a transfer of all (or substantially all) of the assets of the Reference Entity to the same single transferee;

"**Physical Settlement Adjustment**" means a reduction to the Outstanding Amount of Deliverable Obligations specified in a Notice of Physical Settlement or NOPS Amendment Notice, by an amount of Deliverable Obligations having a liquidation value equal to the Aggregate Break Costs (as defined in the definition of "Break Costs") or its equivalent in the Obligation Currency as determined by the Calculation Agent in its sole discretion, rounded upwards to the nearest whole denomination of the relevant Deliverable Obligation, such amount to be determined by the Calculation Agent;

"**Physical Settlement Date**" means the last day of the longest Physical Settlement Period following the NOPS Cut-Off Date;

"**Physical Settlement Matrix**" means the Credit Derivatives Physical Settlement Matrix Supplement to the Credit Derivatives Definitions, as most recently amended or supplemented as at the Issue Date (unless otherwise specified in the Pricing Supplement in relation to a Reference Entity) and as published by ISDA, currently at http://www.isda.org, **provided that** any reference therein to

(a) "Confirmation" shall be deemed to be a reference to the applicable Pricing Supplement, (b) "Floating Rate Payer Calculation Amount" shall be deemed to be a reference to the Specified Currency, (c) "Section 3.3 of the Definitions" shall be deemed to be a reference to "Credit Event Notice" as defined in this Credit Linked Derivatives Annex, (d) "Section 3.9" shall be deemed to be a reference to Condition 11(a)H(a) (*Multiple Credit Event Notices*) and (e) "Section 8.6" shall be deemed to be a reference to "Physical Settlement Period" as defined in this Credit Linked Derivatives Annex;

"**Physical Settlement Period**" means, subject to Condition 11(a)B(b) (*Settlement Suspension following Credit Event Resolution Request Date*), the number of Business Days specified as such in the Pricing Supplement in relation to a Reference Entity or, if a number of Business Days is not so specified, then, with respect to a Deliverable Obligation specified in the Notice of Physical Settlement or NOPS Amendment Notice, the longest number of Business Days for settlement in accordance with then current market practice of such Deliverable Obligation, as the Calculation Agent shall determine, **provided that** if the Issuer or Calculation Agent has notified the Noteholders that the Issuer intends to Deliver an Asset Package in lieu of a Prior Deliverable Obligation or a Package Observable Bond, the Physical Settlement Period shall be 30 Business Days;

"**Post Dismissal Additional Period**" means the period from and including the date of the DC Credit Event Question Dismissal to and including the date that is fourteen calendar days thereafter (**provided that** the relevant Credit Event Resolution Request Date occurred on or prior to the end of the last day of the Notice Delivery Period (including prior to the Trade Date)).

"**Potential Credit Event**" means, and shall be deemed to have occurred, if the Calculation Agent determines that:

(a) a Credit Event;

(b) a Potential Failure to Pay if (i) Grace Period Extension is specified as applicable in relation to any Reference Entity, and/or (ii) Failure to Pay is an applicable Credit Event in relation to such Reference Entity; and/or

(c) a Potential Repudiation/Moratorium if Repudiation/Moratorium is an applicable Credit Event in relation to any Reference Entity,

(in each of paragraphs (a), (b) and (c) above) has occurred or may occur on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)); and/or

(d) a Credit Event Resolution Request Date has occurred or may occur on or prior to the last day of the Notice Delivery Period;

"**Potential Credit Event Notice**" means:

(a) a Repudiation/Moratorium Extension Notice;

(b) a notice (which may be in writing (including by facsimile and/or email) and/or by telephone) from the Calculation Agent to the Noteholders, at or prior to 5.00 p.m. (London time) on or prior to the second London Business Day following the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)), that a Credit Event or Potential Failure to Pay has occurred or may occur on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)); or

(c) a notice (which may be in writing (including by facsimile and/or email) and/or by telephone) from the Calculation Agent to the Noteholders, at or prior to 5.00 p.m. (London time) on or prior to the second London Business Day following the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)), that a Credit Event Resolution Request Date has occurred or may occur on or prior to the last day of the Notice Delivery Period.

A Potential Credit Event Notice shall be subject to the requirements regarding notices contained in Condition 11(a)L(e) (*Effectiveness of Notices*);

"**Potential Failure to Pay**" means the failure by the Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations in accordance with the terms of such Obligations at the time of such failure, without regard to any grace period or any conditions precedent to the commencement of any grace period applicable to such Obligations;

"**Potential Repudiation/Moratorium**" means the occurrence of an event described in paragraph (i) of the definition of Repudiation/Moratorium;

"**Prior Deliverable Obligation**" means:

(a) if a Governmental Intervention has occurred (whether or not such event is specified as the applicable Credit Event in the Credit Event Notice or the DC Credit Event Announcement), any obligation of the Reference Entity which (i) existed immediately prior to such Governmental Intervention, (ii) was the subject of such Governmental Intervention and (iii) fell within paragraphs (a) or (b) of the definition of Deliverable Obligation, in each case, immediately preceding the date on which such Governmental Intervention was legally effective; or

(b) if a Restructuring which does not constitute a Governmental Intervention has occurred in respect of the Reference Obligation (whether or not such event is specified as the applicable Credit Event in the Credit Event Notice or the DC Credit Event Announcement), such Reference Obligation, if any;

"**Prior Reference Obligation**" means, in circumstances where there is no Reference Obligation applicable to the Notes, (I) the Reference Obligation most recently applicable thereto, if any, and otherwise, (II) the obligation specified in the relevant Pricing Supplement as the Reference Obligation, if any, if such Reference Obligation was redeemed on or prior to the Trade Date and otherwise, (III) any unsubordinated Borrowed Money obligation of the Reference Entity;

"**Private-side Loan**" means a Loan in respect of which the documentation governing its terms is not publicly available or capable of being made public without violating a law, agreement, understanding or other restriction regarding the confidentiality of such information;

"**Prohibited Action**" means any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a) to (d) of the definition of Credit Event) or right of setoff by or of the Reference Entity or any applicable Underlying Obligor;

"**Publicly Available Information**" means information that reasonably confirms any of the facts relevant to the determination that the Credit Event described in a Credit Event Notice has occurred and which (a) has been published in or on not less than two internationally recognised published or electronically displayed news sources, regardless of whether the reader or user thereof pays a fee to obtain such information; **provided that**, if the Issuer or any of its Affiliates is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless the Issuer or its Affiliate is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent, paying agent, facility agent or agent bank for an Obligation, (b) is information received from or published by (i) the relevant Reference Entity (or if the Reference Entity is a Sovereign, any agency, instrumentality, ministry, department or other authority thereof acting in a governmental capacity (including, without limiting the forgoing, the Central Bank) of such Sovereign) (ii) a trustee, fiscal agent, administrative agent, clearing agent, paying agent, facility agent or agent bank for an Obligation, or (c) is information contained in any order, decree, notice or filing however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative or judicial body, **provided that**:

(a) where any information of the type described in (b) or (c) above is not publicly available, it can constitute Publicly Available Information if it can be made public without violating any law, agreement, understanding or other restriction regarding the confidentiality of such information;

(b) in relation to any information of the type described in (b) or (c) above, each Noteholder may assume that such information has been disclosed to it without violating any law, agreement or understanding regarding the confidentiality of such information and that the Calculation Agent has not taken any action or entered into any agreement or understanding with the Reference Entity or any Affiliate of the Reference Entity that would be breached by, or would prevent, the disclosure of such information to the party receiving such information;

(c) Publicly Available Information need not state (a) in relation to a Downstream Affiliate, the percentage of Voting Shares owned, directly or indirectly by the Reference Entity and (b) that such occurrence (I) has met the Payment Requirement or Default Requirement, (II) is the result of exceeding any applicable Grace Period or (III) has met the subjective criteria specified in certain Credit Events; and

(d) in relation to a Repudiation/Moratorium Credit Event, Publicly Available Information must relate to the events described in both limbs of the definition of Repudiation/Moratorium;

"**Qualifying Affiliate Guarantee**" means a Qualifying Guarantee provided by the Reference Entity in respect of an Underlying Obligation of a Downstream Affiliate of the Reference Entity;

"**Qualifying Guarantee**" means a guarantee evidenced by a written instrument (which may include a statute or regulation), pursuant to which the Reference Entity irrevocably agrees, undertakes, or is otherwise obliged to pay all amounts of principal and interest (except for amounts which are not covered due to the existence of a Fixed Cap) due under an Underlying Obligation for which the Underlying Obligor is the obligor, by guarantee of payment and not by guarantee of collection (or, in either case, any legal arrangement which is equivalent thereto in form under the relevant governing law).

A Qualifying Guarantee shall not include any guarantee:

(a) which is structured as a surety bond, financial guarantee insurance policy or letter of credit (or any legal arrangement which is equivalent thereto in form); or

(b) pursuant to the terms applicable thereto, the principal payment obligations of the Reference Entity can be discharged, released, reduced, assigned or otherwise altered as a result of the occurrence or non-occurrence of an event or circumstance, in each case, other than:

  (i) by payment;

  (ii) by way of Permitted Transfer;

  (iii) by operation of law;

  (iv) due to the existence of a Fixed Cap; or

  (v) due to:

    (A) provisions permitting or anticipating a Governmental Intervention, if "Financial Reference Entity Terms" is specified as applicable in the relevant Pricing Supplement; or

    (B) any Solvency Capital Provisions, if "Subordinated European Insurance Terms" is specified as applicable in the relevant Pricing Supplement.

If the guarantee or Underlying Obligation contains provisions relating to the discharge, release, reduction, assignment or other alteration of the principal payment obligations of the Reference Entity and such provisions have ceased to apply or are suspended at the time of the relevant determination, in accordance with the terms of such guarantee or Underlying Obligation, due to or following the occurrence of (I) a non-payment in respect of the guarantee or the Underlying Obligation, or (II) an event of the type described in the definition of "Bankruptcy" in respect of the Reference Entity or the Underlying Obligor, then it shall be deemed for these purposes that such cessation or suspension is permanent, notwithstanding the terms of the guarantee or Underlying Obligation.

In order for a guarantee to constitute a Qualifying Guarantee:

(x) the benefit of such guarantee must be capable of being Delivered together with the Delivery of the Underlying Obligation; and

(y) if a guarantee contains a Fixed Cap, all claims to any amounts which are subject to such Fixed Cap must be capable of being Delivered together with the Delivery of such guarantee;

"**Qualifying Participation Seller**" means any participation seller that meets the requirements specified in the Pricing Supplement in relation to a Reference Entity. If no such requirements are specified, there shall be no Qualifying Participation Seller;

"**Quantum of the Claim**" means the lowest amount of the claim which could be validly asserted against the Reference Entity in respect of the Non-Contingent Amount if the obligation had become redeemable, been accelerated, terminated or had otherwise become due and payable at the time of the relevant determination, provided that the Quantum of the Claim cannot exceed the Non-Contingent Amount;

"**Quotation**" means each Full Quotation and the Weighted Average Quotation obtained and expressed in the manner set out in the definition of Market Value;

"**Quotation Amount**" means the sum so specified in the Pricing Supplement in relation to a Reference Entity (which may be specified by reference to an amount in a currency or by reference to Representative Amount) or, if no amount is so specified, the relevant Reference Entity Notional Amount or, if the Calculation Agent selects more than one Valuation Obligation with respect to a Reference Entity, the relevant outstanding principal balance apportioned to such Valuation Obligation (or, in either case, its equivalent in the relevant Obligation Currency which shall be converted by the Calculation Agent in a commercially reasonable manner by reference to exchange rates in effect at the time that the relevant Quotation is being obtained);

"**Quotation Method**" means that only bid quotations shall be requested from Dealers in obtaining Quotations;

"**Reference Entity**" means the entity specified as such in the Pricing Supplement. Any Successor to the Reference Entity either (a) as identified by the Calculation Agent in accordance with the definition of "**Successor**" on or following the Trade Date; or (b) at the Issuer's option, identified pursuant to a DC Resolution in respect of a Successor Resolution Request Date and publicly announced by the DC Secretary on or following the Trade Date shall, in each case, with effect from the Succession Date, be a Reference Entity for the Notes, as the terms of which may be modified pursuant to Condition 11(a)K (*Succession Event*);

"**Reference Entity Notional Amount**" means the amount as specified in the Pricing Supplement;

"**Reference Obligation**" means, in respect of a Reference Entity and subject to the applicable Pricing Supplement:

(a) for the purposes of Condition 11a(F) (*Cash Settlement*) or Condition 11a(G) (*Physical Settlement*), an obligation of the Reference Entity satisfying the definition of Deliverable Obligation in accordance with these Additional Conditions as selected by the Issuer in its discretion;

(b) for all other purposes (including the determination of Seniority Level), the Standard Reference Obligation described in the applicable Pricing Supplement (if any are so specified or described) and any Substitute Reference Obligation identified in accordance with the definition of "Substitute Reference Obligation", unless:

(i) "Standard Reference Obligation" is specified as not applicable in the related Pricing Supplement, in which case the Reference Obligation will be the Non-Standard Reference Obligation, if any; or

(ii) "Standard Reference Obligation" is specified as applicable in the related Pricing Supplement (or no election is specified in the related Pricing Supplement), (ii) there is no Standard Reference Obligation and (iii) a Non-Standard Reference Obligation is specified in the related Pricing Supplement, in which case the Reference Obligation will be (A) the Non-Standard Reference Obligation to but excluding the first date of publication of the Standard Reference Obligation and (B) the Standard Reference Obligation from such date onwards, **provided that** the Standard Reference Obligation that is published would have been eligible to be selected as a Substitute Reference Obligation.

"**Reference Obligations Only**" means any obligation that is a Reference Obligation and no Obligation Characteristics shall be applicable to Reference Obligations Only;

"**Reference Price**" means the percentage specified as such in the Pricing Supplement, or, if a percentage is not so specified, one hundred per cent.;

"**Relevant City Business Day**" has the meaning given to that term in the DC Rules;

"**Relevant Guarantee**" means a Qualifying Affiliate Guarantee or, if "All Guarantees" is specified as applicable in the related Pricing Supplement, a Qualifying Guarantee;

"**Relevant Holder**" means a holder of the Prior Deliverable Obligation or Package Observable Bond, as the case may be, with an Outstanding Principal Balance or Due and Payable Amount, as applicable, immediately prior to the Relevant Asset Package Credit Event, equal to the Outstanding Amount specified in respect of such Prior Deliverable Obligation or Package Observable Bond in the Notice of Physical Settlement, or NOPS Amendment Notice, as applicable.

"**Relevant Obligations**" means the Obligations of the Reference Entity which fall within the Obligation Category "Bond or Loan" and which are outstanding immediately prior to the Succession Date (or, if there is a Steps Plan, immediately prior to the legally effective date of the first succession), **provided that**:

(a) any Bonds or Loans outstanding between the Reference Entity and any of its Affiliates, or held by the Reference Entity, shall be excluded;

(b) if there is a Steps Plan, the Calculation Agent shall, for purposes of the determination required to be made under Condition 11(a)K (*Succession Event*) and the definition of "Successor", make the appropriate adjustments required to take account of any Obligations of the Reference Entity which fall within the Obligation Category "Bond or Loan" that are issued, incurred, redeemed, repurchased or cancelled from and including the legally effective date of the first succession to and including the Succession Date;

(c) if "Financial Reference Entity Terms" is specified as applicable in the related Pricing Supplement and the Note is a Senior Security, the Relevant Obligations shall only include the Senior Obligations of the Reference Entity which fall within the Obligation Category "Bond or Loan"; and

(d) if "Financial Reference Entity Terms" is specified as applicable in the related Pricing Supplement and the Note is a Subordinated Security, Relevant Obligations shall exclude Senior Obligations and any Further Subordinated Obligations of the Reference Entity which fall within the Obligation Category "Bond or Loan", **provided that** if no such Relevant Obligations exist, "Relevant Obligations" shall have the same meaning as it would if the Note were a Senior Security.

"**Relevant Proportion**" means the proportion which the principal amount of the Note or Notes the subject of an Asset Transfer Notice bears to the aggregate principal amount of all Notes outstanding (including those the subject of the Asset Transfer Notice) immediately prior to the date set for redemption;

"**Replacement Reference Entity**" means an entity selected by the Calculation Agent in its discretion which is incorporated in the same geographical area, has the same Transaction Type as the Legacy Reference Entity and which is of a similar or better credit quality than the Legacy Reference Entity, as measured by Standard & Poor's Ratings Services and/or by Moody's Investors Service Limited, at the date of the relevant Succession Event **provided that** in selecting any Replacement Reference Entity, the Calculation Agent is under no obligation to the Noteholders, the Issuer or any other person and, **provided that** the Successor selected meets the criteria specified above, is entitled, and indeed will endeavour, to select the least credit-worthy of the Successors. In making any selection, the Calculation Agent will not be liable to account to the Noteholders, the Issuer or any other person for any profit or other benefit to it or any of its affiliates which may result directly or indirectly from any such selection;

"**Representative Amount**" means an amount that is representative for a single transaction in the relevant market and at the relevant time such amount to be determined by the Calculation Agent;

"**Repudiation/Moratorium**" means the occurrence of both the following events: (i) an authorised officer of the Reference Entity or a Governmental Authority (I) disaffirms, disclaims, repudiates or rejects, in whole, or in part, or challenges the validity of, one or more Obligations in an aggregate amount of not less than the Default Requirement or (II) declares or imposes a moratorium, standstill, roll-over or deferral, whether de facto or de jure, with respect to one or more Obligations in an aggregate amount of not less than the Default Requirement and (ii) a Failure to Pay, determined without regard to the Payment Requirement, or a Restructuring, determined without regard to the Default Requirement, with respect to any such Obligation occurs on or prior to the Repudiation/Moratorium Evaluation Date;

"**Repudiation/Moratorium Evaluation Date**" means, if a Potential Repudiation/Moratorium occurs on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time)) (i) if the Obligations to which such Potential Repudiation/Moratorium relates include Bonds, the date that is the later of (A) the date that is 60 days after the date of such Potential Repudiation/Moratorium and (A) the first payment date under any such Bond after the date of such Potential Repudiation/Moratorium (or, if later, if the expiration date of any applicable Grace Period in respect of such payment date) and (ii) if the Obligations to which such Potential Repudiation/Moratorium relates do not include Bonds, the date that is 60 days after the date of such Potential Repudiation/Moratorium (**provided that**, in either case, the Repudiation/Moratorium Evaluation Date shall occur no later than the Scheduled Termination Date unless the Repudiation/Moratorium Extension Condition is satisfied);

"**Repudiation/Moratorium Extension Condition**" is satisfied:

(a) by the delivery by the Calculation Agent to the Noteholders of a Repudiation/Moratorium Extension Notice and, if specified as applicable in the Pricing Supplement, a Notice of Publicly Available Information that are each effective on or prior to the date that is fourteen calendar days after the Scheduled Termination Date; or

(b) at the Issuer's option, if the DC Secretary publicly announces, pursuant to a valid request that was delivered and effectively received on or prior to the date that is 14 calendar days after the Scheduled Termination Date, that the relevant Credit Derivatives Determinations Committee has Resolved that an event that constitutes a Potential Repudiation/Moratorium has occurred with respect to an Obligation of the Reference Entity and that such event occurred on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement), Tokyo time));

"**Repudiation/Moratorium Extension Notice**" means an irrevocable notice (which may be in writing (including by facsimile and/or email) and/or by telephone) from the Calculation Agent to the Noteholders that describes a Potential Repudiation/Moratorium that occurred on or prior to the Scheduled Termination Date (determined by reference to Greenwich Mean Time (or, if the Transaction Type of the relevant Reference Entity is Japan Corporate or Japan Sovereign (as such terms are defined in the 2005 Matrix Supplement) Tokyo time)). A Repudiation/Moratorium Extension Notice must contain a description in reasonable detail of the facts relevant to the determination that a Potential Repudiation/Moratorium has occurred and indicate the date of the occurrence. The Potential Repudiation/Moratorium that is the subject of the Repudiation/Moratorium Extension Notice need not be continuing on the date the Repudiation/Moratorium Extension Notice is delivered. A Repudiation/Moratorium Extension Notice shall be subject to the requirements regarding notices contained in Condition 11(a)L(e) (*Effectiveness of Notices*);

"**Resolve**" has the meaning given to that term in the DC Rules, and "**Resolved**" and "**Resolves**" shall be interpreted accordingly;

"**Restructured Bond or Loan**" means an Obligation that is a Bond or Loan and in respect of which the relevant Restructuring has occurred;

"**Restructuring**" means that, with respect to one or more Obligations (which, unless Multiple Holder Obligation is either expressed to be 'not applicable' in the relevant Pricing Supplement or is otherwise deemed to be not be applicable, must be a Multiple Holder Obligation), and in relation to an aggregate amount of not less than the Default Requirement, any one or more of the following events occurs, is agreed between the Reference Entity or a Governmental Authority and the holder or holders of such Obligation or is announced (or otherwise decreed) by the Reference Entity or a Governmental Authority in a form that is binding upon a Reference Entity (including, in each case, in respect of Bonds only, by way of an exchange), and such event is not provided for under the terms of such Obligation in effect as of the later of the Credit Event Backstop Date (if specified as applicable in the Pricing Supplement, or, otherwise, the Trade Date) and the date as of which such Obligation is issued or incurred:

(a) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals (including by way of redenomination);

(b) a reduction in the amount of principal or premium payable at redemption (including by way of redenomination);

(c) a postponement or other deferral of a date or dates for either (A) the payment or accrual of interest or (B) the payment of principal or premium;

(d) a change in the ranking in priority of payment of any Obligation, causing the subordination of such Obligation; or

(e) any change in the currency of any payment of interest, principal or premium,

provided that:

(i) none of the following shall constitute a Restructuring:

(A) the payment in euros of interest, principal or premium in relation to an Obligation denominated in a currency of a Member State of the European Union that adopts or has adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

(B) the redenomination from euros into another currency, if (A) the redenomination occurs as a result of action taken by a Governmental Authority of a Member State of the European Union which is of general application in the jurisdiction of such Governmental Authority and (B) a freely available market rate of conversion between euros and such other currency existed at the time of such redenomination and there is no reduction in the rate or amount of interest, principal or premium payable as determined by reference to such freely available market rate of conversion;

(C) the occurrence of, agreement to or announcement of any of the events described in to (e) (inclusive), above, due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and

(D) the occurrence of, agreement to or announcement of any of the events described in (a) to (e) (inclusive) above, in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of the Reference Entity, **provided that** in respect of (e) only, no such deterioration in the creditworthiness or financial condition of the Reference Entity is required where the redenomination is from euros into another currency and occurs as a result of action taken by a Governmental Authority of a Member State of the European Union which is of general application in the jurisdiction of such Governmental Authority; and

(ii) if an exchange has occurred, the determination as to whether one of the events described under (a) to (e) (inclusive) above has occurred will be based on a comparison of the terms of the Bond immediately before such exchange and the terms of the resulting obligations immediately following such exchange;

"**Restructuring Date**" means the date on which a Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring;

"**Restructuring Maturity Limitation Date**" means, with respect to a Deliverable Obligation or Valuation Obligation, the Limitation Date occurring on or immediately following the Scheduled Termination Date. Notwithstanding the foregoing, if the final maturity date of the Restructured Bond or Loan with the latest final maturity date of any Restructured Bond or Loan occurs prior to the 2.5-year Limitation Date (such Restructured Bond or Loan, a "**Latest Maturity Restructured Bond or Loan**") and the Scheduled Termination Date occurs prior to the final maturity date of such Latest Maturity Restructured Bond or Loan, then the Restructuring Maturity Limitation Date will be the final maturity date of such Latest Maturity Restructured Bond or Loan.

"**Revised Currency Rate**" means, with respect to a Replacement Deliverable Obligation specified in a NOPS Amendment Notice, the rate of conversion between the currency in which the Replaced Deliverable Obligation Outstanding Amount is denominated and the currency in which the Outstanding Amount of such Replacement Deliverable Obligation is denominated that is determined either:

(a) by reference to the Currency Rate Source as at the Next Currency Fixing Time; or

(b) if such rate is not available at such time, by the Calculation Agent in a commercially reasonable manner after consultation with the parties;

"**Scheduled Termination Date**" means the date specified as such in the Pricing Supplement; "**Seniority Level**" means, with respect to an obligation of the Reference Entity, (a) "Senior Level" or "Subordinated Level" as specified in the relevant Pricing Supplement, or (b) if no such seniority level is specified in the relevant Pricing Supplement, "Senior Level" if the Original Non-Standard Reference Obligation is a Senior Obligation or "Subordinated Level" if the Original Non-Standard Reference Obligation is a Subordinated Obligation, failing which (c) "Senior Level";

"**Senior Obligation**" means any obligation which is not Subordinated to any unsubordinated Borrowed Money obligation of the Reference Entity;

"**Senior Security**" means Note for which (a) the Reference Obligation or Prior Reference Obligation, as applicable, is a Senior Obligation, or (b) there is no Reference Obligation or Prior Reference Obligation;

"**Settlement Date**" means the Auction Settlement Date, the Cash Settlement Date or the Physical Settlement Date, as applicable;

"**Settlement Method**" means either (i) Auction Settlement, (ii) Cash Settlement or (iii) Physical Settlement, as specified in the Pricing Supplement, or if "Settlement Method at Issuer Option" applies, the settlement method in the relevant notice from the Calculation Agent;

"**Solvency Capital Provisions**" means any terms in an obligation which permit the Reference Entity's payment obligations thereunder to be deferred, suspended, cancelled, converted, reduced or otherwise varied and which are necessary in order for the obligation to constitute capital resources of a particular tier;

"**Sovereign**" means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority acting in a governmental capacity (including, without limiting the foregoing, the central bank) thereof;

"**Sovereign Restructured Deliverable Obligation**" means an Obligation of a Sovereign Reference Entity:

(a) in respect of which a Restructuring that is the subject of the relevant Credit Event Notice has occurred; and

(b) which fell within the definition of a Deliverable Obligation immediately preceding the date on which Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring;

"**Sovereign Succession Event**" means, with respect to a Reference Entity that is a Sovereign, an annexation, unification, secession, partition, dissolution, consolidation, reconstitution or other similar event;

"**Specified Currency**" means an obligation that is payable in the currency or currencies specified as such in the relevant Pricing Supplement (or, if "Specified Currency" is specified in the relevant Pricing Supplement and no currency is so specified, any Standard Specified Currency), **provided that** if the euro is a Specified Currency, "Specified Currency" shall also include an obligation that was previously payable in the euro, regardless of any redenomination thereafter if such redenomination occurred as a result of action taken by a Governmental Authority of a Member State of the European Union which is of general application in the jurisdiction of such Governmental Authority;

"**SRO List**" means the list of Standard Reference Obligations as published by ISDA on its website at www.isda.org from time to time (or any successor website thereto) or by a third party designated by ISDA on its website from time to time;

"**Standard Reference Obligation**" means the obligation of the Reference Entity with the relevant Seniority Level which is specified from time to time on the SRO List. If the Standard Reference Obligation is removed from the SRO List, such obligation shall cease to be the Reference Obligation (other than for purposes of the "Not Subordinated" Obligation Characteristic or "Not Subordinated" Deliverable Obligation Characteristic) and there shall be no Reference Obligation unless and until such obligation is subsequently replaced on the SRO List, in which case, the new Standard Reference Obligation in respect of the Reference Entity shall constitute the Reference Obligation;

"**Standard Specified Currency**" means each of the lawful currencies of Canada, Japan, Switzerland, France, Germany, the United Kingdom and the United States of America and the euro and any successor currency to any of the aforementioned currencies (which in the case of the euro, shall mean the currency which succeeds to and replaces the euro in whole);

"**Steps Plan**" means a plan evidenced by Eligible Information contemplating that there will be a series of successions to some or all of the Relevant Obligations of the Reference Entity, by one or more entities;

"**Subordinated Obligation**" means any obligation which is Subordinated to any unsubordinated Borrowed Money obligation of the Reference Entity or which would be so Subordinated if any unsubordinated Borrowed Money obligation of the Reference Entity existed;

"**Subordinated Security**" means a Credit Linked Security for which the Reference Obligation or Prior Reference Obligation, as applicable, is a Subordinated Obligation;

"**Subordination**" means, with respect to an obligation (the "**Second Obligation**") and another obligation of the Reference Entity to which such obligation is being compared (the "**First Obligation**") a contractual, trust or similar arrangement providing that (A) upon the liquidation, dissolution, reorganisation or winding up of the Reference Entity claims of the holders of the First Obligation are required to be satisfied prior to the claims of the holders of the Second Obligation or (B) the holders of the Second Obligation will not be entitled to receive or retain principal payments in respect of their claims against the Reference Entity at any time that the Reference Entity is in payment arrears or is otherwise in default under the First Obligation. "Subordinated" will be construed accordingly. For purposes of determining whether Subordination exists or whether an obligation is Subordinated with respect to another obligation to which it is being compared, (x) the existence of preferred creditors arising by operation of law or of collateral, credit support or other credit enhancement or security arrangements shall not be taken into account, except that, notwithstanding the foregoing, priorities arising by operation of law shall be taken into account where the Reference Entity is a Sovereign and (y) in the case of the Reference Obligation or the Prior Reference Obligation, as applicable, the ranking in priority of payment shall be determined as of the date as of which it was issued or incurred (or in circumstances where the Reference Obligation or a Prior Reference Obligation is the Standard Reference Obligation and "Standard Reference Obligation" is specified as applicable in the related Pricing Supplement, then the priority of payment of the Reference Obligation or the Prior Reference Obligation, as applicable, shall be determined as of the date of selection) and, in each case, shall not reflect any change to such ranking in priority of payment after such date;

"**Substitute Reference Obligation**" means, with respect to a Non-Standard Reference Obligation to which a Substitution Event has occurred, the obligation that will replace the Non-Standard Reference Obligation, determined by the Calculation Agent as follows:

(a) The Calculation Agent shall identify the Substitute Reference Obligation in accordance with paragraphs (c), (d) and (e) below to replace the Non-Standard Reference Obligation, **provided that** the Calculation Agent will not identify an obligation as the Substitute Reference Obligation if, at the time of the determination, such obligation has already been rejected as the Substitute Reference Obligation by the relevant Credit Derivatives Determinations Committee and such obligation has not changed materially since the date of the relevant DC Resolution.

(b) If any of the events set forth under paragraphs (i) or (iii) of the definition of Substitution Event have occurred with respect to the Non-Standard Reference Obligation, the Non-Standard Reference Obligation will cease to be the Reference Obligation (other than for purposes of the "**Not Subordinated**" Obligation Characteristic or "**Not Subordinated**" Deliverable Obligation Characteristic and paragraph (c)(ii) below). If the event set forth in paragraph (ii) of the definition of Substitution Event has occurred with respect to the Non-Standard Reference Obligation and no Substitute Reference Obligation is available, the Non-Standard Reference Obligation will continue to be the Reference Obligation until the Substitute Reference Obligation is identified or, if earlier, until any of the events set forth under paragraphs (i) or (iii) of the definition of Substitution Event occur with respect to such Non-Standard Reference Obligation.

(c) The Substitute Reference Obligation shall be an obligation that on the Substitution Date:

(i) is a Borrowed Money obligation of the Reference Entity (either directly or as provider of a guarantee);

(ii) satisfies the Not Subordinated Deliverable Obligation Characteristic as of the date it was issued or incurred (without reflecting any change to the priority of payment after such date) and on the Substitution Date; and

(iii) (A) if the Non-Standard Reference Obligation was a Conforming Reference Obligation when issued or incurred and immediately prior to the Substitution Event Date:

(1) is a Deliverable Obligation (other than a Loan) determined in accordance with paragraph (a) of the definition of "Deliverable Obligation"; or if no such obligation is available,

(2) is a Loan (other than a Private-side Loan) which constitutes a Deliverable Obligation determined in accordance with paragraph (a) of the definition of "Deliverable Obligation",

(B) if the Non-Standard Reference Obligation was a Bond (or any other Borrowed Money obligation other than a Loan) which was a Non-Conforming Reference Obligation when issued or incurred and/or immediately prior to the Substitution Event Date:

(1) is a Non-Conforming Substitute Reference Obligation (other than a Loan); or if no such obligation is available,

(2) is a Deliverable Obligation (other than a Loan) determined in accordance with paragraph (a) of the definition of "Deliverable Obligation"; or if no such obligation is available,

(3) is a Non-Conforming Substitute Reference Obligation which is a Loan (other than a Private-side Loan); or if no such obligation is available,

(4) is a Loan (other than a Private-side Loan) which constitutes a Deliverable Obligation determined in accordance with paragraph (a) of the definition of "Deliverable Obligation", or

(C) if the Non-Standard Reference Obligation was a Loan which was a Non-Conforming Reference Obligation when incurred and/or immediately prior to the Substitution Event Date:

(1) is a Non-Conforming Substitute Reference Obligation which is a Loan (other than a Private-side Loan); or if no such obligation is available,

(2) is a Non-Conforming Substitute Reference Obligation (other than a Loan); or if no such obligation is available,

(3) is a Deliverable Obligation (other than a Loan) determined in accordance with paragraph (a) of the definition of "Deliverable Obligation"; or if no such obligation is available,

(4) is a Loan (other than a Private-side Loan) which constitutes a Deliverable Obligation determined in accordance with paragraph (a) of the definition of "Deliverable Obligation".

(d) If more than one potential Substitute Reference Obligation is identified pursuant to the process described in paragraph (c) above, the Substitute Reference Obligation will be the potential Substitute Reference Obligation that most closely preserves the economic equivalent of the delivery and payment obligations of the Issuer in respect of the relevant Notes, as determined by the Calculation Agent. The Calculation Agent will notify the Issuer of the Substitute Reference Obligation within a reasonable period after it has been identified in accordance with paragraph (c) above and the Substitute Reference Obligation shall replace the Non-Standard Reference Obligation immediately upon such notification.

(e) If a Substitution Event has occurred with respect to the Non-Standard Reference Obligation and the Calculation Agent determines that no Substitute Reference Obligation is available for the Non-Standard Reference Obligation, then, subject to paragraph (a) above and notwithstanding the fact that the Non-Standard Reference Obligation may have ceased to be the Reference Obligation in accordance with paragraph (b) above, the Calculation Agent shall continue to attempt to identify the Substitute Reference Obligation.

"**Substitution Date**" means, with respect to a Substitute Reference Obligation, the date on which the Calculation Agent determines that such Substitute Reference Obligation has been identified in accordance with the definition of Substitute Reference Obligation;

"**Substitution Event**" means, with respect to the Non-Standard Reference Obligation:

(a) the Non-Standard Reference Obligation is redeemed in whole;

(b) the aggregate amounts due under the original Non-Standard Reference Obligation have been reduced by redemption or otherwise below USD10,000,000 (or its equivalent in the relevant Obligation Currency, as determined by the Calculation Agent); or

(c) for any reason, other than due to the existence or occurrence of a Credit Event, the Non-Standard Reference Obligation is no longer an obligation of the Reference Entity (either directly or as provider of a guarantee).

For purposes of identification of the Non-Standard Reference Obligation, any change in the Non-Standard Reference Obligation's CUSIP or ISIN number or other similar identifier will not, in and of itself, constitute a Substitution Event.

If an event described in paragraph (i) or (ii) above has occurred on or prior to the Trade Date, then a Substitution Event shall be deemed to have occurred pursuant to paragraph (i) or (ii) above, as the case may be, on the Trade Date;

"**Succession Date**" means the legally effective date of an event in which one or more entities succeed to some or all of the Relevant Obligations of the Reference Entity; **provided that**, if at such time, there is a Steps Plan, the Succession Date will be the legally effective date of the final succession in respect of such Steps Plan, or if earlier (i) the date on which a determination of the Calculation Agent in accordance with the definition of "Successor" would not be affected by any further related successions in respect of such Steps Plan, or (ii) the occurrence of an Event Determination Date in respect of the Reference Entity or any entity which would constitute a Successor;

"**Substitute Reference Obligation Resolution Request Date**" means, with respect to a notice to the DC Secretary requesting that a Credit Derivatives Determinations Committee be convened to Resolve a Substitute Reference Obligation to the Non-Standard Reference Obligation, the date, as publicly announced by the DC Secretary, that the relevant Credit Derivatives Determinations Committee Resolves to be the date on which such notice is effective;

"**Substitution Event Date**" means, with respect to the Reference Obligation, the date of the occurrence of the relevant Substitution Event;

"**Successor**" means, subject to the restrictions set out in paragraphs (a) to (c) below, the entity or entities, if any, determined as follows:

(a) subject to paragraph (g) below, if one entity succeeds, either directly or as a provider of a Relevant Guarantee, to seventy-five per cent. or more of the Relevant Obligations of the Reference Entity, that entity will be the sole Successor in respect of the relevant Reference Entity;

(b) if only one entity succeeds, either directly or as a provider of a Relevant Guarantee, to more than twenty-five per cent. (but less than seventy-five per cent.) of the Relevant Obligations of the Reference Entity, and not more than twenty-five per cent. of the Relevant Obligations of the

Reference Entity remain with the Reference Entity, the entity that succeeds to more than twenty-five per cent. of the Relevant Obligations will be the sole Successor in respect of the relevant Reference Entity;

(c) if more than one entity each succeeds, either directly or as a provider of a Relevant Guarantee, to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity, and not more than twenty-five per cent. of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entities that succeed to more than twenty-five per cent. of the Relevant Obligations will each be a Successor (subject to Condition 11(a)K (*Succession Event*));

(d) if one or more entities each succeeds, either directly or as a provider of a Relevant Guarantee, to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity, and more than twenty-five per cent. of the Relevant Obligations of the Reference Entity remain with the Reference Entity, each such entity and the Reference Entity will each be a Successor (subject to Condition 11(a)K (*Succession Event*));

(e) if one or more entities succeed, either directly or as a provider of a Relevant Guarantee, to a portion of the Relevant Obligations of the Reference Entity, but no entity succeeds to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity and the Reference Entity continues to exist, there will be no Successor and the Reference Entity will not be changed in any way as a result of such succession;

(f) if one or more entities succeed, either directly or as a provider of a Relevant Guarantee, to a portion of the Relevant Obligations of the Reference Entity, but no entity succeeds to more than twenty-five per cent. of the Relevant Obligations of the Reference Entity and the Reference Entity ceases to exist, the entity which succeeds to the greatest percentage of Relevant Obligations will be the Successor (**provided that** if two or more entities succeed to an equal percentage of Relevant Obligations, each such entity will be a Successor (subject to Condition 11(a)K (*Succession Event*));

(g) in respect of a Reference Entity which is not a Sovereign, if one entity assumes all of the obligations (including at least one Relevant Obligation) of the Reference Entity, and at the time of the determination either (A) the Reference Entity has ceased to exist, or (B) the Reference Entity is in the process of being dissolved (howsoever described) and the Reference Entity has not issued or incurred any Borrowed Money obligation at any time since the legally effective date of the assumption, such entity (the "**Universal Successor**") will be the sole Successor in respect of the relevant Reference Entity.

The Calculation Agent will be responsible for determining, as soon as reasonably practicable after delivery of a Successor Notice and with effect from the Succession Date, any Successor or Successors; **provided that** the Calculation Agent will not make such determination if, at the time of such determination, the DC Secretary has publicly announced that the relevant Credit Derivatives Determinations Committee has Resolved that there is no Successor based on the relevant succession to Relevant Obligations. The Calculation Agent will make all calculations and determinations required to be made under this definition on the basis of Eligible Information and will notify the Issuer of any such calculation or determination as soon as practicable. In calculating the percentages used to determine whether an entity qualifies as a Successor, if there is a Steps Plan, the Calculation Agent shall consider all related successions in respect of such Steps Plan in aggregate as if forming part of a single succession.

An entity may only be a Successor if:

(i) either (A) the related Succession Date occurs on or after the Successor Backstop Date, or (B) such entity is a Universal Successor in respect of which the Succession Date occurred on or after January 1, 2014;

(ii) the Reference Entity had at least one Relevant Obligation outstanding immediately prior to the Succession Date and such entity succeeds to all or part of at least one Relevant Obligation of the Reference Entity; and

(iii) where the Reference Entity is a Sovereign, such entity succeeded to the Relevant Obligations by way of a Sovereign Succession Event.

For purposes of this definition, "succeed" means, with respect to the Reference Entity and its Relevant Obligations, that an entity other than the Reference Entity (I) assumes or becomes liable for such Relevant Obligations, whether by operation of law or pursuant to any agreement (including, with respect to a Reference Entity that is a Sovereign, any protocol, treaty, convention, accord, concord, entente, pact or other agreement), or (II) issues Bonds or incurs Loans (the "**Exchange Bonds or Loans**") that are exchanged for Relevant Obligations, and in either case the Reference Entity is not thereafter a direct obligor or a provider of a Relevant Guarantee with respect to such Relevant Obligations or such Exchange Bonds or Loans, as applicable. For purposes of this definition, "succeeded" and "succession" shall be construed accordingly.

In the case of an exchange offer, the determination required pursuant to this definition shall be made on the basis of the Outstanding Principal Balance of Relevant Obligations exchanged and not on the basis of the Outstanding Principal Balance of the Exchange Bonds or Loans.

If two or more entities (each, a "**Joint Potential Successor**") jointly succeed to a Relevant Obligation (the "**Joint Relevant Obligation**") either directly or as a provider of a Relevant Guarantee, then (i) if the Joint Relevant Obligation was a direct obligation of the Reference Entity, it shall be treated as having been succeeded to by the Joint Potential Successor (or Joint Potential Successors, in equal parts) which succeeded to such Joint Relevant Obligation as direct obligor or obligors, or (ii) if the Joint Relevant Obligation was a Relevant Guarantee, it shall be treated as having been succeeded to by the Joint Potential Successor (or Joint Potential Successors, in equal parts) which succeeded to such Joint Relevant Obligation as guarantor or guarantors, if any, or otherwise by each Joint Potential Successor in equal parts.

"**Successor Backstop Date**" means, for purposes of any Successor determination determined by DC Resolution, the date that is ninety calendar days prior to the Successor Resolution Request Date, otherwise, the date that is ninety calendar days prior to the earlier of (i) the date on which the Successor Notice is effective and (ii) in circumstances where (A) a Successor Resolution Request Date has occurred, (B) the relevant Credit Derivatives Determinations Committee has Resolved not to make a Successor determination and (C) the Successor Notice is delivered by the Calculation Agent not more than fourteen calendar days after the day on which the DC Secretary publicly announces that the relevant Credit Derivatives Determinations Committee has Resolved not to make a Successor determination, the Successor Resolution Request Date. The Successor Backstop Date shall not be subject to adjustment in accordance with any Business Day Convention;

"**Successor Notice**" means an irrevocable notice from the Calculation Agent that describes a succession (or, in relation to a Reference Entity that is a Sovereign, a Sovereign Succession Event) in respect of which a Succession Date has occurred and pursuant to which one or more Successors to the Reference Entity can be determined, and which contains a description in reasonable detail of the facts relevant to the determination to be made pursuant to the definition of Successor and any consequential amendments to the Reference Portfolio and/or the Notes as a result thereof.

"**Successor Resolution Request Date**" means, with respect to a notice to the DC Secretary requesting that a Credit Derivatives Determinations Committee be convened to Resolve one or more Successors to the Reference Entity, the date, as publicly announced by the DC Secretary, that the relevant Credit Derivatives Determinations Committee Resolves to be the date on which such notice is effective;

"**Termination Date**" means either:

(a) the Scheduled Termination Date; or

(b) where the Calculation Agent determines a Potential Credit Event has occurred, the Termination Date shall be:

(i) the date falling two Business Days after the expiry of the Notice Delivery Period; or

(ii) at the Issuer's option, if a Credit Event Resolution Request Date has occurred on or prior to the expiry of the Notice Delivery Period in relation to a Reference Entity, the date falling 15 Business Days following any date on which the Credit Derivatives Determinations Committee Resolves that the relevant event does not constitute a Credit Event, or Resolves not to make such determination;

"**Trade Date**" means the date specified in the Pricing Supplement;

"**Transaction Auction Settlement Terms**" means the Credit Derivatives Auction Settlement Terms for which a relevant credit derivative transaction (including any Hedge Transaction) would be an Auction Covered Transaction;

"**Transaction Type**" means the transaction type specified in the Pricing Supplement in respect of each Reference Entity;

"**Transferable**" means an obligation that is transferable to institutional investors without any contractual, statutory or regulatory restriction **provided that** none of the following shall be considered contractual, statutory or regulatory restrictions:

(a) contractual, statutory or regulatory restrictions that provide for eligibility for resale pursuant to Rule 144A or Regulation S promulgated under the United States Securities Act of 1933, as amended (and any contractual, statutory or regulatory restrictions promulgated under the laws of any jurisdiction having a similar effect in relation to the eligibility for resale of an obligation);

(b) restrictions on permitted investments such as statutory or regulatory investment restrictions on insurance companies and pension funds; or

(c) restrictions in respect of blocked periods on or around payment dates or voting periods; "**Underlying Obligation**" means, with respect to a guarantee, the obligation which is the subject of the guarantee;

"**Underlying Obligor**" means, with respect to an Underlying Obligation, the Issuer in the case of a Bond, the borrower in the case of a Loan, or the principal obligor in the case of any other Underlying Obligation;

"**Valuation Date**" means:

(a) any date as selected by the Calculation Agent in its sole discretion that is no later than 122 Business Days after the Event Determination Date or Auction Cancellation Date or No Auction Announcement Date, as the case may be; or

(b) if Partial Cash Settlement applies, any date as selected by the Calculation Agent in its sole discretion that is no later than 15 Business Days after the Latest Permissible Physical Settlement Date or, as applicable, the Extended Physical Settlement Date;

"**Valuation Obligation**" means in respect of a Reference Entity, notwithstanding anything to the contrary in this Credit Linked Derivatives Annex, one or more obligations of such Reference Entity (either directly or as provider of a Qualifying Guarantee or, as the case may be, Qualifying Affiliate Guarantee), which would constitute a "Deliverable Obligation" if Physical Settlement were the applicable Settlement Method as selected by the Calculation Agent in its sole and absolute discretion on the applicable Valuation Date, **provided that**, for such purpose:

(a) any reference to the words "Delivery Date" in the definitions of "Conditionally Transferable Obligation", "Deliverable Obligation", within any of the terms comprising "Deliverable Obligation Category" or "Deliverable Obligation Characteristic" and "Due and Payable Amount" shall be deemed to be a reference to the words "relevant Valuation Date";

(b) the deletion of the words "being Delivered" in the definition of "Deliverable Obligation"; and

(c) the deletion of the whole of the second paragraph within the definition of "Not Contingent" and replacing it with the following:

> "If an Obligation is a Convertible Obligation or an Exchangeable Obligation, then such Obligation may only be selected as a Valuation Obligation if the rights referred to in (A) and (B) above have not been exercised (or such exercise has been effectively rescinded) on or before the relevant Valuation Date."

For the avoidance of doubt, the use of Deliverable Obligation terms in the definition of "**Valuation Obligation**" is for convenience only and is not intended to amend the selected settlement method.

If the Calculation Agent selects more than one Valuation Obligation with respect to a Reference Entity, then the Calculation Agent shall in its sole and absolute discretion apportion to each such Valuation Obligation an outstanding principal balance (or the equivalent in the Specified Currency thereof converted at the foreign exchange rate prevailing on any date from (and including) the Event Determination Date to and (including) the Valuation Date, as selected by the Calculation Agent in its discretion), which in aggregate shall not exceed the relevant Reference Entity Notional Amount;

"**Valuation Time**" means the time specified as such in the Pricing Supplement or if no such time is specified, 11:00 a.m. in London;

"**Voting Shares**" means the shares or other interests that have the power to elect the board of directors or similar governing body of an entity;

"**Weighted Average Final Price**" means the weighted average of the Final Prices determined for each selected Valuation Obligation of the relevant Reference Entity, weighted by the outstanding principal balance of each such Valuation Obligation;

"**Weighted Average Quotation**" means, in accordance with the Quotation Method, the weighted average of firm quotations obtained from Dealers at the Valuation Time, to the extent reasonably practicable, each for an amount of any Valuation Obligation or Deliverable Obligation with an Outstanding Principal Balance or Due and Payable Amount, as applicable, of as large a size as available but less than the Quotation Amount (but of a size equal to the Minimum Quotation) that in the aggregate are approximately equal to the Quotation Amount; and

Terms defined in the "Terms and Conditions of the Notes" and/or the Pricing Supplement have the same meaning in this Credit Linked Derivatives Annex. In the event of any inconsistency between the Conditions and the Additional Conditions, the Additional Conditions will prevail. In the event of any inconsistency between the Pricing Supplement and the Conditions and the Additional Conditions, the Pricing Supplement will prevail.

APPENDIX 1
FORM OF CREDIT EVENT NOTICE
[AND NOTICE OF PUBLICLY AVAILABLE INFORMATION]

From: **China Everbright Bank Co., Ltd., Hong Kong Branch**
30/F, Far East Finance Centre
No. 16, Harcourt Road
Admiralty
Hong Kong

To: The holders of the Notes (the "**Noteholders**")

To be delivered via [Euroclear/Clearstream/specify other clearing system] (the "**Clearing System**")

[Date]

CREDIT EVENT NOTICE [AND NOTICE OF PUBLICLY AVAILABLE INFORMATION]

CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH

(the "**Issuer**")

U.S.$5,000,000,000 Medium Term Note Programme

[Brief Description and Amount of Notes]

Series No.: [●] Tranche No.: [●] ISIN: [●] (the "**Notes**")

We refer to the Pricing Supplement dated [insert date] in respect of the Notes (the "**Pricing Supplement**"). Terms that are not defined herein, shall have the meanings attributed to them in the Pricing Supplement.

This letter is our Credit Event Notice to you that a [insert type] Credit Event occurred with respect to [insert name] on or about [insert date] (as determined by the Calculation Agent), when [describe Credit Event].

[This letter also comprises our Notice of Publicly Available Information with respect to this Credit Event. Accordingly, we provide the Publicly Available Information attached hereto.][1]

[This letter also comprises our notice for [Settlement Method at Issuer Option] [and] [Fallback Settlement Method at Issuer Option]. Accordingly, we hereby elect that [the Settlement Method will be [Auction Settlement/Cash Settlement/Physical Settlement]] [and] [the Fallback Settlement Method will be [Cash Settlement/Physical Settlement]].]

Nothing in this letter shall be construed as a waiver of any rights we may have with respect to the Notes.

Yours faithfully

China Everbright Bank Co., Ltd., Hong Kong Branch

By: . . . .

APPENDIX 2
FORM OF NOTICE OF PHYSICAL SETTLEMENT

From: **China Everbright Bank Co., Ltd., Hong Kong Branch**
30/F, Far East Finance Centre
No. 16, Harcourt Road
Admiralty
Hong Kong

To: The holders of the Notes (the "**Noteholders**")

To be delivered via [Euroclear/Clearstream/specify other clearing system] (the "**Clearing System**")

[Date]

NOTICE OF PHYSICAL SETTLEMENT

CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH
(the "**Issuer**")
U.S.$5,000,000,000 Medium Term Note Programme

[Brief Description and Amount of Notes]

Series No.: [●] Tranche No.: [●] ISIN: [●] (the "**Notes**")

We refer to the Pricing Supplement dated [insert date] in respect of the Notes (the "**Pricing Supplement**") [and to the Credit Event Notice [and Notice of Publicly Available Information] dated [insert date]], previously delivered to you. Terms that are not defined herein, shall have the meanings attributed to them in the Pricing Supplement.

This letter constitutes a Notice of Physical Settlement.

We hereby confirm that we will settle the Notes and require performance by you in accordance with the terms of the Notes. Subject to the terms of the Notes, we will deliver to you on or before the Physical Settlement Date, [[currency amount] [outstanding principal balance] [Due and Payable Amount]] of the following Deliverable Obligations(s):

[describe the Deliverable Obligation(s) to be Delivered, including the outstanding principal balance or Due and Payable Amount for each such Deliverable Obligation and, if available and applicable, the CUSIP or ISIN number (or, if such identifying number is not available, the rate and tenor of the Deliverable Obligation)]

[Further, we hereby identify the following Enabling Obligation(s):]

[describe each such Enabling Obligation, including the CUSIP or ISIN number, if available and applicable (or, if such identifying number is not available, the rate and tenor), of such Enabling Obligation, or any other information necessary to establish that such obligation is an Enabling Obligation]

[This letter also comprises our notice for Settlement Method at Issuer Option. Accordingly, we hereby elect that the Settlement Method will be Physical Settlement.]

Yours faithfully

China Everbright Bank Co., Ltd., Hong Kong Branch

By: . . . .

APPENDIX 3
FORM OF NOPS AMENDMENT NOTICE

From: **China Everbright Bank Co., Ltd., Hong Kong Branch**
30/F, Far East Finance Centre
No. 16, Harcourt Road
Admiralty
Hong Kong

To: The holders of the Notes (the "**Noteholders**")

To be delivered via [Euroclear/Clearstream/specify other clearing system] (the "**Clearing System**")

[Date]

NOPS AMENDMENT NOTICE

CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH

(the "**Issuer**")

U.S.$5,000,000,000 Medium Term Note Programme

[Brief Description and Amount of Notes]

Series No.: [●] Tranche No.: [●] ISIN: [●] (the "**Notes**")

We refer to the Pricing Supplement dated [insert date] in respect of the Notes (the "**Pricing Supplement**") [and to the Credit Event Notice [and Notice of Publicly Available Information] dated [insert date]] and the Notice of Physical Settlement dated [insert date] [and the NOPS Amendment Notice(s) dated [insert date] and [[insert date]], previously delivered to you. Terms that are not defined herein, shall have the meanings attributed to them in the Pricing Supplement.

This letter constitutes a NOPS Amendment Notice.

We hereby confirm that we are replacing, [in whole or in part], [[currency amount] [outstanding principal balance] [Due and Payable Amount]] of the following Deliverable Obligation(s) specified in the [Notice of Physical Settlement/NOPS Amendment Notice] dated [insert date]:

> [describe the Deliverable Obligation(s) to be replaced, including the outstanding principal balance or Due and Payable Amount for each such Deliverable Obligation and, if available and applicable, the CUSIP or ISIN number (or, if such identifying number is not available, the rate and tenor of the Deliverable Obligation)]

with [[currency amount] [outstanding principal balance] [Due and Payable Amount]] of the following Deliverable Obligation(s):

[describe the replacement Deliverable Obligation(s), including the outstanding principal balance or Due and Payable Amount for each such Deliverable Obligation and, if available and applicable, the CUSIP or ISIN number (or, if such identifying number is not available, the rate and tenor of the Deliverable Obligation)]

Yours faithfully

China Everbright Bank Co., Ltd., Hong Kong Branch

By: . . . .

APPENDIX 4
FORM OF ASSET TRANSFER NOTICE

To: **China Everbright Bank Co., Ltd., Hong Kong Branch**
30/F, Far East Finance Centre
No. 16, Harcourt Road
Admiralty
Hong Kong

To: [Euroclear/Clearstream/specify other clearing system] (the "**Clearing System**") [insert address of clearing system]

From: [insert name and address of Noteholder]

[Date]

ASSET TRANSFER NOTICE

CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH

(the "**Issuer**")

U.S.$5,000,000,000 Medium Term Note Programme

[Brief Description and Amount of Notes]

Series No.: [●] Tranche No.: [●] ISIN: [●] (the "**Notes**")

We refer to the Pricing Supplement dated [insert date] in respect of the Notes (the "**Pricing Supplement**") [and to the Credit Event Notice dated [insert date]] and the Notice of Physical Settlement dated [insert date] [and the NOPS Amendment Notice(s) dated [insert date] and [[insert date]], previously delivered to us. Terms that are not defined herein, shall have the meanings attributed to them in the Pricing Supplement.

This letter constitutes an Asset Transfer Notice and relates to [insert number and aggregate nominal amount] of Notes.

We hereby confirm that we are the legal owner of the above Notes, [held via [insert Clearing System name] at account [insert Clearing System account details].

(1) Delivery of the Relevant Proportion of the Deliverable Obligation(s) should be made to: [insert name, address and account details of the person to whom Delivery should be made]

(2) Notices in relation to the Deliverable Obligations should be sent to:

(i) Attention: [insert contact person name]

(ii) Address: [insert address]

(iii) E-mail: [insert e-mail address]

(iv) Fax: [insert fax number]

(v) Telephone: [insert telephone number]

(3) Payments in relation to the Deliverable Obligations should be made to:

[insert account details including Bank, Branch Address, Branch Code, Account Number and Account Name]

If the Notes are Registered Notes, we hereby irrevocably instruct and authorise the Registrar to effect the transfer of the Notes.

We hereby irrevocably instruct and authorise the Clearing System to debit the relevant account with such Notes on the due date for redemption of the Notes.

We hereby authorise the Clearing System, the Issuer and the Calculation Agent to produce this notice in any administrative or legal proceedings.

We hereby authorise the Issuer to deduct from the Relevant Proportion of the Deliverable Amount of the Deliverable Obligations to be delivered in accordance with such notice, the Delivery Expenses.

We hereby represent that, as of the date hereof and as of the date on which the Deliverable Obligation(s) are to be delivered, neither compliance with any authority or request contained in this Asset Transfer Notice by any person to whom such authority or request is given; nor completion and delivery of this Asset Transfer Notice to the Issuer or Calculation Agent by us is, or will result in, a breach of any exchange control, fiscal or other laws or regulations for the time being applicable.

Yours faithfully

[insert name of Noteholder]

By: . . . .

. . . .	Certifying signature (2):
Name: Title:	

[To be completed by the Issuer]

Received by:

[Signature and stamp of the Issuer]

At its office at: [●]

On: [●]

Notes:

1. Any Notes or Certificates so returned or Certificates issued will be sent by post, uninsured and at the risk of the Noteholder, unless the Noteholder otherwise requests and pays the costs of such insurance in advance to the Issuer. This section need only be completed in respect of Registered Notes if the Certificate is not to be forwarded to the Registered Address.

2. The signature of any person relating to Registered Notes shall conform to a list of duly authorised specimen signatures supplied by the holder of such Notes or (if such signature corresponds with the name as it appears on the face of the certificate) be certified by a notary public or a recognised bank or be supported by such other evidence as the Issuer may reasonably require. A representative of the holder should state the capacity in which he signs.

3. This Asset Transfer Notice is not valid unless all of the paragraphs requiring completion are duly completed.

4. The Issuer shall not in any circumstances be liable to the Noteholder or any other person for any loss or damage arising from any act, default or omission of the Issuer in relation to the Notes or any of them unless such loss or damage was caused by the fraud or negligence of the Issuer or its directors, officers or employees.

DESCRIPTION OF AUCTION SETTLEMENT TERMS

If an Event Determination Date occurs with respect to the Notes and Auction Settlement applies, the Auction Settlement Amount with respect to the Notes will be calculated based on an Auction Final Price or Parallel Auction Final Price for the Reference Entity (if any). This description contains a summary of certain provisions of the Form of Credit Derivatives Auction Settlement Terms set forth at Annex B to the 2009 ISDA Credit Derivatives Determinations Committees and Auction Settlement Supplement to the 2003 ISDA Credit Derivatives Definitions, published by the International Swaps and Derivatives Association, Inc. ("**ISDA**") on 12 March 2009 (the "**Form of Auction Settlement Terms**") and is qualified by reference to the detailed provisions thereof and is subject to amendment from time to time in accordance with the Rules, including any amendment following the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement dated 14 July 2009, as published by ISDA. The following does not purport to be complete and prospective investors must refer to the Form of Auction Settlement Terms for detailed information regarding the auction methodology set forth therein (the "**Auction Methodology**"). The Auction and the Auction Methodology apply to credit default swaps on the Reference Entity and do not apply specifically to the Notes. A copy of the Form of Auction Settlement Terms may be inspected at the offices of the Issuer and is also currently available at www.isda.org.

Investors should be aware that this summary of the Form of Auction Settlement Terms is accurate only as of the date hereof and the Form of Auction Settlement Terms may be amended from time to time without consultation with investors. At any time after the date of this memorandum, the latest Form of Auction Settlement Terms will be available on the ISDA website at www.isda.org (or any successor website thereto). Further, notwithstanding the fact that the Form of Auction Settlement Terms (as may be amended from time to time) appears on the ISDA website, investors should note that the Credit Derivatives Determinations Committees have the power to amend the form of Credit Derivatives Auction Settlement Terms for a particular auction and that this summary may therefore not be accurate in all cases.

Capitalised terms used but not defined in this summary have the meaning specified in the Rules and the Form of Auction Settlement Terms. All times of day in this summary refer to such times in London.

PUBLICATION OF CREDIT DERIVATIVES AUCTION SETTLEMENT TERMS

Pursuant to the Credit Derivatives Determinations Committees Rules set forth in Annex A to the 2009 ISDA Credit Derivatives Determinations Committees and Auction Settlement Supplement to the 2003 ISDA Credit Derivatives Definitions (published on March 12, 2009) (the "**ISDA Rules**"), a Credit Derivatives Determinations Committee may determine that a Credit Event has occurred in respect of a Reference Entity (such entity, an "**Affected Reference Entity**") and that one or more auctions will be held in order to settle affected Auction Covered Transactions referencing such Affected Reference Entity based upon an Auction Final Price determined according to an auction procedure set forth in the Form of Auction Settlement Terms (each, an "**Auction**"). If an Auction is to be held, the Credit Derivatives Determinations Committee will publish Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity, based upon the Form of Auction Settlement Terms. In doing so, the Credit Derivatives Determinations Committee will make several related determinations, including the date on which the Auction will be held (the "**Auction Date**"), the institutions that will act as participating bidders in the Auction (the "**Participating Bidders**") and the supplemental terms that are detailed in Schedule 1 to the Form of Auction Settlement Terms. The Credit Derivatives Determinations Committee may also amend the Form of Auction Settlement Terms for a particular auction and may determine that a public comment period is necessary in order to effect such an amendment if such amendment is not contemplated by the ISDA Rules.

"**Auction Covered Transactions**" are credit derivative transactions referencing the Affected Reference Entity which satisfy the criteria set forth in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity, including in respect of the provisions in such credit derivative transactions that set forth the criteria for establishing what obligations may constitute Deliverable Obligations (or, in the case of a cash settled credit derivative transaction, the provisions therein that set forth the criteria for establishing what obligations may be valued to determine a final price).

AUCTION METHODOLOGY

Determining the Auction Currency Rate

On a specified fixing date, the "Administrators" (being both Markit Group Limited and Creditex Securities Corp. or such other entities appointed by ISDA) will determine the rate of conversion (each, an "**Auction Currency Rate**") as between the relevant currency and the currency of denomination of each Deliverable Obligation (each, a "**Relevant Pairing**") by reference to a rate source or, if such rate source is unavailable, by seeking mid-market rates of conversion from Participating Bidders (determined by each such Participating Bidder in a commercially reasonable manner) for each such Relevant Pairing.

Initial Bidding Period

During the Initial Bidding Period (which is the period initially determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity, as such period may be extended by the Administrators, *inter alia*, to preserve the integrity of an Auction), Participating Bidders will submit to the Administrators: (a) Initial Market Bids; (b) Initial Market Offers; (c) Dealer Physical Settlement Requests; and (d) Customer Physical Settlement Requests (to the extent received from customers).

Initial Market Bids and Initial Market Offers are firm quotations, expressed as percentages, to enter into credit derivative transactions in respect of the Affected Reference Entity on terms equivalent to the Representative Auction-Settled Transaction. A "**Representative Auction-Settled Transaction**" is a hypothetical single-name, physically settled credit default swap transaction referencing the Affected Reference Entity with the standard terms specified in the Form of Auction Settlement Terms.

The Initial Market Bid and Initial Market Offer submitted by each Participating Bidder must differ by no more than the designated Maximum Initial Market Bid-Offer Spread and must be an integral multiple of the Relevant Pricing Increment (each as determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity). The Initial Market Bid must be less than the Initial Market Offer.

Dealer Physical Settlement Requests and Customer Physical Settlement Requests are firm commitments, submitted by a Participating Bidder, on its own behalf or on behalf of a customer, as applicable, to enter into a Representative Auction-Settled Transaction, in each case, as seller (in which case, such commitment will be a "**Physical Settlement Buy Request**") or as buyer (in which case, such commitment will be a "**Physical Settlement Sell Request**"). Each Dealer Physical Settlement Request must be, to the best of such Participating Bidder's knowledge and belief, in the same direction as, and not in excess of, its Market Position. Each Customer Physical Settlement Request must be, to the best of the relevant customer's knowledge and belief (aggregated with all Customer Physical Settlement Requests submitted by such customer), in the same direction as, and not in excess of, its Market Position.

If the Administrators do not receive valid Initial Market Bids and Initial Market Offers from at least a minimum number of Participating Bidders (as determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity), the timeline will be adjusted and the Initial Bidding Period extended, with the Auction recommencing at such time(s) specified by the Administrators, otherwise it will proceed as follows.

The "Market Position" with respect to a Participating Bidder or customer, as applicable, is the aggregate amount of Deliverable Obligations that the relevant Participating Bidder or customer, as applicable, would have to buy or sell in order to obtain an identical risk profile after the Auction Settlement Date compared to its risk profile prior to the Auction Settlement Date with respect to all Auction Covered Transactions (excluding those Auction Covered Transactions for which the trade date is the date on which the Auction Final Price is determined (the "**Auction Final Price Determination Date**")) and all Auction-Linked Cash Settled Transactions to which such Participating Bidder, or any affiliate of such Participating Bidder, as applicable, or such customer, or any affiliate of such customer, as applicable, is a party and to which every other party is an Auction Party, such risk profile to be determined without regard to whether the original transactions were documented as cash settled or physically settled transactions.

Determination of Open Interest, Initial Market Midpoint and Adjustment Amounts

The Administrators will calculate the Open Interest, the Initial Market Midpoint and any Adjustment Amounts in respect of the Auction.

The Open Interest is the difference between all Physical Settlement Sell Requests and all Physical Settlement Buy Requests.

To determine the Initial Market Midpoint, the Administrators will: (a) sort the Initial Market Bids in descending order and the Initial Market Offers in ascending order, identifying non-tradeable markets for which bids are lower than offers; (b) sort non-tradeable markets in terms of tightness of spread between Initial Market Bid and Initial Market Offer; and (c) identify that half of the non-tradeable markets with the tightest spreads. The Initial Market Midpoint is determined as the arithmetic mean of the Initial Market Bids and Initial Market Offers contained in the half of non-tradeable markets with the tightest spreads.

Any Participating Bidder whose Initial Market Bid or Initial Market Offer forms part of a tradeable market will be required to make a payment to ISDA on the third Business Day after the Auction Final Price Determination Date (an "**Adjustment Amount**"), calculated in accordance with the Auction Methodology. Any payments of Adjustment Amounts will be used by ISDA to defray any costs related to any auction that ISDA has coordinated, or that ISDA may in the future coordinate, for purposes of settlement of credit derivative transactions.

If for any reason no single Initial Market Midpoint can be determined, the procedure set out above may be repeated.

At or prior to the Initial Bidding Information Publication Time (as determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity) on any day on which the Initial Bidding Period has successfully concluded, the Administrators publish the Open Interest, the Initial Market Midpoint and the details of any Adjustment Amounts in respect of the Auction.

If the Open Interest is zero, the Auction Final Price will be the Initial Market Midpoint.

Submission of Limit Order Submissions

In the event that the Open Interest does not equal zero, a subsequent bidding period will be commenced during the Initial Bidding Period which: (a) if the Open Interest is an offer to sell Deliverable Obligations, Participating Bidders submit Limit Bids; or (b) if the Open Interest is a bid to purchase Deliverable Obligations, Limit Offers, in each case, on behalf of customers and for their own account.

Matching bids and offers

If the Open Interest is a bid to purchase Deliverable Obligations, the Administrators will match the Open Interest against all Initial Market Offers and Limit Offers, as further described in the Auction Methodology. If the Open Interest is an offer to sell Deliverable Obligations, the Administrators will match the Open Interest against all Initial Market Bids and Limit Bids, as further described in the Auction Methodology.

(a) Auction Final Price when the Open Interest is Filled

The Auction Final Price will be the price associated with the matched Initial Market Bids and Limit Bids or Initial Market Offers and Limit Offers, as applicable, that is the highest offer or the lowest bid, as applicable, provided that: (a) if the Open Interest is an offer to sell and the price associated with the lowest matched bid exceeds the Initial Market Midpoint by more than the "Cap Amount" (being the percentage that is equal to one half of the Maximum Initial Market Bid-Offer Spread (rounded to the nearest Relevant Pricing Increment)), then the Auction Final Price will be the Initial Market Midpoint plus the Cap Amount; and (b) if the Open Interest is a bid to purchase and the Initial Market Midpoint exceeds the price associated with the highest offer by more than the Cap Amount, then the Auction Final Price will be the Initial Market Midpoint minus the Cap Amount.

(b) Auction Final Price when the Open Interest is Not Filled

If, once all the Initial Market Bids and Limit Bids or Initial Market Offers and Limit Offers, as applicable, have been matched to the Open Interest, part of the Open Interest remains, the Auction Final Price will be: (a) if the Open Interest is a bid to purchase Deliverable Obligations, the greater of (i) zero, and (ii) the highest Limit Offer or Initial Market Offer received; or (b) if the Open Interest is an offer to sell Deliverable Obligations, zero.

100 per cent. Cap to Auction Final Price

In all cases, if the Auction Final Price determined pursuant to the Auction Methodology is greater than 100 per cent., then the Auction Final Price will be deemed to be 100 per cent.

Publication of Auction Final Price

At or prior to the Subsequent Bidding Information Publication Time (as determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity) on any day on which the subsequent bidding period has successfully concluded, the Administrators will publish on their websites: (a) the Auction Final Price; (b) the names of the Participating Bidders who submitted bids, offers, valid Dealer Physical Settlement Requests and valid Customer Physical Settlement Requests, together with the details of all such bids and offers submitted by each; and (c) the details and size of all matched trades.

EXECUTION OF TRADES FORMED IN THE AUCTION

Each Participating Bidder whose Limit Bid or Initial Market Bid (or Limit Offer or Initial Market Offer if applicable) is matched against the Open Interest, and each Participating Bidder that submitted a Customer Physical Settlement Request or Dealer Physical Settlement Request, is deemed to have entered into a Representative Auction-Settled Transaction, and each customer that submitted such a Limit Bid, Limit Offer, or Physical Settlement Request is deemed to have entered into a Representative Auction-Settled Transaction with the dealer through whom the customer submitted such bid or offer. Accordingly, each such Participating Bidder or customer that is a seller of Deliverable Obligations as a result of a trade formed in the auction must deliver to the buyer to whom such Participating Bidder or customer has been matched a Notice of Physical Settlement indicating the Deliverable Obligations that it will deliver, and such Deliverable Obligations will be sold to the buyer in exchange for payment of the Auction Final Price.

TIMING OF AUCTION SETTLEMENT PROVISIONS

If an Auction is held in respect of an Affected Reference Entity, it is expected that the relevant Auction Date will occur on the third Business Day immediately prior to the 30th calendar day after which the relevant Credit Derivatives Determinations Committee received the request from an eligible market participant (endorsed by a member of the relevant Credit Derivatives Determinations Committee) to resolve whether a Credit Event has occurred with respect to such Reference Entity.

In respect of an Affected Reference Entity for which an Auction is held, the Auction Settlement Date will occur on a Business Day following the Auction Final Price Determination Date, as determined by the Credit Derivatives Determinations Committee and specified in the Credit Derivatives Auction Settlement Terms in respect of the relevant Affected Reference Entity. By way of example, in recent ISDA CDS Auction Protocols (prior to the publication of the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement dated 14 July 2009, as published by ISDA) this has been approximately five Business Days following the relevant Auction Final Price Determination Date.

DELAYED AUCTION PROVISIONS

The Auction timing may be adjusted under the relevant following circumstances: (a) the occurrence of an event or news the occurrence of which two or more Participating Bidders consider has or could have a material effect on the Auction Final Price; (b) if the Administrators are unable to determine an Auction Currency Rate on the Auction Currency Fixing Date with respect to each Relevant Pairing; (c) if the Auction Methodology does not result in an Auction Final Price for any reason (including, but not limited to, the failure to receive the minimum number of valid Initial Market Bids and Initial Market Offers); or (d) any combination of (a), (b) and (c) above.

AUCTION CANCELLATION

If an Auction Final Price has not been determined on or prior to: (a) the fifth Business Day following the Auction Date, in the events described in clause (a) or (d) of "Delayed Auction Provisions" above; or (b) the second Business Day following the Auction Date, in the events described in clause (b) or (c) of "Delayed Auction Provisions" above, then the Auction will be deemed to have been cancelled and the Administrators and ISDA will announce the occurrence of such cancellation on their respective websites.

For these purposes, "**Business Day**" means a day on which commercial banks and foreign exchange markets are generally open to settle payments in, if the Transaction Type of the relevant Affected Reference Entity is included in: (a) the Americas, New York; and (b) otherwise, London.

FORM OF PRICING SUPPLEMENT

[The Pricing Supplement in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.]

[**MiFID II product governance/target market** – [appropriate target market legend to be included]]

["**PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS –** The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II Consequently no key information document required by Regulation (EU) No 1286/2014 as amended (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation."]

[In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes [are]/[are not] [prescribed capital markets products]/[capital markets products other than prescribed capital markets products] (as defined in the CMP Regulations 2018).][1]

[This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

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[1] For any Notes to be offered to Singapore investors, the Issuer to consider whether it needs to re-classify the Notes pursuant to Section 309B of the SFA prior to the launch of the offer.

Pricing Supplement dated [*original date*]

China Everbright Bank Co., Ltd., Hong Kong Branch

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
under the U.S.$5,000,000,000 Medium Term Note Programme

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [●]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated [●] and the documents incorporated by reference thereto [and the supplemental Offering Circular dated [●]].

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date*.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [●]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [●] and the documents incorporated by reference thereto [and the supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated [●] and are attached hereto.]

*[Include whichever of the following apply or specify as "**Not Applicable**" (N/A). Note that the numbering should remain as set out below, even if "**Not Applicable**" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.]*

1	(i)	Issuer:	China Everbright Bank Co., Ltd., Hong Kong Branch
2	[(i)	Series Number:]	[●]
	[(ii)	Tranche Number:	[●]
	(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]		
3	Specified Currency or Currencies:		[●]
4	Aggregate Nominal Amount:		[●]
	[(i)]	[Series]:	[●]
	[(ii)	Tranche:	[●]]
5	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	(ii)	Net Proceeds	[●] [(Required only for listed issues)]

6	(i)	Specified Denominations[1] [2] [3]:	[●]
	(ii)	Calculation Amount:	[●]
7	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8	Maturity Date:		[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][4] [*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available*.]
9	Interest Basis:		[[●] per cent. Fixed Rate] [[*Specify reference rate*] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Other (Specify)] (further particulars specified below)
10	Redemption/Payment Basis:		[Redemption at par] [Index Linked Redemption] [Dual Currency] [Partly Paid] [Instalment] [[Subject to no Credit Event having occurred Redemption – CLN shall apply] [Other (*Specify*)]
11	Change of Interest or Redemption/ Payment Basis:		[*Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis*]
12	Put/Call Options:		[Investor Put] [Issuer Call] [(further particulars specified below)]

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[1] Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

[2] If the specified denomination is expressed to be €100,000 or its equivalent and multiples of a lower principal amount (for example €1,000), insert the additional wording as follows: €100,000 and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No notes in definitive form will be issued with a denomination above [€199,000]. In relation to any issue of Notes which are a "Global Note exchangeable for Definitive Notes" in circumstances other than "in the limited circumstances specified in the Global Notes", such Notes may only be issued in denominations equal to, or greater than, €100,000 (or equivalent) and multiples thereof.

[3] Notes to be listed on Hong Kong Stock Exchange are required to be traded with board lot size of at least HK$500,000 (or its equivalent in other currencies).

[4] Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.

13	[Date of [the Board] approval for issuance of Notes:	[●] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)]
14	Date of the Relevant NDRC [approval] or [quota granted] for issuance of Notes:	[●]
15	Listing:	[Hong Kong/Other (specify)/None] (For Notes to be listed on the [Hong Kong Stock Exchange], insert the expected effective listing date of the Notes)
16	Method of Distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17	**Fixed Rate Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/ other (*specify*)] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"*]/not adjusted][5] *(N.B. This will need to be amended in the case of long or short coupons.)*
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount[6]
	(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]
	(vi)	[Determination Dates:	[●] in each year (*insert regular interest payment dates, ignoring Issue Date or Maturity Date in the case of a long or short first or last coupon*). *(N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration)* *N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA).*]
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
18	**Floating Rate Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

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5 Note that for certain Renminbi or Hong Kong dollar denominated Fixed Rate Notes the Interest Payment Dates are subject to adjustment in accordance with the Modified Following Business Day Convention.

6 For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 for the case of Renminbi denominated Fixed Rate Notes to the nearest HK$0.01, HK$0.005 for the case of Hong Kong dollar denominated Fixed Rate Notes, being rounded upwards.

(i)	Interest Period(s):	[●]
(ii)	Specified Period:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)
(iii)	Specified Interest Payment Dates:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
(iv)	First Interest Payment Date:	[●]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
(vi)	Additional Business Centre(s):	[Not Applicable/*give details*]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/ other (*give details*)]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Fiscal Agent]):	[[Name] shall be the Calculation Agent]
(ix)	Screen Rate Determination:	
	• Reference Rate:	[*For example, LIBOR* or *EURIBOR*]
	• Interest Determination Date(s):	[●] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling, Hong Kong dollar or euro LIBOR), first day of each Interest Period if Sterling LIBOR or Hong Kong dollar LIBOR or HIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
	• Relevant Screen Page:	[*For example, Reuters LIBOR 01/EURIBOR 01*]
	• Relevant Time:	[*For example, 11.00 a.m. London time/Brussels time*]
	• Relevant Financial Centre:	[*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro*]
(x)	ISDA Determination:	
	• Floating Rate Option:	[●]
	• Designated Maturity:	[●]
	• Reset Date:	[●]
	• [ISDA Definitions:	[2006]]

	(xi)	Margin(s):	[+/-] [●] per cent. per annum
	(xii)	Minimum Rate of Interest:	[●] per cent. per annum
	(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
	(xiv)	Day Count Fraction:	[●]
	(xv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]
19	**Zero Coupon Note Provisions:**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Accrual Yield:	[●] per cent. per annum
	(ii)	Reference Price:	[●]
	(iii)	Any other formula/basis of determining amount payable:	[*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition [10(g)]*]
20	**Index-Linked Interest Note/other variable-linked interest Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Index/Formula/other variable:	[*give or annex details*]
	(ii)	Calculation Agent responsible for calculating the interest due:	[Citibank, N.A., London Branch[/(please specify)]]
	(iii)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Interest Determination Date(s):	[●]
	(v)	Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●] [*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(vi)	Interest or calculation period(s):	[●]
	(vii)	Specified Period:	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)
	(viii)	Specified Interest Payment Dates:	[●]

			(*Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"*)
	(ix)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/other (*give details*)]
	(x)	Additional Business Centre(s):	[●]
	(xi)	Minimum Rate/Amount of Interest:	[●] per cent. per annum
	(xii)	Maximum Rate/Amount of Interest:	[●] per cent. per annum
	(xiii)	Day Count Fraction:	[●]
	(xiv)	Registrar appointed in respect of the Index-Linked Interest Note/ other variable-linked interest Note Provisions:	[●]
21	**Dual Currency Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate of Exchange/method of calculating Rate of Exchange:	[●]
	(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[Citibank, N.A., London Branch[/(please specify)]]
	(iii)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●] [*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(iv)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

22	**Call Option**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount

	(iv)	Notice period:	[●][7]
23	**Put Option**		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii)	Notice period:	[●]
24	**Final Redemption Amount of each Note**		[[●] per Calculation Amount/Redemption CLN] Credit Linked Derivatives Annex: [Applicable/Not Applicable]
	In cases where the Final Redemption Amount is Index-Linked or other variable-linked:		
	(i)	Index/Formula/variable:	[*give or annex details*]
	(ii)	Calculation Agent responsible for calculating the Final Redemption Amount:	[Citibank, N.A., London Branch[/(please specify)]]
	(iii)	Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:	[●]
	(iv)	Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:	[●]
	(v)	Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted:	[●]
	(vi)	[Payment Date]:	[●]
	(vii)	Minimum Final Redemption Amount:	[●] per Calculation Amount
	(viii)	Maximum Final Redemption Amount:	[●] per Calculation Amount
25	**Early Redemption Amount**		[Not Applicable

[7] Euroclear and Clearstream require a minimum of 5 business days' notice for exercise of call options.

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	(*If each of the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes*)]
Credit Linked Notes:	[Yes (further details specified below)]/[No] (*If not applicable, delete the remaining sub-paragraphs of this sub-paragraph*)
• Settlement Basis (following a Specified Event):	[[Cash Settlement]/[Auction Settlement]/ [Physical Settlement (asset(s) to be delivered: [●] [as determined in accordance with the Credit Linked Derivatives Annex]/[Settlement Method at Issuer Option – The following are applicable for election: [Auction Settlement]/[Cash Settlement]/ [Physical Settlement (asset(s) to be delivered: [●] [as determined in accordance with the Credit Linked Derivatives Annex)] (*specify two*)]]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26	**Form of Notes:**	**Bearer Notes:**[8] [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note][9] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice][10] [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note][11] **Registered Notes:** [Global Note Certificate exchangeable for Individual Note Certificates on [●] days' notice/at any time/in the limited circumstances described in the Global Note Certificate][12]

8 Bearer Notes issued in compliance with the D Rules must initially be represented by a Temporary Global Note.

9 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [●] days' notice/at any time.

10 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Temporary Global Note shall not be exchangeable on [●] days' notice.

11 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [●] days' notice/at any time.

12 If the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Global Note Certificate shall not be exchangeable on [●] days' notice.

27	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details*. *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 18(vi) and 20(x) relate*]
28	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are left.]
29	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	[Not Applicable/*give details*] (*N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues.*)
30	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	[Not Applicable/*give details*]
31	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions annexed to this Pricing Supplement apply]
32	Consolidation provisions:	The provisions in Condition 20 (*Further Issues*) [annexed to this Pricing Supplement] apply
33	Any applicable currency disruption/ fallback provisions:	[Not Applicable/*give details*]
34	Other terms or special conditions:	[Not Applicable/*give details*]
35	**CREDIT LINKED PROVISIONS**	Provisions of the Credit Linked Derivatives Annex: [Applicable]/[Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(i) Reference Entity(ies):

Reference Entity:	Transaction Type:	Additional Provisions:	Physical Settlement Matrix:
[●]	[●]/[Not Applicable]	[●]/[Not Applicable]	[●]/[Not Applicable]

(ii)	LPN Reference Entity:	[Applicable]/[Not Applicable]
(iii)	Financial Reference Entity Terms:	[Applicable]/[Not Applicable]
(iv)	Subordinated European Insurance Terms:	[Applicable]/[Not Applicable]
(v)	Standard Reference Obligation:	[Applicable]/[Not Applicable]
(vi)	Seniority Level:	[Senior Level]/[Subordinated Level]
(vii)	Reference Obligation(s):	[●]/[Not Applicable]
(viii)	Applicable Credit Events:	[[Bankruptcy]/[Failure to Pay]/ [Governmental Intervention]/ [Obligation Acceleration]/ [Obligation Default]/ [Repudiation/Moratorium]/ [Restructuring]] (*Use table below if there is more than one Reference Entity*)

[Reference Entity:	**Applicable Credit Events:**

		[●]	[Bankruptcy]/ [Failure to Pay]/ [Governmental Intervention]/ [Obligation Acceleration]/ [Obligation Default]/ [Repudiation/ Moratorium]/ [Restructuring]]

- Grace Period Extension: [Applicable]/[Not Applicable]

  (*Use table below if there is more than one Reference Entity*)

[Reference Entity:	**Grace Period Extension:**
[●]	[Applicable]/[Not Applicable]]

- Grace Period (applicable under paragraph (b) of the definition thereof): [[●] calendar days]/[Not Applicable]

  (*Use table below if there is more than one Reference Entity*)

[Reference Entity:	**Grace Period:**
[●]	[[●] calendar days]/[Not Applicable]]

- Payment Requirement: [U.S.$1,000,000]/[Zero]/[●]

  (*Use table below if there is more than one Reference Entity*)

[Reference Entity:	**Payment Requirement:**
[●]	[U.S.$1,000,000]/[Zero]/ [●]]

- Restructuring Type: [No Restructuring]/[Restructuring]/ [Modified Restructuring Applicable]/ [Modified Modified Restructuring Applicable]

  (*Use table below if there is more than one Reference Entity*)

[Reference Entity:	**Restructuring Type:**
[●]	[No Restructuring]/ [Restructuring]/ [Modified Restructuring Applicable]/ [Modified Modified Restructuring Applicable]]

- Multiple Holder Obligation: [Applicable]/[Not Applicable]

  (*Use table below if there is more than one Reference Entity*)

[Reference Entity:	**Multiple Holder Obligation:**
[●]	[Applicable]/[Not Applicable]]

[Applicable]/[Not Applicable]

- Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation:

(*Use table below if there is more than one Reference Entity*)

[Reference Entity:	**Modified Restructuring Maturity Limitation and Conditionally Transferable Obligation:**
[●]	[Applicable]/[Not Applicable]]

(ix)	Scheduled Termination Date:	[●]
(x)	Notice of Publicly Available Information applicable to Conditions to Settlement:	[Yes]/[No]
(xi)	Settlement Method:	[Auction Settlement]/[Cash Settlement]/ [Physical Settlement]/[Settlement Method at Issuer Option – The following are applicable for election: [Auction Settlement]/[Cash Settlement]/ [Physical Settlement] (*specify two*)]
(xii)	Fallback Settlement Method:	[Cash Settlement]/[Physical Settlement]/ [Fallback Settlement Method at Issuer Option]
(xiii)	Auction Settlement Amount:	[●]/[As per Condition 11(a)E(b)(ii)]/ [Not Applicable]
(xiv)	Cash Settlement Amount:	[●]/[As per Condition 11(a)F(b)(ii)]/ [Not Applicable]
(xv)	Valuation Time:	[●]/[As per the Definition set out in the Credit Linked Derivatives Annex]
(xvi)	Quotation Amount:	[●]/[Reference Entity Notional Amount]

(Use table below if there is more than one Reference Entity)

[Reference Entity:	**Quotation Amount:**
[●]	[●]/[Reference Entity Notional Amount]]

(xvii)	Minimum Quotation Amount:	[●]/[Not Applicable] (Use table below if there is more than one Reference Entity)

[Reference Entity:	**Minimum Quotation Amount:**
[●]	[●]/[Not Applicable]]

(xviii)	Physical Settlement Period:	[[●] Business Days]/[As per the Definition set out in the Credit Linked Derivatives Annex]
(xix)	Partial Cash Settlement Date:	[●]/[As per the Definition set out in the Credit Linked Derivatives Annex]
(xx)	Accrued Interest:	[Exclude Accrued Interest]/[Include Accrued Interest]/[Not Applicable]
(xxi)	Reference Price:	[[●] per cent.]/[As per the Definition set out in the Credit Linked Derivatives Annex]
(xxii)	Reference Entity Notional Amount:	[●]

(*Use table below if there is more than one Reference Entity*)

[Reference Entity:	**Reference Entity Notional Amount:**

	[●]	[●]

(xxiii)	All Guarantees:	[Applicable]/[Not Applicable] (Use table below if there is more than one Reference Entity)	
		[Reference Entity:	**All Guarantees:**
		[●]	[Applicable]/ [Not Applicable]]
(xxiv)	Substitution of Reference Entities under Condition 11(a)K (Succession Event):	[Applicable]/[Not Applicable]	
(xxv)	Participation CLN:	[Applicable]/[Not Applicable] (If not applicable, delete the remaining sub-paragraphs of this sub-paragraph)	
	• Default Requirement:	[●]/[Not Applicable] (*Use table below if there is more than one Reference Entity*)	
		[Reference Entity:	**Default Requirement:**
		[●]	[●]/[Not Applicable]]
(xxvi)	Credit Event Backstop Date:	[Applicable]/[Not Applicable]	
(xxvii)	Adjustment of Limitation Dates:	[Not Applicable]/[Subject to adjustment in accordance with the [Floating Rate/ Following/ Modified Following/ Preceding] Business Day Convention]	
(xxviii)	Obligation Category:	[Payment]/[Borrowed Money]/ [Reference Obligations Only]/ [Bond]/[Loan]/[Bond or Loan] (*Use table below if there is more than one Reference Entity*)	
		[Reference Entity:	
		[●]	[Payment]/[Borrowed Money]/[Reference Obligations Only]/ [Bond]/[Loan]/ [Bond or Loan]]
(xxix)	Obligation Characteristics:	[Not Subordinated]/[Specified Currency: [●]/[[and the] Standard Specified Currencies]]/ [Not Sovereign Lender]/ [Not Domestic Currency (Domestic Currency means [●]]/ [Not Domestic Law]/ [Listed]/ [Not Domestic Issuance]/ [Excluded Obligation(s): [●]]/ [Additional Obligation(s): [●]] (*Use table below if there is more than one Reference Entity*)	
		[Reference Entity:	**Obligation Characteristics:**
		[●]	[Not Subordinated]/ [Specified Currency: [●]/[[and the] Standard Specified Currencies]]/ [Not Sovereign Lender]/ [Not Domestic Currency (Domestic Currency means [●]]/ [Not Domestic Law]/ [Listed]/ [Not Domestic

			Issuance]/ [Excluded Obligation(s): [●]]/ [Additional Obligation(s): [●]]]
(xxx)	Deliverable Obligation Category:	[Payment]/[Borrowed Money]/ [Reference Obligations Only]/[Bond]/[Loan]/[Bond or Loan]	
		(*Use table below if there is more than one Reference Entity*)	
		[Reference Entity:	**Obligation Category:**
		[●]	[Payment]/[Borrowed Money]/ [Reference Obligations Only]/ [Bond]/[Loan]/ [Bond or Loan]]
(xxxi)	Deliverable Obligation Characteristics:	[Not Subordinated]/[Specified Currency: [●]/[[and the] Standard Specified Currencies]]/[Not Sovereign Lender]/[Not Domestic Currency (Domestic Currency means [●]]/ [Not Domestic Law]/[Listed]/ [Not Domestic Issuance]/ [Assignable Loan]/[Consent Required Loan]/ [Transferable]/ [Maximum Maturity: [●]]/ [Accelerated or Matured]/[Not Bearer]/ [Direct Loan Participation: Qualifying Participation Seller: [●]]/[Excluded Deliverable Obligation(s): [●]]/ [Additional Deliverable Obligation(s): [●]]/ [Not Applicable]	
		(*Use table below if there is more than one Reference Entity*)	
		[Reference Entity:	**Deliverable Obligation Characteristics:**
		[●]	[Not Subordinated]/ [Specified Currency: [●]/[[and the] Standard Specified Currencies]]/ [Not Sovereign Lender]/ [Not Domestic Currency (Domestic Currency means [●]]/ [Not Domestic Law]/ [Listed]/ [Not Contingent]/ [Not Domestic Issuance]/ [Assignable Loan]/ [Consent Required Loan]/ [Transferable]/ [Maximum Maturity: [●]]/[Accelerated or Matured]/ [Not Bearer]/ [Direct Loan Participation: Qualifying Participation Seller: [●]]/ [Excluded Deliverable Obligation(s): [●]]/ [Additional Deliverable Obligation(s): [●]]/ [Not Applicable]

DISTRIBUTION

36	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilisation Manager(s) (if any):	[Not Applicable/*give names*]
37	If non-syndicated, name and address of Dealer:	[Not Applicable/*give name and address*]
38	Total commission and concession:	[●] per cent. of the Aggregate Nominal Amount
39	U.S. Selling Restrictions:	Reg. S Category [1/2]; (*In the case of Bearer Notes*) – [TEFRA C/ TEFRA D/TEFRA not applicable] (*In the case of Registered Notes*) – Not Applicable[13]
40	Prohibition of Sales to EEA and UK Retail Investors:	[Applicable/Not Applicable]
41	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

42	ISIN Code:	[●]
43	Common Code:	[●]
44	CMU Instrument Number:	[●]
45	LEI	The Legal Entity Identifier number of the Bank is 549300U6PKQ4H1P34E17.
46	Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
47	Delivery:	Delivery [against/free of] payment
48	Additional Paying Agent(s) (if any):	[●]
49	Registrar (if other than Citibank, N.A., London Branch):	[*please specify (if any)*]

GENERAL[14]

50	Private Bank Rebate/Commission:	[Applicable/Not Applicable]
51	The aggregate principal amount of Notes issued has been translated into United States dollars at the rate of [●], producing a sum of (for Notes not denominated in United States dollars):	[Not Applicable/U.S.$[●]]
52	[Ratings:	The Notes to be issued have been rated: [Moody's: [●]]; [and]

[13] TEFRA not applicable may only be used for Registered Notes or Bearer Notes with a maturity of 365 days or less (taking into account any unilateral rights to extend or rollover). Bearer Notes with a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) that are held through the CMU must be issued in compliance with the TEFRA C Rules, unless at the time of issuance the CMU and the CMU Lodging and Paying Agent have procedures in place so as to enable compliance with the certification requirements under the TEFRA D Rules.

[14] Except as otherwise disclosed, it is assumed that any Notes issued under the Programme shall be regarded as a form of loan capital within the meaning of the Finance Act 1986.

[Fitch:[●]]

(each a "**Rating Agency**").

If any Rating Agency shall not make a rating of the Notes publicly available, the Issuer and shall select and substitute them with [●] or [●] and its successors.]

[USE OF PROCEEDS

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

Financial/Trading Position

[To insert statement relating to any material adverse change of the Issuer's financial or trading position since its latest financials.][15]

STABILISING

In connection with this issue, [insert name of Stabilisation Manager] (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilisation Manager(s) to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the Hong Kong Stock Exchange of the Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme.

[LISTING APPLICATION

[*Specify if any*]

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer.]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement [and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading].

Signed on behalf of China Everbright Bank Co., Ltd., Hong Kong Branch:

By: ________________________________

Duly authorised

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[15] This is a disclosure requirement of the Hong Kong Stock Exchange.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

CLEARING SYSTEM ACCOUNTHOLDERS

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Conditions to "Noteholder" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the CMU, will be that depositary, common depositary or sub-custodian, as the case may be.

In relation to any Tranche of Notes represented by a Global Note Certificate, references in the Conditions to "Noteholder" are references to the person in whose name such Global Note Certificate is for the time being registered in the Register which, for so long as the Global Note Certificate is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system, and/or a sub-custodian for the CMU, will be such depositary or common depositary, or a nominee for such depositary or common depositary, or such sub-custodian, as the case may be.

Each of the persons shown in the records of Euroclear and/or Clearstream and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Note Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate.

If a Global Note or a Global Note Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Note Certificate are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU as entitled to receive payments in respect of Notes represented by such Global Note or Global Note Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Note Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU, as the beneficial holder of a particular nominal amount of Notes represented by such Global Note or Global Note Certificate must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Note Certificate.

CONDITIONS APPLICABLE TO GLOBAL NOTES

Each Global Note and Global Note Certificate will contain provisions which modify the Conditions as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Conditions, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: In the case of a Global Note, or a Global Note Certificate, shall be, if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 11(f) (*Redemption at the option of Noteholders*) the bearer of the Temporary Global Note or Permanent Global Note or the holder of a Global Note Certificate must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes where such Notes are held with Euroclear and/or Clearstream, the Temporary Global Note or Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream (to be reflected in the records of Euroclear and Clearstream as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 21 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, (i) deposited with a depositary or a common depositary for Euroclear and/or Clearstream and/or any other relevant clearing system (other than the CMU, in respect of which see (ii) below), notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 21 (*Notices*) on the date of delivery to Euroclear and/or Clearstream and/or any other relevant clearing system or (ii) deposited with the CMU, notices to the holders of Notes of the relevant Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the second business day preceding the date of dispatch of such notice as holding interests in the relevant Global Note or Global Note Certificate.

CAPITALISATION AND INDEBTEDNESS

As at 31 December 2019, the Bank had an issued share capital of RMB52,489 million divided into approximately 12,679 million H shares of RMB 1.00 each and approximately 39,810 million A shares of RMB 1.00 each.

The following table sets out the Bank's consolidated capitalisation and indebtedness as at as at 31 December 2019.

This table should be read in conjunction with the audited consolidated financial statements of the Bank and related notes thereto included elsewhere in this Offering Circular:

	As at 31 December 2019	
	(RMB in millions)	*(U.S.$ in millions)*[(1)]
Debt		
Debt securities issued	371,904	53,421
Shareholders' Equity		
Share capital	52,489	7,540
Other equity instrument	70,067	10,064
Capital reserve	53,533	7,690
Other comprehensive income	2,737	393
Surplus reserve	26,245	3,770
General reserve	59,417	8,535
Retained earnings	120,494	17,307
Total equity attributable to equity shareholders of the Bank	384,982	55,299
Non-controlling interests	1,072	154
Total equity	386,054	55,453
Total capitalisation	757,958	108,874

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.9618 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 December 2019.

There has been no material adverse change to the capitalisation or indebtedness of the Bank since 31 December 2019.

DESCRIPTION OF THE BANK

OVERVIEW

The Bank is a national joint stock commercial bank committed to establishing itself as one of the most innovative commercial banks in the PRC. The A shares of the Bank have been listed on the Shanghai Stock Exchange (Stock Code: 601818) since August 2010 and the H shares of the Bank have been listed on the Hong Kong Stock Exchange (Stock Code: 6818) since December 2013. Since its operations commenced on 18 August 1992, the Bank has provided comprehensive and competitive financial products and services to a wide range of customers primarily in the PRC, including retail customers, corporate customers, government agencies and financial institutions, and has conducted a proprietary trading business and other trading operations for the Bank's clients. To adapt to changing market trends and the development of the macro-economy and the banking sector in the PRC, the Bank will continue to intensify its business transformation efforts, diligently develop its capital-efficient operations, build a diversified financial services platform, support the development of the PRC economy and promote technological innovation. The Bank believes that these core initiatives will facilitate the growth of its business.

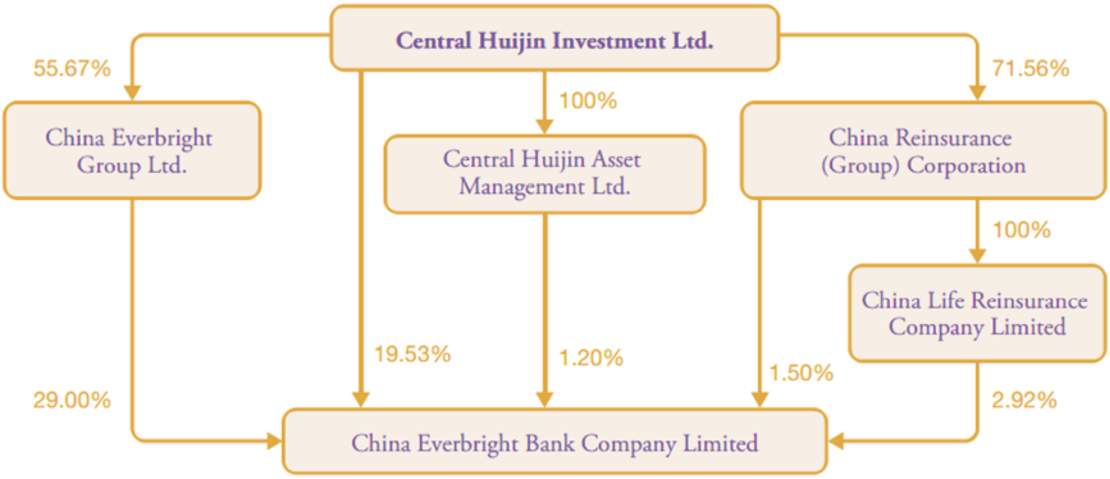
The Bank's principal business segments are corporate banking, retail banking and financial market. The Bank's corporate banking business consists primarily of corporate loans, SME loans, trade finance, discounted bills and corporate deposits, as well as fee-and commission-based products and services. The Bank's retail banking business consists primarily of personal loans, bank cards, personal deposits and fee- and commission-based products and services. The Bank's financial market business primarily covers inter-bank money market transactions, repurchases transactions and inter-bank investments. It also covers customer-driven derivatives and foreign currency trading, as well as management of the Bank's overall liquidity position, including the issuance of debts.

In recent years, the Bank's business scale and customer base have continued to expand. The Bank's total assets, loans and advances to customers and deposits from customers grew from RMB4,088,243 million, RMB2,032,056 million and RMB2,272,665 million, respectively, as at 31 December 2017, to RMB4,357,332 million, RMB2,421,329 million and RMB2,571,961 million, respectively, as at 31 December 2018, and further grew to RMB4,733,431 million, RMB2,712,204 million and RMB3,017,888 million, respectively, as at 31 December 2019. The Bank's net profit grew from RMB31,611 million for the year ended 31 December 2017 to RMB33,721 million for the year ended 31 December 2018, and further grew to RMB37,441 million for the year ended 31 December 2019.

The Bank also strives to provide comprehensive financial services to its customers, which further enhances the Bank's net fee and commission income. The contribution of the Bank's net fee and commission income to the Bank's operating income changed from 33.44 per cent. for the year ended 31 December 2017 to 17.91 per cent. for the year ended 31 December 2018, and further changed to 17.43 per cent. for the year ended 31 December 2019.

The Bank's head office is located in Beijing and the Bank has a nationwide branch network. The Bank's branch network further expanded to the international market by establishing its first overseas branch in Hong Kong in December 2012. The Bank has a strategic focus on the PRC's more economically developed regions, such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta and has supported the One Belt One Road, construction of Xiong'an New Area and free trade zones in the PRC.

The following chart sets out a simplified corporate structure of the Bank which shows, among other things, the direct shareholding in the Bank of certain shareholders as at 31 December 2019:



RECENT DEVELOPMENTS OF THE BANK

Recent Outbreak of COVID-19

Since the outbreak of the COVID-19 pandemic from January 2020, the Bank actively responded to the country's call, fulfilled its social responsibilities, and implemented various policies and measures. It donated money and goods to the area in Hubei affected by the epidemic, allocated special additional credit to support the production of enterprises involved in the epidemic prevention and control, and provided featured financial services to small and micro enterprises. The outbreak will exert certain impact on the operation of enterprises in Hubei Province and some other provinces, cities and industries. The Bank will pay close attention to this aspect and make active response in due course. For certain risks that the COVID-19 pandemic poses on the Bank, see "*Risk factors – Risks Relating to the Bank's Business-The Bank's business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC.*" and "*Risk factors – Risks relating to the PRC - Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations*."

Equity Change Plan

On 20 May 2020, Huijin and China Everbright Group Ltd. entered into a share purchase agreement under which, Huijin would sell, and China Everbright Group Ltd. would purchase from Huijin, 10,250,916,094 A shares of the Bank (the "**Target Shares**") at RMB3.75 per share, accounting for 19.53 per cent. of the Bank's total issued ordinary shares. As at 30 June 2020, the Bank had an aggregate market capitalisation of RMB176.20 billion. China Everbright Group Ltd. was to finance the acquisition of the Target Shares through issuance of new equity shares to Huijin. China Everbright Group Ltd. has obtained the relevant approval and waiver from MOF, CBIRC and SFC in connection with the acquisition of the Target Shares. In July 2020, Huijin completed transfer of 19.53 per cent. of the Bank's total issued ordinary shares to China Everbright Group Ltd. As at the date of this Offering Circular, China Everbright Group Ltd. holds 48.53 per cent. of the Bank's total issued ordinary shares.

Founded in 1983, China Everbright Group Ltd. is a state-owned enterprise and a large-scale financial holdings group that spans across multiple industries including banking, securities, insurance, funds, trusts, leasing, investments, environmental protection, tourism, hotels and exhibitions and healthcare. China Everbright Group Ltd. owns numerous listed subsidiaries, including the Bank, Everbright Securities Company Limited, China Everbright Limited, Everbright International Limited, China Aircraft Leasing Group Holdings Limited, China Everbright Greentech Ltd., China Everbright Water Limited, Cachet

Pharmaceutical Co. Ltd., China CYTS Tours Holdings Co. Ltd. and Everbright Grand China Assets Limited. As at 31 December 2019, China Everbright Group Ltd. is 55.67 per cent. owned by Huijin.

2020 First Quarter Financial Results

On 28 April 2020, the 2020 First Quarter Financial Report was published on the website of the Hong Kong Stock Exchange. The Group's total assets for the three months ended 31 March 2020 increased to RMB5,232,011 million, representing an increase of 10.53 per cent., as compared with the total assets as at 31 December 2019. The total liabilities registered RMB4,833.795 million, representing an increase of 11.19 per cent., as compared with the total liabilities as at 31 December 2019. The balance of deposits was reported RMB3,530,589 million, up by 16.99 per cent., as compared with the balance of deposits as at 31 December 2019. Total loans and advances to customers stood at RMB2,895,027 million, representing an increase of 6.74 per cent. over the end of the previous year.

During the three months ended 31 March 2020, the Group realised a net profit of RMB10,873 million, an increase of 11.51 per cent., as compared with the corresponding period in the previous year. Its operating income was RMB37,324 million, up by 10.18 per cent., as compared with the corresponding period in the previous year. The Group's net interest income realised for the three months ended 31 March 2020 was RMB27,146 million, an increase of 12.02 per cent., as compared with the corresponding period in the previous year and accounting for 72.73 per cent. of the total operating income of the Group.

During the three months ended 31 March 2020, the Group's net fee and commission income was RMB7,336 million, up by 5.48 per cent., as compared with the corresponding period in the previous year and accounting for 19.65 per cent. of the total operating income.

During the three months ended 31 March 2020, the Group incurred operating expenses of RMB9,694 million, an increase of 6.03 per cent., as compared with the corresponding period in the previous year. Its impairment losses on assets were RMB14,533 million, up by 12.15 per cent., as compared with the corresponding period in the previous year as the Bank continued to strengthen the liquidation and disposal of non-performing loans in the first quarter of 2020 in line with its efforts to maximise the value of non-performing assets, reduce losses and increase returns.

As at the end of the three months ended 31 March 2020, the non-performing loans of the Group totalled RMB45,004 million, representing an increase of RMB2,792 million, as compared with 31 December 2019. Its non-performing loan ratio was 1.55 per cent., decreased by 0.01 per cent. as compared with 31 December 2019. Its provision coverage ratio was 182.22 per cent, representing an increase of 0.60 percentage point as compared with 31 December 2019. As at the end of the three months ended 31 March 2020, the Group recorded a liquidity coverage ratio of 172.83 per cent., against a liquidity coverage ratio of 120.74 per cent. over the corresponding period of the previous year.

As at the end of the three months ended 31 March 2020, the Group's capital adequacy ratio reached 13.10 per cent. Its tier-1 capital adequacy ratio was reported 10.83 per cent., while its common equity tier-1 capital adequacy ratio was reported 9.05 per cent., all of which met the regulatory requirements. As at the end of the reporting period, the leverage ratio of the Group was 6.29 per cent., down by 0.54 percentage point as compared with 31 December 2019.

The summary consolidated statement of profit or loss and other comprehensive income of the Group for the three months ended 31 March 2019 and 2020 and the summary consolidated statement of the Group's financial position as at 31 March 2020 as included in this Offering Circular are derived from the Group's "2020 First Quarter Financial Report" filed with the Hong Kong Stock Exchange on 28 April 2019, which was prepared in accordance with IFRS. These results have not been audited or reviewed by the Bank's independent auditors.

None of the Issuer, the Bank, the Group, the Arrangers, the Dealers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2019 and 2020 for an assessment of the Bank's financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the three months ended 31 March 2020 should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2020.

Appointments and Resignations of Directors and Supervisors

As at the date of this Offering Circular, the Board of Directors consists of seventeen members, including nine Non-Executive Directors, two Executive Director and six Independent Non-Executive Directors. The re-elected directors shall perform their duties right upon their election. The newly appointed directors shall begin to perform their duties after their qualifications are approved by CBIRC. The Board of Supervisors consists of nine members, including three Shareholder Supervisors, three External Supervisors and three Employee Supervisors.

On 20 December 2019, the 2019 Third Extraordinary General Meeting elected Mr. Wu Lijun as Non-Executive Director of the Bank, and the 8th Meeting of the Eighth Session of the Board of Directors elected Mr. Wu Lijun as Vice Chairman of the Bank. On 25 March 2020, CBIRC approved his qualification as Non-Executive Director and Vice Chairman.

On 20 December 2019, the 2019 Third Extraordinary General Meeting elected Mr. Liu Jin as Executive Director of the Bank. On 25 March 2020, CBIRC approved his qualification as Executive Director.

On 26 March 2020, the 2020 First Extraordinary General Meeting elected Mr. Li Yinquan as Independent Non-Executive Director of the Bank. On 11 June 2020, CBIRC approved his qualification as Non-Executive Director.

On 18 June 2020, the Bank announced that due to the expiry of term of office, Ms. Fok Oi Ling Catherine ceased to be the Independent Non-Executive Director of the Company, and ceased to act as the member of the Audit Committee of the Board, the member of the Nomination Committee of the Board, the member of the Remuneration Committee of the Board and the chairman of the Related Party Transactions Control Committee of the Board at the same time. Ms. Fok Oi Ling Catherine's resignation became effective from 11 June 2020.

Approval of the preparations for the establishment of Beijing Sunshine Consumer Finance Co., Ltd.

Beijing Sunshine Consumer Finance Co., Ltd. is a subsidiary controlled by the Bank. In January 2020, the Bank received the Reply on Preparations for the Establishment of Beijing Sunshine Consumer Finance Co., Ltd. from CBIRC (CBIRC reply [2020] No. 16), approving the preparations for establishing the company by the Bank.

COMPETITIVE STRENGTHS

The Bank's principal competitive strengths include:

Distinctive model-based operations and strong focus on strategic and emerging industries

The Bank's model-based operations provide customised financing solutions to satisfy industry-specific demands and diversified customer needs. The Bank efficiently replicates and applies these financing solutions to customers in the same industry or with similar demands. The Group focuses on its strategic customers, listed companies and other quality large and medium-sized enterprises. The Bank also selects upstream and downstream SME customers according to supply-chain financing needs. The Bank has also created cooperative platforms to provide competitive small and micro-products to cater for differentiated financing services of small and micro enterprises and enhanced the scope of services to small and micro-sized enterprises. Tapping on technology, the Bank has also sought to strengthen its investment in financial technology, strengthen the application of big data in the financial field and promote the intelligent and online application in marketing, approval process and post-loan services for small and micro-sized customers.

The Bank's SME business has leveraged on the risk mitigation function of the Bank's model-based operations and adopted on-site inspections and customised assessments to effectively reduce the Bank's risk exposure.

In addition, the Bank places a strong focus on supporting strategic and emerging industries in the PRC. The Bank actively supports the development of "green financing" in the PRC. Embracing the trend of developing an energy efficient economy, the Bank launched a low-carbon financial service package, "Guang He Dong Li" (光合動力), to meet the needs of enterprises seeking financing for their low-carbon projects. The Bank's "Guang He Dong Li" (光合動力) low-carbon financial product has won many awards.

The Bank also focuses on financing for high-tech companies. It provides strong financial support to enterprises in strategic and emerging industries of the PRC that possess core technology and strong research and development capabilities.

In addition, the Bank actively supports government procurement financing. It launched "Government Procurement Financing Loans" (政採融易貸), a financial product offered to SME suppliers whose target customers are government agencies.

Supported by the strength of China Everbright Group Ltd., the Bank also enjoys substantial cross-selling and collaboration opportunities from effective customer resources sharing. For example, on 13 January 2017, the Bank announced that it had entered into an agreement with China Everbright Group Ltd., under which China Everbright Group Ltd. had proposed to subscribe to no more than RMB8.8 billion of domestic convertible bonds to be issued by the Bank, and in September 2019, China Everbright Group Ltd. entered into an agreement with the Bank, under which the Bank would provide bond underwriting services for two years for an annual total value of RMB5 billion of bonds to be issued by China Everbright Group Ltd., subject to an annual fee cap of RMB90 million.

The Bank believes that its strong focus on strategic and emerging industries in the PRC will enable the Bank to continue expanding its business in the PRC.

Effective capital management and operation

The Bank focuses on capital management in its business operations. It promotes the use of economic metrics such as EVA (Economic Value Added) as key performance indicators and has transformed the Bank's performance evaluation system by adopting a system that evaluates operational performance on a risk adjusted basis as opposed to using financial indicators.

The Bank has established a capital-efficient business model focusing on SMEs and micro enterprises, electronic banking and wealth management businesses. The Bank's overall credit structure improved over the years, with balances of personal loans as a percentage of total loans and advances changing from 40.85 per cent. as at 31 December 2017 to 43.50 per cent. as at 31 December 2018, and to 42.68 per cent. as at 31 December 2019. As a result, the Bank's capital efficiency and profitability has fluctuated.

The Bank's cost-to-income ratio[16] decreased from 32.36 per cent. for the year ended 31 December 2017 to 29.48 per cent. for the year ended 31 December 2018 and further decreased to 27.85 per cent. for the year ended 31 December 2019. The Bank's return on average total assets increased from 0.78 per cent. for the

[16] Excluding business tax and surcharges.

year ended 31 December 2017 to 0.80 per cent. for the year ended 31 December 2018 and further increased to 0.82 per cent. for the year ended 31 December 2019.

Fast growing retail banking business

By implementing a differentiated and comprehensive retail banking strategy, the Bank has identified its wealth management, micro enterprise financial services and credit card businesses as key growth drivers. The Bank targets mid-to high-end customers and is committed to providing comprehensive financial services by (i) promoting cross-selling among various business lines and (ii) effectively leveraging the Bank's products, brands and channel resources. For the years ended 31 December 2017, 2018 and 2019, the Bank's retail banking business generated operating income of RMB35,572 million, RMB46,518 million and RMB54,683 million, respectively, representing 38.66 per cent., 42.14 per cent. and 41.13 per cent. of the Bank's total operating income, respectively.

The Bank's credit card business grew as a result of effective marketing and continuous innovation. Supported by the Bank's advanced IT platform, the Bank has issued different customised credit card products, which have been well received by customers. The Bank has four series of credit card products, namely "Damei China (大美中國)", "Big Travel (大旅遊)", "Cute Series (萌系列)" and "UP Series (UP 系列)". "Damei China" aims to focus on Chinese traditional virtues to generate positive energy, "Big Tourism" series was introduced as part of the industry layout based on the Group's strategy and synergy while "Big Tourism" and "Cute Series" are targeted at the younger and professional crowd with quality products. The Banks believes that these products have become a driving force in the market.

In adherence to its founding mission of "serving the people and solving their difficulties", the Bank set up the E-Cloud Banking Services Department to take charge of the business development of China's largest convenient bill payment platform and put the inclusive finance strategy into practice. The Bank continued to increase the types of bills that can be paid on the platform, facilitated the online collection of non-tax government revenues and promoted platform exports. The E-Cloud Banking Services were launched across the board to additionally incorporate non-tax cloud, social security cloud, property management cloud, healthcare cloud and education cloud. The Cloud Fee Payment client launched eight life modules, namely, insurance, security, going abroad, tourism, medical treatment, housekeeper, handing cards and wealth management.

Through adopting efficient management plans, the Bank has improved service efficiency, further streamlined the operational processes of the Bank's credit card business and enhanced the Bank's management quality at various stages. Furthermore, the outsourcing of the Bank's standardised businesses has effectively reduced the Bank's operating costs. The Bank has also adopted a refined marketing strategy based on customer segmentation which enabled the Bank to achieve a manageable cost-to-income ratio for the Bank's credit card business.

The Bank believes that its comprehensive retail banking strategy and its well-established credit card business gives it a competitive advantage over other industry players and enables the Bank to maintain its industry-leading position.

Outstanding innovative DNA

The Bank was incorporated at the right time when a competitive financial market had just emerged in China, and pursued exploration and innovation. It has secured impressively innovative achievements. With its innovative efforts, it became the first bank that launched the RMB wealth management product and RMB structured finance product, the first one to be licensed for running the national treasury business on an agency basis, and one of the first banks owning the dual qualifications for enterprise annuity custodian and account manager across the country. Besides, it accomplished the first market-oriented debt-for-equity swap project, and forged the largest open-ended payment platform named "Cloud Fee Payment" nationwide.

Leading roles in some businesses

The Bank has obtained comparative advantages in wealth management business, and is devoted to building the image of "leading wealth management bank". Its investment banking business segment as the first mover in the industry is able to provide corporate customers with comprehensive investment banking services. The Bank also intends to establish a wealth management subsidiary, to promote innovation and to provide customers with comprehensive, diversified and customised wealth management. Its e-banking business has focused on building an open service system based on an open-ended platform, which has developed into an industry leading business model. Focusing on customer service, the credit card business of the Bank has gained a superior position among its peers with rapid growth generated by technology-driven innovation and services provided by the Bank. With comprehensive resources and the quality of the customers of the Bank which the Bank is able to leverage on, the Bank is able to establish a comprehensive product and investment and financing system to cater for the diversified needs of different customers and facilitate the smooth development of the net value of the wealth management business through effective online and offline integration transformation. The Bank has also developed an advanced IT system, in particular for the Bank's wealth management business. It has established a full-service business system covering the four segments of sales and products, asset management, valuation and data analysis, which provides strong support for the transformation and development of the asset management business.

Prudent risk management

The Bank proactively implements comprehensive and effective risk management measures. Based on the Basel III framework, the Bank established a comprehensive risk management system covering various aspects of its businesses, adopted an internal ratings system with high sensitivity, improved risk assessment and risk-adjusted pricing ability and increased capital efficiency of its operations.

The Bank has an independent and professional risk management organisation structure. The Bank has established risk management teams to key business lines and branch outlets and has strengthened the Bank's risk management and control efforts in its major business areas. As a result, the Bank improved the professional standards and independence of its risk management team and has aligned its risk management practices more closely with the market.

The continued improvement of the Bank's risk management capability has enabled the Bank to effectively handle the challenges brought by the recent economic downturn and manage its overall risks. The Bank had firmly safeguarded the Bank's risk management bottom-line across the board and strengthened the credit risk management. As at 31 December 2017, 2018 and 2019, the Bank's NPL ratio was 1.59 per cent., 1.59 per cent. and 1.56 per cent., respectively.

The Bank has implemented a comprehensive risk management review on its off-balance sheet businesses and effectively capped the growth of such businesses through risk quota management and economic capital evaluation. The Bank has incorporated its off-balance sheet businesses into its integrated credit management system and centralised its credit risk management in accordance with standard credit policies. By imposing strict restrictions on loan extensions and by strictly managing loan approvals, the Bank emphasises the prevention of its exposure to risks, associated with LGFVs and real estate loans from impacting the Bank's off-balance sheet businesses. The Bank's micro enterprise credit business has also prudently expanded in consumer spending related industries and through limited lending to speculative ventures.

Advanced IT platform and industry-leading digital banking innovation

In line with the trend which features electronic accounts and online transactions, the Bank has focused on developing internet banking, mobile finance and self-service banking. Through establishing a number of "Sunshine E-series" (陽光 e 系列) platforms and promoting internet banking portals such as those at Taobao.com and Sohu.com, the Bank has (i) created an integrated wealth management platform through websites, online banking, mobile phones and network messaging; (ii) increased the effectiveness of its product sales via electronic channels; and (iii) achieved remarkable growth in the Bank's income. In addition, the Bank has strengthened the development of its electronic channels, promoted major electronic channels (including a multi-function homepage, internet banking, short message service banking, automatic teller machine ("**ATM**") and telephone banking) and enhanced its synergy with physical outlets and achieved growth in its customer base. For example, in 2015, the Bank promoted the issuance of credit cards via a mobile phone app to gradually replace the Bank's PAD card issuing device. This was a key feature in the Bank's move towards mobility in issuing cards.

In 2019, the Bank renamed and upgraded the Electronic Banking Department to the Digital Banking Department in an effort to further advance its digital transformation. As at 31 December 2019, 98.48 per cent. of counter transactions were handled through electronic channels, 0.57 percentage point higher than the last year. The Wealth E-SBU (which stands for "Ecosystem, Electronic and Everbright Strategic Business Unit") mobile financial eco-chain was established, with a focus on mobile banking APP. The number of monthly active users of mobile banking was 10.0713 million, an increase of 4.4145 million in 2019. The Bank strengthened the "Cloud Payment" service on an industry-oriented basis, with a total turnover of RMB10.47 trillion, up 125.16 per cent. year-on-year. Online inclusive finance loans were issued in the form of "Sunshine Loan", with big data-based smart risk control in place. The balance of "Reassuring Loan" stood at RMB77,942 million, up RMB14,592 million from the end of the previous year. With a focus on innovative application of blockchain, the Bank built the "Sunshine Blockchain" by rolling out financial products such as "Blockchain Payment", "Blockchain Custody" and "Blockchain Payroll".

Unified Sunshine brand

The Bank has upheld the business philosophy of "Sharing Sunshine Innovating Life" for many years, where it has stepped up its brand building efforts to create the "Sunshine" brand series. Thanks to the brand, it develops a favourable image in the market, gains fairly great reputation, and demonstrates considerable brand competitiveness.

The Bank has implemented the transformation of asset management business and continuously improved the "Sunshine" brand image.

Experienced management team

The Bank's senior management team has extensive experience in the banking and financial industry in the PRC. The key members of the Bank's senior management have an average of approximately 20 years of management experience related to the financial industry. The Bank's chairman and president have held various major leadership positions in the financial industry. The Bank's senior management led the implementation of the Bank's business transformation and the optimisation of the Bank's organisation and have achieved remarkable results in recent years.

The Bank's experienced management team has a successful track record of implementing a series of transformational initiatives, including the Bank's financial restructuring and the improvement of the Bank's corporate governance and risk management structures. Under the leadership of its management team, the Bank has significantly improved its operations and financial results, and is moving toward its goal of becoming a world-class commercial bank.

STRATEGIES

The Bank's strategic vision is to build the image of "leading wealth management bank". The Bank will adhere to reform and innovation, seek development amid stability, strive to develop itself into a first-class wealth management bank that bears vision and value, seeks for quality, featured and innovative development, never oversteps its bottom line, and is reputable, dynamic and responsible, in order to create greater value for the shareholders and customers. The Bank will focus on the operation of key business and strengthen the capacity for high-quality development. It will gather its pace in the transformation towards an "efficient, technology-driven and ecological" banking, raise service awareness and enhance the Bank's competitive advantages.

Implement the strategy of "building a leading wealth management bank" and pursuing high-quality development.

In 2019, the Bank focused on the strategy of building a first-class wealth management bank, pursued high-quality development, and accelerated the transformation towards operations that are agile, technological-driven, and with a focus on the China Everbright Group eco-system. The Bank will continue to push forward the transformation and innovation of the three main businesses of corporate banking, retail and asset management, in order to serve the real economy and create well-regarded products and outlets. Therefore, the Bank plans to roll out well-regarded and innovative products and integrate channels and resources to advance the E-SBU. The Bank will also deepen institutional reform and refine the market-based operating mechanism, and at the same time seize the opportunities to expand its international presence with its characteristics. In addition, the Bank will continue to promote the digitalisation of businesses, in order to develop its internet banking and to maintain its leading position for its cloud fee payments platform. The Bank will continue to work towards the goal of "building a leading wealth management bank".

Enhance the Bank's capabilities for providing comprehensive financial services to its large corporate customers.

Keeping up with industry trends such as interest rate liberalisation and financial disintermediation allows the Bank to continue to provide innovative products and services to satisfy the diversified financing needs of its customers by providing a comprehensive financial services platform. The Bank will improve internal cooperation among its corporate banking, investment banking, treasury, custodian and other business lines to provide comprehensive financial services for the Bank's large corporate customers. In addition, the Bank will actively promote supply-chain financing and strive to maintain its leading market share with in the debt securities underwriting market in the PRC. The Bank will continue to increase its synergy with China Everbright Group Ltd. and its subsidiaries in the areas of leasing, securities and insurance, develop and maintain customer resources, promote cross-selling and increase the Bank's ability to provide comprehensive financial services as well as to enhance its overall competitiveness.

Develop the Bank's SME and micro enterprise financial services.

The Bank will continue to promote innovation in its business model, services and product offerings in order to accelerate the development of the Bank's SME and micro enterprise businesses. The Bank's long-term goal is to optimise its overall customer structure and expand its core customer base among SMEs and micro enterprises. The Bank will target industries that are less cyclical, such as staple goods, and expand its settlement business, in order to strengthen the Bank's deposit base and increase the proportion of its SME and micro enterprise businesses in its overall business.

To achieve these goals, the Bank will:

- adhere to its model-based operations and continue to refine its policies, allocate resources and further develop a professional team to serve the strategic needs of its SME and micro enterprise customers. The Bank will continue to accelerate the development of business models to expand its customer base and improve its service capabilities. The Bank will also further innovate its model for its medium-size enterprise customers;

- strengthen its IT support system for the development of its SME and micro enterprise businesses, establish a comprehensive electronic credit approval system and refine the Bank's risk-adjusted pricing system to improve its overall profitability; and

- further improve its financial services for its micro enterprise customers through internal cooperation between the Bank's corporate and retail banking businesses, streamlined operational procedures, a refined evaluation system and consolidated bank-wide platforms. The Bank will also promote its financial services for its micro enterprises customers through its electronic network to enhance its efficiency while meeting the Bank's risk management requirements.

Develop and improve the Bank's trading, agency and wealth management service businesses.

In response to market demand, the Bank will continue to develop and improve its trading, agency and wealth management services. As a result, the Bank expects to increase the revenue contribution of these business lines. The Bank will also develop its money market, agency business, precious metal agency service and other business lines, while striving to maintain its market-leading position in debt securities investment. Through resource integration, product innovation, channel expansion, customer service and risk control improvement and the establishment of an integrated financial services platform, the Bank aims to further solidify its brand and influence in the inter-bank market.

Through product innovation and improvements in research capabilities, the Bank will continue to strengthen its "Sunshine Wealth Management" brand and increase its contribution to the Bank's overall profits. It will also continue to improve its wealth management business operations, IT platforms, organisational structure and incentives in accordance with its plans to transform its wealth management business into an asset management business.

Strive to develop the Bank's electronic banking business.

The Bank plans to continue to develop the "Everbright Bank Online" project to integrate the Bank's electronic banking channels with its physical branch outlets. The Bank also plans to combine physical outlets, electronic channels and customer relationship managers to consolidate its sales efforts and resources and continuously advance its electronic banking business to maintain an industry leading position.

To achieve the above goals, the Bank will:

- promote the development of the Bank's mobile finance infrastructure and gradually implement a new service model integrating mobile banking, short message service (SMS) banking and mobile payment;
- continue to develop (i) the payment platform, to establish advanced open management and technology platform, and to provide professional payment solutions for customers, (ii) the "Sunshine Loan" platform which provides on-line lending service for its clients and other internet users through its financing business system; and
- further intensify the Bank's efforts to attract electronic banking customers in order to expand the Bank's customer base.

Strengthen and optimise the Bank's physical network.

The Bank will steadily increase the total number of outlets, continue to optimise its coverage within the PRC and improve its network operation efficiency.

The Bank's network expansion plan will primarily include: 1) developing tier-two branches and sub-branches in the PRC's main tier-two cities where the Bank does not have coverage; 2) moderately increasing penetration in existing covered regions; and 3) establishing more self-service banking centres, community branches and specialised branches.

The Bank will integrate the services and marketing capability of the Bank's various channels to achieve synergies and economies of scale. By further integrating physical outlets and electronic channels, the Bank will establish a more customer-centric service platform comprised of tier-one and tier-two branches, self-service banking centres, community branches, specialised branches and electronic banking.

Strengthen advantages in the Bank's core banking business.

The Bank will strengthen business development in its corporate banking business. The Bank will continue to promote its corporate banking operations. It intends to deepen the application of its model-based operations, focus on key industries and core companies and expand both upstream and downstream along the supply chain to effectively mitigate its credit risks. The Bank will also endeavour to increase its overall revenue and promote the expansion of its SME and micro enterprise customer base. Furthermore, the Bank will actively promote growth in the Bank's corporate customer base by developing its supply chain financing business, including creating and improving relevant financial products, trade finance products, cash management products and account settlement products.

The Bank will also actively develop its retail banking business. The Bank plans to further develop its retail banking business by focusing on financial services for micro enterprises and wealth management for retail customers, supplemented by account settlement tools, cross-sales and the establishment of a centralised, comprehensive service system for mid-to high-end retail customers. The Bank will continuously and progressively develop its retail banking business through the utilisation of the Bank's large, organised pool of customer resources and establish retail banking as a cornerstone for its continued and steady growth. The Bank plans to strengthen its credit card business and steadily increase its contributions to the profitability of its retail banking business and the Bank as a whole.

In addition, the Bank will continue to solidify its liability business. The Bank will actively develop products to attract deposits and funds, enter into large projects and optimise the Bank's liabilities structure by strengthening its core deposits business, thereby improving the stability of its liability business.

Enhance capital planning and management.

The Bank will uphold and enhance capital planning and management by adhering to three principles: (i) effective capital deployment, (ii) prudent use of capital and (iii) maximisation of risk-adjusted returns. In addition, the Bank will formulate mandatory plans for replenishing operating capital and set up effective capital replenishment channels. Through these plans, the Bank will be able to optimise its capital replenishment model and broaden its sources of capital so as to maintain organic capital growth.

To achieve these goals, the Bank will:

- further improve its organisational structure for capital management and continue to integrate its capital management processes. The Bank will also develop and promote the integrated application of economic capital and technology in capital management, thereby improving the management of economic and regulatory capital in a centralised manner. Through strengthening the Bank's overall coordination in capital and resource allocation, the Bank will be able to promote seamless integration between capital management and comprehensive risk management;

- develop and apply three core tools: (i) a capital allocation system based on return on economic capital, (ii) a risk-based pricing mechanism focusing on risk-adjusted revenue and (iii) a performance assessment system based on RAROC (Risk-Adjusted Return On Capital)/EVA (Economic Value Added) of economic capital in order to strengthen the implementation of the Bank's capital management objectives; and

- emphasise organic capital replenishment to support sustainable growth and development. The Bank will also set up a multi-channel external capital replenishment mechanism to progressively optimise its capital management tools and ensure its financial efficiency and stability. The Bank aims to maintain sufficient capital in order to ensure that its total capital and core capital can meet regulatory requirements and the Bank's business lines can achieve sustainable development.

Achieve prudent risk controls.

Sticking to the principle of "all-round, whole-process, all staff participation", the Bank is committed to maintaining a comprehensive risk management system that enhances the Bank's overall strategy and long-term strategic position and addresses various quantifiable risks, including credit risk, market risk, operational risk, liquidity risk, strategic risk and reputation risk. The Bank plans to:

- take proactive measures to adapt to global economic and financial developments and strengthen the Bank's comprehensive risk management capabilities to mitigate systematic and regional risks;
- improve the Bank's credit risk management system and structure, deepen the Bank's model-based operations, enhance its portfolio management and strengthen risk management in key business areas to manage its risks. The Bank also maintains prudent provision policies to respond to the dynamic operating environment;
- proactively respond to the consequences of interest-rate liberalisation and exchange rate policy reform in the PRC, strengthen the Bank's banking book and trading book interest risk management system and enhance its market risk management capabilities;
- actively implement liquidity management strategies to maintain an appropriate level of liquidity throughout the Bank's operations;
- promote product innovation by following the principles of "risk control, cost consideration, increased transparency and sufficient risk compensation capability". In accordance with the Bank's innovative business strategy, the Bank will develop an innovative risk management system covering both on-and off-balance sheet assets, banking book and trading book; and
- widen the application of the Bank's risk management policies to cover comprehensive financial services, financial services for SMEs and micro enterprises, as well as e-banking and other areas of the Bank's strategic focus.

Foster a strong corporate culture.

The Bank believes that having a strong corporate culture is critical to ensuring its sustainable and steady growth. To continue to foster a strong corporate culture, the Bank will:

- cultivate a robust risk management culture. The Bank balances risks against returns and establishes a healthy risk management culture to ensure prudent growth;
- foster a culture that promotes innovation. The Bank's growth has been fundamentally linked to its continued ability to innovate while controlling costs and employing prudent and comprehensive risk management processes. The Bank continues to improve its performance appraisal and incentive systems that reward success, promote innovation and business development and manage risks associated with innovation;
- create a learning-oriented environment. The Bank is committed to broadening the level of staff training and utilising a modern learning platform. By cultivating highly-skilled individuals and providing its staff with continuous training, the Bank aims to improve its adaptability to challenging market conditions;
- encourage employee morale. The Bank seeks to create a harmonious professional environment with growth opportunities and a culture that promotes teamwork and loyalty so as to align the Bank's employees' interests with its long-term growth; and
- actively engage in social responsibility endeavours. The Bank will strengthen its social responsibility awareness and continue to be an active corporate citizen. The Bank will further support the economic growth of under-developed regions and actively participate in social assistance programmes,

including supporting social projects such as "Water Cellar for Mothers" (母親水窖) and continue to donate funds to local Red Cross Society branches, and focus its efforts on the harmonious development of both its business and society.

THE BANK'S PRINCIPAL BUSINESSES

The Bank's principal business segments are corporate banking, retail banking and financial market. The following table sets forth, for the periods indicated, the Bank's operating income by business segments:

	For the year ended 31 December			
	2018		2019	
	Amount	*% of total*	*Amount*	*% of total*
	(RMB in millions, except percentages)			
Corporate banking business	44,836	40.62	53,275	40.08
Retail banking business	46,518	42.14	54,683	41.13
Financial market business	18,935	17.15	24,765	18.63
Other business	97	0.09	216	0.16
Total	110,386	100.00	132,939	100.00

Corporate Banking Business

The Bank provides a broad range of financial products and services to government agencies, financial institutions and corporations. Corporate banking constitutes the Bank's primary source of income and consists primarily of corporate loans, SME loans, trade finance, discounted bills and corporate deposits, as well as fee-and commission-based products and services such as agency services for public finance, tariff payment and guarantee services, remittance and settlement services, acceptance and guarantee services, assets custody services, cash management, investment banking and financial advisory services.

As at 31 December 2017, 2018 and 2019, the Bank's corporate loans balance (including discounted bills) accounted for 59.15 per cent., 56.50 per cent. and 57.32 per cent. of the Bank's total loans, respectively, and the Bank's corporate deposits[17] accounted for 79.08 per cent., 75.44 per cent. and 75.41 per cent. of the Bank's total deposits from customers, respectively. Operating income from corporate banking accounted for 46.29 per cent., 40.62 per cent. and 40.08 per cent. of the Bank's total operating income for the years ended 31 December 2017, 2018 and 2019, respectively.

Customer Base

The Bank has extensive customer relationships with many large Chinese business groups and leading companies, government agencies, financial institutions and SMEs which the Bank believes have strong growth potential. The Bank has provided banking services to a large number of state-owned enterprises under the direct administration of the State-owned Assets Supervision and Administration Commission of the State Council ("**SASAC**"), as well as to a large number of enterprises included in the Top 500 Enterprises of the PRC List jointly published by the PRC Enterprise Confederation and the PRC Enterprise Directors Association (中國企業聯合會及中國企業家協會). The Bank has developed relationships with more than 1,000 large business groups and leading companies in their respective industries in the PRC. The Bank believes that it is one of the few PRC commercial banks approved by MOF to simultaneously engage in the following three types of business: (i) the direct payment of expenditures on behalf of MOF, (ii) the authorised

[17] Corporate deposits include corporate demand deposits and corporate time deposits.

payment of expenditures on behalf of MOF and (iii) the non-tax revenue collection on behalf of MOF. The Bank is a leading domestic underwriter of short-term commercial paper and medium-term notes in the PRC. In addition to expanding the Bank's customer base, the Bank has also focused on optimising the Bank's customer mix.

SMEs are strategically important to the Bank's development and growth. The Bank mainly focuses on the following three types of SMEs: (i) supply chain participants who have advanced production facilities and equipment as well as advanced technologies to provide long term supporting services or supplies to large state-owned enterprises, leading companies, government agencies and other core clients; (ii) SMEs clustered in certain regions or industries who have brands with sound reputations and high market shares in these regions or industries; and (iii) high-tech SMEs which have been included in the national SME administration and service system, including technological SMEs within national-level high-tech industrial parks, software parks, industrial bases for the Torch Programme (a national programme to develop high and new technologies) and national university technology parks.

The Bank also focuses on developing long-term relationships with customers in economically more developed regions in the PRC such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, as well as in those industries which are strategically important to the PRC economy. The Bank also continued to adjust its loan portfolios. As at 31 December 2019, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which represented 9.96 per cent., 9.64 per cent., 7.81 per cent., 6.27 per cent. and 4.17 per cent. of the Bank's total loans and advances, respectively, and together represented 37.85 per cent. of the balance of the Bank's total loans and advances as at the same date. As at 31 December 2018, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which represented 10.28 per cent., 9.19 per cent., 7.93 per cent., 6.20 per cent. and 4.59 per cent. of the Bank's total loans and advances, respectively, and together represented 38.19 per cent. of the balance of the Bank's total loans and advances as at the same date. As at 31 December 2017, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which represented 11.87 per cent., 10.30 per cent., 6.99 per cent., 6.22 per cent. and 5.38 per cent. of the Bank's total loans and advances, respectively, and together represented 40.76 per cent. of the balance of the Bank's total loans and advances as at the same date.

Major Products and Services

Corporate Loans

Corporate loans represented the largest component of the Bank's loan portfolio as at 31 December 2019. Based on maturity, the Bank's corporate loans can be classified into short-term loans and medium-to long-term loans. The Bank's corporate loans mainly include supply chain finance, SME loans and trade finance. The Bank's corporate loans are predominantly RMB-denominated. As at 31 December 2017, 2018 and 2019, the Bank had RMB1,179,663 million, RMB1,332,629 million and RMB1,490,033 million in corporate loans outstanding, respectively.

- Supply Chain Finance

  In response to the growing demand for financially efficient supply chains, the Bank provides its targeted customers with supply chain finance by extending the Bank's banking services to their customers and suppliers. The banking services which the Bank provides to the customers and suppliers on the supply chain primarily comprise working capital loans, discounted bills, bank acceptance bills, settlement, letters of credit and letters of guarantee. The Bank's supply chain finance solutions connect the Bank's key customers with manufacturers, suppliers, distributors, end users and other parties at upstream and downstream levels of the supply chain.

The Bank believes that supply chain finance represents an opportunity for the Bank to transform from a bank that meets only a fraction of its customers' trade needs to an integral and valued business partner that provides optimal solutions across its customers' entire supply chain. Supply chain finance helps the Bank's customers reduce costs and optimise working capital from one end of the supply chain to the other. Moreover, it creates deeper and broader customer relationships for the Bank during the process and creates synergies among its various business lines.

The Bank believes that it has a first-mover advantage and is the market leader in the supply chain finance business in the PRC. The Bank started providing supply chain finance for the automotive industry under its brand "Full Link" (全程通) in 2000, which provides comprehensive and customised banking services to suppliers of automobile spare parts, automakers and distributors at each stage of the automotive production and distribution processes. At the upstream and midstream levels, the Bank provides suppliers of automobile spare parts and automakers with working capital loans, discounted bills and letters of credit to facilitate the production of automobiles and import of spare parts. At the downstream level, the Bank provides distributors with loans and discounted bills.

The Bank's success in providing supply chain finance in the automotive industry provides a template for the Bank to replicate such business model across other industries. The Bank has been expanding its supply chain finance business into other industries that the Bank believes have strong growth potential and which contribute to the real economy, such as the pharmaceutical industry, the home appliance industry and healthcare and other industries. 30per cent. of the Bank's customers to whom the Bank provides letters of guarantee are in the construction industry. The Bank's payment systems has also created an e-payment system for customs tax that is integrated with the Customs' Department in the PRC, allowing the import and expert enterprises to enter into agreements online, pay custom duties and have access to their funds online. Such customers would also have access to the levy tax protection products of the Bank and have the benefit to release the funds first before signing, creating a win-win situation for both the Bank and the customers.

- SME Loans

Since 2009, the Bank has established the SME and related divisions at the Bank's headquarters and branch outlets on an ongoing basis. The Bank's specialised service team and tailored credit approval procedure drive the development of the Bank's SME business and enhance the efficiency and quality of the Bank's SME service efficiency and quality. The Bank has expanded its SME coverage to all its branches. Under the Bank's "Sunshine Value Plan" (陽光值計劃), the Bank provides its SME customers with not only traditional banking services, such as working capital loans and discounted bank acceptance bills, but also innovative and value-added services in the areas of securities, insurance and investment banking. In 2011, the Bank expanded its SME business to small enterprise financing so as to diversify the Bank's revenue sources and increase customer loyalty by providing comprehensive financial services through multiple channels. In 2012, the Bank also launched the "Thousands of Customers Growth Plan" (千戶成長計劃) to cultivate high-quality enterprise customers with high-growth potential and provide them with multi-market, multi-product financing solutions to meet their ever-changing needs as they progress through their different stages of business development. As at 31 December 2019, the Bank had a balance of inclusive finance loans to small and micro businesses of RMB155,396 million, representing an increase of 21.24 per cent. comparing to the year ended 31 December 2018.

The Bank has developed tailored credit plans for SMEs through model-based operations. Over the last three years, the Bank's SME loan business has grown. The Bank's prudent risk management systems help to ensure that the risk relating to the Bank's SME business is properly managed. As at 31 December 2019, the Bank has achieved compliance with CBIRC's indicators on "two no less than and two controls".

The Bank provides trade finance services to customers engaging in domestic or international trade. It also actively transformed its trade finance modal to transactional banking, creating the "Sunshine Supply Chain" product lines, leveraging the advantages of capital-efficient assets and product innovation to stimulate the growth of fee-based business income. The Bank's domestic trade finance services primarily comprise domestic letters of credit, factoring, supply chain buyers' finance and supply chain sellers' finance, among others. The Bank's international trade finance services primarily comprise import finance bills, export finance bills, packing loans, export discounts, forfeiting, factoring and trade finance under export credit insurance. Taking advantage of favourable national policies relating to the China (Shanghai) Free Trade Pilot Zone ("**Shanghai FTZ**"), the Bank actively promoted its trade finance business, including international settlement and cross-border financing business by leveraging its overseas branches and Shanghai FTZ branches, which jointly acted as an extended financial service platform. As at 31 December 2019, the overall balance of the on-balance-sheet and off-balance-sheet trade finance increased by 27.69 per cent. as compared to the year ended 31 December 2018.

Discounted Bills

Discounted bills refer to the Bank's discounted purchase of bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months (no longer than one year for electronic commercial bills). The Bank may resell these bills to PBOC or other financial institutions authorised to conduct bill discounting, which would provide the Bank with additional liquidity and net interest income. As at 31 December 2017, 2018 and 2019, the Bank had outstanding discounted bills of RMB22,389 million, RMB35,497 million and RMB64,663 million, respectively, representing 1.10 per cent., 1.47 per cent. and 2.38 per cent., respectively, of the Bank's total loans and advances to customers for the same period. The Bank has proactively participated, together with PBOC, in the development of the Bank's electronic bill business and the construction and promotion of the e-bill system. As a result, the Bank was granted the "Business Development Award for Electronic Commercial Bills" (電子商業匯票業務拓展獎) by PBOC.

Corporate Deposits

The Bank offers its corporate customers time and demand deposits in Renminbi and other major foreign currencies through a range of products. As at 31 December 2017, 2018 and 2019, the Bank had RMB1,797,159 million, RMB1,940,108 million and RMB2,275,772 million in corporate deposits outstanding, respectively. As at 31 December 2019, the Bank's corporate deposits accounted for 75.41 per cent. of the Bank's total deposits from customers.

Fee-and Commission-based Products and Services

As part of the Bank's endeavour to provide comprehensive financial services to its corporate customers, the Bank also provides its corporate customers with a broad range of fee-and commission-based products and services, including agency services for public finance, tariff payment and guarantee services, remittance and settlement services, acceptance and guarantee services, asset custody services, cash management services and investment banking and financial advisory services. As the Bank has focused on developing and offering fee-and commission-based corporate banking products and services in recent years, the Bank's fee and commission income relating to its corporate banking business amounted to RMB6,160 million, RMB5,542 million and RMB6,100 million for the years ended 31 December 2017, 2018 and 2019, respectively.

- Agency Services for Public Finance

  The Bank provides agency services to central and local governments in respect of the collection of revenues and payment of expenditures. The Bank believes that it is one of the few PRC commercial banks approved by MOF to simultaneously engage in the following three types of business: (i) the direct payment of expenditures on behalf of MOF, (ii) the authorised payment of expenditures on behalf of MOF and (iii) the non-tax revenue collection on behalf of MOF.

- Tariff Payment and Guarantee Services

  The Bank cooperates with the General Administration of Customs of the PRC to provide online tariff payment and guarantee services for the Bank's corporate customers.

  In March 2007, the Bank became one of the first banks authorised by the General Administration of Customs of the PRC to provide banking guarantee services (銀關保) to the Bank's online tariff payment customers. Under the banking guarantee services, subject to requests from import and export enterprises, the Bank presents the online payment guarantee notes to the governing customs according to the relevant regulations of the General Administration of Customs of the PRC. The Bank's payment guarantee notes enable import and export enterprises to obtain preferential treatment of "clearance before payment", pursuant to which those enterprises will obtain a grace period of 15 days for delayed tariff payment.

- Remittance and Settlement Services

  The Bank provides its corporate customers with remittance, foreign currency exchange and settlement services for bank drafts, bank notes, corporate checks and other negotiable instruments. For the years ended 31 December 2017, 2018 and 2019, the Bank's fee and commission income generated from the Bank's settlement and clearing services amounted to RMB1,066 million, RMB1,279 million and RMB1,538 million, respectively.

- Acceptance and Guarantee Services

  The Bank provides surety services to its corporate banking customers primarily through letters of credit, bid guarantees, performance guarantees and other forms of bank guarantees. For the years ended 31 December 2017, 2018 and 2019, the Bank's fee and commission income generated from the Bank's acceptance and guarantee services amounted to RMB861 million, RMB1,120 million and RMB1,360 million, respectively.

- Asset Custody Services

  The Bank provides custody services to securities investment funds, securities companies' collective asset management plans, enterprise annuity funds, private wealth management and qualified domestic institutional investors in the PRC ("**QDIIs**"), as well as custody services to trust companies' collective capital trust plans, industrial investment funds and equity funds. The Bank is also among the first batch of national joint stock commercial banks to obtain both enterprise annuity account manager and custodian qualifications.

  For the years ended 31 December 2017, 2018 and 2019, the Bank's custody and other fiduciary business fees amounted to RMB1,683 million, RMB1,358 million and RMB1,446 million, respectively.

- Cash Management Services

  The Bank provides integrated cash management services to its corporate customers to assist them in managing their cash flow. The Bank's cash management services include cash collection, disbursement, account management, liquidity management, wealth management and financing services. Through the Bank's branch and sub-branch network, as well as its internet banking system, the Bank provides its customers who have group entities in multiple locations with comprehensive and one-stop cash management services.

- Investment Banking and Financial Advisory Services

  The Bank provides investment banking services and financial advisory services to its corporate customers. The Bank believes that it was among the first batch of PRC commercial banks to be qualified to underwrite short-term commercial paper when the PRC government started to permit this business in May 2005. Since then, the Bank has actively sought to develop its capabilities and has become a market leader in this product area. The Bank's main products include short-term commercial paper, medium-term notes, extra short-term commercial paper, private placement notes, SME combined notes and asset-backed notes. In the year ended 31 December 2019, the Bank served as the leading underwriter in bond issuance with a total value of RMB297,871 million and completed six securitisation projects with an aggregate value of RMB24,466 million.

  Through the Bank's financial advisory service platform, the Bank provides its customers with tailored financial solutions and advice, including derivatives, debt financing, structured financing and in-depth industry and financial markets analysis.

Marketing

The Bank implements a number of marketing strategies. The Bank seeks to provide differentiated products and services tailored to its customers to meet their specific needs. When marketing the Bank's services and products, the Bank takes into consideration various factors such as customer recognition and loyalty, risk tolerance, market demand and competition. The Bank's head office is responsible for formulating the Bank's overall corporate banking business development plans and establishing its general marketing guidelines based on industry, geographical region, customer and product considerations. The Bank's branches develop and implement detailed marketing plans tailored to key regions, customers and businesses based on these guidelines. The Bank's head office and branches in strategically important cities are generally responsible for coordinating client coverage and marketing efforts for the Bank's largest corporate customers in an effort to ensure consistency and quality of service.

The Bank's customer relationship managers are responsible for marketing the Bank's services and products to both existing and prospective customers as well as conducting market analysis and client assessment. The Bank provides its customer relationship managers with ongoing training programmes to improve their product knowledge, marketing skills and credit assessment capabilities.

The Bank encourages cooperation and cross-selling among different departments and different business lines and has placed significant emphasis on teamwork and cross-department and cross-business line initiatives in marketing. The Bank also cooperates with other financial services subsidiaries of China Everbright Group Ltd. in order to offer the Bank's customers a more comprehensive range of financial services.

Retail Banking Business

The Bank offers its retail banking customers a wide range of products and services, including personal loans, bank cards, personal deposits and fee-and commission-based products and services. The Bank believes that the Bank's retail banking business is critical to the Bank's success. The Bank has strategically accelerated the development of its retail banking business and continuously reinforced the image of the Bank's "Sunshine" brand through expanding its market share, improving its customer base and providing its customers with innovative products and services to satisfy their various demands.

The Bank's retail banking business has experienced continued growth in recent years and as at 31 December 2019, it represented the second largest component of the Bank's loan portfolio. The Bank's personal loans accounted for 40.85 per cent., 43.50 per cent. and 42.68 per cent. of the Bank's total loans and advances as at 31 December 2017, 2018 and 2019, respectively, and the Bank's personal deposits (including personal demand deposits and personal time deposits) accounted for 16.90 per cent., 20.01 per cent. and 22.78 per cent. of the Bank's total deposits from customers as at the same dates, respectively. For the years ended 31 December 2017, 2018 and 2019, the Bank's retail banking business generated operating income of

RMB35,572 million, RMB46,518 million and RMB54,683 million, respectively, representing 38.66 per cent., 42.14 per cent. and 41.13 per cent. of the Bank's total operating income, respectively.

Customer Base

The Bank has established an extensive retail banking customer base. The Bank classifies its customers into ordinary customers and mid-to high-end customers and has focused the Bank's marketing efforts on its mid-to high-end customers, many of whom are senior management officers and small business owners. Among the Bank's mid-to high-end customers who have an asset under management ("**AUM**") of over RMB500,000, the Bank defines quality customers as those who have an AUM of between RMB500,000 and RMB 1 million, affluent customers as those who have an AUM of between RMB 1 million and RMB 10 million and private banking customers as those who have an AUM of more than RMB 10 million.

In light of the growth of GDP and personal disposable income in the PRC, the Bank believes that the number of the Bank's mid-to high-end customers and the average value of their financial assets will continue to increase. The Bank intends to further broaden its customer base and improve its customer loyalty by providing tailored retail banking products, expanding the Bank's retail banking sales force and applying differential pricing policies. Moreover, the Bank has expanded the use of electronic banking platforms such as internet banking, mobile banking and ATMs, which offer greater convenience to its customers and at the same time reduce its operating expenses.

Leveraging on its brand name, in 2019, the Bank strived to expand the base of new customers and tap the value of existing customers toward the core objective of "a bigger, better-structured customer base". Coordinated online and offline operation was strengthened through customer lifecycle management, backed by data mining models.

Major Products and Services

Personal Loans

As at 31 December 2017, 2018 and 2019, the Bank's personal loans outstanding totalled RMB 830,004 million, RMB1,053,203 million and RMB1,157,508 million, respectively.

- Personal Residential Housing Mortgage Loans

  The Bank provides its customers with personal residential housing mortgage loans for the purchase of residential properties. As at 31 December 2019, the amount of the Bank's personal housing mortgage loans outstanding was RMB414,211 million, accounting for 35.78 per cent. of its total personal loans and advances and increased by 8.50 per cent. from RMB381,772 million as at 31 December 2018. For the years ended 31 December 2017, 2018 and 2019, the Bank's retail banking business generated operating income of RMB35,572 million, RMB46,518 million and RMB54,683 million, respectively, representing 38.66 per cent., 42.14 per cent. and 41.13 per cent. of the Bank's total income, respectively.

  In light of the PRC's increasing urbanisation and as the PRC's residential property market matures, the Bank expects mortgages for the purchase of secondary market properties to increase as a proportion of its total personal residential housing mortgage lending business. The Bank's personal residential housing mortgage loans are generally secured by the underlying property being purchased.

  In recent years, the PRC government has implemented a series of adjustment measures aimed at cooling down the PRC real estate market. For example, on 26 February 2013, the State Council promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知), which PRC banks to strictly follow the government policies regarding down payment and lending rates for first-time homebuyers and tighten the credit policies for second-time homebuyers. The circular also imposed a 20 per cent. tax on profit generated from certain residential property transactions. On 1 February 2016, PBOC and CBRC issued a notice regarding purchase of second residential property and first ordinary owner-occupied residential property. Such notice requires that for a household owning one residential property with outstanding housing loans on that property and applying for housing loans for the purchase of a second ordinary owner-occupied residential property for the purpose of improving housing conditions, the minimum down payment ratio of the loan shall be not less than 30 per cent. The notice also requires that in the cities where no residential property purchase restriction policies are implemented, for households purchasing their first ordinary owner-occupied residential property, the minimum down payment ratio of the loan shall be not less than 25 per cent. in principal, but may be decreased by 5 per cent. at the discretion of the local authorities. The Bank has strictly followed the relevant laws, regulations, policies and measures while providing its branches with flexibility in formulating their own personal residential housing mortgage loan policies based on local situation and regulatory requirements of and guidelines issued by local governments. While the new policies and measures will generally influence the demand for mortgage loans in the market, the Bank's personal residential housing mortgage loans outstanding nonetheless experienced steady growth in recent years.

In order to satisfy the diverse demands of the Bank's customers, the Bank has initiated an electronic preliminary loan approval procedure which allows its customers to be informed of the results of the approval process during their secondary market property transaction. To facilitate the efficiency of the loan approval process, the Bank also introduced an automatic approval procedure in 2011. In addition, the Bank has introduced collateralised loans with maximum limits and with a simplified approval process, whereby a borrower may use a purchased residential property as collateral to take out loans that can be revolved within 30 years within the relevant loan's credit limit. The Bank also developed a standard e channel self-service loan, which provides its customers with innovative experience of small amount consumer finance.

- Personal Commercial Properties Mortgage Loans

The Bank provides its customers with personal commercial properties mortgage loans for the purchase of commercial properties. The Bank targets quality borrowers to enhance the quality of the mortgage loans granted by it.

- Micro enterprise Equipment Loans

Micro enterprise equipment loans are a type of loan specially designed for the Bank's retail customers who purchase equipment for developing their businesses. Under the arrangement of micro enterprise equipment loans, the Bank provides equipment purchasers with mortgage loans pursuant to cooperation agreements the Bank enters into with equipment manufacturers. The Bank's clients normally repay the loan with cash generated from their operations. In the event that an equipment purchaser fails to repay the loan, the manufacturer shall repurchase and dispose of the equipment to repay the outstanding loan pursuant to the cooperation agreement.

Micro enterprise equipment loans generally have a relatively low NPL ratio. In addition, the equipment manufacturers had placed risk deposits with the Bank in full, which in turn mitigates against the Bank's risk exposure.

- Personal Consumption Loans

The Bank's personal consumption loans mainly comprise consumer loans and automobile loans. The Bank provides consumer loans for living expenses and general consumption, such as home renovations, car parking spaces, large-ticket durable goods and overseas education.

The Bank provides automobile loans for up to 80 per cent. of the purchase price of the automobile and usually requires the purchased automobile or parcels of residential property as collateral for the loan. The Bank targets customers with good credit history for automobile loans.

Bank Cards

The Bank offers a number of bank card products to its customers, comprising a variety of debit cards and credit cards. The Bank believes that it was the first bank in the PRC to offer a combined debit and credit card. For the years ended 31 December 2017, 2018 and 2019, the Bank's bank card service fees amounted to RMB20,372 million, RMB11,523 million and RMB14,163 million, respectively, representing 61.69 per cent., 51.37 per cent. and 54.52 per cent. of the Bank's total fee and commission income for the same periods.

The Bank is a member of China UnionPay Co., Ltd. ("**China UnionPay**"), the PRC's national inter-bank card information exchange and transaction network organisation. The Bank held a 2.56 per cent. shareholding in China UnionPay as at 31 December 2019.

- Debit Card Services

  The Bank issues debit cards under the brand name "Sunshine Card" (陽光卡) to customers who maintain deposit accounts with the Bank. The Bank's Sunshine debit card provides its customers with access to various financial services, including cash deposit and withdrawal, fund transfer, settlement and bill payment services. In addition, its debit card can also be used for fund transactions, foreign exchange transactions, wealth management and some of the Bank's other fee-and commission-based businesses.

  The Bank has established different levels of Sunshine debit cards to meet the needs of different customers. The Bank issues Sunshine gold cards to those who have assets under the Bank's management of no less than RMB100,000 and no more than RMB500,000, Sunshine platinum cards to those who have assets under the Bank's management of no less than RMB500,000 and no more than RMB1 million and Sunshine diamond cards to those who have assets under the Bank's management of more than RMB1 million. From time to time, the Bank introduces new types of debit cards with special features or co-branded cards with the Bank's business partners. For example, the Bank introduced the "Sunshine Ladies' Card" (陽光伊人卡) for its female customers and "Sunshine Auto Card" (陽光行車卡) specifically designed for automobile owners. The Bank has also enhanced risk control standards for its debit cards.

  Focusing on ten areas of people's daily life such as "medical service, dining, housing, traveling and tourism, education, entertainment, health, safety and beauty", the Bank continues to promote innovation in its debit card business. For example, the Bank launched a new function for its debit cards under which customers can make small payments online through their bank cards without using password, providing convenient and secure payment services.

- Credit Card Services

  The Bank's credit card business has grown in recent years. As at 31 December 2017 and 2018, the number of the Bank's issued credit cards was approximately 45 million and 61 million in aggregate, respectively. In 2019, the Bank issued approximately 11 million new credit cards.

  Along with growth in scale, the Bank constantly seeks to optimise the customer structure and increase the profitability of the Bank's credit card business.

  The Bank has successfully launched numerous innovative products. For example, the Bank was the first PRC commercial bank to issue the Visa Infinite Card in the PRC, and the Bank believes it was a first mover to launch the UnionPay Platinum Credit Card, mobile phone dynamic password authentication and interest-free instalment functions. The Bank believes it was also the first to issue a combined debit and credit card, which combines the debit account and credit account of a customer into one. The Bank also launched credit card products integrated with traditional Chinese cultural elements, such as the "Fortune Card" (福卡), which features the Chinese character "Fortune" (福).

Additionally, the Bank has strengthened its risk management platform through technology-based risk control, promoted its data open platform and distributed cloud platform, improved its risk integrated management platform, and actively applied big data and artificial intelligence technologies to strengthen its risk monitoring, early warning and response capabilities to better manage the risks arising out of the expansion of the Bank's credit card business.

Personal Deposits

The Bank offers demand deposits and time deposits denominated in Renminbi and foreign currencies to its retail banking customers. Personal demand deposits include general demand deposits and flexible-term deposits. Personal time deposits consist of general time deposits, call deposits and education savings deposits, as well as deposits by instalments and withdrawals in lump sums, deposits in lump sums and withdrawals by instalments and time deposits with periodic interest payments that can be withdrawn on demand. The Bank currently offers regular time deposit products with terms ranging from three months to five years for RMB-denominated deposits and longer than one month for foreign currency-denominated deposits. Seizing the opportunities derived from the PRC government's efforts to transform shanty areas and urbanisation drive, the Bank launched "one-stop service" for shanty area transformation projects, which increased both the scale and profit of the Bank's personal deposits business. In 2019, in adhering to the operating philosophy of "developing via deposit business", the Bank deepened customer-oriented integrated operations and kept the scale of personal deposits expanding on a steady footing. It strengthened product innovation by launching the "Payroll Manager", a payroll-based integrated financial service platform.

The Bank's personal deposits (including personal demand deposits and personal time deposits) amounted to RMB384,135 million, RMB514,746 and RMB687,571 million as at 31 December 2017, 2018 and 2019, respectively, accounting for 16.90 per cent., 20.01 per cent. and 22.78 per cent. of the Bank's total deposits from customers as at the same dates.

Fee- and Commission-based Products and Services

The Bank offers its retail banking customers a wide range of fee- and commission-based products and services, such as personal wealth management, bancassurance, brokerage, fund agency services, securities agency services, remittance, international travel financial services and agency trading of gold. For the years ended 31 December 2017, 2018 and 2019, the Bank's net fee and commission income relating to its retail banking business amounted to RMB22,598 million, RMB13,485 million and RMB16,115 million, respectively.

- Personal Wealth Management Services

  The Bank believes it is one of the first few banks that has been authorised by PRC regulators to provide Renminbi wealth management services. The Bank believes that it has developed very strong brand recognition in the market under the Bank's brand name "Sunshine Wealth Management" (陽光理財) for the breadth, depth and quality of its personal wealth management products and services. In particular, in 2018, the Bank focused on the implementation of the strategy of building a leading wealth management bank, launching a more diversified wealth management products and attracted more extensive customers including traditional personal customers, corporate customers, institutional customers and government customers. The Bank offers a comprehensive portfolio of personal wealth management products, including fixed income products, stock investment products, bond investment products, fund products, insurance products, QDIIs and other structured products and financial advisory services, while managing investments, risks and returns. The Bank also sought to adapt to the development trend of FinTech and responded to the digital, intelligent requirements of the time in its wealth management business. For the years ended 31 December 2017, 2018 and 2019, the Bank's fee and commission income relating to its wealth management services amounted to RMB3,400 million, RMB876 million and RMB634 million, respectively.

- Fund Agency Services

  The Bank provides custody services to customers such as fund companies, trust companies, insurance asset management companies, and other asset management companies.

- International Travel Financial Services

  As a financial institution recognised by the embassies of various countries, including the United Kingdom, Ireland, Australia and Singapore, the Bank provides one-stop professional international travel financial services. The Bank has introduced more than 20 types of products to cover the financial needs of the Bank's customers for travel, overseas study and immigration under its "Everbright International Travel" (光大出國通) brand. In January 2019, the Bank was awarded the "Gold Metal Market Potential Financial Products of The Year" (年度金牌市場潛力金融產品) by virtue of its prominent strength in delivering innovative financial service products relating to overseas study.

- Agency Trading of Gold

  The Bank acts as an agent for its customers to trade gold at its branches. In 2009, the Bank started to operate gold trading platforms for its retail banking customers. As a member of the financial category of the Shanghai Gold Exchange, the Bank developed a brokerage system to accept individual customer orders to trade on the Shanghai Gold Exchange.

Marketing

The Bank's head office formulates the overall marketing strategies, guidelines and standards for promoting its retail banking products and services. The Bank's branches formulate specific marketing plans in accordance with instructions from its head office and tailor such plans to specific regions, customer preferences and market conditions. The Bank's customer relationship managers implement the marketing strategies and plans through various marketing channels.

The Bank markets its retail products and services to its customers through physical and electronic channels. The Bank's branches and sub-branches are strategically located in regions where it believes its key target customers are located. The Bank also emphasises the importance of internet banking and mobile banking for its retail banking business.

The Bank categorises its customers into ordinary customers and mid-to high-end customers. The Bank's marketing efforts in relation to ordinary customers are primarily based on reaching out to customers by its on-site customer relationship managers, presentations given at the Bank's branches and general media advertisements. For the Bank's mid-to high-end customers, it has introduced customised financial products and value-added services tailored to its customers' individual risk appetites, financial goals and service preferences.

The Bank emphasises the importance of synergies between the Bank's corporate and retail banking businesses as well as synergies among different business lines of retail banking. The Bank also promotes cross-selling among different business lines and segments. For example, the Bank emphasises the development of retail banking businesses such as payroll services for its corporate banking customers and promotes its credit cards and wealth management products to eligible retail banking customers. The Bank's branches are required to prepare their own working plans to incentivise cross-selling. The Bank has adopted measures to motivate its staff to participate in marketing initiatives and it has provided regular training to its sales force.

Financial Market Business

The Bank's financial market business primarily covers inter-bank money market transactions, repurchases transactions and inter-bank investments. It also covers customer-driven derivatives and foreign currency trading, as well as management of the Bank's overall liquidity position, including the issuance of debts. The Bank also trades in debt securities, derivatives and foreign currency trading for its own accounts. For the years ended 31 December 2017, 2018 and 2019, operating income from the Bank's financial market business amounted to RMB 13,735 million, RMB 18,935 million and RMB24,765 million, respectively, representing 14.93 per cent., 17.15 per cent. and 18.63 per cent. of the Bank's total operating income, respectively.

Treasury Business

The Bank strengthened its fund management, ensured liquidity safety and improved capital operation efficiency. It moderately increased the investment in bonds, improved bond investment structure by buying more treasury bonds, local government bonds and policy financial bonds, and enhanced portfolio income. Moreover, the Bank increased the proportion of trading and franchise business in order to reduce the asset dependent business. It promoted the high-quality development of gold leasing business, and increased the income of fee-based business. It improved the comprehensive risk management and control system to ensure the treasury business could run compliantly and orderly. As at 31 December 2019, the balance of bonds in the Bank's proprietary account amounted to RMB755,813 million, accounting for 15.97 per cent. of the Bank's total assets, 50.12 per cent. of which were government bonds and local government bonds. According to overall evaluation by the National Interbank Funding Centre, the Bank was at the forefront of core traders in the interbank market.

Inter-bank Business

The Bank promotes product innovation and continues to increase the variety of its inter-bank products. In 2018, the Bank improved its interbank investment structure and increased investment in standardised products. It strengthened the management of interbank asset and liability portfolio, adjusted the term structure of assets and liabilities and met the needs of the bank-wide liquidity management. The Bank actively works with other banks and financial institutions to expand its inter-bank business. As at 31 December 2019, the Bank's inter-bank deposits amounted to RMB444,320 million.

Asset Management

The Bank continues to diversify its wealth management products and to optimise its asset portfolio. The Bank improved its asset quality and sought to promote the issuance of net asset value wealth management products. According to the new regulations on asset management, the Bank offered "Colourful Sunshine", a new generation net worth-based wealth management product series which includes stock, hybrid strategy, fixed income, cash management, alternative assets, private equity, and structured investment and financing It also continually seeks to enhance information technology system and has launched a fully functional asset management system. The Bank improved its risk management system and stimulated the stable transformation and development of its wealth management business. On 22 June 2018, the Shareholders' General Meeting of the Bank reviewed and approved the "Proposal on the Establishment of an Independent Legal Institution for Asset Management Business", which specified that the Bank would establish a wholly-owned wealth management subsidiary with a registered capital of RMB5 billion. On 19 April 2019, the Bank received approval from CBIRC to contribute RMB5 billion to Everbright Asset Management Company Limited (光大理財有限責任公司). As at 31 December 2019, the Bank recorded RMB778,837 million in balance of non-principal-guaranteed wealth management products, representing an increase of 13.04 per cent. from the year ended 31 December 2018.

Asset Custodian Services

The Bank has a leading insurance fund investment custody business in the PRC. It extended its product line by commencing services such as entrusted investment business custody, private equity funds custody and outsourcing business. In 2019, the Bank continued to strengthen the custody service development, achieving growth in both custody size and income in spite of the industry hardships. For the year ended 31 December 2019, the Bank's income from the custody business amounted to RMB 1,335 million and its custody assets amounted to RMB5,868,555 million.

Electronic Banking

The Bank provides a broad array of electronic banking services including mobile banking, internet banking, phone banking and self-service banking. The number of monthly active users of mobile banking was 10.0713 million, an increase of 4.4145 million compared to 2018.

The Bank set up the Cloud Fee Payment Business Centre in charge of convenient fee payment business development. This business has obtained key support in the construction of Beijing FinTech and Specialised Service Innovation Demonstration Zone. By integrating and opening fee payment resources, its Cloud Fee Payment services cover over 8,000 items of 20 categories nationwide. Pursuing opening-up and cooperation, the Bank strengthened the cooperative relationships with important partners, and further increased its dominance as the provider of one of China's biggest (open) fee payment platform. As at 31 December 2019, there were accumulatively 1,645 million bill payments on "Cloud Fee Payment" platform, representing an increase of 49.59 per cent. as compared to the year ended 31 December 2018. The total amount of the bill payments was RMB367.32 billion, representing a 78.07 percent increase as compared to the number reached at the end of 2018. As at 31 December 2019, there were 378 million platform users, representing an increase of 49.41 per cent. as compared to the year ended 31 December 2018.

Mobile Banking

The Bank's mobile banking services include account services, investment and wealth management, personal loans, credit card services, money transfer, fee payments and lifestyle-related services, overseas financial services, customer service and personal banking services, allowing its customers with mobile phones to access convenient and customised banking services.

Internet Banking

The Bank's internet banking platform, www.cebbank.com, consists of both corporate internet banking and retail internet banking systems. The Bank's corporate internet banking products and services include account inquiries, account management, money transfers and remittance, group treasury services, loans, foreign currency business, investment, treasury services and cash management. The Bank's retail internet banking products and services include account services, transfer and remittance, group assets and services, loans, foreign exchange business, investment, asset services and cash management.

The Bank continually seeks to improve the security of its internet banking system and has implemented various measures for strengthening the system and end-user security, including the use of third-party digital certification, security tokens and short message service (SMS) based dynamic password and identity verification services and sending short message service (SMS) notices to its customers in relation to changes in their accounts.

Phone Banking

The Bank offers phone banking services through its customer service number "95595" 24 hours a day, seven days a week. The phone banking service hotline includes both automated and staffed services and can be accessed throughout the PRC. The Bank's phone banking services include account management, information inquiries, money transfers and remittance, bill payment, investment and wealth management and personal loans.

Self-service Banking

The Bank believes its self-service banking platform provides convenient and efficient services to its customers and reduces its operating expenses.

PRODUCTS AND SERVICES PRICING POLICY

The interest rates the Bank charges on its RMB-denominated loans are generally regulated by PBOC. For RMB-denominated corporate loans and personal loans (other than personal residential housing mortgage loans), there has been no lower limit on the interest rate since 20 July 2013 and no upper limit since 29 October 2004. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and the Bank is permitted to negotiate the interest rates with customers on such loans.

Interest rates for the Bank's RMB-denominated demand and time deposits cannot be higher than 150 per cent. of the applicable PBOC benchmark interest rate. However, the Bank is permitted to provide negotiated time deposits to insurance companies and the National Council for Social Security Fund of the PRC under certain circumstances. The Bank is also permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than U.S.$3 million or the equivalent.

With respect to fee- and commission-based business, certain services are subject to government guideline prices, such as basic Renminbi settlement services specified by CBIRC and the National Development and Reform Commission of the PRC.

In compliance with applicable regulatory requirements, the Bank prices its products based on criteria including the risk profile of the Bank's assets, an individual customer's contribution to the Bank's business, the Bank's costs, the expected risk- and cost-adjusted returns and the Bank's internal fund pricing benchmarks. In addition, the Bank considers general market conditions and market prices for similar products as well as services offered by its competitors.

DISTRIBUTION CHANNELS

The Bank provides its customers with services through its multi-channel distribution network. As at 31 December 2019, the Bank had a total of 1,287 domestic branches and outlets in the PRC, comprising 39 tier-one branches, 111 tier-two branches and 1,137 outlets (including sub-branches in different cities, county-level sub-branches, intra-city sub-branches and banking department of branches). As at 31 December 2019, the Bank had four branches outside Mainland China, in Hong Kong, Seoul, Luxembourg and Sydney. The Bank's distribution network is complemented by various electronic banking channels. For more information on the Bank's electronic banking channels, see *"− The Bank's Principal Businesses − Electronic Banking*". The Bank's head office is responsible for the overall decision-making and management of the Bank. The Bank's tier-one branches are generally located in the capital cities of provinces, autonomous regions or municipalities and certain other strategically important cities, while its tier-two branches are located in other cities within the PRC's provinces and autonomous regions. The tier-two branches report to the tier-one branches in their respective region and are able to establish lower-tier network outlets in the same city.

The Bank's branch network covers a large portion of the more economically developed areas in the PRC. As at 31 December 2019, the Bank had 220, 181 and 198 branch outlets in the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, respectively.

INFORMATION TECHNOLOGY

The Bank considers information technology to be one of the driving forces of the Bank's development. The Bank has constructed a multi-level structure of information technology systems covering all aspects of its business operations, including channel management, customer management, product management, transaction processing, financial management, risk management, decision-making support and sharing support. Substantially all of the Bank's business transactions are processed and maintained by its information technology system. The Bank believes that the Bank's advanced information technology system has greatly improved, and will continue to improve, the Bank's efficiency, the quality of the Bank's customer service and the Bank's risk and financial management capabilities.

The Bank has established a Financial Technology Strategy and Information Management Committee responsible for making important decisions on strategies, planning, standards, information security system and budgets for technology development throughout the Bank in light of the policies and requirements of the PRC government and regulators. Information technology departments have been established at both head office and branch levels. The Bank's head office's experienced information technology team mainly consists of technical staff who have extensive working experience. The Bank plans to gradually increase the number of technical personnel in the coming years.

In recent years, the Bank focused on using customer profiling to achieve digitalised client management and precise marketing through the application of big data and artificial intelligence technologies, promoted intelligence products such as Cloud Fee Payment, Cloud Payment, Reassuring Loan, Sunshine Blockchain, Inclusive Finance Cloud and Trade Finance Cloud to achieve innovative breakthrough and increase in scale. The Bank also promoted channel development by improving the coordination of online, offline and remote channels, establishing digitalised financial service platform with all-channel capacity in order to lay a solid foundation for the transition of digitalisation.

The Bank has adopted a series of measures to enhance the levels of information technology system operations and management, including: (i) establishing two same-city mutual backup data centres in Beijing, continually improving the same-city disaster recovery system in respect of servers, storage, networks and engine room facilities and enhancing the capability of the information technology system to resist disasters; (ii) strengthening the network security management, enhancing the security of network operation by means of firewalls, intrusion detection system (IDS), logical partition, physical partition, redundant backup of equipment and wiring and strengthening the centralised administration of networks by building up a bank-wide unified network administration platform and a data volume monitoring platform; (iii) implementing an information technology service management (ITSM) project, strengthening system monitoring and warning, regulating incident management, account change management, configuration management and other day-to-day operational work and lowering the risks associated with information system maintenance and operation; (iv) based on the infrastructure of two data centres within the same city, formulating corresponding disaster recovery plans and regularly carrying out recovery practice drills; and (v) establishing a uniform head office platform for centralised management of the system daily log book, enhancing the warning capability of the system and providing a measure for audit monitoring. Since the establishment of the Bank, it has not suffered any major information technology system failures or related losses.

The Bank constructs its bank-wide information security system in accordance with its actual needs and by reference to international standards and norms. The Bank has adopted a variety of security measures to enhance the security of its information technology system and the reliability of its operations, including advanced firewall technologies, hacker detection systems, network monitoring and other safeguards and systems.

The Bank outsources some applications and information technology functions to independent third parties including, among others, its office computer maintenance staff, the cooperative development of its application systems and independent assessment. The Bank selects suitably qualified outsourcing companies through a bidding process and conducts strict scrutiny of such third parties. Generally, the Bank enters into service contracts with outsourcing companies and then manages and supervises their daily operations. In addition, the Bank carries out inspections to assess their overall service quality and their main service personnel on a regular basis. In order to reduce the risks associated with the outsourcing, the Bank monitors the whole outsourcing process, including project proposal, selection of contractors, negotiation and execution of contracts, daily management, appraisal, inspection for acceptance. In addition, the Bank focuses on the continued improvement of its technological capabilities throughout the outsourcing process, as well as the transfer of information.

COMPETITION

The Bank faces significant competition in its principal areas of business from other commercial banks and other financial institutions in the PRC. The Bank currently competes primarily with large commercial banks and other national joint stock commercial banks. The Bank also faces increasing competition from other financial institutions, including commercial banks and foreign banks operating in the PRC. The Bank's competition with other commercial banks and financial institutions in the PRC primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, coverage of distribution network and brand recognition, as well as information technology capabilities. Furthermore, the Bank faces competition in the provision of financial services to its customers from non-banking institutions such as securities firms and insurance companies.

The Bank's competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its World Trade Organisation commitment, the PRC government eliminated measures restricting the geographical presence, customer base and operational licenses of foreign-invested banks operating in the PRC. In addition, the PRC's Closer Economic Partnership Arrangement with Hong Kong and Macau and the subsequent supplemental agreements, as well as the Cross-Straits Economic Cooperation Framework Agreement, allow banks from Hong Kong, Macau and Taiwan to conduct certain business in the PRC, which has also increased competition in the PRC banking industry. In addition, further policies and regulations such as the Opinion on Providing Financial Supports to Guangdong-Hong Kong-Macao Greater Bay Area issued by PBOC, CBIRC, CSRC and SAFE (《中國人民銀行、中國銀行保險監督管理委員會、中國證券監督管理委員會、國家外匯局關於金融支持粵港澳大灣區建設的意見》) on April 24, 2020 may provide further supports for the open-up of the banking, insurance and securities industry.

See "*Risk Factors − Risks Relating to the PRC Banking Industry − The Bank faces increasingly intense competition in the PRC's banking industry and competition from other investment and financing channels*".

In response to this competitive environment, the Bank intends to continue to implement its strategies to differentiate the Bank from its competitors and to enable the Bank to continue to compete effectively in the PRC commercial banking industry.

EMPLOYEES

As at 31 December 2019, the Bank had 45,618 employees (excluding those of the Bank's subsidiaries), comprising 6,827 employees at the Bank's head office and 38,791 employees at the Bank's branches and sub-branches.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Bank has established a performance-based compensation system whereby an employee's compensation is determined based on his/her position and performance review. In addition, the Bank provides training programmes to its employees to improve their professional competence and skills.

The Bank provides its employees with training sessions on various topics, such as the international economic environment, globalisation of and competition in the finance industry, environmental-friendly finance, low-carbon economics, sustainable development, high-performance team building, banking industry innovation and service, detailed management, model-based operations, project management, corporate culture, bank development strategy, legal compliance, risk management, retail banking business, corporate banking business, financial compliance, information disclosure, electronic banking business and human resources management.

The Bank's labour union represents the interests of the employees and works closely with the Bank's management on labour-related issues. The Bank has not experienced any strikes or other material labour disputes that have interfered with the Bank's operations, and the Bank believes that the relationship between the Bank's management and the labour union has been, and remains to be, good.

As at 31 December 2019, the Bank had also engaged a number of independent contract workers by signing contracting agreements with third-party human resources agencies. In accordance with the temporary supplemental or replaceable employment policy stipulated under the PRC Labour Contract Law (中華人民共和國勞動合同法), these independent contract workers generally do not hold important positions with the Bank. Such independent contract workers enter into labour contracts with the relevant third-party human resources agencies instead of with the Bank. According to the contracting agreements with the third-party human resources agencies, the Bank is obliged to make salary payments, social insurance contributions and other related payments for the independent contract workers by payment to the third-party human resources agencies in advance. The third-party human resources agencies are responsible for the payment of salaries to the independent contract workers and social insurance contributions for the independent contract workers to the relevant governmental authorities. Although the Bank is under no statutory obligation to make social insurance contributions in relation to these independent contract workers under PRC law, if the third-party human resources agencies fail to do so, the Bank may be jointly liable for any claims brought by them. However, in such case the Bank would be entitled to seek indemnification from the third-party human resources agencies.

PROPERTIES

The Bank is headquartered in Beijing, PRC.

For some of the properties it holds and occupies in the PRC, the Bank has not obtained title certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained, and it plans to cooperate closely with the local land and property management authorities to expedite such applications and obtain the relevant valid title certificates as soon as practicable. The Bank has been unable to obtain certain of these title certificates due to various title defects or for other reasons. While there may be legal impediments to its obtaining certain of these title certificates as a result of these title defects, the aggregate gross floor area of these properties with defective titles is immaterial as compared to all of the properties it owns. The Bank believes that since the relevant properties are situated in different provinces in the PRC, the risk of losing the ability to use all of such properties at one time is comparatively low. It also believes that it will be able to obtain replacements in nearby locations, and accordingly, it is not expected that any relocation will have any material adverse impact on the operations and financial position of the Group as a whole.

For the leased properties in the PRC, the relevant lessors have not provided valid title certificates or consent to lease some of the properties, which are mainly served for commercial uses including outlets, offices and ATM. As the owner of the properties, the lessors are responsible for applying relevant valid title certificates or providing the Bank the consent to lease properties. In respect of this, the Bank has pro-actively procured these lessors to apply for the relevant valid title certificates or provide the Bank the consent to lease properties. The Bank is of the view that most of these leased properties occupied can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on its operations.

See "*Risk Factors − Risks Relating to the Bank's Business − The Bank does not possess the relevant land use right certificates or building ownership certificates for some of its properties, and the Bank may be required to seek alternative premises for some of the Bank's offices or business premises due to the Bank's landlords' lack of relevant title certificates for some leased properties*".

INTELLECTUAL PROPERTY

The Bank's intellectual property primarily includes trademarks, patents, domain names and copyrights. The Bank conducts business under the "China Everbright Bank," "CEB" and "中國光大銀行" brand names.

INSURANCE

The Bank maintains insurance coverage that is typical in the banking industry in the PRC and to cover amounts that the Bank believes to be adequate to its operations and circumstances.

LEGAL AND REGULATORY

Legal Proceedings

The Bank is involved in certain legal proceedings in the ordinary course of the Bank's business. Most of these proceedings involve enforcement claims initiated by the Bank to recover payments of the Bank's NPL. The legal proceedings against the Bank include actions relating to customer disputes and claims brought by the Bank's counterparties on contracts related to the Bank's banking operations.

As at the date of this Offering Circular, the Bank was not involved in any litigation, arbitration or administrative proceedings, and was not aware of any such litigation, arbitration or administrative proceedings, whether pending or threatened, which are or might be material in the context of the Programme or the issuance of the Notes.

Regulatory Reviews and Proceedings

The Bank is subject to inspections and examinations by the relevant PRC regulatory authorities, including PBOC, CBIRC, MOF, CSRC, SAMR, SAFE, NAO and SAT, as well as their respective local offices. These audits and examinations have previously resulted in findings of non-compliance issues and the incurrence of certain penalties. Although these issues and penalties did not have any material adverse effect on the Bank's business, financial condition and result of operations, the Bank has implemented remedial and preventative measures to protect against the recurrence of such incidents. The Bank believes that, save as disclosed in this Offering Circular, there were no other material breaches and material incidents of regulatory non-compliance.

DESCRIPTION OF THE ISSUER

BACKGROUND

The Issuer was established in December 2012 as the first branch of the Bank outside Mainland China. The Issuer is positioned to leverage on the advantages brought along by the cross-border business linkage, tapping into Hong Kong's open market regime as well as its unique position as an offshore Renminbi centre.

As at the date of this Offering Circular, the Chief Executive Officer and Chief Risk Officer of the Issuer were Mr. CHEN Linlong and Mr. WU Yik Tin, Desmond, respectively. As at 31 December 2019, the Issuer had 204 employees.

BUSINESS ACTIVITIES

The Issuer is a licensed bank in Hong Kong, with its office at 30/F, Far East Finance Centre, No. 16, Harcourt Road, Admiralty, Hong Kong, and is currently focusing on its wholesale banking business. It also provides featured banking services through its cross-border business collaboration with the Bank, with a focus on developing international settlement business, corporate business, trade financing business, treasury business and other businesses.

The Issuer primarily focuses on the Hong Kong, Macau and Taiwan markets, as well as the Greater China region, and targets corporate clients ranging from blue-chip companies, large-scale or medium-scale red-chip companies in these regions as well as multinational corporations.

The Issuer provides a comprehensive range of tailor-made products and services to its corporate clients, such as foreign exchange trading, deposits and remittance, trade financing, treasury products, various Renminbi banking services, syndicated loans, project loans and joint cross-border financing. In addition, the Issuer collaborates with local and overseas financial institutions to provide a financial services platform for its clients.

Major Products and Services

Corporate Deposits

The Issuer provides deposit services denominated in Hong Kong dollars and various foreign currencies with deposit term and rates that are competitive in the market to satisfy different financial demands in the daily operations of its corporate clients.

Remittance

Leveraging on the Bank's network throughout Hong Kong, Mainland China and overseas markets, the Issuer provides remittance services for its clients to facilitate their money transfer and allocation and trade settlement.

Trade Finance

The Issuer offers international settlement and trade financing services and solutions to its clients.

Loan

The Issuer provides tailor-made professional advice and solutions for its clients based on their business development and financial requirements, ranging from overdrafts to loans.

Treasury Products

The Issuer formulates plans catering for the market and provides trade services for its clients to timely seize opportunities in the global market.

Renminbi Business

The Issuer provides its clients with a wide range of Renminbi banking services by tapping into the Bank's nationwide branch network.

Financial Institution Business

Through its close collaboration with local and overseas financial peers and partners, the Issuer establishes a strong one-stop integrated financial services platform for its clients.

Global Markets Business

The Issuer is licensed for Type 1 and Type 4 regulated activities under the SFO and is able to advise and deal in securities for its clients.

HONG KONG REGULATORY GUIDELINES

The banking industry in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance (Cap. 155) of Hong Kong (the "**Banking Ordinance**") and to the powers and functions ascribed by the Banking Ordinance to the HKMA. The Banking Ordinance provides that only banks which have been granted a banking license by the HKMA may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such licensed banks.

The provisions of the Banking Ordinance are implemented by the HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The HKMA supervises licensed banks through, inter alia, a regular information gathering process, the main features of which are as follows:

- each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its principal place of business in Hong Kong and all local branches and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches and the HKMA has the right to allow returns to be made at less frequent intervals;

- the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interest of depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may also require a report by the licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;

- licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate of 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;

- licensed banks are obliged to report to the HKMA immediately if there is a likelihood of becoming unable to meet their obligations;

- the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the licensed bank's systems of control of the licensed bank or other matters as the HKMA may reasonably require; and

- the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such licensed bank. Such inspections are carried out by the HKMA on a regular basis.

On 7 July 2017, the FIRO came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which include the FIRO Group Entities. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, in the context of a resolution of any FIRO Group Entity, the relevant resolution authority will have the ability to resolve the Issuer as if it were a within scope financial institution for the purposes of FIRO and take certain actions and make certain directions in relation to it. Any such actions could potentially affect contractual and property rights relating to the Bank. In addition, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of nay priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result.

RISK MANAGEMENT

OVERVIEW

As a commercial bank, the Bank is subject to a number of risks, primarily including credit risk, market risk, operational risk, liquidity risk and compliance risk. In order to manage these risks, the Bank is committed to establishing a comprehensive risk management system that covers the identification, assessment, measurement, monitoring, reporting and control of such risks. The Bank has been dedicated to strengthening its risk management, with the NPL ratio of the Bank's total loans and advances to customers being 1.59 per cent., 1.59 per cent. and 1.56 per cent. as at 31 December 2017, 2018 and 2019, respectively.

The Bank's principles for risk management are to steer the optimisation of business portfolios by using the Bank's economic capital management framework and risk pricing mechanism to facilitate the match between the returns and the risks assumed, and to maintain the Bank's risk exposure within acceptable risk levels in coordination with the implementation of the Bank's overall business strategies and comprehensive risk management system. On this basis, the Bank ultimately aims to maximise returns to its shareholders by maintaining capital adequacy levels that balance the Bank's risk exposure with its strategic objectives while striving to comply with the relevant regulatory requirements.

The Bank's risk management principles are as follows:

(i) Comprehensive risk management: to establish and refine the Bank's comprehensive risk management covering various major risks;

(ii) Independent risk management: the Bank's risk management system is kept independent from the Bank's business operational system; and

(iii) "Creating value through effective risk management": the Bank creates business value by achieving a balance between risk and return and a balance between control and efficiency.

The Bank's risk management objectives are as follows:

(1) To cultivate a proactive risk management culture of "creating value through effective risk management" by:

- improving the Bank's policies and procedures, strengthening the Bank's training and implementing a position certification system to improve the quality of the Bank's business and risk management personnel;
- senior management setting an example for the Bank's staff and increasing accountability in order to raise staff's awareness of risk; and
- including risk management performance as an evaluation criterion for staff appraisal, branches, sub-branches and various departments.

(2) To formulate and adhere to proactive and prudent risk management policies by:

- applying differentiated policies at different levels, standardising the policy and management procedure through expert participation, regular reviews, and implementing the Bank's principles of fully identifying risks, accurately assessing risks, and taking reasonable risks;
- establishing regular review mechanisms and continuous optimisation of the relevant mechanisms in order to better balance the relationship between principles and flexibility, the relationship between differentiation and consistency and the relationship between economic interests and social responsibility; and
- enhancing the Bank's policy execution system.

(3) To build up a risk management organisational matrix by:

- building up the Bank's risk management organisational structure and system in accordance with the principles of vertical management for credit risk, centralised management for market risk and hierarchical management for operational and compliance risks in order to reflect the risk management needs of the Bank's business development;
- improving the Bank's risk management organisational matrix and extending such structure to tier-two branches, cross-city and county-level sub-branches;
- defining a clear allocation of functions and responsibilities among the Bank's various committees, departments, units and personnel to prevent any gap or overlap of duties and authorities, and to increase the Bank's risk management efficiency; and
- ensuring the independence and professionalism of the Bank's Risk Management Department and aligning its functions closer to market conditions and the Bank's business objectives.

(4) To ensure prudent and effective risk management processes by:

- focusing on the different characteristics of credit risk, market risk, operational risk, liquidity risk and compliance risk and building corresponding risk management processes;
- implementing a system of comprehensive early warnings, prompt risk reporting and a swift response to risks; and
- ensuring that the Board of Directors, its Risk Management Committee and senior management promptly monitor various risks and adopt effective measures to prevent and resolve such risks.

(5) To set up an appropriate and active advanced technology support system for proactive risk management by:

- following the core principles of Basel III and adopting the best practices of banks both within and outside the PRC;
- setting up a technology support system that covers effective measurement, analysis and management of credit risk, market risk, operational risk, liquidity risk and compliance risk; and
- utilising advanced technology to support more specialised and targeted risk management processes.

KEY RECENT IMPROVEMENTS IN RISK MANAGEMENT

The key risk management improvements the Bank has made in recent years are as follows:

- In January 2007, the Bank implemented a risk and control self-assessment programme across various business lines as well as in the Bank's branches and sub-branches, conducted risk investigations using process analysis methodologies by taking into consideration internal and external data relating to operational risk incidents together with findings from audit and compliance inspections, and improved the effectiveness of risk control measures.
- In November 2007, the Bank established the Operation Management Department, which is responsible for managing clearing and settlement activities within the Bank, approving the disbursement of corporate and retail credit and conducting centralised management for letters of credit, letters of guarantee and other settlement products. By standardising the Bank's operations, the

Operation Management Department helped improve the standards of the Bank's centralised management and the Bank's operations, enhance risk management and improve operational efficiency.

- In February 2008, the Bank integrated the functions and personnel of the three regional credit approval centres into the credit approval department of the Bank's head office, which is responsible for approving loans falling outside the limit of authority of the branch-level Chief Risk Officers. Additional integration of resources was carried out to further standardise and regulate the credit approval process.

- In December 2008, the Bank started to assign Chief Risk Officers to various business departments of the Bank's head office, including the Treasury Department, the Credit Card Centre, the Retail Banking Department and the SME Business Department. Through the assignment process, the Bank has created a mechanism for the effective operation of, and cooperation between, the departments in charge of risk management and the frontline departments. This in turn has allowed the Bank to fully capitalise on the risk prevention function of the frontline departments and the risk control function of the middle offices, thus further strengthening the risk management of the Bank's business lines.

- In December 2009, the Bank completed and submitted a Compliance Self-assessment Report and 13 sub-reports concerning compliance guidelines to CBRC.

- In March 2010, the Bank initiated a compliance platform project to fulfil the requirements of the New Basel Capital Accord, which mainly includes compliance self-assessment, project management and the establishment of a risk-weighted assets system.

- In June 2010, the Bank implemented the Bank's operational risk management system.

- In December 2010, the Bank implemented the Bank's market risk management system.

- In November 2011, the Bank submitted an assessment application for the implementation of Basel II to CBRC.

- In January 2012, the Bank began implementing plans to consolidate the Bank's risk management functions by shifting the main reporting line of each business line's Chief Risk Officer and risk management team to the Risk Management Department in order to strengthen the independence of the Bank's risk management functions. The Bank completed such adjustments in December 2012.

- During 2012, the Bank adopted multiple measures to strengthen its risk management, including: (i) enhancing capital management by improving policies and management processes, bolstering capital deployment plans and promoting organic integration between capital management, risk management, assets and liabilities management and financial and business planning; (ii) launching a series of plans and proposals to improve risk management procedures, including an early warning platform for corporate customers, obtaining market information on risks, assessments on the impact of the Bank's debts and promoting accuracy and precision in the Bank's comprehensive risk management system; and (iii) formally commencing the Bank's risk-weighted assets system, which calculates risk-weighted assets based on four methods: initial capital method, weighted method, basic internal rating, and advanced internal rating (with the second, third and fourth methods falling under the principle of the new capital method).

- In early 2013, the Bank completed upgrades of its credit rating system for corporate customers and further improved both the stability of the Bank's credit rating model and the practical business applicability of the Bank's non-retail internal rating adjustments system.

- In May 2013, the Bank established the Credit Management Department at the head office in order to implement a risk management system that better suits the development of the SME and micro-enterprise financial services. The Credit Management Department also aims to enhance the Bank's risk management capability, strengthen the Bank's post-credit management and ensure the quality and stability of the Bank's credit assets.

- During 2014, the Bank dynamically adjusted its credit policies so as to revitalise existing lending and make good use of new credit resources. System, mechanism and procedures of the Bank were improved to enhance the effectiveness of risk management. The Bank also established an external compliance database through the consultation project of implementing internal control standards and compliance management, and the system development was completed and applied across the Bank. Besides, the Bank combined reputation risk management and its strategic development and corporate brand building efforts to further optimise and improve its warning mechanism and countermeasures for reputation risk.

- During 2015, the Bank proactively responded to new challenges in credit risk management during the macro economic downturn. It formulated the Initiative to Further the Reform in Risk Management. Responsibilities of various functional departments involved in risk management are further clarified. The Bank also started the development and construction of a new generation of anti-money laundering system.

- During 2016, the Bank established three lines of defence in business, risk management and internal audit on the principle of "full range, whole process and all staff control", and improved credit approval efficiency by implementing a "One-stop" approval process for corporate credit business with general risks. Credit Management of the key group clients was strengthened by establishing a Strategic Corporate Banking Department at the headquarter. Credit Risk Alert System was put into operation, control over key sectors of the credit business was tightened, centralised registration of collaterals, inspection of tax receipts and signed underwriting formalities were tightened. Besides, the Bank managed to launch the Data Market of Market Risk and pushed forward the building of the Market Risk Metering Engine in the aim of enhancing its abilities of integrating market risks information and its risk measuring capabilities. The Bank continuously improved its operational risk management framework and system by establishing new operational Loss Data Collection reporting standards, re-checking history loss events, re-setting Key Risk Index and threshold value.

- During 2017, the Bank strove to optimise the credit structure, took serving the real economy as the fundamental approach to guarding against risk, actively supported enterprises in transformation and upgrading, and properly developed industrial finance in a down-to-earth manner. Based on major national strategies such as the "Three New Strategies", the construction of Xiong'an New Area and the development of "Guangdong-Hong Kong-Macao Greater Bay Area", the Bank made great efforts to develop infrastructure finance. While the deleverage initiative gained momentum day by day, the Bank upheld "daytime liquidity security and regulatory attainment" as its bottom line for risk management, in a bid to keep the bank-wide liquidity risk management indicators within a reasonable range.

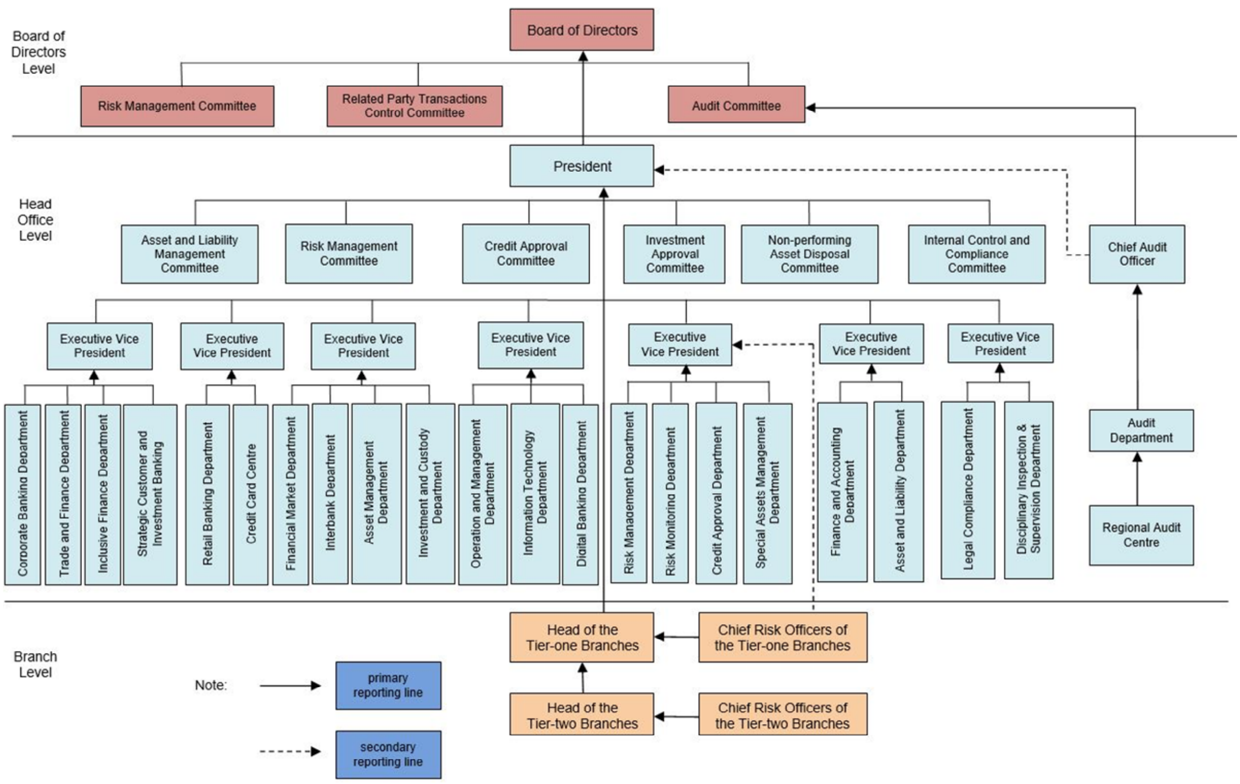
- During 2018, the Bank continued to improve its comprehensive risk management system, performed its duties in relation to "three lines of defence", and strengthened the coordinated management of various risks as per the unified management of policy, approval, monitoring and resolution. the Bank comprehensively carried on centralised Anti-money Laundering operation model while setting up Anti-money Laundering centres inside branches.

- During 2019, the Bank continued to improve its comprehensive risk management system, improved the credit structure, held a prudent and sound liquidity risk management policy, improved its market risk management system, actively established an organisational structure and management system for large exposures management, incorporated country risk into its comprehensive risk management system, continuously emphasised responsibilities of the "first line of defense" in operational risk management, strengthen the compliance risk management, established a reputational risk management mechanism applicable to the whole bank, formulated money laundering risk management policies and revised the AML internal control rules, upheld the business strategy of "aggregate management, prudent implementation, differential credit extension and strict risk control" in the real estate sector and firmly conducted the supply-side structural reform.

- The ability to manage the Bank's liquidity needs for its day-to-day operations is one of the key priorities for the Bank. In response to concerns about the tightening of liquidity in the PRC banking industry from time to time which resulted in significant temporary fluctuations in the inter-bank lending rate during certain periods, the Bank has emphasised amongst its departments the overriding importance of sound liquidity, increased its reserve level, and arranged for stronger short-term liquidity commitments, as well as implemented further upgrades to its internal controls to mitigate potential operational risk, including: (i) centralising liquidity gap solutions through inter-bank financing under the Bank's head office; (ii) enhancing the daily critical point calibration mechanism; (iii) re-evaluating the operational and liquidity risk management system and the reporting mechanism; (iv) strengthening the Bank's procedures in emergency management; and (v) controlling the scale of the Bank's inter-bank business and executing improved matching of inter-bank assets and liabilities.

RISK MANAGEMENT STRUCTURE

The chart below illustrates the Bank's risk management structure:



Board of Directors and Board Committees

The Board of Directors is the highest decision-making authority within the Bank in terms of risk management and is responsible for determining the overall risk management strategies and making important decisions for the Bank. It is also responsible for: determining the Bank's risk tolerance; examining the risk precaution measures formulated by the Bank's senior management; deciding on the fundamental management system and the establishment of the Bank's internal management organisation; appointing senior management; examining the internal control assessment reports provided by management, audit and regulatory authorities;

reviewing and commenting on the effectiveness of the Bank's internal control system; and supervising senior management's continuous improvement of the Bank's internal control system. The Board of Directors performs its risk management functions through the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee.

The Risk Management Committee is responsible for formulating the Bank's risk management strategies and overall risk tolerance, and implementing such strategies and risk tolerance upon approval of the Board of Directors. It is also responsible for: supervising senior management in their management of credit, market and operational risks; assessing the Bank's risk management system and making recommendations to the Board of Directors; preparing periodical risk management reports for submission to the Board of Directors; developing management targets with respect to the Bank's capital adequacy ratio; and advising on related information disclosure.

The Audit Committee is responsible for monitoring and supervising the Bank's internal control function as well as overseeing the Bank's accounting policies and financial reporting procedures.

The Related Party Transactions Control Committee is responsible for the implementation of policies and guidelines relating to the review, approval, management and supervision of the Bank's related party transactions, as well as the assessment of the potential risks they may give rise to.

For further details of the respective responsibilities of the Bank's Board of Directors, as well as the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee, see "*Directors, Supervisors and Senior Management – Board of Directors Committees*".

Senior Management and Special Committees

Based on the risk management strategies reviewed and approved by the Board of Directors, the senior management formulates, implements and manages various policies, systems, rules and limits covering a wide range of risks during the course of their day-to-day operations and management functions in order to ensure that all types of risks are effectively managed and controlled. The Bank's senior management has established the following special committees: the Asset and Liability Management Committee, the Risk Management Committee, the Credit Approval Committee, the Non-performing Asset Disposal Committee and the Internal Control and Compliance Early Warning Committee, which coordinate, organise and supervise their respective risk management functions.

President

The Bank's President is responsible for the operation and management of the Bank, including overall risk management and implementation of decisions made by the Board of Directors. The Bank's President submits business plans to and implements such plans upon approval by, the Board of Directors. The Bank's President also formulates the Bank's internal management organisational structure, core management policies and specific rules and procedures. The President may undertake other functions and exercise other powers as conferred upon him under the articles of association or by the Board of Directors.

Executive Vice President in Charge of Risk Management

The Bank's Executive Vice President in charge of risk management reports to the Board of Directors' Risk Management Committee and the President on bank-wide risk exposure, material matters relating to risk and corresponding solutions, as well as the organisation and operation of the Bank's risk management system. The Bank's Executive Vice President in charge of risk management is also responsible for formulating and, upon obtaining the relevant approval, implementing the Bank's risk management framework, principles and strategies based on the Bank's overall development strategies. Furthermore, based on his authority, the Bank's Executive Vice President in charge of risk management: approves and supervises the implementation of risk management indicators for various business activities, bank-wide risk management policies and reporting processes; carries out assessments of the risk management system; examines and approves the detailed rules on risk management; and is responsible for tailoring the Bank's risk management system to achieve its risk management objectives. The Chief Risk Officers of tier-one branches report to the Bank's Executive Vice President in charge of risk management.

Special Committees under Senior Management

- **Risk Management Committee.** By taking into consideration the external economic environment and the Bank's business development and risk management, the Risk Management Committee reviews the Bank's risk management strategies and provides suggestions on amendments to such strategies to the Bank's President at the executive meetings. It is also responsible for: the review of the Bank's risk management policies, procedures and rules and regulations, as well as their implementation upon submission and approval in accordance with the management procedure; the review of reports on the bank-wide risk profile, material matters relating to risk and risk management, and the organisation and operation of the Bank's risk management functions; and the review of risk management issues raised by relevant departments of the Bank's head office and by the Bank's branches.

- **Asset and Liability Management Committee.** The Asset and Liability Management Committee is responsible for reviewing and providing guidance for the Bank's business development plans. It is also responsible for reviewing and determining annual targets and plans for the allocation of assets, liabilities and off-balance sheet items and making adjustments to such targets and plans in accordance with specific circumstances. Further, it regularly reviews reports on the bank-wide asset and liability status. It is also responsible for the management of bank-wide liquidity risk and the interest rate risk of banking books.

- **Credit Approval Committee.** The Credit Approval Committee is responsible for the examination and approval of credit applications that are beyond the limits of authority of the Credit Approval Department of the Bank's head office and for providing guidance on matters relating to credit examination and approval throughout the Bank.

- **Non-performing Asset Disposal Committee.** The Non-performing Asset Disposal Committee reviews and approves procedures, incentive measures and relevant policies for the disposal and recovery of non-performing assets as well as examines and approves asset disposal proposals, the repayment of debts by assets, loan foreclosure on repossessed assets, loan write offs and litigation relating to non-performing assets and risk agency matters.

- **Internal Control and Compliance Early Warning Committee.** The Internal Control and Compliance Early Warning Committee reviews early warning signal reports, approves proposals for handling early warning signals, instructs relevant departments to conduct special investigations, implements action plans in relation to early warning signals and performs other compliance functions with respect to the management of early warning signals.

Head Office Risk Management Departments

Risk Management Department

The Risk Management Department coordinates and puts in place comprehensive risk management for credit, market and operational risk. It is responsible for: formulating policies and procedures for risk management; regular review and modification according to actual circumstances, and setting out relevant implementation rules; formulating, tracking and improving the Bank's credit policies, risk management system and methods and the rules and processes of making credit-related decisions; compiling and collating various types of risk management reports and reporting to senior management, the Asset and Liability Management Committee and the Risk Management Committee of the Bank and the Risk Management Committee of the Board of Directors in a timely manner; formulating strategic plans for the Bank's credit portfolios composition; analysing the performance of the Bank's credit portfolios; and organising, developing and maintaining risk management systems and models. The Risk Management Department assigns a Chief Risk Officer and/or a risk management team to each of the Retail Banking Department, Credit Card Centre, Treasury Department and SME Business Department to establish customised risk management systems targeted to address specific risk profiles of each business line.

Credit Approval Department

In accordance with the Bank's credit policies and procedures, the Credit Approval Department is responsible for: examining, considering and approving various types of credit business applications within their limit of authority; administering the specific delegation of credit approval authority in the Bank's credit business; formulating plans for credit approval authority delegation in the Bank's credit business; organising, monitoring, administering and appraising the bank-wide implementation of credit approval authority delegation; and periodically reviewing the credit examination and approval activities of lower-level credit approval functions.

Credit Management Department

The Credit Management Department performs three core functions: (i) data analysis and model building at the portfolio level, (ii) post-credit-granting review and management and risk warning at the business level, and (iii) key operating procedure control at the process level. The Credit Management Department is responsible for coordinating credit risk monitoring and portfolio management for large, medium, small and micro-sized credit granting operations at the Bank. Additionally, the Credit Management Department conducts industry and credit asset portfolio data analysis, formulates and maintains the Bank's post-credit-granting management system, reviews and examines credit and loans granted to corporate and retail customers, monitors and administers key credit business procedures, and monitors events associated with material risks.

Legal and Compliance Department

The Legal and Compliance Department is responsible for: coordinating and organising the management of internal control, compliance risk and legal risk within the Bank; developing the relevant compliance risk management policies and systems; providing guidance for implementing bank-wide compliance tasks; organising legal and compliance inspections for the Bank's businesses and communicating with external regulatory authorities in connection with compliance matters.

Special Loan Administration Department

The Special Loan Administration Department is responsible for: formulating implementation rules on the management of non-performing assets; managing NPL; filing claims against borrowers who become bankrupt or insolvent, or handling follow-up work against borrowers who are liquidated or dissolved; handling debt restructuring in relation to non-performing assets; assessing the rating, interest suspension, waivers of interest and other issues relating to non-performing assets and reporting to the Non-performing Asset Disposal Committee for approval; and preparing application materials relating to debt write-offs for submission to the Non-performing Asset Disposal Committee for examination and approval.

Other Departments

In addition to those set forth above, certain other departments also implement risk management policies and procedures and perform certain management functions within their scope of operation.

Risk Management Structure at the Branch and Sub-branch Levels

Tier-one Branches

The Bank has implemented a programme to assign Chief Risk Officers to tier-one branches. While Chief Risk Officers at the branch level are directly under the leadership of the Bank's head office, they also report to the local branch heads and are subject to the guidance of the Risk Management Department, Credit

Approval Department, Credit Management Department, Special Loan Administration Department and Legal and Compliance Department in the Bank's head office in relation to business matters so as to maintain the independence of the risk management of tier-one branches. Chief Risk officers at the branch level supervise the Risk Management Department, Special Loan Administration Department and Legal and Compliance Department of their respective branches and are responsible for managing the credit risk of such branches and examining and approving loans within their limit of authority. They also assist the branch heads in managing operational and compliance risks.

The Head of Tier-one Branches are ultimately responsible for tier-one branch-level operational and management matters. They are in charge of the overall risk management tasks of their local branches and are responsible for creating a favourable atmosphere for risk management and for establishing an effective risk management system. Based on the principle of the hierarchical management of operational and compliance risks, branch heads are responsible for establishing branch-level operational risk and compliance risk management systems at the request of the Bank's head office and have primary responsibility for the management of such risks at the branch level. In accordance with the principle of vertical management of credit risk, branch heads support their respective branch's Chief Risk Officers in managing credit risk by examining the branch/regional marketing guidelines and by exercising the "veto right" in the dual approval process for corporate credit applications.

Tier-two Branches, Cross-city and County-level Sub-branches

In order to standardise the risk management of tier-two branches, cross-city sub-branches and county-level sub-branches and to promote the healthy and orderly development of the Bank's businesses, the Bank has begun to apply the risk management system of tier-one branches to its tier-two branches, cross-city sub-branches and county-level sub-branches.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss that the Bank may suffer from default by an obligor or counterparty of his/her obligations or commitments under a contract. The Bank is exposed to credit risk mainly in the form of loan portfolios, investment portfolios, guarantees and balance sheet and off-balance sheet credit risk exposure. To address the Bank's off-balance sheet credit risk, the Bank implemented a comprehensive risk management programme for all of its off-balance sheet businesses to prevent them from over-expanding by utilising measures such as risk quotas and economic capital evaluations. The Bank incorporated its off-balance sheet businesses into its uniform credit management system and centralised its credit risk management.

The Bank manages credit risk by adopting normalised and unified processes and standards for its credit business. The Risk Management Department of the Bank's head office, in conjunction with other relevant departments, regularly reviews and modifies the workflow and standards adopted for the Bank's credit business. Credit risk management includes corporate credit, retail credit and financial institution credit management and may be broadly divided into three segments, namely: (i) acceptance of credit applications and credit investigations; (ii) credit examination and approval; and (iii) opening of credit lines and post-disbursement management.

Management of Credit Risk Associated with Corporate Credit Business

Acceptance of Credit Applications and Credit Investigation

All applications made to the Bank for corporate credit are handled by the Bank's customer relationship managers. The Bank adheres to the "two-person investigation" principle in carrying out its credit investigations. The primary customer relationship managers and supporting customer relationship managers conduct comprehensive investigations on applicants or target customers, collect relevant information and data and thoroughly assess the credit applicant's eligibility for credit, the customer's solvency, business compliance by which the credit will be utilised and the reasonableness of credit plans. The credit investigation consists mainly of on-site investigation, which is supplemented by indirect investigations. Visits are made to the applicant's financial department, production and operation premises, key managers, clients and creditors with a view to obtaining first-hand data and gaining a comprehensive understanding of the production and operation, management, financial affairs, credit status, and industry information relating to the applicant. If necessary, the Bank may verify the authenticity of the information provided by customers through third party credit investigation agencies, relevant governmental departments, social intermediaries and other commercial banks and file such information for the Bank's records. If a customer relationship manager determines that an applicant meets the requirements of the Bank's credit policies and the basic criteria for credit, the customer relationship manager will request that the applicant submits their credit application and the relevant documents required in connection with the credit application.

The risk managers work in parallel with the customer relationship managers during the credit investigation process to uncover and assess credit risk and provide their opinions on the appropriateness of credit extension. The analysis and assessment of credit business usually include: (i) risk rating; (ii) assessment of credit business; and (iii) assessment of collateral.

(i) *Risk rating*

The Bank's rating of risks associated with the corporate loan business generally consists of borrower rating and facility rating. In general, the Bank carries out both borrower rating and facility rating for the Bank's normal risk corporate loan business and, if the loan is guaranteed, the Bank carries out guarantor rating. Borrower rating is an assessment of a borrower's willingness and ability to repay its debts in the future, based on a comprehensive analysis of the quantitative and qualitative risk factors of a borrower (or a guarantor), and the rating results are shown by credit ratings. The Bank's borrower rating system is composed of 24 different grades, with each individual grade corresponding to a probability of default (PD) in a one-year horizon. Facility rating is an assessment of the expected loss rate (ER) of specific transactions. A comprehensive consideration of borrower rating and default loss rate is shown as the product of the PD and loss given default (LGD). The assessment results are classified into 12 grades.

The Bank uses an internal rating system to rate the risks associated with the Bank's corporate credit business. The Bank's internal rating system, which was developed under the guidance of Basel II, was introduced on a bank-wide basis in 2004. On the basis of business performance indicators and data on the financial status of customers and through customer assessment models, the system measures the probability of default of customers, and, on that basis, computes the preliminary results of customer rating. The customer relationship managers are responsible for the preliminary assessment of borrower rating and risk managers are responsible for review and approval of the borrower rating. The Bank treats credit risk rating results as an important basis for decision-making for its credit business, and have established clear guidelines on thresholds based on risk ratings.

(ii) *Assessment of credit business*

The investigation and assessment of the first source of repayment is the primary part of the credit investigation. Customer relationship managers are responsible for credit analysis and assessment.

The analysis and assessment of credit risk mainly include investigation of: (i) the integrity of a borrower; (ii) authority for a borrower to borrow funds; (iii) use of loans; (iv) profitability of the borrower and the professional management capability for the operation of such borrower; (v) professional knowledge of the borrower; (vi) prospects of the industry in which the borrower operates; (vii) repayment terms; (viii) sources of repayment funds; (ix) forecast of cash flow in various business cycles; (x) current credit and financial information of the borrower and relevant members of its group company; and (xi) valuation of collateral (or pledge) and its validity as well as the ability of guarantors to repay for borrowers and the validity of the guarantee.

(iii) *Assessment of collateral*

For loans with collateral, the value of collateral is usually required to be evaluated by independent appraisers. While different loan-to-value ratios will apply to loans secured by collateral based on the type and the specific condition of such collateral, the ratio should not generally exceed the maximum loan-to-value ratio for such type of collateral. Set out below are the loan-to-value ratios for major types of collateral:

Major types of collateral	**Maximum loan-to-value ratio**
Land use right mortgage (assignment)	70%
Real estate	40%-60%
Machinery and equipment	30%-40%
Certificates of deposits, treasury bonds, financial bonds	80%-90%
Warehouse receipts, bill of lading	70%
Other rights (1)	40%-80%
Other movable assets	50%

Note:

(1) Mainly include other property rights that may be pledged pursuant to the laws and administrative regulations of the PRC, such as receivables, transferable fund shares and shareholder rights.

Where loans are to be guaranteed by a third party with joint and several liability, the Bank conducts an assessment of the guarantor's financial status, credit records and ability to repay for borrowers.

Credit Examination and Approval

Approval Authority

The Bank's Credit Approval Departments are independent from the Bank's business operation units. The examination and approval of credit follow the principles of objectivity and impartiality and opinions as to decision-making are given independently without any interference from internal or external factors. All credit projects are handled in conformity with the stipulations set by the Bank with respect to the investigation and granting of credit and the processes for examination and approval.

The Bank's normal-risk corporate loans are examined and approved by the Bank's authorised approval authorities and personnel, including the Bank's head office's Credit Approval Committee and Credit Approval Department, the Chief Risk Officer of the SME Business Department of the Bank's head office, the Chief Risk Officers of the branches, the general manager of the Risk Management Department of the branches as well as the heads of branch-level SME credit management centres and other authorised personnel, in each case according to the particular authorities granted to them. The Bank's low-risk corporate loans are examined and approved by authorised examination and approval officers in various business lines.

Examination and Approval Process

(i) Normal-risk corporate credit business

Generally, the credit approval process includes the following stages of review and approval:

(1) the customer relationship manager completes a credit investigation report and, upon approval from the persons in charge of the relevant operational units, submits the report to the branch risk manager for review and issuance of a review report;

(2) upon review by the branch-level risk manager, any matter within the authority of the general manager of the branch-level Risk Management Department will be sent to him/her for review and approval. The general manager of the branch-level Risk Management Department directly issues rejections of credit applications and sends accepted applications to the head of the branch-level corporate banking business, who holds veto power, for review and as part of the dual approval process. The head of the branch-level corporate banking business then signs his or her opinion and issues the decision;

(3) upon review by the branch-level risk manager, any matter that exceeds the authority of the general manager of the branch-level Risk Management Department must be submitted as a separate review report to the branch-level Credit Review Committee for comments (certain applications are not subject to this review process and can be directly submitted to branch-level risk officer). Credit applications not approved by the Credit Review Committee are submitted to the Chief Risk Officer, who then issues the rejections. Credit applications that have been reviewed and approved by the Credit Review Committee are submitted to the branch's Chief Risk Officer for approval within the limits of his authority as part of the dual approval process, and then submitted to the branch head, who holds veto power, for review and approval; and

(4) credit applications accepted by the Chief Risk Officer but that exceed the Chief Risk Officer's approval authority may only be submitted to the Bank's head office if the branch head signs a written consent. All credit applications submitted to the head office by the branches and relevant departments of the head office are initially examined for preliminary approval by a junior examination officer of the Credit Approval Department, and then submitted to the competent higher-level review officer or institution for final approval. In accordance with the different features of credit applications, such applications may be approved by meetings or by authorised officers of the Credit Approval Department of the Bank's head office.

(ii) Examination and approval of credit applications from SMEs

For the Bank's SME customers, the approval process generally follows the above process for credit applications. However, an SME applicant of a tier-one branch shall also undergo credit investigation by the SME credit management centre of the Risk Management Department of that branch, followed by a report issued on the investigation. Any applications approved at this stage will then be examined for approval by the head of the branch-level SME credit management centre, unless such approval would exceed his authority, in which case the application will be referred to the general manager of the branch-level Risk Management Department or the branch-level Chief Risk Officer for examination and approval within the limits of his authority. An application which has been approved by the head of the branch-level SME credit management centre within the limits of his authority will then require the issuance of a signed opinion from the general manager of the SME Business Department, who holds a veto right.

For tier-two branches, cross-city sub-branches and county-level sub-branches that have a Chief Risk Officer, an application by an SME customer must be investigated by the risk manager of the branch or sub-branch and then submitted to the Chief Risk Officer of the branch or sub-branch for examination and approval within the limits of his authority. Where the approval of an application requires higher authority, the application will be referred to the tier-one branch Chief Risk Officer for examination and approval within the limits of his authority.

Since 2012, the Bank has implemented various measures in order to proactively address potential risks in connection with the downturn in macroeconomic conditions, as well as strengthen the Bank's risk management and improve asset quality. First, the Bank implemented improved business modelling and improved risk mitigation functions. Second, the Bank strengthened its risk monitoring system and conducted real-time surveillance and on-site examinations. Third, the Bank maintained monitoring of risks associated with SMEs, enhanced monitoring of customers with NPL and increased the Bank's clearing and recovery efforts.

(iii) LGFV credit business

For the Bank's LGFV credit business, the Bank has implemented a risk management system that governs the whole process of the extension of such credit by adhering to commercial principles and by standardising the Bank's operations. In conducting risk assessments to ensure that the borrowers (particularly with respect to new loans) meet the Bank's credit standards, the Bank takes into account the overall solvency of the LGFVs and their debt servicing ability so as to prudently evaluate the risks associated with granting loans to such entities, including collateral risk and maturity risk. In the post-disbursement stage, the Bank continuously monitors factors that may affect repayment and the Bank uses a comprehensive early warning system to identify, categorise, report and address maturity risk. The Bank has developed rating tools that classify the underlying risks of loans to such entities in a more accurate and objective manner and analytical tools to strengthen maturity risk analysis and monitoring.

CBRC requires PRC banks to classify LGFV loans in accordance with the level of cash flow coverage, which refers to a borrower's cash flow divided by the total loan principal and the interest incurred. As at 31 December 2017, the cash flow of the majority of the Bank's LGFV borrowers was sufficient to cover 100 per cent. (or above) of the principal and the interest incurred. The remaining loans were secured by valid guarantees or collaterals or those originated from economically developed regions equivalent to or above the prefectural level.

(iv) Corporate real estate loan business

The Bank requires the implementation of credit life cycle process management for the Bank's corporate real estate loan business, which means that the Bank focuses on mid-to high-end customers and have put in place a specialised and centralised management system for the Bank's entire corporate real estate loan business. The Bank has established the real estate finance centre under the Corporate Banking Department of the Bank's head office, which is responsible for coordinating the Bank's corporate real estate loan operations and reviewing relevant project proposals. The Credit Approval Committee of the Bank's head office, the real estate credit approval centre of the Credit Approval Department and the Chief Risk Officers at the branch level are authorised to carry out the examination and approval of loan applications. After credit extension, the Bank requires that the utilisation of credit match the construction progress of a real estate development project. During the post-disbursement stage, the Bank requires that management, control and risk investigation for loans be strengthened by strictly monitoring the source of funds for repayment and conducting regular reappraisals of the value of collateral and pledged assets. Since 2008, the Bank has been conducting special stress tests on real estate loans and loans granted to industries related to real estate and developing risk measurement tools for loans granted to industries related to real estate.

(v) Low-risk corporate credit business

The Bank's low-risk corporate credit business is conducted through a special credit approval process, and applications are examined and approved by authorised approval officers from the corporate banking business line within the limits of their authority. Low-risk corporate credit applicants are required to fulfil the following conditions: (1) the collateral and pledged assets are cash-equivalent assets or guarantees provided by financial institutions recognised by the Bank; (2) the security provided can discharge in full the obligations relating to the Bank's creditor's rights (including principal, interest and service fees); and (3) the security is not legally defective and there is no associated policy risk.

Opening of Credit Lines and Post-disbursement Management

Opening of Credit Lines

The opening of credit lines involves fulfilling prerequisites for the granting of credit, entering into relevant contracts, loan reviews and making necessary accounting entries. After a credit application is approved, a credit line can be opened only after a disbursement approval centre at the branch level has determined upon examination that the prerequisites for the granting of credit have been fulfilled, the credit contract has been signed by an authorised person, the relevant legal procedures have been completed and the validity of any security has been confirmed. Substantially all of the Bank's credit contracts are in the standard form prescribed by the Bank's Legal and Compliance Department, and those that are not are subject to approval by the Bank's Legal and Compliance Department.

Post-disbursement Management

The Bank has established a post-disbursement management system with defined responsibilities and standardised methods to continuously monitor factors that may affect repayment. The Bank conducts off-site and on-site inspections and applies risk modelling techniques on the basis of the Bank's experience in order to detect the potential risks associated with a specific borrower, issue early warnings and adopt remedial measures. Customer relationship managers are responsible for the day-to-day credit check on the operating conditions and use of credit by their respective borrowers, so as to detect any signs of potential credit default and to adopt risk mitigation measures as soon as possible. Risk monitoring centres of the Risk Management/Credit Management Departments at the branch level are responsible for post-disbursement organisation, supervision, guidance, inspection and reporting. The Bank emphasises monitoring factors that may have a negative impact on the ability of borrowers to make repayment, mainly including (i) the operating and overall credit risk status of a borrower, including its receivables and inventory, changes in operating cash flow and unusual cash outflows; (ii) the status of projects into which loans are injected; and (iii) the condition of assets collateralised or pledged as security for credit, as well as the condition of guarantors.

Early Warning

Following the principles of prompt reporting and quick response, the Bank has established a comprehensive early warning system that sets out early warning processes, including identification, categorisation, verification, reporting, handling and cancellation. The Bank has three types of early warnings based on their degree of urgency and have designed action plans to deal with different types of early warnings so that business units are able to take the necessary measures to deal with risks promptly. The Bank's head office maintains a Risk Management Committee, and each branch has early warning committees, which coordinate the early warning work of the Bank's head office and the branches, respectively. The Bank's head office's Risk Management Committee and the branch-level early warning committees are responsible for early warning management at their respective levels and hold regular meetings to review the status of systematic risk and individual risk in order to deal with early warning signals promptly and to assess the results of response measures.

Loan Classification and Provision of Reserve

In 1999, in accordance with the requirements of regulatory authorities, the Bank started to apply a five-category loan classification system. The Bank carries out loan classification and makes provisions for losses in accordance with the relevant requirements of PRC regulations as well as the requirements of PRC and international accounting standards.

The classification of loan risks and estimation of expected losses are carried out at different levels. Customer relationship managers are responsible for the preliminary classification of risks as well as for estimating the losses of NPL, the results of both of which are then subject to review by risk managers. At the credit application stage, reports are submitted to the upper level following credit granting procedure to obtain determination from the relevant examination and approval institutions, and the scope of authority for determination is the same as the scope of authority for examination and approval. For the day-to-day management of existing credit, the Bank's head office Credit Management Departments, Chief Risk Officers at the branch level and branch risk managers make the final determination within the limits of their authority.

At the beginning of 2007, on the basis of the Bank's existing five-category classification system and internal rating-based approach, the Bank adopted a 12-category loan classification system that refined the Bank's loan classification in accordance with the default risks of a corporate borrower and facility risk arising from the loan. Based on the varying degrees of credit asset risk, the Bank's 12-category loan classification further expands the "normal" grade under the original five-category loan classification system into seven grades, which are expressed from P1 to P7. The original "special mention" class is further broken down into two grades, which are expressed by SM1 and SM2. Loans under "sub-standard", "doubtful", and "loss" classes remain unchanged and are collectively referred to as non-performing credit assets.

The following table illustrates the Bank's five-category and 12-category loan classification systems:

12-Category Loan Classification	**Names under the Five Category Classification**	**Names under the 12-Category Loan Classification**
1	Normal	Grade 1 Pass (P1)
2	Normal	Grade 2 Pass (P2)
3	Normal	Grade 3 Pass (P3)
4	Normal	Grade 4 Pass (P4)
5	Normal	Grade 5 Pass (P5)
6	Normal	Grade 6 Pass (P6)
7	Normal	Grade 7 Pass (P7)
8	Special Mention	Grade 1 Special Mention (SM1)
9	Special Mention	Grade 2 Special Mention (SM2)
10	Sub-standard	Sub-standard (SS)
11	Doubtful	Doubtful (DF)
12	Loss	Loss (LS)

Through this loan classification system, the Bank classifies corporate loans on the basis of both quantitative and qualitative factors by analysing the default risk of a corporate borrower and facility risk arising from the loan and considering the estimated impairment losses.

The Bank's loan classification system is designed to help the Bank to better monitor changes in the Bank's asset quality, detect potential credit risks and more effectively conduct post-disbursement management of the Bank's loan portfolio. The Bank believes that this system has helped the Bank strengthen its loan monitoring capabilities.

The Bank makes provision for losses arising from different types of its corporate credit assets in two ways: individually assessed provisions and collectively assessed provisions. Loss estimation is carried out on an individual basis for non-performing credit assets, whereas collective loss provisions are applied to credit assets classified as "normal" and "special mention".

Termination of loans to potential high-risk customers

The Bank has established an exit management mechanism for potential high-risk customers in order to optimise the Bank's portfolio of borrowers and prevent potential risks from materialising. Potential high-risk customers are those who are expected to suffer an adverse impact on their repayment ability or to experience adverse changes in their financial condition. For such customers, the Bank normally reduces credit limits, terminates credit lines, ceases the renewal of credit facilities and requests the provision of additional risk mitigation and other measures in accordance with the relevant provisions of their respective loan contracts.

NPL Management

The Bank proactively manages NPL to reduce the associated risks to its loan portfolio, promptly write off doubtful debts and improve its recovery on disposals.

The Non-performing Asset Disposal Committees at the Bank's head office and branch level are responsible for managing and recovering the Bank's NPL. They are also responsible for approving disposal and recovery plans for non-performing assets, including asset restructuring, settlement of loans by taking collateral, write-off of loans and other related issues. Steps taken for the recovery of NPL mainly include collection, foreclosure on collateral, legal proceedings, reduction or waiver of interest, loan restructuring, write-offs and collection by third parties.

Credit Risk Management for Retail Credit Business (Excluding Credit Cards)

Acceptance of Credit Applications and Credit Investigation

When handling a new business, a customer relationship manager of the Bank's retail credit business is required to have a face-to-face interview with the credit applicant, and all documents must be signed by the applicant in the presence of the manager. The applicant will be requested to sign an application form and provide his or her identity card, proof of income, transaction contracts, certification of ownership of assets collateralised or pledged as security, a written undertaking from the guarantor (if any) and materials proving the guarantor's creditworthiness. The Bank mainly relies on income, credit history and loan repayment ability to assess the applicant.

The Bank's retail credit business customer relationship managers are responsible for assessing retail credit applicants and completing the reporting materials required for approval. The assessment mainly focuses on the credit risk of the applicant and the valuation of the loan collateral. The Bank conducts its credit investigations through on-site investigations, telephone interview and information inquiries as well as through other channels and methods to verify the authenticity of loan-related information. For mortgage loans that are doubtful or that are particularly large, customer relationship managers may take additional verification steps by making "home visits". The appraisal of the collateral for retail loans is similar to the appraisal of the collateral for corporate loans. In the case of secured loans, the Bank usually requests an independent appraiser approved by it to appraise the security provided.

On the basis of the results of inquiries made with the personal credit database of PBOC, and in light of the results of the assessment of the applicant's risk profile and the risk mitigation factors, retail customer relationship managers will prepare reporting materials for approval.

Credit Approval

The Bank's retail credit approval is carried out by branch Chief Risk Officers or persons authorised by them within the limits of their authority, except for high-risk retail credit business applicants, which must go through panel examination and approval. The Bank's retail credit business is mainly approved by authorised individuals.

Loan Disbursement and Post-disbursement Management

After the loan applications of individual customers are approved, the authorised signatory of the Bank's business units, the borrower and the guarantor (if any), jointly enter into retail loan contracts and a disbursement will be made after the loan prerequisites are satisfied. In the Bank's retail loan monitoring, the Bank focuses on the repayment ability of the borrower and the status of assets collateralised or pledged as security and any change in their value. The Bank adopts a five-category classification for retail loans by reference to the risks associated with the loans.

Once a loan becomes overdue, the customer relationship manager or specific collectors will, in the context of the individual circumstances leading to the overdue balance and the accompanying risks, demand repayment through various actions, including the use of telephone, e-mail, letters and home visits.

Based on the actual conditions of non-performing retail loans, repayment will be demanded from the borrowers and guarantors by one or several of the following ways: collection, litigation, appointment of factoring agents or repayment of loans by assets.

Credit Card Risk Management

Identification of Credit Risk

The Credit Card Centre imposes different criteria for credit cards granted to different types of customers, making full use of risk measurement methods such as application grading models, behaviour assessment models, initial credit line models and dynamic management of credit lines so as to manage credit card risk in a quantitative manner, which enables the Bank to carry out differential management of customers with differing risk profiles and income statuses. On this basis, the Bank decides whether a card should be issued and, if so, what type of card should be issued and what credit limit should be granted. The Bank's Credit Card Centre has completed building the Internal Assessment System, and is now using the measurement methods under Basel II to monitor changes in asset quality.

The Bank's Credit Card Centre has set up a specialised risk data analysis team, which pays close attention to the macroeconomic development of the PRC as well as the development of the credit card business in the banking industry. Furthermore, based on the requirements of the Bank's business, the Bank collects information relating to credit risk control measures of other banks through a number of channels and provide such information to risk policy-makers for their reference. Based on the Bank's business planning and risk management targets, the Bank adjusts its credit card policy in line with the current forecast of the credit card business in a timely manner.

The Bank investigates and identifies potential customer credit risks through a number of channels, including making full use of internal and external credit investigation means such as the Bank's credit card blacklist system, the personal credit information database of PBOC, the identity verification system of the Ministry of Public Security, China UnionPay's risk information sharing system and the industry-wide risk information sharing system.

Credit Risk Control System

The Credit Card Centre has established the Risk Management Department, Credit Approval Department, Collection Management Department, Strategy Research Department and other departments so as to strengthen the exchange and coordination of information related to risk prevention. The Bank updates guidelines for the examination and approval of credit card applications every year. The guidelines set out the Bank's risk management guiding principles, classify the clients into different types, namely supported, restricted and prohibited, and clarify the approval process for special cases. The Bank has developed its own examination and approval management system, online credit limit adjustment system, electronic debt collection system and operational risk reporting system. In addition, the Bank has carried out operational risk and control self-assessment (RCSA) for the purpose of identifying risks and refining the Bank's internal controls. The Credit Card Centre has introduced the TRIAD customer management system which aims to improve the Bank's customer satisfaction through effective allocation of resources under the Bank's customer credit line management and behaviour management, while controlling risk.

Since 2012, the Bank has made persistent efforts to improve its risk management methods. The Bank deploys differentiated risk management strategies that account for client attributes and transaction behaviour, which allows the Bank to focus on its large number of customers while also refining its credit card risk management. Meanwhile, the Bank optimised its internal ratings system based on Basel II through the Bank's re-examination algorithms, which make adjustments for the probability of default and changes in economic conditions.

Credit Risk Management for Financial Institution Credit Business

The Bank's financial institution credit business primarily includes (i) investments in domestic financial bonds and other quoted securities, financial institution placements and borrowing, and trading of derivatives and (ii) investments in overseas negotiable instruments and overseas financial institution placements. The Bank sets up credit limits with respect to countries, regions and domestic and overseas counterparties. Such limits are subject to the approval of the Credit Approval Department and the Credit Approval Committee of the Bank's head office within their respective limits of authority.

Credit Risk Management System

The Bank's credit risk management systems include the Bank's corporate credit risk management system, retail credit risk management system and financial institution credit risk management system.

The Bank's corporate credit risk management system allows for the electronic handling and streamlining of the credit granting process, from credit application, review and approval to disbursement approval and post-disbursement management. The Bank pursues the continued development of its corporate loan risk management system to enhance its functions. In particular, by targeting credit extensions to micro-enterprises, the Bank has developed an electronic procedure and risk model catering to the characteristics of micro-enterprises in the Bank's risk management system, which provide systemic support for the whole procedure, including risk identification, measurement, monitoring, mitigation and control.

The Bank's retail credit risk management system is a comprehensive retail loan risk management system, which comprises an analysis modelling software, decision-making engines, process management and numerous relevant data sets, which are key to the establishment of a comprehensive risk management system for the Bank. The entire retail credit management process can be managed through this electronic system, which includes loan applications, on-line approval, loan disbursement and post-disbursement management.

The Bank's financial institution credit risk management system facilitates the process of information collection and credit applications, customer rating, credit approvals, disbursement and post-disbursement monitoring in relation to financial institutions.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk where although a bank is solvent, it may be unable to obtain sufficient funds in a timely manner or at a reasonable cost, to cope with asset growth or settle due and payable debts. Most of the funds held by the Bank come from the deposits of the Bank's customers. In recent years, the Bank's customers' deposits have grown in quantity and diversified in types and term length. Based on an estimation of the Bank's future cash flow, the Bank takes action to maintain an appropriate percentage of liquid assets.

The Bank's Asset and Liability Management Committee is responsible for managing the Bank's overall liquidity. The Asset and Liability Management Committee, with the Bank's President as its chairman, is responsible for formulating policies relating to liquidity based on relevant regulatory requirements and the principle of prudence. The objectives of the Bank's liquidity policies are as follows:

- to maintain the Bank's liquidity at a stable and sufficient level and to ensure that the Bank is in a position to fulfil payment obligations in a timely manner and meet its liquidity demands relating to its assets, liabilities and off-balance sheet operations, both in the case of normal business operations and in stressed circumstances, by setting up a methodical and comprehensive liquidity risk management system; and
- to make reasonable and timely adjustments to the scale and structure of the Bank's assets and liabilities based on market changes and business development and to pursue the maximisation of profits and the minimisation of costs in order to maintain an appropriate level of liquidity with an aim to ensure the "safety, liquidity and efficiency" of the Bank's capital.

The Bank's Planning and Finance Department is responsible for the daily management of the Bank's liquidity risk and for formulating and timely revising the Bank's liquidity risk management strategies. It is also responsible for the identification, measurement, monitoring and reduction of bank-wide liquidity risk. The Bank's Treasury Department is responsible for the day-to-day position management and forecasts and for maintaining the Bank's highly liquid asset portfolio at an appropriate level based on the Bank's liquidity risk management strategies. In the event of a material incident relating to payment obligations or any structural change, timely reports as well as recommendations must be given to the Asset and Liability Management Committee.

The Bank mainly adopts a liquidity gap analysis to measure liquidity risk and adopts different scenario analysis and stress tests to assess the impact created by the relevant liquidity risk. While the Bank reduces its liquidity risk by term matching, diversification of liabilities and other on-balance sheet business adjustments in light of internal transfer pricing and external pricing, the Bank also attempts to adjust for any liquidity shortfall by making use of monetary swaps and other financial derivatives.

MARKET RISK MANAGEMENT

Market risk means the risk of losses to the Bank's businesses resulting from an adverse movement of market prices, including interest rates, exchange rates, commodity prices and stock prices.

The Board of Directors bears ultimate responsibility for monitoring and managing the Bank's exposure to market risk to ensure that the Bank can effectively identify, measure, monitor and control the different types of market risk to which the Bank's businesses are exposed. The Risk Management Committee of the Board of Directors is responsible for monitoring market risk management within its limit of authority delegated by the Board of Directors and reviewing the Bank's strategies, policies and procedures relating to market risk management together with relevant proposals on the acceptable market risk level put forward by senior management. Most of the market risks to which the Bank is exposed in its business operations and development are concentrated in the Bank's treasury management, including (i) money market activities, (ii) investment portfolio management and (iii) treasury transactions on behalf of customers. The Planning and Finance Department is responsible for the day-to-day monitoring and management of the underlying interest rate risk and foreign exchange risk of banking books. The Risk Management Department is responsible for establishing and improving the Bank's market risk management system, formulating market risk management policies and identifying, monitoring and reporting the Bank's market risk exposure.

In accordance with the requirements of regulatory authorities and the general practices of the banking industry, the Bank divides its on and off-balance sheet assets into two categories: trading books and banking books. Based on the nature and characteristics of the relevant accounts, the Bank adopts methods to identify, measure, monitor and control market risk. Trading books refer to the financial instruments and commodities positions that could be traded freely. Banking books represent business other than trading books. The Bank primarily measures and monitors the market risk associated with trading books through sensitivity indicators, scenario analysis and foreign exchange exposure analysis. The Bank measures and monitors the market risk associated with banking books through sensitivity gap analysis, stress tests and effective duration analysis.

The Bank aims to effectively identify, measure and monitor factors relating to market risk. In order to ensure that the market risk the Bank assumes is within its risk tolerance, the Bank has established a tiered cap system for market risk management. The first tier sets a cap on the level of overall market risk exposure deemed acceptable to the Bank. The second tier sets exposure caps on both interest rate and exchange rate risk. Third- and fourth-tier caps are business- and product-type specific. To ensure the implementation of the Bank's tiered cap system, the Bank has implemented a suite of cap management procedures, covering application, approval, monitoring, early warning, reporting and action plans with respect to such caps.

In order to further enhance the Bank's trading and market risk management ability, the Bank has established a comprehensive market risk management system. The main functions of this system include front, middle and back-office monitoring and processing of treasury transactions. The system also provides a specialised platform for trading and market risk management. At the same time, the Bank has also introduced a Value-at-Risk (VaR) measurement model in order to enhance the Bank's ability to measure and manage market risk to prepare for the Bank's implementation of Basel II.

Interest Rate Risk Management

The Bank's interest rate risk mainly relates to the repricing risk in the Bank's commercial banking business and the risk of the Bank's treasury position. The objectives of the Bank's interest rate risk management are to develop measures to monitor and control interest rate risk, to establish proper mechanisms to measure, analyse and follow up on changes of such risk and to take appropriate steps before escalation of interest rate risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of interest rate risk and to safeguard the safety, liquidity and profitability of the Bank's business operations.

The Bank has adopted an interest rate risk management policy that serves as the foundation for the Bank's bank account interest rate risk management mechanisms and strategies. The Bank actively explores and improves its interest rate risk management mechanisms, and endeavours to establish an appropriate asset-liability pricing mechanism by using a fund transfer pricing system, with a focus on profit. The Bank has also improved and upgraded its assets and liabilities management system and improved the relevance of system applications towards interest rate risk management.

In the Bank's interest rate risk management, the Bank has taken steps in conducting active management of assets and liabilities, and applying the results of gap analysis of asset-liability management to the adjustment of portfolios and the control of liability costs so as to increase the Bank's bank-wide net interest margin.

The Bank assesses the interest rate risk relating to banking books mainly through repricing gap analysis and net profit and interest income simulation analysis. The Bank regularly monitors the position of the gap and conducts stress tests by using gap data. On this basis, the Bank adjusts repricing term structures of interest-earning assets and interest-bearing liabilities and uses derivatives to hedge against interest rate risk. At the same time, the Bank closely monitors the movement of interest rates of local and foreign currencies, and, in line with changes in market interest rates, adjusts the Bank's interest rates for deposits and loans denominated in both local and foreign currencies so as to mitigate interest rate risk.

With respect to the Bank's financial market business, the Bank adopts such techniques as duration and present value per basis point to measure interest rate risk, and applies stress tests and scenario analysis to monitor and control risks.

Exchange Rate Risk Management

The Bank's exchange rate risk primarily arises from the proprietary foreign currency portfolio within the Treasury Department's proprietary investments, and other foreign currency transactions. The objectives of the Bank's exchange rate risk management are to develop measures to monitor and control exchange rate risk, to establish proper mechanisms to measure, analyse and follow up on changes in such risk and to take appropriate steps before escalation of exchange rate risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of exchange rate risk and to safeguard the safety, liquidity and profitability of the Bank's business operations. The Bank's exchange rate risk is reflected in the mismatch of the currencies in which the Bank's assets and liabilities are denominated and the possible adverse impact of exchange rate fluctuation on the Bank's profit and capital in foreign currencies.

The Bank has adopted exchange rate risk management measures across the Bank to centralise the management of exchange risks related to the Bank's account. The Bank endeavours to match relevant foreign currency assets with liabilities and controls the exchange risks by making available and utilising various currency sources. The Bank strictly controls risk exposure in foreign exchange settlement and sales and takes measures to improve the position-closing method for foreign exchange settlement and sales. The Bank also implements a "multiple price quotations per day" mechanism to reduce exchange risk. The Bank actively researches, designs and develops various derivative financial instruments and innovative financial products, aiming at managing exchange rate risk by utilising appropriate financial instruments.

OPERATIONAL RISK MANAGEMENT

Operational risk represents the risk of loss associated with deficiencies and failures of internal processes, personnel and information systems, or external events. The operational risk that the Bank faces primarily includes, among others, internal and external fraud, damage to tangible property, disruptions to the Bank's operations or information technology system and problems associated with transaction settlement as well as business processes management. Operational risk also includes legal risk but does not include strategic or reputational risk.

The Bank's operational risk management aims to control operational risk within an acceptable range, to increase service efficiency and optimise work flow, to lower management costs and increase profitability, to reduce the impact of contingencies and to ensure the normal and continuous operation of the Bank's business.

The Bank has established a hierarchical operational risk management structure, operating under the guidance of the operational risk management policies formulated by the board and implemented by the Bank's senior management, with three lines of defence. The Board of Directors is ultimately responsible for operational risk management. The Bank's senior management actively leads the relevant initiatives; branch-level management teams are responsible for operational risk management at their respective branches, with branch heads having ultimate responsibility at branch level.

Business units and functional departments constitute the first line of defence to safeguard against operational risk, directly bearing and managing the operational risk of their own departments or lines and assuming primary responsibility for operational risk management. The Risk Management Department and Legal and Compliance Department constitute the second line of defence to safeguard against operational risk, and are responsible for establishing an operational risk management framework and guarding, supporting and monitoring the implementation of the Bank's operational risk management at all levels. The Internal Audit Departments and Discipline and Inspection Departments constitute the third line of defence against operational risk. The Internal Audit Departments are responsible for auditing the implementation of the Bank's operational risk management system across the Bank and reporting related issues to the senior management and the Audit Committee of the Board of Directors, and the Discipline and Inspection Departments carry out investigations and culpability verifications and ensure that the relevant individuals are held accountable for any operational issues identified.

The Bank has preliminarily established an operational risk identification and assessment system, which is based on operational risk and control self-assessment (RCSA), supplemented by an operational risk event reporting system and key operational risk indicators and supported by internal audit and compliance assessments. Under the hierarchical management of operational risk, different business lines or business departments are responsible for applying the relevant tools to identify, assess and control operational risk and adopt appropriate risk management measures.

The Bank has implemented the operational risk and control self-assessment (RCSA) process and has incorporated this into the daily work of the Bank's business lines, branches and sub-branches. The RCSA is implemented by the institute or department that assumes direct responsibility for operational risk for the purpose of internally assessing operational risks and effectiveness of control in accordance with the principles of operational risk management.

The Bank has established an operational risk reporting system whereby various business lines and various branches and sub-branches are required to report on operational risk events in accordance with the predetermined reporting scope, route and format. The operational risk reporting system helps to pinpoint weak links in operational risk control by identifying the spread of losses, and can be used to verify the results of operational risk control self-assessment so as to evaluate the quality of the RCSA.

The Bank has set up a key risk indicator (KRI) system for operational risk, which covers the Bank's main risk categories and key product groups. By continuously monitoring key risk indicators, the Bank aims to keep abreast of changes in its operational risk exposure and to enhance the Bank's adaptable supervision capabilities so as to actively manage operational risk and be able to issue early warnings prior to the occurrence of potential operational risk incidents.

COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of legal sanctions, regulatory penalties, material financial losses, or reputational damage to a commercial bank resulting from the failure to comply with applicable laws and regulations as well as relevant industry standards. Compliance risk management is an important part of the Bank's overall risk management and the Bank has accordingly placed strong emphasis on compliance risk management throughout the Bank's internal control structure and procedures. The Board of Directors is ultimately responsible for matters relating to compliance risk and the Legal and Compliance Departments at both the Bank's head office and at the branch level take responsibility for coordinating bank-wide compliance risk management, including the implementation of an integrated and coordinated compliance risk management system and the adoption of tracking and monitoring measures. The Bank continuously provides effective guidance, monitoring, alerts, identification and assessment with respect to compliance risk, and actively promotes systematic compliance management.

CAPITAL MANAGEMENT UNDER COMPREHENSIVE RISK MANAGEMENT

The Bank believes it has an established capital management system and promotes organic integration between the Bank's capital management, risk management and assets and liabilities management units. The Bank also strengthened its valued-based portfolio management system to enhance its systematic risk management capability.

The Bank's capital management organisational structure encompasses the board, supervisory committee and senior management. The Bank emphasises efficiency in the Bank's capital management by using RAROC (Risk-Adjusted Return On Capital) /EVA (Economic Value Added) indicators as guidance. The Bank also utilised a number of tools in its capital management, such as (i) advanced audit mechanisms, (ii) a multi-tiered capital management and internal capital adequacy assessment programme (ICAAP) and (iii) a risk-weighted assets system at the accounting level (including standard and advanced methods for capital measurement).

Anti-Money Laundering

In accordance with relevant legal and regulatory requirements on anti-money laundering, the Bank has formulated rules, regulations and policies for the monitoring, reporting and managing of money laundering risk, which are reviewed on an annual basis and revised as necessary to satisfy the Bank's own risk management requirements and those of relevant regulators.

The Bank carries out anti-money laundering training by internal or third-party consultants to increase the awareness among the Bank's staff of money laundering risks. The Bank has established an anti-money laundering leading team and an anti-money laundering work office. The anti-money laundering leading team is responsible for spearheading the Bank's bank-wide anti-money laundering initiatives, formulating and overseeing the implementation of relevant laws and regulatory rules on the identification and handling of large transactions and suspicious transactions. It is comprised of the respective heads of the Legal and Compliance Department, Operation Management Department, Transaction Banking Department, Corporate Banking Department and other related departments. Each such department bears management responsibility for anti-money laundering activities in accordance with its authority. The anti-money laundering work office is within the Legal and Compliance Department, and is responsible for the day-to-day bank-wide management of money laundering risk and coordinating the reporting of anti-money laundering work of relevant departments, and the consolidation and reporting of the data of large transactions and suspicious transactions.

INTERNAL CONTROL

The Bank continues to enhance its internal control functions and its corporate governance and strives to achieve the best practice standards of the banking industry.

The Bank maintains a three-tiered internal control management system, which consists of the decision-making level, the implementation level and the supervision and evaluation level.

Decision-making Level

The Board of Directors has ultimate decision-making authority and is mainly responsible for deciding the Bank's internal control strategy and making the most significant business decisions. The Board of Directors is also responsible for reviewing the internal control reports submitted by the Bank's senior management, auditors and regulators, conducting all overall assessment of the integrity and effectiveness of the bank-wide internal control system, and supervising senior management to carry out continuous improvement and refinement of the Bank's internal control system.

Implementation Level

The Bank's senior management is supervised by the Board of Supervisors and is responsible for: (i) implementing the various strategies, policies, systems and procedures approved by the Board of Directors; (ii) establishing an organisational structure with specific authorisation and duties as well as clear reporting lines; (iii) setting up a procedure for identifying, measuring and managing risks; developing and implementing sound and effective internal control measures; and (iv) adopting measures to rectify any existing internal control deficiencies.

The special committees under senior management, including, among others, the Risk Management Committee, the Asset and Liability Management Committee and the Internal Control and Compliance Early Warning Committee, are responsible for internal control and risk management within their respective limits of authority.

Business departments in the Bank's head office are responsible for departmental internal control matters, including the implementation of internal control policies and procedures, identification and management of internal control deficiencies and timely reporting on their internal control efforts to senior management.

Management at the branch level is responsible for branch-level internal control matters, including, at the request of senior management or the business departments of the Bank's head office, the formulation of specific detailed implementation rules and business procedures and the establishment and enhancement of internal control mechanisms.

Supervision and Evaluation Level

The Board of Supervisors is responsible for supervising the Bank's compliance with the relevant laws and regulations, as well as supervising the Board of Directors and senior management in their performance of their respective duties and inspecting and supervising the Bank in connection with matters relating to internal control. The Audit Department is responsible for carrying out audits, supervision and assessment of the Bank's business operations, internal control and risk profile across the Bank.

INTERNAL AUDIT

Pursuant to the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引) issued by CBRC, the Bank began to reform its internal audit system at the end of 2006. The Bank has put in place an independent vertical audit management system under which the Bank's audit functions are accountable to the Board of Directors and report to the Board of Directors, the Audit Committee of the Board of Directors and the Bank's senior management. The Bank has also implemented an internal audit organisational structure comprising the Audit Department of the Bank's head office and five audit centres. The Audit Department and the audit centres are independent of other business departments and branches.

They conduct their audit, supervision and assessment of matters relating to the business and operational management, internal control and risk profile across the Bank and supervise the audited authorities and departments to perform their duties by carrying out routine audits, special audits and audits into economic liabilities arising from existing and departing officers. The Audit Department is responsible for: (i) carrying out audits of the Bank's business operations, internal controls and risk profile across the Bank; (ii) making consistent efforts to improve review and supervision of the Bank's internal controls; and (iii) continuously strengthening the normalisation and standardisation of the Bank's internal control process, which has resulted in the quality and results of the Bank's audits improving continuously and promoted stable and healthy business operations across the Bank.

The Audit Department is responsible for auditing and assessing bank-wide operational activities, risk profile, internal control and corporate governance effectiveness; formulating the parameters for audit work and audit business systems across the Bank; formulating and organising the implementation of annual work plans; managing and giving guidance to the audit centres; and conducting audits of the line departments, key businesses of the Bank's head office and key branches.

Each regional audit centre is responsible for the implementation of annual work plans at the regional level and examining and assessing business operations, risk profile, internal control and corporate governance of branches within its region.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

Directors

The following table sets out certain information relating to the Bank's directors as at the date of this Offering Circular:

Name	Age	Position	Appointment Date
Mr. LI Xiaopeng.......................	60	Chairman of the Board of Directors, Non-executive Director and Secretary of Communist Party of China ("**CPC**") Committee	16 March 2018
Mr. WU Lijun...........................	55	Vice Chairman, Non-Executive Director	25 March 2020
Mr. LIU Jin	53	Executive Director, President, Deputy Secretary of CPC Committee	25 March 2020
Mr. LU Hong............................	56	Executive Director, Executive Vice President and of CPC Committee	10 October 2019
Mr. CAI Yunge.........................	48	Non-executive Director	9 May 2017
Mr. SHI Yongyan	51	Non-Executive Director	21 May 2018
Mr. WANG Xiaolin..................	57	Non-Executive Director	12 October 2018
Mr. DOU Hongquan	51	Non-Executive Director	10 October 2019
Mr. HE Haibin..........................	45	Non-Executive Director	21 May 2018
Mr. LIU Chong	50	Non-Executive Director	26 December 2019
Ms. YU Chunling.....................	53	Non-Executive Director	2 November 2019
Mr. XU Hongcai.......................	55	Independent Non-executive Director	11 February 2015
Mr. FENG Lun.........................	60	Independent Non-executive Director	11 February 2015
Mr. WANG Liguo	62	Independent Non-executive Director	10 January 2017
Mr. SHAO Ruiqing..................	62	Independent Non-executive Director	5 August 2019
Mr. HONG Yongmiao.............	56	Independent Non-executive Director	12 September 2019
Mr. LI Yinquan.........................	64	Independent Non-executive Director	11 June 2020

Mr. LI Xiaopeng, aged 60, joined the Company as Chairman of the Board of Directors in March 2018 and has served as Secretary of CPC Committee of the Company since December 2017. Currently, he is also the secretary of CPC Committee and chairman of China Everbright Group Ltd., honorary principal of Party School of China Everbright Group and Everbright University, chairman of the Board of Directors at China Everbright Group Holdings Limited, the honorary chairman of the Hong Kong Chinese Enterprises Association and vice president of China Tourism Association. He was member of CPC Committee and deputy general manager of Henan Provincial Branch of Industrial and Commercial Bank of China ("**ICBC**"), general manager of the Banking Department of the Head Office of ICBC, secretary of CPC Committee and general manager of Sichuan Provincial Branch of ICBC, member of CPC Committee and vice president of

China Huarong Asset Management Corporation, member of CPC Committee and assistant president of ICBC, secretary of CPC Committee and general manager of Beijing Municipal Branch of ICBC, member of CPC Committee, executive director and vice president of ICBC, deputy secretary of Secretary of CPC Committee and chairman of the Board of Supervisors of China Investment Corporation, and deputy secretary of CPC Committee, vice chairman and general manager of China Merchants Group. He was also chairman of ICBC International Holdings Limited, chairman of ICBC Financial Leasing Co., Ltd., chairman of ICBC Credit Suisse Asset Management Co., Ltd., vice chairman of China Merchants Bank, chairman of China Merchants Energy Shipping Co., Ltd., chairman of the Board of Directors of China Merchants Port Holdings Company Limited, chairman of China Merchants Huajian Highway Investment Co., Ltd., chairman of China Merchants Capital Investment Co., Ltd., chairman of China Merchants Joint Development Co., Ltd., and chairman of China Merchants Investment Development Company Limited. He is a graduate of Wuhan University with a Doctoral degree in Economics, and is a senior economist. Mr. Li is a member of the Committee for Economic Affairs of the Thirteenth Session of the CPPCC National Committee.

Mr. WU Lijun, aged 55, has served as Vice Chairman and Non-Executive Director of the Company since March 2020. He is currently Deputy Secretary of CPC Committee, Vice Chairman and General Manager of China Everbright Group Ltd. He served as the Deputy Director (Deputy Bureau Level) of the State Material Reserve Regulatory Centre of the Ministry of Domestic Trade, person in charge of the Information Centre, Deputy Director (Presiding) of the Training Centre, Director of the Personnel Education Department and Director of the Party Organisation Department of the China Securities Regulatory Commission. He also served as the member of the CPC Party Committee and Assistant Chairman of the China Securities Regulatory Commission, the Chairman of the Board of Directors and CPC Party Secretary (Deputy Minister Level) of the Shenzhen Stock Exchange. He obtained a doctorate degree in economics from Renmin University of China. He is a senior economist.

Mr. LIU Jin, aged 53, has served as Executive Director of the Bank since March 2020, President of the Bank since January 2020, and became Deputy Secretary of CPC Committee of the Bank in November 2019. He is currently Member of CPC Committee and Executive Director of China Everbright Group Ltd. He was Representative of the London Representative Office of ICBC, General Manager of the International Banking Department, Member of CPC Committee and Deputy General Manager of Shandong Branch of ICBC, Vice Chairman, Executive Director, General Manager of ICBC (Europe) and General Manager of ICBC Frankfurt Branch, General Manager of the Investment Banking Department of the Head Office, Secretary of CPC Committee and General Manager of Jiangsu Branch of ICBC, and member of CPC Committee and Vice President of China Development Bank. He graduated from Shandong University with a master's degree in English Language and Literature, and is a senior economist.

Mr. LU Hong, aged 56, has served as Executive Director of the Bank since October 2019, Vice President of the Bank since December 2010 and Member of CPC Committee of the Bank since March 2009. He joined the Bank in 1994 and successively served at various positions of the Bank, including Manager of the Securities Department, Division Chief in the Office of the Board of Directors, Assistant General Manager of the Planning and Treasury Department, General Manager of the Planning and Finance Department of Beijing Branch, Deputy General Manager of the Finance and Accounting Department, Deputy General Manager and General Manager of the Planning and Finance Department and Secretary to the Board of Directors of the Head Office. He was an engineer in the Planning Institute of the Ministry of Railways and Manager in the Investment Banking Department of Huaxia Securities Co., Ltd. He graduated from Shanghai Railway Institute and holds a master's degree in Railway Engineering and a Doctoral Degree in Applied Economics of Xi'an Jiaotong University. He holds a certificate of senior accountant.

Mr. CAI Yunge aged 48, has served as Director of the Company since May 2017. He currently serves as member of CPC Committee and deputy general manager of China Everbright Group Ltd., vice chairman and general manager of China Everbright Group Holdings Company Limited, executive director and chairman of the Board of Directors of China Everbright Limited, executive director and chairman of the Board of

Directors of China Everbright International Limited, and vice president of Hong Kong Chinese Enterprises Association. He was clerk of the Planning and Funding Department, deputy chief clerk of the Credit Management Department, and chief clerk of the Banking Supervision Department II at the People's Bank of China ("**PBOC**"); chief clerk and deputy division chief of the Supervision Department II, and division chief of the General Office of the CBRC; member of CPC Committee and deputy director of Guangdong Provincial Development and Reform Commission; and general manager of the General Office, director of the CPC Committee Office, member of CPC Committee (executive vice president level) and secretary to the Board of Directors of the Company. He graduated from the Research Institute of Finance of the PBOC. He holds a Doctoral degree and is a senior economist.

Mr. SHI Yongyan, aged 51, has served as Director of the Company since May 2018. Currently, he works at Central Huijin Investment Ltd., while serving as Director of China Everbright Group Ltd. He was deputy head of the AML Division of the Management and Inspection Department at State Administration of Foreign Exchange, deputy head and researcher of the General Affairs Division of the AML Bureau at PBOC, head of the Research Support Division of the Banking Department, head of the Research Support Division of the Banking Institution Management Department I, designated director of the Comprehensive Management Department/Banking Institution Management Department II at Central Huijin Investment Ltd. (designated to China Export & Credit Insurance Corporation), and member of Party Working Committee and deputy director (temporary) of the Management Committee of Lanzhou New Area in Gansu Province. He is a graduate of Peking University School of Economics, and holds a Doctoral degree in Economics from Nanyang Business School of Singapore Nanyang Technological University.

Mr. WANG Xiaolin, aged 57, has served as Director of the Company since October 2018. Currently, he works at Central Huijin Investment Ltd., while serving as director of China Everbright Group Ltd. He was deputy general manager of the Securities Management Headquarters at Shandong International Trust Co., Ltd., general manager assistant of Shandong High-Tech Investment Corp., head of the General Office at Shandong Lucion Investment Holdings Group Co., Ltd., secretary of CPC Committee and general manager of Shandong International Trust Co., Ltd., member of CPC Committee and deputy general manager at Shandong Lucion Investment Holdings Group Co., Ltd., deputy head (temporary) of the International Department at China Banking Regulatory Commission, and deputy secretary of CPC Committee and general manager of Shandong Development Investment Holding Group Co., Ltd. He is a graduate of School of Management of Fudan University majoring in Enterprise Management holding a master's degree in Economics, and is a senior economist.

Mr. DOU Hongquan, aged 51, is currently the Chairman of China Capital Management Co., Ltd. He was a deputy principal staff member and principal staff member of the Non-banking Department of the PBOC, a deputy divisional director, researcher and supervisor of chief level of the Supervisory Committee of State-owned Key Financial Institutions including China Everbright Group Ltd. and CITIC Group, a non-employee representative supervisor of the Supervisory Committee, a (secondment) inspection commissioner of the CPC Committee Inspection Office of CITIC Group, and the managing director of the office of China Securities Co., Ltd. Mr. Dou graduated from the Management Science Centre of Guanghua School of Management of Peking University and obtained the Master's degree in Science. He then obtained a Doctoral degree in Economics of the Research Institute of Finance of PBOC (majoring in Finance). He is a senior economist.

Mr. HE Haibin, aged 45, has served as Director of the Company since May 2018. Currently, he is standing member of CPC Committee, chief accountant, board secretary of Overseas Chinese Town Holdings Company, chairman of Shenzhen Overseas Chinese Town Capital Investment Management Co., Ltd., chairman of Overseas Chinese Town (HK) Company Limited, vice chairman of Huaneng Capital Services Co., Ltd., director of Konka Group Co., Ltd., and board chairman of Overseas Chinese Town (Asia) Holdings Limited. He was head of the Audit Department and the Financial Accounting Department of Overseas Chinese Town Holdings Company, chief financial officer of Overseas Chinese Town Seaview Hotel Limited, deputy head and head of the Financial Accounting Department of Overseas Chinese Town Holdings Company, and chief accountant of Shenzhen Overseas Chinese Town Co., Ltd. He is a graduate of Sun Yat-Sen University majoring in Accounting Audit, holds a master's degree in Accountancy from Chinese Academy of Fiscal Sciences of the Ministry of Finance, and is a senior accountant.

Mr. LIU Chong, aged 50, has served as a Non-Executive Director of the Company since December 2019. He currently serves as Member of CPC Committee and Managing Director of COSCO Shipping Development Co., Ltd., and concurrently as Vice Chairman of China International Marine Containers (Group) Ltd. and Non-Executive Director of China Cinda Asset Management Co., Ltd. He successively served as Deputy General Manager of China Shipping Investment Co., Ltd., Deputy General Manager of China Shipping Logistics Co., Ltd., Chief Accountant of China Shipping (Hainan) Haisheng Co., Ltd., Director of Capital Management Department of China Shipping (Group) Company, Chief Accountant of China Shipping Container Lines Co., Ltd., and General Manager of China Shipping Investment Co., Ltd. He graduated from Sun Yat-sen University majoring in economics and obtained a bachelor's degree in Economics. He is a senior accountant.

Ms. YU Chunling, aged 53, is currently the secretary of the CPC Committee, the vice chairman and general manager of China Re Asset Management Company Ltd. She had served as a deputy director of the Planning Office of the Comprehensive Planning Bureau, the director of the Comprehensive Office of the Investment Business Bureau, the director of the Operation Management Office of the Comprehensive Planning Bureau, a deputy director of Operation Centre, a deputy director of the Comprehensive Planning Bureau, the director of the Fund Bureau, the president of Tianjin Branch of the China Development Bank, and the deputy secretary of the CPC Committee of China Re Asset Management Company Ltd. Ms. Yu graduated from Chinese Academy of Fiscal Sciences of the Ministry of Finance majoring in finance and obtained a Doctoral degree in Economics. He is a senior accountant.

Mr. XU Hongcai, aged 55, has served as Independent Non-Executive Director of the Company since February 2015. He is currently an executive director of China Association of Policy Science, deputy officer and researcher of the Economic Policy Committee, and a visiting scholar of the University of British Columbia, Canada. He successively served as assistant engineer of China National Petrochemical Corp., a staff member at the Financial Claims Office of the Head Office of the PBOC, deputy general manager at Shanghai Office of GF Securities, vice president at Beijing Venture Capital Co., Ltd., professor of Capital University of Economics and Business and deputy chief economist of China Centre for International Economic Exchanges. He graduated from Renmin University of China with a master's degree in Philosophy, and then graduated from the Graduate School of Chinese Academy of Social Sciences with a Doctoral degree in Economics.

Mr. FENG Lun, aged 60, has served as Independent Non-Executive Director of the Bank since February 2015. He is Executive Director of Beijing Sifang Yufeng Investment Co., Ltd. He served as a lecturer of the Party School of the Central Committee of CPC, Deputy Department Director of the Research Institute of the State Economic System Reform Commission, Senior Vice President of the Research Centre of the Hainan Reform and Development Research Institute and Director of China Minsheng Banking Corp., Ltd. He founded the Vantone Group in 1991. He obtained a bachelor's degree in Economics from Northwest University, a master's degree in Law from the Party School of the Central Committee of CPC, a Doctorate degree in Law from the Graduate School of Chinese Academy of Social Sciences and a Master of Public Policy (MPP) degree from Lee Kuan Yew School of Public Policy at the National University of Singapore.

Mr. WANG Liguo, aged 62, has served as Independent Non-Executive Director of the Company since January 2017. He currently works as professor (national second class) and doctoral tutor of Dongbei University of Finance and Economics, chief expert of Major Bidding Projects of the National Social Science Fund, director of China Investment Association, executive director of Construction Economics Branch of China Construction Industry Association, vice chairman of Dalian Engineering Consulting Association and chairman of Dalian Yadong Investment Consulting Co., Ltd. He has served as lecturer and associate professor of Dongbei University of Finance and Economics, dean of the School of Investment Engineering Management of Dongbei University of Finance and Economics, and a member of the Evaluation Committee of Higher Education Engineering Management of the Ministry of Housing and Urban-Rural Development. He graduated from Dongbei University of Finance and Economics with a bachelor's degree and a master's degree in Economics and then a Doctoral degree in Industrial Economics.

Mr. SHAO Ruiqing, aged 62, is currently a professor and doctoral tutor in Shanghai Lixin University of Accounting and Finance. He also holds positions including the vice president of China Communications Accounting Society, an executive director of Accounting Society of China, a director of China Audit Society, the vice president and chairman of the academic committee of Shanghai Accounting Association, an executive director of Shanghai Audit Association, a member of accounting & finance expert advisory committee of Ministry of Transport, the consulting expert of state-owned assets report of Ministry of Finance, an independent director of China Eastern Airlines Corporation Limited, an independent director of HUAYU Automotive Systems Co., Ltd., an independent director of Tibet Urban Development and Investment Co., Ltd., an independent director of Shanghai Carthane Company Limited. He served as a teaching assistant, lecturer and associate professor of the Department of Economics of Shanghai Maritime University (during the period of which, he received the Sino-British Friendship Scholarship for studying and research in Maritime Finance at University of Wales in the United Kingdom); associate professor and dean of the Department of Accounting of Shanghai Maritime University; professor and dean of the Department of Finance & Accounting of Shanghai Maritime University (during the period of which, he received national fund from Studying Abroad Program and was a senior visiting scholar at University of Sydney, Australia); professor and deputy dean of School of Management of Shanghai Maritime University; professor, doctoral tutor and dean of School of the Economics and Management of Shanghai Maritime University; professor, doctoral tutor and vice president of Shanghai Lixin University of Accounting; and external supervisor of China Merchants Bank. He respectively obtained a bachelor's degree in Economics of Shanghai Maritime University, a master's degree in Management of Shanghai University of Finance and Economics and the Ph.D. in Management of Tongji University. He is entitled to a special government allowance provided by the State Council, and is also an honorary fellow member of the Association of International Accountants.

Mr. HONG Yongmiao, aged 56, is currently an academician of the Academy of Sciences for the Developing World, a bachelor of the Econometric Society, a professor of Economics and International Studies at Cornell University in the United States and a vice chairman of Economics Professional Teaching Mentoring Committee of Higher College of Ministry of Education and a lecture professor of Economics of the "Changjiang Scholars" launched by the Ministry of Education (Xiamen University). He also serves as the senior editor of Economics of the Journal of Management Science and Engineering of the National Natural Science Foundation of China as well as the editorial board of Economic Research Journal of Chinese Academy of Social Sciences. He is a member of the Academic Committee of China Economic Quarterly of Peking University and an independent director of Xiamen Bank. He was previously the host of the National Science Fund for Distinguished Young Scholars of National Natural Science Foundation of China and the president of the Chinese Economists Society. He also acted as an independent director of ICBC. He respectively obtained a bachelor's degree in Science and a master's degree in Economics of Xiamen University, and a Ph.D. in Economics of University of California, San Diego in the United States.

Mr. LI Yinquan, aged 64, has served as an Independent Non-executive Director of the Company since June 2020. He served as the director of China Merchants Capital Investment Co., Ltd. He also served as the independent non-executive director of Genertec Universal Medical Group Company Limited, Million Cities Holdings Limited and Hong Kong Shanghai Alliance Holdings Limited and Kimou Environmental Holding Limited. He served as the assistant to the general manager, cadre at deputy general manager level of the International Business Department, person in charge of the Preparatory Group of the New York Branch, deputy general manager of the Personnel and Education Department and deputy general manager of the

Hong Kong Branch of the Agricultural Bank of China. He also served as the general manager of the Planning and Finance Department, chief financial officer, vice president and chief accountant of China Merchants Group Co., Ltd., as well as the general manager, CEO and chairman of China Merchants Capital Investment Co., Ltd. and the executive director of China Merchants Holdings (International) Company Limited, the non-executive director of China Merchants Bank Co., Ltd., the executive director of China Merchants Energy Shipping Co., Ltd. and the executive director of China Merchants China Direct Investments Limited. He graduated from the Graduate School of the People's Bank of China from which he obtained a master's degree in economics. He later obtained a master's degree in finance for development in Finafrica Institute, Italy. He is a senior economist.

Supervisors

The following table sets out certain information relating to the Bank's supervisors as at the date of this Offering Circular:

Name	Age	Position	Appointment Date
Mr. LI Xin	59	Chairman of the Board of Supervisors	2 June 2015
Mr. YIN Lianchen	53	Shareholder Representative Supervisor	23 December 2014
Mr. WU Junhao	54	Shareholder Representative Supervisor	19 November 2012
Mr. WU Gaolian	67	External Supervisor	29 June 2016
Mr. WANG Zhe	59	External Supervisor	15 November 2016
Mr. QIAO Zhimin	67	External Supervisor	12 September 2019
Mr. XU Keshun	53	Employee Supervisor	12 June 2017
Mr. SUN Jianwei	53	Employee Supervisor	12 June 2017
Ms. SHANG Wencheng	44	Employee Supervisor	12 June 2017

Mr. LI Xin, aged 59, has served as Supervisor of the Bank since May 2015, and became Chairman of the Board of Supervisors of the Bank in June 2015. He successively served as an Assistant Engineer of Beijing 304 Research Institute of the Ministry of Aviation Industry, Secretary of the General Office of the Ministry of Aviation Industry, Secretary, Secretary (Deputy Division Chief Level), Secretary (Division Chief Level) and Deputy Director of the Secretariat of the General Office of the Ministry of Finance, Head of Division 1 of Economic Affairs Department of Xinhua News Agency Hong Kong Branch, Deputy Managing Director of Good Ocean Development Limited in Hong Kong, Deputy Director of the General Office and Head of Finance Division of Commission of Science, Technology and Industry for National Defense, Director of Human Resources Department, Chief of Organisation Department of the CPC Committee and Senior Managing Director of China Investment Corporation, and concurrently served as Employee Representative Director of China Investment Corporation, Deputy Secretary of CPC Working Committee of China Investment Corporation, and Vice Chairman of the Working Committee of the Labour Union of China Investment Corporation. He graduated from Shenyang Aviation Industrial College with a bachelor's degree in Aviation Machinery Processing Technology.

Mr. YIN Lianchen, aged 53, has served as Supervisor of the Bank since December 2014. He is currently Managing Director and Chief Investment Officer of China Everbright Limited and Non-Executive Director of Everbright Securities Co., Ltd. He successively served as General Manager of the Corporate Administration Department, Director of the Securities Brokerage Department and Director of the Corporate

Communications Department of China Everbright Limited, Chief Representative of China Desk of Moody's KMV, Deputy General Manager of Beijing Yonder Investment Group, Division Chief in the Executive Office of China Everbright (Group) Corporation and Assistant General Manager of China Everbright Limited. He graduated from Nankai University with a master's degree in Western Financial Accounting.

Mr. WU Junhao, aged 54, has served as Supervisor of the Bank since November 2009. He is Manager of the Financial Management Department of Shenergy (Group) Limited and concurrently serves as Director of Orient Securities Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. He successively served as Executive Deputy General Manager of Shanghai New Resources Investment Consulting Company, Deputy General Manager of Shanghai Bailitong Investment Company, Deputy Director of Shanghai Shenergy Asset Management Co., Ltd., and Deputy Director, Director and Senior Director of the Asset Management Department and Deputy (Acting) Director of the Financial Management Department of Shenergy (Group) Co., Ltd. He graduated from East China Normal University and later obtained a master's degree in Enterprise Management at East China Normal University.

Mr. WU Gaolian, aged 67, has served as External Supervisor of the Bank since June 2016. He successively served as a committee member of County Committee, Deputy County Magistrate and Deputy Managing Magistrate of Fusong County, Jilin, General Manager of Tonghua Branch, Jilin, Deputy General Manager of Jilin Branch, General Manager of Guangxi Branch and General Manager of Liaoning Branch of the People's Insurance Company (the People's Insurance (Property) Company of China, Ltd.), Vice President of the People's Insurance Company (Group) of China (People's Insurance Company of China Holdings Company), Director and President of China Reinsurance (Group) Corporation, Director of the Bank, and Director of China Everbright Group Ltd. He graduated from the Graduate School of Chinese Academy of Social Sciences with Monetary and Banking major. He holds a master's degree and is a senior economist.

Mr. WANG Zhe, aged 59, has served as External Supervisor of the Bank since November 2016. He is currently Secretary General of Association of Shanghai Internet Financial Industry and serves concurrently as Vice President of Shanghai Financial Association, Independent Director of Shanghai Pudong Development Bank, and Non-Executive Director of Boill Healthcare Holdings Limited. He successively served as a staff member of Monetary Division and Deputy Division Chief of General Office of the PBOC, Manager of China Gold Coin Shenzhen Commercial Centre, Vice General Manager of Shenzhen Branch of China CITIC Bank, General Manager of China Gold Coin Shenzhen Commercial Centre, Deputy General Manager of China Gold Coin Incorporation, General Manager, Chairman and Party Secretary of Shanghai Gold Exchange, and CPC Committee Secretary of China Foreign Exchange Trade System. He graduated from Southwestern University of Finance and Economics majoring in Business Administration and holds a master's degree.

Mr. QIAO Zhimin, aged 67, has served as External Supervisor of the Bank since September 2019. He is concurrently Independent Director of Wuhan Rural Commercial Bank Co., Ltd. He successively served as Deputy Division Director of the Finance and Accounting Department of the Head Office, Deputy General Manager of Luxemburg Branch and Deputy General Manager of the General Planning Department of Head Office of BOC; Deputy Director-General of the Accounting Department and Deputy Director-General of the First Banking Supervision Department of PBOC; Chief of Regulation Team (Director-General Level) for ICBC; Director of the Finance and Accounting Department of the CBRC; Vice Chairman of the Fourth Session of the Board of Supervisors and Chairman of the Fifth Session of the Board of Supervisors for China Minsheng Banking Corp., Ltd.; and Independent Non-Executive Director of the Bank. He graduated from Hunan College of Finance and Economics and majored in Finance. He holds a master's degree and a certificate of senior accountant.

Mr. XU Keshun, aged 53, is currently Chief of the Office of the Board of Supervisors of the Company (General Manager level of the Head Office). He served as the chief deputy clerk of the Personnel Division and Office of Henan Branch of China Construction Bank; the deputy general manager (presiding) of the

Personnel and Education Department, the general manager of the Business Development Department of Zhengzhou Branch of the China Investment Bank and the deputy general director of the Personnel and Education Department of the head office; the director of the Audit Division of Henan Branch of China Development Bank; a member of the Party Committee and Vice President of Zhengzhou Branch of the Bank, secretary of the Party Committee, president of Yantai Branch, the secretary of the Party Committee and President of Zhengzhou Branch of the Bank. He obtained a master's degree of EMBA from Guanghua School of Management of Peking University and is a senior economist.

Mr. SUN Jianwei, aged 53, is currently General Manager of the Legal Compliance Department of the Bank. He served as the deputy manager of the Foreign Exchange and Credit Department of the International Department, assistant to the director of the Credit Review Division of the Credit Department, director of the Recovery Division of the Asset Preservation Department, director of the System Clearing Division, director of the System Management Division and assistant to the General Manager of the Bank; a member of the Party Committee, assistant to the President and chief risk officer of Kunming Branch; a member of the Party Committee, Vice President, chief risk officer and secretary of the Disciplinary Committee of Shijiazhuang Branch; the deputy secretary (presiding) of the Party Committee, Vice President (presiding), secretary of the Party Committee and President of Heilongjiang Branch. He graduated from Dongbei University of Finance and Economics with a master's degree and is an economist.

Mr. SHANG Wencheng, aged 44, is currently General Manger of the Audit Department of the Bank. He served as the deputy director of the Financial Management Division of the Planning and Finance Department, the accredited financial controller (senior manager level) of the Credit Card Centre of the Planning and Finance Department, the accredited financial supervisor (senior manager level) of the Information Technology Department, the senior manager of the Financial Management Division, senior manager of the Management Accounting Division, the deputy director of the Eastern Audit Centre (Assistant General Manager and Deputy General Manager level of the Head Office) and deputy general manager of the Audit Department of the Bank. He graduated from Dongbei University of Finance and Economics with a master's degree, and then obtained a doctor's degree of Dongbei University of Finance and Economics in finance. He is a senior economist and a certified public accountant.

Senior Management Members

The following table sets out certain information relating to the Bank's senior management members as at the date of this Offering Circular:

Name	Age	Position
Mr. LIU Jin	53	Executive Director, President, Deputy Secretary of CPC Committee
Mr. LU Hong................................	56	Executive Director, Executive Vice President and of CPC Committee
Mr. WU Chongkuan.....................	57	Member of CPC Committee and Chairman of the Working Committee of the Labour Union
Mr. YAO Zhongyou	56	Executive Vice President and Member of CPC Committee
Mr. HUANG Haiqing...................	55	Member of CPC Committee and Secretary of Disciplinary Committee
Mr. SUN Qiang	51	Executive Vice President and Member of CPC Committee
Mr. QU Liang...............................	53	Executive Vice President, Member of CPC Committee and Secretary of CPC Committee and President of Beijing Branch

Name	Age	Position
Mr. LI Jiayan................................	56	Secretary to the Board and Representative of Securities Affairs

The biographies of the senior management personnel are as follows:

Mr. LIU Jin, please refer to "*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS* **-** *Directors*".

Mr. LU Hong, please refer to "*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS* **-** *Directors*".

Mr. WU Chongkuan has served as Member of CPC Committee (Executive Vice President Level) of the Bank since April 2014. He is currently Chairman of the Labour Union Committee and Chairman of the Labour Union of the Bank, and Vice Chairman of the Labour Union Committee of China Everbright Group Ltd. He joined the Bank in May 1997 and took several positions including: Head and General Manager of the General Office, General Manager of Special Assets Management Department (during which he concurrently served as the Head of the Bank's Xi'an Group for Accepting Branches of China Investment Bank); Secretary of CPC Committee and General Manager of Heilongjiang Branch; Secretary of CPC Committee and General Manager of Shanghai Branch; and Director of the Working Committee of the Labour Union. He previously served as Director of the Research and Comprehensive Division of China International Staff Service Centre, Head and General Manager of the Fund Business Department of China Rural Development Trust Investment Company, etc. Mr. Wu graduated from Northwestern Polytechnical University majoring in space engineering. He is a Bachelor of Engineering and an engineer.

Mr. YAO Zhongyou has served as Executive Vice President of the Bank since August 2014 and Member of CPC Committee of the Bank since May 2014. He used to work as Clerk and Deputy Manager of the International Banking Department of Hebei Provincial Branch, General Manager and Secretary of CPC Committee of Chengde Branch, Director of the General Office, Deputy General Manager and a Member of CPC Committee of Hebei Provincial Branch of China Construction Bank ("**CCB**"), Deputy General Manager of the Equity Management Department of China Everbright (Group) Corporation, Executive Director, a member of CPC Committee and Vice President of Everbright Financial Holding Asset Management Co., Ltd. as well as General Manager of the Financial Management Department of China Everbright (Group) Corporation. He graduated from Wuhan University and holds a master's degree. He holds a certificate of senior economist.

Mr. HUANG Haiqing has served as Member of CPC Committee and Secretary of Discipline Committee of the Bank since he joined the Bank in June 2016. He successively served as Deputy Chief of Jiangxi Province Yichun Area Hardware, Electric Material and Chemical Equipment Company, Director of the Xinhua North Office of Haikou branch, Deputy Division Chief of the Deposits Department and Deputy Director (Division Chief Level) of the General Office of Hainan Provincial Branch of ICBC, Senior Manager of the General Management Department, Director of the CPC Committee Office and Head of Organisation Department of the CPC Committee of the Haikou Office of China Huarong Asset Management Co., Ltd, Deputy General Manager of the Banking Department of the Head Office and Deputy General Manager of Pudong Branch of Bank of Shanghai, and Assistant Mayor, Vice Mayor and member of the CPC Committee of Xi'an City. He graduated from Southwest University of Finance and Economics. He holds a Doctoral degree in Economics and a certificate of senior economist.

Mr. SUN Qiang has served as Executive Vice President of the Bank since March 2018 and Member of CPC Committee of the Bank since August 2016. After joining the Bank since 1997, he successively served as Deputy General Manager of Zhuhai Sub-branch, General Manager of Shantou Sub-branch of Guangzhou branch, Assistant General Manager of the Inspection and Security Department of the Head Office, Assistant

General Manager and Deputy General Manager of the Corporate Banking Department, Deputy General Manager (Acting) and General Manager of the Financial Institutions Department, and General Manager of the Corporate Banking Department, Assistant President of the Bank. He used to work in the Survey and Statistics Department and the General Office of the PBOC, Head Office of SAFE, and the PBOC Shantou Office in Guangdong Province. He graduated from Peking University with a bachelor's degree in Probability Statistics and afterwards acquired a master's degree in Money and Banking from the School of Finance, Renmin University of China.

Mr. QU Liang has served as Executive Vice President of the Bank since March 2020, and Member of CPC Committee of the Bank and concurrently Secretary of the CPC Committee and General Manager of the Beijing Branch of the Bank since September 2018. He served as Deputy General Manager of the Corporate Business Department of Henan Branch of ICBC; Director of the Office, General Manager of the Corporate Banking Department II, General Manager of the Corporate Banking Department I of Zhengzhou Branch of China Merchants Bank; Deputy General Manager of the Corporate Banking Division at the Head Office of China Merchants Bank; Secretary of CPC Committee and General Manager of Hohhot Branch of China Merchants Bank; Secretary of CPC Committee and General Manager of Chongqing Branch of China Merchants Bank; and Officer for Deepening Reform of the Leading Group Office for the Comprehensive Deepening Reform (Head office) of China Everbright Group Ltd. He graduated from Zhengzhou University with a bachelor's degree in Politics, and obtained a master's degree in Economic Law at Zhengzhou University. He is a senior economist.

COMPANY SECRETARY

Mr. LI Jiayan has served as Secretary to the Board of Directors of the Bank since January 2018 and Member of CPC Committee (Executive Vice President Level) of the Bank since July 2019, and concurrently served as Representative of Securities Affairs of the Bank. He joined the Bank in November 2005, and successively served as Deputy General Manager of the Development Research Department, Deputy General Manager of the Strategic Management Department, Deputy Chief of the Office of the Board of Directors and Supervisors (Deputy General Manager Level), Deputy Chief of the Office of the Board of Directors (the Listing Office), Representative of Securities Affairs (General Manager Level), Chief of the Listing Office (General Manager Level) and General Manager of the Capital and Securities Affairs Management Department. He used to work as Deputy Chief of the Project Approval Division of the Foreign Investment Office, Director of the Foreign Investors' Complaints Centre, and Chief of the Coordination and Management Division of the Foreign Investment Office of Wuhan Municipal Government, and Executive Deputy General Manager of Wuhan PKF International Investment Co., Ltd. He graduated from School of Law, Wuhan University with a bachelor's degree and a master's degree in Law. Then he went to the University of California, Berkeley, School of Law for further study, where he obtained a master's degree and a Doctoral Degree in Law.

BOARD OF DIRECTORS COMMITTEES

There are seven committees under the Board of Directors, namely the Strategy Committee, Audit Committee, Risk Management Committee, Nomination Committee, Remuneration Committee, Related Party Transactions Control Committee and Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The committees operate in accordance with the terms of reference established by the Board of Directors of the Bank.

Strategy Committee

The Strategy Committee consists of seven directors, namely Mr. LI Xiaopeng, Mr. WU Lijun, Mr. LIU Jin, Mr. WANG Xiaolin, Mr. XU Hongcai, Mr. DOU Hongquan and Mr. HONG Yongmiao, among whom Mr. LI Xiaopeng acts as chairman of the Strategy Committee. The primary duties of the Strategy Committee are to (i) study and regularly advise on the Bank's business objectives and medium-to-long-term development strategy in accordance with the Bank's operations and changes in the market; (ii) review the Bank's capital management objectives and the Bank's capital replenishment plan in accordance with the Bank's strategic objectives and advise on disclosure of the Bank's capital adequacy ratio; (iii) review the annual business plans and any material change or adjustments in implementation and advise the Board of Directors accordingly; (iv) review and advise on operation and management reform plans, material investment plans and capital operation plans of the entire Bank that are subject to approval by the Board of Directors; (v) regularly assess and inspect the implementation of the above issues after they have been approved by the Board of Directors and report back to the Board of Directors; and (vi) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Audit Committee

The Audit Committee consists of six directors, namely, Mr. WANG Liguo, Mr. CAI Yunge, Mr. HE Haibin, Mr. XU Hongcai, Mr. SHAO Ruiping and Mr. LI Yinquan among which Mr. SHAO Ruiping acts as chairman of the Audit Committee. The Audit Committee has the appropriate accounting qualifications as required under Rule 3.10(2) of the Listing Rules. The primary duties of the Audit Committee are to: (i) inspect the Bank's internal control system and supervise its implementation so as to ensure the adequacy and effectiveness of the Bank's internal controls, discuss the internal control system with senior management so as to ensure that senior management has established an effective internal control system and conduct studies (either voluntarily or under the authorisation of the Board of Directors) on significant investigation findings in respect of internal control issues and provide feedback to senior management; (ii) inspect the Bank's accounting policies, financial position, financial reporting procedures and financial control, review the Bank's financial statements and make judgments in respect of the truthfulness, accuracy and completeness of the financial information contained therein, be responsible for the Bank's annual auditing as well as the completeness of its annual reports, interim reports and quarterly reports, and review significant financial opinions set out in the financial statements and reports and submit the same to the Board of Directors for consideration and approval; (iii) regularly review the work reports of the Bank's internal audit department, inspect and supervise the Bank's internal audit work and the internal audit system and its implementation, direct the work of the Bank's internal audit department, appraise and monitor the work performance of the Bank's internal audit department, ensure coordination between the Bank's internal audit department and external auditors and ensure the internal audit department has full support within the Bank and its work performance is under supervision; (iv) recommend to the Board of Directors in respect of the engagement and removal of external auditors, approve the remuneration and engagement terms of external auditors, deal with any matters regarding the resignation or dismissal of external auditors, direct and supervise the work of external auditors, formulate policies regarding the provision by external auditors of non-audit services and supervise their implementation, act as the major representative of the Bank for supervising the relationship between the Bank and external auditors, review the explanatory letter on audit matters given by external auditors to senior management, any material queries raised by external auditors to the senior management on accounting records, financial accounts or systems of control and the response made by senior management and ensure that the Board of Directors can respond in a timely manner to the issues raised in the explanatory letter on audit matters given by external auditors to senior management; (v) evaluate the Bank's policies and practices for compliance with relevant legal and regulatory requirements, formulate and evaluate the code of conduct and the compliance manual for directors and employees, evaluate the Bank's compliance with the Listing Rules and the disclosures made in the "Corporate Governance Report" and appoint independent legal counsels or advisors whenever the Committee deems necessary; and (vi) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Risk Management Committee

The Risk Management Committee consists of seven directors, namely, Mr. LIU Jin, Mr. LU Hong, Mr. CAI Yunge, Mr. WANG Xiaolin, Ms. YU Chunling, Mr. LIU Chong and Mr. SHAO Ruiqing among whom Mr. WANG Xiaolin acts as chairman of the Risk Management Committee. The primary duties of the Risk Management Committee are to: (i) formulate the Bank's risk management policies and determine overall risk tolerance before submitting to the Board of Directors for approval and implementing them afterwards; (ii) supervise the risk control undertaken by senior management in respect of credit risk, market risk, operational risk and liquidity risk; (iii) assess the Bank's basic risk management system and risk management mechanism and advise the Board of Directors on improvements to the Bank's risk management; (iv) regularly submit risk management reports to the Board of Directors; (v) formulate the Bank's capital adequacy ratio management objectives and examine and supervise the implementation of capital planning; (vi) regularly examine the Bank's capital adequacy ratio indicators and provide recommendations to the Bank's management; and (vii) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Nomination Committee

The Nomination Committee consists of five directors, namely, Mr. LI Xiaopeng, Mr. SHI Yongyan, Mr. HONG Yongmiao, Mr. XU Hongcai and Mr. LI Yinquan among whom Mr. XU Hongcai acts as chairman of the Nomination Committee. The primary duties of the Nomination Committee are to: (i) build a talent pipeline of qualified alternative directors and senior management; (ii) formulate procedures and standards for selecting directors and senior management members, conduct a preliminary examination of the qualifications and conditions of candidates and advise the Board of Directors accordingly; (iii) make recommendations for the Board of Directors' approval regarding the composition of the other special committees of the Board of Directors based on nomination by the chairman, the integrated evaluation of the directors' expertise and the wishes and needs of the Board of Directors; (iv) annually assess the structure, composition (including skills, knowledge and experience) and number of the members of the Board of Directors and make recommendations as to adjustments to be made to the Board of Directors in line with the Bank's strategies; (v) evaluate the training provided to and the professional development of the directors and senior management; and (vi) handle other matters required by law, administrative regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Remuneration Committee

The Remuneration Committee consists of seven directors, namely, Mr. LI Xiaopeng, Mr. WANG Xiaolin, Mr. FENG Lun, Mr. WANG Liguo, Mr. SHAO Ruiqing, Mr. HONG Yongmiao and Mr. LI Yinquan among whom Mr. HONG Yongmiao acts as chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to: (i) formulate the administrative system for remuneration of directors and senior management of the Bank and make recommendations regarding the system to the Board of Directors and supervise its implementation; (ii) review the performance and duties of the directors and senior management and to make recommendations on appraisal and assessment to the Board of Directors; (iii) make recommendations on remuneration packages for directors and senior management and report the same to the Board of Directors for approval; (iv) review the basic policies relating to bank-wide salaries and benefits of the employees, make recommendations to the Board of Directors and supervise its implementation; and (v) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Related Party Transactions Control Committee

The Related Party Transactions Control Committee consists of seven members, namely Ms. YU Chunling, Mr. XU Hongcai, Mr. FENG Lun, Mr. WANG Liguo, Mr. SHAO Ruiqing, Mr. LI Yinquan and Mr. HONG Yongmiao, among whom Mr. LI Yinquan acts as the chairman of the Related Party Transactions Control Committee. The primary duties of the Related Party Transactions Control Committee are to: (i) keep records of the ordinary related party transactions approved by the Credit Approval Committee of the Bank's head office authorised by the Bank's President or other duly authorised entities; (ii) examine material related party transactions and report the same to the Board of Directors for approval; (iii) after the end of each operating year, make a detailed report to the Board of Directors on the overall status, risks and structure of related party transactions entered into during the year; (iv) formulate measures on the management of the Bank's related party transactions and submit proposed measures to the Board of Directors for approval before implementation; (v) identify the Bank's related parties, report the same to the Board of Directors and Board of Supervisors and promptly announce a list of related parties to the relevant personnel; and (vi) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Inclusive Finance Development and Consumer Rights and Interests Protection Committee

The Inclusive Finance Development and Consumer Rights and Interests Protection Committee consists of six members, namely, Mr. LIU Jin, Mr. SHI Yongyan, Mr. DOU Hongquan, Mr. HE Haibin, Mr. LIU Chong and Mr. WANG Liguo, among whom Mr. LIU Jin acts as the chairman of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The primary duties of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee are to (i) formulate a development strategic plan for the Bank's inclusive finance business; (ii) review the Bank's general policy for inclusive finance, and assess evaluation measures and annual business plan; (iii) guide and supervise the senior management on the development of inclusive finance work; (iv) formulate strategies, policies, and objectives of the Bank's protection of consumer rights and interests; (v) urge the Senior Management to effectively implement consumer rights and interests protection related work; and supervising and evaluating consumer rights and interests protection work of the Bank.

CHINA EVERBRIGHT GROUP LTD.

As at 31 December 2019, China Everbright Group Ltd. directly held 11,565,940,276 A shares and 1,782,965,000 H shares of the Bank, together representing approximately 25.43 per cent. of the Bank's total issued ordinary shares.

CENTRAL HUIJIN INVESTMENT LTD.

As at 31 December 2019, Huijin directly held 10,250,916,094 A shares of the Bank, representing approximately 19.53 per cent. of the Bank's total issued ordinary shares. As at the date of this Offering Circular, Huijin has transferred all its shareholding in the Bank to China Everbright Group Ltd. and does not directly own any equity interest in the Bank.

See also "*Description of the Bank* **-** *Recent Developments of the Bank – Equity Change Plan*" for the share transfer between Huijin and China Everbright Group Ltd. for further details.

EXCHANGE RATES

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by 2 per cent. against U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows Renminbi to fluctuate against U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in Renminbi appreciating against U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, PBOC further widened the floating band against U.S. dollar to 2.0 per cent. On 11 August 2015, PBOC announced to improve the central parity quotations of Renminbi against U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by PBOC on 11 August 2015, Renminbi depreciated significantly against U.S. dollar. Since then, the Renminbi has experienced further fluctuation in value against the U.S. dollar. On 5 August 2019, PBOC set the Renminbi's daily reference rate above 7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The PRC government may adopt further reforms of its exchange rate system, including making Renminbi freely convertible in the future.

The following table sets forth information concerning exchange rates between Renminbi and U.S. dollar for the periods presented:

	Renminbi per U.S. dollar Noon Buying Rate (1)			
Period	**End**	**Average (2)**	**High**	**Low**
	(RMB per U.S.$1.00)			
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020				
January	6.9161	6.9184	6.9749	6.8589
February	6.9906	6.9967	7.0286	6.9650

Period	Renminbi per U.S. dollar Noon Buying Rate [1]			
	End	Average [2]	High	Low
	(RMB per U.S.$1.00)			
March	7.0808	7.0094	7.0208	6.9244
April	7.0622	7.0708	7.0989	7.0341
May	7.1348	7.1016	7.1681	7.0622
June	7.0651	7.0816	7.1263	7.0575
July (through 17 July 2020)	6.9912	7.0108	7.0703	6.9881

Notes:

(1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual and semi-annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and is based on law and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. It is emphasised that none of Issuer nor any other persons involved in the Programme accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Notes.

HONG KONG

Withholding Tax

Under existing Hong Kong law, payments of principal and interest in respect of the Notes can be made without withholding for or on account of any Hong Kong taxes. In addition, no tax is required to be withheld in Hong Kong in respect of any gains arising from resale of the Notes.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**")).

If stamp duty is payable it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue.

No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) the Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) the Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes, it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5.00 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

Profits Tax

Profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(ii) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes may be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum is revenue in nature and has a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of Mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this section. In considering whether to invest in the Notes, potential purchasers should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction.

The Issuer is not obliged to withhold PRC income tax at the rate up to 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) on the payments of interest made by it to non-resident Noteholders provided that the payments are made outside of the territory of PRC. However, this is subject to the interpretation by the PRC tax authorities. If the PRC tax authorities take an interpretation that the interest on the Notes payable by the Issuer is treated as income sourced from the PRC, a withholding tax may be imposed on such interest and the Issuer will pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the Conditions. If the Bank shall perform the obligation of paying interest of the Notes in the event and only when the Issuer fails to perform its obligations of paying the interest of the Notes, the Bank will be obliged to withhold PRC income tax at a rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals), unless a lower rate is available under an applicable tax treaty, of the interest component of the amount payable by the Bank to the Noteholders if the PRC tax authority views such component as an interest income arising within the territory of the PRC.

Non-resident Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-resident Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the Enterprise Income Tax Law and related implementation regulations in the future, any gains realised by the non-resident Noteholders from the transfer of the Notes may be regarded as being sourced within the PRC and accordingly would be subject to the rate of 10 per cent. (for non-resident enterprises) or 20 per cent. (for non-resident individuals) of PRC withholding tax unless there is a lower tax rate applicable.

On 23 March 2016, MOF and SAT jointly issued the Notice on Full Launch of the Pilot Scheme on Levying Value-added Tax in Place of Business Tax (關於全面推開營業稅改徵增值稅試點的通知) ("**Circular 36**") which provides that all business taxpayers are included in the pilot programme to pay VAT from 1 May 2016. With effect from 1 May 2016, the income derived from the provision of financial services which previously attracted business tax will be entirely replaced by, and subject to, VAT. According to Circular 36, providing services within the PRC refers to the case where either the provider or recipient of such services is located in the PRC. Where the services are provided by offshore entities or individuals and such services purely take place outside the PRC, it should not be deemed as services provided within the PRC. However, the above disclosure may be subject to further changes by clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of the Circular 36.

No PRC stamp duty will be chargeable upon the issue or transfer (for so long as the register of Noteholders is maintained outside the PRC) of a Note.

THE PROPOSED FINANCIAL TRANSACTIONS TAX ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common financial transactions tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream or the CMU currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, any Arranger or Dealer or any Agent takes any responsibility for the accuracy thereof Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System.

None of the Issuer or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

THE CLEARING SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream participants are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by any Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the CMU members of capital markets instruments which are specified in the CMU Reference Manual as capable of being held within the CMU.

The CMU is only available to CMU notes issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU is open to all members of the Hong Kong Capital Markets Association and "authorised institutions" under the Banking Ordinance (Cap. 155) of Hong Kong.

Compared to clearing services provided by Euroclear and Clearstream, the standard custody and clearing service provided by the CMU is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU notes. Instead, the HKMA advises the lodging CMU member (or a designated paying agent) of the identities of the CMU members to whose accounts payments in respect of the relevant CMU notes are credited, whereupon the lodging CMU member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU members or provide any such certificates on behalf of CMU members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream in any Notes held in the CMU will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU.

PRC CURRENCY CONTROLS

CURRENT ACCOUNT ITEMS

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled under in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow have been increased in September 2015. The PBOC permits enterprises in the Shanghai FTZ may establish an additional cash pool in the local scheme in the Shanghai FTZ, but each onshore company within the group may only elect to participate in one cash pooling programme. In November 2016, PBOC Shanghai Headquarters further allowed banks in Shanghai to provide multinational enterprise groups with services of full-function onshore cash pooling, which will enable broader scope for utilising pooled cash.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

CAPITAL ACCOUNT ITEMS

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "foreign debt") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "outbound loans"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "cross-border security"). Under current rules promulgated by the State Administration of Foreign Exchange of the PRC ("**SAFE**") and PBOC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, PBOC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financing denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group. Enterprises within the Shanghai FTZ may establish another cash pool under the Shanghai FTZ rules to extend inter-company loans, although Renminbi funds obtained from financing activities may not be pooled under this arrangement.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalised for foreign investors. PBOC has relaxed the quota control for RQFII, and has also expanded the list of eligible foreign investors in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening up. In January 2016, CFETS set forth qualifications, application materials and procedure for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There can be no assurance that the PRC government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

SUMMARY OF DEALER AGREEMENT

The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated 7 September 2016 and as most recently amended and restated on 5 June 2019, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Forms of the Notes*" and "*Terms and Conditions of the Notes*". The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. Where the Issuer agrees to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, Notes at an issue price (the "**Issue Price**"), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. The Issuer has agreed to reimburse the Arrangers for certain of their expenses incurred in connection with the establishment, and any future update, of the Programme and the Dealers for certain of their activities in connection with the Programme. The commissions in respect of an issue of Notes on a syndicated basis may be stated in the relevant Pricing Supplement. The Issuer may agree to pay, through the Dealers, a commission to certain private banks on certain tranches of Notes based on the principal amount of Notes purchased by the clients of such private banks. Any such commissions will be described in the relevant Pricing Supplement.

The Issuer has reserved the right to sell Notes directly on its own behalf to Dealers that are not Permanent Dealers as at the date of the Dealer Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealer Agreement also provides for Notes to be issued in syndicated Tranches that are severally underwritten by two or more Dealers.

The Dealer Agreement provides that the Issuer will indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Issuer, the Bank or their respective subsidiaries, jointly controlled entities or associated companies from time to time for which they have received, or will receive, fees and expenses. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Issuer, the Bank or their respective subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of the Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of the Notes, which could adversely affect the trading price and liquidity of the Notes.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilisation or other transactions. Such transactions, if commenced, may be discontinued at any time. Stabilisation activities may only be carried on by the Stabilisation Manager(s) named in the applicable Pricing Supplement (or persons acting on behalf of any Stabilisation Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

In connection with each Tranche of Notes issued under the Programme, the Dealers or certain of their affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other securities of the Issuer or its subsidiaries or affiliates at the same time as the offer and sale of each Tranche of Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Tranche of Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Tranche of Notes).

SELLING RESTRICTIONS

United States of America

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Dealers has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes within the United States.

Index, commodity or currency linked Notes

Each issuance of index, commodity or currency linked Notes shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each relevant Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

European Economic Area and the United Kingdom

Prohibition of Sales to EEA and UK Retail Investors and Public Offer Selling Restriction under The Prospectus Regulation

If the Pricing Supplement in respect of any Notes includes a legend entitled “Prohibition of Sales to EEA and UK Retail Investors”, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

  (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA and UK Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area and the United Kingdom (each, a "**Relevant State**"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto (or are the subject of the offering contemplated by a supplemental offering circular, as the case may be) to the public in that Relevant State except that it may make an offer of such Notes to the public in that Relevant State:

(a) *Approved prospectus:* if the Pricing Supplement or supplemental offering circular in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Relevant State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, provided that any such prospectus (which is not a supplemental offering circular) has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) *Qualified investors:* at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) *Fewer than 150 offerees:* at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) *Other Exempt offers:* at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "Prospectus Regulation" means Regulation (EU) 2017/1129.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) *No deposit taking:* in relation to any Notes having a maturity of less than one year:

(i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

(ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer.

(b) *Financial promotion:* it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not, if it was not an authorised person, apply to the Issuer.

(c) *General compliance:* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Selling Restrictions Addressing Additional Netherlands Securities Laws

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has complied with and will comply with the requirements under the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) that Zero Coupon Notes in definitive form of the Issuer and other Notes which qualify as savings certificates as defined in the Dutch Savings Certificates Act may only be transferred or accepted through the intermediary of either the Issuer or a Member of Euronext Amsterdam N.V. and with due observance of the Dutch Savings Certificates Act (including registration requirements), except in the case of (i) the initial issue of such Notes to the first holders thereof, (ii) any transfer and acceptance by individuals who do not act in the conduct of a profession or trade, and (iii) any transfer or acceptance of such Notes, if they are physically issued outside The Netherlands and are not distributed in The Netherlands in the course of primary trading or immediately thereafter.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it shall include in:

(a) any offer of Notes to the public in The Netherlands other than an offer:

(i) in respect of which a prospectus (and any supplement if required) approved by the Netherlands Authority for the Financial Markets *StichtingAutoriteitFinancieleMarkten)* (the "**AFM**") (or, where appropriate, by the competent authority in another European Economic Area Member State which has implemented the Prospectus Directive and notified to the AFM in accordance with the Prospectus Directive) has been made generally available; or

(ii) only to qualified investors as defined in the Dutch Financial Markets Supervision Act (*Wct op het financieel toezicht*); and

(b) any advertisement relating to such an offer, and any document in which the prospect of such offer is held out;

that:

(A) no prospectus approved by the AFM has been or will be made generally available; and

(B) such offer is not supervised by the AFM;

in such manner as prescribed by the AFM from time to time.

For purposes of this provision the expression “Prospectus Directive” shall have the meaning set out under “Public Offer Selling Restriction under the Prospectus Directive”.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the “**FIEA**”). Accordingly, each Dealer represents, warrants and agrees, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

Hong Kong

In relation to each Tranche of Notes to be issued by the Issuer under the Programme, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a “structured product” as defined in the SFO, other than (i) to Professional Investors and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “**C(WUMP)O**”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to Professional Investors and any rules made under the SFO.

PRC

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, the Notes will not be offered or sold directly or indirectly within the PRC except as permitted by the laws, regulations and regulatory requirements of the PRC. This Offering Circular or any information contained or incorporated by reference herein does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. This Offering Circular, any information contained herein or the Notes have not been, and will not be, submitted to, approved by, verified by or registered with any relevant governmental authorities in the PRC and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Notes in the PRC.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

General

No action has been or will be taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required.

These selling restrictions may be modified by the agreement of the Issuer and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of Notes to which it relates or in a supplement to this Offering Circular.

GENERAL INFORMATION

1. LISTING

Application has been made to the Hong Kong Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the Hong Kong Stock Exchange. The issue price of Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes. Notes to be listed on the Hong Kong Stock Exchange are required to be traded with a board lot size of at least HK$500,000 (or equivalent in other currencies). Admission to the Hong Kong Stock Exchange and quotation of any Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Programme, the Notes, the Issuer or the Group. The Hong Kong Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein.

Credit-Linked Notes may be issued under the Programme. If Credit-Linked Notes are issued under the Programme, such Credit-Linked Notes will not be admitted to listing, trading and/or quotation on the Hong Kong Stock Exchange.

2. AUTHORISATION

The establishment of the Programme and the issue of the Notes thereunder were authorised by Authorisation (2014) No. 851, Authorisation (2015) No. 338, Authorisation (2016) No. 390 and Authorisation (2017) No. 640 of the Bank passed on 29 December 2014, 18 June 2015, 16 June 2016 and 1 November 2017, respectively. Each of the Bank and the Issuer has obtained, or will obtain from time to time, all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of their respective obligations under the Notes. In connection with Notes issued by the Bank, the Bank will apply for all necessary registration with respect to the use of proceeds of Notes or the payment of principal and interest in accordance with applicable laws. The repayment of the principal and/or interest of the notes by the Bank may be adversely affected in the event any required registration is not obtained. The Bank does not however expect that any registration would be refused.

3. LEGAL AND ARBITRATION PROCEEDINGS

None of the Issuer, the Bank nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Offering Circular, a significant effect on the financial or trading position or profitability of the Group.

4. SIGNIFICANT/MATERIAL CHANGE

The Group has adopted new standards, including IFRS 9 (Financial Instruments), from 1 January 2018. Considering the impact of these standards on the consolidated financial statements, the Group recorded an adjustment to 1 January 2018 shareholders' equity at the adoption date, but did not restate comparative periods. The adoption of IFRS 9 has reduced the shareholders' equity by 2.87per cent. as at 1 January 2018.

Other than as set out above, since 31 December 2019, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

5. AUDITOR

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019, which are included elsewhere in this Offering Circular, have been audited by Ernst & Young, as stated in its respective reports appearing herein.

6. DOCUMENTS ON DISPLAY

Copies of the following documents may be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the office of the Issuer at 30/F, Far East Finance Centre, No. 16, Harcourt Road, Admiralty, Hong Kong and the specified office of the Fiscal Agent at 39th Floor, Champion Tower, Three Garden Road, Central, Hong Kong for so long as the Notes are capable of being issued under the Programme:

(i) the memorandum and articles of association of the Bank;

(ii) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2018 and 2019;

(iii) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such audited annual financial statements, of the Bank;

(iv) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Fiscal Agent as to its holding of Notes and identity);

(v) a copy of this Offering Circular together with any Supplement to this Offering Circular;

(vi) the Deed of Covenant;

(vii) the Agency Agreement (which contains the forms of the Notes in global and definitive form); and

(viii) the Programme Manual.

7. CLEARING OF THE NOTES

The Legal Entity Identifier of the Bank is 549300U6PKQ4H1P34E17. The Notes may be accepted for clearance through Euroclear, Clearstream and CMU. The appropriate CMU instrument number, common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

8. NATIONAL DEVELOPMENT AND REFORM COMMISSION FILINGS

Where applicable for a relevant Tranche of Notes, registration will be completed by the Issuer pursuant to the NDRC Circular. After the issuance of such relevant Tranche of Notes, the Issuer undertakes to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the NDRC Circular.

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CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2019

CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK AS AT AND FOR THE THREE MONTHS ENDED 31 MARCH 2020

Note:

The Bank's consolidated financial statements set out here in are reproduced from the Bank's annual reports for the years ended 31 December 2018 and 2019 and the quarterly report for the three months ended 31 March 2020, respectively. Page references referred to in the auditor's reports named above refer to pages set out in such annual reports or quarterly report (as the case may be).

Independent Auditors' Report

To the shareholders of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
In 2014, the IASB released IFRS 9 – Financial Instruments (hereinafter referred to as "IFRS 9"). IFRS 9 was adopted by the Group on 1 January 2018. IFRS 9 requires that the impairment measurement for financial assets be changed from "incurred loss model" to "expected credit loss model". The Group uses a number of models and assumptions in the measurement of expected credit losses, for example: • Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk are highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity; • Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions. • Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact to expected credit losses under multiple economic scenarios given different weights; • Individual impairment assessment – Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows.	We evaluated and tested the effectiveness of design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects: 1. Expected credit loss model: • Assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and significant increase in credit risk; • Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios; • Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers (continued)	
Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2018, gross loans and advances to customers amounted to RMB2,428.487 billion, representing 55.73% of total assets, and impairment allowance for loans and advances to customers amounted to RMB67.682 billion), impairment of loans and advances is considered a key audit matter. Relevant disclosures are included in Note III 1, Note VI 16 and Note VI 48(a) to the consolidated financial statements.	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit loss, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; • Evaluated and tested key controls over expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 2018, financial assets and financial liabilities measured at fair value amounted to RMB452.643 billion and RMB14.703 billion respectively, representing 10.39% and 0.36% of total assets and total liabilities respectively. Financial instruments which required either directly (i.e. as prices) or indirectly (i.e. derived from prices) inputs, hence categorized within level 2 of the fair value hierarchy, represented 48.82% of total financial assets measured at fair value; financial instruments which required significant unobservable inputs, hence categorized within level 3 of the fair value hierarchy, represented 0.77% of total financial assets measured at fair value. Considering the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter. Relevant disclosures are included in Note III 2 and Note VI 49 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of key controls related to valuation of financial instruments, including relevant data quality and IT systems involved. We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant fair value and sensitivity disclosures in the financial statements adequately presented the risk of the Group.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Unconsolidated structured entities	
The Group established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking consideration of power arising from rights, variable returns, and link between power and returns. The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. The comprehensive analysis of these factors and the conclusion of whether the Group has control involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by the management, it is considered a key audit matter. Relevant disclosures are included in Note III 6 and Note VI 41 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls structured entities. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyze whether the Group has obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its disclosures of unconsolidated structured entities.

OTHER INFORMATION INCLUDED IN THE BANK'S 2018 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

Ernst & Young
Certified Public Accountants
Hong Kong

28 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	Note VI	2018	2017
Interest income		168,567	160,343
Interest expense		(107,524)	(99,393)
Net interest income	1	61,043	60,950
Fee and commission income		39,552	33,025
Fee and commission expense		(2,658)	(2,251)
Net fee and commission income	2	36,894	30,774
Net trading gains/(losses)	3	1,071	(2,751)
Dividend income		8	6
Net gains/(losses) arising from investment securities	4	9,862	(193)
Net foreign exchange gains		724	2,464
Other net operating income		784	768
Operating income		110,386	92,018
Operating expenses	5	(33,706)	(30,802)
Operating profit before impairment		76,680	61,216
Impairment losses on assets	8	(35,828)	(20,570)
Profit before tax		40,852	40,646
Income tax	9	(7,131)	(9,035)
Net profit		33,721	31,611
Net profit attributable to:			
Equity shareholders of the Bank		33,659	31,545
Non-controlling interests		62	66
		33,721	31,611
Earnings per share			
Basic earnings per share (in RMB/share)	10	0.61	0.64
Diluted earnings per share (in RMB/share)	10	0.55	0.59

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note VI	2018	2017
Net profit		33,721	31,611
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits	31(b)	(102)	63
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		3	–
– Related income tax effect	22(b)	(1)	–
Subtotal		(100)	63
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		2,982	–
– Changes in allowance for expected credit losses		(311)	–
– Reclassified to the profit or loss upon disposal		1,095	–
– Related income tax effect	22(b)	(957)	–
– Available-for-sale financial assets			
– Net change in fair value		–	(3,458)
– Reclassified to the profit or loss upon disposal		–	360
– Related income tax effect		–	768
– Exchange differences on translation of financial statements		66	(87)
Subtotal		2,875	(2,417)
Other comprehensive income, net of tax attributable to non-controlling interests		1	–
Other comprehensive income, net of tax		2,776	(2,354)
Total comprehensive income		36,497	29,257
Total comprehensive income attributable to:			
Equity shareholders of the Bank		36,434	29,191
Non-controlling interests		63	66
		36,497	29,257

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

Consolidated Statement of Financial Position

As at 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note VI	31 December 2018	31 December 2017
Assets			
Cash and deposits with the central bank	11	366,575	353,703
Deposits with banks and other financial institutions	12	41,005	44,754
Precious metals		23,628	40,352
Placements with banks and other financial institutions	13	96,685	148,816
Derivative financial assets	14	15,212	4,513
Financial assets held under resale agreements	15	37,773	91,441
Interests receivable		–	28,576
Loans and advances to customers	16	2,361,278	1,980,818
Finance lease receivables	17	63,333	56,364
Financial investments	18	1,301,080	1,297,936
– Financial assets at fair value through profit or loss		222,737	24,196
– Debt instruments at fair value through other comprehensive income		153,987	–
– Equity instruments at fair value through other comprehensive income		367	–
– Financial investments measured at amortised cost		923,989	–
– Available-for-sale financial assets		–	414,547
– Held-to-maturity investments		–	344,617
– Debt securities classified as receivables		–	514,576
Fixed assets	20	18,241	14,929
Goodwill	21	1,281	1,281
Deferred tax assets	22	10,794	7,596
Other assets	23	20,447	17,164
Total assets		4,357,332	4,088,243
Liabilities and equity			
Liabilities			
Due to the central bank	25	267,193	232,500
Deposits from banks and other financial institutions	26	490,091	577,447
Placements from banks and other financial institutions	27	152,037	106,798
Financial liabilities at fair value through profit or loss	28	354	–
Derivative financial liabilities	14	14,349	6,552
Financial assets sold under repurchase agreements	29	40,411	45,581
Deposits from customers	30	2,571,961	2,272,665
Accrued staff costs	31	8,028	8,412
Taxes payable	32	5,666	4,932
Interests payable		–	40,206
Debt securities issued	33	440,449	445,396
Other liabilities	34	44,320	42,318
Total liabilities		4,034,859	3,782,807

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

Consolidated Statement of Financial Position

As at 31 December 2018

(Expressed in millions of Renminbi, unless otherwise stated)

	Note VI	31 December 2018	31 December 2017
Equity			
Share capital	35	52,489	52,489
Other equity instrument	36	35,108	35,108
of which: preference shares		29,947	29,947
Capital reserve	37	53,533	53,533
Other comprehensive income	38	1,655	(1,845)
Surplus reserve	39	24,371	21,054
General reserve	39	54,036	52,257
Retained earnings	40	100,296	92,164
Total equity attributable to equity shareholders of the Bank		321,488	304,760
Non-controlling interests		985	676
Total equity		322,473	305,436
Total liabilities and equity		4,357,332	4,088,243

Approved and authorised for issue by the board of directors on 28 March 2019.

Li Xiaopeng
Chairman of the Board
of Directors
Non-executive Director

Ge Haijiao
President
Executive Director

Xie Rong
Independent Non-executive
Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Expressed in millions of Renminbi, unless otherwise stated)

2018	Note VI	Attributable to equity shareholders of the Bank									Non-controlling interests	Total
		Share capital	Other equity instrument: Preference shares	Other equity instrument: Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal		
Balance at 31 December 2017		52,489	29,947	5,161	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436
Impact of adopting new Standards		–	–	–	–	725	–	–	(9,480)	(8,755)	(16)	(8,771)
Balance at 1 January 2018		52,489	29,947	5,161	53,533	(1,120)	21,054	52,257	82,684	296,005	660	296,665
Changes in equity for the year:												
Net income		–	–	–	–	–	–	–	33,659	33,659	62	33,721
Other comprehensive income	38	–	–	–	–	2,775	–	–	–	2,775	1	2,776
Capital injection by non-controlling shareholders		–	–	–	–	–	–	–	–	–	265	265
Appropriation of profit:	40											
– Appropriation to surplus reserve		–	–	–	–	–	3,317	–	(3,317)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	1,779	(1,779)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(9,501)	(9,501)	(3)	(9,504)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2018		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473

2017	Note VI	Attributable to equity shareholders of the Bank									Non-controlling interests	Total
		Share capital	Other equity instrument: Preference shares	Other equity instrument: Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal		
Balance at 1 January 2017		46,679	29,947	–	33,365	509	17,951	51,447	70,557	250,455	613	251,068
Changes in equity for the year:												
Net income		–	–	–	–	–	–	–	31,545	31,545	66	31,611
Other comprehensive income	38	–	–	–	–	(2,354)	–	–	–	(2,354)	–	(2,354)
Capital injection by ordinary shareholders		5,810	–	–	20,168	–	–	–	–	25,978	–	25,978
Equity component of convertible bonds		–	–	5,161	–	–	–	–	–	5,161	–	5,161
Appropriation of profit:	40											
– Appropriation to surplus reserve		–	–	–	–	–	3,103	–	(3,103)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	810	(810)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(4,575)	(4,575)	(3)	(4,578)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2017		52,489	29,947	5,161	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436

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

Consolidated Cash Flow Statement

For the year ended 31 December 2018
(Expressed in millions of Renminbi, unless otherwise stated)

	2018	2017
Cash flows from operating activities		
Net profit	33,721	31,611
Adjustments for:		
Impairment losses on assets	35,828	20,570
Depreciation and amortisation	2,164	2,136
Unwinding of discount	(792)	(1,015)
Dividend income	(8)	(6)
Unrealised foreign exchange (gains)/losses	(400)	566
Net (gains)/losses on disposal of investment securities	(55,661)	193
Net (gains)/losses on disposal of trading securities	(922)	25
Revaluation (gains)/losses on financial instruments at fair value through profit or loss	(22)	2,726
Interest expense on debt securities issued	18,234	20,582
Net losses/(gains) on disposal of fixed assets	15	(45)
Income tax	7,131	9,035
	39,288	86,378
Changes in operating assets		
Net decrease in deposits with the central bank, banks and other financial institutions	53,454	81,409
Net decrease in placements with banks and other financial institutions	29,391	18,283
Net decrease in financial assets held for trading	14,954	–
Net increase in loans and advances to customers	(416,007)	(248,736)
Net decrease/(increase) in financial assets held under resale agreements	53,700	(24,442)
Net increase in other operating assets	(8,000)	(22,330)
	(272,508)	(195,816)
Changes in operating liabilities		
Net decrease in deposits from banks and other financial institutions	(90,295)	(252,907)
Net increase in placements from banks and other financial institutions	44,491	11,297
Net (decrease)/increase in financial assets sold under repurchase agreements	(5,182)	4,382
Net increase in amount due to central bank	30,550	45,500
Net increase in deposits from customers	266,043	151,778
Income tax paid	(8,200)	(10,066)
Net increase in other operating liabilities	15,327	16,733
	252,734	(33,283)
Net cash flows from operating activities	19,514	(142,721)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	376,114	766,967
Investment income received	49,386	6
Proceeds from disposal of fixed assets and other assets	375	634
Payments on acquisition of investments	(366,047)	(750,800)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(4,063)	(4,489)
Net cash flows from investing activities	55,765	12,318

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

	Note VI	2018	2017
Cash flows from financing activities			
Capital injected into subsidiaries by non-controlling shareholders		265	–
Capital injection by shareholders		–	25,978
Net proceeds from issue of new debt securities		–	38,058
Repayments of debts issued		(8,615)	–
Interest paid on debt securities issued		(18,141)	(18,724)
Dividends paid		(10,953)	(6,028)
Net cash flows from financing activities		(37,444)	39,284
Effect of foreign exchange rate changes on cash and cash equivalents		1,922	(2,465)
Net increase/(decrease) in cash and cash equivalents	44(a)	39,757	(93,584)
Cash and cash equivalents as at 1 January		147,923	241,507
Cash and cash equivalents as at 31 December	44(b)	187,680	147,923
Interest received		163,589	157,079
Interest paid (excluding interest expense on debt securities issued)		(84,763)	(74,034)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018
(Expressed in millions of Renminbi, unless otherwise stated)

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the "Bank") commenced its operations in Beijing, the People's Republic of China ("the PRC") on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and the Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC"), formerly the China Banking Regulatory Commission (the former "CBRC") No. B0007H111000001 and is issued the business license of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, P. R. China.

The principal activities of the Bank and its subsidiaries (Note VI 19) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the former CBRC. The Group mainly operates in mainland China, which, for the purpose of the report, excludes the Hong Kong Special Administration Region of the PRC ("Hong Kong"), the Macau Special Administration Region of the PRC and Taiwan.

The Bank has branches in 32 provinces, autonomous regions, municipalities in mainland China, Hong Kong, Seoul in South Korea, Luxembourg and Sydney as at 31 December 2018.

These financial statements have been approved by the Board of Directors on 28 March 2019.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statement. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the "Accounting Standards for Business Enterprises-Basic Standard" issued by the Ministry of Finance of the People's Republic of China (the "MOF"), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the "PRC GAAP"). There is no difference in the net profit for the year or total equity as at the end of the year between the Group's consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018

On 1 January 2018, the Group adopted the following new standards, amendments and interpretations.

IAS 40 Amendments	*Transfers of Investment Property*
IFRS 2 Amendments	*Share-based Payment*
IFRS 4 Amendments	*Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 9 Amendments	*Prepayment Features with Negative Compensation*
IFRS 15 and Amendments	*Revenue from Contracts with Customers*
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to IFRSs 2014-2016 cycle (issued in December 2016):	
IAS 28	*Investments in Associates and Joint Ventures*

IAS 40 Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The IASB issued amendments to IFRS 4 that address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective and have been early adopted by the Group in 2018 (continued)

In October 2017, the IASB issued amendments to IFRS 9 Financial Instruments. The amendments allow financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract to be measured at amortised cost or at fair value through other comprehensive income. The amendments are effective for annual reporting periods beginning on or after 1 January 2019, but earlier application is permitted. The Group adopted IFRS 9 Amendments from 1 January 2018.

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. IFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income, net trading gains and net gains from investment securities which are covered under IFRS 9.

IFRIC Interpretation 22 clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Annual Improvements to IFRSs 2014-2016 cycle was issued in December 2016. The annual improvements process was established to make non-urgent but necessary amendments to IFRSs. The amendments of IAS 28 – Investments in Associates and Joint Ventures clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

Except for the adoption of IFRS 9, the adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project. IFRS 9 replaces IAS 39 Financial Instruments for annual periods on or after 1 January 2018. The impact of adopting IFRS 9 is included in Note V.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018

		Effective for annual periods beginning on or after
IFRS 16	*Leases*	1 January 2019
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*	1 January 2019
IAS 19 Amendments	*Employee Benefits*	1 January 2019
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*	1 January 2019
IFRS 3 Amendments	*Definition of a Business*	1 January 2020
IAS 1 and IAS 8 Amendments	*Definition of Material*	1 January 2020
IFRS 17	*Insurance Contracts*	1 January 2021
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Has not yet decided (effective date has been deferred indefinitely)
Annual Improvements to IFRSs 2015-2017 cycle (issued in December 2017)		1 January 2019

IFRS 16 Leases requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The scope of the new standard includes leases of all assets, with certain exceptions.

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profits (tax losses), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for 'significant market fluctuations' in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018 (continued)

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

In May 2017, the IASB issued IFRS 17 Insurance Contracts to replace IFRS 4 Insurance Contracts. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The Group is in the process of assessing the impact of these new standards, amendments and interpretations on the consolidated and separate financial statements of the Group and the Bank respectively.

Annual Improvements to IFRSs 2015-2017 cycle was issued in December 2017. Those amendments affect IFRS 3 – Business Combinations, IFRS 11- Joint Arrangements, IAS 12 – Income Taxes and IAS 23 – Borrowing Costs. The amendments are effective from annual period beginning on or after 1 January 2019. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2018.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2 Consolidation

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

3 Cash and cash equivalents

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

4 Foreign currency translation

When the Group 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 or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in "Other comprehensive income". Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in "Other comprehensive income". Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the statement of profit or loss.

Assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the balance sheet date. Equity items, excluding "Retained Earnings", are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders, equity with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (applicable from 1 January 2018)

5.1 Recognition and De-recognition of financial instruments

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

(1) the contractual rights to the cash flows from the financial asset expire; or

(2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flow collected to a third party in full and on time under the "pass-through agreement" and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

5.2 Classification and subsequent measurement of financial assets

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

For financial assets at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss. For other categories of financial assets, any attributable transaction costs are included in their initial costs.

Business models

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial assets portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group's key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (applicable from 1 January 2018) (continued)

5.2 Classification and subsequent measurement of financial asset (continued)

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to identity whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The subsequent measurement of financial assets depends on the classification.

Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The financial assets at amortised cost held by the Group mainly include loans and advances to customers, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial investments measured at amortised cost, etc. The Group subsequently measured these financial assets at amortized cost.

The amortized cost is determined by the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

Debt instruments at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets that the Group holds are subsequently measured at fair value. A gain or loss on a financial asset measured at fair value through other comprehensive income shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. Expected credit losses(ECL) of such financial assets shall be recognised in other comprehensive income. The impairment gain or loss shall not adjust the carrying amount of such financial assets item and be recognised in profit or loss. Such financial assets held by the Group mainly include discounted bills and debt security investments, etc.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (applicable from 1 January 2018) (continued)

5.2 Classification and subsequent measurement of financial assets (continued)

Equity instruments at fair value through other comprehensive income

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recorded in profit or loss, and subsequent changes in fair value are recorded in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recorded in other comprehensive income are transferred to retained earnings.

Financial assets shall be measured at fair value through profit or loss if one of the following conditions is met: acquired principally for the purpose of selling or repurchasing it in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; a derivative except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract.

Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured an amortised cost or at fair value through other comprehensive income. For such financial assets, the Group subsequently measured them at fair value. All gains or losses on these financial assets shall be recognized in the statement of profit or loss.

Only when accounting mismatch can be eliminated or significantly reduced, can financial assets be designated at fair value through profits and losses at initial recognition.

When an entity classified a financial asset as financial assets designated at fair value through profit or loss, it can not be reclassified as other financial assets; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swap to manage the associated interest rate risk.

Only if when the Group changes the business model of managing financial assets, the Group shall reclassify the affected financial assets.

5.3 Classification and measurement of financial liabilities

The Group classifies financial liabilities as at fair value through profit or loss or other financial liabilities at initial recognition. For financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss. For other categories of financial liabilities, any attributable transaction costs are included in the amount of initial recognition.

The subsequent measurement of financial liabilities depends on the classification:

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (applicable from 1 January 2018) (continued)

5.3 Classification and measurement of financial liabilities (continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss, includes financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition.

Financial liabilities are classified as held for trading if one of the following conditions is met: incurred principally for the purpose of selling or repurchasing it in the near term; part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; a derivative except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract. Financial liabilities held for trading(including derivatives that are financial liabilities) are subsequently measured at fair value. Except for hedging accounting, all changes in fair value are recorded in profit and loss.

Other financial liabilities

Other financial liabilities are carried at amortised cost using the effective interest method.

5.4 Impairment of financial instrument

The Group evaluates and confirms relevant impairment allowance to financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note VI 48(a)).

5.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognized less the accumulated amortization recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during certain period. The impairment losses of loan commitments is measured using ECL model.

5.6 Derivative financial instruments

The Group uses derivative financial instruments, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For derivatives not related to hedge accounting, changes in the fair value of these derivatives are recognised in the statement of profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (applicable from 1 January 2018) (continued)

5.7 Convertible corporate bonds

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in "Equity" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under "Capital reserve".

5.8 Modification of financial assets

If the Group amends or rearranges the contract with its counterparty, which does not result in the de-recognition of the financial assets, but changes the cash flow of the contract, the Group shall recalculate the amount of the financial assets as the value discounted using the original real interest rate (or credit-adjusted real interest rate) of the financial assets based on the rearranged or modified contractual cash flows, and the relevant gains or losses shall be recorded in profit or loss. The book value of the revised financial assets should be revised by the cost or expense of the modification of the financial assets, and amortised within the remaining period of the revised financial assets.

5.9 Transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing financial guarantee, the assets that arose from the continued involvement shall be determined as the lower of the book value of the financial assets and the amount of financial guarantee. The amount of financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

5.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

6 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the statement of profit or loss over the life of the agreements using the effective interest method.

8 Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note II 2.

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at the actual consideration paid if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note II 14) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

9 Fixed assets

Fixed assets are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's fixed assets mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Fixed assets (continued)

9.1 Premises, electronic equipment and others

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Asset category	Estimated useful life (years)	Estimated rate of residual value (%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

9.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate of 15%.

9.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

10 Leases

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

10.1 As lessee under operating leases

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

10.2 As lessor under operating leases

Rental income under an operating lease is recognised as "other net operating income" in the statement of profit or loss on a straight-line basis over the lease term. Contingent rental income is recognized as income in the accounting period in which they are incurred.

10.3 As lessor under finance leases

When the Group is a lessor under finance leases, the sum of present value of minimum lease payments receivable from the lessee, and initial direct cost is recognized as a receivable, the unguaranteed residual value is also recorded. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. The Group uses the effective interest method to recognise finance income for the current period.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the end of the year, finance lease receivables, net of unearned finance income, are presented as finance lease receivables in the statements of financial position.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

11 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

12 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 14). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of the profit or loss on disposal.

13 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The initial cost of repossessed assets is measured at the lower of the net carrying amount of loans and advances and the fair value of the assets less costs to sell on the acquisition date. Repossessed assets are not depreciated or amortised. The impairment losses of initial measurement and subsequent revaluation are charged to the profit or loss.

14 Provision for impairment losses on non-financial assets

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

– fixed assets;

– construction in progress;

– intangible assets;

– goodwill;

– investment in subsidiaries.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

14 Provision for impairment losses on non-financial assets (continued)

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU 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 Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

The present value of 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 a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognised the impairment loss in the income statement. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

15 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

15 Employee benefits (continued)

15.1 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.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

15.2 Post-employment benefits-defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organizations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

15.3 Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognise termination benefits in profit or loss at the earlier of:

– When the Group can no longer withdraw an offer of those benefits; and

– When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

15.4 Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

16 Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Group 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 estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

17 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

18 Other equity instruments-preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments, will be recognised as equity in the actual amount received. Dividends payables are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

19 Income recognition

19.1 Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income. 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 asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

19.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

19.3 Other income

Other income is recognised on an accrual basis.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

20 Expenses recognition

20.1 Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

20.2 Other expenses

Other expenses are recognised on an accrual basis.

21 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

– when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

21 Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

22 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting period are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

23 Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one 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 Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

24 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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 and underlying assumptions 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.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment losses on financial assets

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs.

The accounting judgements and estimates used in expected credit loss model include:

- criteria for judging a significant increase in credit risk
- definition of credit impaired assets
- parameters for the measurement of ECL
- forward-looking information
- modification of contractual cash flows

2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

3 Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

4 Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

5 Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

6 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax

Value-added tax is charged at 6%, 16%, or 17% on taxable added value.

(b) City construction tax

City construction tax is calculated as 1%-7% of business tax.

(c) Education surcharge

Education surcharge is calculated as 3% of business tax.

(d) Income tax

The income tax is calculated on taxable income. The statutory income tax rate of the Bank and domestic subsidiaries is 25%. The statutory income tax rate of CEB International Investment Co., Ltd., the Hong Kong subsidiary, is 16.5%. The statutory income tax rate of China Everbright Bank Company Limited (Europe) ("China Everbright S A.")., the Luxembourg subsidiary, is 19%.

V ACCOUNTING POLICY CHANGE

1 IFRS 9 – Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments which summarised all phased projects of financial instruments and provided new guidance for classification and measurement, impairment and hedging of financial instruments.

The Group does not restate the comparative information of financial instruments covered by IFRS 9 in 2017. Financial Instruments Accounting Policies in 2017 refer to Annual Report 2017. Therefore, the financial information in 2018 presented in financial statement is not comparable with the information in 2017 presented in IAS 39. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholders' equity as at 1 January 2018.

Classification and Measurement

In IFRS 9, investments in debt instruments are classified into three categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the debt instruments and their contractual cash flow characteristics. In addition, investments in equity instruments are required to be measured at fair value through profit or loss, unless an option is irrevocably exercised at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future.

Impairment

IFRS 9 requires that the measurement of impairment of a financial asset be changed from "incurred loss model" to "expected credit losses model" (ECL model) and this way of measurement applies to financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, and loan commitments and financial guarantee contracts, refer to Note VI 48 (a).

Impact

The Group adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact of IFRS 9 on consolidated statements, but did not restate the comparative data. The specific impact of the Group's adoption of the new guidelines is disclosed below.

(Expressed in millions of Renminbi, unless otherwise stated)

V ACCOUNTING POLICY CHANGE (CONTINUED)

1 IFRS 9 – Financial Instruments (continued)

Impact (continued)

(a) A reconciliation between the net balances under IAS 39 to the net balances reported under IFRS 9 is, as follows:

	IAS 39					IFRS 9	
	Classification (Note (i))	Net Balance	Interests receivable	Reclassification	Remeasurement	Net Balance	Classification (Note (i))
Cash and deposits with the central bank	L&R	353,703	144	–	–	353,847	AC
Deposits with banks and other financial institutions	L&R	44,754	23	–	(3)	44,774	AC
Placements with banks and other financial institutions	L&R	148,816	878	–	(214)	149,480	AC
Financial assets held under resale agreements	L&R	91,441	102	–	(3)	91,540	AC
Loans and advances to customers	L&R	1,980,818	5,803	–	(7,114)	1,979,507	AC&FVOCI
Loans and advances to to customers measured at amortised cost		1,980,818		(54,486)	(6,833)	1,919,499	AC
To: Loans and advances to customers at fair value through other comprehensive income				54,486	(281)	54,205	FVOCI
Financial lease receivables	L&R	56,364	479	–	(207)	56,636	AC
Financial assets at fair value through profit or loss	FVTPL	24,196	378	288,918	935	314,427	FVTPL
From: Available-for-sale financial assets (Note (ii))				271,363	1,473	272,836	
From: Held-to-maturity Investments (Note (iii))				2,341	(54)	2,287	
From: Debt securities classified as receivables				15,214	(484)	14,730	
Debt instruments at fair value through other comprehensive income	N/A	–	2,900	142,459	5	145,364	FVOCI
From: Available-for-sale financial assets				142,459	5	142,464	

V ACCOUNTING POLICY CHANGE (CONTINUED)

1 IFRS 9 – Financial Instruments (continued)

Impact (continued)

(a) A reconciliation between the net balances under IAS 39 to the net balances reported under IFRS 9 is, as follows (continued):

	IAS 39					IFRS 9	
	Classification (Note (i))	Net Balance	Interests receivable	Reclassification	Remeasurement	Net Balance	Classification (Note (i))
Equity instruments at fair value through other comprehensive income	N/A	–	–	109	–	109	FVOCI
From: Available-for-sale financial assets				109	–	109	
Financial investments measured at amortised cost	N/A	–	15,082	842,254	(1,295)	856,041	AC
From: Available-for-sale financial assets (Note (iv))				616	32	648	
From: Held-to-maturity investments				342,276	(150)	342,126	
From: Debt securities classified as receivables				499,362	(1,177)	498,185	
Available-for-sale financial assets	AFS	414,547		(414,547)	–	–	N/A
To: Debt instruments at fair value through other comprehensive income				(142,459)			
To: Equity instruments at fair value through other comprehensive income				(109)			
To: Financial assets at fair value through profit or loss (Note (ii))				(271,363)			
To: Financial investments measured at amortised cost (Note (iv))				(616)			
Held-to-maturity investments	HTM	344,617		(344,617)	–	–	N/A
To: Financial assets at fair value through profit or loss (Note (iii))				(2,341)			
To: Financial investments measured at amortised cost				(342,276)			
Debt securities classified as receivables	L&R	514,576		(514,576)	–	–	N/A
To: Financial assets at fair value through profit or loss				(15,214)			
To: Financial investments measured at amortised cost				(499,362)			
Others (Note (v))	L&R/FVTPL	76,524	(25,789)	–	49	50,784	FVTPL/AC

(Expressed in millions of Renminbi, unless otherwise stated)

V ACCOUNTING POLICY CHANGE (CONTINUED)

1 IFRS 9 – Financial Instruments (continued)

Impact (continued)

(a) A reconciliation between the net balances under IAS 39 to the net balances reported under IFRS 9 is, as follows (continued):

	IAS 39					IFRS 9	
	Classification (Note (i))	Net Balance	Interests receivable	Reclassification	Remeasurement	Net Balance	Classification (Note (i))
Due to the central bank	AC	232,500	3,028	–	–	235,528	AC
Deposits from banks and other financial institutions	AC	577,447	3,416	–	–	580,863	AC
Placements from banks and other financial institutions	AC	106,798	610	–	–	107,408	AC
Financial assets sold under repurchase agreements	AC	45,581	137	–	–	45,718	
Deposits from customers	AC&FVTPL	2,272,665	29,424	–	–	2,302,089	AC&FVTPL
Debt securities payable	AC	445,396	3,576	–	–	448,972	AC
Taxes payable		4,932	–	–	(576)	4,356	
Interests payable		40,206	(40,206)	–	–	–	
Other liabilities		42,318	15	–	1,500	43,833	

Note:

(i) *L&R* — *Loans and receivables*

AFS — *Available-for-sale*

FVTPL — *Fair value through profit or loss*

FVOCI — *Fair value through other comprehensive income*

AC — *Amortised cost*

HTM — *Held-to-maturity*

N/A — *Not applicable*

(ii) *On 1 January 2018, after assessing the contractual cash flow characteristics and business models, the Group reclassified some of the bonds available for sale as bonds at fair value through profit or loss.*

(iii) *On 1 January 2018, after assessing the contractual cash flow characteristics and business models, the Group reclassified some bonds held to maturity as bonds at fair value through profit or loss.*

(iv) *On 1 January 2018, after assessing the contractual cash flow characteristics and business models, the Group reclassified some bonds available for sale into bonds measured at amortised cost.*

(v) *Others comprise precious metal, interests receivable and deferred tax assets.*

V ACCOUNTING POLICY CHANGE (CONTINUED)

1 IFRS 9 – Financial Instruments (continued)

Impact (continued)

(b) A reconciliation between the impairment allowance for financial instruments under IAS 39 to amount reported under IFRS 9 is as follows:

	31 December 2017	Reclassification	Remeasurement	1 January 2018
Loans and receivables/financial assets at amortised cost				
Deposits with banks and other financial institutions	(32)	–	(3)	(35)
Precious metals	–	–	(42)	(42)
Placements with banks and other financial institutions	(14)	–	(214)	(228)
Interests receivable	(52)	–	48	(4)
Financial assets held under resale agreements	–	–	(3)	(3)
Loans and advances to customers	(51,238)	–	(6,833)	(58,071)
Debt securities classified as receivables-financial investments at amortised cost	(2,122)	261	(1,177)	(3,038)
Finance lease receivables	(1,365)	–	(207)	(1,572)
Held to maturity investments/financial assets at amortised cost				
Held to maturity investments – financial assets at amortised cost	(101)	–	(150)	(251)
Available-for-sale financial investment/ financial assets at amortised cost				
Available-for-sale financial investment-financial assets at amortised cost	(947)	–	32	(915)
Loans and receivables/financial assets at FVOCI				
Loans and advances to customers	–	–	(842)	(842)
Available-for-sale financial assets/ financial assets at FVOCI				
Available-for-sale financial investment-debt instruments at FVOCI	(6)	1	(320)	(325)
Credit commitments	(290)	–	(1,497)	(1,787)
Others	(5)	–	(3)	(8)

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	2018	2017
Interest income arising from			
Deposits with the central bank		5,100	5,263
Deposits with banks and other financial institutions		858	4,016
Placements with banks and other financial institutions		6,571	4,688
Loans and advances to customers	(a)		
– Corporate loans and advances		61,585	53,463
– Personal loans and advances		42,126	32,365
– Discounted bills		1,276	1,113
Finance lease receivables		3,379	2,729
Financial assets held under resale agreements		1,802	2,315
Investments		45,870	54,391
Subtotal	(b)	168,567	160,343
Interest expenses arising from			
Due to the central bank		8,481	6,695
Deposits from banks and other financial institutions		22,866	25,528
Placements from banks and other financial institutions		5,793	3,257
Deposits from customers			
– Corporate customers		26,763	25,193
– Individual customers		3,712	3,639
– Structured deposits from corporate customers		12,398	8,513
– Structured deposits from individual customers		8,153	4,873
Financial assets sold under repurchase agreements		1,124	1,113
Debt securities issued		18,234	20,582
Subtotal	(b)	107,524	99,393
Net interest income		61,043	60,950

Note:

(a) The interest income arising from impaired financial assets in 2018 amounted to RMB792 million (2017: RMB1,015 million).

(b) In 2017, the interest income of financial assets and the interest expenses of financial liabilities, excluding "measured at fair value through profit or loss", amounted to RMB160,341 million and RMB85,996 million, respectively.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	2018	2017
Fee and commission income		
Bank card service fees	28,644	20,372
Agency services fees	2,734	2,665
Underwriting and advisory fees	1,594	1,604
Custody and other fiduciary business fees	1,358	1,683
Settlement and clearing fees	1,279	1,066
Acceptance and guarantee fees	1,120	861
Wealth management service fees	876	3,400
Others	1,947	1,374
Subtotal	39,552	33,025
Fee and commission expense		
Bank card transaction fees	1,713	1,451
Settlement and clearing fees	288	108
Others	657	692
Subtotal	2,658	2,251
Net fee and commission income	36,894	30,774

3 Net trading gains/(losses)

	2018	2017
Trading financial instruments		
– Derivatives	(332)	(2,601)
– Debt securities	1,307	(279)
Subtotal	975	(2,880)
Financial instruments designated at fair value through profit or loss	4	(14)
Precious metal contract	92	143
Total	1,071	(2,751)

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains/(losses) arising from investment securities

	2018	2017
Net gains arising from financial investments at fair value through other comprehensive income	803	–
Net gains arising from financial investments at fair value through profit or loss	9,813	–
Net gains arising from loans and advances to customers at fair value through other comprehensive income	347	–
Net losses on disposal of financial investments measured at amortised cost	(6)	–
Net gains on disposal of available-for-sale financial assets	–	163
Net revaluation losses reclassified from other comprehensive income on disposal	(1,095)	(360)
Net gains on disposal of held-to-maturity investments	–	4
Total	9,862	(193)

5 Operating expenses

	Note	2018	2017
Staff costs			
– Salaries and bonuses		11,827	11,007
– Pension and annuity		1,811	1,681
– Housing allowances		775	701
– Staff welfares		400	365
– Supplementary retirement benefits		86	89
– Others		1,970	1,836
Subtotal		16,869	15,679
Premises and equipment expenses			
– Rental and property management expenses		2,853	2,692
– Depreciation of fixed assets		1,419	1,417
– Amortisation of other long-term assets		407	418
– Amortisation of intangible assets		338	301
Subtotal		5,017	4,828
Tax and surcharges		1,165	1,025
Other general and administrative expenses	(a)	10,655	9,270
Total		33,706	30,802

Note:

(a) Auditors' remuneration for the year ended 31 December 2018 was RMB9.00million (2017: RMB8.30 million).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows:

	Note	2018							
				Discretionary bonus			Contributions to social pension schemes	Other welfares	
		Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	RMB'000	RMB'000	Total RMB'000
Executive directors									
Ge Haijiao	(i)	–	22	17	–	39	3	11	53
Zhang Jinliang		–	311	–	–	311	9	81	401
Ma Teng		–	568	–	–	568	20	59	647
Li Jie		–	756	–	–	756	27	81	864
Non-executive directors									
Li Xiaopeng		–	–	–	–	–	–	–	–
Cai Yunge		–	–	–	–	–	–	–	–
Fu Dong	(ii)	–	–	–	–	–	–	–	–
Shi Yongyan	(ii)	–	–	–	–	–	–	–	–
Wang Xiaolin	(ii)	–	–	–	–	–	–	–	–
He Haibin	(ii)	–	–	–	–	–	–	–	–
Zhao Wei		–	–	–	–	–	–	–	–
Independent non-executive directors									
Fok Oi Ling		370	–	–	–	370	–	–	370
Qiao Zhimin		390	–	–	–	390	–	–	390
Xie Rong		370	–	–	–	370	–	–	370
Feng Lun		360	–	–	–	360	–	–	360
Wang Liguo		340	–	–	–	340	–	–	340
Xu Hongcai		–	–	–	–	–	–	–	–
Supervisors									
Li Xin		–	1,067	91	–	1,158	41	125	1,324
Yin Lianchen		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Yu Erniu		–	–	–	–	–	–	–	–
Wu Gaolian		–	–	–	–	–	–	–	–
Wang Zhe		290	–	–	–	290	–	–	290
Sun Xinhong		–	693	1,205	–	1,898	30	120	2,048
Jiang Ou		–	598	896	–	1,494	33	125	1,652
Huang Dan		–	522	1,425	–	1,947	40	125	2,112
Former non-executive directors									
Zhang Shude	(ii)	–	–	–	–	–	–	–	–
Li Huaqiang	(ii)	–	–	–	–	–	–	–	–

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows (continued):

	2017							
			Discretionary bonus			Contributions to social pension schemes	Other welfares	
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	RMB'000	RMB'000	Total RMB'000
Executive directors								
Zhang Jinliang	–	439	–	–	439	38	114	591
Ma Teng	–	1,142	–	–	1,142	40	114	1,296
Li Jie	–	1,142	–	–	1,142	40	114	1,296
Non-executive directors								
Li Xiaopeng	–	–	–	–	–	–	–	–
Gao Yunlong	–	–	–	–	–	–	–	–
Zhang Shude	–	–	–	–	–	–	–	–
Li Huaqiang	–	–	–	–	–	–	–	–
Zhao Wei	–	–	–	–	–	–	–	–
Fu Dong	–	–	–	–	–	–	–	–
Cai Yunge	–	–	–	–	–	–	–	–
Independent non-executive directors								
Fok Oi Ling	370	–	–	–	370	–	–	370
Qiao Zhimin	390	–	–	–	390	–	–	390
Xie Rong	370	–	–	–	370	–	–	370
Xu Hongcai	–	–	–	–	–	–	–	–
Feng Lun	360	–	–	–	360	–	–	360
Wang Liguo	340	–	–	–	340	–	–	340
Supervisors								
Li Xin	–	1,155	–	–	1,155	40	114	1,309
Yin Lianchen	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Yu Erniu	275	–	–	–	275	–	–	275
Wu Gaolian	275	–	–	–	275	–	–	275
Wang Zhe	280	–	–	–	280	–	–	280
Sun Xinhong	–	395	782	–	1,177	–	64	1,241
Jiang Ou	–	307	517	–	824	19	68	911
Huang Dan	–	292	824	–	1,116	23	68	1,207
Former non-executive directors								
Wu Gang	–	–	–	–	–	–	–	–
Tang Shuangning	–	–	–	–	–	–	–	–
Former supervisors								
Mu Huijun	–	191	–	–	191	7	18	216
Liu Yan	–	252	586	–	838	21	55	914
Ye Donghai	–	586	1,049	–	1,635	35	94	1,764
Deng Ruilin	–	–	–	–	–	–	–	–
	2,660	5,901	3,758	–	12,319	263	823	13,405

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows (continued):

Note:

(i) *On 21 December 2018, Mr. Ge Haijiao was elected as the Seventh Executive Director of the Board of Directors by the Bank's Second Provisional Shareholders' Meeting in 2018. Mr. Ge Haijiao's appointment as the Chairman of the board of directors has been approved by CBIRC on 22 January 2019.*

(ii) *Mr. Fu Dong was elected as non-executive director of the Bank and the appointment was approved by CBIRC on 15 March 2018.*

Mr. Shi Yongyan was elected as non-executive director of the Bank and the appointment was approved by CBIRC on 21 May 2018.

Mr. Wang Xiaolin was elected as non-executive director of the Bank and the appointment was approved by CBIRC on 12 October 2018.

Mr. Hei Haibin was elected as non-executive director of the Bank and the appointment was approved by CBIRC on 21 May 2018.

Due to the family issues, Mr Zhang Shude resigned from the position of non-executive director of the board of directors, members of the Board of Directors Risk Management Committee, Strategic Committee and Salary Committee on 13 August 2018.

Due to age, Mr Li Huaqiang resigned from the position of chairman and non-executive director of the board of directors, members of the Strategic Committee and the Audit Committee of the Board of Directors on 21 June 2018.

(iii) *The total compensation package for these directors and supervisors for the year ended 31 December 2018 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2018.*

The above directors' and supervisors' emoluments for the year ended 31 December 2018 were calculated in accordance with their actual tenure.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Individuals with highest emoluments

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	2,894	2,712
Discretionary bonuses	25,694	20,378
Contributions to pension schemes	905	790
Others	721	679
Total	30,214	24,559

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2018	2017
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	–	2
RMB4,500,001-5,000,000	–	2
RMB5,000,001-5,500,000	1	–
RMB5,500,001-6,000,000	3	–
RMB6,000,001-6,500,000	–	–
RMB6,500,001-7,000,000	–	1
RMB7,000,000-7,500,000	1	–

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting period.

8 Impairment losses on assets

	2018		
	Expected credit losses	Other credit losses	Total
Loans and advances to customers			
– measured at amortised cost	34,714	–	34,714
– measured at at fair value through other comprehensive income	(369)	–	(369)
Subtotal	34,345	–	34,345
Debt instruments at fair value through other comprehensive income	58	–	58
Financial investments measured at amortised cost	485	–	485
Finance lease receivables	170	–	170
Others	686	84	770
Total	35,744	84	35,828

	2017
Loans and advances to customers	19,700
Debt securities classified as receivables	391
Available-for-sale financial assets	207
Finance lease receivables	92
Held-to-maturity investments	(11)
Others	191
Total	20,570

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Income tax

(a) Income tax:

	Note VI	2018	2017
Current tax		9,101	10,393
Deferred tax	22(b)	(1,808)	(1,206)
Adjustments for prior year	9(b)	(162)	(152)
Total		7,131	9,035

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2018	2017
Profit before tax		40,852	40,646
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		10,213	10,162
Effect of different tax rates applied by certain subsidiaries		–	1
Non-deductible expenses			
– Staff costs		2	4
– Impairment losses on assets		1,250	1,853
– Others		334	283
Subtotal		1,586	2,140
Non-taxable income	(i)	(4,506)	(3,116)
Subtotal		7,293	9,187
Adjustments for prior year		(162)	(152)
Income tax		7,131	9,035

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividend of funds.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Profit attributable to equity holders of the Bank	33,659	31,545
Less: dividends on preference shares declared	1,450	1,450
Net profit attributable to ordinary shareholders of the Bank	32,209	30,095
Weighted average number of ordinary shares in issue (in million shares)	52,489	46,679
Basic earnings per share (in RMB/share)	0.61	0.64

Weighted average number of ordinary shares in issue (in million shares)

	2018	2017
Issued ordinary shares as at 1 January	52,489	46,679
Add: weighted average number of shares from conversion of convertible bonds	–	–
Weighted average number of ordinary shares in issue	52,489	46,679

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	2018	2017
Net profit attributable to ordinary shareholders of the Bank for the year	32,209	30,095
Add: interest expense on convertible bonds, net of tax	864	662
Net profit used to determine diluted earnings per share	33,073	30,757
Weighted average number of ordinary shares in issue (in million shares)	52,489	46,679
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,264	5,220
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	59,753	51,899
Diluted earnings per share (in RMB/share)	0.55	0.59

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Cash and deposits with the central bank

	Note	31 December 2018	31 December 2017
Cash on hand		4,721	5,584
Deposits with the central bank			
– Statutory deposit reserves	(a)	254,574	306,762
– Surplus deposit reserves	(b)	103,684	37,035
– Foreign currency risk reserves	(c)	857	880
– Fiscal deposits		2,603	3,442
Subtotal		366,439	353,703
Accrued interest		136	–
Total		366,575	353,703

Note:

(a) *The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:*

	31 December 2018	*31 December 2017*
Reserve ratio for RMB deposits	*12.0%*	*14.5%*
Reserve ratio for foreign currency deposits	*5.0%*	*5.0%*

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC.

(b) *The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.*

(c) *The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 31 December 2018, the foreign currency risk reserve ratio was 20% (31 December 2017: 0%).*

12 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Deposits in mainland China		
– Banks	12,815	35,201
– Other financial institutions	246	321
Deposits outside mainland China		
– Banks	28,382	9,264
Subtotal	41,443	44,786
Accrued interest	10	–
Total	41,453	44,786
Less: Provision for impairment losses	(448)	(32)
Net balances	41,005	44,754

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Placements in mainland China		
– Banks	20,767	23,175
– Other financial institutions	53,420	109,455
Placements outside mainland China		
– Banks	22,162	16,200
Subtotal	96,349	148,830
Accrued interest	530	–
Total	96,879	148,830
Less: Provision for impairment losses	(194)	(14)
Net balances	96,685	148,816

14 Derivatives

Derivative financial instruments included forward, swap and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the year, they do not represent exposure at risk.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Derivatives (continued)

(a) Analysed by nature of contract

	31 December 2018		
	Notional amount	Fair value Assets	Fair value Liabilities
Interest rate derivatives			
– Interest rate swap	1,972,544	4,323	(4,280)
– Interest rate futures	3,275	2	(24)
Currency derivatives			
– Foreign exchange forward	18,331	166	(237)
– Foreign exchange swap and cross-currency interest rate swap	1,215,774	9,984	(9,112)
– Foreign exchange option	124,117	640	(661)
– Foreign exchange futures	27	–	–
Credit derivatives			
– Credit swap	4,756	97	(35)
Total	3,338,824	15,212	(14,349)

	31 December 2017		
	Notional amount	Fair value Assets	Fair value Liabilities
Interest rate derivatives			
– Interest rate swap	317,001	430	(373)
– Interest rate futures	1,633	8	–
Currency derivatives			
– Foreign exchange forward	5,185	109	(73)
– Foreign exchange swap and cross-currency interest rate swap	413,183	3,906	(6,100)
– Foreign exchange option	5,289	60	(6)
Total	742,291	4,513	(6,552)

(b) Analysed by credit risk-weighted amounts

	31 December 2018	31 December 2017
Counterparty default risk-weighted assets		
– Interest rate derivatives	77	83
– Currency derivatives	1,547	946
Credit value adjustment	724	254
Total	2,348	1,283

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions, which are calculated with reference to the guidelines issued by the CBIRC in 2012.

As at 31 December 2018, the Group did not hold any derivatives used as hedge instruments in accounting treatment.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
In mainland China		
– Banks	5,395	30,740
– Other financial institutions	31,919	60,701
Outside mainland China		
– Other financial institutions	427	–
Subtotal	37,741	91,441
Accrued interest	34	–
Total	37,775	91,441
Less: Provision for impairment losses	(2)	–
Net balances	37,773	91,441

(b) Analysed by type of security held

	31 December 2018	31 December 2017
Bonds		
– Government bonds	8,196	26,984
– Other debt securities	29,545	64,204
Bank acceptances	–	253
Subtotal	37,741	91,441
Accrued interest	34	–
Total	37,775	91,441
Less: Provision for impairment losses	(2)	–
Net balances	37,773	91,441

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers

(a) Analysed by nature

	31 December 2018	31 December 2017
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,306,473	1,179,663
Discounted bills	1,339	22,389
Personal loans and advances		
– Personal housing mortgage loans	381,772	367,665
– Personal business loans	145,502	125,558
– Personal consumption loans	125,425	36,165
– Credit cards	400,504	300,616
Subtotal	1,053,203	830,004
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	26,156	–
Discounted bills	34,158	–
Subtotal	60,314	–
Total	2,421,329	2,032,056
Accrued interest	7,158	–
Gross loans and advances to customers	2,428,487	2,032,056
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(67,209)	(51,238)
Net loans and advances to customers	2,361,278	1,980,818
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(473)	–

As at 31 December 2018, part of the above loans and advances to customers was pledged for repurchase agreements, see Note VI 24 (a).

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector

	31 December 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	248,914	10.28%	78,477
Water, environment and public utility management	222,568	9.19%	103,210
Real estate	192,075	7.93%	120,395
Leasing and commercial services	150,159	6.20%	59,439
Wholesale and retail trade	111,021	4.59%	38,958
Transportation, storage and postal services	94,783	3.91%	40,528
Finance	74,177	3.06%	3,325
Construction	71,435	2.95%	26,018
Production and supply of electricity, gas and water	43,638	1.80%	11,195
Agriculture, forestry, husbandry and fishery	32,356	1.34%	8,962
Others	91,503	3.78%	38,537
Subtotal of corporate loans and advances	1,332,629	55.03%	529,044
Personal loans and advances	1,053,203	43.50%	519,182
Discounted bills	35,497	1.47%	31,119
Total	2,421,329	100.00%	1,079,345
Accrued interest	7,158		
Gross loans and advances to customers	2,428,487		
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(67,209)		
Net loans and advances to customers	2,361,278		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(473)		

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	241,125	11.87%	73,970
Water, environment and public utility management	209,223	10.30%	104,502
Real estate	142,010	6.99%	87,858
Leasing and commercial services	126,451	6.22%	51,066
Wholesale and retail trade	109,268	5.38%	40,566
Transportation, storage and postal services	91,949	4.52%	39,566
Construction	62,984	3.10%	23,547
Finance	49,780	2.45%	2,054
Production and supply of power, gas and water	42,237	2.08%	9,783
Agriculture, forestry, husbandry and fishery	20,221	1.00%	6,797
Others	84,415	4.15%	37,090
Subtotal of corporate loans and advances	1,179,663	58.05%	476,799
Personal loans and advances	830,004	40.85%	494,936
Discounted bills	22,389	1.10%	17,075
Gross loans and advances to customers	2,032,056	100.00%	988,810
Less: provision for impairment losses			
– Individually assessed	(14,219)		
– Collectively assessed	(37,019)		
Total provision for impairment losses	(51,238)		
Net loans and advances to customers	1,980,818		

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers are as follows:

	31 December 2018					
	Impaired loans and advances	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Impairment charged during the year	Written-off during the year
Manufacturing	15,086	(3,036)	(4,835)	(7,946)	10,632	4,110

	31 December 2017				
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses	Impairment charged during the year	Written–off during the year
Manufacturing	11,111	(7,200)	(7,287)	5,575	1,884
Water, environment and public utility management	1	–	(2,399)	580	–

(c) Analysed by type of collateral

	31 December 2018	31 December 2017
Unsecured loans	778,691	591,866
Guaranteed loans	563,293	451,380
Secured loans		
– By tangible assets other than monetary assets	814,026	754,180
– By monetary assets	265,319	234,630
Total	2,421,329	2,032,056
Accrued interest	7,158	–
Gross loans and advances to customers	2,428,487	2,032,056
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(67,209)	(51,238)
Net loans and advances to customers	2,361,278	1,980,818
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(473)	–

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(d) Overdue loans analysed by overdue period

	31 December 2018				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	10,014	8,443	394	29	18,880
Guaranteed loans	6,625	7,418	2,667	522	17,232
Secured loans					
– By tangible assets other than monetary assets	6,525	4,715	4,492	1,772	17,504
– By monetary assets	1,427	741	1,103	2	3,273
Subtotal	24,591	21,317	8,656	2,325	56,889
Accrued interest	349	–	–	–	349
Total	24,940	21,317	8,656	2,325	57,238
As a percentage of loans and advances to customers	1.03%	0.88%	0.35%	0.10%	2.36%

	31 December 2017				
	Overdue Within Three Months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	5,464	5,852	733	84	12,133
Guaranteed loans	5,077	4,891	4,497	1,236	15,701
Secured loans					
– By tangible assets other than monetary assets	5,452	5,263	7,363	716	18,794
– By monetary assets	488	1,014	1,820	25	3,347
Total	16,481	17,020	14,413	2,061	49,975
As a percentage of gross loans and advances to customers	0.81%	0.84%	0.71%	0.10%	2.46%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses

	31 December 2018				
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total	Impaired loans and advances as a percentage of loans and advances
Loan principal	2,245,353	137,555	38,421	2,421,329	1.59%
Accrued interest	5,354	1,576	228	7,158	
Gross loans and advances to customers	2,250,707	139,131	38,649	2,428,487	
Less: Provision for impairment losses of loans and advances in customers measured at amortised cost	(23,335)	(21,264)	(22,610)	(67,209)	
Net loans and advances to customers	2,227,372	117,867	16,039	2,361,278	

	31 December 2017				
	Loans and advances	Impaired loans and advances			
	for which provision are collectively assessed	for which provision are collectively assessed	for which provision are individually assessed	Total	Impaired loans and advances as a percentage of loans and advances
Gross loans and advances to customers	1,999,664	9,607	22,785	2,032,056	1.59%
Less: Provision for impairment losses	(30,768)	(6,251)	(14,219)	(51,238)	
Net loans and advances to customers	1,968,896	3,356	8,566	1,980,818	

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018 (i)	(18,666)	(18,271)	(21,134)	(58,071)
Transfer to stage 1	(1,073)	1,048	25	–
Transfer to stage 2	867	(898)	31	–
Transfer to stage 3	164	3,038	(3,202)	–
Charge for the year	(7,412)	(7,137)	(24,318)	(38,867)
Release for the year	2,785	956	412	4,153
Disposal	–	–	10,149	10,149
Write-offs	–	–	16,162	16,162
Recoveries	–	–	(1,527)	(1,527)
Unwinding of discount	–	–	792	792
As at 31 December 2018 (i)	(23,335)	(21,264)	(22,610)	(67,209)

Note:

(i) *Provision for impairment losses represents provision for impairment losses of loans and advances to customers measured at amortised cost.*

(ii) *As at 31 December 2018, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income is RMB473 million (1 January 2018: RMB842 million).*

	2017			
	Provision for loans and advances	Provision for impaired loans and advances		
	which are collectively assessed	which are collectively assessed	which are individually assessed	Total
As at 1 January 2017	(28,591)	(3,758)	(11,285)	(43,634)
Charge for the year	(2,392)	(4,458)	(14,087)	(20,937)
Release for the year	215	–	1,022	1,237
Recoveries	–	(638)	(246)	(884)
Unwinding of discount	–	–	1,015	1,015
Disposal	–	–	5,958	5,958
Write-offs	–	2,603	3,404	6,007
As at 31 December 2017	(30,768)	(6,251)	(14,219)	(51,238)

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(g) Analysed by geographical sector

	31 December 2018		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	478,383	19.76%	197,173
Central	382,965	15.82%	219,430
Bohai Rim	341,728	14.11%	188,325
Western	325,532	13.44%	195,562
Pearl River Delta	291,896	12.06%	187,691
Northeastern	119,667	4.94%	78,825
Overseas	78,040	3.22%	9,682
Head Office	403,118	16.65%	2,657
Total	2,421,329	100.00%	1,079,345

	31 December 2017		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	382,262	18.80%	189,936
Bohai Rim	322,013	15.84%	172,218
Central	314,516	15.48%	200,308
Western	301,306	14.83%	174,450
Pearl River Delta	235,902	11.61%	166,276
Northeastern	113,724	5.60%	75,007
Overseas	59,033	2.91%	7,955
Head Office	303,300	14.93%	2,660
Total	2,032,056	100.00%	988,810

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Loans and advances to customers (continued)

(g) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers are as follows:

	31 December 2018			
	Impaired loans and advances	Stage 1 (ECL of 12 month)	Stage 2 (ECL of whole period)	Stage 3 (ECL of whole period)
Bohai Rim	9,196	(2,387)	(2,056)	(5,856)
Yangtze River Delta	5,599	(6,787)	(4,798)	(2,898)
Pearl River Delta	4,516	(3,945)	(1,816)	(2,135)
Central	4,477	(4,412)	(2,954)	(2,328)
Western	4,398	(3,076)	(3,930)	(2,032)
Total	28,186	(20,607)	(15,554)	(15,249)

	31 December 2017		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Bohai Rim	5,281	(2,588)	(6,829)
Pearl River Delta	5,160	(2,304)	(4,533)
Yangtze River Delta	5,006	(2,947)	(6,992)
Western	4,727	(2,391)	(5,204)
Central	4,483	(2,206)	(5,076)
Total	24,657	(12,436)	(28,634)

The definitions of the regional distributions are set out in Note VI 47 (b).

(h) Rescheduled loans and advances to customers

	31 December 2018	31 December 2017
Rescheduled loans and advances to customers	15,788	19,685
Of which: Rescheduled loans and advances to customers overdue more than 90 days	801	971

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Finance lease receivables

	Note	31 December 2018	31 December 2017
Minimum finance lease receivables		74,656	65,555
Less: unearned finance lease income		(10,287)	(7,826)
Present value of minimum lease receivable		64,369	57,729
Accrued interest		588	–
Less: impairment losses		(1,624)	(1,365)
Net balance	(i)	63,333	56,364

Minimum finance lease receivables analysed by remaining period is listed as follows:

	31 December 2018	31 December 2017
Less than 1 year (inclusive)	19,073	18,401
1 year to 2 years (inclusive)	14,924	12,956
2 year to 3 years (inclusive)	12,298	10,924
More than 3 years	28,361	23,274
Total	74,656	65,555

Note:

(i) Part of finance lease receivables were pledged for borrowing from banks, see Note VI 24 (a).

18 Financial investments

	Note	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss	(a)	222,737	24,196
Debt instruments at fair value through other comprehensive income	(b)	153,987	–
Equity instruments at fair value through other comprehensive income	(c)	367	–
Financial investments measured at amortised cost	(d)	923,989	–
Available-for-sale financial assets	(e)	–	414,547
Held-to-maturity investments	(f)	–	344,617
Debt securities classified as receivables	(g)	–	514,576
Total		1,301,080	1,297,936

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(a) Financial assets at fair value through profit or loss

	Note	31 December 2018	31 December 2017
Debt securities held for trading	(i)	10,886	24,185
Financial assets designated at fair value through profit or loss	(ii)	6	11
Other financial assets at fair value through profit or loss	(iii)	211,845	–
Total		222,737	24,196

(i) *Debt instruments held for trading*

	Note	31 December 2018	31 December 2017
Issued by the following governments or institutions:			
In mainland China			
– Government		–	1,110
– Banks and other financial institutions		1,006	786
– Other institutions	(1)	8,323	21,020
Outside mainland China			
– Government		–	128
– Banks and other financial institutions		170	125
– Other institutions		1,387	1,016
Total		10,886	24,185
Listed	(2)	2,257	2,017
– of which listed in Hong Kong		1,809	1,662
Unlisted		8,629	22,168
Total		10,886	24,185

Note:

(1) Debt instruments issued by other institutions in mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(2) Listed includes debt instruments traded on the stock exchange markets.

(ii) *Financial assets designated at fair value through profit or loss*

	31 December 2018	31 December 2017
Fixed interest rate personal mortgage loans	6	11

For fixed interest rate personal mortgage loans, the Group used interest rate swap to manage the associated interest rate risk. The changes in fair value during the year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

(iii) Other financial assets at fair value through profit or loss

	31 December 2018	31 December 2017
Fund investments	180,633	–
Equity instruments	1,182	–
Others	30,030	–
Total	211,845	–

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Note	31 December 2018
In mainland China		
– Government		32,527
– Banks and other financial institutions	(1)	46,569
– Other institutions	(2)	54,903
Outside mainland China		
– Banks and other financial institutions		1,709
– Other institutions		14,942
Subtotal		150,650
Accrued interest		3,337
Total	(3)(4)	153,987
Listed	(5)	27,077
Of which listed in Hong Kong		19,855
Unlisted		123,573
Subtotal		150,650
Accrued interest		3,337
Total		153,987

Note:

(1) Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in mainland China.

(2) Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(3) As at 31 December 2018, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximates to RMB384 million.

(4) As at 31 December 2018, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements, see Note VI 24 (a).

(5) Listed includes debt instruments traded on the stock exchange markets.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income (continued)

(ii) An analysis of changes in the corresponding expected credit losses(ECL) is, as follows:

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(325)	–	–	(325)
Net charge for the year	(75)	–	–	(75)
Release for the year	17	–	–	17
Others	(1)	–	–	(1)
As at 31 December 2018	(384)	–	–	(384)

(c) Equity instruments at fair value through other comprehensive income

	Note	31 December 2018
Equity instruments at fair value through other comprehensive income	(i)	367
Listed	(ii)	15
Of which in Hongkong		–
Unlisted		352
Total		367

Note:

(i) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 31 December 2018, the fair value was RMB367 million (1 January 2018: RMB109 million). In 2018, the Group received approximates to RMB8 million dividend from the above equity instruments.

(ii) Listed includes equity instruments traded on the stock exchange markets.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(d) Financial investments measured at amortised cost

	Note	31 December 2018
Debt securities	(i)	497,775
Others	(ii)	410,350
Subtotal		908,125
Accrued interest		20,558
Total		928,683
Less: Provision for impairment losses		(4,694)
Net balance		923,989
Listed	(iii)	79,879
– of which in Hong Kong		10,193
Unlisted		823,552
Subtotal		903,431
Accrued interest		20,558
Net balance		923,989

(i) Debt securities measured at amortised cost were analysed by type and location of counterparty, as follows:

	Note	31 December 2018
In mainland China		
– Government		259,640
– Banks and other financial institutions	(1)	174,930
– Other institutions	(2)	51,150
Outside mainland China		
– Government		1,088
– Banks and other financial institutions		3,789
– Other institutions		7,178
Subtotal		497,775
Accrued interest		9,175
Total	(3)	506,950
Less: Provision for impairment losses		(1,599)
Net balance		505,351
Fair Value		512,668

Note:

(1) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in mainland China.

(2) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(3) As at 31 December 2018, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposit and derivative transactions, see Note VI 24 (a).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(ii) Other financial investments measured at amortised cost mainly include trust and other right to earnings.

(iii) Listed includes debt instruments traded on the stock exchange markets.

(iv) An analysis of changes in the corresponding ECLs is, as follows:

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(3,288)	–	(916)	(4,204)
Net charge for the year	(435)	–	(247)	(682)
Release for the year	197	–	–	197
Others	(5)	–	–	(5)
As at 31 December 2018	(3,531)	–	(1,163)	(4,694)

(e) Available-for-sale financial assets

	Note	31 December 2017
Available-for-sale debt investments	(i)	145,331
Available-for-sale equity investments	(ii)	899
Available-for-sale fund investments and others	(iii)	268,317
Total		414,547
Listed		17,961
– of which in Hong Kong		14,741
Unlisted		396,586
Total		414,547

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(e) Available-for-sale financial assets (continued)

(i) Available-for-sale debt investments

All available-for-sale debt investments were stated at fair value and issued by the following governments and institutions:

	Note	31 December 2017
In mainland China		
– Government		47,624
– Banks and other financial institutions	(1)	17,323
– Other institutions	(2)	67,837
Outside mainland China		
– Government		65
– Banks and other financial institutions		2,340
– Other institutions		10,142
Total	(3)	145,331

Note:

(1) Debt instruments issued by banks and other financial institutions mainly represent debt instruments and interbank deposits issued by banks and other financial institutions in mainland China.

(2) Debt instruments issued by other institutions mainly represent debt instruments issued by state-owned enterprises and joint stock enterprises in mainland China.

(3) As at 31 December 2017, part of the available-for-sale financial assets were pledged for repurchase agreements, time deposit and derivative contracts, see Note VI 24(a).

(4) As at 31 December 2017, the provision of the available-for-sale debt instruments impairment losses of the Group was RMB952 million.

(ii) Available-for-sale equity investments

	Note	31 December 2017
At cost		
As at 1 January		401
Additions for the year		394
Reductions for the year		(5)
As at the end of the year		790
Less: Provision for impairment losses		(1)
Subtotal	(1)	789
At fair value		110
Total		899

Note:

(1) Available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any allowance for impairment losses. There is no active market for these investments, and the Group intends to dispose of them when the opportunity is suitable.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(e) Available-for-sale financial assets (continued)

(iii) Available-for-sale fund investments and others

	31 December 2017
Measured at fair value	
– Banks and other financial institutions in mainland China	268,317
Total	268,317

(iv) Movements of allowance for impairment losses of available-for-sale financial assets during 2017 are as follows:

	Available-for-sale debt investments	Available-for-sale equity investments	Total
As at 1 January 2017	745	1	746
Charge for the year	207	–	207
As at 31 December 2017	952	1	953

(f) Held-to-maturity investments

Debt instruments analysed by type and location:

	Note	31 December 2017
In mainland China		
– Government		257,283
– Banks and other financial institutions		71,603
– Other institutions	(i)	11,340
Outside mainland China		
– Government		166
– Banks and other financial institutions		1,612
– Other institutions		2,714
Total	(ii)	344,718
Less: Provision for impairment losses		(101)
Net balances		344,617
Listed	(iii)	4,708
– of which in Hong Kong		2,538
Unlisted		339,909
Net balances		344,617
Fair value		335,894

Note:

(i) As at December 31 2017, debt instruments issued by other institutions mainly represent debt instruments issued by state-owned enterprises and joint stock enterprises in mainland China.

(ii) On December 31 2017, part of the held-to-maturity investments were pledged as instruments for repurchase agreements, time deposits contracts and derivative, see Note VI 24(a).

(iii) Listed includes debt instruments traded on the stock exchange markets.

(iv) The Group disposed held to maturity bond investment with a notional amount of RMB650 million prior to their maturity dates in 2017, which account for 0.19% of the portfolio before disposal.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Financial investments (continued)

(g) Debt securities classified as receivables

	Note	31 December 2017
Wealth management products issued by financial institution	(i)	5,096
Beneficiary interests in trust and other plans	(ii)	509,276
Others		2,326
Total		516,698
Less: Provision for impairment losses		(2,122)
Net balances		514,576

Note:

(i) *Wealth management products issued by financial institutions are fixed-term and principle guaranteed products.*

(ii) *Beneficiary interests in trust and other plans are mainly beneficial interests issued by trust companies, securities companies, insurance companies and asset management companies. As at 31 December 2017, none of investments in the plans for transfer of beneficial interests held by the Group were under forward sale contracts with other financial institutions in mainland China. The fair values of the above mentioned investments approximate to their carrying amount.*

19 Investments in subsidiaries

	Note	31 December 2018	31 December 2017
Everbright Financial Leasing Co., Ltd.	(a)	4,680	2,700
CEB International Investment Co., Ltd.	(b)	2,267	1,379
Shaoshan Everbright Rural Bank Co., Ltd.	(c)	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	(d)	70	70
China Everbright Bank Company Limited (Europe)	(e)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	(f)	105	–
Total		7,383	4,410

Note:

(a) *Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") was incorporated on 19 May 2010 in Wuhan city of Hubei Province, with registered capital of RMB800 million. The Bank holds 90% of equity interests and voting rights of Everbright Financial Leasing. In October 2014, all shareholders of Everbright Financial Leasing increased their capital by RMB2.20 billion to Everbright Financial Leasing in proportion to their original shares, Among them, the bank contributed RMB1.98 billion. At the same time, Everbright Financial Leasing will increase registered capital by RMB700 billion of undistributed profits. After the capital increase, the registered capital of Everbright Financial Leasing is RMB3.70 billion. In July and November 2018, all shareholders of Everbright Financial Leasing increased their capital twice by RMB1.10 billion to Everbright Financial Leasing in proportion to their original shares, Among them, the bank contributed RMB1.98billion. After the capital increase, the registered capital of Everbright Financial Leasing is RMB5.90 billion.*

(b) *CEB International Investment Co., Ltd. ("CEBI") was incorporated on 9 November 2015 in Hong Kong, with registered capital of HKD600 million, which equals to RMB494 million approximately, according to the spot exchange rate 0.823655, on the day of transferring the registration capital. The principal activity of CEBI is the provision of investment banking business activities. On 25 April 2017, the Bank increased the capital of CEBI by HKD1.00 billion, which equals to RMB885 million approximately, according to the spot exchange rate 0.884857, on the day of transferring the registration capital. After the capital increase, the registered capital of CEBI is HKD1,600 million, equivalent to approximately RMB1,379 million. On 12 November 2018,the bank increased the capital of CEBI by HKD1.00 billion, which equals to RMB888 million approximately, according to the spot exchange rate 0.8879, on the of transferring the registration capital. After the capital increase, the registered capital of CEBI is HKD2.60 billion, which is about RMB2.267 billion. The bank holds 100% of equity interests and voting rights of CEBI.*

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Investments in subsidiaries (continued)

(c) *Shaoshan Everbright Rural Bank Co., Ltd. ("Shaoshan Everbright") was incorporated on 24 September 2009 in Shaoshan city of Hunan Province, with registered capital of RMB150 million. The principal activities of Shaoshan Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Shaoshan Everbright.*

(d) *Jiangsu Huai'an Everbright Rural Bank Co., Ltd. ("Huai'an Everbright") was incorporated on 1 February 2013 in Huai'an city of Jiangsu Province, with registered capital of RMB100 million. The principal activities of Huai'an Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Huai'an Everbright.*

(e) *China Everbright Bank Company Limited (Europe) ("China Everbright S A.")was approved by the European Central Bank and was incorporated on July 2017 in Luxembourg, with registered capital of EUR 20 million, equivalent to RMB156 million at the spot exchange rate of 7.78096 on the date of transfering of registered capital. The principal activities of China Everbright S A is the provision of corporate banking services. The Bank holds 100% of equity interests and voting rights of China Everbright S A.*

(f) *Jiangxi Ruijin Everbright Rural Bank Co., Ltd. ("Ruijin Everbright") was incorporated on November 2018 in Ruijin city of Jiangxi Province, with registered capital of RMB150 million. The principal activities of Ruijin Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Ruijin Everbright.*

20 Fixed Assets

	Premises Note (i)	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2018	11,404	2,752	1,606	6,060	3,753	25,575
Additions	247	3,129	622	468	496	4,962
Transfers in/(out)	128	–	(128)	–	–	–
Disposals	(42)	(322)	–	(334)	(80)	(778)
Foreign currency conversion difference	–	166	–	1	3	170
As at 31 December 2018	11,737	5,725	2,100	6,195	4,172	29,929
Accumulated depreciation						
As at 1 January 2018	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Charge for the year	(360)	(130)	–	(593)	(336)	(1,419)
Disposals	1	1	–	317	68	387
Foreign currency conversion difference	–	(8)	–	–	(2)	(10)
As at 31 December 2018	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Provision for impairment						
As at 1 January 2018	(159)	–	–	–	–	(159)
As at 31 December 2018	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2018	7,875	5,485	2,100	1,406	1,375	18,241

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Fixed Assets (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2017	11,170	2,266	949	5,731	3,536	23,652
Additions	234	1,224	675	460	264	2,857
Transfers (out)/in	–	–	(18)	(1)	1	(18)
Disposals	–	(600)	–	(129)	(45)	(774)
Foreign currency conversion difference	–	(138)	–	(1)	(3)	(142)
As at 31 December 2017	11,404	2,752	1,606	6,060	3,753	25,575
Accumulated depreciation						
As at 1 January 2017	(2,995)	(50)	–	(3,949)	(2,271)	(9,265)
Charge for the year	(349)	(82)	–	(685)	(301)	(1,417)
Disposals	–	24	–	121	43	188
Foreign currency conversion difference	–	5	–	–	2	7
As at 31 December 2017	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Provision for impairment						
As at 1 January 2017	(159)	–	–	–	–	(159)
As at 31 December 2017	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2017	7,901	2,649	1,606	1,547	1,226	14,929

Note:

(i) *As at 31 December 2018, title deeds were not yet finalised for the premises with a carrying amount of RMB141 million (31 December 2017: RMB148 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.*

(ii) *As at 31 December 2018, Everbright Financial Leasing Co., Ltd., the Group's subsidiary leases certain aircrafts and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB5,485 million (31 December 2017: RMB2,649 million).*

The net book values of premises at the end of the year are analysed by the remaining terms of the leases as follows:

	31 December 2018	31 December 2017
Held in mainland China		
– Medium term leases (10 – 50 years)	7,795	7,807
– Short term leases (less than 10 years)	80	94
Total	7,875	7,901

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Goodwill

	31 December 2018	31 December 2017
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed an "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank's cash flow forecast is 14% (2017: 14%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

22 Deferred tax assets and liabilities

(a) Analysed by nature

	31 December 2018		31 December 2017	
	Temporary difference	Deferred tax assets /(liabilities)	Temporary difference	Deferred tax assets /(liabilities)
Deferred income tax assets	43,175	10,794	30,385	7,596
Deferred income tax liabilities	–	–	–	–
Net balances	43,175	10,794	30,385	7,596

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

	Provision for impairment losses Note (ii)	Net losses/ (gains) from fair value changes of financial instruments Note (iii)	Accrued staff costs and others	Net balance of deferred tax assets
31 December 2017	4,918	1,131	1,547	7,596
Impact of adopting new standards (Note (i))	2,446	(98)	–	2,348
1 January 2018	7,364	1,033	1,547	9,944
Recognised in profit or loss	2,284	(673)	197	1,808
Recognised in other comprehensive income	76	(1,034)	–	(958)
31 December 2018	9,724	(674)	1,744	10,794

	Provision for impairment losses Note (ii)	Net losses/ (gains) from fair value changes of financial instruments Note (iii)	Accrued staff costs and others	Net balance of deferred tax assets
1 January 2017	4,512	(324)	1,434	5,622
Recognised in profit or loss	406	687	113	1,206
Recognised in other comprehensive income	–	768	–	768
31 December 2017	4,918	1,131	1,547	7,596

Note:

(i) Due to impact of adopting new standards, valuation of financial instruments under IFRS 9 causes the fair value and the relative provision for impairment losses to vary, which reflects the corresponding changes in deferred tax assets.

(ii) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses were determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purpose are calculated at the proportion of the loan principal for agriculture, small sited or medium–sized enterprises provisioned in PRC tax rules, together with write-offs which fulfill specific criteria as set out in the PRC tax rules and are approved by the tax authorities.

(iii) Net losses/(gains) on fair value changes of financial instruments are subject to tax when realised.

(iv) Unrecognised deferred tax assets

As at 31 December 2018, the Group has not recognised deferred tax assets of RMB7,930 million (31 December 2017: RMB6,928 million) for provision of impairment losses amounting to RMB31,721 million (31 December 2017: RMB27,710 million). This was mainly because it was uncertain whether the losses from write-offs of the impaired assets could be approved by the relevant tax authorities in the foreseeable future.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23 Other assets

	Note	31 December 2018	31 December 2017
Other receivables	(a)	13,106	8,127
Fixed assets purchase prepayment		509	2,088
Long-term deferred expense		1,103	1,223
Intangible assets		1,171	992
Repossessed assets		458	476
Land use rights		94	100
Accrued interest		293	–
Others		3,713	4,158
Total		20,447	17,164

Note:

(a) Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.

24 Pledged assets

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities include discounted bills, debt securities and finance lease receivables. They are mainly pledged for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 31 December 2018 is RMB95,841 million (31 December 2017: RMB74,231 million).

(b) Collaterals received

The Group accepted securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in 2018. As at 31 December 2018, the Group's collateral received from banks and other financial institutions has expired (31 December 2017: Nil). As at 31 December 2018, the Group had no collateral that were sold or re-pledged, but was obligated to return (31 December 2017: Nil). These transactions are conducted under standard terms in the normal course of business.

25 Due to the central bank

	31 December 2018	31 December 2017
Due to central banks	263,050	232,500
Accrued interest	4,143	–
Total	267,193	232,500

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Deposits in mainland China		
– Banks	168,466	155,111
– Other financial institutions	316,855	416,005
Deposits outside mainland China		
– Banks	1,831	6,331
Subtotal	487,152	577,447
Accrued interest	2,939	–
Total	490,091	577,447

27 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Placements in mainland China		
– Banks	75,109	61,686
– Other financial institutions	7,156	404
Placements outside mainland China		
– Banks	69,024	44,708
Subtotal	151,289	106,798
Accrued interest	748	–
Total	152,037	106,798

28 Financial liabilities at fair value through profit or loss

	31 December 2018	31 December 2017
Short position in debt securities	354	–
Total	354	–

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
In mainland China		
– Banks	40,347	45,581
Outside mainland China		
– Other financial institutions	46	–
Subtotal	40,393	45,581
Accrued interest	18	–
Total	40,411	45,581

(b) Analysed by collateral

	31 December 2018	31 December 2017
Bank acceptances	7,336	4,471
Debt securities	33,057	41,110
Subtotal	40,393	45,581
Accrued interest	18	–
Total	40,411	45,581

30 Deposits from customers

	31 December 2018	31 December 2017
Demand deposits		
– Corporate customers	732,628	709,342
– Individual customers	191,592	176,416
Subtotal	924,220	885,758
Time deposits		
– Corporate customers	678,113	673,652
– Individual customers	149,779	108,399
Subtotal	827,892	782,051
Structured deposits		
– Corporate customers	311,925	196,313
– Individual customers	170,533	96,280
Subtotal	482,458	292,593
Pledged deposits	220,284	220,892
Other deposits	83,854	91,371
Subtotal deposits from customers	2,538,708	2,272,665
Accrued interest	33,253	–
Total	2,571,961	2,272,665

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Accrued staff costs

	Note	31 December 2018	31 December 2017
Salary and welfare payable		6,904	7,452
Pension payable	(a)	281	291
Supplementary retirement benefits payable	(b)	843	669
Total		8,028	8,412

Note:

(a) *Pension scheme*

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

In addition to the basic retirement scheme above, the Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in prior year, which are expensed to profit or loss when the contributions are made.

(b) *Supplementary retirement benefits ("SRB")*

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the year. The Group's obligations in respect of the SRB were accessed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Willis Towers Watson Management Consulting (Shenzhen) Co., Ltd.

(i) *The balances of SRB of the Group are as follows:*

	31 December 2018	*31 December 2017*
Present value of SRB obligation	*843*	*669*

(ii) *Movements of SRB of the Group are as follows:*

	2018	*2017*
As at 1 January	*669*	*658*
Current service cost	*56*	*65*
Interest cost	*30*	*24*
Remeasurement of defined benefit plan	*102*	*(63)*
Payments made	*(14)*	*(15)*
As at 31 December	*843*	*669*

Remeasurement of defined benefit plan was recognised in other comprehensive income, see Note VI 38.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Accrued staff costs (continued)

Note: (continued)

(b) *Supplementary retirement benefits ("SRB")* (continued)

(iii) *Principal actuarial assumptions of the Group are as follow:*

	31 December 2018	31 December 2017
Discount rate	4.00%	4.50%
Medical cost trend rate	5.88%	5.88%
Average expected future lifetime	22.80	22.80

(iv) *Sensitivity analysis:*

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumption constant, would have affected the defined benefit obligation by the amounts shown below.

	31 December 2018	
	Increase	Decrease
Discount rate (1% movement)	(222)	244
Medical cost trend rate (1% movement)	260	(183)

	31 December 2017	
	Increase	Decrease
Discount rate (1% movement)	(167)	182
Medical cost trend rate (1% movement)	193	(137)

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

Except as mentioned in Note(a) and Note(b) above, the Group has no significant responsibilities to pay any other retirement benefits to retired employees.

32 Taxes payable

	31 December 2018	31 December 2017
Income tax payable	3,076	2,914
Value added tax payable	2,169	1,685
Others	421	333
Total	5,666	4,932

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued

	Note	31 December 2018	31 December 2017
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	54,940	52,743
Tier-two capital bonds	(c)	56,170	56,165
Convertible bonds issued	(d)	26,618	25,597
Interbank deposits issued	(e)	265,894	284,457
Certificates of deposits issued	(f)	9,711	10,000
Medium term notes	(g)	16,747	9,734
Subtotal		436,780	445,396
Accrued interest		3,669	–
Total		440,449	445,396

(a) Subordinated debts

	Note	31 December 2018	31 December 2017
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Note:

(i) Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.

(ii) As at 31 December 2018, the fair value of the total subordinated debt securities issued approximates to RMB6,960 million (31 December 2017: RMB6,549 million).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(b) Financial bonds

	Note	31 December 2018	31 December 2017
Financial fixed rate bonds maturing in June 2018	(i)	–	2,800
Financial fixed rate bonds maturing in February 2020	(ii)	27,976	27,970
Financial fixed rate bonds maturing in July 2020	(iii)	21,978	21,973
Financial fixed rate bonds maturing in November 2021	(iv)	4,986	–
Total		54,940	52,743

Note:

(i) *Fixed rate financial bonds of RMB3.50 billion with a term of three years were issued by Everbright Financial Leasing Co., Ltd on 16 June 2015. The coupon rate is 4.00% per annum. As at 31 December 2017, the Bank held RMB0.70 billion of these bonds.*

(ii) *Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.*

(iii) *Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.*

(iv) *Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing Co., Ltd on 8 November 2018. The coupon rate is 4.12% per annum.*

(v) *As at 31 December 2018, the fair value of the total financial bond securities issued approximates to RMB55,369 million (31 December 2017: RMB51,533 million).*

(c) Tier-two capital bonds

	Note	31 December 2018	31 December 2017
Tier-two capital fixed rate bonds maturing in June 2024	(i)	16,200	16,200
Tier-two capital fixed rate bonds maturing in March 2027	(ii)	27,980	27,976
Tier-two capital fixed rate bonds maturing in August 2027	(iii)	11,990	11,989
Total		56,170	56,165

Note:

(i) *Fixed rate tier-two capital bonds of RMB16.20 billion with a term of ten years were issued on 9 June 2014. The coupon rate is 6.20% per annum. The Group has an option to redeem the debts on 10 June 2019 at the nominal amount.*

(ii) *Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.*

(iii) *Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.*

(iv) *As at 31 December 2018, the fair value of the total tier-two capital bonds approximates to RMB56,669 million (31 December 2017: RMB53,741 million).*

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(d) Convertible bonds issued

	31 December 2018	31December 2017
Fixed rate convertible bonds issued in March 2017	26,618	25,597

The convertible bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note VI.36	Total
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Amortisation during 2017		835	–	835
Balance as at 31 December 2017		25,597	5,161	30,758
Amortisation during this year		1,022	–	1,022
Conversion Amount	(iv)	(1)	–	(1)
Balance as at 31 December 2018		26,618	5,161	31,779

Note:

(i) Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the forth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of par value, including interest for the sixth year.

(ii) During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.

(iii) Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2018, the new conversion price is RMB4.13 per share.

(iv) As at 31 December 2018, a total of RMB730,000 (31 December 2017: RMB137,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 170,354 (31 December 2017: 32,138 shares).

(v) In 2018, a total of RMB60 million interests have been paid by the Bank related to the convertible bonds (2017: Nil).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Debt securities issued (continued)

(e) Interbank deposits issued

In 2018, 246 inter-bank deposits were issued by the Bank and measured at amortised cost with carrying amount of RMB615,500 million (2017: RMB686,630 million). The carrying amount of inter-bank deposits due in 2018 was RMB631,950 million (2017: RMB752,020 million). As at 31 December 2018, the fair value of its outstanding interbank deposits was RMB263,247 million (31 December 2017: RMB280,452 million).

(f) Certificates of deposits issued

As at 31 December 2018, the certificates of deposits were issued by the Bank's Hong Kong branch and Seoul branch and measured at amortised cost. The fair value of the certificates of deposits issued approximates to their carrying amount.

(g) Medium term notes

	Note	31 December 2018	31 December 2017
Medium term notes with fixed rate maturing in 15 September 2019	(i)	3,423	3,239
Medium term notes with fixed rate maturing in 8 March 2020	(ii)	3,423	3,239
Medium term notes with floating rate maturing in 13 June 2020	(iii)	3,432	3,256
Medium term notes with floating rate maturing in 13 June 2021	(iv)	2,356	–
Medium term notes with floating rate maturing in 13 June 2021	(v)	2,059	–
Medium term notes with floating rate maturing in 19 September 2021	(vi)	2,054	–
Total		16,747	9,734

Note:

(i) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 8 September 2016. The coupon rate is 2.00% per annum.

(ii) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.

(iii) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.

(iv) Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.

(v) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.

(vi) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.

(vii) As at 31 December 2018, the fair value of the medium term notes approximates to RMB16,689 million (31 December 2017: RMB9,677 million).

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34 Other liabilities

	Note	31 December 2018	31 December 2017
Deferred income	(a)	6,808	4,365
Bank Loans	(b)	5,744	3,872
Deferred emoluments payment	(c)	5,078	4,663
Finance leases payable		4,944	3,294
Provisions	(d)	2,258	317
Payment and collection clearance accounts		908	5,243
Dormant accounts		310	336
Dividend payables		21	20
Others		18,249	20,208
Total		44,320	42,318

Note:

(a) Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.

(b) As at 31 December 2018, Everbright Financial Leasing Co., Ltd., the Group's subsidiary borrowed long-term loans with a terms from 3 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loan is RMB5,744 million (31 December 2017: RMB3,872 million).

(c) As at 31 December 2018, the deferred emoluments payment amounted to RMB5,078 million(31 December 2017: RMB4,663 million), which is related to deferred emoluments payment to employees in respect of services provided to the Group. Such amount will be distributed according to plans.

(d) As at 31 December 2018, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB147 million (31 December 2017: RMB17 million).

35 Share capital

The Bank's shareholding structure as at the end of the year is as follows:

	31 December 2018	31 December 2017
Ordinary shares listed in mainland China (A share)	39,810	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	52,489	52,489

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

36 Other equity instrument

	Note VI	31 December 2018	31 December 2017
Preference shares (Note(a), (b), (c), (d))		29,947	29,947
Equity of convertible bonds	33(d)	5,161	5,161
Total		35,108	35,108

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other equity instrument (continued)

(a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1					
2015-6-19	5.30%	100	200	20,000	Mandatory conversion trigger events
Everbright P2					
2016-8-8	3.90%	100	100	10,000	Mandatory conversion trigger events
SubTotal				30,000	
Less:					
Issuing costs				(53)	
Book value				29,947	

(b) Main Clauses

(i) Dividend

Fixed rate for the first 5 years after issuance;

Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread;

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds and holders of Convertible bonds, but will be senior to the ordinary shareholders.

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Trigger Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the Preference Shares into A shares, in order to restore the Common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; if Preference Shares were converted to A shares, it could not be converted to Preference Shares again.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other equity instrument (continued)

(b) Main Clauses (continued)

(v) Mandatory conversion trigger events (continued)

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; or (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all Preference Shares into A shares.

(vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the Preference Shares on any redeemable day (the payment date for dividends of the Preference Shares each year) after the fifth year following the completion date of the Issuance of the Preference Shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the Preference Shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the Preference Shares. Where redemption is in part, the Preference Shares shall be redeemed based on the same proportion and conditions. Preference Shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

(c) Changes in Preference shares outstanding

	1 January 2018		Additions for the year		31 December 2018	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	–	–	300	29,947

	1 January 2017		Additions for the year		31 December 2017	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	–	–	300	29,947

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Other equity instrument (continued)

(d) Interests attributable to equity instruments' holders

Items	31 December 2018	31 December 2017
Total equity attributable to equity shareholders of the Bank	321,488	304,760
– Equity attributable to ordinary shares holders of the Bank	291,541	274,813
– Equity attributable to preference shares holders of the Bank	29,947	29,947
Total equity attributable to non-controlling interests	985	676
– Equity attributable to non-controlling interests of ordinary shares	985	676
– Equity attributable to non-controlling interests of preference shares	–	–

37 Capital reserve

	31 December 2018	31 December 2017
Share premium	53,533	53,533

38 Other comprehensive income

	31 December 2018	31 December 2017
Items that will not be reclassified to profit or loss		
Fair value changes on equity instrument at fair value through other comprehensive income	10	–
Remeasurement of defined benefit plan	(123)	(21)
Subtotal	(113)	(21)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	1,748	–
– Net change in fair value	1,094	–
– Net change in expected credit loss	654	–
Fair value changes on available-for-sale financial assets	–	(1,778)
Exchange differences on translation of financial statements	20	(46)
Subtotal	1,768	(1,824)
Total	1,655	(1,845)

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Other comprehensive income (continued)

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Fair value change on available-for-sale financial assets	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of defined benefit plan	Total
As at 1 January 2017	–	–	–	552	41	(84)	509
Changes in amount for the previous year	–	–	–	(2,330)	(87)	63	(2,354)
As at 31 December 2017	–	–	–	(1,778)	(46)	(21)	(1,845)
Impact of adopting new standards	(1,948)	887	8	1,778	–	–	725
As at 1 January 2018	(1,948)	887	8	–	(46)	(21)	(1,120)
Changes in amount for the year	3,042	(233)	2	–	66	(102)	2,775
As at 31 December 2018	1,094	654	10	–	20	(123)	1,655

39 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the year represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Appropriation of profits

(a) At the Board Meeting held on 28 March 2019, the Board of Directors approved the following profit appropriations for the year ended 31 December 2018:

- Appropriated RMB3,317 million (10% of the net profit of the Bank) to surplus reserve;
- Appropriated RMB1,701 million to general reserve; and
- Distributed cash dividends to all shareholders, with a dividend of RMB1.61 per 10 shares before tax. Based on the 52.489 billion shares issued by the Bank as at 31 December 2018, the cash dividends totaled RMB8.451 billion.

(b) At the Annual General Meeting of shareholders held on 22 June 2018, the shareholders approved the following profit appropriations for the year ended 31 December 2017:

- Appropriated RMB3,103 million (10% of the net profit of the Bank) to surplus reserve;
- Appropriated RMB809 million to general reserve; and
- Declared cash dividends to all shareholders of RMB9,501 million representing RMB1.81 per 10 shares before tax.

(c) At the Board Meeting held on 27 April 2018, the dividend distribution of the first preference shares was approved by the Board of Directors:

Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, start accruing from 25 June 2017, and are calculated using the 5.30% of dividend yield ratio for China Everbright Bank the first phase preference shares.

(d) At the Board Meeting held on 20 July 2018, the dividend distribution of the second preference shares was approved by the Board of Directors.

Declared cash dividends to preference shareholders of RMB390 million representing RMB3.90 per share before tax, start accruing from 13 August 2017, and are calculated using the 3.90% of dividend yield ratio for China Everbright Bank the second phase preference shares.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Involvement with structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities as at 31 December 2018:

	31 December 2018		31 December 2017	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	180,633	180,633	–	–
– Asset management plans	8,693	8,693	–	–
Financial investments measured at amortised cost				
– Asset management plans	418,639	418,639	–	–
– Asset-backed securities	31,509	31,509	–	–
Debt securities classified as receivables	–	–	514,576	514,576
Available-for-sale financial assets				
– Fund investments	–	–	235,917	235,917
– Wealth management products	–	–	32,400	32,400
Held-to-maturity investments				
– Asset-backed securities	–	–	4,330	4,330
Total	639,474	639,474	787,223	787,223

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2018, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial positions.

As at 31 December 2018, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB689,002 million (31 December 2017: RMB737,881 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2018 but matured before 31 December 2018 amounted to RMB18,124 million (31 December 2017: RMB305,671 million).

In 2018, the amount of fee and commission income received from the unconsolidated structured entities by the Group amounted to RMB876 million (2017: RMB3,400 million).

For the purpose of asset-liability management, wealth management products may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into placements transactions with these wealth management products in accordance with market principles. As at 31 December 2018, the balance of above trading was RMB15,230 million (31 December 2017: RMB16,000 million). Such financing provided by the Group was included in “Placements with banks and other financial institutions”. The maximum exposure to loss of those placements approximated to the carrying amount. In 2018, the amount of interest receivables provided by the above financing being recognised are not material for the Group in the statement of profit or loss.

In addition, as at 31 December 2018, the Group hold interests in the unconsolidated structured entities of asset securitization transactions, refer to Note VI 42. In 2018, the Group’s income from these structured entities was immaterial.

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor’s principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial assets and financial liabilities items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group’s returns.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Credit assets backed securitization

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB118 million as at 31 December 2018 (31 December 2017: RMB265 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB8,127 million as at 31 December 2018 (31 December 2017: RMB8,127 million) and the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB267 million as at 31 December 2018 (31 December 2017: RMB550 million).

Transfer of right to earnings

The Group enters into transfer of right to earnings of credit assets transactions in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors. As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2018, loans with an original carrying amount of RMB3,776 million (31 December 2017: RMB5,957 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches. As at 31 December 2018, the carrying amount of assets that the Group continues to recognise amounts to RMB1,097 million (31 December 2017: RMB2,537 million).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The Group's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the year, the Group complied with the capital requirements imposed by the regulatory authorities.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements.

	31 December 2018	31 December 2017
Total common equity tier-one capital	292,093	275,302
Share capital	52,489	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	60,349	56,849
Surplus reserve	24,371	21,054
General reserve	54,036	52,257
Retained earnings	100,296	92,164
Qualifying portions of non-controlling interests	552	489
Common equity tier-one capital deductions	(2,455)	(2,276)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use right	(1,171)	(992)
Net deferred tax assets arising from operating losses that depend on future profits	(3)	(3)
Net common equity tier-one capital	289,638	273,026
Additional tier-one capital	30,021	30,012
Additional tier-one capital instruments	29,947	29,947
Qualifying portions of non-controlling interests	74	65
Tier-one capital net	319,659	303,038
Tier-two capital	92,353	82,486
Qualifying portions of tier-two capital instruments issued and share premium	62,870	62,865
Excess loan loss provisions	29,336	19,498
Qualifying portions of non-controlling interests	147	123
Net capital base	412,012	385,524
Total risk-weighted assets	3,166,668	2,856,800
Common equity tier-one capital adequacy ratio	9.15%	9.56%
Tier-one capital adequacy ratio	10.09%	10.61%
Capital adequacy ratio	13.01%	13.49%

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents

	31 December 2018	31 December 2017
Cash and cash equivalents as at 31 December	187,680	147,923
Less: Cash and cash equivalents as at 1 January	147,923	241,507
Net increase/(decrease) in cash and cash equivalents	39,757	(93,584)

(b) Cash and cash equivalents

	31 December 2018	31 December 2017
Cash on hand	4,721	5,584
Deposits with the central bank	103,684	37,035
Deposits with banks and other financial institutions	34,686	37,625
Placements with banks and other financial institutions	44,589	67,679
Total	187,680	147,923

45 Related party relationships and transactions

(a) The immediate and ultimate parent Companies

The immediate and ultimate parents of the Group are China Everbright Group Ltd. ("China Everbright Group") and China Investment Corporation.

The uniform social credit code of China Everbright Group is 91100000102063897J, and the transactions and balances with China Everbright Group and its affiliates are listed in Note VI 45(b).

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

(i) Other related parties information

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co., Ltd. ("Everbright Securities")	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright International Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Industry (Group) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Investment and Assets Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Real Estate Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Financial Holding Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Life Insurance Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Xinglong Trust Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Pramerica Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Futures Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Fortune Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Capital Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happy Life International Leasing Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Yunfu Internet Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Jinhui Asset Management Co., Ltd. (Shanghai)	Affiliate of China Everbright Group Ltd.
– Everbright jin'ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
– Wuxi Everbright Real Estate Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Lide Asset Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Other related parties having transactions with the Group: (continued)

Related party	Relationship with the Group
Affiliated companies (continued)	
– Jiaxing Meiyin Investnent Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Baode Trust Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management (Shenzhen) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sunshine Fuzun (Shenzhen) Financial Services Consulting Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Banks and Securities Data Network Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Securities International Limited	Affiliate of China Everbright Group Ltd.
– Everbright Securities Finance Holding Limited	Affiliate of China Everbright Group Ltd.
– Everbright International Hotel Property Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Photon Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Deshang Investment Management (Shenzhen) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Ivy Investment Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Beijing Wenzi Everbright cultural and creative industry Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Beijing Everbright Wudaokou Investment Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Securities Equity Investment Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Other related parties having transactions with the Group: (continued)

Related party	Relationship with the Group
Affiliated companies (continued)	
– Shanghai Amman Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Aircraft Leasing Group Holding Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service (Group) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Cachet Pharmaceutical Company Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service Limited	Affiliate of China Everbright Group Ltd.
– Everbright Technology Co., Ltd.	Affiliate of China Everbright Group Ltd.
Other related parties	
– Overseas Chinese Town Holding Company	Shareholder, common key management
– China Re Asset Management Co., Ltd.	Common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust Co., Ltd.	Common key management
– COSCO Finance Co., Ltd.	Common key management
– Shanghai Baosight Software Co., Ltd.	Common key management
– SAIC Motor Co., Ltd.	Common key management
– Vantone Holdings Co., Ltd.	Common key management
– Haitong Securities Co., Ltd.	Common key management
– China UnionPay Co., Ltd.	Common key management
– Orient Securities Co., Ltd.	Common key management
– Shanghai ICY New Energy Venture Capital Co., Ltd	Common key management
– China Pacific Property Insurance Co., Ltd.	Common key management
– China Pacific Life Insurance Co., Ltd.	Common key management
– First-trust Fund Management Co., Ltd.	Common key management
– Shanghai Benemae Pharmaceutical Corporation	Common key management
– Hithink Flush Information Network Co., Ltd.	Common key management
– Shanghai Electric Group Co., Ltd.	Common key management
– China Traditional Chinese Medicine Co., Ltd.	Common key management
– Beijing Science and Technology Park Construction (group) Co., Ltd.	Common key management
– CIB Fund Management Co., Ltd.	Common key management
– COSCO Shipping Development Co., Ltd.	Common key management
– Shanghai Electric Group Limited	Common key management
– Changsha Siming Robot Technology Co., Ltd.	Common key management
– Shijiazhuang Huilin Food Co., Ltd.	Common key management
– Beijing Jingeng Clean Energy Power Co., Ltd.	Common key management
– Zhengzhou Chemical Light Industry Co., Ltd.	Common key management
– China COSCO Shipping Co., Ltd.	Common key management
– Shenergy Group Co., Ltd.	Common key management

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions

The Group's material transactions and balances with China Everbright Group and the above related parties during the year are summarised as follows:

	China Everbright Group (Note VI 45(a))	Affiliated Companies	Others	Total
Transactions with related parties in 2018:				
Interest income	–	368	134	502
Interest expense	(48)	(405)	(471)	(924)
Balances with related parties as at 31 December 2018:				
Placements with banks and other financial institutions	–	1,001	–	1,001
Derivative financial assets	–	–	5	5
Financial assets held under resale agreements	–	–	292	292
Loans and advances to customers	–	7,911	6,330	14,241
Financial assets at fair value through profit or loss	–	14,296	–	14,296
Debt instruments at fair value through other comprehensive income	301	1,209	171	1,681
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	194,750	138	194,888
Other assets	–	682	200	882
Total	301	219,849	7,234	227,384
Deposits from banks and other financial institutions	–	1,911	1,473	3,384
Derivative financial liabilities	–	–	4	4
Deposits from customers	6,402	14,665	20,051	41,118
Total	6,402	16,576	21,528	44,506
Significant other sheet items with related parties as at 31 December 2018:				
Guarantee granted (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	67	–	67

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the year are summarised as follows (continued):

	China Everbright Group (Note VI 45(a))	Affiliated Companies	Others	Total
Transactions with related parties in 2017:				
Interest income	11	1,597	72	1,680
Interest expense	(6)	(422)	(514)	(942)
Balances with related parties as at 31 December 2017:				
Derivative financial assets	–	–	1	1
Financial assets sold under repurchase agreements	–	100	–	100
Interests receivable	6	338	15	359
Loans and advances to customers	–	3,142	–	3,142
Available-for-sale financial assets	277	9,765	3,596	13,638
Held-to-maturity investments	–	–	50	50
Debt securities classified as receivables	–	216,784	900	217,684
Other assets	–	67	1	68
Total	283	230,196	4,563	235,042
Deposits from banks and other financial institutions	–	1,524	1,181	2,705
Derivative financial liabilities	–	–	1	1
Deposits from customers	245	7,578	17,278	25,101
Interests payable	2	162	241	405
Other liabilities	–	–	2	2
Total	247	9,264	18,703	28,214
Significant off-balance sheet items with related parties as at 31 December 2017:				
Guarantee granted (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	138	–	138

Note: As at 31 December 2018, the Bank has guarantee obligations relating to the China Everbright Group's outstanding interest obligation of RMB180million (31 December 2017: RMB180 million) due to one of the state-owned commercial banks.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(c) China Investment Corporation, Central Huijin Investment Ltd. and its affiliates

Approved by the State Council of the PRC, China Investment Corporation ("CIC") was established on 29 September 2007 with a registered capital of USD200 billion. Central Huijin Investment Ltd. ("Huijin") is a wholly owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

Huijin was incorporated as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with a registered capital of RMB828,209 million. Apart from equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposits which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year.

The Group's material transactions with CIC, Huijin and its affiliates during the year are summarised as follows:

	2018	2017
Interest income	1,556	3,905
Interest expense	(4,183)	(5,488)

The Group's material balances with CIC, Huijin and its affiliates end of the year are summarised as follows:

	31 December 2018	31 December 2017
Deposits with banks and other financial institutions	12,983	6,300
Placements with banks and other financial institutions	17,941	9,983
Derivative financial assets	4,098	1,320
Financial assets held under resale agreements	5,201	17,049
Interests receivable	–	1,727
Loans and advances to customers	2,388	1,883
Financial assets at fair value through profit or loss	28,663	454
Debt instruments at fair value through other comprehensive income	27,310	–
Financial investments at amortised cost	67,966	–
Available-for-sale financial assets	–	35,840
Held-to-maturity investments	–	29,293
Debt securities classified as receivables	–	13,917
Other assets	609	825
Deposits from banks and other financial institutions	76,488	88,385
Placements from banks and other financial institutions	58,276	36,655
Derivative financial liabilities	3,948	1,995
Financial assets sold under repurchase agreements	4,455	3,397
Deposits from customers	19,952	19,238
Interests payable	–	1,140
Other liabilities	11	4

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Related party relationships and transactions (continued)

(d) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(e) Key management personnel

	31 December 2018 RMB'000	31 December 2017 RMB'000
Remuneration	19,199	20,131
Retirement benefits	1,165	1,175
– Basic social pension insurance	691	669

The total compensation packages for senior management of the Group for the year ended 31 December 2018 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2018 financial statements.

(f) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	9,041	13,594
Maximum aggregate amount of relevant loans outstanding during the year	9,247	17,016

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Statement of financial position of the Bank

	Note VI	31 December 2018	31 December 2017
Assets			
Cash and deposits with the central bank		366,418	353,544
Deposits with banks and other financial institutions		39,243	42,525
Precious metals		23,628	40,352
Placements with banks and other financial institutions		98,057	152,278
Derivative financial assets		15,112	4,508
Financial assets held under resale agreements		37,348	91,441
Interests receivable		–	28,057
Loans and advances to customers		2,361,930	1,982,212
Financial investments		1,295,523	1,293,851
– Financial assets at fair value through profit or loss		221,059	24,073
– Debt instruments at fair value through other comprehensive income		150,244	–
– Equity instruments at fair value through other comprehensive income		362	–
– Financial investments measured at amortised cost		923,858	–
– Available-for-sale financial assets		–	409,885
– Held-to-maturity investments		–	345,317
– Debt securities classified as receivables		–	514,576
Investments in subsidiaries	19	7,383	4,410
Fixed assets		12,721	12,244
Goodwill		1,281	1,281
Deferred tax assets		10,194	7,361
Other assets		18,617	15,128
Total assets		4,287,455	4,029,192
Liabilities and equity			
Liabilities			
Due to the central bank		267,143	232,500
Deposits from banks and other financial institutions		492,275	579,031
Placements from banks and other financial institutions		102,908	61,592
Derivative financial liabilities		14,291	6,552
Financial assets sold under repurchase agreements		40,364	45,581
Deposits from customers		2,570,877	2,271,881
Accrued staff costs		7,880	8,242
Taxes payable		5,260	4,905
Interests payable		–	39,780
Debts securities issued		435,435	442,596
Other liabilities		32,172	34,174
Total liabilities		3,968,605	3,726,834
Equity			
Share capital		52,489	52,489
Other equity instrument		35,108	35,108
Capital reserve		53,533	53,533
Other comprehensive income		1,791	(1,769)
Surplus reserve		24,371	21,054
General reserve		53,143	51,442
Retained earnings		98,415	90,501
Total equity		318,850	302,358
Total liabilities and equity		4,287,455	4,029,192

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchases transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities

	2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	23,034	30,769	7,240	–	61,043
Internal net interest income/ (expense)	15,716	(14,998)	(718)	–	–
Net interest income	38,750	15,771	6,522	–	61,043
Net fee and commission income	5,542	30,606	746	–	36,894
Net trading gains	–	–	1,071	–	1,071
Dividend income	–	–	–	8	8
Net (losses)/gains arising from investment securities	(298)	6	10,163	(9)	9,862
Foreign exchange gains	279	83	362	–	724
Other operating income	563	52	71	98	784
Operating income	44,836	46,518	18,935	97	110,386
Operating expenses	(14,708)	(16,887)	(2,019)	(92)	(33,706)
Operating profit before impairment	30,128	29,631	16,916	5	76,680
Impairment losses on assets	(22,170)	(12,776)	(882)	–	(35,828)
Profit before tax	7,958	16,855	16,034	5	40,852
Other segment information					
– Depreciation and amortisation	(1,000)	(1,045)	(119)	–	(2,164)
– Capital expenditure	3,358	634	71	–	4,063

	31 December 2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,705,352	1,174,769	1,464,480	656	4,345,257
Segment liabilities	2,067,338	662,614	1,300,411	4,475	4,034,838

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	2017				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	21,022	24,043	15,885	–	60,950
Internal net interest income/ (expense)	14,598	(11,210)	(3,388)	–	–
Net interest income	35,620	12,833	12,497	–	60,950
Net fee and commission income	6,160	22,598	2,016	–	30,774
Net trading gains	–	–	(2,751)	–	(2,751)
Dividend income	–	–	–	6	6
Net gains/(losses) arising from investment securities	–	2	(195)	–	(193)
Foreign exchange gains	227	91	2,146	–	2,464
Other net operating income	586	48	22	112	768
Operating income	42,593	35,572	13,735	118	92,018
Operating expenses	(13,192)	(15,368)	(2,083)	(159)	(30,802)
Operating profit before impairment	29,401	20,204	11,652	(41)	61,216
Impairment losses on assets	(13,802)	(6,163)	(605)	–	(20,570)
Profit before tax	15,599	14,041	11,047	(41)	40,646
Other segment information					
– Depreciation and amortisation	(956)	(1,044)	(136)	–	(2,136)
– Capital expenditure	2,635	1,652	202	–	4,489

	31 December 2017				
	Corporate banking	Retail Banking	Financial market business	Others	Total
Segment assets	1,536,604	993,822	1,547,255	1,685	4,079,366
Segment liabilities	1,917,280	533,771	1,329,807	1,929	3,782,787

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note VI	31 December 2018	31 December 2017
Segment assets		4,345,257	4,079,366
Goodwill	21	1,281	1,281
Deferred tax assets	22	10,794	7,596
Total assets		4,357,332	4,088,243
Segment liabilities		4,034,838	3,782,787
Dividend payables	34	21	20
Total liabilities		4,034,859	3,782,807

(b) Geographical information

The Group operates principally in mainland China with branches located in 32 provinces, autonomous regions and municipalities directly under the central government, with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Hong Kong and Luxembourg.

Non-current assets include fixed and intangible assets and land use rights. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

– "Yangtze River Delta" refers to the following areas serviced by subsidiary and branches of the Bank: Huai'an Evergright, Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the following areas serviced by branches of the Bank: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;

– "Central" refers to the following areas serviced by subsidiaries and branches of the Bank: Everbright Financial Leasing and, Shaoshan Everbright, and Ruijin Everbright, Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the following areas serviced by branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining and Lhasa;

– "Northeastern" refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

– "Overseas" refers to the following areas serviced by branches of the Bank: Hong Kong, Seoul, Luxembourg, Sydney; and

– "Head Office" refers to the headquarter of the Group.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Segment reporting (continued)

(b) Geographical information (continued)

	Operating Income								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Over-seas	Total
2018	18,056	16,163	26,901	16,125	14,180	12,111	5,198	1,652	110,386
2017	14,011	13,093	29,818	12,787	8,811	8,659	3,752	1,087	92,018

	Non-current Asset (Note (i))								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Over-seas	Total
31 December 2018	2,526	839	6,187	6,531	1,190	1,212	904	117	19,506
31 December 2017	2,496	901	5,466	3,730	1,158	1,261	920	89	16,021

Note:

(i) *Including fixed assets, intangible assets and land use right.*

48 Risk Management

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. The senior management is responsible for the improvement of risk management system and establishment of risk management policies and rules. The senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And the senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and is responsible for the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

– The Corporate Banking Department, Strategic Customer and Investment Banking Department, Inclusive Finance Department, Retail Banking Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, they are the first line of defense of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

– The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Credit Management Department, and Special Assets Resolution Department. They are the second line of defense of internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution".

– The Internal Audit Department is the third line of defense of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

For corporate businesses, the Group has established industry-specific limits for credit approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluating and approving in accordance with the principle of separation of duties for approval and lending as well as hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conform with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, a standardized review and approval policies and process in accordance with the principal of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collaterals and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury Business

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the risk of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments; and

Stage 3: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the balance sheet date of the current period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance of the financial instruments on the balance sheet date of the current period according to the ECL in the next 12 months.

For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition on the financial reporting date as impairment allowance. On each financial reporting date, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Modification of contract cash flow

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status
- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment;

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Parameters of ECL measurement (continued)

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, CPI, Case-Shiller index.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (stage 1) or life time (stage 2 and stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit and loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. As at 31 December 2018, the carrying amount of financial assets with such modified contractual cash flows was not significant.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of these off-balance sheet items as at the end of the year is disclosed in Note VI 51(a).

	31 December 2018					31 December 2017
	Stage 1	Stage 2	Stage 3	N/A	Total	Total
Assets						
Cash and deposits with the central bank	366,575	–	–	–	366,575	353,703
Deposits with banks and other financial institutions	41,005	–	–	–	41,005	44,754
Placements with banks and other financial institutions	96,685	–	–	–	96,685	148,816
Financial assets held under resale agreements	37,773	–	–	–	37,773	91,441
Loans and advances to customers	2,227,372	117,867	16,039	–	2,361,278	1,980,818
Finance lease receivables	60,890	1,979	464	–	63,333	56,364
Investments (i)	1,077,619	–	357	223,104	1,301,080	1,297,936
Others (ii)	16,718	–	–	15,238	31,956	51,010
Total	3,924,637	119,846	16,860	238,342	4,299,685	4,024,842

Note:

(i) Investments comprise financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (31 December 2017: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables).

(ii) Others comprise precious metal (at fair value part), derivative financial assets, interests receivable, assets from wealth management business recorded in other assets, and other receivables.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows:

	31 December 2018					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(i)	Others(ii)
Impaired						
Gross amount	38,649	1,076	366	–	1,520	1,785
Provision for impairment losses	(22,610)	(612)	(366)	–	(1,163)	(228)
Subtotal	16,039	464	–	–	357	1,557
Overdue but not impaired						
– Less than 3 months (inclusive)	23,893	1,143	–	–	–	–
– Between 3 months and 6 months (inclusive)	243	2	–	–	–	–
Gross amount	24,136	1,145	–	–	–	–
Provision for impairment losses	(3,778)	(64)	–	–	–	–
Subtotal	20,358	1,081	–	–	–	–
Neither overdue nor impaired						
Gross amount	2,365,702	62,736	137,966	37,775	1,304,254	30,803
Provision for impairment losses	(40,821)	(948)	(276)	(2)	(3,531)	(404)
Subtotal	2,324,881	61,788	137,690	37,773	1,300,723	30,399
Total	2,361,278	63,333	137,690	37,773	1,301,080	31,956

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued):

	31 December 2017					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(i)	Others(ii)
Impaired						
Individually assessed gross amount	22,785	714	16	–	1,565	316
Provision for impairment losses	(14,219)	(533)	(16)	–	(949)	(138)
Subtotal	8,566	181	–	–	616	178
Collectively assessed gross amount	9,607	–	–	–	–	1,179
Provision for impairment losses	(6,251)	–	–	–	–	(90)
Subtotal	3,356	–	–	–	–	1,089
Overdue but not impaired						
– Less than 3 months (inclusive)	16,321	2	–	–	640	–
– Between 3 months and 6 months (inclusive)	2,419	113	–	–	–	–
– Over 6 months	2,707	–	350	–	–	–
Gross amount	21,447	115	350	–	640	–
Provision for impairment losses	(4,267)	(28)	–	–	(160)	–
Subtotal	17,180	87	350	–	480	–
Neither overdue nor impaired						
Gross amount	1,978,217	56,900	193,250	91,441	1,298,907	50,133
Provision for impairment losses	(26,501)	(804)	(30)	–	(2,067)	(390)
Subtotal	1,951,716	56,096	193,220	91,441	1,296,840	49,743
Total	1,980,818	56,364	193,570	91,441	1,297,936	51,010

Note

(i) Investments comprise financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (31 December 2017: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables).

(ii) Others comprise precious metal (at fair value part), derivative financial assets, interests receivable, assets from wealth management business recorded in other assets, and other receivables.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

(iii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2018	31 December 2017
Impaired		
Carrying amount	366	16
Provision for impairment losses	(366)	(16)
Subtotal	–	–
Overdue but not impaired		
– grade A to AAA	–	350
Subtotal	–	350
Neither overdue nor impaired		
– grade A to AAA	171,905	193,039
– grade B to BBB	3,312	2,608
– unrated (Note)	246	89,014
Subtotal	175,463	284,661
Total	175,463	285,011

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(a) Credit risk (continued)

(iii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the year are as follows:

	31 December 2018	31 December 2017
Impaired		
Carrying amount	1,520	1,564
Provision for impairment losses	(1,163)	(948)
Subtotal	357	616
Neither overdue nor impaired		
Bloomberg Composite		
– grade AAA	–	722
– grade AA- to AA+	–	17
– grade A- to A+	8,935	6,715
– grade lower than A-	8,396	11,442
Subtotal	17,331	18,896
Other agency ratings		
– grade AAA	520,033	181,244
– grade AA- to AA+	32,986	301,343
– grade A- to A+	7,872	589
– grade lower than A-	11,725	–
– unrated	83,182	11,445
Subtotal	655,798	494,621
Total	673,486	514,133

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured and monitored all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

Repricing risk

Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Assets and Liability Management Department and Risk Management Department of the Group are responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

Trading interest rate risk

Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis points (1%) movement in the interest rates.

(i) The following tables indicate the effective interest rates for the year and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2018						
	Effective interest rate (Note)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	366,575	14,111	352,464	–	–	–
Deposits with banks and other financial institutions	1.79%	41,005	76	40,929	–	–	–
Placements with banks and other financial institutions	3.86%	96,685	530	69,506	25,663	986	–
Financial assets held under resale agreements	3.21%	37,773	34	37,515	68	156	–
Loans and advances to customers	4.69%	2,361,278	29,287	1,822,602	435,372	70,817	3,200
Finance lease receivables	5.37%	63,333	1,801	60,331	490	711	–
Investments (Note)	4.47%	1,301,080	39,210	280,950	224,484	541,874	214,562
Others	–	89,603	85,956	–	–	–	3,647
Total assets	4.28%	4,357,332	171,005	2,664,297	686,077	614,544	221,409
Liabilities							
Due to the central bank	3.29%	267,193	4,143	34,500	228,550	–	–
Deposits from banks and other financial institutions	3.84%	490,091	2,704	257,323	230,064	–	–
Placements from banks and other financial institutions	3.32%	152,037	754	103,060	48,085	138	–
Financial assets sold under repurchase agreements	2.54%	40,411	18	37,330	3,063	–	–
Deposits from customers	2.15%	2,571,961	35,659	2,067,304	364,245	104,753	–
Debt securities issued	4.31%	440,449	3,669	58,022	221,007	94,881	62,870
Others	–	72,717	59,823	8,612	3,631	651	–
Total liabilities	2.78%	4,034,859	106,770	2,566,151	1,098,645	200,423	62,870
Asset-liability gap	1.50%	322,473	64,235	98,146	(412,568)	414,121	158,539

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the year and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier (continued):

	31 December 2017						
	Effective interest rate (Note)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.48%	353,703	15,235	338,468	–	–	–
Deposits with banks and other financial institutions	3.39%	44,754	–	44,754	–	–	–
Placements with banks and other financial institutions	3.39%	148,816	–	77,947	70,459	410	–
Financial assets held under resale agreements	3.31%	91,441	–	91,441	–	–	–
Loans and advances to customers	4.44%	1,980,818	28,755	1,597,817	328,240	23,815	2,191
Finance lease receivables	4.69%	56,364	265	55,775	17	307	–
Investments (Note)	4.13%	1,297,936	1,890	352,130	158,508	693,726	91,682
Others	–	114,411	111,004	–	–	–	3,407
Total assets	4.00%	4,088,243	157,149	2,558,332	557,224	718,258	97,280
Liabilities							
Due to the central bank	3.10%	232,500	–	9,500	223,000	–	–
Deposits from banks and other financial institutions	4.03%	577,447	–	509,851	67,596	–	–
Placements from banks and other financial institutions	2.70%	106,798	6	72,046	34,746	–	–
Financial assets sold under repurchase agreements	2.68%	45,581	–	44,177	1,404	–	–
Deposits from customers	1.93%	2,272,665	3,504	1,850,016	305,381	113,757	7
Debt securities issued	4.01%	445,396	–	233,425	92,685	56,421	62,865
Others	–	102,420	90,308	9,534	2,108	469	1
Total liabilities	2.68%	3,782,807	93,818	2,728,549	726,920	170,647	62,873
Asset-liability gap	1.32%	305,436	63,331	(170,217)	(169,696)	547,611	34,407

Note:

– *Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.*

– *Investments include financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (As at 31 December 2017, investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, debt securities classified as receivables).*

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2018, assuming other variables remain unchanged, an increase in estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB1,222 million (31 December 2017: decrease by RMB3,637 million), and equity to decrease by RMB4,820 million (31 December 2017: decrease by RMB4,506 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB1,267 million (31 December 2017: increase by RMB3,652 million), and equity to increase by RMB5,074 million (31 December 2017: increase by RMB4,694 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the year apply to all derivative and non-derivative financial instruments of the Group;

– At the end of the year, an interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the assets and liabilities portfolio;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the year are as follows:

	31 December 2018			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total
Assets				
Cash and deposits with the central bank	359,143	6,990	442	366,575
Deposits with banks and other financial institutions	14,614	18,094	8,297	41,005
Placements with banks and other financial institutions	58,436	31,783	6,466	96,685
Financial assets held under resale agreements	37,348	–	425	37,773
Loans and advances to customers	2,245,883	71,428	43,967	2,361,278
Finance lease receivables	62,291	1,042	–	63,333
Investments (Note (i))	1,247,713	43,016	10,351	1,301,080
Others	83,712	3,856	2,035	89,603
Total assets	4,109,140	176,209	71,983	4,357,332
Liabilities				
Due to the central bank	267,193	–	–	267,193
Deposits from banks and other financial institutions	489,301	145	645	490,091
Placements from banks and other financial institutions	50,288	80,231	21,518	152,037
Financial assets sold under repurchase agreements	40,364	–	47	40,411
Deposit from customers	2,408,136	134,718	29,107	2,571,961
Debt securities issued	416,623	18,437	5,389	440,449
Others	63,190	6,691	2,836	72,717
Total liabilities	3,735,095	240,222	59,542	4,034,859
Net position	374,045	(64,013)	12,441	322,473
Off-balance sheet credit commitments	932,340	52,390	26,861	1,011,591
Derivative financial instruments (Note (ii))	(33,881)	46,775	(10,192)	2,702

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows (continued):

	31 December 2017			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total
Assets				
Cash and deposits with the central bank	347,639	5,624	440	353,703
Deposits with banks and other financial institutions	32,776	7,882	4,096	44,754
Placements with banks and other financial institutions	110,803	32,973	5,040	148,816
Financial assets held under resale agreements	91,441	–	–	91,441
Loans and advances to customers	1,895,655	51,288	33,875	1,980,818
Finance lease receivables	55,282	1,082	–	56,364
Investments (Note (i))	1,263,076	28,442	6,418	1,297,936
Others	108,692	5,064	655	114,411
Total assets	3,905,364	132,355	50,524	4,088,243
Liabilities				
Due to the central bank	232,500	–	–	232,500
Deposits from banks and other financial institutions	577,173	103	171	577,447
Placements from banks and other financial institutions	44,478	41,967	20,353	106,798
Financial assets sold under repurchase agreements	45,581	–	–	45,581
Deposit from customers	2,143,894	107,276	21,495	2,272,665
Debt securities issued	425,697	16,801	2,898	445,396
Others	95,820	5,411	1,189	102,420
Total liabilities	3,565,143	171,558	46,106	3,782,807
Net position	340,221	(39,203)	4,418	305,436
Off-balance sheet credit commitments	750,286	41,829	8,497	800,612
Derivative financial instruments (Note (ii))	(46,269)	45,861	(1,612)	(2,020)

Note:

(i) Investments include financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost (As at 31 December 2017, investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables).

(ii) Derivative financial instruments reflect the net notional amounts of derivatives.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2018	31 December 2017
Exchange rates against RMB for the HK dollars	0.8763	0.8334
Exchange rates against RMB for the US dollars	6.8633	6.5124

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2018, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB16 million (31 December 2017: increase by RMB11 million); a depreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB16 million (31 December 2017: decrease by RMB11 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

– The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates (central parity)against RMB;

– The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;

– The exchange rates against RMB for the US dollars and HK dollars change in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;

– The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;

– Other variables (including interest rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

Price risk

Price risk mainly comes from the listed part of the equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting on a timely basis of liquidity requirements and the payment of various business, whether under a normal operating environment or a state of stress; balancing the effectiveness and security of funds in an efficient manner; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; pursuing profit maximisation and cost minimisation to a modest extent while ensuring appropriate liquidity; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Assets and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and longterm working capital on a regular basis, and for formulating liquidity management strategies. The Assets and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plan to respond to various possible liquidity risks.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2018							
	Indefinite/ Overdue	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	Total
Assets								
Cash and deposits with the central bank	258,034	108,541	–	–	–	–	–	366,575
Deposit with banks and other financial institutions	–	33,789	6,177	1,039	–	–	–	41,005
Placements with banks and other financial institutions	–	–	45,345	24,436	25,918	986	–	96,685
Financial asset held under resale agreements	–	–	37,549	–	68	156	–	37,773
Loans and advances to customers	32,418	378,666	86,818	153,203	560,558	497,661	651,954	2,361,278
Finance lease receivables	184	121	1,324	3,046	11,135	35,875	11,648	63,333
Investments (Note (i))	2,453	180,633	49,292	43,254	243,026	561,212	221,210	1,301,080
Others	57,255	13,780	1,316	3,556	6,692	3,644	3,360	89,603
Total assets	350,344	715,530	227,821	228,534	847,397	1,099,534	888,172	4,357,332
Liabilities								
Due to the central bank	–	–	12,896	22,613	231,684	–	–	267,193
Deposits from banks and other financial institutions	–	140,751	89,005	28,207	232,128	–	–	490,091
Placements from banks and other financial institutions	–	6	58,966	44,503	48,425	137	–	152,037
Financial assets sold under repurchase agreements	–	–	35,206	2,142	3,063	–	–	40,411
Deposit from customers	–	1,163,169	246,800	321,019	565,913	275,060	–	2,571,961
Debt securities issued	–	–	21,153	36,869	221,007	94,881	66,539	440,449
Others	–	40,232	7,326	3,303	8,556	10,878	2,422	72,717
Total liabilities	–	1,344,158	471,352	458,656	1,310,776	380,956	68,961	4,034,859
Long/(Short) position	350,344	(628,628)	(243,531)	(230,122)	(463,379)	718,578	819,211	322,473
Notional amount of derivative financial instruments	–	–	501,608	608,087	1,636,249	592,720	160	3,338,824

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2017							
	Overdue/ Indefinite	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	Total
Assets								
Cash and deposits with the central bank	311,084	42,619	–	–	–	–	–	353,703
Deposit with banks and other financial institutions	350	13,736	14,739	15,108	–	–	821	44,754
Placement with banks and other financial institutions	–	–	65,773	12,174	70,459	410	–	148,816
Financial asset held under resale agreements	–	–	91,441	–	–	–	–	91,441
Loans and advances to customers	21,518	295,944	57,647	112,607	432,562	488,521	572,019	1,980,818
Finance lease receivables	263	1	1,258	2,789	10,990	32,155	8,908	56,364
Investments (Note (i))	2,983	235,917	23,652	82,275	158,448	702,052	92,609	1,297,936
Others	67,144	10,774	3,369	13,879	8,857	6,949	3,439	114,411
Total assets	403,342	598,991	257,879	238,832	681,316	1,230,087	677,796	4,088,243
Liabilities								
Due to the central bank	–	–	6,000	3,500	223,000	–	–	232,500
Deposits from banks and other financial institutions	–	123,571	119,431	266,849	67,596	–	–	577,447
Placements from banks and other financial institutions	–	6	28,853	43,193	34,746	–	–	106,798
Financial assets sold under repurchase agreements	–	–	41,602	2,575	1,404	–	–	45,581
Deposit from customers	–	1,148,728	156,707	284,619	429,516	253,088	7	2,272,665
Debt securities issued	–	–	60,218	144,029	93,010	59,673	88,466	445,396
Others	–	32,094	20,596	10,364	17,437	20,677	1,252	102,420
Total liabilities	–	1,304,399	433,407	755,129	866,709	333,438	89,725	3,782,807
Long/(Short) position	403,342	(705,408)	(175,528)	(516,297)	(185,393)	896,649	588,071	305,436
Notional amount of derivative financial instruments	–	–	162,872	102,675	390,928	85,756	60	742,291

(i) Investments include financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and financial investments measured at amortised cost, (31 December 2017: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables).

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of financial liabilities at the end of the year:

	31 December 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable 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
Non-derivative financial liabilities								
Due to the central bank	267,193	271,562	–	12,912	22,727	235,923	–	–
Deposits from banks and other financial institutions	490,091	494,874	140,753	89,153	28,425	236,543	–	–
Placements from banks and other financial institutions	152,037	154,101	6	59,036	44,991	49,910	158	–
Financial assets sold under repurchase agreements	40,411	40,456	–	35,218	2,150	3,088	–	–
Deposits from customers	2,571,961	2,608,140	1,165,410	251,751	327,937	573,689	289,353	–
Debt securities issued	440,449	528,781	–	21,394	42,667	277,120	114,881	72,719
Other financial liabilities	58,368	59,799	40,212	5,434	774	2,290	8,115	2,974
Total non-derivative financial liabilities	4,020,510	4,157,713	1,346,381	474,898	469,671	1,378,563	412,507	75,693
Derivative financial liabilities								
Derivative financial instruments settled on net basis		84	–	–	42	–	41	1
Derivative financial instruments settled on gross basis								
cash inflow		1,232,949	–	300,060	289,923	636,594	6,372	–
cash outflow		(1,231,956)	–	(300,482)	(288,764)	(636,343)	(6,367)	–
Total derivative financial liabilities		993	–	(422)	1,159	251	5	–

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of financial liabilities at the end of the year (continued):

	31 December 2017							
	Carrying amount	Contractual undiscounted cash flow	Repayable 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
Non-derivative financial liabilities								
Due to the central bank	232,500	240,061	–	6,189	3,614	230,258	–	–
Deposits from banks and other financial institutions	577,447	584,305	123,574	120,486	270,895	69,350	–	–
Placements from banks and other financial institutions	106,798	111,049	6	29,633	45,191	36,219	–	–
Financial assets sold under repurchase agreements	45,581	45,773	–	41,763	2,588	1,422	–	–
Deposits from customers	2,272,665	2,334,012	1,150,012	159,665	289,817	447,494	287,014	10
Debt securities issued	445,396	490,928	–	60,400	147,687	97,886	78,428	106,527
Other financial liabilities	55,662	56,343	31,337	14,282	334	2,571	6,389	1,430
Total non-derivative financial liabilities	3,736,049	3,862,471	1,304,929	432,418	760,126	885,200	371,831	107,967
Derivative financial liabilities								
Derivative financial instruments settled on net basis		67	–	1	(8)	25	49	–
Derivative financial instruments settled on gross basis								
cash inflow		423,456	–	164,759	97,627	158,994	2,076	–
cash outflow		(425,538)	–	(164,784)	(98,886)	(159,862)	(2,006)	–
Total derivative financial liabilities		(2,082)	–	(25)	(1,259)	(868)	70	–

This analysis of the non-derivative financial liabilities by contractual undiscounted cash flow might diverge from actual results.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2018			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	273,488	580	5,116	279,184
Guarantees, acceptances and other credit commitments	684,888	44,768	2,751	732,407
Total	958,376	45,348	7,867	1,011,591

	31 December 2017			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	209,518	621	5,107	215,246
Guarantees, acceptances and other credit commitments	554,075	27,640	3,651	585,366
Total	763,593	28,261	8,758	800,612

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– A set of standard operational procedures covering various business and management activities, which is practical, traceable and can be re-performed, investigated and remedied;

– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system detecting;

– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

– An independent risk assessment framework based on the internal audit and the compliance review.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt instruments and equity investments

The fair values of debt instruments and equity investments traded in an active market are based on their quoted market prices in an active market at the end of the year. The fair values of unlisted equity investments are estimated using the applicable price/earning ratios of comparable listed companies, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the year.

(iii) Debt instruments issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the year, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the year.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the year, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Reuters' quoted price.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, precious metals, loans and advances to customers, finance lease receivables and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of loans and advances to customers, finance lease receivables and financial investments measured at amortized cost except for debt securities investments are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metal are measured at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note VI 18.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers, financial liabilities at fair value through profit or loss and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "Debt securities investment measured at amortised cost" (31 December 2017: "Debt securities" classified as held to maturity), and "Bonds issued" not presented at fair value on the statement of financial position:

	As at 31 December			
	Carrying value		Fair value	
	2018	2017	2018	2017
Financial assets				
Debt securities investments measured at amortised cost	505,351	–	512,668	–
Debt instruments – Held to maturity	–	344,617	–	335,894
Financial liabilities				
Bonds issued	440,449	445,396	435,137	438,041

Debt securities investments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of issued bonds are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a spot yield curve appropriate for the remaining term to maturity.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated derivative contracts and structured deposits with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– debt instruments	2,257	8,629	–	10,886
Financial assets designated at fair value through profit or loss	–	–	6	6
Other financial assets at fair value through profit or loss	198,482	10,228	3,135	211,845
Derivative financial assets				
– foreign currency derivatives	–	10,790	–	10,790
– interest rate derivatives	2	4,316	7	4,325
– credit derivatives	–	97	–	97
Loans and advances to customers	–	60,314	–	60,314
Debt instruments at fair value through other comprehensive income	27,384	126,603	–	153,987
Equity instruments at fair value through other comprehensive income	15	–	352	367
Precious metal	26	–	–	26
Total	228,166	220,977	3,500	452,643
Liabilities				
Financial liabilities at fair value through profit or loss	354	–	–	354
Derivative financial liabilities				
– foreign currency derivatives	–	10,010	–	10,010
– interest rate derivatives	24	4,273	7	4,304
– credit derivatives	–	34	1	35
Total	378	14,317	8	14,703

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– debt instruments	2,017	22,168	–	24,185
Financial assets designated at fair value through profit or loss	–	–	11	11
Derivative financial assets				
– foreign currency derivatives	–	4,075	–	4,075
– interest rate derivatives	8	426	4	438
Available-for-sale financial assets				
– debt instruments	17,851	127,480	–	145,331
– fund instruments and others	235,917	32,400	–	268,317
– equity instruments	110	–	–	110
Precious metal	–	21	–	21
Total	255,903	186,570	15	442,488
Liabilities				
Deposits from customers				
Structured deposits designated at fair value	–	292,593	–	292,593
Derivative financial liabilities				
– foreign currency derivatives	–	6,179	–	6,179
– interest rate derivatives	–	370	3	373
Total	–	299,142	3	299,145

During the reporting period, there were no significant transfers between Level 1 and Level 2.

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movement during the year ended 31 December 2018 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Equity instruments at fair value through OCI	Total assets	Derivative financial liabilities	Total liabilities
1 January 2018	41,875	4	98	41,977	(3)	(3)
Total gains or losses:						
In profit or loss for the current year	(2,196)	5	–	(2,191)	(4)	(4)
Purchases	2,618	–	254	2,872	(1)	(1)
Settlements	(39,156)	(2)	–	(39,158)	–	–
31 December 2018	3,141	7	352	3,500	(8)	(8)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	(2,196)	5	–	(2,191)	(4)	(4)

The movement during the year ended 31 December 2017 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative Derivative financial assets	Total	financial liabilities	Total
1 January 2017	48	15	63	(26)	(26)
Total gains or losses:					
In profit or loss for the current year	1	(11)	(10)	23	23
Purchases	5	–	5	–	–
Settlements	(43)	–	(43)	–	–
31 December 2017	11	4	15	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	–	(11)	(11)	23	23

During the year ended 31 December 2018 and 31 December 2017, there were no significant transfers into or out of Level 3.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "Debt securities" classified as financial investments measured at amortised cost (as at 31 December 2017 classified as held to maturity), and "Bonds issued" not presented at fair value on the statement of financial position.

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	81,743	430,925	–	512,668
Financial liabilities				
Bonds issued	26,492	408,645	–	435,137

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities				
Held to maturity	4,590	331,304	–	335,894
Financial liabilities				
Bonds issued	26,090	411,951	–	438,041

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using cash flow discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2018, the carrying amount of financial instrument valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

50 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position.

	31 December 2018	31 December 2017
Entrusted loans	148,654	147,268
Entrusted funds	148,654	147,268

(Expressed in millions of Renminbi, unless otherwise stated)

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertaking's by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2018	31 December 2017
Loan commitments		
Original contractual maturity within one year	33,056	9,744
Original contractual maturity more than one year (inclusive)	12,688	16,714
Credit card commitments	233,440	188,788
Subtotal	279,184	215,246
Acceptances	477,110	403,717
Letters of guarantees	123,416	103,295
Letters of credit	131,696	78,169
Guarantees	185	185
Total	1,011,591	800,612

The Group may be exposed to credit risk in all the above credit businesses. Group management periodically assesses the estimated credit risk and makes provision for any ECL. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount of credit commitments

	31 December 2018	31 December 2017
Credit risk-weighted amount of credit commitments	351,409	313,101

The credit risk weighted amount of credit commitments represent to the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional) issued by the CBIRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Commitments and contingent liabilities (continued)

(c) Operating lease commitments

As at the end of the year, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	31 December 2018	31 December 2017
Within one year (inclusive)	2,364	2,258
After one year but within two years (inclusive)	2,132	1,981
After two years but within three years (inclusive)	1,812	1,719
After three years but within five years (inclusive)	2,803	2,843
After five years	2,968	2,387
Total	12,079	11,188

(d) Capital commitments

As at the balance sheet dates, the Group's authorised capital commitments are as follows:

	31 December 2018	31 December 2017
Contracted but not paid		
– Purchase of property and equipment	790	921
Approved but not contracted for		
– Purchase of property and equipment	1,942	1,371
Total	2,732	2,292

(e) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 31 December 2018.

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at 31 December 2018, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2018	31 December 2017
Redemption commitments	8,192	8,642

VI NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Commitments and contingent liabilities (continued)

(f) Forward purchase and sale commitments

As at 31 December 2018, the Group has no unexpired forward purchase and sale commitments (31 December 2017: Nil).

(g) Outstanding litigations and disputes

As at 31 December 2018, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,007 million (31 December 2017: RMB719 million), see Note VI 34(d). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels. The Group considers that the provisions made are reasonable and adequate.

52 Subsequent Events

There are no significant events after the reporting period.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

As stipulated by the Rules on Liquidity Risk Management of Commercial Banks, the commercial banks' Liquidity Coverage Ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	31 December 2018
Liquidity coverage ratio	118.15%
High Quality Liquid Assets	407,191
Net cash outflows in 30 days from the end of the year	344,642

Liquidity Ratio*

	As at 31 December 2018	Average for The year ended 31 December 2018	As at 31 December 2017	Average for The year ended 31 December 2017
RMB current assets to RMB current liabilities	64.26%	58.20%	59.93%	56.88%
Foreign current assets to foreign current liabilities	62.15%	74.74%	62.45%	53.90%

* *Liquidity ratio is calculated in accordance with the banking level.*

Leverage Ratio

	31 December 2018
Leverage Ratio	6.29%

Pursuant to the Leverage Ratio Management of Commercial Banks which was effective since April 1, 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

(Expressed in millions of Renminbi, unless otherwise stated)

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Net Stable Funding Ratio

The net stable fund ratio is designed to ensure commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulates that since 1 July 2018, the minimum regulatory standard for the net stable fund ratio is no less than 100%.

The net stable funding ratio is calculated as:

Net stable fund ratio = available stable funds/required stable funds × 100%

As at 31 December 2018, the Group meet the supervision requirement with the net stable funding ratio standing at 105.75%.

Indicators	Value
Available and stable funds	2,446,254
Required stable funds	2,313,169
Net stable funding ratio	105.75%

2 CURRENCY CONCENTRATIONS

	31 December 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	176,209	38,616	33,367	248,192
Spot liabilities	(240,222)	(39,524)	(20,018)	(299,764)
Forward purchases	704,568	11,509	1,436	717,513
Forward sales	(657,793)	(8,780)	(14,357)	(680,930)
Net (short)/long position	(17,238)	1,821	428	(14,989)
Net structural position	9	25	63	97

	31 December 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total
Spot assets	132,355	30,140	20,384	182,879
Spot liabilities	(171,558)	(33,786)	(12,320)	(217,664)
Forward purchases	231,721	22,458	2,138	256,317
Forward sales	(185,860)	(16,526)	(9,682)	(212,068)
Net long position	6,658	2,286	520	9,464
Net structural position	11	26	38	75

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branch. Structural assets mainly include fixed assets.

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with central banks, deposits and placements from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	As at 31 December 2018			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	73,966	910	24,329	99,205
– of which attributed to Hong Kong	22,898	782	15,034	38,714
Europe	7,633	40	21,444	29,117
North and South America	11,352	269	15,801	27,422
Total	92,951	1,219	61,574	155,744

	As at 31 December 2017			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	51,220	287	26,256	77,763
– of which attributed to Hong Kong	4,473	166	21,048	25,687
Europe	2,436	–	9,503	11,939
North and South America	2,795	194	11,621	14,610
Total	56,451	481	47,380	104,312

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segments

	31 December 2018	31 December 2017
Head Office	7,455	4,899
Yangtze River Delta	5,140	5,146
Bohai Rim	5,077	4,240
Pearl River Delta	4,216	6,772
Western	4,149	5,066
Central	4,102	4,127
Northeastern	2,151	3,236
Overseas	8	8
Total	32,298	33,494

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(b) By overdue days

	31 December 2018	31 December 2017
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	8,268	7,114
– between 6 months and 1 year (inclusive)	13,049	9,906
– over 1 year	10,981	16,474
Total	32,298	33,494
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.34%	0.35%
– between 6 months and 1 year (inclusive)	0.54%	0.49%
– over 1 year	0.45%	0.81%
Total	1.33%	1.65%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(c) Collaterals of loans and advances past due but not impaired

	31 December 2018	31 December 2017
Covered portion of loans and advances past due but not impaired	7,790	10,131
Uncovered portion of loans and advances past due but not impaired	16,002	11,316
Total loans and advances past due but not impaired	23,792	21,447
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	27,886	27,801

5 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. As at 31 December 2018, substantial amounts of the Group's exposures arose from businesses with mainland China entities or individuals.

Independent Auditor's Report

To the shareholders of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS (CONTINUED)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Impairment assessment of loans and advances to customers</td></tr>
<tr><td>The Group uses a number of models and assumptions in the measurement of expected credit losses, for example:

• Significant increase in credit risk – The selection of criteria for identifying significant increase in credit risk is highly dependent on judgement and may have a significant impact on the expected credit losses for loans with longer remaining periods to maturity;

• Models and parameters – Inherently complex models are used to measure expected credit losses. Modelled parameters have numerous inputs and the parameter estimation involves many judgements and assumptions;

• Forward-looking information – Expert judgement is used to create macroeconomic forecasts and to consider the impact to expected credit losses under multiple economic scenarios given different weights; and

• Individual impairment assessment – Identifying credit impaired loans requires consideration of a range of factors, and individual impairment assessments are dependent upon estimates of future cash flows.

Since loan impairment assessment involves many judgements and assumptions, and in view of the significance of the amount (as at 31 December 2019, gross loans and advances to customers amounted to RMB2,720.364 billion, representing 57.47% of total assets, and impairment allowance for loans and advances to customers amounted to RMB76.666 billion), impairment of loans and advances is considered a key audit matter.

Relevant disclosures are included in Note III 1, Note V 17 and Note V 51(a) to the consolidated financial statements.</td><td>We evaluated and tested the effectiveness of the design and implementation of key controls related to the credit approval process, post approval credit management, loan rating system, collateral monitoring and loan impairment assessment, including relevant data quality and information systems.

We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the Group's loan grading, taking into consideration post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information.

With the support of our internal credit risk modelling experts, we evaluated and tested the important parameters of the expected credit loss model, management's major judgements and related assumptions, mainly focusing on the following aspects:

1. Expected credit loss model:

• Assessed the reasonableness of the expected credit loss model methodology and related parameters, including probability of default, loss given default, risk exposure, and any significant increase in credit risk;

• Assessed the forward-looking information management used to determine expected credit losses, including the forecasts of macroeconomic variables and the assumptions of multiple macroeconomic scenarios; and

• Evaluated the models and the related assumptions used in individual impairment assessment and analysed the amount, timing and likelihood of management's estimated future cash flows, especially cash flows from collateral.</td></tr>
</table>

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers (continued)	
	2. Design and operating effectiveness of key controls: • Evaluated and tested the data and processes used to determine expected credit losses, including loan business data, internal credit rating data, impairment system computational logic, as well as inputs, outputs and interfaces among relevant systems; and • Evaluated and tested key controls over the expected credit loss models, including approval of model changes, ongoing monitoring model performance, model validation and parameter calibration. We evaluated and tested the design and operating effectiveness of internal controls related to disclosures of credit risk and impairment allowance.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques usually involve subjective judgement and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 2019, financial assets and financial liabilities measured at fair value amounted to RMB496.460 billion and RMB13.993 billion respectively, representing 10.49% and 0.32% of total assets and total liabilities respectively. Financial instruments which required either direct (i.e. prices) or indirect (i.e. derived from prices) inputs, hence categorised within Level 2 of the fair value hierarchy, represented 56.14% of total financial assets measured at fair value; and financial instruments which required significant unobservable inputs, hence categorised within Level 3 of the fair value hierarchy, represented 0.93% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter. Relevant disclosures are included in Note III 2 and Note V 52 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of key controls related to valuation of financial instruments, including relevant data quality and IT systems involved. We evaluated the valuation techniques, inputs and assumptions used by the Group through comparison with the valuation techniques commonly used in the markets, validation of observable inputs using external market data, and comparison with valuation outcomes obtained from various pricing sources. We assessed and tested the design and operating effectiveness of the Group's controls related to disclosures of fair value. We also assessed whether relevant fair value and sensitivity disclosures in the financial statements adequately presented the risk of the Group.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Consolidation assessment of, and disclosures about, structured entities	
The Group has established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. The Group determines whether or not to consolidate these structured entities based on the assessment of whether the Group has control over them through taking into consideration the power arising from rights, variable returns, and the link between power and returns. The assessment of the Group's control over structured entities involves significant judgement and estimation such as the purpose and design of structured entities, its ability to direct relevant activities, interests it holds directly or indirectly, the performance fee obtained, profit and the exposure to loss from providing credit enhancement or liquidity support, etc. The comprehensive analysis of these factors and the conclusion of whether the Group has control involve significant management judgement and estimation. Due to the significance of the unconsolidated structured entities and the complexity of judgement exercised by management, this is considered a key audit matter. Relevant disclosures are included in Note III 6 and Note V 44 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls structured entities. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyse whether the Group has the obligation to absorb any loss of structured entities, as well as the Group's analysis on its power over structured entities, the magnitude and variability of variable returns from its involvement with structured entities. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its unconsolidated structured entities.

OTHER INFORMATION INCLUDED IN THE BANK'S 2019 ANNUAL REPORT

The directors of the Bank are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Bank are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Bank either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Bank are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Choi Kam Cheong, Geoffrey.

Ernst & Young
Certified Public Accountants
Hong Kong

27 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2019	2018 (Restated)
Interest income		210,044	185,688
Interest expense		(108,126)	(107,524)
Net interest income	1	101,918	78,164
Fee and commission income		25,977	22,431
Fee and commission expense		(2,808)	(2,658)
Net fee and commission income	2	23,169	19,773
Net trading gains	3	585	1,071
Dividend income		42	8
Net gains arising from investment securities	4	4,900	9,862
Net foreign exchange gains		1,339	724
Other net operating income		986	784
Operating income		132,939	110,386
Operating expenses	5	(38,429)	(33,706)
Operating profit before impairment		94,510	76,680
Credit impairment losses	8	(48,965)	(35,744)
Other impairment losses	9	(382)	(84)
Profit before tax		45,163	40,852
Income tax	10	(7,722)	(7,131)
Net profit		37,441	33,721
Net profit attributable to:			
Equity shareholders of the Bank		37,354	33,659
Non-controlling interests		87	62
		37,441	33,721
Earnings per share			
Basic earnings per share (in RMB/share)	11	0.68	0.61
Diluted earnings per share (in RMB/share)	11	0.62	0.55

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2019	2018
Net profit		37,441	33,721
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits		(180)	(102)
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		6	3
– Related income tax effect	24(b)	(2)	(1)
Subtotal		(176)	(100)
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		3,158	2,982
– Changes in allowance for expected credit losses		409	(311)
– Reclassified to profit or loss upon disposal		(1,982)	1,095
– Related income tax effect	24(b)	(374)	(957)
– Exchange differences on translation of financial statements		48	67
Subtotal		1,259	2,876
Other comprehensive income, net of tax		1,083	2,776
Total comprehensive income		38,524	36,497
Total comprehensive income attributable to:			
Equity shareholders of the Bank		38,436	36,434
Non-controlling interests		88	63
		38,524	36,497

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

Consolidated Statement of Financial Position

As at 31 December 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2019	31 December 2018
Assets			
Cash and deposits with the central bank	12	364,340	366,575
Deposits with banks and other financial institutions	13	31,358	41,005
Precious metals		10,826	23,628
Placements with banks and other financial institutions	14	60,270	96,685
Derivative financial assets	15	13,805	15,212
Financial assets held under resale agreements	16	6,835	37,773
Loans and advances to customers	17	2,644,136	2,361,278
Finance lease receivables	18	83,723	63,333
Financial investments	19	1,433,546	1,301,080
– Financial assets at fair value through profit or loss		211,406	222,737
– Debt instruments at fair value through other comprehensive income		180,005	153,987
– Equity instruments at fair value through other comprehensive income		623	367
– Financial investments measured at amortised cost		1,041,512	923,989
Fixed assets	21	19,342	18,241
Right-of-use assets	22	11,684	–
Goodwill	23	1,281	1,281
Deferred tax assets	24	16,306	10,794
Other assets	25	35,979	20,447
Total assets		4,733,431	4,357,332
Liabilities and equity			
Liabilities			
Due to the central bank	27	224,838	267,193
Deposits from banks and other financial institutions	28	444,320	490,091
Placements from banks and other financial institutions	29	166,225	152,037
Financial liabilities at fair value through profit or loss	30	100	354
Derivative financial liabilities	15	13,893	14,349
Financial assets sold under repurchase agreements	31	25,603	40,411
Deposits from customers	32	3,017,888	2,571,961
Accrued staff costs	33	8,007	8,028
Taxes payable	34	9,322	5,666
Lease liabilities	35	11,069	–
Debt securities issued	36	371,904	440,449
Other liabilities	37	54,208	44,320
Total liabilities		4,347,377	4,034,859

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

Consolidated Statement of Financial Position

As at 31 December 2019

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	31 December 2019	31 December 2018
Equity			
Share capital	38	52,489	52,489
Other equity instruments	39	70,067	35,108
of which: preference shares		64,906	29,947
Capital reserve	40	53,533	53,533
Other comprehensive income	41	2,737	1,655
Surplus reserve	42	26,245	24,371
General reserve	42	59,417	54,036
Retained earnings		120,494	100,296
Total equity attributable to equity shareholders of the Bank		384,982	321,488
Non-controlling interests		1,072	985
Total equity		386,054	322,473
Total liabilities and equity		4,733,431	4,357,332

Approved and authorised for issue by the board of directors on 27 March 2020.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Liu Jin
President
Executive Director

Yao Zhongyou
Vice President in Charge of Finance

Sun Xinhong
General Manager of Financial Accounting Department

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

2019		Attributable to equity shareholders of the Bank										
			Other equity instruments									
	Note V	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	37,354	37,354	87	37,441
Other comprehensive income	41	–	–	–	–	1,082	–	–	–	1,082	1	1,083
Capital contribution by other equity instrument holders		–	34,959	–	–	–	–	–	–	34,959	–	34,959
Appropriation of profit:	43											
– Appropriation to surplus reserve		–	–	–	–	–	1,874	–	(1,874)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	5,381	(5,381)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(8,451)	(8,451)	(1)	(8,452)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2019		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054

2018		Attributable to equity shareholders of the Bank										
			Other equity instruments									
	Note V	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 31 December 2017		52,489	29,947	5,161	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436
Impact of adopting new Standards		–	–	–	–	725	–	–	(9,480)	(8,755)	(16)	(8,771)
Balance at 1 January 2018		52,489	29,947	5,161	53,533	(1,120)	21,054	52,257	82,684	296,005	660	296,665
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	33,659	33,659	62	33,721
Other comprehensive income	41	–	–	–	–	2,775	–	–	–	2,775	1	2,776
Capital injection by non-controlling shareholders		–	–	–	–	–	–	–	–	–	265	265
Appropriation of profit:	43											
– Appropriation to surplus reserve		–	–	–	–	–	3,317	–	(3,317)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	1,779	(1,779)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(9,501)	(9,501)	(3)	(9,504)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2018		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473

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

Consolidated Cash Flow Statement

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

	2019	2018
Cash flows from operating activities		
Net profit	37,441	33,721
Adjustments for		
Impairment losses on assets	49,347	35,828
Depreciation and amortisation	4,664	2,164
Unwinding of discount	(828)	(792)
Dividend income	(42)	(8)
Unrealised foreign exchange gains	(112)	(400)
Net gains on investment securities	(54,654)	(55,661)
Net gains on disposal of trading securities	(1,021)	(922)
Revaluation losses/(gains) on financial instruments at fair value through profit or loss	2,162	(22)
Interest expense on debt securities issued	15,221	18,234
Interest expense on lease liabilities	489	–
Net losses on disposal of fixed assets	25	15
Income tax	7,722	7,131
	60,414	39,288
Changes in operating assets		
Net (increase)/decrease in deposits with the central bank, banks and other financial Institutions	(42,733)	53,454
Net decrease in placements with banks and other financial institutions	20,549	29,391
Net (increase)/decrease in financial assets held for trading	(6,928)	14,954
Net increase in loans and advances to customers	(331,235)	(416,007)
Net decrease in financial assets held under resale agreements	30,913	53,700
Net increase in other operating assets	(35,775)	(8,000)
	(365,209)	(272,508)
Changes in operating liabilities		
Net decrease in deposits from banks and other financial institutions	(45,587)	(90,295)
Net increase in placements from banks and other financial institutions	13,820	44,491
Net decrease in financial assets sold under repurchase agreements	(14,793)	(5,182)
Net (decrease)/increase in amount due to the central bank	(41,570)	30,550
Net increase in deposits from customers	446,317	266,043
Income tax paid	(10,239)	(8,200)
Net increase in other operating liabilities	21,947	15,327
	369,895	252,734
Net cash flows from operating activities	65,100	19,514
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	637,019	376,114
Investment income received	59,415	49,386
Proceeds from disposal of fixed assets and other long-term assets	305	375
Payments on acquisition of investments	(766,714)	(366,047)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(4,448)	(4,063)
Net cash flows from investing activities	(74,423)	55,765

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

	Note V	2019	2018
Cash flows from financing activities			
Capital injected into subsidiaries by non-controlling shareholders		–	265
Proceeds from issuance of preference shares		34,959	–
Repayments of debts issued		(68,034)	(8,615)
Interest paid on debt securities issued		(15,732)	(18,141)
Dividends paid		(9,902)	(10,953)
Other net cash flows from financing activities		(2,744)	–
Net cash flows from financing activities		(61,453)	(37,444)
Effect of foreign exchange rate changes on cash and cash equivalents		595	1,922
Net (decrease)/increase in cash and cash equivalents	47(a)	(70,181)	39,757
Cash and cash equivalents as at 1 January		187,680	147,923
Cash and cash equivalents as at 31 December	47(b)	117,499	187,680
Interest received		161,077	163,589
Interest paid (excluding interest expense on debt securities issued)		(93,880)	(84,763)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019
(Expressed in millions of Renminbi, unless otherwise stated)

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the "Bank") commenced its operations in Beijing, the People's Republic of China (the "PRC") on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC"), formerly the China Banking Regulatory Commission, No. B0007H111000001 and is issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, People's Republic of China.

The principal activities of the Bank and its subsidiaries (Note V 20) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC, excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"),the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

These financial statements have been approved by the Board of Directors on 27 March 2020.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments), as well as financial assets at fair value through other comprehensive income are measured at their fair values in the consolidated financial statements. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the "Accounting Standards for Business Enterprises-Basic Standard" issued by the Ministry of Finance of the People's Republic of China (the "MOF"), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the "PRC GAAP"). There is no difference in the net profit for the year or total equity as at the end of the year between the Group's consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2019

On 1 January 2019, the Group adopted the following new standards, amendments and interpretation.

IFRS 16	*Leases*
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*
IAS 19 Amendments	*Plan Amendment, Curtailment or Settlement*
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements to IFRSs 2015-2017 Cycle (issued in December 2017)	

In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 and IFRIC 4. Under IFRS 16, the classification of finance leases and operating leases for lessees is removed, and lessees recognise right-of-use assets and lease liabilities for all leases (except short-term leases and lease of low-value assets elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. The Group has adopted IFRS 16 from 1 January 2019 and applied the modified retrospective approach without restating comparative figures. The Group has not reassessed the existing contracts before 1 January 2019 (date of initial application) and has used practical expedients. As a lessee, the Group has elected to exercise the recognition exemption not to recognise the right-of-use assets and lease liabilities for the leases of which the underlying assets are of low value or for which the contract would end within 12 months from the date of initial application, and has recognised the profit or loss on a straight-line basis over the lease term. Therefore, the financial information for the year ended 31 December 2019 related to leasing presented on the financial information is not comparable with the comparative financial information presented in the 2018 financial statements in accordance with the former lease standards.

For the minimum lease payment for the operating leases disclosed in the financial statements of 2018, the Group used its incremental borrowing interest rate on 1 January 2019 to discount the lease payment. The reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is as follows:

Minimum lease payment for operating leases as at 31 December 2018	12,079
Less: Minimum lease payment with recognition exemption – short-term leases	(112)
Add: Minimum lease payment rising from reasonably exercising an option to extend the lease and others	1,206
Less: The impact of lease payment discounted at incremental borrowing interest rate as at 1 January 2019	(2,131)
Lease liabilities as at 1 January 2019	11,042
Right-of-use assets as at 1 January 2019	11,829

IFRIC Interpretation 23 clarifies how to apply the recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The interpretation mainly addresses the following four areas: whether an entity separately considers the uncertainty of tax treatments; assumptions adopted by an entity to address the examination of tax treatments by taxation authorities; how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances.

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.1 Standards, amendments and interpretations effective in 2019 (continued)

IAS 19 Amendments require entities to use the updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments do not address the accounting for "significant market fluctuations" in the absence of a plan amendment, curtailment or settlement.

IAS 28 Amendments clarify that an entity applies IFRS 9 *Financial Instruments* ("IFRS 9") to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). Entities must apply the amendments retrospectively, with certain exceptions.

Annual Improvements to IFRSs 2015-2017 Cycle was issued in December 2017. Those amendments affect IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.

The adoption of the above standards, amendments and interpretation does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019

		Effective for annual periods beginning on or after
IFRS 3 Amendments	*Definition of a Business*	1 January 2020
IAS 1 and IAS 8 Amendments	*Definition of Material*	1 January 2020
IFRS 9, IAS 39 and IFRS 7 Amendments	*Interest Rate Benchmark Reform*	1 January 2020
IFRS 17	*Insurance Contracts*	1 January 2021
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

1 Basis of preparation (continued)

1.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2019 (continued)

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest-rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest-rate benchmark reform. The amendments must be applied retrospectively.

IFRS 17 *Insurance Contracts* replaces IFRS 4 *Insurance Contracts*. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture.

The above standards, amendments and interpretations does not have any significant impact on the consolidated financial statements.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

2 Consolidation

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If changes in facts and circumstances result in changes in elements involved in the definition of control, the Group will re-evaluate whether it still has control over subsidiaries.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

3 Cash and cash equivalents

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

4 Foreign currency translation

When the Group 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 or the rates that approximate the spot exchange rates at the dates of transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit or loss, and other changes in the carrying amount are recognised in "Other comprehensive income". Translation differences on all other monetary assets and liabilities are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as financial assets at fair value through other comprehensive income are recognised in "Other comprehensive income". Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as "Net trading gains" in the statement of profit or loss.

Assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the end of the year. Equity items, excluding "Retained Earnings", are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders, equity with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

5.1 Recognition and de-recognition of financial instruments

The Group shall recognise a financial asset or a financial liability in its statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

(1) the contractual rights to the cash flows from the financial asset expire; or

(2) the contractual rights to the cash flows from the financial asset are transferred, or the Group undertake the obligation to pay the cash flow collected to a third party in full and on time under the "pass-through agreement" and the Group (a) transfers substantially all the risks and rewards of ownership of the financial assets or (b) where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

The Group recognises and de-recognises financial assets on the trading day when trading financial assets in a conventional way. Trading financial assets in conventional way refers to collecting or delivering financial assets within the time limit prescribed by laws or common practices in accordance with contract provisions. The trading day refers to the date on which the Group undertakes to buy or sell financial assets.

Financial liabilities are de-recognised when they are extinguished that is, when the obligation is discharged or cancelled, or expires. The difference between the carrying amount of the de-recognised financial liability and the consideration paid is recognised in the statement of profit or loss.

5.2 Classification and measurement of financial assets

The Group classifies financial assets as at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Only if when the Group changes the business model for managing financial assets, the Group shall reclassify the affected financial assets.

For financial assets at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial assets, transaction costs are recognised in the initial measurement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial assets (continued)

Business models

The Group's business model refers to how the Group manages its financial assets in order to generate cash flows. That is, the Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. If financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the business model of the financial assets is "other". The Group's assessment of the business model is performed on a financial assets portfolio basis, and determined on a reasonable expected scenario, taking into account: how cash flows were generated in the past, how the performance of the business model and the financial assets held within that business model is evaluated and reported to the Group's key management personnel; how risks are evaluated and managed; and how managers of the business are compensated.

The contractual cash flow characteristics

The assessment of contractual cash flow characteristics is to identity whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Principal is the fair value of the financial asset at initial recognition. However, that principal amount may change over the life of the financial asset (for example, if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

The subsequent measurement of financial assets depends on the classification:

Financial assets at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognised using the effective interest method for such financial assets. The gains or losses from derecognition, amendments or impairment on such financial assets are recognised in profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.2 Classification and measurement of financial assets (continued)

Debt instruments at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at the fair value through other comprehensive income should be recognised in "other comprehensive income", except for interests calculated using effective interest method and foreign exchange gains and losses. When the financial asset is derecognised, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss.

Equity instruments at fair value through other comprehensive income

The Group has irrevocably designated equity instruments that are not held for trading as financial assets at fair value through other comprehensive income. Only relevant dividend income (excluding dividend income explicitly recovered as part of investment cost) is recognised in profit or loss, and subsequent changes in fair value are recognised in other comprehensive income without provision for impairment. When financial assets are de-recognised, the accumulated gains or losses previously recognised in other comprehensive income shall be reclassified to retained earnings under equity.

Financial assets at fair value through profit or loss

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. Such financial assets that the Group holds are subsequently measured at fair value. Gains or losses on such financial assets are recognised in profit or loss unless it is part of a hedging relationship.

Only when accounting mismatch can be eliminated or significantly reduced can financial assets be designated at fair value through profits or losses at initial recognition.

When an entity classified a financial asset as financial assets designated at fair value through profit or loss, it cannot be reclassified as other financial assets; nor can other financial assets be reclassified as financial assets designated at fair value through profit or loss after initial recognition.

In accordance with the above conditions, the financial assets designated at fair value through profit or loss held by the Group mainly include fixed interest rate personal mortgage loans for which the Group used interest rate swap to manage the associated interest rate risk.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.3 Classification and measurement of financial liabilities

The Group classifies financial liabilities as at fair value through profit or loss, other financial liabilities or designated as effective hedging instruments at initial recognition. For financial liabilities at fair value through profit or loss, transaction costs are directly recognised in profit or loss. For other financial liabilities, transaction costs are recognised in the initial measurement.

The subsequent measurement of financial liabilities depends on the classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss, includes financial liabilities held for trading (including derivative financial instruments) and financial liabilities designated at fair value through profit or loss at initial recognition. Financial liabilities held for trading (including derivative financial instruments) are subsequently measured at the fair value. A gain or loss on such financial liability is recognized in profit or loss, unless it is part of hedging relationship. Financial liabilities designated at fair value through profit or loss are subsequently measured at the fair value. A gain or loss on such financial liability is recognized in profit or loss, except that the changes in the fair value of the financial liability arising from changes in the Group's own credit risk should be recognised in other comprehensive income. If the recognition of the impact arising from changes in the financial liabilities' own credit risk in other comprehensive income will create or enlarge the accounting mismatch in profit or loss, the Group shall recognise the entire gain or loss of the financial liabilities (including the impact of changes in its own credit risk) in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

5.4 Impairment of financial instruments

The Group evaluates and confirms relevant impairment allowance for financial assets measured at amortised cost, debt instrument investments at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on ECL (Note V 51(a)).

5.5 Financial guarantee contracts and loan commitments

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured at fair value at initial recognition. For financial guarantee contracts which are not designated as at fair value through profit or loss subsequently measured at the higher of the expenditure determined by the ECL model that is required to settle any financial obligation arising at the financial reporting date, and the value initially recognised less the accumulated amortisation recognised in accordance with the guidance for revenue recognition.

Loan commitments are commitments provided by the Group to the customers to grant loans under the established contract terms during a certain period. The impairment losses of loan commitments are measured using the ECL model.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments, for example, to hedge exchange-rate risks and interest rate risks through foreign exchange forward contracts and interest rate swaps, which are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of these derivatives are recognised in profit or loss unless it is related to hedge accounting.

In terms of the hedge accounting method, the Group's hedge is classified as:

(1) Fair value hedge, refers to a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (except the exchange rate risk).

(2) Cash flow hedge, refers to a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the exchange rate risk contained in an unrecognized definitive commitment.

At the beginning of the hedging relationship, the Group has formally designated the hedging relationship and prepared a formal written document on the hedging relationship, risk management objectives and risk management strategy. The file specifies the hedging instrument, the hedged project, the nature of the hedged risk, and the Group's method for evaluating the effectiveness of the hedging. Hedging effectiveness refers to the degree to which the fair value or cash flow change of the hedging instrument can offset the fair value or cash flow of the hedged item caused by the hedged risk. Such hedging should be continuously evaluated for compliance with hedging effectiveness requirements on the initial designated date and subsequent periods.

The Group discontinues hedge accounting prospectively when the hedging instrument expires or is sold, terminated or exercised (the replacement or rollover of a hedging instrument into another hedging instrument does not constitute an expiration or termination), or the hedging relationship ceases to meet the updated risk management objective, or to meet other qualifying criteria for hedging accounting.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

If the condition of the hedge accounting method is satisfied, it should be treated as follows:

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.6 Derivative financial instruments and hedge accounting (continued)

Fair value hedge

Gains or losses arising from hedging instruments are recognized in profit or loss. The gains or losses of the hedged item due to the hedging risk exposure shall be recognized in profit or loss, and the book value of the hedged item not be measured at fair value shall be adjusted at the same time.

For the fair value hedges related to the debt instrument measured at amortized cost, the adjustment of the book value of the hedged item should be amortized by the effective interest rate method during the remaining period of the hedge and recognized in profit or loss. The amortization in accordance with the effective interest rate method may commence immediately after the adjustment of book value and shall not be later than the termination of the adjustment of the hedged item based on the change in fair value caused by the hedging risk. If the hedged item is a debt instrument at fair value through other comprehensive income, the accumulated recognized hedge gains or losses are amortized in the same way and recognized in profit or loss, but the book value of financial assets is not adjusted. If the hedged item is terminated, the unamortized fair value is recognized in profit or loss.

If the hedged item is an unrecognised firm commitment, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedge

The gain or loss of the hedging instrument that belongs to the effective part should be directly recognized in other comprehensive income, and the ineffective part shall be recognized in profit or loss.

If the hedged forecast transaction subsequently confirmed as a non-financial asset or non-financial liability, or the forecast transaction of a non-financial asset or non-financial liability form a firm commitment for the applicable fair value hedge, cash flow hedge reserve original recognized in other comprehensive income shall be reclassified to the initially amount of the assets and liabilities. The remaining cash flow hedge reserve recognized in other comprehensive income shall be reclassified to profit or loss in the same periods when the hedged future cash flows affect profit or loss, such as the expected sales occur.

When the Group discontinues hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, that amount accumulated in the cash flow hedge reserve shall remain in equity until the expected transaction actually occurs or the commitment is confirmed to be fulfilled. If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

5 Financial instruments (continued)

5.7 Convertible corporate bonds

Convertible bonds comprise the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as a liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in "Equity" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under "Capital reserve".

5.8 Transfer of financial assets

If the Group has transferred substantially all the risks and rewards of ownership of financial assets to the transferee, it shall de-recognise the financial assets; if it retains substantially all the risks and rewards of ownership of financial assets, it shall not de-recognise the financial assets.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of financial assets, it shall deal with the following situations separately: if it abandons its control over the financial assets, it should de-recognise the financial assets and recognise the assets and liabilities that arose; if it does not abandon its control over the financial assets, it shall recognise the relevant financial assets in accordance with the extent to which it continues to be involved in the transferred financial assets, and relevant liabilities are recognised accordingly.

If the Group continues to be involved in the transferred financial assets by providing a financial guarantee, the assets that arose from the continued involvement shall be determined as the lower of the book value of the financial assets and the amount of the financial guarantee. The amount of the financial guarantee refers to the maximum amount that will be required to be repaid among the consideration received.

5.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

6 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

The difference between purchase and sale price is recognised as "Interest expense" or "Interest income" in the statement of profit or loss over the life of the agreements using the effective interest method.

8 Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note II 2.

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at the actual consideration paid if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note II 15) in the statement of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

9 Fixed assets

Fixed assets are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's fixed assets mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the statement of profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit or loss.

9.1 Premises, electronic equipment and others

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Asset category	Estimated useful life (years)	Estimated rate of residual value(%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

9.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase at an estimated residual value rate of 15%.

9.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Leases (applicable from 1 January 2019)

10.1 Lease classification

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

10.2 Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes the periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise the corresponding option.

10.3 As lessee

Lease modification

Lease modification is a change in the scope of a lease, the consideration for a lease or lease term, that was not part of the original terms and conditions of the lease. For example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

(1) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

(2) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. In calculating the present value of the lease payments after modification, the revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Leases (applicable from 1 January 2019) (continued)

10.3 As lessee (continued)

Lease modification (continued)

For the impact on the adjustments of a lease liability, the Group accounts for the remeasurement by:

(1) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease or shorten the lease term, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or

(2) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The incremental borrowing rate of lessee

The Group uses the incremental borrowing rate as the discount rate to calculate the present value of lease payment. When determining the incremental borrowing rate, each institution of the Group uses its economic environment and the observable interest rate as the foundation. On this basis, the applicable incremental borrowing rate is calculated through the adjustment of the reference interest rate, which is determined according to the situation of the institution and the underlying asset, the lease term, the amount of the lease liability and other specific conditions of the lease.

Short-term leases and leases of low-value assets

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contain any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is relatively low when it is new as a lease of a low-value asset. The Group chooses not to recognise the right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, and the rent is amortised on a straight-line basis in each period of the lease term and included in the statement of profit or loss.

10.4 As lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, except that a lease is classified as an operating lease at the inception date.

When the Group is a lessor under finance leases, at the commencement date of the lease, the Group recognises finance lease receivable and derecognises finance lease assets.In the initial measurement of the finance lease receivable, the Group recognises the net investment of the lease as the book value. The net investment in a lease is the sum of the unguaranteed residual value and the present value of the unreceived minimum lease payment receivable at the commencement date, which is discounted by the interest rate implicit in the lease. The Group calculates and recognises the interest income in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not measured as part of the net investment in the lease are recognised in profit or loss as incurred.

When the Group is a lessor under operating leases, the Group still reflects the underlying assets as the Group's assets. The rent income is amortised on a straight-line basis in each period of the lease term and recognised in the statement of profit or loss, or profit or loss as incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

10 Leases (applicable from 1 January 2019) (continued)

10.5 Right-of-use assets

The right-of-use assets of the Group mainly include buildings, vehicles and other equipment.

At the commencement date of the lease, the Group recognises a right-of-use asset. The cost of the right-of-use asset comprises: (1) the amount of the initial measurement of the lease liability; (2) any lease payments made at or before the commencement date of the lease less any lease incentives received; (3) any initial direct cost incurred when the Group is a lessee; and (4) an estimate of costs incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease

The right-of-use assets are depreciated on a straight-line basis subsequently by the Group. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset and the end of the lease term, whichever is shorter.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

10.6 Lease liability

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets.

In calculating the present value of the lease payments, the Group uses the incremental borrowing rate of lessee as the discount rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred.

After the commencement date, the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate if either: (i) there is a change in the amounts expected to be payable under a residual value guarantee; (ii) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (iii) there is a change in the assessment of an option to purchase, extend or terminate the underlying asset, assessed in the context of a purchase option.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

11 Leases (applicable for the year ended 31 December 2018)

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

11.1 As lessee under operating leases

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

11.2 As lessor under operating leases

Rental income under an operating lease is recognised as "other net operating income" in the statement of profit or loss on a straight-line basis over the lease term. Contingent rental income is recognised as income in the accounting period in which it is earned.

11.3 As lessor under finance leases

When the Group is a lessor under finance leases, the sum of present value of minimum lease payments receivable from the lessee, and initial direct cost is recognized as a receivable, the unguaranteed residual value is also recorded. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. The Group uses the effective interest method to recognise finance income for the current year.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the end of the year, finance lease receivables, net of unearned finance income, are presented as finance lease receivables in the statement of financial position.

12 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit or loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

13 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 15). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of profit or loss on disposal.

14 Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. The repossessed assets should be recorded at the fair value of the abandoned creditor's rights, and the relevant expenses payable for obtaining the repossessed assets should be included in the book value of the repossessed assets. When there is an indication that the net realizable value of the repossessed assets is lower than the book value, the Group will reduce the book value to the net realizable value.

15 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment: fixed assets, right-of-use assets, construction in progress, intangible assets, goodwill and investments in subsidiaries.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU 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 Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognised the impairment loss in the income statement. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

15 Provision for impairment losses on non-financial assets (continued)

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

The present value of 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 a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

16 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the reporting period is significant, the Group will present them at their present value.

16.1 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.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

16 Employee benefits (continued)

16.2 Post-employment benefits – defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participates in a defined contribution basic pension insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

In addition, employees in Mainland China also participate in a defined contribution retirement benefit plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to profit or loss when it is incurred. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

16.3 Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognises termination benefits in profit or loss at the earlier of:

– When the Group can no longer withdraw an offer of those benefits; and

– When the Group has a specific, formal restructuring plan involving payment of termination benefits, and the plan has started or the details of the plan have been notified to each affected party, so that each party has developed reasonable expectations.

16.4 Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

17 Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Group 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 estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

18 Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (“entrusted funds”) to the Group, and the Group grants loans to third parties (“entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

19 Other equity instruments-preference shares

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms of the contract, the economic substance and the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy for the convertible bonds with liability component only.

The issued preference shares that should be classified as equity instruments will be recognised as equity in the actual amount received. Dividends payables are recognised as distribution of profits. Equity will be written down by the redemption price for any redemptions made before maturing in accordance with contractual terms.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

20 Income recognition

The income should be recognized when the group's performance obligation in the contract is fulfilled, which refers the revenue is recognized when the customer obtains the control right of relevant goods or services. To obtain the right of control over related goods or services means to be able to dominate the use of such goods or the provision of such services and obtain almost all economic benefits therefrom.

20.1 Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income. 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 asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

For the purchased or originated credit-impaired financial assets, the Group calculates the interest income according to the amortised cost of the financial assets and the effective interest rate after credit adjustment since the initial recognition by the Group. The effective interest rate after credit adjustment refers to the estimated future cash flows of the acquired or originated financial assets with credit impairment in the expected duration, which is converted into the interest rate of amortised cost of the financial assets.

For the financial assets acquired or originated without any credit impairment, but incurred credit impairment in the subsequent period, the Group calculates the interest income in accordance with the amortised cost and the effective interest rate of the financial assets.

20.2 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income is accrued in accordance with the terms and conditions of the service agreement. For other services, fee and commission income is recognised when the transactions are completed.

20.3 Other income

Other income is recognised on an accrual basis.

21 Expenses recognition

21.1 Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

21.2 Other expenses

Other expenses are recognised on an accrual basis.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

22 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

– when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting year.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

23 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting year are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

24 Related parties

If a Group has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one 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 Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

25 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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 and underlying assumptions 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.

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment losses on financial assets

The Group follows IFRS 9 to measure impairment losses of all financial assets. In this process, there are many estimates and judgements, especially the determination of the amount of impairment losses, the estimation of future contract cash flows, the value of collateral, and the criteria for judging a significant increase in credit risk. The Group's impairment measurement is impacted by many factors, which will lead to different levels of allowance for impairment.

The Group's expected credit loss calculation is the result of model output, which contains many model assumptions and parameter inputs. The accounting judgements and estimates used in the expected credit loss model include:

- criteria for judging a significant increase in credit risk
- definition of credit impaired assets
- parameters for the measurement of ECL
- forward-looking information
- modification of contractual cash flows

2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

3 Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

4 Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and the discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

5 Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

6 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes into consideration the power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and the link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have the obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

(Expressed in millions of Renminbi, unless otherwise stated)

IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax: value-added tax is charged at 6%,13%,or 16% on taxable added value.

(b) City construction tax: city construction tax is calculated as 1%-7% of business tax.

(c) Education surcharge: education surcharge is calculated as 3% of business tax.

(d) Income tax: the income tax is calculated on taxable income. The statutory income tax rate of the Bank and domestic subsidiaries is 25%. The statutory income tax rate of CEB International Investment Co., Ltd., the Hong Kong subsidiary, is 16.5%. The statutory income tax rate of China Everbright Bank Company Limited (Europe) ("China Everbright S A."), the Luxembourg subsidiary, is 19%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	2019	2018 (Restated)
Interest income arising from			
Deposits with the central bank		5,020	5,100
Deposits with banks and other financial institutions		1,470	858
Placements with banks and other financial institutions		3,208	6,571
Loans and advances to customers	(a)		
– Corporate loans and advances		70,854	61,585
– Personal loans and advances		72,578	59,247
– Discounted bills		2,020	1,276
Finance lease receivables		4,444	3,379
Financial assets held under resale agreements		2,377	1,802
Investments		48,073	45,870
Subtotal		210,044	185,688
Interest expenses arising from			
Due to the central bank		8,012	8,481
Deposits from banks and other financial institutions		12,712	22,866
Placements from banks and other financial institutions		6,520	5,793
Deposits from customers			
– Corporate customers		47,074	39,161
– Individual customers		16,880	11,865
Financial assets sold under repurchase agreements		1,707	1,124
Debt securities issued		15,221	18,234
Subtotal		108,126	107,524
Net interest income		101,918	78,164

Note:

(a) *The interest income arising from impaired financial assets amounted to RMB828 million for the year ended 31 December 2019 (2018: RMB792 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	2019	2018 (Restated)
Fee and commission income		
Bank card service fees	14,163	11,523
Agency services fees	2,744	2,734
Underwriting and advisory fees	1,909	1,594
Settlement and clearing fees	1,538	1,279
Custody and other fiduciary business fees	1,446	1,358
Acceptance and guarantee fees	1,360	1,120
Wealth management service fees	634	876
Others	2,183	1,947
Subtotal	25,977	22,431
Fee and commission expense		
Bank card transaction fees	1,908	1,713
Settlement and clearing fees	144	288
Others	756	657
Subtotal	2,808	2,658
Net fee and commission income	23,169	19,773

3 Net trading gains

	2019	2018
Trading financial instruments		
– Derivatives	(355)	(332)
– Debt securities	920	1,307
Subtotal	565	975
Financial instruments designated at fair value through profit or loss	(1)	4
Precious metal contracts	21	92
Total	585	1,071

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains arising from investment securities

	2019	2018
Net gains arising from financial investments at fair value through profit or loss	4,622	9,813
Net (losses)/gains arising from debt instruments at fair value through other comprehensive income	(1,915)	803
Net gains arising from loans and advances to customers at fair value through other comprehensive income	189	347
Net gains/(losses) arising from financial investments measured at amortised cost	22	(6)
Net revaluation gains/(losses) reclassified from other comprehensive income on disposal	1,982	(1,095)
Total	4,900	9,862

5 Operating expenses

	Note	2019	2018
Staff costs			
– Salaries and bonuses		12,759	11,827
– Pension and annuity		2,167	1,811
– Housing allowances		881	775
– Staff welfares		443	400
– Supplementary retirement benefits		110	86
– Others		2,041	1,970
Subtotal		18,401	16,869
Premises and equipment expenses			
– Depreciation of the right-of-use assets		2,429	–
– Depreciation of fixed assets		1,485	1,419
– Rental and property management expenses		565	2,853
– Interest expense on lease liabilities		489	–
– Amortisation of intangible assets		400	338
– Amortisation of other long-term assets		350	407
Subtotal		5,718	5,017
Tax and surcharges		1,400	1,165
Other general and administrative expenses	(a)	12,910	10,655
Total		38,429	33,706

Note:

(a) *Auditors' remuneration for the year ended 31 December 2019 was RMB9.50million (2018: RMB9.00 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows:

		2019							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors									
Lu Hong	(i)	–	952	1,228	–	2,180	44	126	2,350
Non-executive directors									
Li Xiaopeng		–	–	–	–	–	–	–	–
Cai Yunge		–	–	–	–	–	–	–	–
Wang Xiaolin		–	–	–	–	–	–	–	–
Shi Yongyan		–	–	–	–	–	–	–	–
Dou Hongquan	(ii)	–	–	–	–	–	–	–	–
He Haibin		–	–	–	–	–	–	–	–
Liu Chong	(ii)	–	–	–	–	–	–	–	–
Yu Chunling	(ii)	–	–	–	–	–	–	–	–
Independent non-executive directors									
Fok Oi Ling		370	–	–	–	370	–	–	370
Xu Hongcai		271	–	–	–	271	–	–	271
Wang Liguo		360	–	–	–	360	–	–	360
Shao Ruiqing	(ii)	150	–	–	–	150	–	–	150
Hong Yong-miao	(ii)	93	–	–	–	93	–	–	93
Supervisors									
Li Xin		–	984	1,195	–	2,179	44	126	2,349
Yin Lianchen		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Wu Gaolian		–	–	–	–	–	–	–	–
Wang Zhe		290	–	–	–	290	–	–	290
Qiao Zhimin	(ii)	75	–	–	–	75	–	–	75
Xu Keshun	(ii)	–	363	570	–	933	21	64	1,018
Sun Jianwei	(ii)	–	364	456	–	820	18	64	902
Shang Wencheng	(ii)	–	348	519	–	867	21	64	952

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows (continued):

		2019							
				Discretionary bonuses					
	Notes	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Former executive directors									
Ge Haijiao	(ii)	–	200	150	–	350	16	105	471
Former non-executive directors									
Fu Dong	(ii)	–	–	–	–	–	–	–	–
Zhao Wei	(ii)	–	–	–	–	–	–	–	–
Former independent non-executive director									
Qiao Zhimin	(ii)	284	–	–	–	284	–	–	284
Xie Rong	(ii)	216	–	–	–	216	–	–	216
Feng Lun	(ii)	343	–	–	–	343	–	–	343
Former Supervisors									
Sun Xinhong	(ii)	–	348	570	–	918	–	–	918
Jiang Ou	(ii)	–	349	456	–	805	–	–	805
Huang Dan	(ii)	–	264	519	–	783	–	–	783
Yu Erniu		–	–	–	–	–	–	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows (continued):

	2018							
			Discretionary bonuses					
	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Subtotal RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors								
Ge Haijiao	–	22	17	–	39	3	11	53
Zhang Jinliang	–	311	–	–	311	9	81	401
Ma Teng	–	568	–	–	568	20	59	647
Li Jie	–	756	–	–	756	27	81	864
Non-executive directors								
Li Xiaopeng								
Cai Yunge								
Fu Dong	–	–	–	–	–	–	–	–
Shi Yongyan	–	–	–	–	–	–	–	–
Wang Xiaolin	–	–	–	–	–	–	–	–
He Haibin	–	–	–	–	–	–	–	–
Zhao Wei	–	–	–	–	–	–	–	–
Independent non-executive directors								
Fok Oi Ling	370	–	–	–	370	–	–	370
Qiao Zhimin	390	–	–	–	390	–	–	390
Xie Rong	370	–	–	–	370	–	–	370
Feng Lun	360	–	–	–	360	–	–	360
Wang Liguo	340	–	–	–	340	–	–	340
Xu Hongcai	–	–	–	–	–	–	–	–
Supervisors								
Li Xin	–	1,067	91	–	1,158	41	125	1,324
Yin Lianchen	–	–	–	–	–	–	–	–
Wu Junhao	–	–	–	–	–	–	–	–
Yu Erniu	–	–	–	–	–	–	–	–
Wu Gaolian	–	–	–	–	–	–	–	–
Wang Zhe	290	–	–	–	290	–	–	290
Sun Xinhong	–	693	1,205	–	1,898	30	120	2,048
Jiang Ou	–	598	896	–	1,494	33	125	1,652
Huang Dan	–	522	1,425	–	1,947	40	125	2,112
Former non-executive directors								
Zhang Shude	–	–	–	–	–	–	–	–
Li Huaqiang	–	–	–	–	–	–	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting year are as follows (continued):

Notes:

(i) On 30 July 2019, Mr. Lu Hong was elected as the executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 10 October 2019, the CBIRC approved his qualification of the executive director.

(ii) On 30 July 2019, Mr. Dou Hongquan was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 10 October 2019, the CBIRC approved his qualification of the non-executive director.

On 30 July 2019, Mr. Liu Chong was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 26 December 2019, the CBIRC approved his qualification of the non-executive director.

On 30 July 2019, Ms. Yu Chunling was elected as the non-executive director at the Bank's Second Extraordinary Shareholders' General Meeting of 2019. On 2 November 2019, the CBIRC approved her qualification of the non-executive director.

On 30 May 2019, Mr. Shao Ruiqing was elected as an independent director at the Bank's 2018 Annual Shareholders' General Meeting. On 5 August 2019, the CBIRC approved his qualification of the independent director.

On 30 May 2019, Mr. Hong Yongmiao was elected as an independent director at the Bank's 2018 Annual Shareholders' General Meeting. On 12 September 2019, the CBIRC approved his qualification of the independent director.

On 7 January 2019, due to expiration of his term of office, Mr. Qiao Zhimin resigned from the positions of independent non-executive director, director and member of the Remuneration Committee, member of the Nomination Committee, member of the Risk Management Committee, member of the Audit Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank. However, in order to ensure the number of independent non-executive directors meets the statutory requirements, Mr. Qiao Zhimin would continue to perform his duties before the qualifications of the succeeding independent non-executive director Mr. Hong Yongmiao were approved by CBIRC.

On 26 July 2019, the staff congress of the Bank elected Mr. Xu Keshun, Mr. Sun Jianwei and Mr. Shang Wencheng as the staff supervisors of the Bank. Mr. Sun Xinhong, Mr. Jiang ou and Ms. Huang Dan left their post on 26 July 2019.

On 22 January 2019, CBIRC approved Mr. Ge Haijiao to serve as executive director of the Bank. On 30 September 2019, due to job assignment, Mr. Ge Haijiao resigned from the positions of executive director, director and member of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee, member of the Strategy Committee, and member of the Risk Management Committee of the Board of Directors of the Bank.

On 16 August 2019, due to job assignment, Mr. Fu Dong resigned from the positions of non-executive director, member of the Audit Committee, and member of the Risk Management Committee of the Board of Directors of the Bank.

On 30 July 2019, the 2019 Second Extraordinary General Shareholders' Meeting re-elected the Board of Directors, and Mr. Zhao Wei ceased to serve as the Bank's non-executive director.

On 7 January 2019, due to expiration of his term of office, Mr. Xie Rong resigned from the positions of independent director, director and member of the Audit Committee, member of the Nomination Committee, member of the Remuneration Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank. However, in order to ensure the number of independent directors meets the statutory requirements, Mr. Xie Rong continued to perform his duties until the qualification of the succeeding independent director Mr. Shao Ruiqing was approved by CBIRC.

On 30 July 2019, the 2019 Second Extraordinary General Shareholders' Meeting re-elected the Board of Directors, and Mr. Feng Lun ceased to serve as the Bank's independent director. He would continue to perform his duties before the qualifications of the succeeding independent director are approved by CBIRC.

On July 30 2019, after the Second Extraordinary General Shareholders' Meeting of 2019, Mr. Yu Erniu left his post at the end of his term of office.

(iii) The total compensation package for these directors and supervisors for the year ended 31 December 2019 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2019.

The above directors' and supervisors' emoluments for the year ended 31 December 2019 were calculated in accordance with their actual tenure.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Individuals with highest emoluments

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	1,899	2,894
Discretionary bonuses	27,512	25,694
Contributions to pension schemes	248	905
Others	488	721
Total	30,147	30,214

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2019	2018
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	–	–
RMB4,500,001-5,000,000	2	–
RMB5,000,001 and above	3	5

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting year.

8 Credit impairment losses

	2019	2018
Loans and advances to customers		
– measured at amortised cost	47,821	34,714
– measured at fair value through other comprehensive income	(35)	(369)
Debt instruments at fair value through other comprehensive income	439	58
Financial investments measured at amortised cost	(314)	485
Finance lease receivables	752	170
Others	302	686
Total	48,965	35,744

9 Other impairment losses

	2019	2018
Other assets	382	84
Total	382	84

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Income tax

(a) Income tax:

	Note V	2019	2018
Current tax		13,727	9,101
Deferred tax	24(b)	(5,887)	(1,808)
Adjustments for prior year	10(b)	(118)	(162)
Total		7,722	7,131

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2019	2018
Profit before tax		45,163	40,852
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		11,291	10,213
Effect of different tax rates applied by certain subsidiaries		(5)	–
Non-deductible expenses			
– Staff costs		88	2
– Impairment losses on assets		527	1,250
– Others		309	334
Subtotal		924	1,586
Non-taxable income	(i)	(4,370)	(4,506)
Subtotal		7,840	7,293
Adjustments for prior year		(118)	(162)
Income tax		7,722	7,131

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividends of funds.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2019	2018
Net profit attributable to equity holders of the Bank	37,354	33,659
Less: Dividends on preference shares declared	1,450	1,450
Net profit attributable to ordinary shareholders of the Bank	35,904	32,209
Weighted average number of ordinary shares in issue (in million shares)	52,489	52,489
Basic earnings per share (in RMB/share)	0.68	0.61

Weighted average number of ordinary shares in issue (in million shares)

	2019	2018
Issued ordinary shares as at 1 January	52,489	52,489
Weighted average number of ordinary shares in issue	52,489	52,489

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the year by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	2019	2018
Net profit attributable to ordinary shareholders of the Bank	35,904	32,209
Add: Interest expense on convertible bonds, net of tax	899	864
Net profit used to determine diluted earnings per share	36,803	33,073
Weighted average number of ordinary shares in issue (in million shares)	52,489	52,489
Add: Weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,264	7,264
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	59,753	59,753
Diluted earnings per share (in RMB/share)	0.62	0.55

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12 Cash and deposits with the central bank

	Notes	31 December 2019	31 December 2018
Cash on hand		4,355	4,721
Deposits with the central bank			
– Statutory deposit reserves	(a)	297,528	254,574
– Surplus deposit reserves	(b)	57,546	103,684
– Foreign currency risk reserves	(c)	3,732	857
– Fiscal deposits		1,050	2,603
Subtotal		364,211	366,439
Accrued interest		129	136
Total		364,340	366,575

Notes:

(a) *The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. At the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:*

	31 December 2019	*31 December 2018*
Reserve ratio for RMB deposits	*10.50%*	*12.00%*
Reserve ratio for foreign currency deposits	*5.00%*	*5.00%*

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

(b) *The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.*

(c) *The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 31 December 2019, the foreign currency risk reserve ratio was 20% (31 December 2018: 20%).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Deposits in Mainland China		
– Banks	12,868	12,815
– Other financial institutions	528	246
Deposits outside Mainland China		
– Banks	18,399	28,382
Subtotal	31,795	41,443
Accrued interest	6	10
Total	31,801	41,453
Less: Provision for impairment losses	(443)	(448)
Net balances	31,358	41,005

14 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Placements in Mainland China		
– Banks	4,160	20,767
– Other financial institutions	29,777	53,420
Placements outside Mainland China		
– Banks	26,291	22,162
– Other financial institutions	–	–
Subtotal	60,228	96,349
Accrued interest	213	530
Total	60,441	96,879
Less: Provision for impairment losses	(171)	(194)
Net balances	60,270	96,685

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Derivatives and hedge accounting

Derivative financial instruments included forward, swap and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the reporting year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the reporting year, while they do not represent exposure at risk.

(a) Derivative financial assets and liabilities

	31 December 2019		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	1,298,443	3,655	(3,680)
Currency derivatives			
– Foreign exchange forward	29,168	229	(197)
– Foreign exchange swap and cross-currency interest rate swap	1,365,001	9,483	(9,557)
– Foreign exchange option	78,260	392	(386)
Credit derivatives	4,254	46	(73)
Total	2,775,126	13,805	(13,893)

	31 December 2018		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	1,972,544	4,323	(4,280)
– Interest rate futures	3,275	2	(24)
Currency derivatives			
– Foreign exchange forward	18,331	166	(237)
– Foreign exchange swap and cross-currency interest rate swap	1,215,774	9,984	(9,112)
– Foreign exchange option	124,117	640	(661)
– Foreign exchange futures	27	–	–
Credit derivatives	4,756	97	(35)
Total	3,338,824	15,212	(14,349)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amounts

	31 December 2019	31 December 2018
Counterparty default risk-weighted assets		
– Interest rate derivatives	492	77
– Currency derivatives	3,449	1,547
– Credit derivatives	317	–
Credit value adjustment	1,710	724
Total	5,968	2,348

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA"). The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedging accounting

As at 31 December 2019, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB14 million (31 December 2018: Nil), and the fair value of the derivative financial instrument was RMB-95 thousands (31 December 2018: Nil).

In 2019, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December 2019	31 December 2018
In Mainland China		
– Banks	2,000	5,395
– Other financial institutions	4,702	31,919
Outside Mainland China		
– Other financial institutions	126	427
Subtotal	6,828	37,741
Accrued interest	8	34
Total	6,836	37,775
Less: Provision for impairment losses	(1)	(2)
Net balances	6,835	37,773

(b) Analysed by type of security held

	31 December 2019	31 December 2018
Bonds		
– Government bonds	2,062	8,196
– Other debt securities	4,766	29,545
Subtotal	6,828	37,741
Accrued interest	8	34
Total	6,836	37,775
Less: Provision for impairment losses	(1)	(2)
Net balances	6,835	37,773

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers

(a) Analysed by nature

	31 December 2019	31 December 2018
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,463,630	1,306,473
Discounted bills	488	1,339
Personal loans and advances		
– Personal housing mortgage loans	414,211	381,772
– Personal business loans	158,871	145,502
– Personal consumption loans	140,545	125,425
– Credit cards	443,881	400,504
Subtotal	1,157,508	1,053,203
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	26,403	26,156
Discounted bills	64,175	34,158
Subtotal	90,578	60,314
Total	2,712,204	2,421,329
Accrued interest	8,160	7,158
Gross loans and advances to customers	2,720,364	2,428,487
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)	(67,209)
Net loans and advances to customers	2,644,136	2,361,278
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)	(473)

As at the end of the year, part of the above loans and advances to customers was pledged for repurchase agreements. See Note V 26(a).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(b) Analysed by economic sector

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	270,177	9.96%	102,716
Water, environment and public utility management	261,465	9.64%	111,707
Real estate	211,918	7.81%	130,785
Leasing and commercial services	170,068	6.27%	65,501
Wholesale and retail trade	113,140	4.17%	42,016
Construction	94,793	3.50%	35,149
Transportation, storage and postal services	87,226	3.22%	36,653
Finance	76,907	2.84%	12,380
Production and supply of electricity, gas and water	45,948	1.69%	13,517
Agriculture, forestry, husbandry and fishery	41,459	1.53%	12,962
Others	116,932	4.31%	45,051
Subtotal of corporate loans and advances	1,490,033	54.94%	608,437
Personal loans and advances	1,157,508	42.68%	550,653
Discounted bills	64,663	2.38%	62,914
Total	2,712,204	100.00%	1,222,004
Accrued interest	8,160		
Gross loans and advances to customers	2,720,364		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)		
Net loans and advances to customers	2,644,136		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)		

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2018		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	248,914	10.28%	78,477
Water, environment and public utility management	222,568	9.19%	103,210
Real estate	192,075	7.93%	120,395
Leasing and commercial services	150,159	6.20%	59,439
Wholesale and retail trade	111,021	4.59%	38,958
Transportation, storage and postal services	94,783	3.91%	40,528
Construction	71,435	2.95%	26,018
Finance	74,177	3.06%	3,325
Production and supply of power, gas and water	43,638	1.80%	11,195
Agriculture, forestry, husbandry and fishery	32,356	1.34%	8,962
Others	91,503	3.78%	38,537
Subtotal of corporate loans and advances	1,332,629	55.03%	529,044
Personal loans and advances	1,053,203	43.50%	519,182
Discounted bills	35,497	1.47%	31,119
Total	2,421,329	100.00%	1,079,345
Accrued interest	7,158		
Gross loans and advances to customers	2,428,487		
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(67,209)		
Net loans and advances to customers	2,361,278		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(473)		

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(c) Analysed by type of collateral

	31 December 2019	31 December 2018
Unsecured loans	852,885	778,691
Guaranteed loans	637,315	563,293
Secured loans		
– By tangible assets other than monetary assets	862,021	814,026
– By monetary assets	359,983	265,319
Total	2,712,204	2,421,329
Accrued interest	8,160	7,158
Gross loans and advances to customers	2,720,364	2,428,487
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)	(67,209)
Net loans and advances to customers	2,644,136	2,361,278
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)	(473)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(d) Analysed by geographical sector

	31 December 2019		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	556,102	20.49%	219,717
Central	447,249	16.49%	256,676
Bohai Rim	349,559	12.89%	199,916
Western	348,706	12.86%	200,481
Pearl River Delta	341,541	12.59%	220,143
Northeastern	121,928	4.50%	80,011
Overseas	96,174	3.55%	38,005
Head Office	450,945	16.63%	7,055
Total	2,712,204	100.00%	1,222,004

	31 December 2018		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	478,383	19.76%	197,173
Central	382,965	15.82%	219,430
Bohai Rim	341,728	14.11%	188,325
Western	325,532	13.44%	195,562
Pearl River Delta	291,896	12.06%	187,691
Northeastern	119,667	4.94%	78,825
Overseas	78,040	3.22%	9,682
Head Office	403,118	16.65%	2,657
Total	2,421,329	100.00%	1,079,345

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(d) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers which constitute 10% or more of gross loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors is as follows:

	31 December 2019			
	Impaired loans and advances	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)
Yangtze River Delta	6,831	(6,439)	(4,847)	(3,625)
Central	5,031	(4,094)	(2,461)	(3,218)
Bohai Rim	5,797	(2,159)	(2,435)	(3,032)
Western	4,951	(2,849)	(4,212)	(2,707)
Pearl River Delta	4,155	(4,219)	(1,829)	(1,811)
Total	26,765	(19,760)	(15,784)	(14,393)

	31 December 2018			
	Impaired loans and advances	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)
Bohai Rim	9,196	(2,387)	(2,056)	(5,856)
Yangtze River Delta	5,599	(6,787)	(4,798)	(2,898)
Pearl River Delta	4,516	(3,945)	(1,816)	(2,135)
Central	4,477	(4,412)	(2,954)	(2,328)
Western	4,398	(3,076)	(3,930)	(2,032)
Total	28,186	(20,607)	(15,554)	(15,249)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue year

	31 December 2019				
	Overdue for three months or less (inclusive)	Overdue for three months to one year (inclusive)	Overdue for one year to three years (inclusive)	Overdue for more than three years	Total
Unsecured loans	15,557	11,118	323	33	27,031
Guaranteed loans	4,954	4,953	3,726	609	14,242
Secured loans					
– By tangible assets other than monetary assets	5,692	4,973	4,421	1,429	16,515
– By monetary assets	1,434	1,449	837	36	3,756
Subtotal	27,637	22,493	9,307	2,107	61,544
Accrued interest	69	–	–	–	69
Total	27,706	22,493	9,307	2,107	61,613
As a percentage of gross loans and advances to customers	1.01%	0.83%	0.34%	0.08%	2.26%

	31 December 2018				
	Overdue for three months or less (inclusive)	Overdue for three months to one year (inclusive)	Overdue for one year to three years (inclusive)	Overdue for more than three years	Total
Unsecured loans	10,014	8,443	394	29	18,880
Guaranteed loans	6,625	7,418	2,667	522	17,232
Secured loans					
– By tangible assets other than monetary assets	6,525	4,715	4,492	1,772	17,504
– By monetary assets	1,427	741	1,103	2	3,273
Subtotal	24,591	21,317	8,656	2,325	56,889
Accrued interest	349	–	–	–	349
Total	24,940	21,317	8,656	2,325	57,238
As a percentage of gross loans and advances to customers	1.03%	0.88%	0.35%	0.10%	2.36%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	31 December 2019				
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,546,902	123,090	42,212	2,712,204	1.56%
Accrued interest	6,701	1,158	301	8,160	
Gross loans and advances to customers	2,553,603	124,248	42,513	2,720,364	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(24,060)	(27,574)	(24,594)	(76,228)	
Net loans and advances to customers	2,529,543	96,674	17,919	2,644,136	

	31 December 2018				
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,245,353	137,555	38,421	2,421,329	1.59%
Accrued interest	5,354	1,576	228	7,158	
Gross loans and advances to customers	2,250,707	139,131	38,649	2,428,487	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(23,335)	(21,264)	(22,610)	(67,209)	
Net loans and advances to customers	2,227,372	117,867	16,039	2,361,278	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

	2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(23,335)	(21,264)	(22,610)	(67,209)
Transfer to Stage 1	(2,089)	2,038	51	–
Transfer to Stage 2	742	(787)	45	–
Transfer to Stage 3	156	2,233	(2,389)	–
Charge for the year	(3,899)	(10,693)	(38,804)	(53,396)
Release for the year	4,365	899	311	5,575
Disposal	–	–	13,826	13,826
Write-off and transfer out	–	–	26,576	26,576
Recovery of loans and advances written off	–	–	(2,428)	(2,428)
Unwinding of discount on allowance	–	–	828	828
As at 31 December 2019	(24,060)	(27,574)	(24,594)	(76,228)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(18,666)	(18,271)	(21,134)	(58,071)
Transfer to Stage 1	(1,073)	1,048	25	–
Transfer to Stage 2	867	(898)	31	–
Transfer to Stage 3	164	3,038	(3,202)	–
Charge for the year	(7,412)	(7,137)	(24,318)	(38,867)
Release for the year	2,785	956	412	4,153
Disposal	–	–	10,149	10,149
Write-off and transfer out	–	–	16,162	16,162
Recovery of loans and advances written off	–	–	(1,527)	(1,527)
Unwinding of discount on allowance	–	–	792	792
As at 31 December 2018	(23,335)	(21,264)	(22,610)	(67,209)

Notes:

(i) *The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 31 December 2019, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB438 million (31 December 2018: RMB473 million).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	31 December 2019	31 December 2018
Rescheduled loans and advances to customers	11,888	15,788
Of which: Rescheduled loans and advances to customers overdue for more than 90 days	898	801

18 Finance lease receivables

	Note	31 December 2019	31 December 2018
Minimum finance lease receivables		99,825	74,656
Less: Unearned finance lease income		(14,662)	(10,287)
Present value of minimum lease receivable		85,163	64,369
Accrued interest		936	588
Less: Impairment losses		(2,376)	(1,624)
Net balance	(i)	83,723	63,333

Minimum finance lease receivables analysed by remaining period are listed as follows:

	31 December 2019	31 December 2018
Less than 1 year (inclusive)	23,619	19,073
1 year to 2 years (inclusive)	20,418	14,924
2 years to 3 years (inclusive)	17,123	12,298
3 years to 4 years (inclusive)	12,628	8,718
4 years to 5 years (inclusive)	9,745	6,301
More than 5 years	16,292	13,342
Total	99,825	74,656

Note:

(i) As at the end of the year, part of finance lease receivables were pledged for borrowings from banks. See Note V 26(a).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments

	Notes	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss	(a)	211,406	222,737
Debt instruments at fair value through other comprehensive income	(b)	180,005	153,987
Equity instruments at fair value through other comprehensive income	(c)	623	367
Financial investments measured at amortised cost	(d)	1,041,512	923,989
Total		1,433,546	1,301,080

(a) Financial assets at fair value through profit or loss

	Notes	31 December 2019	31 December 2018
Debt instruments held for trading	(i)	18,602	10,886
Financial assets designated at fair value through profit or loss	(ii)	4	6
Other financial assets at fair value through profit or loss	(iii)	192,800	211,845
Total		211,406	222,737

(i) Debt instruments held for trading

	Notes	31 December 2019	31 December 2018
Issued by the following governments or institutions:			
In Mainland China			
– Government		132	–
– Banks and other financial institutions		4,975	1,006
– Other institutions	(1)	9,436	8,323
Outside Mainland China			
– Banks and other financial institutions		2,624	170
– Other institutions		1,435	1,387
Total	(2)	18,602	10,886
Listed	(3)	4,716	2,257
Of which listed in Hong Kong		1,703	1,809
Unlisted		13,886	8,629
Total		18,602	10,886

Notes:

(1) Debt instruments issued by other institutions in Mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(2) At the end of the year, some of the debt instruments held for trading are used as pledges for repurchase agreement. See Note V 26(a).

(3) Listed investments include debt instruments traded on the stock exchange markets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

(ii) Financial assets designated at fair value through profit or loss

	31 December 2019	31 December 2018
Fixed interest rate personal mortgage loans	4	6

For fixed interest rate personal mortgage loans, the Group used interest rate swaps to manage the associated interest rate risk. The changes in fair value during the year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

(iii) Other financial assets at fair value through profit or loss

	31 December 2019	31 December 2018
Fund investments	159,760	180,633
Equity instruments	2,019	1,182
Others	31,021	30,030
Total	192,800	211,845

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	31 December 2019	31 December 2018
In Mainland China			
– Government		40,880	32,527
– Banks and other financial institutions	(1)	51,640	46,569
– Other institutions	(2)	56,371	54,903
Outside Mainland China			
– Government		98	–
– Banks and other financial institutions		7,574	1,709
– Other institutions		19,777	14,942
Subtotal		176,340	150,650
Accrued interest		3,665	3,337
Total	(3)(4)	180,005	153,987
Listed	(5)	43,019	27,077
Of which listed in Hong Kong		29,884	19,855
Unlisted		133,321	123,573
Subtotal		176,340	150,650
Accrued interest		3,665	3,337
Total		180,005	153,987

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

Notes:

(1) *Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in Mainland China.*

(2) *Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.*

(3) *As at 31 December 2019, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximates to RMB826 million (31 December 2018: RMB384 million).*

(4) *At the end of the year, part of the debt instruments at fair value through other comprehensive income was pledged for repurchase agreements and time deposits. See Note V 26(a).*

(5) *Listed investments include debt instruments traded on the stock exchange markets.*

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(384)	–	–	(384)
Transfer to Stage 3	2	–	(2)	–
Charge for the year	(343)	–	(116)	(459)
Release for the year	20	–	–	20
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(708)	–	(118)	(826)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(325)	–	–	(325)
Charge for the year	(75)	–	–	(75)
Release for the year	17	–	–	17
Exchange fluctuation and others	(1)	–	–	(1)
As at 31 December 2018	(384)	–	–	(384)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(c) Equity instruments at fair value through other comprehensive income

	Notes	31 December 2019	31 December 2018
Equity instruments at fair value through other comprehensive income	(i)	623	367
Listed	(ii)	21	15
Of which listed in Hong Kong		–	–
Unlisted		602	352
Total		623	367

Notes:

(i) *The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 31 December 2019, the fair value was RMB623 million (31 December 2018: RMB367 million). In 2019, the Group received dividends of approximately RMB11 million from the above equity instruments (2018: RMB8 million).*

(ii) *Listed investments include equity instruments traded on the stock exchange markets.*

(d) Financial investments measured at amortised cost

	Notes	31 December 2019	31 December 2018
Debt securities	(i)	773,460	497,775
Others	(ii)	256,649	410,350
Subtotal		1,030,109	908,125
Accrued interest		15,786	20,558
Total		1,045,895	928,683
Less: Provision for impairment losses		(4,383)	(4,694)
Net balance		1,041,512	923,989
Listed	(iii)	139,562	79,879
Of which listed in Hong Kong		20,905	10,193
Unlisted		886,164	823,552
Subtotal		1,025,726	903,431
Accrued interest		15,786	20,558
Net balance		1,041,512	923,989

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(i) Debt securities measured at amortised cost were analysed by type and location of counterparty, as follows:

	Notes	31 December 2019	31 December 2018
In Mainland China			
– Government		340,733	259,640
– Banks and other financial institutions	(1)	228,028	174,930
– Other institutions	(2)	183,628	51,150
Outside Mainland China			
– Government		1,891	1,088
– Banks and other financial institutions		5,486	3,789
– Other institutions		13,694	7,178
Subtotal		773,460	497,775
Accrued interest		13,140	9,175
Total	(3)	786,600	506,950
Less: Provision for impairment losses		(1,657)	(1,599)
Net balance		784,943	505,351
Fair value		796,461	512,668

Notes:

(1) Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in Mainland China.

(2) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in Mainland China.

(3) As at the end of the year, part of the debt securities measured at amortised cost was pledged for repurchase agreements, time deposits and derivative transactions. See Note V 26(a).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(ii) Other financial investments measured at amortised cost mainly include trusts and other rights to earnings.

(iii) Listed investments include debt instruments traded on the stock exchange markets.

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	2019			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2019	(3,531)	–	(1,163)	(4,694)
Transfer to Stage 2	3	(3)	–	–
Transfer to Stage 3	8	–	(8)	–
Charge for the year	–	(98)	(723)	(821)
Release for the year	1,010	–	125	1,135
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(2,513)	(101)	(1,769)	(4,383)

	2018			
	Stage 1 (ECL of 12 months)	Stage 2 (ECL of lifetime)	Stage 3 (ECL of lifetime)	Total
As at 1 January 2018	(3,288)	–	(916)	(4,204)
Charge for the year	(435)	–	(247)	(682)
Release for the year	197	–	–	197
Exchange fluctuation and others	(5)	–	–	(5)
As at 31 December 2018	(3,531)	–	(1,163)	(4,694)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Investments in subsidiaries

	31 December 2019	31 December 2018
Everbright Financial Leasing Co., Ltd.	4,680	4,680
CEB International Investment Co., Ltd.	2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd	105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	70	70
China Everbright Bank Company Limited (Europe)	156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	105	105
Everbright Wealth Co.,Ltd.	5,000	–
Total	12,383	7,383

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd.	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd.	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co.,Ltd. (Note i)	Qingdao, Shandong	5,000	100%	100%	Wealth management	Limited company

(i) In September 2019, the Bank registered and established its wholly-owned subsidiary, Everbright Wealth Co.,Ltd. ("Everbright Wealth") in Qingdao, Shandong province, with a registered capital of RMB5 billion.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Fixed assets

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2019	11,737	5,725	2,100	6,195	4,172	29,929
Additions	69	170	1,256	871	459	2,825
Transfers in/(out)	1,146	–	(1,146)	–	–	–
Disposals	(3)	(332)	–	(399)	(133)	(867)
Foreign currency conversion difference	–	94	–	–	–	94
As at 31 December 2019	12,949	5,657	2,210	6,667	4,498	31,981
Accumulated depreciation						
As at 1 January 2019	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Charge for the year	(404)	(200)	–	(480)	(401)	(1,485)
Disposals	3	38	–	374	125	540
Foreign currency conversion difference	–	(6)	–	–	–	(6)
As at 31 December 2019	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Provision for impairment						
As at 1 January 2019	(159)	–	–	–	–	(159)
As at 31 December 2019	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2019	8,686	5,249	2,210	1,772	1,425	19,342

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Fixed assets (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2018	11,404	2,752	1,606	6,060	3,753	25,575
Additions	247	3,129	622	468	496	4,962
Transfers in/(out)	128	–	(128)	–	–	–
Disposals	(42)	(322)	–	(334)	(80)	(778)
Foreign currency conversion difference	–	166	–	1	3	170
As at 31 December 2018	11,737	5,725	2,100	6,195	4,172	29,929
Accumulated depreciation						
As at 1 January 2018	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Charge for the year	(360)	(130)	–	(593)	(336)	(1,419)
Disposals	1	1	–	317	68	387
Foreign currency conversion difference	–	(8)	–	–	(2)	(10)
As at 31 December 2018	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Provision for impairment						
As at 1 January 2018	(159)	–	–	–	–	(159)
As at 31 December 2018	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2018	7,875	5,485	2,100	1,406	1,375	18,241

Notes:

(i) *As at 31 December 2019, title deeds were not yet finalised for the premises with a carrying amount of RMB45 million (31 December 2018: RMB141 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.*

(ii) *As at 31 December 2019, Everbright Financial Leasing, the Group's subsidiary leases certain aircraft and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB5,249 million (31 December 2018: RMB5,485 million).*

The net book values of premises at the end of the year are analysed by the remaining terms of the leases as follows:

	31 December 2019	31 December 2018
Held in Mainland China		
– Medium term leases (10 – 50 years)	8,454	7,795
– Short term leases (less than 10 years)	232	80
Total	8,686	7,875

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Right-of-use assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2019	11,768	61	11,829
Additions	2,557	8	2,565
Charge for the year	(303)	(3)	(306)
Foreign currency conversion difference	1	–	1
As at 31 December 2019	14,023	66	14,089
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the year	(2,412)	(17)	(2,429)
Reduction for the year	24	–	24
As at 31 December 2019	(2,388)	(17)	(2,405)
Net book value			
As at 31 December 2019	11,635	49	11,684

23 Goodwill

	31 December 2019	31 December 2018
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed an "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used in the Bank's cash flow forecast is 13% (2018: 14%). The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24 Deferred tax assets and liabilities

(a) Analysed by nature

		31 December 2019		31 December 2018	
	Note V	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets		65,221	16,306	43,175	10,794
Deferred income tax liabilities	37	(6)	(1)	–	–
Total		65,215	16,305	43,175	10,794

(b) Movements of deferred tax

	Provision for impairment losses (Note(i))	Fair value changes of financial instruments (Note(ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2019	9,724	(674)	1,744	10,794
Recognised in profit or loss	5,042	705	140	5,887
Recognised in other comprehensive income	(102)	(274)	–	(376)
31 December 2019	14,664	(243)	1,884	16,305

	Provision for impairment losses (Note(i))	Fair value changes of financial instruments (Note(ii))	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
31 December 2017	4,918	1,131	1,547	7,596
Impact of adopting new standards	2,446	(98)	–	2,348
1 January 2018	7,364	1,033	1,547	9,944
Recognised in profit or loss	2,284	(673)	197	1,808
Recognised in other comprehensive income	76	(1,034)	–	(958)
31 December 2018	9,724	(674)	1,744	10,794

Notes:

(i) *The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.*

(ii) *Fair value changes of financial instruments are subject to tax when realised.*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25 Other assets

	Note	31 December 2019	31 December 2018
Other receivables	(a)	25,614	11,201
Fixed asset purchase prepayment		795	509
Long-term deferred expense		871	1,103
Intangible assets		1,646	1,171
Repossessed assets		478	458
Land use rights		88	94
Accrued interest		2,988	2,198
Others		3,499	3,713
Total		35,979	20,447

Note:

(a) *Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.*

26 Pledged assets

(a) Assets pledged as collateral

Financial assets pledged by the Group as collaterals for liabilities include discounted bills, debt securities and finance lease receivables. They are mainly pledged for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 31 December 2019 is RMB86,363 million (31 December 2018: RMB95,841 million).

(b) Collateral received

The Group accepted securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in 2019. As at 31 December 2019, the Group's collateral received from banks and other financial institutions has expired (31 December 2018: Nil). As at 31 December 2019, the Group had no collateral that were sold or re-pledged, but was obligated to return (31 December 2018: Nil). These transactions are conducted under standard terms in the normal course of business.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 Due to the central bank

	31 December 2019	31 December 2018
Due to central banks	221,480	263,050
Accrued interest	3,358	4,143
Total	224,838	267,193

28 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Deposits in Mainland China		
– Banks	170,505	168,466
– Other financial institutions	269,224	316,855
Deposits outside Mainland China		
– Banks	1,836	1,831
Subtotal	441,565	487,152
Accrued interest	2,755	2,939
Total	444,320	490,091

29 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2019	31 December 2018
Placements in Mainland China		
– Banks	89,480	75,109
– Other financial institutions	1,004	7,156
Placements outside Mainland China		
– Banks	74,625	69,024
Subtotal	165,109	151,289
Accrued interest	1,116	748
Total	166,225	152,037

30 Financial liabilities at fair value through profit or loss

	31 December 2019	31 December 2018
Short position in debt securities	100	354
Total	100	354

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December 2019	31 December 2018
In Mainland China		
– Banks	23,064	40,347
Outside Mainland China		
– Banks	2,390	–
– Other financial institutions	131	46
Subtotal	25,585	40,393
Accrued interest	18	18
Total	25,603	40,411

(b) Analysed by collateral

	31 December 2019	31 December 2018
Bank acceptances	10,814	7,336
Debt securities	14,771	33,057
Subtotal	25,585	40,393
Accrued interest	18	18
Total	25,603	40,411

32 Deposits from customers

	31 December 2019	31 December 2018
Demand deposits		
– Corporate customers	783,859	732,628
– Individual customers	217,892	191,592
Subtotal	1,001,751	924,220
Time deposits		
– Corporate customers	1,262,657	990,038
– Individual customers	466,413	320,312
Subtotal	1,729,070	1,310,350
Pledged deposits	232,522	220,284
Other deposits	21,682	83,854
Subtotal deposits from customers	2,985,025	2,538,708
Accrued interest	32,863	33,253
Total	3,017,888	2,571,961

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Accrued staff costs

	Note	31 December 2019	31 December 2018
Salary and welfare payable		6,269	6,904
Pension payable	(a)	620	281
Supplementary retirement benefits payable	(b)	1,118	843
Total		8,007	8,028

Notes:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting year. The Group's obligations in respect of the SRB were accessed, using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Wills Towers Watson Management Consulting (Shenzhen) Co.,Ltd..

(i) The details of the Group's supplementary retirement benefits are as follows:

	31 December 2019	31 December 2018
Present value of supplementary retirement benefits liability	1,118	843

(ii) Movements of SRB of the Group are as follows:

	2019	2018
As at 1 January 2019	843	669
Current service costs	77	56
Interest costs	33	30
Recalculation part of the defined benefit plan	180	102
Payments made	(15)	(14)
As at 31 December 2019	1,118	843

Remeasurement of the defined benefit plan was recognised in other comprehensive income. See Note V 41.

(iii) Principal actuarial assumptions of the Group are as follows:

	31 December 2019	31 December 2018
Discount rate	4.00%	4.00%
Medical cost trend rate	5.88%	5.88%
Average expected future lifetime	22.80	22.80

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33 Accrued staff costs (continued)

Notes: (continued)

(b) *Supplementary retirement benefits ("SRB")* (continued)

(iv) *Sensitivity analysis:*

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, with other assumptions being constant, would have affected the defined benefit obligation by the amounts shown below.

	31 December 2019	
	Increases	*Decreases*
Discount rate (1% movement)	*(301)*	*330*
Medical cost trend rate (1% movement)	*356*	*(251)*

	31 December 2018	
	Increases	*Decreases*
Discount rate (1% movement)	*(222)*	*244*
Medical cost trend rate (1% movement)	*260*	*(183)*

Although the analysis does not take the full expected distribution into account in the future cash flow statement, approximate assumptions can be made about the sensitivity to supplementary retirement benefits.

Except as stated in (a) and (b) above, the Group has no other major responsibilities to pay employee retirement benefits and other post-retirement benefits.

34 Taxes payable

	31 December 2019	31 December 2018
Income tax payable	6,446	3,076
Value added tax payable	2,446	2,169
Others	430	421
Total	9,322	5,666

35 Lease liabilities

	31 December 2019
Within 1 year (inclusive)	2,611
1 to 2 years (inclusive)	2,283
2 to 3 years (inclusive)	1,937
3 to 5 years (inclusive)	2,711
More than 5 years	3,292
Total undiscounted lease liabilities	12,834
Lease liabilities	11,069

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued

	Note	31 December 2019	31 December 2018
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	55,782	54,940
Tier-two capital bonds issued	(c)	39,983	56,170
Convertible bonds issued	(d)	27,547	26,618
Interbank deposits issued	(e)	199,057	265,894
Certificates of deposits issued	(f)	19,249	9,711
Medium term notes	(g)	20,428	16,747
Subtotal		368,746	436,780
Accrued interest		3,158	3,669
Total		371,904	440,449

(a) Subordinated debts issued

	Note	31 December 2019	31 December 2018
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Notes:

(i) Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.

(ii) As at 31 December 2019, the fair value of the total subordinated debt issued approximated to RMB6,998 million (31 December 2018: RMB6,960 million).

(b) Financial bonds issued

	Note	31 December 2019	31 December 2018
Financial fixed rate bonds maturing in February 2020	(i)	27,999	27,976
Financial fixed rate bonds maturing in July 2020	(ii)	21,995	21,978
Financial fixed rate bonds maturing in November 2021	(iii)	4,990	4,986
Financial fixed rate bonds maturing in January 2022	(iv)	798	–
Total		55,782	54,940

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(b) Financial bonds issued (continued)

Notes:

(i) *Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.*

(ii) *Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.*

(iii) *Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.*

(iv) *Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.*

(v) *As at 31 December 2019, the fair value of the total financial bonds issued approximated to RMB56,058 million (31 December 2018: RMB55,369 million).*

(c) Tier-two capital bonds issued

	Note	31 December 2019	31 December 2018
Tier-two capital fixed rate bonds maturing in June 2024	(i)	–	16,200
Tier-two capital fixed rate bonds maturing in March 2027	(ii)	27,988	27,980
Tier-two capital fixed rate bonds maturing in August 2027	(iii)	11,995	11,990
Total		39,983	56,170

Notes:

(i) *Fixed rate tier-two capital bonds of RMB16.20 billion with a term of ten years were issued on 9 June 2014. The coupon rate was 6.20% per annum. The Group had an option to redeem the debts on 10 June 2019 at the nominal amount. The Group redeemed the bonds on 10 June 2019.*

(ii) *Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.*

(iii) *Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.*

(iv) *As at 31 December 2019, the fair value of the total tier-two capital bonds issued approximated to RMB40,935 million (31 December 2018: RMB56,669 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(d) Convertible bonds issued

	31 December 2019	31 December 2018
Fixed rate six years convertible bonds issued in March 2017	27,547	26,618

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note V 39	Total
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Accumulated amortisation as at 1 January 2019		1,857	–	1,857
Accumulated conversion amount as at 1 January 2019		(1)	–	(1)
Balance as at 1 January 2019		26,618	5,161	31,779
Amortisation during the year		929	–	929
Conversion amount during the year	(iv)	–	–	–
Balance as at 31 December 2019		27,547	5,161	32,708

Notes:

(i) *Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the fourth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of par value, including interest for the sixth year.*

(ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.*

(iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2019, the new conversion price is RMB3.97per share.*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

Notes: (continued)

(iv) *As at 31 December 2019, a total of RMB965,000 (31 December 2018: RMB730,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares was 228,101 shares (31 December 2018: 170,354 shares).*

(v) *In 2019, a total of RMB150 million interest on the convertible bonds was been paid by the Bank (2018: RMB60 million).*

(e) Interbank deposits issued

In 2019, 113 interbank deposits were issued by the Bank and measured at amortised cost with a carrying amount of RMB216,490 million (2018: RMB615,500 million). The carrying amount of interbank deposits due in 2019 was RMB285,690 million (2018: RMB631,950 million). As at 31 December 2019, the fair value of outstanding interbank deposits issued was RMB196,493 million (31 December 2018: RMB263,247 million).

(f) Certificates of deposits issued

As at 31 December 2019, the certificates of deposits were issued by the Bank's Hong Kong branch, Seoul branch and Sydney branch measured at amortised cost. The fair value of the certificates of deposits issued approximates to their carrying amount.

(g) Medium term notes

	Note	31 December 2019	31 December 2018
Medium term notes with fixed rate maturing in 15 September 2019	(i)	–	3,423
Medium term notes with fixed rate maturing in 8 March 2020	(ii)	3,472	3,423
Medium term notes with floating rate maturing in 13 June 2020	(iii)	3,484	3,432
Medium term notes with floating rate maturing in 13 June 2021	(iv)	2,342	2,356
Medium term notes with floating rate maturing in 13 June 2021	(v)	2,091	2,059
Medium term notes with floating rate maturing in 19 September 2021	(vi)	2,083	2,054
Medium term notes with floating rate maturing in 24 June 2022	(vii)	3,484	–
Medium term notes with floating rate maturing in 11 December 2022	(viii)	3,472	–
Total		20,428	16,747

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Debt securities issued (continued)

(g) Medium term notes (continued)

Notes:

(i) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 8 September 2016. The coupon rate is 2.00% per annum.

(ii) Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.

(iii) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.

(iv) Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.

(v) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.

(vi) Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.

(vii) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.

(viii) Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.

(ix) As at 31 December 2019, the fair value of the medium term notes approximated to RMB20,478 million (31 December 2018: RMB16,689 million).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Other liabilities

	Note	31 December 2019	31 December 2018
Deferred income	37(a)	6,710	6,808
Bank loans	37(b)	17,597	5,744
Deferred emoluments payment	37(c)	5,660	5,078
Finance lease payables		4,876	3,750
Provisions	37(d)	2,751	2,258
Payment and collection clearance accounts		1,761	908
Dormant accounts		354	310
Dividend payables		21	21
Deferred tax liabilities	24	1	–
Others		14,477	19,443
Total		54,208	44,320

Notes:

(a) *Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.*

(b) *As at 31 December 2019, the Group's subsidiary, Everbright Financial Leasing, borrowed long-term loans with terms from 1 to 9 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loan was RMB17,597 million (31 December 2018: RMB5,744 million).*

(c) *As at 31 December 2019, the deferred emolument payment amounted to RMB5,660 million (31 December 2018: RMB5,078 million), which is related to deferred emoluments payment to employees in respect of services provided to the Group. Such amount will be distributed according to plans.*

(d) *As at 31 December 2019, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB255 million (31 December 2018: RMB147 million).*

38 Share capital

The Bank's shareholding structure as at the end of the year is as follows:

	31 December 2019	31 December 2018
Ordinary shares listed in Mainland China (A share)	39,810	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	52,489	52,489

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Other equity instruments

	Note V	31 December 2019	31 December 2018
Preference shares (Notes(a), (b), (c), (d))		64,906	29,947
Equity of convertible bonds	36(d)	5,161	5,161
Total		70,067	35,108

(a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1					
2015-6-19	5.30%	100	200	20,000	Mandatory conversion triggering events
Everbright P2					
2016-8-8	3.90%	100	100	10,000	Mandatory conversion triggering events
Everbright P3					
2019-7-15	4.80%	100	350	35,000	Mandatory conversion triggering events
SubTotal				65,000	
Less:					
Issuing costs				(94)	
Book value				64,906	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Other equity instruments

(b) Main clauses

(i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend is reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions for distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholders' resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds and holders of convertible bonds, but will be senior to the ordinary shareholders.

(v) Mandatory conversion triggering events

Upon the occurrence of an Additional Tier-one Capital Trigger Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the preference shares into A shares, in order to restore the Common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If preference shares were converted to A shares, they could not be converted to preference shares again.

Upon the occurrence of a Non-Viability Triggering Event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; and (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all preference shares into A shares.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39 Other equity instruments (continued)

(b) Main clauses (continued)

(vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the preference shares on any redeemable day (the payment date for dividends of the preference shares each year) after the fifth year following the completion date of the issuance of the preference shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the preference shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the preference shares. Where redemption is in part, the preference shares shall be redeemed based on the same proportion and conditions. Preference shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

(c) Changes in preference shares outstanding

	1 January 2019		Additions for the year		31 December 2019	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	300	29,947	350	34,959	650	64,906

	1 January 2018		Additions for the year		31 December 2018	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference shares	300	29,947	–	–	300	29,947

(d) Interests attributable to equity instruments' holders

Items	31 December 2019	31 December 2018
Total equity attributable to equity shareholders of the Bank	384,982	321,488
– Equity attributable to ordinary shares holders of the Bank	320,076	291,541
– Equity attributable to preference shares holders of the Bank	64,906	29,947
Total equity attributable to non-controlling interests	1,072	985
– Equity attributable to non-controlling interests of ordinary shares	1,072	985
– Equity attributable to non-controlling interests of preference shares	–	–

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Capital reserve

	31 December 2019	31 December 2018
Share premium	53,533	53,533

41 Other comprehensive income

	31 December 2019	31 December 2018
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	14	10
Remeasurement of a defined benefit plan	(303)	(123)
Subtotal	(289)	(113)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	2,959	1,748
– Net change in fair value	1,998	1,094
– Net change in expected credit losses	961	654
Exchange differences on translation of financial statements	67	20
Subtotal	3,026	1,768
Total	2,737	1,655

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of a defined benefit plan	Total
As at 1 January 2018	(1,948)	887	8	(46)	(21)	(1,120)
Changes in amount for the previous year	3,042	(233)	2	66	(102)	2,775
As at 1 January 2019	1,094	654	10	20	(123)	1,655
Changes in amount for the year	904	307	4	47	(180)	1,082
As at 31 December 2019	1,998	961	14	67	(303)	2,737

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting year represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated losses, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

43 Appropriation of profits

(a) At the Board Meeting held on 27 March 2020, the Board of Directors approved the following profit appropriations for the year ended 31 December 2019:

– Appropriated RMB1,874 million (5.12% of the net profit of the Bank) to surplus reserve, the accumulated amount of withdrawal has reached 50% of the Bank's registered capital;

– Appropriated RMB5,380 million to general reserve;

– The 2019 annual dividend of RMB769 million should be paid to third preference shareholders in cash dividend RMB2.20 per share before tax based on the coupon dividend yield of 4.80%; and

– Declared cash dividends of RMB11,233 million to all ordinary shareholders of 52,489 million shares representing RMB2.14 per 10 shares before tax.

(b) At the Annual General Meeting of shareholders held on 30 May 2019, the shareholders approved the following profit appropriations for the year ended 31 December 2018:

– Appropriated RMB3,317 million (10% of the net profit of the Bank) to surplus reserve;

– Appropriated RMB1,701 million to general reserve; and

– Declared cash dividends to all ordinary shareholders of RMB8,451 million representing RMB1.61 per 10 shares before tax.

(c) At the Board Meeting held on 30 May 2019, the dividend distribution of the Everbright P1 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, accruing from 25 June 2018, and are calculated using 5.30% of dividend yield ratio for the Everbright P1.

(d) At the Board Meeting held on 30 July 2019, the dividend distribution of the Everbright P2 was approved by the Board of Directors:

– Declared cash dividends to preference shareholders of RMB390 million representing RMB3.90 per share before tax, accruing from 13 August 2018, and are calculated using 3.90% of dividend yield ratio for the Everbright P2.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Involvement with structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the year:

	31 December 2019		31 December 2018	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	159,760	159,760	180,633	180,633
– Asset management plans	18,686	18,686	8,693	8,693
Financial investments measured at amortised cost				
– Asset management plans	256,569	256,569	418,639	418,639
– Asset-backed securities	119,439	119,439	31,509	31,509
Total	554,454	554,454	639,474	639,474

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2019, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognised are not material in the statement of financial position.

As at 31 December 2019, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB778,837 million (31 December 2018: RMB689,002 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2019 but matured before 31 December 2019 amounted to RMB771 million (2018: RMB18,124 million).

In 2019, the amount of fee and commission income received from the unconsolidated structured entities by the Group amounted to RMB634 million (2018: RMB876 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in: (continued)

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into placements transactions with these wealth management products in accordance with market principles. Such financing provided by the Group was included in "Placements with banks and other financial institutions". As at 31 December 2019, the balance of above trading was RMB9,106 million (31 December 2018: RMB15,230 million). The maximum exposure to loss of those placements approximated to the carrying amount. In 2019, the amount of interest receivables provided by the above financing being recognised was not material for the Group in the statement of profit or loss.

In addition, as at 31 December 2019, the Group held interests in the unconsolidated structured entities of asset securitisation transactions. Refer to Note V 45. In 2019, the Group's income from these structured entities was immaterial.

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial asset and financial liability items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Credit assets backed securitisation

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB13 million as at 31 December 2019 (31 December 2018: RMB118 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at 31 December 2019, the credit assets backed securities which the Group has continuing involvement have been liquidated.

Transfer of right to earnings

The Group enters into transactions of transfer of right to earnings of credit assets in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transfer and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 31 December 2019, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2019, loans with an original carrying amount of RMB2,590 million (31 December 2018: RMB3,776 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 31 December 2019, the carrying amount of assets that the Group continues to recognise was RMB614 million (31 December 2018: RMB1,097 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to its own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collaterals or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using the basic indicator approach.

The Group's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the year, the Group complied with the capital requirements imposed by the regulatory authorities.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements.

	31 December 2019	31 December 2018
Total common equity tier-one capital	320,793	292,093
Share capital	52,489	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	61,431	60,349
Surplus reserve	26,245	24,371
General reserve	59,417	54,036
Retained earnings	120,494	100,296
Qualifying portions of non-controlling interests	717	552
Common equity tier-one capital deductions	(2,930)	(2,455)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use rights	(1,646)	(1,171)
Net deferred tax assets arising from operating losses that depend on future profits	(3)	(3)
Net common equity tier-one capital	317,863	289,638
Additional tier-one capital	65,002	30,021
Additional tier-one capital instruments	64,906	29,947
Qualifying portions of non-controlling interests	96	74
Tier-one capital net	382,865	319,659
Tier-two capital	82,640	92,353
Qualifying portions of tier-two capital instruments issued and share premium	46,683	62,870
Excess loan loss provisions	35,766	29,336
Qualifying portions of non-controlling interests	191	147
Net capital base	465,505	412,012
Total risk-weighted assets	3,456,054	3,166,668
Common equity tier-one capital adequacy ratio	9.20%	9.15%
Tier-one capital adequacy ratio	11.08%	10.09%
Capital adequacy ratio	13.47%	13.01%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Notes to consolidated cash flow statement

(a) Net change in cash and cash equivalents

	31 December 2019	31 December 2018
Cash and cash equivalents as at 31 December	117,499	187,680
Less: Cash and cash equivalents as at 1 January	187,680	147,923
Net (decrease)/increase in cash and cash equivalents	(70,181)	39,757

(b) Cash and cash equivalents

	31 December 2019	31 December 2018
Cash on hand	4,355	4,721
Deposits with the central bank	57,546	103,684
Deposits with banks and other financial institutions	26,581	34,686
Placements with banks and other financial institutions	29,017	44,589
Total	117,499	187,680

48 Related party relationships and transactions

(a) The immediate and ultimate parent companies

The immediate and ultimate parents of the Group are China Everbright Group Ltd. ("China Everbright Group") and China Investment Corporation, respectively.

The uniform social credit code of China Everbright Group is 91100000102063897J, and the transactions and balances with China Everbright Group and its affiliates are listed in Note V 48(b)(ii).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

(i) Information of other related parties

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co.,Ltd ("Everbright Securities").	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Industry (Group) Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Investment and Assets Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Real Estate Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Financial Holding Asset Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Life Insurance Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Xinglong Trust Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Pramerica Fund Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Futures Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Fortune Investment Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Capital Investment Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happy Life International Leasing Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Asset Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Yunfu Internet Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co.,Ltd.	Affiliate of China Everbright Group Ltd.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Information of other related parties (continued)

Other related parties having transactions with the Group: (continued):

Related party	Relationship with the Group
Affiliated companies (continued)	
– Everbright Jin'ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management (Tianjin) Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Securities Finance Holding Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service (Group) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Cachet Pharmaceutical Company Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service Limited	Affiliate of China Everbright Group Ltd.
– Everbright Technology Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happiness International Commercial Factoring Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Sunshine Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Ningbo Jin'ou Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Guokaitai Industrial Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Zhongqing Chuangyi Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shenzhen Qianhai Everbright Investment Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Senior Healthcare Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Culture Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Development Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
–Beijing Caiwan Internet Information Service Co., Ltd	Affiliate of China Everbright Group Ltd.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Information of other related parties (continued)

Other related parties having transactions with the Group: (continued):

Related party	Relationship with the Group
Other related parties	
– Overseas Chinese Town Holding Company	Shareholder, common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust Co.,Ltd.	Common key management
– Haitong Securities Co.,Ltd.	Common key management
– China UnionPay Co.,Ltd.	Common key management
– Orient Securities Co.,Ltd.	Common key management
– Konka Group Co.,Ltd	Common key management
– China Pacific Property Insurance Co.,Ltd.	Common key management
– China Pacific Life Insurance Co.,Ltd.	Common key management
– First-trust Fund Management Co.,Ltd.	Common key management
– COSCO Shipping Development Co.,Ltd.	Common key management
– China COSCO Shipping Co.,Ltd.	Common key management
– Shenergy Group Co.,Ltd.	Common key management
– Bohai Securities Co., Ltd.	Common key management
– Shanghai Gas (Group) Co., Ltd.	Common key management
– China Marine Bunker (PetroChina) Co., Ltd.	Common key management
– Shenzhen Guangming Group Co., Ltd.	Common key management
– Shenzhen Vphonor Information Technology Co., Ltd.	Common key management
– Shanghai Zhongbo Enterprise Management Development Co.,Ltd.	Common key management
– Shanghai Insurance Exchange Co.,Ltd.	Common key management
– Beijing Jingneng Clean Energy Co.,Ltd.	Common key management
– Shijiazhuang Hualin Food Co.,Ltd.	Common key management
– Zhengzhou Chemical Light Industry Co.,Ltd.	Common key management

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions

The Group's material transactions and balances with China Everbright Group and the above related parties during the year are summarised as follows:

	China Everbright Group (Note V48(a))	Affiliated Companies	Others	Total
Transactions with related parties in 2019:				
Interest income	–	533	501	1,034
Interest expense	(159)	(371)	(331)	(861)
Balances with related parties as at 31 December 2019:				
Placements with banks and other financial institutions	–	508	2,002	2,510
Derivative financial assets	–	–	12	12
Loans and advances to customers	–	7,251	9,064	16,315
Financial assets at fair value through profit or loss	–	7,727	–	7,727
Debt instruments at fair value through other comprehensive income	178	385	–	563
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	113,480	256	113,736
Other assets	–	3,261	–	3,261
Total	178	132,612	11,432	144,222
Deposits from banks and other financial institutions	–	3,147	1,528	4,675
Derivative financial liabilities	–	–	11	11
Deposits from customers	4,652	15,696	35,638	55,986
Other liabilities	–	693	167	860
Total	4,652	19,536	37,344	61,532
Significant other sheet items with related parties as at 31 December 2019:				
Guarantee granted (Note)	180	–	–	180

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the year are summarised as follows (continued):

	China Everbright Group (Note V 48(a))	Affiliated Companies	Others	Total
Transactions with related parties in 2018:				
Interest income	–	368	134	502
Interest expense	(48)	(405)	(471)	(924)
Balances with related parties as at 31 December 2018:				
Placements with banks and other financial institutions	–	1,001	–	1,001
Derivative financial assets	–	–	5	5
Financial assets held under resale agreements	–	–	292	292
Loans and advances to customers	–	7,911	6,330	14,241
Financial assets at fair value through profit or loss	–	14,296	–	14,296
Debt instruments at fair value through other comprehensive income	301	1,209	171	1,681
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	194,750	138	194,888
Other assets	–	682	200	882
Total	301	219,849	7,234	227,384
Deposits from banks and other financial institutions	–	1,911	1,473	3,384
Derivative financial liabilities	–	–	4	4
Deposits from customers	6,402	14,665	20,051	41,118
Total	6,402	16,576	21,528	44,506
Significant other sheet items with related parties as at 31 December 2018:				
Guarantee granted (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	67	–	67

Note: As at 31 December 2019, the Bank had guarantee obligations relating to China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2018: RMB180 million) due to one of the state-owned commercial banks.

48 Related party relationships and transactions (continued)

(c) China Investment Corporation, Central Huijin Investment Ltd. and its affiliates

Approved by the State Council of the PRC, China Investment Corporation ("CIC") was established on 29 September 2007 with registered capital of USD200 billion. Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

Huijin was incorporated as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with registered capital of RMB828,209 million. Apart from equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposits and certificates of deposits which are bearer bonds tradable in the secondary market. Accordingly, the Group had no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year.

The Group's material transactions with CIC, Huijin and its affiliates during the year are summarised as follows:

	2019	2018
Interest income	1,051	1,556
Interest expense	(3,548)	(4,183)

The Group's material balances with CIC, Huijin and its affiliates during the year are summarised as follows:

	31 December 2019	31 December 2018
Deposits with banks and other financial institutions	9,552	12,983
Precious metals	51	–
Placements with banks and other financial institutions	13,909	17,941
Derivative financial assets	3,764	4,098
Financial assets held under resale agreements	997	5,201
Loans and advances to customers	694	2,388
Financial assets at fair value through profit or loss	36,270	28,663
Debt instruments at fair value through other comprehensive income	27,611	27,310
Financial investments measured at amortised cost	106,537	67,966
Other assets	419	609
Deposits from banks and other financial institutions	81,621	76,488
Placements from banks and other financial institutions	70,629	58,276
Derivative financial liabilities	3,678	3,948
Financial assets sold under repurchase agreements	2,970	4,455
Deposits from customers	14,586	19,952
Other liabilities	30	11

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Related party relationships and transactions (continued)

(d) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(e) Key management personnel

	2019 RMB'000	2018 RMB'000
Remuneration	30,970	19,199
Retirement benefits	1,037	1,165
– Basic social pension insurance	567	691

The total compensation packages for senior management of the Group for the year ended 31 December 2019 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2019 financial statements.

(f) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	8,867	9,041
Maximum aggregate amount of relevant loans outstanding during the year	8,994	9,247

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Statement of financial position of the Bank

	Note V	31 December 2019	31 December 2018
Assets			
Cash and deposits with the central bank		364,184	366,418
Deposits with banks and other financial institutions		28,648	39,243
Precious metals		10,826	23,628
Placements with banks and other financial institutions		60,466	98,057
Derivative financial assets		13,754	15,112
Financial assets held under resale agreements		6,709	37,348
Loans and advances to customers		2,642,764	2,361,930
Financial investments		1,425,223	1,295,523
– Financial assets at fair value through profit or loss		207,634	221,059
– Debt instruments at fair value through other comprehensive income		175,565	150,244
– Equity instruments at fair value through other comprehensive income		618	362
– Financial investments measured at amortised cost		1,041,406	923,858
Investments in subsidiaries	20	12,383	7,383
Fixed assets		14,041	12,721
Right-of-use assets		11,599	–
Goodwill		1,281	1,281
Deferred tax assets		15,446	10,194
Other assets		34,243	18,617
Total assets		4,641,567	4,287,455
Liabilities and equity			
Liabilities			
Due to the central bank		224,758	267,143
Deposits from banks and other financial institutions		450,716	492,275
Placements from banks and other financial institutions		108,045	102,908
Derivative financial liabilities		13,821	14,291
Financial assets sold under repurchase agreements		24,542	40,364
Deposits from customers		3,016,555	2,570,877
Accrued staff costs		7,834	7,880
Taxes payable		8,729	5,260
Lease liabilities		10,986	–
Debts securities issued		366,061	435,435
Other liabilities		28,218	32,172
Total liabilities		4,260,265	3,968,605
Equity			
Share capital		52,489	52,489
Other equity instruments		70,067	35,108
of which: preference shares		64,906	29,947
Capital reserve		53,533	53,533
Other comprehensive income		2,617	1,791
Surplus reserve		26,245	24,371
General reserve		58,523	53,143
Retained earnings		117,828	98,415
Total equity		381,302	318,850
Total liabilities and equity		4,641,567	4,287,455

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchases transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities

	2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	25,445	55,890	20,583	–	101,918
Internal net interest income/ (expense)	21,510	(17,459)	(4,051)	–	–
Net interest income	46,955	38,431	16,532	–	101,918
Net fee and commission income	6,100	16,115	954	–	23,169
Net trading gains	–	–	585	–	585
Dividend income	–	–	–	42	42
Net (losses)/gains arising from investment securities	(862)	6	5,660	96	4,900
Foreign exchange gains	297	75	967	–	1,339
Other net operating income	785	56	67	78	986
Operating income	53,275	54,683	24,765	216	132,939
Operating expenses	(15,703)	(20,465)	(2,136)	(125)	(38,429)
Operating profit before impairment	37,572	34,218	22,629	91	94,510
Credit impairment losses	(20,562)	(28,306)	(97)	–	(48,965)
Other impairment losses	(340)	(15)	–	(27)	(382)
Profit before tax	16,670	5,897	22,532	64	45,163
Other segment information					
– Depreciation and amortisation	2,072	2,360	232	–	4,664
– Capital expenditure	2,284	1,976	188	–	4,448

	31 December 2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,938,565	1,276,983	1,499,765	531	4,715,844
Segment liabilities	2,405,750	779,244	1,157,929	4,432	4,347,355

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	2018				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	23,034	47,890	7,240	–	78,164
Internal net interest income/ (expense)	15,716	(14,998)	(718)	–	–
Net interest income	38,750	32,892	6,522	–	78,164
Net fee and commission income	5,542	13,485	746	–	19,773
Net trading gains	–	–	1,071	–	1,071
Dividend income	–	–	–	8	8
Net (losses)/gains arising from investment securities	(298)	6	10,163	(9)	9,862
Foreign exchange gains	279	83	362	–	724
Other net operating income	563	52	71	98	784
Operating income	44,836	46,518	18,935	97	110,386
Operating expenses	(14,708)	(16,887)	(2,019)	(92)	(33,706)
Operating profit before impairment	30,128	29,631	16,916	5	76,680
Credit impairment losses	(22,086)	(12,776)	(882)	–	(35,744)
Other impairment losses	(84)	–	–	–	(84)
Profit before tax	7,958	16,855	16,034	5	40,852
Other segment information					
– Depreciation and amortisation	1,000	1,045	119	–	2,164
– Capital expenditure	3,358	634	71	–	4,063

	31 December 2018				
	Corporate banking	Retail Banking	Financial market business	Others	Total
Segment assets	1,705,352	1,174,769	1,464,480	656	4,345,257
Segment liabilities	2,067,338	662,614	1,300,411	4,475	4,034,838

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 2019	31 December 2018
Segment assets		4,715,844	4,345,257
Goodwill	23	1,281	1,281
Deferred tax assets	24	16,306	10,794
Total assets		4,733,431	4,357,332
Segment liabilities		4,347,355	4,034,838
Dividend payables	37	21	21
Deferred tax liabilities	37	1	–
Total liabilities		4,347,377	4,034,859

(b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group has set up branches in Hong Kong, Luxembourg, Seoul and Sydney, and with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qindao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include fixed assets, right-of-use assets, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income.

Geographical areas, as defined for management reporting purposes, are as follows:

– "Yangtze River Delta" refers to the areas serviced by the following branches of the Bank and Huai'an Everbright Bank: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the areas serviced by the following branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the areas serviced by the following branches of the Bank and Everbright Wealth: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai.

– "Central" refers to the areas serviced by the following branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright and Ruijin Everbright: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the areas serviced by the following branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

– "Northeastern" refers to the areas serviced by the following branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Segment reporting (continued)

(b) Geographical information (continued)

– "Overseas" refers to the areas serviced by the following subsidiaries and branches of the Bank: Hong Kong, Seoul, Luxembourg and Sydney; and

– "Head Office" refers to the head office of the Bank.

	Operating Income								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Over – seas	Head Office	Total
2019	23,837	18,419	20,936	22,031	15,912	6,638	2,258	22,908	132,939
2018	18,056	14,180	16,163	16,125	12,111	5,198	1,652	26,901	110,386

	Non-current assets (Note(i))								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Over – seas	Head Office	Total
31 December 2019	3,729	3,244	3,782	8,568	2,843	1,539	566	8,489	32,760
31 December 2018	2,526	1,190	839	6,531	1,212	904	117	6,187	19,506

Note:

(i) *Including fixed assets, right-of-use assets, intangible assets and land use rights.*

51 Risk management

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. Senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. Senior management is responsible for the improvement of risk management system and establishment of risk management policies and rules. Senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. Also, Senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and is responsible for the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

– The Corporate Banking Department, Strategic Customer and Investment Banking Department, Inclusive Finance Department, Credit Card Centre, Retail Banking Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

– The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution".

– The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardised systems and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as the hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, an independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implements control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, standardised review and approval policies and processes in accordance with the principle of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardised loan recovery procedures.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Treasury business

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

Credit risk measurement

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

- Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage 3: Financial assets with objective evidence of impairment at the end of the reporting year are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting year, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting year, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting year according to the ECL in the next 12 months.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting year as impairment allowance. At the end of each reporting year, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk
- Definition of credit-impaired financial asset
- Parameters for measuring ECL
- Forward-looking information
- Modification of contract cash flows

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting year. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the year with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, compared with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status

- Be classified into Special Mention category within the five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral, repayments.) and forward-looking information in order to establish the model of PD, LGD and EAD.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Parameters of ECL measurement (continued)

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, PPI, CPI, Investment in fixed assets, Home price index, Aggregate financing to the real economy.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined a statistical model and experts' judgement in this process, according to the result of the model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Group combines a statistical model with experts' judgement to determine the weight of other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or lifetime (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit or loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1, and the impairment allowance is measured at an amount equal to the 12-month ECL instead of the lifetime ECL.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the items in the statement of financial position as at the end of the year is disclosed in Note V 54(a).

	31 December 2019				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	364,340	–	–	–	364,340
Deposits with banks and other financial institutions	31,358	–	–	–	31,358
Placements with banks and other financial institutions	60,000	270	–	–	60,270
Financial assets held under resale agreements	6,835	–	–	–	6,835
Loans and advances to customers	2,529,543	96,674	17,919	–	2,644,136
Finance lease receivables	80,839	2,869	15	–	83,723
Financial investments	1,215,372	1,375	4,770	212,029	1,433,546
Others (Note)	29,249	–	–	13,848	43,097
Total	4,317,536	101,188	22,704	225,877	4,667,305

	31 December 2018				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	366,575	–	–	–	366,575
Deposits with banks and other financial institutions	41,005	–	–	–	41,005
Placements with banks and other financial institutions	96,685	–	–	–	96,685
Financial assets held under resale agreements	37,773	–	–	–	37,773
Loans and advances to customers	2,227,372	117,867	16,039	–	2,361,278
Finance lease receivables	60,890	1,979	464	–	63,333
Financial investments	1,077,619	–	357	223,104	1,301,080
Others (Note)	16,718	–	–	15,238	31,956
Total	3,924,637	119,846	16,860	238,342	4,299,685

Note: Others comprise precious metal (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows:

	31 December 2019					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments	Others (Note)
Impaired						
Gross amount	42,513	1,063	366	–	6,539	1,944
Provision for impairment losses	(24,594)	(1,048)	(366)	–	(1,769)	(326)
Subtotal	17,919	15	–	–	4,770	1,618
Overdue but not impaired						
– Less than 3 months (inclusive)	25,304	58	300	–	1,476	–
Provision for impairment losses	(6,492)	(1)	(30)	–	(101)	–
Subtotal	18,812	57	270	–	1,375	–
Neither overdue nor impaired						
Gross amount	2,652,547	84,978	91,576	6,836	1,429,914	41,726
Provision for impairment losses	(45,142)	(1,327)	(218)	(1)	(2,513)	(247)
Subtotal	2,607,405	83,651	91,358	6,835	1,427,401	41,479
Total	2,644,136	83,723	91,628	6,835	1,433,546	43,097

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(ii) Financial assets analysed by credit quality are summarised as follows (continued)*:*

	31 December 2018					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Financial investments	Others (Note)
Impaired						
Gross amount	38,649	1,076	366	–	1,520	1,785
Provision for impairment losses	(22,610)	(612)	(366)	–	(1,163)	(228)
Subtotal	16,039	464	–	–	357	1,557
Overdue but not impaired						
– Less than 3 months (inclusive)	23,893	1,143	–	–	–	–
– Between 3 months and 6 months (inclusive)	243	2	–	–	–	–
Gross amount	24,136	1,145	–	–	–	–
Provision for impairment losses	(3,778)	(64)	–	–	–	–
Subtotal	20,358	1,081	–	–	–	–
Neither overdue nor impaired						
Gross amount	2,365,702	62,736	137,966	37,775	1,304,254	30,803
Provision for impairment losses	(40,821)	(948)	(276)	(2)	(3,531)	(404)
Subtotal	2,324,881	61,788	137,690	37,773	1,300,723	30,399
Total	2,361,278	63,333	137,690	37,773	1,301,080	31,956

Note: Others comprise precious metals (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2019	31 December 2018
Impaired		
Carrying amount	366	366
Provision for impairment losses	(366)	(366)
Subtotal	–	–
Overdue but not impaired		
– grade B to BBB	270	–
Neither overdue nor impaired		
– grade A to AAA	73,880	171,905
– grade B to BBB	5,879	3,312
– unrated (Note)	18,435	246
Subtotal	98,193	175,463
Total	98,463	175,463

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(a) Credit risk (continued)

(iii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the year are as follows:

	31 December 2019	31 December 2018
Impaired		
Carrying amount	1,662	1,520
Provision for impairment losses	(1,038)	(1,163)
Subtotal	624	357
Neither overdue nor impaired		
Bloomberg Composite		
– grade AAA	1,033	–
– grade AA- to AA+	810	–
– grade A- to A+	25,497	8,935
– grade lower than A–	30,001	8,396
Subtotal	57,341	17,331
Other agency ratings		
– grade AAA	740,453	520,033
– grade AA- to AA+	63,240	32,986
– grade A- to A+	548	7,872
– grade lower than A–	2,119	11,725
– unrated	120,451	83,182
Subtotal	926,811	655,798
Total	984,776	673,486

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured monitored and control all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Asset and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

Repricing risk
Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Assets and Liability Management Department of the Group is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk
Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs other supplementary methods to measure its interest rate sensitivity, which is expressed as changes in the investment portfolios' fair value given a 100 basis point (1%) movement in the interest rates.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the year and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, whichever is earlier:

	31 December 2019						
	Effective interest rate (*)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.46%	364,340	15,487	348,853	–	–	–
Deposits with banks and other financial institutions	1.73%	31,358	6	29,359	1,993	–	–
Placements with banks and other financial institutions	2.97%	60,270	213	42,793	16,775	489	–
Financial assets held under resale agreements	2.51%	6,835	8	6,827	–	–	–
Loans and advances to customers	5.64%	2,644,136	29,609	1,992,591	531,959	86,871	3,106
Finance lease receivables	5.78%	83,723	951	69,524	289	9,195	3,764
Financial investments	4.26%	1,433,546	67,851	234,363	201,092	599,514	330,726
Others	–	109,223	106,094	–	–	–	3,129
Total assets	4.76%	4,733,431	220,219	2,724,310	752,108	696,069	340,725
Liabilities							
Due to the central bank	3.34%	224,838	3,358	7,000	214,480	–	–
Deposits from banks and other financial institutions	2.89%	444,320	2,913	339,180	102,227	–	–
Placements from banks and other financial institutions	3.10%	166,225	1,122	98,731	66,372	–	–
Financial assets sold under repurchase agreements	2.22%	25,603	18	20,422	5,163	–	–
Deposits from customers	2.28%	3,017,888	34,570	1,867,333	645,265	470,708	12
Debt securities issued	3.69%	371,904	3,158	142,222	174,052	5,789	46,683
Others	–	96,599	76,614	12,735	4,195	3,048	7
Total liabilities	2.58%	4,347,377	121,753	2,487,623	1,211,754	479,545	46,702
Asset-liability gap	2.18%	386,054	98,466	236,687	(459,646)	216,524	294,023

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the year and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, whichever is earlier (continued):

	31 December 2018						
	Effective interest rate (*) (Restated)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	366,575	14,111	352,464	–	–	–
Deposits with banks and other financial institutions	1.79%	41,005	76	40,929	–	–	–
Placements with banks and other financial institutions	3.86%	96,685	530	69,506	25,663	986	–
Financial assets held under resale agreements	3.21%	37,773	34	37,515	68	156	–
Loans and advances to customers	5.45%	2,361,278	29,287	1,822,602	435,372	70,817	3,200
Finance lease receivables	5.37%	63,333	1,801	60,331	490	711	–
Financial investments	4.42%	1,301,080	39,210	280,950	224,484	541,874	214,562
Others	–	89,603	85,956	–	–	–	3,647
Total assets	4.69%	4,357,332	171,005	2,664,297	686,077	614,544	221,409
Liabilities							
Due to the central bank	3.29%	267,193	4,143	34,500	228,550	–	–
Deposits from banks and other financial institutions	3.84%	490,091	2,704	257,323	230,064	–	–
Placements from banks and other financial institutions	3.32%	152,037	754	103,060	48,085	138	–
Financial assets sold under repurchase agreements	2.54%	40,411	18	37,330	3,063	–	–
Deposits from customers	2.15%	2,571,961	35,659	2,067,304	364,245	104,753	–
Debt securities issued	4.31%	440,449	3,669	58,022	221,007	94,881	62,870
Others	–	72,717	59,823	8,612	3,631	651	–
Total liabilities	2.78%	4,034,859	106,770	2,566,151	1,098,645	200,423	62,870
Asset-liability gap	1.91%	322,473	64,235	98,146	(412,568)	414,121	158,539

* *Effective interest rate represents the ratio of interest income/expense to average interest-bearing assets/liabilities*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2019, assuming other variables remain unchanged, an increase in the estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB969 million (31 December 2018: decrease by RMB1,222 million), and equity to decrease by RMB5,039 million (31 December 2018: decrease by RMB4,820 million); a decrease in the estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB1,017 million (31 December 2018: increase by RMB1,267 million), and equity to increase by RMB5,316 million (31 December 2018: increase by RMB5,074 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the year apply to all derivative and non-derivative financial instruments of the Group;

– At the end of the year, an interest rate movement of one hundred basis points is based on the assumption of interest rate movements over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the portfolio of asset and liabilities;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the year are as follows:

	31 December 2019			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	353,625	10,258	457	364,340
Deposits with banks and other financial institutions	8,822	15,096	7,440	31,358
Placements with banks and other financial institutions	33,091	23,340	3,839	60,270
Financial assets held under resale agreements	6,708	127	–	6,835
Loans and advances to customers	2,488,590	100,219	55,327	2,644,136
Finance lease receivables	82,800	923	–	83,723
Financial investments	1,345,906	79,341	8,299	1,433,546
Others	98,151	10,053	1,019	109,223
Total assets	4,417,693	239,357	76,381	4,733,431
Liabilities				
Due to the central bank	224,838	–	–	224,838
Deposits from banks and other financial institutions	442,306	1,488	526	444,320
Placements from banks and other financial institutions	55,186	92,685	18,354	166,225
Financial assets sold under repurchase agreements	23,074	2,529	–	25,603
Deposit from customers	2,839,940	146,468	31,480	3,017,888
Debt securities issued	332,159	35,802	3,943	371,904
Others	86,763	7,987	1,849	96,599
Total liabilities	4,004,266	286,959	56,152	4,347,377
Net position	413,427	(47,602)	20,229	386,054
Off-balance sheet credit commitments	1,220,466	53,513	13,517	1,287,496
Derivative financial instruments (Note)	(28,453)	51,603	(17,294)	5,856

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows (continued):

	31 December 2018			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	359,143	6,990	442	366,575
Deposits with banks and other financial institutions	14,614	18,094	8,297	41,005
Placements with banks and other financial institutions	58,436	31,783	6,466	96,685
Financial assets held under resale agreements	37,348	–	425	37,773
Loans and advances to customers	2,245,883	71,428	43,967	2,361,278
Finance lease receivables	62,291	1,042	–	63,333
Financial investments	1,247,713	43,016	10,351	1,301,080
Others	83,712	3,856	2,035	89,603
Total assets	4,109,140	176,209	71,983	4,357,332
Liabilities				
Due to the central bank	267,193	–	–	267,193
Deposits from banks and other financial institutions	489,301	145	645	490,091
Placements from banks and other financial institutions	50,288	80,231	21,518	152,037
Financial assets sold under repurchase agreements	40,364	–	47	40,411
Deposit from customers	2,408,136	134,718	29,107	2,571,961
Debt securities issued	416,623	18,437	5,389	440,449
Others	63,190	6,691	2,836	72,717
Total liabilities	3,735,095	240,222	59,542	4,034,859
Net position	374,045	(64,013)	12,441	322,473
Off-balance sheet credit commitments	932,340	52,390	26,861	1,011,591
Derivative financial instruments (Note)	(33,881)	46,775	(10,192)	2,702

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2019	31 December 2018
Exchange rates against RMB for the HK dollar	0.8949	0.8763
Exchange rates against RMB for the US dollar	6.9687	6.8633

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2019, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB7 million (31 December 2018: decrease by RMB16 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB7 million (31 December 2018: increase by RMB16 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

– The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis point fluctuation in the foreign currency exchange rates (central parity) against RMB;

– At the end of the year, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rate movements over the next 12 months;

– Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;

– The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;

– Other variables (including interest rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(b) Market risk (continued)

Price risk

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payment of various business, whether under a normal operating environment or a state of stress; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Assets and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and long term working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plans to respond to various possible liquidity risks.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2019							
	Overdue/ Indefinite	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	Total
Assets								
Cash and deposits with the central bank	301,750	62,590	–	–	–	–	–	364,340
Deposit with banks and other financial institutions	–	28,209	439	717	1,993	–	–	31,358
Placements with banks and other financial institutions	270	–	34,032	8,630	16,841	497	–	60,270
Financial assets held under resale agreements	–	–	6,835	–	–	–	–	6,835
Loans and advances to customers	33,760	409,336	162,556	132,922	635,142	612,104	658,316	2,644,136
Finance lease receivables	4	4	2,277	3,446	13,853	49,946	14,193	83,723
Financial investments	9,100	159,827	37,613	36,928	235,099	614,108	340,871	1,433,546
Others	63,610	28,678	2,015	2,765	5,698	3,325	3,132	109,223
Total assets	408,494	688,644	245,767	185,408	908,626	1,279,980	1,016,512	4,733,431
Liabilities								
Due to the central bank	–	–	7,210	–	217,628	–	–	224,838
Deposits from banks and other financial institutions	–	179,958	73,454	87,280	103,628	–	–	444,320
Placements from banks and other financial institutions	–	6	50,449	48,909	66,861	–	–	166,225
Financial assets sold under repurchase agreements	–	–	15,720	4,715	5,168	–	–	25,603
Deposits from customers	–	1,150,257	366,487	385,159	645,265	470,708	12	3,017,888
Debt securities issued	–	–	17,233	85,324	175,856	46,808	46,683	371,904
Others	–	41,076	8,245	3,294	18,649	20,388	4,947	96,599
Total liabilities	–	1,371,297	538,798	614,681	1,233,055	537,904	51,642	4,347,377
Net position	408,494	(682,653)	(293,031)	(429,273)	(324,429)	742,076	964,870	386,054
Notional amount of derivative financial instruments	–	–	404,966	378,775	1,314,045	673,700	3,640	2,775,126

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2018							
	Overdue/ Indefinite	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	Total
Assets								
Cash and deposits with the central bank	258,034	108,541	–	–	–	–	–	366,575
Deposit with banks and other financial institutions	–	33,789	6,177	1,039	–	–	–	41,005
Placements with banks and other financial institutions	–	–	45,345	24,436	25,918	986	–	96,685
Financial assets held under resale agreements	–	–	37,549	–	68	156	–	37,773
Loans and advances to customers	32,418	378,666	86,818	153,203	560,558	497,661	651,954	2,361,278
Finance lease receivables	184	121	1,324	3,046	11,135	35,875	11,648	63,333
Financial investments	2,453	180,633	49,292	43,254	243,026	561,212	221,210	1,301,080
Others	57,255	13,780	1,316	3,556	6,692	3,644	3,360	89,603
Total assets	350,344	715,530	227,821	228,534	847,397	1,099,534	888,172	4,357,332
Liabilities								
Due to the central bank	–	–	12,896	22,613	231,684	–	–	267,193
Deposits from banks and other financial institutions	–	140,751	89,005	28,207	232,128	–	–	490,091
Placements from banks and other financial institutions	–	6	58,966	44,503	48,425	137	–	152,037
Financial assets sold under repurchase agreements	–	–	35,206	2,142	3,063	–	–	40,411
Deposits from customers	–	1,163,169	246,800	321,019	565,913	275,060	–	2,571,961
Debt securities issued	–	–	21,153	36,869	221,007	94,881	66,539	440,449
Others	–	40,232	7,326	3,303	8,556	10,878	2,422	72,717
Total liabilities	–	1,344,158	471,352	458,656	1,310,776	380,956	68,961	4,034,859
Net position	350,344	(628,628)	(243,531)	(230,122)	(463,379)	718,578	819,211	322,473
Notional amount of derivative financial instruments	–	–	501,608	608,087	1,636,249	592,720	160	3,338,824

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the financial liabilities at the end of the year:

	31 December 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable 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
Non-derivative financial liabilities								
Due to the central bank	224,838	228,879	–	7,224	–	221,655	–	–
Deposits from banks and other financial institutions	444,320	448,811	179,959	75,916	87,926	105,010	–	–
Placements from banks and other financial institutions	166,225	167,904	6	50,558	49,207	68,133	–	–
Financial assets sold under repurchase agreements	25,603	25,667	–	15,723	4,734	5,210	–	–
Deposits from customers	3,017,888	3,049,947	1,150,257	372,046	390,510	655,277	481,840	17
Debt securities issued	371,904	405,350	–	17,555	93,250	182,147	59,086	53,312
Other financial liabilities	76,519	79,880	21,059	8,237	3,298	19,361	21,857	6,068
Total non-derivative financial liabilities	4,327,297	4,406,438	1,351,281	547,259	628,925	1,256,793	562,783	59,397
Derivative financial liabilities								
Derivative financial instruments settled on net basis		327	–	17	108	158	44	–
Derivative financial instruments settled on gross basis								
– Cash inflow		1,388,726	–	363,750	307,177	704,146	13,653	–
– Cash outflow		(1,387,827)	–	(362,637)	(307,299)	(704,213)	(13,678)	–
Total derivative financial liabilities		899	–	1,113	(122)	(67)	(25)	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of financial liabilities at the end of the reporting period (continued):

	31 December 2018							
	Carrying amount	Contractual undiscounted cash flow	Repayable 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
Non-derivative financial liabilities								
Due to the central bank	267,193	271,562	–	12,912	22,727	235,923	–	–
Deposits from banks and other financial institutions	490,091	494,874	140,753	89,153	28,425	236,543	–	–
Placements from banks and other financial institutions	152,037	154,101	6	59,036	44,991	49,910	158	–
Financial assets sold under repurchase agreements	40,411	40,456	–	35,218	2,150	3,088	–	–
Deposits from customers	2,571,961	2,608,140	1,165,410	251,751	327,937	573,689	289,353	–
Debt securities issued	440,449	528,781	–	21,394	42,667	277,120	114,881	72,719
Other financial liabilities	58,368	59,799	40,212	5,434	774	2,290	8,115	2,974
Total non-derivative financial liabilities	4,020,510	4,157,713	1,346,381	474,898	469,671	1,378,563	412,507	75,693
Derivative financial liabilities								
Derivative financial instruments settled on net basis		84	–	–	42	–	41	1
Derivative financial instruments settled on gross basis								
– Cash inflow		1,232,949	–	300,060	289,923	636,594	6,372	–
– Cash outflow		(1,231,956)	–	(300,482)	(288,764)	(636,343)	(6,367)	–
Total derivative financial liabilities		993	–	(422)	1,159	251	5	–

This analysis of the financial instruments by contractual undiscounted cash flow might diverge from actual results.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year:

	31 December 2019			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	312,090	5,474	6,179	323,743
Guarantees, acceptances and other credit commitments	912,051	51,355	347	963,753
Total	1,224,141	56,829	6,526	1,287,496

	31 December 2018			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	273,488	580	5,116	279,184
Guarantees, acceptances and other credit commitments	684,888	44,768	2,751	732,407
Total	958,376	45,348	7,867	1,011,591

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Risk management (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed below:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– A set of standard operational procedures covering various business and management activities, which is practical, traceable and can be re-performed, investigated and remedied;

– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;

– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

– An independent risk assessment framework based on the internal audit and the compliance review.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting year. The fair values of unlisted equity investments are estimated using comparable firms approach, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting year.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting year, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting year.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the year, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Reuters' quoted price.

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, receivables with banks and other financial institutions, precious metals, loans and advances to customers, finance lease receivables and financial investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of the loans and advances to customers, finance lease receivables and financial investments measured at amortised cost except for debt securities investments are priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note V 19.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers, due to the central bank, financial liabilities at fair value through profit or loss and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "debt securities investments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of the year:

	Carrying value		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial assets				
Debt securities investments measured at amortised cost	784,943	505,351	796,461	512,668
Financial liabilities				
Debt securities issued	371,904	440,449	371,869	435,137

Debt securities investments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank performs valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of debt securities issued are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statement of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated derivative contracts and structured deposits with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in the valuation include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,104	–	10,104
– Interest rate derivatives	–	3,653	2	3,655
– Credit derivatives	–	46	–	46
Loans and advances to customers	–	90,578	–	90,578
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,716	13,886	–	18,602
– Financial assets designated at fair value through profit or loss	–	–	4	4
– Other financial assets at fair value through profit or loss	164,806	23,964	4,030	192,800
Debt instruments at fair value through other comprehensive income	43,527	136,478	–	180,005
Equity instruments at fair value through other comprehensive income	21	–	602	623
Precious metals	43	–	–	43
Total	213,113	278,709	4,638	496,460
Liabilities				
Financial liabilities at fair value through profit or loss	100	–	–	100
Derivative financial liabilities				
– Currency derivatives	–	10,140	–	10,140
– Interest rate derivatives	–	3,678	2	3,680
– Credit derivatives	–	72	1	73
Total	100	13,890	3	13,993

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,790	–	10,790
– Interest rate derivatives	2	4,316	7	4,325
– Credit derivatives	–	97	–	97
Loans and advances to customers	–	60,314	–	60,314
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	2,257	8,629	–	10,886
– Financial assets designated at fair value through profit or loss	–	–	6	6
– Other financial assets at fair value through profit or loss	198,482	10,228	3,135	211,845
Debt instruments at fair value through other comprehensive income	27,384	126,603	–	153,987
Equity instruments at fair value through other comprehensive income	15	–	352	367
Precious metals	26	–	–	26
Total	228,166	220,977	3,500	452,643
Liabilities				
Financial liabilities at fair value through profit or loss	354	–	–	354
Derivative financial liabilities				
– Currency derivatives	–	10,010	–	10,010
– Interest rate derivatives	24	4,273	7	4,304
– Credit derivatives	–	34	1	35
Total	378	14,317	8	14,703

During the year, there was no significant conversion between Level 1 and Level 2 of the Group's financial instruments.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the year ended 31 December 2019 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets designated at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2019	7	3,141	352	3,500	(8)	(8)
Total gains or losses:						
– In profit or loss	(5)	(725)	–	(730)	4	4
Purchases	–	1,906	250	2,156	–	–
Settlements	–	(288)	–	(288)	1	1
31 December 2019	2	4,034	602	4,638	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year	(5)	(725)	–	(730)	4	4

The movements during the year ended 31 December 2018 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets designated at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2018	4	41,875	98	41,977	(3)	(3)
Total gains or losses:						
– In profit or loss	5	(2,196)	–	(2,191)	(4)	(4)
Purchases	–	2,618	254	2,872	(1)	(1)
Settlements	(2)	(39,156)	–	(39,158)	–	–
31 December 2018	7	3,141	352	3,500	(8)	(8)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the year	5	(2,196)	–	(2,191)	(4)	(4)

During the year ended 31 December 2019 and 31 December 2018, there were no significant transfers into or out of Level 3.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position.

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	142,394	654,067	–	796,461
Financial liabilities				
Debt securities issued	31,658	340,211	–	371,869

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	81,743	430,925	–	512,668
Financial liabilities				
Debt securities issued	26,492	408,645	–	435,137

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using the cash flow the discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2019, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statement of financial position.

	31 December 2019	31 December 2018
Entrusted loans	139,790	148,654
Entrusted funds	139,790	148,654

54 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	31 December 2019	31 December 2018
Loan commitments		
– Original contractual maturity within one year	19,855	33,056
– Original contractual maturity more than one year (inclusive)	13,732	12,688
Credit card commitments	290,156	233,440
Subtotal	323,743	279,184
Acceptances	609,169	477,110
Letters of guarantees	128,746	123,416
Letters of credit	225,653	131,696
Guarantees	185	185
Total	1,287,496	1,011,591

The Group may be exposed to credit risk in all the above credit businesses. Management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount of credit commitments

	31 December 2019	31 December 2018
Credit risk-weighted amount of credit commitments	380,959	351,409

The credit risk-weighted amount of credit commitments represent to the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Capital commitments

As at the end of the year, the Group's authorised capital commitments are as follows:

	31 December 2019	31 December 2018
Contracted but not paid		
– Purchase of property and equipment	1,100	790
Approved but not contracted for		
– Purchase of property and equipment	2,817	1,942
Total	3,917	2,732

(d) Underwriting and redemption commitments

The Group had no unexpired commitments for underwriting bonds as at 31 December 2019.

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of the year, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2019	31 December 2018
Redemption commitments	6,626	8,192

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54 Commitments and contingent liabilities (continued)

(e) Outstanding litigation and disputes

As at 31 December 2019, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,384 million (31 December 2018: RMB1,007 million). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels(Note V 37). The Group considers that the provisions made are reasonable and adequate.

55 Events after the financial reporting date

Establishment of Beijing Sunshine Consumer Finance Co., Ltd

The 28th Meeting of the Seventh Session of the Board of Directors of the Bank held on 15 September approved the proposal of establishing the Beijing Sunshine Consumer Finance Company Limited together with China Youth Tourism Holding Co., Ltd. and other promoters. The Bank will invest RMB600 million, representing 60% of the equity.

The Bank has received the Approval Regarding the establishment of Beijing Sunshine Consumer Finance Company Limited (CBIRC Approval [2020] No. 16) from CBIRC. At present, the relevant preparatory work is still in progress.

Impact assessment of the Coronavirus Disease 2019

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") in January 2020, prevention and control measures against the pandemic have been adopted nationwide. The PBOC, the MOF, the CBIRC, the CSRC and the State Administration of Foreign Exchange jointly issued the requirements of the Notice on Further Enhancing Financial Support for the Prevention and Control of the Novel Coronavirus Pneumonia Outbreak. Various ministries and commissions have also issued a series of policy measures to strengthen financial institutions' support for the prevention and control of the pandemic. The Group actively responded to the call of the Government, fulfilled social responsibilities and implemented various policy measures.

The COVID-19 will affect the business operations in certain industries and certain areas including Hubei province, even the overall economic operation in various areas. This in turn may affect the quality or the yields of the Group's credit assets and other financial assets, the extent of which will depend on factors including evolvement of the pandemic, macro policies, resumption of work and activities in enterprises.

The Group will continue to closely pay attention to the development of COVID-19, assessing and actively responding to its impact on the financial position and operating results of the Group.

56 Comparative figures

In accordance with the presenting pattern of the financial statements, the Group has reclassified some comparative figures.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO

Liquidity Coverage Ratio

As stipulated by the *Rules on Liquidity Risk Management of Commercial Banks*, commercial banks' Liquidity Coverage Ratio ("LCR") should reach 100% by the end of 2018. During the transition period, the LCR should be no lower than 90%. During the transition period, eligible commercial banks are encouraged to fulfil the requirements in advance, and banks with LCR already reaching 100% are encouraged to continuously maintain it at 100% or above.

	31 December 2019
Liquidity coverage ratio	125.12%
High Quality Liquid Assets	630,894
Net cash outflows in 30 days from the end of the year	504,250

Liquidity Ratio*

	As at 31 December 2019	Average for The year ended 31 December 2019	As at 31 December 2018	Average for The year ended 31 December 2018
RMB current assets to RMB current liabilities	72.63%	69.29%	64.26%	58.20%
Foreign currency current assets to foreign currency current liabilities	93.29%	79.43%	62.15%	74.74%

* *Liquidity ratio is calculated in accordance with the banking level.*

Leverage Ratio

	31 December 2019
Leverage Ratio	6.83%

Pursuant to the Leverage Ratio Management of Commercial Banks Amendments which has been effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio are calculated in accordance with the formula promulgated by the CBIRC and based on the financial information prepared in accordance with PRC GAAP.

1 LIQUIDITY COVERAGE RATIO, LIQUIDITY RATIO, LEVERAGE RATIO AND NET STABLE FUNDING RATIO (CONTINUED)

Net Stable Funding Ratio

The net stable fund ratio is designed to ensure commercial banks have sufficient sources of stable funding to meet the demand for stable funds for various assets and off-balance sheet exposures. The Measures for the Administration of Liquidity Risk of Commercial Banks stipulate that since 1 July 2018, the minimum regulatory standard for the net stable fund ratio is no less than 100%.

The calculation formula of net stable funding ratio is as follows:

Net stable funding ratio = available and stable funds/required stable funds*100%

As at 31 December 2019, the Group met the regulatory requirement with the net stable funding ratio standing at 105.34%.

Indicators	31 December 2019
Available and stable funds	2,693,533
Required stable funds	2,556,972
Net stable funding ratio	105.34%

2 CURRENCY CONCENTRATIONS

	31 December 2019			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	239,357	39,857	36,524	315,738
Spot liabilities	(286,959)	(33,950)	(22,202)	(343,111)
Forward purchases	759,868	20,366	7,268	787,502
Forward sales	(708,265)	(25,171)	(19,757)	(753,193)
Net long position	4,001	1,102	1,833	6,936
Net structural position	–	34	15	49

	31 December 2018			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	176,209	38,616	33,367	248,192
Spot liabilities	(240,222)	(39,524)	(20,018)	(299,764)
Forward purchases	704,568	11,509	1,436	717,513
Forward sales	(657,793)	(8,780)	(14,357)	(680,930)
Net (short)/long position	(17,238)	1,821	428	(14,989)
Net structural position	9	25	63	97

The net structural position of the Group includes the structural position, denominated in foreign currency, of the Bank's Hong Kong, Seoul, Luxembourg and Sydney branches. Structural assets mainly include fixed assets.

(Expressed in millions of Renminbi, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China as international claims.

International claims include loans and advances to customers, balances with central banks, deposits and placements from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

	As at 31 December 2019			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	69,367	2,868	32,485	104,720
– of which attributed to Hong Kong	19,907	537	15,350	35,794
Europe	9,874	39	32,268	42,181
North and South America	12,736	–	23,352	36,088
Total	91,977	2,907	88,105	182,989

	As at 31 December 2018			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Mainland China	73,966	910	24,329	99,205
– of which attributed to Hong Kong	22,898	782	15,034	38,714
Europe	7,633	40	21,444	29,117
North and South America	11,352	269	15,801	27,422
Total	92,951	1,219	61,574	155,744

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES

(a) By geographical segments

	31 December 2019	31 December 2018
Head Office	8,963	7,455
Bohai Rim	5,201	5,077
Yangtze River Delta	5,899	5,140
Pearl River Delta	3,129	4,216
Western	4,550	4,149
Central	3,687	4,102
Northeastern	2,470	2,151
Overseas	8	8
Total	33,907	32,298

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(b) By overdue days

	31 December 2019	31 December 2018
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	8,851	8,268
– between 6 months and 1 year (inclusive)	13,642	13,049
– over 1 year	11,414	10,981
Total	33,907	32,298
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.33%	0.34%
– between 6 months and 1 year (inclusive)	0.50%	0.54%
– over 1 year	0.42%	0.45%
Total	1.25%	1.33%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(Expressed in millions of Renminbi, unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES (CONTINUED)

(c) Collateral of loans and advances past due but not impaired

	31 December 2019	31 December 2018
Covered portion of loans and advances past due but not impaired	6,357	7,790
Uncovered portion of loans and advances past due but not impaired	18,947	16,346
Total loans and advances past due but not impaired	25,304	24,136
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	16,258	27,886

5 NON-BANK MAINLAND CHINA EXPOSURE

The Bank is a commercial bank incorporated in the PRC with its banking business conducted in mainland China. As at 31 December 2019, substantial amounts of the Group's exposures arose from businesses with Mainland China entities or individuals.

China Everbright Bank Company Limited
Consolidated Statement of Profit or Loss
For the three months ended 31 March 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2020	2019
Interest income	54,772	51,049
Interest expense	(27,626)	(26,816)
Net interest income	27,146	24,233
Fee and commission income	7,916	7,626
Fee and commission expense	(580)	(671)
Net fee and commission income	7,336	6,955
Net trading gains	234	20
Net gains arising from investment securities	2,395	1,950
Net foreign exchange (losses)/ gains	(15)	451
Other net operating income	228	267
Operating income	37,324	33,876
Operating expenses	(9,694)	(9,143)
Operating profit before impairment	27,630	24,733
Credit impairment losses	(14,514)	(12,908)
Other impairment losses	(19)	(50)
Profit before tax	13,097	11,775
Income tax	(2,224)	(2,024)
Net profit	10,873	9,751
Net profit attributable to:		
Equity shareholders of the Bank	10,831	9,733
Non-controlling interests	42	18
	10,873	9,751
Earnings per share		
Basic earnings per share (in RMB/share)	0.19	0.19
Diluted earnings per share (in RMB/share)	0.17	0.17

China Everbright Bank Company Limited
Consolidated Statement of Comprehensive Income
For the three months ended 31 March 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2020	2019
Net profit	10,873	9,751
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss:		
- Equity instruments at fair value through other comprehensive income		
- Net change in fair value	(2)	3
- Related income tax effect	-	(1)
Subtotal	(2)	2
Items that will be reclassified to profit or loss:		
- Debt instruments at fair value through other comprehensive income		
- Net change in fair value	2,520	848
- Changes in allowance for expected credit losses	314	174
- Reclassified to the profit or loss upon disposal	(146)	(56)
- Related income tax effect	(684)	(224)
- Exchange differences on translation of financial statements	56	(64)
Subtotal	2,060	678
Other comprehensive income, net of tax	2,058	680
Total comprehensive income	12,931	10,431
Total comprehensive income attributable to:		
Equity shareholders of the Bank	12,887	10,413
Non-controlling interests	44	18
	12,931	10,431

China Everbright Bank Company Limited
Consolidated Statement of Financial Position
As at 31 March 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2020	31 December 2019
Assets		
Cash and deposits with the central bank	389,787	364,340
Deposits with banks and other financial institutions	115,802	31,358
Precious metals	13,032	10,826
Placements with banks and other financial institutions	48,354	60,270
Derivative financial assets	20,179	13,805
Financial assets held under resale agreements	43,814	6,835
Loans and advances to customers	2,822,896	2,644,136
Finance lease receivables	89,506	83,723
Financial investments	1,582,944	1,433,546
- Financial assets at fair value through profit or loss	270,730	211,406
- Debt instruments at fair value through other comprehensive income	215,464	180,005
- Equity instruments at fair value through other comprehensive income	621	623
- Financial investments measured at amortised cost	1,096,129	1,041,512
Fixed assets	19,223	19,342
Right-of-use assets	11,518	11,684
Goodwill	1,281	1,281
Deferred tax assets	18,191	16,306
Other assets	55,484	35,979
Total assets	5,232,011	4,733,431

(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2020	31 December 2019
Liabilities and equity		
Liabilities		
Due to the central bank	239,826	224,838
Deposits from banks and other financial institutions	365,271	444,320
Placements from banks and other financial institutions	186,530	166,225
Financial liabilities at fair value through profit or loss	12	100
Derivative financial liabilities	20,271	13,893
Financial assets sold under repurchase agreements	17,404	25,603
Deposits from customers	3,530,589	3,017,888
Accrued staff costs	7,832	8,007
Taxes payable	12,813	9,322
Lease liabilities	10,806	11,069
Debts securities issued	373,790	371,904
Other liabilities	68,651	54,208
Total liabilities	4,833,795	4,347,377

China Everbright Bank Company Limited
Consolidated Statement of Financial Position (continued)
As at 31 March 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	31 March 2020	31 December 2019
Liabilities and equity (Continued)		
Equity		
Share capital	52,489	52,489
Other equity instrument	70,067	70,067
of which: preference shares	64,906	64,906
Capital reserve	53,533	53,533
Other comprehensive income	4,793	2,737
Surplus reserve	26,245	26,245
General reserve	59,718	59,417
Retained earnings	130,255	120,494
Total equity attributable to equity shareholders of the Bank	397,100	384,982
Non-controlling interests	1,116	1,072
Total equity	398,216	386,054
Total liabilities and equity	5,232,011	4,733,431

Approved and authorized for issue by the board of directors on 28 April 2020.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Liu Jin
President
Executive Director

Yao Zhongyou
Vice President in Charge of Finance

Sun Xinhong
General Manager of
Financial Accounting Department

China Everbright Bank Company Limited
Consolidated Cash Flow Statement
For the three months ended 31 March 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2020	2019
Cash flows from operating activities		
Net profit	10,873	9,751
Adjustments for:		
Impairment losses on assets	14,533	12,958
Depreciation and amortization	591	547
Unwinding of discount	(176)	(243)
Unrealised foreign exchange (gains)/losses	(138)	161
Net gains on investment securities	(14,136)	(14,755)
Net gains on disposal of trading securities	(386)	(268)
Revaluation (gains)/losses on financial instruments at fair value through profit or loss	(877)	1,665
Interest expense on debt securities issued and others	3,927	4,189
Net losses on disposal of fixed assets	2	2
Income tax	2,224	2,024
	16,437	16,031
Changes in operating assets:		
Net decrease/(increase) in deposits with the central bank, banks and other financial institutions	8,521	(2,602)
Net decrease in placements with banks and other financial institutions	5,485	16,310
Net increase in financial assets held for trading	(18,643)	(21,990)
Net increase in loans and advances to customers	(192,630)	(96,996)
Net increase in financial assets held under resale agreements	(36,992)	(52,922)
Net increase in other operating assets	(25,528)	(45,237)
	(259,787)	(203,437)

China Everbright Bank Company Limited
Consolidated Cash Flow Statement (continued)
For the three months ended 31 March 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2020	2019
Cash flows from operating activities (continued)		
Changes in operating liabilities:		
Net decrease in deposits from banks and other financial institutions	(79,126)	(95,336)
Net increase in placements from banks and other financial institutions	20,369	14,326
Net decrease in financial assets sold under repurchase agreements	(8,215)	(18,626)
Net increase/(decrease) in amount due to the central bank	13,303	(27,500)
Net increase in deposits from customers	512,423	269,244
Income tax paid	(1,586)	(1,218)
Net increase in other operating liabilities	12,644	14,319
	469,812	155,209
Net cash flows from operating activities	226,462	(32,197)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	121,906	305,789
Investment income received	13,756	14,756
Proceeds from disposal of fixed assets and other long-term assets	163	44
Payments on acquisition of investments	(248,302)	(270,892)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(470)	(736)
Net cash flows from investing activities	(112,947)	48,961

China Everbright Bank Company Limited
Consolidated Cash Flow Statement (continued)
For the three months ended 31 March 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months ended 31 March	
	2020	2019
Cash flows from financing activities		
Net proceeds from issue of debt securities	3,566	-
Repayments of debts issued	-	(5,384)
Interest paid on debts securities issued and others	(5,706)	(5,379)
Net cash flows from financing activities	(2,140)	(10,763)
Effect of foreign exchange rate changes on cash and cash equivalents	597	(872)
Net increase in cash and cash equivalents	111,972	5,129
Cash and cash equivalents as at 1 January	117,499	187,680
Cash and cash equivalents as at 31 March	229,471	192,809
Interest received	41,834	43,882
Interest paid (excluding interest expense on debts securities issued)	(22,395)	(14,108)

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The Supplemental Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Bank, the Joint Lead Managers, any person who controls any of the Joint Lead Managers, any director, officer, employee nor agent of the Issuer, the Bank, the Joint Lead Managers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Supplemental Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A (1) of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 (the "**SF (CMP) Regulations**")) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

中国光大银行 香港分行
CHINA EVERBRIGHT BANK HONGKONG BRANCH

CHINA EVERBRIGHT BANK CO., LTD., HONG KONG BRANCH

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

Issue of U.S.$550,000,000 0.929 per cent. Notes due 2024

issued under its U.S.$5,000,000,000

Medium Term Note Programme

This Supplemental Offering Circular (the "**Supplemental Offering Circular**") is supplemental to, forms part of and must be read and construed in conjunction with, to the offering circular dated 22 July 2020 (the "**Original Offering Circular**") prepared by China Everbright Bank Co., Ltd.., Hong Kong Branch (the "**Issuer**"), in connection with the U.S.$5,000,000,000 Medium Term Note Programme described in the Original Offering Circular (the "**Programme**"). This Supplemental Offering Circular is prepared for the U.S.$550,000,000 0.929 per cent. Notes due 2024 (the "**Notes**") to be issued by the Issuer under the Programme only and does not otherwise modify the Programme. Terms given a defined meaning in the Original Offering Circular shall, unless the context otherwise requires, have the same meaning when used in this Supplemental Offering Circular. To the extent there is any inconsistency between any statement in this Supplemental Offering Circular and any statement in the Original Offering Circular, the statement in this Supplemental Offering Circular shall prevail.

Application has been made to The Stock Exchange of Hong Kong Limited ("**Hong Kong Stock Exchange**") for the listing of and dealing in the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the, "**Professional Investors**") only. This document is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This Supplemental Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Supplemental Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

In addition, an application has been made to Chongwa (Macao) Financial Asset Exchange Co., Ltd. (the "**MOX**") for the listing of the Notes by way of debt issues to Professional Institutional Investors (which are (i) individuals that have a portfolio of not less than MOP$8,000,000, or (ii) corporations or partnerships that have either a portfolio of not less than MOP$8,000,000 or total assets of not less than MOP$40,000,000). This Supplemental Offering Circular is for distribution to Professional Institutional Investors only. Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Institutional Investors and understand the risks involved. The Notes are only suitable for Professional Institutional Investors. See also "*Risk Factors – Risks relating to Listing of the Notes in Macau*".

The listing of the Notes on the MOX is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Group or quality of disclosure in this document. The MOX takes no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. Potential investors should exercise caution before making investment decisions.

Pursuant to the Enterprise Foreign Debt Filing Certificate (《企業借用外債登記證明》) (發改辦外資備[2020]373號) issued by the National Development and Reform Commission of the PRC (the "**NDRC**") wherein a quota of foreign debt (the "**Quota**") was granted by the NDRC on June 9, 2020, separate pre-issuance registration with the NDRC with respect to the Notes is not required as the Notes will be issued within the aforesaid Quota, but the Bank is still required to file with the NDRC the requisite information on the issuance of the Notes after the issuance of such Notes. The Bank intends to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)) issued by the NDRC on 14 September 2015 which came into effect on the same day and any relevant rules and regulations from time to time issued by the NDRC (together, the "NDRC Regulations") and the terms of the Quota.

The Notes will be represented by beneficial interests in a global note certificate (the "**Global Note Certificate**") in registered form which will be registered in the name of a nominee of, and shall be deposited on or about the Issue Date with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for the Notes will not be issued in exchange for interests in the relevant Global Note Certificate. The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*" in the Original Offering Circular.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. The Notes may not be offered or sold within the United States except in accordance with Regulation S under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of these and certain restrictions on offers and sales of the Notes and the distribution of the Original Offering Circular, see "*Subscription and Sale*" in the Original Offering Circular. The Notes may be subject to additional selling restrictions as set out in the Pricing Supplement.

The Notes is expected to be assigned a rating of "BBB" by Fitch Ratings, Inc. ("**Fitch**") and "BBB+" by S&P Global Ratings ("**S&P**"). The Programme has been rated "BBB" by Fitch. These ratings are only correct as at the date of this Supplemental Offering Circular. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension and withdrawal at any time by the relevant rating organisation.

Investing in the Notes involves certain risks and may not be suitable for all investors. See "*Risk Factors*" herein and in the Original Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Supplemental Offering Circular and the Original Offering Circular and the merits and risks of investing in the Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase the Notes unless they understand and are able to bear risks associated with the Notes.

The sections of the Original Offering Circular entitled "*Summary Financial Information of the Bank*", "*Risk Factors*", "*Use of Proceeds*", "*Capitalisation and Indebtedness*", "*Description of the Bank*", "*Description of the Issuer*", "*Risk Management*", "*Directors, Supervisors and Senior Management*", "*Substantial Shareholders*" and "*General Information*" have been supplemented and/or amended with the information in this Supplemental Offering Circular.

With effect from the date of this Supplemental Offering Circular the information appearing in the Original Offering Circular with respect to the Notes shall be amended and/or supplemented by the inclusion of the information set out below.

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

China Everbright Bank Hong Kong Branch	**Agricultural Bank of China Limited Hong Kong Branch**	**Bank of Communications**
CCB International	**Citigroup**	**CMBC Capital**

Joint Bookrunners and Joint Lead Managers

Agricultural Bank of China	**Bank of China**	**BOCOM International**	**BOSC International**
China CITIC Bank International	**China Construction Bank (Asia)**	**China Industrial Securities International**	**China International Capital Corporation**
China Minsheng Banking Corp., Ltd., Hong Kong Branch	**CLSA**	**CMB International**	**Everbright Securities International**
Haitong International	**Huatai International**	**ICBC**	**Industrial Bank Co., Ltd. Hong Kong Branch**
Nanyang Commercial Bank	**Natixis**	**Shanghai Pudong Development Bank**	**The Bank of East Asia, Limited**

The date of this Supplemental Offering Circular is 4 March 2021.

IMPORTANT NOTICE

This Supplemental Offering Circular (read together with the Original Offering Circular) includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer and the Notes. The Issuer accepts full responsibility for the accuracy of the information contained in this Supplemental Offering Circular (read together with the Original Offering Circular) and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This Supplemental Offering Circular includes particulars given in compliance with the Rules and Regulations Governing the Listing of Securities on the MOX for the purpose of giving information with regard to the Issuer.

The Issuer, having made all reasonable enquiries, confirms that to the best of its knowledge and belief (i) this Supplemental Offering Circular (read together with the Original Offering Circular) contains all information with respect to the Issuer, China Everbright Bank Company Limited (the "**Bank**") and its subsidiaries taken as a whole (the "**Group**") and the Notes which is material in the context of the issue and offering of the Notes (including all information required by applicable laws, regulations and the Listing Rules which, according to the particular nature of the Issuer, the Bank, the Group and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Bank, the Group and of the rights attaching to the Notes); (ii) the statements contained herein relating to the Issuer, the Bank, the Group and the Notes are in every material particular true and accurate and not misleading and there are no other facts in relation to the Issuer, the Bank, the Group and the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Supplemental Offering Circular (read together with the Original Offering Circular) misleading or affect its import; (iii) the statements of intention, opinion and belief or expectation contained in this Supplemental Offering Circular (read together with the Original Offering Circular) are honestly and reasonably made or held and have been reached after considering all relevant circumstances; and (iv) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

The Notes will be issued on the terms set out under "*Terms and Conditions of the Notes*" in the Original Offering Circular, as amended and/or supplemented by the pricing supplement set out in this Supplemental Offering Circular (the "**Pricing Supplement**"). This Supplemental Offering Circular and the Original Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to the Notes, must be read and construed together with the Pricing Supplement. This Supplemental Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of the Original Offering Circular.

The distribution of this Supplemental Offering Circular (together with the Original Offering Circular) and the Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Supplemental Offering Circular (together with the Original Offering Circular) comes are required by the Issuer, the Group, China Everbright Bank Co., Ltd., Hong Kong Branch, Agricultural Bank of China Limited Hong Kong Branch, Bank of Communications Co., Ltd. Hong Kong Branch, a joint stock company incorporated in the People's Republic of China with limited liability, CCB International Capital Limited, Citigroup Global Markets Limited and CMBC Securities Company Limited (together, the "**Joint Global Coordinators**"), and ABCI Capital Limited, Agricultural Bank of China Limited, Singapore Branch, Bank of China (Hong Kong) Limited, Bank of China Limited, BOCOM International Securities Limited, BOSC International Company Limited, China CITIC Bank International Limited, China Construction Bank (Asia) Corporation Limited, China Everbright Securities (HK) Limited, China Industrial Securities International Brokerage Limited, China International Capital Corporation Hong Kong Securities Limited, China Minsheng Banking Corp., Ltd., Hong Kong Branch, CLSA Limited, CMB International Capital Limited, Haitong International Securities Company Limited, Huatai Financial Holdings (Hong Kong) Limited, ICBC International Securities Limited, Industrial and Commercial Bank of China (Asia) Limited, Industrial and Commercial Bank of China (Macau) Limited, Industrial and Commercial Bank of China Limited, Singapore Branch, Industrial Bank Co., Ltd. Hong Kong Branch, Nanyang Commercial Bank, Limited, Natixis, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, SPDB International Capital Limited and The Bank of East Asia, Limited (together with the Joint Global Coordinators, the "**Joint Lead Managers**") to inform themselves about and to observe any such restrictions. None of the Issuer, the Group or the Joint Lead Managers represents that this Supplemental Offering Circular (together with the Original Offering Circular) or the Pricing Supplement may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Group or the Joint Lead Managers which would permit a public offering of the Notes or distribution of this Supplemental Offering Circular (together with the Original Offering Circular) or the Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of the Supplemental Offering Circular (together with the Original Offering Circular), the Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to, the United States of America, the European Economic Area, the United Kingdom, the Netherlands, Japan, Hong Kong, the PRC, Singapore and Taiwan, and to persons connected therewith. The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Subject to certain exceptions, the Notes may not be offered or sold within the United States. The Notes are being offered and sold outside the United States in reliance on Regulation S under the Securities Act. For a description of certain restrictions on offers, sales and transfers of Notes and on the distribution of the Original Offering Circular, see "*Subscription and Sale*" in the Original Offering Circular. The Notes may be subject to additional selling restrictions as set out in the Pricing Supplement.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A (1) of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018 (the "**SF (CMP) Regulations**")) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Listing of the Notes on the Hong Kong Stock Exchange and the MOX is not to be taken as an indication of the merits of the Programme, the Notes, the Issuer or the Group. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" herein and in the Original Offering Circular for a discussion of certain factors to be considered in connection with an investment in the Notes.

No person has been authorised by the Issuer or the Group to give any information or to make any representation not contained in or not consistent with this Supplemental Offering Circular (read together with the Original Offering Circular) or any other document entered into in relation to the Programme and the sale of Notes and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Group or any of the Joint Lead Managers.

Neither the delivery of this Supplemental Offering Circular (read together with the Original Offering Circular) nor the Pricing Supplement nor the offering, sale or delivery of any Notes shall in any circumstances create any implication that the information contained this Supplemental Offering Circular (read together with the Original Offering Circular) is true subsequent to the date hereof or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer of the Group since the date hereof or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer or the Group during the term of the Notes or to advise any investor in the Notes of any information coming to their attention.

None of the Joint Lead Managers or any Agents (as defined under "*Terms and Conditions of the Notes*" in the Original Offering Circular) has separately verified the information contained in this Supplemental Offering Circular or the Original Offering Circular. To the fullest extent permitted by law, none of the Joint Lead Managers or any Agents or any director, officer, employee, agent or affiliate of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Supplemental Offering Circular or the Original Offering Circular. To the fullest extent permitted by law, none of the Joint Lead Managers or any Agents or any director, officer, employee, agent or affiliate of any such person accepts any responsibility for the contents of this Supplemental Offering Circular or the Original Offering Circular or for any other statement made or purported to be made by any Joint Lead Manager, any Agent, or any director, officer, employee, agent or affiliate of any such person or on its behalf in connection with the Issuer, the Bank, the Group, the Notes or the issue and offering of the Notes. Each Joint Lead Manager and each Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Supplemental Offering Circular or the Original Offering Circular or any such statement.

Neither this Supplemental Offering Circular nor the Original Offering Circular describes all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in the Notes. Each potential purchaser of the Notes should refer to and consider carefully the Pricing Supplement for the Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Supplemental Offering Circular (read together with the Original Offering Circular) and the Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in the Notes and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

Neither this Supplemental Offering Circular, the Original Offering Circular nor any other information provided or incorporated by reference in connection with the Programme and the Notes are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Group or the Joint Lead Managers, or any director, officer, employee, agent or affiliate of any such person that any recipient, of this Supplemental Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Group. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Supplemental Offering Circular (read together with the Original Offering Circular) and its purchase of the Notes should be based upon such investigation as it deems necessary. None of the Joint Lead Managers or the Agents or any agent or affiliate of any such person undertakes to review the financial condition or affairs of the Issuer or the Group during the life of the arrangements contemplated by this Supplemental Offering Circular nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Joint Lead Managers, the Agents or any of them.

The Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered, sold or delivered within the United States. **For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Supplemental Offering Circular, see "*Subscription and Sale*" in the Original Offering Circular, as supplemented by "*Subscription and Sale*" in this Supplemental Offering Circular.**

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Supplemental Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

In this Supplemental Offering Circular, unless otherwise specified or the context otherwise requires, all references to "**U.S.$**" and to "**U.S. dollars**" are to United States dollars; all references to "**HK$**" and "**Hong Kong dollars**" are to Hong Kong dollars; all references to "**pounds sterling**" and "**£**" are to the lawful currency of the United Kingdom; all references to "**euro**" and "**€**" are to Euros, the lawful currency of the Eurozone; all references to "**S$**" are to Singapore dollars; all references to "**yen**" are to Japanese yen; all references to "**Renminbi**", "**RMB**", "**Chinese Yuan**" and "**CNY**" are to the lawful currency of the PRC; all references to "**United States**" or "**U.S**". are to the United States of America; all references to "**China**", "**Mainland China**" and the "**PRC**" in this Supplemental Offering Circular mean the People's Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; all references to "**PRC government**" mean the government of the PRC; all references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China; all references to "**Macau**" are to the Macau Special Administrative Region of the People's Republic of China; and all references to "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland.

For convenience only, this Supplemental Offering Circular contains translations of certain amounts denominated in Renminbi and U.S. dollars. Unless indicated otherwise, the translations between Renminbi and U.S. dollars were made at the rate of RMB6.4282 to U.S.$1.00, based on the noon buying rate as set forth in the H. 10 statistical release of the Federal Reserve Bank of New York on 31 January 2021. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Further information on exchange rates are set forth in the section headed "*Exchange Rates*" in this Supplemental Offering Circular.

As at the date of this Supplemental Offering Circular, the Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019; the Bank's unaudited reviewed consolidated financial statements as at and for the six months ended 30 June 2020 (the "**2020 Interim Financial Statements**"); and the Bank's unaudited and unreviewed consolidated financial statements as at and for the nine months ended 30 September 2020 (the "**2020 Third Quarterly Financial Statements**") are the most recently published financial statements available.

The audited consolidated financial statements of the Bank as at and for the years ended 31 December 2018 and 2019 were prepared in accordance with International Financial Reporting Standards ("**IFRS**") and have been audited by Ernst & Young and are included in the F-pages of the Original Offering Circular and are incorporated by reference into this Supplemental Offering Circular. The Bank adopted new standards, including IFRS 9 – Financial Instruments, IFRS 15 and Amendments – Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note III(1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. As a result, the audited consolidated financial information of the Bank as at and for the year ended 31 December 2018 may not be directly comparable with the audited consolidated financial information of the Bank as at and for the year ended 31 December 2017.

The 2020 Interim Financial Report as at and for the six months ended 30 June 2020 were prepared in accordance with IFRS and have been reviewed by Ernst & Young in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and are included in the F-pages of this Supplemental Offering Circular. Such unaudited but reviewed consolidated interim financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. Such unaudited but reviewed consolidated interim financial information as at and for the six months ended 30 June 2020 should not be taken as an indication of the expected financial condition and results of operations for the Bank for the full financial year ending 31 December 2020.

The 2020 Third Quarterly Financial Statements as at and for the nine months ended 30 September 2020 were prepared in accordance with IFRS and have neither been audited nor reviewed by a certified public accountant and are included in the F-pages of this Supplemental Offering Circular. Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit and/or review. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operations. Such unaudited and unreviewed consolidated quarterly financial information as at and for the nine months ended 30 September 2020 should not be taken as an indication of the expected financial condition and results of operations for the Bank for the full financial year ending 31 December 2020.

Certain statistical data and other information appearing in this Supplemental Offering Circular (read together with the Original Offering Circular), including under the headings "*Risk Factors*" and "*Description of the Bank*", have been extracted from public sources identified in this Supplemental Offering Circular and the Original Offering Circular such as the People's Bank of China ("**PBOC**"). None of the Issuer, the Bank or the Joint Lead Managers accepts responsibility for the factual correctness of any such statistics or information but the Issuer accepts responsibility for accurately extracting and transcribing such statistics and information.

FORWARD LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Description of the Issuer*", "*Description of the Bank*", and elsewhere in this Supplemental Offering Circular and the Original Offering Circular constitute "forward looking statements". The words including "believe", "intend", "expect", "plan", "anticipate", "schedule", "estimate" and similar words or expressions identify forward looking statements. In addition, all statements other than statements of historical facts included in this Supplemental Offering Circular and the Original Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Issuer, the Bank or the Group and the plans and objectives of the management of the Issuer, the Bank and the Group for its future operations (including development plans and objectives relating to the Issuer's, the Bank's or the Group's operations), are forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Issuer, the Bank or the Group to differ materially from those expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Issuer's, the Bank's and the Group's present and future business strategies of the Issuer, the Bank and the Group and the environment in which the Issuer, the Bank or the Group will operate in the future. The Issuer expressly disclaims any obligation or undertaking to release any updates or revisions to any forward looking statements contained herein to reflect any change in the Issuer's, the Bank's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Supplemental Offering Circular and the Original Offering Circular disclose, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

STABILISATION

In connection with the issue of the Notes, one or more of the Joint Lead Managers as Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the Pricing Supplement may over allot the Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or person(s) acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

INFORMATION INCORPORATED BY REFERENCE

This Supplemental Offering Circular should be read and construed in conjunction with the Original Offering Circular (and the documents incorporated by reference therein) and all amendments and supplements from time to time to this Supplemental Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Supplemental Offering Circular and which shall be deemed to modify or supersede the contents of this Supplemental Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated by reference in, and to form part of, this Supplemental Offering Circular and the Original Offering Circular will be available free of charge during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the office of the Issuer at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong and from the specified office of the Fiscal Agent set out elsewhere in this Supplemental Offering Circular.

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SUMMARY FINANCIAL INFORMATION OF THE BANK

The summary consolidated financial information as at and for the years ended 31 December 2017, 2018 and 2019 set forth below is derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 and should be read in conjunction with the Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 and the notes thereto, which are included in the F-pages of the Original Offering Circular and are incorporated by reference into this Supplemental Offering Circular.

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019 were prepared in accordance with IFRS and have been audited by Ernst and Young. The Bank adopted new standards, including IFRS 9, Financial Instruments, IFRS 15 and Amendments, Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note II(1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank did not restate the comparative information of financial instruments covered by IFRS 9 for the year ended 31 December 2017. As a result, the audited consolidated financial information of the Bank as at and for the year ended 31 December 2018 may not be directly comparable with the audited consolidated financial information of the Bank as at and for the year ended 31 December 2017. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholder's equity as at 1 January 2018. The Group has adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact to of IFRS9 on consolidated statements, but did not restate the comparative data. For further details of the specific impact of the adoption of the new guidelines by the Bank, please refer to Note V to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018.

The summary unaudited but reviewed consolidated financial information as at and for the six months ended 30 June 2019 and 2020 and the selected consolidated quarterly financial information of the Bank as at and for the nine months ended 30 September 2019 and 2020 were extracted from the 2020 Interim Financial Statements and the 2020 Third Quarterly Financial Statements, respectively, included in the interim and quarterly reports of the Bank published on 30 September 2020 and 30 October 2020, respectively . The Bank has also adopted new standards namely IFRS 16 – Leases, starting from 1 January 2019. The new standards require lessees to adopt a singular model to recognise the right-of-use assets and lease liabilities for all leases and recognise depreciation and interest expense respectively. According to the transitional regulations, enterprises are not subject to restating comparable figures for previous periods. Therefore, the Bank has disclosed its accounting statements in accordance with IFRS 16 without restating the comparable figures for the end of 2018. Its implementation has no material impact on the financial report of the Bank.

The 2020 Interim Financial Statements (which include the comparative financial information as at and for the six months ended 30 June 2019) included in this Supplemental Offering Circular have been reviewed by Ernst & Young, but have not been audited. Such unaudited but reviewed consolidated interim financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit.

The 2020 Third Quarterly Financial Statements (which include the comparative financial information as at and for the nine months ended 30 September 2019) included in this Supplemental Offering Circular have neither been audited nor reviewed. Such unaudited and unreviewed consolidated quarterly financial information should not be relied upon to provide the same quality of information associated with information that has been subject to an audit and/or review.

None of the Issuer, the Bank, the Group, the Joint Lead Managers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited but reviewed consolidated interim financial information as at and for *six months ended 30 June 2019 and 2020; and the unaudited and unreviewed consolidated quarterly financial information as at and for the nine months ended 30 September 2019 and 2020, respectively, in respect of any financial year for an assessment of the Bank's financial condition and results of operations. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and reviewed consolidated interim financial information as at and for six months ended 30 June 2019 and 2020; and unaudited and unreviewed consolidated quarterly financial information as at and for the nine months ended 30 September 2019 and 2020, respectively, in respect of any financial year should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2020.*

The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Bank's unaudited and reviewed consolidated financial information as at and for six months ended 30 June 2019 and 2020; and the unaudited and unreviewed consolidated financial statements as at and for the nine months ended 30 September 2019 and 2020, which are included in the F-pages of this Supplemental Offering Circular.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December				For the six months ended 30 June			For the nine months ended 30 September		
	2017	2018	2019		2019	2020		2019	2020	
	(RMB in millions)	*(audited) (RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]	*(Unaudited and reviewed) (RMB in millions) (Restated)*	*(Unaudited and reviewed) (RMB in millions)*	*(Unaudited and reviewed) (U.S.$ in millions)*	*(restated) (unaudited) (RMB in millions)*	*(unaudited) (RMB in millions)*	*(unaudited) (U.S.$ in millions)*[(1)]
Interest income	160,343	185,688	210,044	32,675	103,050	111,120	17,286	156,535	165,737	25,783
Interest expense	(99,393)	(107,524)	(108,126)	(16,821)	(53,867)	(56,454)	(8,782)	(81,252)	(83,528)	(12,994)
Net interest income	60,950	78,164	101,918	15,855	49,183	54,666	8,504	75,283	82,209	12,789
Fee and commission income	33,025	22,431	25,977	4,041	14,097	15,377	2,392	20,301	21,589	3,358
Fee and commission expense	(2,251)	(2,658)	(2,808)	(437)	(1,348)	(1,244)	(194)	(2,117)	(1,925)	(299)
Net fee and commission income	30,774	19,773	23,169	3,604	12,749	14,133	2,199	18,184	19,664	3,059
Net trading gains/(losses)	(2,751)	1,071	585	91	69	57	9	457	208	32
Dividend income	6	8	42	7	11	1	0	35	1	0
Net gains/(losses) arising from investment securities	(193)	9,862	4,900	762	2,974	2,779	432	4,523	3,988	620
Net foreign exchange gains/(losses)	2,464	724	1,339	208	778	71	11	1,171	119	19
Other net operating income	768	784	986	153	460	450	70	679	767	119
Operating income	92,018	110,386	132,939	20,681	66,224	72,157	11,225	100,332	106,956	16,639
Operating expenses	(30,802)	(33,706)	(38,429)	(5,978)	(18,363)	(19,446)	(3,025)	(29,402)	(28,307)	(4,404)
Operating profit before impairment	61,216	76,680	94,510	14,702	47,861	52,711	8,200	70,930	78,649	12,235
Impairment losses on assets[(2)]	(20,570)	(35,828)	(49,347)	(7,677)	(23,379)	(30,673)	(4,772)	(33,595)	(43,291)	(6,735)
Profit before tax	40,646	40,852	45,163	7,026	24,482	22,038	3,428	37,335	35,358	5,500
Income tax	(9,035)	(7,131)	(7,722)	(1,201)	(3,998)	(3,617)	(563)	(5,869)	(5,654)	(880)
Net profit	31,611	33,721	37,441	5,824	20,484	18,421	2,866	31,466	29,704	4,621
Other comprehensive income:										
Items that will not be reclassified to profit or loss:										
– Remeasurement of supplementary retirement benefits	63	(102)	(180)	(28)	–	–	–	–	–	–
– Equity instruments at fair value through other comprehensive income										
– Net change in fair value	–	3	6	1	5	1	0	5	1	0
– Related income tax effect	–	(1)	(2)	(0)	(1)	–	–	(1)	–	–
Items that will be reclassified to profit or loss:										
– Debt instruments at fair value through other comprehensive income										
– Net Change in fair value	–	2,982	3,158	491	728	507	79	1,490	(1,491)	(232)
– Changes in allowance for expected credit losses	–	(311)	409	64	248	(252)	(39)	290	(305)	(47)

	For the year ended 31 December				For the six months ended 30 June			For the nine months ended 30 September		
	2017	2018	2019		2019	2020		2019	2020	
	(RMB in millions)	*(audited) (RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[(1)]	*(Unaudited and reviewed) (RMB in millions) (Restated)*	*(Unaudited and reviewed) (RMB in millions)*	*(Unaudited and reviewed) (U.S.$ in millions)*	*(restated) (unaudited) (RMB in millions)*	*(unaudited) (RMB in millions)*	*(unaudited) (U.S.$ in millions)*[(1)]
– Reclassified to the profit or loss upon disposal	–	1,095	(1,982)	(308)	(161)	(276)	(43)	(169)	(706)	(110)
– Related income tax effect	–	(957)	(374)	(58)	(183)	(1)	(0)	(382)	621	97
– Available-for-sale financial assets										
– Net Change in fair value	(3,458)	–	–	–	–	–	–	–	–	–
– Reclassified to the profit or loss upon disposal	360	–	–	–	–	–	–	–	–	–
– Related income tax effect	768	–	–	–	–	–	–	–	–	–
– Exchange differences on translation of financial statements	(87)	67	48	7	4	51	8	91	(45)	(7)
Other comprehensive income, net of tax attributable to non-controlling interests	–	–	–	–	–	–	–	–	–	–
Other comprehensive income, net of tax	(2,354)	2,776	1,083	168	640	30	5	1,324	(1,925)	(299)
Total comprehensive income	29,257	36,497	38,524	5,993	21,124	18,451	2,870	32,790	27,779	4,321
Net profit attributable to:										
Equity shareholders of the Bank	31,545	33,659	37,354	5,811	20,444	18,363	2,857	31,399	29,605	4,605
Non-controlling interests	66	62	87	14	40	58	9	67	99	15
	31,611	33,721	37,441	5,824	20,484	18,421	2,866	31,466	29,704	4,621
Total comprehensive income attributable to:										
Equity shareholders of the Bank	29,191	36,434	38,436	5,979	21,084	18,392	2,861	32,722	27,683	4,306
Non-controlling interests	66	63	88	14	40	59	9	68	96	15
	29,257	36,497	38,524	5,993	21,124	18,451	2,870	32,790	27,779	4,321
Basic earnings per share (in RMB/Share)	0.64	0.61	0.68	0	0.37	0.31	0	0.57	0.52	0
Diluted earnings per share (in RMB/Share)	0.59	0.55	0.62	0	0.33	0.28	0	0.51	0.47	0

Notes:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.4282 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 January 2021.

(2) Impairment losses on assets for the nine months ended 30 September 2019 and 2020 includes credit impairment losses and other impairment losses.

Consolidated Statement of Financial Position

	As at 31 December				As at 30 June		As at 30 September	
	2017	2018		2019		2020		2020
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*(1)	*(RMB in millions)*	*(U.S.$ in millions)*(1)	*(RMB in millions)*	*(U.S.$ in millions)*(1)
	(audited)				*(unaudited)*		*(unaudited)*	
Assets								
Cash and deposits with the central bank	353,703	366,575	364,340	56,678	379,643	59,059	361,300	56,205
Deposits with banks and other financial institutions	44,754	41,005	31,358	4,878	43,658	6,792	48,077	7,479
Precious metals	40,352	23,628	10,826	1,684	13,430	2,089	10,826	1,684
Placements with banks and other financial institutions	148,816	96,685	60,270	9,376	59,423	9,244	57,314	8,916
Financial assets at fair value through profit or loss	24,196	222,737	211,406	32,887	318,028	49,474	293,100	45,596
Derivative financial assets	4,513	15,212	13,805	2,148	14,659	2,280	16,576	2,579
Financial assets held under resale agreements	91,441	37,773	6,835	1,063	192,506	29,947	76,297	11,869
Interests receivable(2)	28,576	–	–	–	–	–	–	–
Loans and advances to customers	1,980,818	2,361,278	2,644,136	411,334	2,845,757	442,699	2,889,677	449,531
Finance lease receivables	56,364	63,333	83,723	13,024	94,449	14,693	95,494	14,855
Debt instruments at fair value through other comprehensive income	–	153,987	180,005	28,002	207,534	32,285	192,527	29,950
Equity instruments at fair value through other comprehensive income	–	367	623	97	874	136	875	136
Financial investments measured at amortized cost	–	923,989	1,041,512	162,022	1,109,644	172,621	1,146,580	178,367
Available-for-sale financial assets	414,547	–	–	–	–	–	–	–
Held-to-maturity investments	344,617	–	–	–	–	–	–	–
Debt securities classified as receivables	514,576	–	–	–	–	–	–	–
Fixed assets	14,929	18,241	19,342	3,009	19,387	3,016	22,143	3,445
Right-of-use assets	–	–	11,684	1,818	11,462	1,783	11,083	1,724
Goodwill	1,281	1,281	1,281	199	1,281	199	1,281	199
Deferred tax assets	7,596	10,794	16,306	2,537	19,717	3,067	20,133	3,132
Other assets	17,164	20,447	35,979	5,597	56,982	8,864	44,314	6,894
Total assets	**4,088,243**	**4,357,332**	**4,733,431**	**736,354**	**5,388,434**	**838,249**	**5,287,597**	**822,563**

Notes:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.4282 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 January 2021.

(2) According to the Format for 2018 Financial Statements of Financial Enterprises promulgated by MOF, "interest receivables" is no longer recognised as an item, of which the charged interests on financial instruments was recognised in the book balance of the corresponding financial instrument, and the interests that has been due but not yet received at the balance sheet date was recognised under "other assets".

	As at 31 December				As at 30 June		As at 30 September	
	2017	2018	2019		2020		2020	
	(RMB in millions)	*(RMB in millions)*	*(RMB in millions)*	*(U.S.$ in millions)*[1]	*(RMB in millions)*	*(U.S.$ in millions)*[1]	*(RMB in millions)*	*(U.S.$ in millions)*[1]
	(audited)				*(unaudited)*		*(unaudited)*	
Liabilities and equity								
Liabilities								
Due to the central bank	232,500	267,193	224,838	34,977	167,722	26,092	177,367	27,592
Deposits from banks and other financial institutions	577,447	490,091	444,320	69,120	478,539	74,444	458,926	71,393
Placements from banks and other financial institutions	106,798	152,037	166,225	25,859	189,515	29,482	166,453	25,894
Financial liabilities at fair value through profit or loss	–	354	100	16	142	22	21	3
Derivative financial liabilities	6,552	14,349	13,893	2,161	15,725	2,446	17,630	2,743
Financial assets sold under repurchase agreements	45,581	40,411	25,603	3,983	27,433	4,268	20,036	3,117
Deposits from customers	2,272,665	2,571,961	3,017,888	469,476	3,672,102	571,249	3,530,089	549,157
Accrued staff costs	8,412	8,028	8,007	1,246	10,939	1,702	11,188	1,740
Lease liabilities	–	–	11,069	1,722	10,893	1,695	10,585	1,647
Taxes payable	4,932	5,666	9,322	1,450	7,751	1,206	9,103	1,416
Interests payable[2]	40,206	–	–	–	–	–	–	–
Debt securities issued	445,396	440,449	371,904	57,855	359,887	55,986	398,525	61,996
Other liabilities	42,318	44,320	54,208	8,433	56,343	8,765	46,904	7,297
Total liabilities	**3,782,807**	**4,034,859**	**4,347,377**	**676,298**	**4,996,991**	**777,355**	**4,846,827**	**753,994**
Equity								
Share capital	52,489	52,489	52,489	8,165	52,489	8,165	52,489	8,165
Other equity instrument	35,108	35,108	70,067	10,900	70,067	10,900	110,057	17,121
Capital reserve	53,533	53,533	53,533	8,328	53,533	8,328	53,533	8,328
Other comprehensive income	(1,845)	1,655	2,737	426	2,766	430	815	127
Surplus reserve	21,054	24,371	26,245	4,083	26,245	4,083	26,245	4,083
General reserve	52,257	54,036	59,417	9,243	59,718	9,290	59,724	9,291
Retained earnings	92,164	100,296	120,494	18,745	125,494	19,522	136,341	21,210
Total equity attributable to equity shareholders of the Bank	304,760	321,488	384,982	59,890	390,312	60,719	439,204	68,325
Non-controlling interests	676	985	1,072	167	1,131	176	1,566	244
Total equity	**305,436**	**322,473**	**386,054**	**60,056**	**391,443**	**60,895**	**440,770**	**68,568**
Total liabilities and equity	**4,088,243**	**4,357,332**	**4,733,431**	**736,354**	**5,388,434**	**838,249**	**5,287,597**	**822,563**

Notes:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.4282 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 January 2021.

(2) According to the Format for 2018 Financial Statements of Financial Enterprises promulgated by MOF, the items recognised were adjusted, of which the charged interest on financial instruments was recognised in the book balance of the corresponding financial instruments and the interest that has been due but not yet paid as at the balance sheet date was recognised under the line item "other liabilities".

RISK FACTORS

The risk factors relevant to the Issuer, the Bank and the Notes shall consist of the risk factors set out herein and in the section entitled "Risk Factors" of the Original Offering Circular. Prior to making any investment decision, prospective investors should consider carefully all of the information in this Supplemental Offering Circular and the Original Offering Circular, including but not limited to the risks and uncertainties described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to repay principal, pay interest or other amounts or fulfil other obligations on or in connection with the Notes may occur for other reasons and the Bank does not represent that the statements below regarding the risks of holding the Notes are exhaustive. The following factors are contingencies which may or may not occur and each of the Bank and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Any of the risks or uncertainties described below, as well as additional risks or uncertainties, including those which are not currently known to the Bank or which the Bank currently deems to be immaterial, may affect the Group's business, financial condition or results of operations or the Issuer's ability to fulfil its obligations under the Notes.

The section entitled "Risk Factors" in the Original Offering Circular shall be deleted in its entirety and replaced with the following:

Risks Relating to the Bank's Loan Portfolio

If the Bank is unable to effectively maintain the quality of its loan portfolio, its financial condition and results of operations may be materially and adversely affected.

The Bank's results of operations may be negatively impacted by its non-performing loans ("**NPL**"). As at 31 December 2017, 2018, 2019 and 30 June 2020, the Bank's non-performing loan ratio ("**NPL ratio**") was 1.59 per cent., 1.59 per cent.,1.56 per cent. and 1.55 per cent., respectively, and the Bank's total NPL was RMB32,392 million, RMB38,421 million, RMB42,212 million and RMB45,413 million, respectively. The Bank could experience upward pressure resulting from a number of factors including the economic cycle or economic transformations. Hence, there can be no assurance that the Bank will be able to maintain the Bank's NPL ratio at the current relatively low level in the future or that the quality of the Bank's existing or future loans and advances to customers will not deteriorate. The Bank's NPL ratios as at the above-mentioned dates may not fully reflect the actual changes to the Bank's asset quality due to the Bank's collective disposal of NPL.

The quality of the Bank's loan portfolio may deteriorate due to various reasons, most of which are beyond the Bank's control, such as slower than expected recoveries of the PRC or global economies, deterioration of the global credit environment, other adverse macroeconomic trends in the PRC or globally and the occurrence of natural disasters or other catastrophes, all of which could adversely impact the Bank's borrowers' businesses, financial conditions or liquidity and in turn impair their repayment abilities. The actual or perceived deterioration in creditworthiness of the Bank's borrowers, decline in real property prices, increases in unemployment rate and decreases in profitability of the Bank's borrowers may also have an adverse impact on the Bank's asset quality and may lead to significant increases in the provision made for the Bank's impaired loans. If the Bank's NPL or the provision made for the Bank's impaired loans increases in the future, the Bank's results of operations and financial condition may be materially and adversely affected. In addition, the sustainability of the Bank's growth also depends largely on its abilities to effectively manage its credit risk and to maintain or improve the quality of its loan portfolio. There can be no assurance that the Bank's credit risk management policies, procedures and systems are effective or free from any deficiencies or are adequate to manage all credit risks faced by the Bank. Failure of the Bank's credit risk management policies, procedures, or systems may lead to an increase in the Bank's NPL and adversely affect the quality of the Bank's loan portfolio.

CBIRC may impose administrative and regulatory measures on the Bank if the Bank's allowance to NPL falls below the ratio prescribed by CBIRC and the Bank may suffer actual losses on its loan portfolio that exceed the Bank's allowances for impairment losses.

As at 31 December 2017, 2018 and 2019, the coverage ratio of the Bank's provisions for NPL to total NPL was 158.18 per cent., 176.16 per cent. and 181.62 per cent., respectively, which is consistently above the standard provision coverage ratio of 150 per cent. as prescribed under the Administrative Measures for the Loan Loss Reserves of Commercial Banks (商業銀行貸款損失準備管理辦法) issued by China Banking Regulatory Commission (the "**CBRC**", which later merged with the China Insurance Regulatory Commission into China Banking and Insurance Regulatory Commission (the "**CBIRC**"), which shall be responsible for the duties previously performed by the CBRC) (the "**Rules**"). As at 30 June 2020, the provision coverage ratio reached 186.77 per cent., up by 5.15 percentage points as compared to 31 December 2019. The Rules provide that the standard provision coverage ratio may be adjusted by CBIRC in response to the prevailing macroeconomic environment or individually adjusted and applied to a relevant bank depending on such bank's operating conditions. In accordance with the Rules, a warning would be issued by CBIRC to a relevant bank if such provision coverage ratio was below the applicable level for three consecutive months, requesting for such bank's rectification; if such event subsists for at least six consecutive months, CBIRC may impose on the relevant bank administrative and regulatory measures as provided under the Banking Industry Supervision and Administration Law of the PRC (中華人民共和國銀行業監督管理法). CBIRC may adjust the coverage ratio for NPL from time to time. There can be no assurance that the Bank's provision coverage ratio will not fall below the ratio prescribed by CBIRC.

The amount of the Bank's allowances for impairment losses on loans is determined based on the Bank's assessment of factors that may affect the quality of the Bank's loans. These factors include, among others, the Bank's borrowers' financial conditions, their repayment ability and repayment intention, the current realisable value of any collateral, the ability of the guarantors of the Bank's borrowers to fulfil their obligations, the performance of the PRC's economy, the government's macroeconomic policies, interest rates, exchange rates and the legal and regulatory environment. Most of these factors are beyond the Bank's control. The adequacy of the Bank's allowances for impairment losses depends on the reliability of, and its skills in applying, its assessment system to estimate these losses, as well as its ability to accurately collect, process and analyse relevant statistical data.

If the Bank's assessment of or expectations concerning the impact of these factors on the quality of the Bank's loans is different from actual developments or the Bank's loan quality deteriorates more than expected, then the allowances for impairment losses on loans provided by the Bank may not be sufficient to cover actual losses. Consequently, the Bank may need to make additional provisions for impairment losses in the future, which could lead to a decrease in the Bank's profit and materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank may not be able to maintain the growth of its loan portfolio.

The Bank's loans and advances to customers have grown significantly in the past few years, increasing from RMB1,980,818 million as at 31 December 2017 to RMB2,644,136 million as at 31 December 2019, and further to RMB2,845,757 million as at 30 June 2020. The growth of the Bank's loan portfolio may be affected by various factors, such as the PRC's macroeconomic policies and capital constraints. In the future, the growth rate of the Bank's loan portfolio may slow, or the balance of the Bank's loan portfolio may even decline. In addition, in response to constraints on the Bank's regulatory capital, the Bank may adopt strategies to reduce its reliance on its loan portfolio and expand its activities in other businesses that require relatively lower capital. Any of the foregoing factors could impact the growth of the Bank's loan portfolio and thereby materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank may not be able to maintain the growth rate of its retail banking business.

As a leading commercial bank in the PRC, the Bank may not be able to maintain its competitive position or sustain its growth rate due to increasing market saturation and competition, changes in government regulations in the banking industry in the PRC and other factors, any of which may adversely affect the Bank's business, financial condition and results of operations.

For example, on 26 February 2013, the PRC State Council (the "**State Council**") promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知), which requires banking institutions to implement differentiated housing credit policies, further implement the policy of down payment ratio and mortgage rate for first-time house buyers and tighten the credit policies for buyers of second or additional homes, and the said regulation also imposes a personal income tax on the profit generated from sale of residential property. Such measures may slow down the development of the residential real estate market in the PRC, hinder an increase in residential mortgages and reduce the average amount of residential mortgages, and thus have a material adverse impact on the Bank's retail banking business. However, such policies are subject to further change and implementation by banks in the PRC. On 1 February 2016, the People's Bank of China ("**PBOC**") and CBRC issued a notice regarding purchase of second residential property and first ordinary owner-occupied residential property. Such notice requires that for a household owning one residential property with outstanding housing loans on that property and applying for housing loans for the purchase of a second ordinary owner-occupied residential property for the purpose of improving housing conditions, the minimum down payment ratio of the loan shall be not less than 30 per cent. The notice also requires that in the cities where no residential property purchase restriction policies are implemented, for households purchasing their first ordinary owner-occupied residential property, the minimum down payment ratio of the loan shall be not less than 25 per cent. in principal, but may be decreased by 5 per cent. at the discretion of the local authorities. On December 28, 2020, the PBOC and the CBIRC promulgated the Notice on Establishing the Regulatory Mechanism on the Concentration Ratio of Real Estate Loans for Banking Financial Institutions (關於建立銀行業金融機構房地產貸款集中度管理制度的通知), which requires that the percentage of 1) the balance of real estate loans of a banking financial institution to its balance of RMB loans; and 2) the balance of personal residential loans of such banking financial institution to its balance of RMB loans shall not exceed the caps prescribed by the PBOC and CBIRC. Banking financial institutions shall adjust their business within the transitional period of two years (for those not exceeding 2 per cent. of the prescribed caps) or four years (for those exceeding 2 per cent. of the prescribed caps).

The expansion of the Bank's retail banking business also increases the Bank's exposure to changes in economic conditions affecting Chinese consumers. For example, a slowdown in the PRC economic development could adversely affect the ability of retail borrowers and credit card holders to make payments, thereby increasing the probability of defaults and reducing the demand for retail loans and credit cards. Such a slowdown may also reduce the demand for the Bank's non-interest-based products and services, which could result in a reduction in, among others, the Bank's credit card transaction volumes and sales of investment products. Accordingly, economic difficulties in the PRC that have a material adverse effect on PRC consumers could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank has a relatively high concentration of loans to certain industries, customers and regions, and if the conditions of these industries or these regions or the financial conditions of these customers deteriorate, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As at 31 December 2017, 2018, 2019 and 30 June 2020, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which, in aggregate, represented 40.76 per cent., 38.19 per cent., 37.85 per cent. and 39.15 per cent. of the balance of the Bank's total loans and advances, respectively. If any of the industries which dominates a relatively large portion of the Bank's loans experiences a slowdown in the future, the Bank's NPL may increase and the extension of the Bank's new loans may be negatively affected. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

As mentioned above, the Bank is exposed to risks relating to the real estate market through its personal residential housing mortgage loans and other loans secured by real estate collateral. As at 30 June 2020, the Bank's personal residential housing mortgage loans represented 37.04 per cent. of the Bank's total personal loans and advances. In recent years, the PRC government has been imposing and may continue to impose various macroeconomic measures with an aim of cooling the overheated real estate market in the PRC, such as setting minimum down payment requirements and minimum mortgage rates on residential housing purchases, imposing value-added taxes on the transfer of certain residential properties and levying mandatory personal income tax for second home sales. Such measures may adversely affect the growth and quality of the Bank's personal residential housing mortgage loans and loans to the real estate industry. In addition, a downturn in the PRC's real estate market may materially and adversely affect the quality of the Bank's existing loans and the Bank's ability to generate new loans and recover on its loans in the event of default, which in turn could have a material adverse effect on the Bank's business, financial condition and results of operations.

As at 30 June 2020, loans provided by the Bank to its top ten customers totalled RMB54,115 million, which represented 1.85 per cent. of the Bank's total loan portfolio and 11.41 per cent. of the Bank's net capital. However, if the quality of any of the loans to the above or other single-borrowers or group-borrowers with large borrowing amounts deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Moreover, the Bank also provides loans to small-and medium-sized enterprises ("**SMEs**"). The Bank's loans to SMEs are generally more vulnerable to the adverse impact of certain factors such as natural disasters and economic slowdown. SMEs may also be more likely to suffer from inadequate or ineffective internal control or risk management systems and may not be able to provide reliable information necessary for the Bank to assess the credit risks involved. In addition, PBOC has implemented a variety of measures to reduce the cost of borrowing for companies that have been hit hard by the outbreak of Coronavirus Disease 2019 ("**COVID-19**"), including lowering the loan interest rates. In February 2020, PBOC reduced the one-year loan prime rate from 4.15 per cent. to 4.05 per cent., and the five-year rate from 4.80 per cent. to 4.75 per cent. which was the first reduction since November 2019. One-year and five-year loan prime rates were further reduced to 3.85 per cent. and 4.65 per cent. respectively in June 2020. There can be no assurance that the risk management measures adopted by the Bank for the loans to SMEs will effectively reduce or eliminate the risks relating to such customers. If the quality of the Bank's loans to SMEs deteriorates, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank provides a majority of its corporate loans to customers in certain regions or industries. If these regions or industries encounter operational or cash flow problems due to the economic cycle or economic transformations, the Bank's NPL associated with such regions or industries could experience upward pressure. As at 30 June 2020, approximately 51.23 per cent. of the Bank's total loans and advances to customers were generated from the Bank's branches located in the Yangtze River Delta, Central and Bohai Rim regions in aggregate. If the economies in those regions experience a slowdown or deteriorate or face local, regional or systemic risks, or if the Bank's credit risk assessments of the borrowers who are located at or conduct substantial business activities in those areas are inaccurate, the Bank's NPL may increase. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

If the debt repayment abilities of the local government financing vehicles ("LGFVs") to which the Bank extends loans deteriorate, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

Loans extended to LGFVs form part of the loan portfolio of the PRC's commercial banks. The State Council defines LGFVs as economic entities with an independent legal person status that assume financing functions for government investment projects and that are incorporated via fiscal allocations or the injection of assets such as land and equity by local governments and their departments or agencies. The Bank's loans to LGFVs are primarily extended to support urban development, transportation, land reserve centres, economic development zones and industrial parks. The recipients of these loans are LGFVs that generally rank at or above the municipal level, though the Bank does not lend directly to local governments. The Bank's loans to LGFVs are generally targeted at economically developed areas in the PRC, such as the Yangtze River Delta, Pearl River Delta and Bohai Rim regions. The majority of the Bank's loans to LGFVs are secured by mortgages, pledges or guarantees.

In recent years, with the aim of reinforcing the risk management of loans to LGFVs, the State Council, CBIRC and PBOC, along with several other PRC regulatory authorities, promulgated a series of notices, guidelines and other regulatory documents to direct PRC banks and other financial institutions to optimise and strengthen their risk management measures regarding their loans to LGFVs. In September 2014, the State Council released the Opinion on Enhancing the Administration of Fiscal Debts of Local Governments (關於加強地方政府性債務管理的意見) ("**Circular 43**"), pursuant to which LGFVs shall no longer serve the fiscal financing functions nor incur new government debts. In addition, Circular 43 sets forth the general principles of dealing with existing debts of LGFVs. Based on the audit results of such debts run by the local governments, LGFVs' existing debts that should be repaid by the local governments shall be identified, reported to the State Council for approval, and then included in the budget plan of local governments. If the local government or the State Council does not approve all or any portion of such debts to be repaid with local government public funds, the LGFVs' financial condition and debt-repayment ability may be materially adversely affected. In addition, media publications have continued to express concerns about LGFV debt levels. While the Bank has taken various measures to reduce the risks of default such as setting clear thresholds for its loans to LGFVs and enhancing the mortgages and guarantees on such loans, any unfavourable developments in macroeconomic conditions, adverse changes to state policies, adverse changes to the financial condition of local governments, or other factors may adversely affect the debt repayment abilities of these LGFVs and other government-related entities, which may in turn materially and adversely affect the Bank's asset quality, financial condition and results of operations. For the Bank's risk management measures relating to the Bank's loans to LGFVs, see "*Risk Management − Credit Risk Management − Management of Credit Risk Associated with Corporate Credit Business*".

The Bank's loan classification and provisioning policies may be different in certain respects from those applicable to banks in certain other countries or regions.

The Bank classifies its loans using a five-tier classification system in accordance with the guidelines set forth by the PRC regulators. The five tiers are "pass", "special mention", "substandard", "doubtful" and "loss". The Bank assesses its impairment losses on loans and determines a level of allowances for impairment losses using the five-tier classification system. As of 1 January 2018, the Bank performs such assessment, determination and recognition using the concept of impairment under IFRS 9, which replaces the whole of International Accounting Standards ("**IAS**") 39, effective from 1 January 2018. The Bank's loan classification and provisioning policies may be different in certain respects from those of banks incorporated in certain other countries or regions. As a result, the Bank's loan classifications as well as its allowances for impairment losses, as determined under the Bank's loan classification and provisioning policies, may differ from those that would be reported by banks incorporated in other countries or regions.

The collateral or guarantees securing the Bank's loans may not be sufficient, the Bank may be unable to realise the full value of the collateral or guarantees in a timely manner or at all, and the value of the assets the Bank receives from its borrowers for repaying debts may significantly decrease.

A significant portion of the Bank's loan portfolio is secured by collateral or guarantees. As at 30 June 2020, 31.50 per cent., 12.67 per cent. and 24.91 per cent. of the Bank's total loans and advances to customers were secured by mortgages, pledges and guarantees, respectively. The collateral securing the Bank's loans primarily comprised of real estate properties and other assets located in the PRC. The value of the collateral securing the Bank's loans is usually higher than the amount of the corresponding loans but such value may significantly decline due to factors beyond the Bank's control, such as a slowdown in the PRC economic growth or a downturn of the PRC's real estate market. A slump in the PRC's real estate market may result in a decline in the value of the real estate properties securing the Bank's loans to a level below the outstanding balances of the principal and interest of such loans. Any such decline may reduce the amount the Bank may be able to recover from such collateral and, as a result, increase the Bank's impairment losses.

Some of the Bank's loans are secured by guarantees provided by the Bank's borrowers' affiliates or other third parties. Deterioration in these guarantors' financial conditions could reduce the amount the Bank may be able to recover from such guarantors. Moreover, in the event that the relevant guarantor fails to comply with his or her obligations under the guarantee, the Bank is subject to the risk that a court or other judicial or governmental bodies may declare such guarantees to be invalid or otherwise decline to enforce such guarantees. As a result, the Bank may not be able to recover all or any part of the amounts guaranteed in respect of the Bank's loans.

In addition, under certain circumstances, the Bank's rights to the collateral securing its loans may be subordinated to other rights. For example, pursuant to the PRC Enterprises Bankruptcy Law (中華人民共和國企業破產法), effective from 1 June 2007, if the other assets of a bankrupt enterprise are insufficient to cover the outstanding salaries, medical and injury allowances, death or disability compensation and basic pension and medical insurance contribution attributable to its employees' personal accounts, as well as other compensation payable to the employees as required by law and administrative regulations, the relevant claims of such employees shall prevail over the Bank's rights to the collateral.

In the PRC, the procedures for liquidating or otherwise realising the value of collateral may be protracted and it may be difficult in practice to enforce claims on such collateral. For example, pursuant to the Directive on Foreclosure of Mortgages on Residential Properties issued by the Supreme Court of the PRC (最高人民法院關於人民法院執行設定抵押的房屋的規定), effective from 21 December 2005 and further amended in December 2008, a PRC court may not enforce the eviction of an enforcee and his or her dependents from the mortgaged principal residence within six months after it has rendered its judgment on the auction, sale or liquidation of such property for repayment purpose. Such directive has been abolished on 1 January 2021 while there is no replacing rules specifying whether such grace period is still applicable or not, As a result, it may be difficult and time-consuming for the Bank to take control of or liquidate the collateral securing its NPL.

If any of the Bank's borrowers are unable to repay its loans when due, the Bank will be entitled to exercise its creditor's rights and make a claim against the defaulted borrower. Through consultation or by way of judicial procedures, the Bank may take possession or dispose of the tangible assets or other property rights that such borrower is entitled to. However, due to the risk of market price fluctuations, depreciation of the assets or the property rights concerned, or the difficulty of liquidating such assets and property rights, the value of such assets may materially decrease and may not be adequate to cover the outstanding amounts due under the loans. If the Bank anticipates that the realisable value of such assets or property rights is lower than their book value in light of the occurrence of such risks, the Bank will make impairment provisions accordingly. In addition, if the Bank's borrowers become insolvent, the Bank may not be able to realise the full value of the collateral and guarantees securing the Bank's loans in a timely manner, or if the value of the assets for repayment of debts that the Bank receives substantially decrease in the future, the Bank's asset quality, financial condition, or results of operations may be materially and adversely affected.

Risks Relating to the Bank's Business

The Bank's business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC.

The Bank's business is inherently subject to global capital market fluctuations and general economic conditions. Global market factors, including economic growth rates, inflation, deflation, interest rates, credit spreads, equity prices, real estate markets, energy prices, foreign currency exchange rates, consumer spending, business investment, government spending and the volatility and strength of the capital markets all affect the business and economic environment and, ultimately, the amount and profitability of the Bank's business. In particular, uncertain economic conditions, volatility and disruptions in global capital markets, such as those that occurred in late 2008 and 2009 during the global financial crisis and in 2020 due to outbreak and continuing spread of COVID-19, can have a material adverse effect on the Bank.

The economic recovery since the global financial crisis has been slow, with economic growth rates in major economies such as Europe, the United States, Japan and the PRC generally remaining persistently lower than pre-crisis levels. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product ("**GDP**") in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally. In 2018, the PRC Government reported a GDP of RMB90.03 trillion, representing year-on-year growth of 6.6 per cent. In 2019, the PRC Government reported a GDP of RMB98.6515 trillion, representing year-on-year growth of 6.0 per cent. In January 2021, the PRC Government reported a preliminary GDP for the whole year of 2020 of RMB101.5986 trillion, representing year-on-year growth of 2.3 per cent. Although the PRC Government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. Furthermore, the sustained tension between the United States and China over trade policies could undermine the stability of the global economy. The United States and China have been involved in disputes over trade barriers that have escalated into a trade war between the two countries. Both countries have implemented tariffs on certain imported products from the other, casting uncertainty over tariffs and barrier to entry for products on both sides. The two governments have entered into an initial phase one agreement to resolve the disputes on 15 January 2020. However, there are uncertainties as to when and whether the phase two negotiations will begin and whether the two governments will fulfil their respective obligations under the phase one agreement. There are also uncertainties between the United States and China given the newly elected administration of President Joseph R. Biden, whose policy and strategy remain to be seen.

In addition, on 31 January 2020, the United Kingdom officially exited the European Union ("EU") following a UK-EU Withdrawal Agreement signed in October 2019. In December 2020, the United Kingdom, the European Union and the European Atomic Energy Community concluded the EU-UK Trade and Cooperation Agreement, which is provisionally applicable since 1 January 2021 and awaits ratification by the European Parliament and the Council of the EU and legal revision before it formally comes into effect. Given the lack of precedent, it is unclear how Brexit would affect the fiscal, monetary and regulatory landscape within the UK, the EU and globally. This event has resulted in a downgrade of the credit ratings of the United Kingdom and the uncertainty before, during and after the period of negotiation may also create a negative economic impact and increase volatility in global markets. Moreover, there are ongoing concerns about European sovereign debt levels, negative interest rate and the consequences for economic growth and investor confidence in the Eurozone, political gridlock in the United States over government spending, debt levels and civil rights issues and the consequences for economic growth and investor confidence in the United States, and the uncertainty around the Federal Reserve's future monetary policies. All these would add to the uncertainties relating to the overall prospects for the global and the PRC economies, which may have a material adverse impact to the Bank's business, prospects, financial conditions and results of operations.

On 12 March 2020, the World Health Organisation declared COVID-19 as a global pandemic. The COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic has significantly disrupted the global economy and global markets and is likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. As the COVID-19 pandemic continues to adversely affect business activities globally, governments and central banks across the world have introduced or are planning fiscal and monetary stimulus measures including direct subsidies, tax cuts, interest rates cuts, quantitative easing programmes and suspension or relaxation of prudential bank capital requirements. These measures aim to contain the economic impact of the COVID-19 pandemic, stabilise the capital markets and provide liquidity easing to the markets. In addition, the PRC regulators have promulgated a series of measures to encourage PRC financial institutions to increase financial support to business and consumers to combat the challenges arising from the COVID-19 pandemic. Coupled with the impact of global COVID-19 pandemic, China was faced with decline in domestic consumption, investment, imports and exports over the same period of last year, as well as employment pressure. However, China has made great progress at the current stage of pandemic prevention and control and the resumption of work and production. China's economic growth remains resilient, and the fundamentals of China's long-term sound economic growth have not changed.

Uncertainties in the global and the PRC's economies may adversely affect the Bank's business, financial condition and results of operations in many ways, including, among others:

- during a period of economic slowdown, there is a greater likelihood that more of the Bank's customers or counterparties could become delinquent in respect of their loan repayments or other obligations to the Bank, which, in turn, could result in a higher level of NPL, allowances for impairment losses and write-offs;
- the increased regulation and supervision by the financial services industry in response to the financial crisis in certain jurisdictions where the Bank operates may restrict its business flexibility and increase its compliance costs;
- the value of the Bank's investments in the equity and debt securities issued by overseas governments and financial institutions may significantly decline;
- the Bank's ability to raise additional capital on favourable terms, or at all, could be adversely affected; and
- trade and capital flows may further contract as a result of protectionist measures being introduced in certain markets, which could cause a further slowdown in economies and adversely affect the Bank's business prospects.

Any potential market and economic downturns, economic slowdown or geopolitical uncertainties in the PRC, its neighbouring countries or regions or the rest of the world may exacerbate the risks relating to the PRC capital markets. In addition, global economic uncertainty and the slowdown in PRC economic growth have precipitated, and may continue to raise the possibility of, fiscal, monetary, regulatory and other governmental actions. The Bank cannot predict whether or when such actions may occur, nor can the Bank predict what ultimate impact, if any, such actions or any other governmental actions could have on the Bank's business, results of operations and financial condition. There can be no assurance that the PRC's economy or the global economy will continue to improve or maintain sustainable growth. If further economic downturn occurs or continues, the Bank's business, financial condition and results of operations could be materially and adversely affected.

The Bank is subject to changes in interest rates including the potential for further interest rate liberalisation and other market risks, and the Bank's ability to hedge against market risk is limited.

As with most PRC commercial banks, the Bank's results of operations depend to a large extent on the Bank's net interest income. For the years ended 31 December 2017, 2018, 2019 and the six months ended 30 June 2020, the Bank's net interest income represented 66.24 per cent., 70.81 per cent., 76.67 per cent. and 75.76 per cent., respectively, of the Bank's operating income. Increasing competition in the banking industry and further liberalisation of the PRC interest rate regime may affect the volatility of interest rates. Changes in the PBOC benchmark interest rates or volatility in market interest rates may adversely affect the Bank's net interest income, which may adversely affect the Bank's business, financial condition and results of operations.

PBOC publishes and adjusts benchmark interest rates on loans and deposits from time to time. For example, since November 2014, PBOC lowered the benchmark interest rates on RMB-denominated loans and deposits six times. Moreover, the upper limit of the interest rate floating range was removed by PBOC on 24 October 2015. On the other hand, PBOC continues to liberalise the restrictions on interest rates for loans. For example, on 20 July 2013, PBOC eliminated the minimum interest rate requirements for RMB-denominated loans.

PBOC may further liberalise the existing interest rate restrictions in the future. If the existing regulations were substantially liberalised or eliminated, loan-deposit spreads in the PRC banking industry may further narrow due to market competition, which may materially reduce the Bank's net interest income. Furthermore, there can be no assurance that the Bank will be able to diversify its businesses and adjust the composition of its asset and liability portfolios and its pricing mechanism to enable the Bank to effectively respond to the further liberalisation of interest rates.

In addition, adjustments made by PBOC to the benchmark interest rates on loans or deposits, or any changes in market interest rates, may negatively impact the Bank's financial condition and results of operations. For example, changes in the PBOC benchmark interest rates could affect the average yield on the Bank's interest-earning assets and the average cost on the Bank's interest-bearing liabilities to different extents and may narrow the Bank's net interest margin, leading to a reduction in the Bank's net interest income. In addition, an increase in interest rates for loans could result in increases in the financing costs of the Bank's customers, reduce overall demand for loans and increase the risk of customer default, while a reduction in interest rates for deposits could cause the Bank's depositors to withdraw their funds from the Bank.

The Bank is also engaged in trading and investment activities involving some financial instruments in the domestic market. As the derivatives market has yet to develop in the PRC, risk management tools available to the Bank for hedging market risks are limited. Income from these activities may fluctuate due to, among other things, changes in interest rates and foreign currency exchange rates. For example, increases in interest rates will cause the value of the Bank's fixed-rate securities to decrease, which may materially and adversely affect the Bank's results of operations and financial condition.

The Bank may face difficulties in meeting regulatory requirements relating to capital adequacy in the future.

On 7 June 2012, CBRC promulgated the Rules Governing Capital Management of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (the "**Capital Management Rules**", which superseded the Capital Adequacy Regulations (商業銀行資本充足率管理辦法) and became effective on 1 January 2013. According to the Capital Management Rules, the minimum capital adequacy ratio, tier-1 capital adequacy ratio and core tier-1 capital adequacy ratio for commercial banks are 8 per cent., 6 per cent. and 5 per cent., respectively. A commercial bank is also subject to the capital conservation buffer over and above the minimum capital requirement at 2.5 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital, and under certain circumstances, a countercyclical buffer of between 0 and 2.5 per cent. of total risk weighted assets comprised of core tier-1 capital, and if a commercial bank is designated as a domestic systematically important commercial bank by the CBIRC, such bank is subject to requirement of additional 1 per cent. of total risk weighted assets of the bank comprised of core tier-1 capital. The overall capital adequacy ratio requirements (not counting countercyclical buffer or any other prudential requirements as may be imposed by CBIRC from time to time) are 11.5 per cent. for systematically important commercial banks and 10.5 per cent. for other commercial banks. As at 30 June 2020, the Bank's common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio were 8.68 per cent., 10.43 per cent. and 12.74 per cent., respectively. Although these capital adequacy ratios were in compliance with the relevant PRC laws and regulations, certain developments could affect the Bank's ability to satisfy the capital adequacy requirements in the future, including but not limited to:

- losses resulting from deterioration in the Bank's asset quality;
- a decrease in the value of the Bank's investments;

- an increase in the minimum capital adequacy requirements by banking regulators;
- changes in guidelines by banking regulators regarding the calculation of capital adequacy ratios of commercial banks;
- decreases in the Bank's net profits and thus decreases in its retained earnings; and
- other factors discussed elsewhere in this section.

The Bank may also be required to raise additional capital in the future by issuing equity securities and other financial instruments in order to maintain the Bank's capital adequacy ratios above the minimum required level. In addition, the Bank's ability to raise additional capital may be limited by numerous factors, including:

- the Bank's future business and financial condition, results of operations and cash flows;
- the Bank's credit rating;
- any government regulatory approval;
- general market conditions for capital-raising activities, in particular by commercial banks and other financial institutions; and
- economic, political and other conditions in and outside of the PRC.

If the Bank requires additional capital in the future or if there are any adverse changes to any of the above factors, there can be no assurance that the Bank will be able to obtain such capital on commercially reasonable terms, in a timely manner or at all.

Furthermore, CBIRC may increase the minimum capital adequacy ratios requirements or change the methodology for calculating net capital or capital adequacy ratios or the Bank may otherwise be subject to new capital adequacy requirements.

If the Bank fails to meet the applicable capital adequacy requirements, CBIRC may take corrective measures, including, for example, restricting the growth of the Bank's loans and other assets, restricting the Bank's ability to issue subordinated debt to improve its capital adequacy ratio, declining to approve the Bank's application to introduce a new service or restricting the Bank's declaration or distribution of dividends. These measures could materially and adversely affect the Bank's reputation, financial condition and results of operations.

The Bank is subject to currency risk.

Substantially all of the Bank's revenues are denominated in Renminbi, which currently is not freely convertible into foreign currencies. A portion of the Bank's revenues must be converted into other currencies in order to meet the Bank's demand for foreign currency. The Bank is subject to currency risk arising from losses incurred due to unfavourable exchange rate fluctuations on the Bank's foreign exchange exposures resulting from the unmatched currency structure between foreign currency-denominated assets and foreign currency-denominated liabilities. The value of Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other factors, changes in the PRC's and international political and economic conditions.

Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by PBOC. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. On the same day, the value of Renminbi appreciated by approximately 2 per cent. against U.S. dollar. In August 2008, the PRC announced a further change in its exchange regime to a managed floating exchange rate regime based on market supply and demand. Since the Renminbi foreign exchange rate reform beginning on 21 July 2005, PBOC has adjusted the daily floating band of the Renminbi trading prices against U.S. dollar in the inter-bank spot foreign exchange market three times: effective from 21 July 2007, the daily floating band of the Renminbi trading prices against U.S. dollar was expanded from 0.3 per cent. to 0.5 per cent.; effective from 16 April 2012, such floating band was further expanded to 1 per cent.; and effective from 17 March 2014, such floating band was further expanded to 2 per cent. In August 2015, the PRC government thrice lowered the daily mid-point trading price of Renminbi against U.S. dollar, which was the most significant downward adjustment of Renminbi in more than a decade. In the second half of 2020, Renminbi appreciated against the U.S. dollar and may be subject to further appreciation. The PRC government may make further adjustments to the exchange rate system in the future. Any appreciation of Renminbi against U.S. dollar or any other foreign currency may result in a decrease in the value of the Bank's foreign currency-denominated assets. Conversely, any devaluation of Renminbi may adversely affect the value of the Bank's assets in Renminbi terms.

Furthermore, the Bank is also currently required to obtain the approval of the State Administration of Foreign Exchange of the PRC ("**SAFE**") before converting significant sums of foreign currencies into Renminbi. All of these factors could materially and adversely affect the Bank's financial condition, results of operations and compliance with the capital adequacy ratio and the operational ratio.

There may be mismatches between the maturity dates of the Bank's liabilities and assets. If the Bank fails to maintain the growth rate of its deposits from customers or if the Bank experiences a significant decrease in its deposits from customers, the Bank's business operations and liquidity may be materially and adversely affected.

Deposits from customers are the Bank's primary source of funding. From 31 December 2017 to 31 December 2019, the Bank's total deposits from customers (including accrued interest) grew from RMB2,272,665 million to RMB3,017,888 million, which further grew to RMB3,672,102 million as at 30 June 2020. However, there are many factors that may affect the growth of deposits, some of which are beyond the Bank's control, such as economic and political conditions, availability of other investment channels and retail customers' changing perceptions toward savings.

In addition, there may be mismatches between the maturity dates of the Bank's liabilities and assets. If the Bank fails to maintain the growth of its deposits from customers or a substantial portion of the Bank's depositors withdraw their deposits and do not roll over their time deposits upon maturity, the Bank's liquidity position, financial condition, and results of operations may be materially and adversely affected. In such an event, the Bank may need to seek more expensive sources of funding and there can be no assurance that the Bank will be able to obtain additional funding on commercially reasonable terms as and when required or at all.

The Bank may not be able to obtain necessary short-term funding and inter-bank deposits through the exchange market and inter-bank market, which may have a material adverse effect on the Bank's liquidity or financial condition.

The Bank depends on short-term funding and inter-bank deposits in the exchange market and the inter-bank market for a portion of the Bank's liquidity needs. There can be no assurance that the Bank will be able to obtain additional funding on commercially reasonable terms as and when required, if at all. In order to ensure sufficient liquidity reserves, some of the Bank's branches generally obtain inter-bank deposit commitments from various local-level financial institutions on the inter-bank lending market. However, the Bank may not always be able to obtain sufficient short-term financing from such sources, which may in turn have a material adverse effect on the Bank. For example, due to sudden market changes late on 5 June 2013, two of the Bank's branches failed to receive from certain counterparties the expected proceeds from such inter-bank deposit commitments. There was an inadvertent delay of the branches notifying the Bank's head office. Then, PBOC's large amount settlement system closed on that particular day. The branches did not manage to fulfil their obligations to repay short-term inter-bank loans in the aggregate amount of RMB6.5 billion to another bank, notwithstanding that the Bank's head office had sufficient funding and liquidity. On the same day, the lending bank agreed for the Bank's branches to settle the outstanding balance in full on the next day, being 6 June 2013, which the Bank's branches complied accordingly. Although this particular incident did not have a material adverse effect on the Bank's liquidity, business, financial condition or results of operations, there can be no assurance that similar incidents will not occur in the future.

Subsequently, the Bank has implemented certain measures to address any potential future occurrences of similar incidents. See "*Risk Management − Key Recent Improvements in Risk Management*".

The Bank's expanding range of products, services and business activities may expose the Bank to new risks.

The Bank has been expanding and will continue to expand the range of its products and services to meet the increasing and changing needs of the Bank's customers and to enhance the Bank's competitiveness. For example, the Bank has continued to grow its existing businesses and develop new businesses, such as wealth management, financial derivatives transactions, investment banking, financial advisory services, assets custody, enterprise annuity, digital banking and cloud payment. Expansion of the Bank's businesses may expose the Bank to a number of risks and challenges, including but not limited to:

- lack of or insufficient experience in certain new products and services;
- inability to identify, monitor, analyse and report on risks associated with such new businesses comprehensively and effectively, which may result in damages and prevent the Bank from competing in these areas effectively;
- inability to comply with relevant laws and regulations in the course of developing, distributing, promoting and servicing new products and services, which may subject the Bank to regulatory penalties or litigations;
- inability to achieve the expected profitability of such new businesses;
- inability to recruit and retain qualified personnel on commercially reasonable terms;
- revocation or withholding of approvals by regulators for any products or services that the Bank has offered or plans to offer;
- lack of customer acceptance or expected success of the Bank's new products and services;
- inability to promptly adapt to changes in regulatory requirements and approval standards for new products or services;
- possible unsuccessful attempts to enhance the Bank's risk management and internal control capabilities to support a broader range of products and services;
- disagreements between the Bank and the joint venture partners and other entities with which the Bank offers certain of its new financial products and services, or their inability or unwillingness to continue their arrangements with the Bank due to financial difficulties or other reasons; and
- significant and/or increasing competition from other industry participants offering similar products or services.

If the Bank (i) is not able to successfully expand or develop its new products, services and related business areas due to the above or other risks or challenges, (ii) is not able to achieve the expected results with respect to its new products and services, or (iii) experience losses, the Bank's business, financial condition and results of operations may be materially and adversely affected. In addition, if the Bank is not able to make decisions to enter new business areas to meet the increasing needs of the Bank's customers for certain products and services in a timely manner, the Bank's market share may decrease and the Bank may lose some of its existing customers.

The Bank has expanded its business in jurisdictions other than the PRC, which has increased the complexity of the risks that it faces.

In recent years, the Bank has taken actions to expand its operations outside Mainland China. As at 30 June 2020, it had four branches outside Mainland China, in Hong Kong, Seoul, Luxembourg and Sydney. The Bank's Tokyo representative office is under preparation for establishment.

The expansion into jurisdictions outside of the PRC exposes the Bank to a new variety of regulatory and business challenges and risks and has increased the complexity of risks in a number of areas, including currency risk, interest rate risk, regulatory and compliance risk, reputational risk and operational risk. Adverse market conditions in overseas jurisdictions may result in mark-to-market and realised losses on the investment assets held by the Bank and any other overseas branches that the Bank may establish and increase their cost of funding. Furthermore, despite the Bank's best efforts to comply with all applicable regulations in all the jurisdictions in which it operates, there may be incidences of failure to comply with the regulations in certain jurisdictions. Overseas regulators may bring administrative or judicial proceedings against the Bank or its employees, representatives, agents and third-party service providers, which could result, among other things, in suspension or revocation of one or more of its licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary actions. In addition, the regulatory changes in various jurisdictions, including those in which it has or plans to have operations could have an adverse impact on the Bank's growth, capital adequacy and profitability. If the Bank is unable to manage the risks resulting from its expansion outside Mainland China, its business, reputation, financial condition and results of operations may be adversely affected.

The Bank has increasingly focused on developing its wealth management business in recent years, and any adverse developments or changes in relevant regulatory policies could materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

In recent years, with the slowdown in the growth of deposits in the PRC banking industry as a whole, competition for deposits among commercial banks has become increasingly intense. In response to such competition, PRC commercial banks, including the Bank, have been expanding their offering of wealth management products and services to customers. In September 2019, CBIRC approved the establishment of Everbright Wealth Management Co., Ltd. as China's first wealth management subsidiary under a joint-stock commercial bank, driving the Bank's initiative of "building a first-class wealth management bank". The Bank's wealth management service fees amounted to RMB3,400 million, RMB876 million, RMB634 million, and RMB1,463 million respectively, for the years ended 31 December 2017, 2018, 2019 and for the six months ended 30 June 2020.

The Bank's wealth management products primarily represent investments in, among others, bonds, deposits and highly liquid money market investment instruments, other debt instruments, equity instruments and other types of assets that are compliant with regulatory requirements. As most of the wealth management products issued by the Bank are non-principal protected products, the Bank is not liable for any loss suffered by investors in these products. However, to the extent investors suffer losses on these wealth management products, the Bank's reputation may be severely damaged, and the Bank may also suffer a loss of business, customer deposits and net income. Furthermore, the Bank may eventually bear losses for non-principal protected products if the investors bring lawsuits against the Bank and the court decides that the Bank is liable for mis-selling such products or otherwise.

In addition, the tenors of wealth management products issued by the Bank are often shorter than those of the underlying assets. This mismatch subjects the Bank to liquidity risk and requires the Bank to issue new wealth management products, sell the underlying assets or otherwise address the funding gap when existing wealth management products mature. PRC regulatory authorities have introduced regulatory policies to restrict the scale of PRC commercial banks' investments in non-standard debt-based assets with funds raised from wealth management products. In addition, the newly approved wealth management subsidiary is also under constant regulation under PRC regulatory authorities, such as Administration Measures of Wealth Management Subsidiary of Commercial Banks (《商業銀行理財子公司管理辦法》 and Administrative Measures on Net

Capital of Wealth Management Subsidiary of Commercial Banks (Trial) (商業銀行理財子公司淨資本管理辦法（試行）). If PRC regulatory authorities further restrict the wealth management business of PRC commercial banks, it could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank may be exposed to credit risk relating to credit commitments and guarantees.

In the Bank's ordinary course of business, the Bank provides its customers with credit commitments and guarantees, including commitments and guarantees not reflected on the Bank's balance sheet under the relevant accounting principles, such as bank acceptance bills, letters of guarantee, letters of credit and other credit commitments to guarantee the performance of the Bank's customers. The Bank may be exposed to credit risk relating to its credit commitments and guarantees because these may need to be fulfilled by the Bank in certain circumstances. If the Bank is unable to receive repayment from its customers in respect of the commitments and guarantees that the Bank is called upon to fulfil, the Bank's financial condition and results of prospects could be materially and adversely affected.

Certain PRC restrictive regulations governing investment portfolios of commercial banks limit the Bank's ability to diversify its investments and, as a result, a decrease in the value of a particular type of investment may have a material adverse effect on the Bank's financial condition and results of operations.

As a result of the current PRC regulatory restrictions, substantially all of the Bank's RMB-denominated investment assets are concentrated in a limited variety of products permitted to be invested by PRC commercial banks, such as bills issued by PBOC, treasury bonds issued by the Ministry of Finance of the PRC ("**MOF**"), financial bonds issued by domestic policy banks, debt securities issued by other commercial banks and commercial paper issued by qualified domestic corporations as well as domestic corporate bonds. The Bank is restricted from diversifying its investment portfolio which limits its ability to seek the best returns on its investments. If the value of a particular type of the Bank's investments decreases, the Bank may be exposed to greater losses given these regulatory restrictions. For example, an interest rate hike may cause a significant fall in the value of fixed interest and fixed income bonds held by the Bank. In addition, the Bank's ability to manage RMB-denominated investment assets risk is restricted due to the limited availability of RMB-denominated hedging instruments. A significant decrease in the value of the Bank's RMB-denominated financial assets within a short period could have a material adverse effect on the Bank's financial condition and results of operations.

If the Bank incurs losses on its investments, its financial condition and results of operations may be materially and adversely affected.

Apart from the Bank's businesses of taking deposits, providing loans and credit and providing fee- and commission-based products and services, the Bank also engages in a range of investment activities. As at 30 June 2020, financial investments measured at amortised costs were the largest component of the Bank's total investment in securities and other financial assets. The Bank's returns on investment and its profitability may be materially and adversely affected by the foreign exchange rate, credit and liquidity conditions, the performance and volatility of capital markets, asset values and macroeconomic and geopolitical conditions. Any adverse changes in one or more of these factors could reduce the value of, and the gains generated from, the Bank's investment portfolio and could have a material and adverse effect on the Bank's business, financial condition and results of operations.

If any of the issuers or guarantors of these investments goes into bankruptcy, experiences poor financial performance or becomes unable to service their debts for any other reason, or if the liquidity of such investments decreases or the economy suffers from a downturn or for other reasons, the value of such investments may decrease substantially. As a result, the Bank's asset quality, financial condition and results of operations may be materially and adversely affected.

The Bank has made substantial investments in debt securities classified as receivables, and any adverse development relating to these types of investments could materially and adversely affect the Bank's profitability and liquidity.

In recent years, the Bank has made substantial investments in debt securities classified as receivables, which include investments in beneficial interest transfer plans and wealth management products offered by other domestic financial institutions. Due to the adoption of IFRS 9, debt securities classified as receivables has been reclassified, which has resulted in adjustments to the other line items recognised under total investment in securities and other financial assets. As at 30 June 2020, the Bank's investments in securities and other financial assets (which includes financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income, financial investments measured at amortised cost and derivative financial assets) amounted to RMB1,650,739 million.

These investments, which typically have predetermined rates of return and fixed terms, and are guaranteed by the issuers or third-party financial institutions, carry certain risks. The Bank relies on the issuers and underlying companies for such products to make investment decisions to achieve the agreed-upon rates of return. If they are unable to fully achieve such returns or maintain the principal of the Bank's investments, the Bank would rely on the issuers to reduce its losses and would exercise its rights under the related contracts and guarantees to recover any losses from the issuers and guaranteeing entities. In addition, as there has not yet been an active secondary market for such investment and the majority of the Bank's investments in such products have terms of more than one year, their liquidity is limited. As a result, the Bank generally holds such investment to maturity, and enter into forward sales contracts with the issuers or third-party institutions for those that the Bank does not plan to hold to maturity. For the above reasons, such investment primarily expose the Bank to counterparty credit risk, which the Bank manages by setting certain minimum requirements for such counterparties.

PRC regulatory authorities have not prohibited commercial banks from making such investments. However, there can be no assurance that future changes in regulatory policies will not restrict the Bank or its counterparties with respect to such investments. Any adverse development relating to these types of investments could cause a significant decline in the value of the Bank's investments and, as a result, may materially and adversely affect the Bank's profitability and liquidity.

The Bank has previously recorded net cash outflows and there can be no assurance that the Bank will not record net cash outflow positions in the future.

For the year ended 31 December 2017, the Bank recorded net cash outflows of RMB93,584 million, which were primarily due to net cash outflows from operating activities of RMB142,721 million, and was partially offset by net cash inflows from investment activities of RMB12,318 million and net cash inflows from financing activities of RMB39,284 million. The Bank's net cash outflows from operating activities were primarily due to changes in operating assets. The Bank recorded net cash inflows of RMB39,757 million for the year ended 31 December 2018. For the year ended 31 December 2019, the Bank recorded net cash outflows of RMB70,181 million, which were primarily due to net cash outflows from investing activities of RMB74,423 million and net cash outflows from financing activities of RMB61,453 million, and were partially offset by net cash inflows from operating activities of RMB65,100 million. The Bank's net cash outflows from investing activities were primarily due to acquisition of investment, and net cash outflows from financing activities were primarily due to payment of debt principal. For the six months ended 30 June 2020, the Bank's net cash outflows from investment activities amounted to RMB134,934 million, of which cash inflows generated from disposal and redemption of investments reported RMB345,868 million, and cash outflows arising from acquisition of investments amounted to RMB507,352 million. The Bank's net cash outflows from financing activities were RMB30,008 million, of which cash outflows generated from payment of debt securities principal registered RMB10,931 million. There can be no assurance that the Bank will not record net cash outflow positions in the future due to other reasons, including the risk factors disclosed herein. If the Bank has net cash outflow positions in the future, the Bank's working capital may be constrained and the Bank may be forced to seek additional external funding at a cost higher than the Bank's existing financial arrangements. Any such development could materially and adversely affect the Bank's liquidity condition and results of operations.

The Bank is subject to various PRC and overseas regulatory requirements, and the Bank's failure to fully comply with such requirements could materially and adversely affect the Bank's business, reputation, financial condition and results of operations.

The Bank is subject to the regulatory requirements and guidelines set forth by the PRC regulatory authorities. The Issuer is subject to Hong Kong laws and regulations as set forth by the Hong Kong legislative and regulatory authorities.

The PRC regulatory authorities include but are not limited to MOF, PBOC, CBIRC, the China Securities Regulatory Commission ("**CSRC**"), the State Administration of Taxation of the PRC ("**SAT**"), the National Audit Office of the PRC ("**NAO**"), the State Administration for Market Regulation of the PRC ("**SAMR**") and SAFE. These regulatory authorities inspect the Bank on a periodic or non-periodic basis and conduct spot checks of the Bank's compliance with the relevant laws, regulations and guidelines and have the authority to take corrective or punitive measures on the basis of their supervision and checks.

The Bank is subject to various PRC and overseas regulatory requirements, and PRC and overseas regulatory authorities conduct periodic inspections of, examinations of and inquiries into the Bank's compliance with such requirements. In the past, the Bank has failed to meet certain requirements and guidelines set by the PRC regulatory authorities and the Bank was found to have violated certain regulations.

In addition, the Bank in the past was subject to fines and other penalties for cases of the Bank's non-compliance. For example, in May 2020, CBIRC fined the Bank RMB1.6 million for non-compliance of reporting requirement under CBIRC's Examination & Analysis System Technology system and providing inaccurate information to CBIRC. There can be no assurance that the Bank will be able to meet all the regulatory requirements and guidelines, or comply with all the laws and regulations at all times, or that the Bank will not be subject to sanctions, fines or other penalties in the future as a result of non-compliance. If sanctions, fines and other penalties are imposed on the Bank for failing to comply with applicable requirements, guidelines or regulations, the Bank's business, reputation, financial condition and results of operations may be materially and adversely affected. See also "*The Bank may not be able to fully detect money laundering and other illegal or improper activities completely or on a timely basis, which could expose the Bank to additional liability and harm the Bank's business or reputation*" and "*The Bank may not be able to detect and prevent fraudulent acts or other misconduct committed by the Bank's staff, customers or other entities.*"

Apart from the penalties imposed by regulatory authorities, the Bank may also be sued by its shareholders and other related parties in relation to the Bank's business operations and capital markets activities which may materially and adversely affect the Bank's business, reputation, financial condition and results of operations.

The Bank's major shareholders have the ability to exercise significant influence over the Bank.

In July 2020, Central Huijin Investment Ltd. ("**Huijin**") completed the transfer of 19.53 per cent. of the Bank's total issued ordinary shares to China Everbright Group Ltd.

In addition, on 14 October 2020, China Everbright Group Ltd. increased its holding of 1,542,553,191 A shares of the Bank through the conversion of convertible bonds. Before the conversion, China Everbright Group Ltd. directly and indirectly held 25,472,743,396 ordinary shares of the Bank, accounting for 48.53 per cent. of the total equity. After the conversion, China Everbright Group Ltd. directly and indirectly held 27,015,296,587 ordinary shares of the Bank, accounting for 49.999 per cent. of the total equity. See also "*Description of the Bank - Recent Development of the Bank – Increase of Shareholding in the Bank by Controlling Shareholder China Everbright Group*" for more details.

In accordance with the relevant laws and regulations and the Bank's articles of association, China Everbright Group Ltd. has the ability to exercise its control over certain of the Bank's important matters, including matters relating to:

- the Bank's business strategies and policies;
- the timing for the distribution of dividends and the amount of dividends;
- the issuance of new securities;
- the nomination and election of the Bank's directors and supervisors;
- the composition of the Bank's management, especially the senior management;
- any plans relating to mergers, acquisitions, joint ventures, investments, changes of business scope or sale of investment;
- amendments to the Bank's articles of association; and
- increase or reduction of the Bank's registered capital.

The interests of China Everbright Group Ltd. may conflict with the Bank's interests or those of the Bank's other shareholders or holders of Notes issued under the Programme.

In addition, the Bank, China Everbright Group Ltd., and many of its group member companies share the common brand name "Everbright" and other brand names, which are important to the Bank. The Bank may not be able to protect "Everbright" and other brand names as the Bank is not in a position to control or influence the conduct of the other parties that share such brand names with the Bank. Any failure to protect these brand names could reduce the value of goodwill associated with the Bank's names, result in the loss of the Bank's competitive advantage and materially harm the Bank's business and profitability.

If the Bank's risk management and internal control policies and procedures fail to be implemented effectively, the Bank's business and prospects may be materially and adversely affected.

The Bank has in the past suffered from certain internal control deficiencies and risk management weaknesses and was subject to fines and other penalties for non-compliance with the relevant legal or regulatory requirements. The Bank has significantly revamped and enhanced its risk management and internal control policies and systems in a continual effort to improve its risk management capabilities and enhance its internal controls. See "*Risk Management − Overview*". However, there can be no assurance that the Bank's risk management and internal control policies and procedures will adequately control, or protect the Bank against, all credit risks and other risks faced by the Bank. Some of these risks are unforeseeable or unidentifiable and may be more severe than what the Bank may anticipate.

The Bank's risk management capabilities and ability to effectively monitor credit risk and other risks are restricted by the information, tools, models and technologies available to the Bank. In addition, given the short implementation period of some aspects of the Bank's risk management and internal control policies and procedures, the Bank will require additional time to implement these policies and procedures in order to fully assess the impact of and evaluate the Bank's compliance with them. Moreover, the Bank's employees will require time to adjust to these policies and procedures and there can be no assurance that the Bank's employees will be able to consistently comply with or accurately apply them.

If the Bank's risk management and internal control policies, procedures and systems fail to be implemented effectively, or if the intended results of such policies, procedures or systems are not achieved in a timely manner (including the Bank's ability to maintain an effective internal control system to monitor the Bank's financial obligations as they become due), the Bank's asset quality, business, financial condition, results of operations and reputation may be materially and adversely affected.

The Bank is subject to operational risks.

The Bank is subject to operational risks such as internal and external fraud, risks related to customers, products and business activities, execution risks, closing and process management risks, employment system and workplace safety and damage to physical assets.

The Bank has established a series of policies and procedures to identify, assess, monitor, manage and report operational risks according to the Guidance to the Operational Risk Management of Commercial Banks (商業銀行操作風險管理指引) issued by CBRC. Operational risks may cause losses to the Bank if these measures are not put in place effectively or do not adequately cover all aspects of the Bank's operations.

The Bank's business is dependent to a large extent on the proper functioning and continuous improvement of the Bank's information technology systems.

The Bank depends on the capabilities of its information technology systems to process the Bank's transactions on a timely and accurate basis and to store and process the Bank's business and operating data. The proper functioning of the Bank's financial control, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between the Bank's branches and its main data processing centres, is critical for the Bank to conduct its business in an orderly manner and to increase its competitiveness. The Bank's business activities could be materially disrupted if there is a partial failure or complete breakdown of any of the Bank's information technology systems or communication networks. Such failure can be caused by a variety of reasons, including natural disasters, extended power outages, breakdown of key hardware and systems, software malfunction and computer viruses. The proper functioning of the Bank's information technology systems also depends on accurate and reliable data input and installation of ancillary systems, which are subject to error. Any failure or delay in recording or processing the Bank's transaction data could expose the Bank to significant financial risk and subject the Bank to the risk of claims for losses and regulatory fines and penalties.

In particular, the secure transmission of confidential information is critical to the Bank's operations. The Bank's networks and systems may be vulnerable to unauthorised access and other security problems. There can be no assurance that the Bank's existing security measures will prevent unforeseeable security loopholes, including break-ins and viruses, or other disruptions such as those caused by defects in hardware or software and errors or misconduct of operators. Persons who circumvent the Bank's security measures could use the Bank's or the Bank's clients' confidential information illegally. Any material security loopholes or other disruptions could expose the Bank to risk of loss or regulatory actions, which may in turn harm the Bank's reputation or results of operations.

Although the Bank owns and operates most of its information technology systems, some applications and information technology functions that are necessary for and form an integral part of the Bank's business operations are currently outsourced to third parties. Due to the inherent risks associated with outsourcing, such as lack or limitation of control and supervision over these third parties, abrupt discontinuance of a contractual relationship, divergent views and approaches on implementing business plans and leakage of important confidential information and business secrets, there can be no assurance that such third parties will always be able to provide the Bank with the stable and quality information technology support which is indispensable to the Bank's business operations. There can be no assurance that, after the Bank's current outsourcing expires or is otherwise terminated, the Bank will be able to timely find a satisfactory substitute.

The Bank's competitiveness will, to some extent, depend on the Bank's ability to upgrade and optimise its information technology systems on a timely and cost-effective basis. In addition, the information available to and received by the Bank through its existing information technology systems may not be timely or sufficient for the Bank to manage risks and prepare for, and respond to, market changes and other developments in the Bank's current operating environment. As the Bank continues to apply and develop and implement new technology such as artificial intelligence, big data, blockchain and cloud computing technologies, the Bank's information technology system may be in need of upgrade, optimisation or expansion. Any failure to improve or upgrade the Bank's information technology systems effectively or on a timely basis could materially and adversely affect the Bank's competitiveness, results of operations and financial condition.

The Bank relies on independent contract workers.

The Bank engages a number of independent contract workers by signing contracting agreements with third-party human resources agencies. According to the contracting agreements with the third-party human resources agencies, the Bank is obliged to make salary payments, social insurance contributions and other related payments for the independent contract workers by payment to the third-party human resources agencies in advance. The third-party human resources agencies are responsible for the payment of salaries to the independent contract workers and social insurance contributions for the independent contract workers to the relevant governmental authorities. If the third-party human resources agencies fail to make social insurance contributions in relation to these independent contract workers under PRC law, the Bank may be jointly liable for any claims brought by them.

Although the Bank closely monitors the performance of its independent contract workers, there can be no assurance that their performance will meet the service level requirements and any substandard performance by such independent contract workers may have an adverse impact on the reputation of the Bank and its business operations. Any defaults or neglects on the part of such independent contract workers may also have an adverse impact on the profitability and financial position of the Bank as the Bank may be liable for any such defaults or neglects.

The Bank may not be able to fully detect money laundering and other illegal or improper activities completely or on a timely basis, which could expose the Bank to additional liability and harm the Bank's business or reputation.

The Bank is required to comply with applicable anti-money laundering and anti-terrorism laws and regulations stipulated in the PRC, Hong Kong and other relevant jurisdictions. These laws and regulations require the Bank to adopt and enforce "know-your-customer" policies and procedures and to report suspicious and large transactions to the relevant regulatory authorities in different jurisdictions. In light of the Bank's short implementation period of the relevant policies and procedures, and due to other reasons such as the complexity and secrecy of money-laundering activities and other illegal or improper activities, such policies and procedures may not completely identify and eliminate such illegal or improper activities at the time when the Bank may be used by other parties to engage in these activities. To the extent that the Bank fails to fully comply with such laws and regulations, the relevant government agencies which regulate the Bank have the power and authority to impose fines and other penalties on the Bank. See also "*The Bank is subject to various PRC and overseas regulatory requirements, and the Bank's failure to fully comply with such requirements could materially and adversely affect the Bank's business, reputation, financial condition and results of operations*" and "*The Bank may not be able to detect and prevent fraudulent acts or other misconduct committed by the Bank's staff, customers or other entities.*". For example, in February 2020, the Banks was fined RMB18.2 million by PBOC for (1) failure to perform customer identification obligations; (2) failure to keep customer identity data and transaction records; (3) failure to submit large transaction reports and suspicious transaction reports; and (4) conducting transaction with unidentified customers. The Bank has taken corrective measures to strengthen the enforcement of its "know-your-customer" policies, such as improving the internal control system, strengthening its money laundering and terrorism financing assessment, conducting enhanced training for its employees and implementing anti-money laundering data governance, and to optimise its monitoring system, but there can be no assurances by the Bank that there will be no such fines or penalties against the Bank in the future. The Bank's business and reputation could be negatively impacted if customers manipulate their transactions with the Bank for money laundering or other illegal or improper purposes.

The Bank may not be able to detect and prevent fraudulent acts or other misconduct committed by the Bank's staff, customers or other entities.

The Bank may be unable to fully detect and completely prevent any fraudulent act and other misconduct committed by the Bank's staff, customers or other entities, which could therefore subject the Bank to lawsuits, financial losses and sanctions imposed by governmental authorities as well as result in serious harm to the Bank's reputation. Such misconduct could take a variety of forms including, among others:

- improper extension of loans;
- misapplying or failing to apply the loan classification standards thereby resulting in misclassifications within the Bank's loan portfolio;
- deposit fraud;
- falsifying or concealing information, including illegal or unlawful activities or credit information, during the credit application or loan classification process;
- engaging in misrepresentation or fraudulent, deceptive or otherwise improper activities when marketing or selling products to the Bank's customers;
- hiding unauthorised or illegal activities that may result in unknown and unmanaged risks or losses;
- engaging in unauthorised transactions to the Bank's detriment, breaching applicable laws or its internal control procedures or violating financial accounting rules;
- binding the Bank to transactions that exceed authorised limits;
- extension of RMB-denominated loans with foreign currency pledged as collateral in violation of the relevant regulations;
- illegal fundraising and other financing activities;
- settlement, sale and payment of foreign exchange in violation of the relevant regulations; and
- opening of bank acceptance bills without underlying transactions.

In the past, the Bank has been sanctioned and fined for the misconducts of its employees, and there can be no assurance by the Bank that it can prevent its employees from engaging in misconducts in the future. The misconducts may also include making or accepting bribery activities, conducting inside dealing, improperly using or disclosing confidential information and otherwise not complying with applicable laws and regulations. There have been instances previously where employees of the Bank have been investigated for bribery or otherwise not complying with applicable laws and regulations, and there can be no assurance by the Bank that there will be no such investigations against the employees of the Bank in the future. Types of misconduct conducted by other entities against the Bank include, among others, fraud, theft and robbery. The types and incidents of fraud and other misconduct by staff, customers or other entities against the Bank in the future may be more difficult to detect compared to certain fraudulent acts and misconducts found in the past. For example, it was discovered that the Bank’s company website was imitated by others on several occasions. By the use of such fraudulent websites on the internet, the imitators solicited and successfully acquired certain important confidential bank account information from some of the Bank’s customers. As a result, some of these customers’ funds were obtained by deception. Such imitators usually plagiarise the Bank’s company website by imitating the Bank’s company website’s layout and applying for similar website addresses with an intention to confuse the Bank’s customers, to deceive the Bank’s customers into providing their key account information and to steal their funds by using such confidential information obtained through these fraudulent websites.

In addition, the Bank’s staff may commit errors or take improper actions, resulting in the risk that the Bank could be liable for economic compensation, or be subject to regulatory actions, litigation or other legal proceedings. As at 30 June 2020, the Bank had a total of 1,290 branches and outlets in the PRC, comprising 39 tier-one branches, 113 tier-two branches and 1,138 outlets, and 45,004 employees. As at 30 June 2020, the Bank had four branches outside Mainland China, in Hong Kong, Seoul, Luxembourg and Sydney. Tokyo representative office is under preparation for establishment. There can be no assurance that all of the Bank’s staff will comply with the Bank’s risk management and internal control policies and procedures. There can be no assurance that the Bank can adequately detect and prevent the Bank’s staff and any other third-party from engaging in fraudulent acts or any other misconduct. Any fraudulent acts or other misconduct, whether involving an act in the past that has not been detected or an act in the future, may have a material adverse effect on the Bank's reputation, results of operations and business prospects.

The Bank may not be able to recruit, train or retain a sufficient number of qualified employees.

The Bank requires the continued service and performance of its employees, including the Bank's senior management, as most of the Bank's businesses depend on the quality of the Bank's professional employees. Therefore, the Bank devotes considerable resources to recruiting, training and retaining talent. However, the Bank faces intense competition in recruiting and retaining these individuals as other banks are competing for the same pool of potential employees. In addition, the Bank's employees may resign at any time and may seek to divert customer relationships that they have developed while working for the Bank. The loss of members of the Bank's senior management team or professional employees may have a material adverse effect on the Bank's business and results of operations.

The Bank does not possess the relevant land use right certificates or building ownership certificates for some of its properties, and the Bank may be required to seek alternative premises for some of the Bank's offices or business premises due to the Bank's landlords' lack of relevant title certificates for some leased properties.

For some of the properties the Bank holds and occupies in the PRC, the Bank has not obtained the relevant land use right certificates and/or building ownership certificates. There can be no assurance that the Bank will be able to obtain title certificates for all of these properties. There can also be no assurance that the Bank's ownership rights would not be adversely affected in respect of properties for which the Bank was unable to obtain the relevant title certificates. If the Bank is forced to relocate any of the Bank's business operations located at the affected properties, the Bank may incur additional costs as a result of such relocation.

In addition, for some of the Bank's leased properties in the PRC, the lessors were not able to provide the title certificates or documents evidencing the authorisation or consent of the landlord of such properties. As a result, such leases may be invalid. In addition, there can be no assurance that the Bank would be able to renew the Bank's leases on terms acceptable to the Bank upon their expiration or at all. If any of the Bank's leases is terminated as a result of challenges by third parties or if the Bank fails to renew them upon expiration, the Bank may be forced to relocate affected branches and sub-branches and incur the relevant additional costs, and the Bank's business, financial condition and results of operations may be adversely affected accordingly.

The Bank may be involved in legal and other disputes from time to time arising out of its operations and may face potential liabilities as a result.

The Bank may be involved in legal and other disputes for a variety of reasons, which generally arise because it seeks to recover outstanding amounts from borrowers or because customers or other claimants bring actions against it during the usual course of business. The majority of these cases arise in the ordinary course of the Bank's business. Where the Bank assesses that there is a probable risk of loss, it is the Bank's policy to make provisions for the loss. The Bank has made provisions with respect to pending legal proceedings and other disputes against it.

However, there can be no assurance that the judgments in any of the litigation in which the Bank is involved would be favourable to it or that its litigation provisions are adequate to cover the losses arising from legal proceedings or other disputes. In addition, if the Bank's assessment of the risk changes, its view on provisions will also change. It is expected that the Bank will continue to be involved in various legal and other disputes in the future, which may subject it to additional risks and losses. These disputes may relate to, among others, the amount of the unpaid obligations of the relevant borrowers, the terms for such borrowers to perform their obligations and the application of statute of limitations. In addition, the Bank may have to advance legal costs associated with such disputes, including fees relating to appraisal, notarisation, auction, execution and counsel's legal services. These and other disputes may lead to legal, administrative or other proceedings and may result in damage to the reputation of the Bank, additional operational costs and a diversion of resources and management's attention from its core business operations. There can be no assurance that the outcome of future or current disputes or proceedings will not materially and adversely affect the business, reputation, financial condition and results of operations of the Bank.

The Bank may fail to protect its intellectual property rights which may undermine its competitive position, and litigation to protect intellectual property rights may be costly.

The Bank relies on a combination of trademarks, patents, domain names, copyright and other methods to protect its intellectual property rights. Nevertheless, the actions taken to protect the Bank's intellectual property rights may not be adequate to provide meaningful protection or commercial advantage. There can be no assurance that any patent, trademark, copyright will be issued or granted as a result of the Bank's applications or that, if issued, it will sufficiently protect the Bank's intellectual property rights. Implementation of the intellectual property-related laws in the PRC has historically been lacking, primarily because of ambiguities in the laws of the PRC and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in the PRC may not be as effective as in other countries. Policing unauthorised use of proprietary technology is difficult and expensive. The steps taken by the Bank may be inadequate to prevent the misappropriation of the Bank's proprietary technology. The Bank may fail to protect its intellectual property rights which may undermine its competitive position. Litigation relating to the Bank's intellectual property might result in diversion of resources and management attention and such litigation might be costly. In addition, the Bank has no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent the Bank is unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse effect on the Bank's business, results of operations and financial condition.

The Bank or the Bank's customers may engage in certain transactions in or with countries or persons that are the subject of U.S. and other sanctions.

The United States imposes a range of economic sanctions against certain foreign countries, terrorists, international narcotics traffickers and those engaged in activities related to the proliferation of weapons of mass destruction. The U.S. sanctions are intended to advance certain U.S. foreign policy and national interests, such as discouraging certain countries from acquiring weapons of mass destruction or engaging in human rights abuses. The U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") is the principal government agency charged with administering and enforcing U.S. economic sanctions programmes. These economic sanctions, as administered by OFAC, generally apply to U.S. entities and, in certain cases, to foreign affiliates of U.S. entities, or to transactions that involve, in some manner, U.S. products or otherwise come within the jurisdiction of the United States. Other governments and international or regional organisations also administer similar economic sanctions. While the Bank is not currently engaged in any of these activities, but if any of the Bank's overseas branches engages in any prohibited transactions by any means, or if it is otherwise determined that any of the Bank's transactions violated OFAC-administered or other sanctions regulations, the Bank could be subject to penalties, and the Bank's reputation and ability to conduct future business in the United States or with U.S. entities, or in other affected jurisdictions, could be affected, which may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank may enter into transactions subject to the European Market Infrastructure Regulation.

The Bank may, from time to time, enter into transactions which subject the Bank to the European Market Infrastructure Regulation (the "**EMIR**"). This regulation on derivatives, central counterparties and trade repositories introduces new requirements to improve transparency and reduce the risks associated with the derivatives market. However, any failure by the Bank to adhere to the policies set forth by the EMIR could result in penalties or other negative consequences, any of which could have a material adverse effect on the Bank's business, financial condition or results of operations.

The Bank's business, financial condition, results of operations and prospects may be adversely affected as a result of negative media coverage relating to the Bank or the PRC banking industry.

In recent years, the PRC banking industry has been the subject of negative reports or criticism by various media, including in relation to incidents of fraud and issues relating to loan quality, capital adequacy, solvency, internal controls and management. In particular, there have been negative publications in the media regarding two of the Bank's branches being unable to fulfil their obligations to repay short-term inter-bank loans. See "*— The Bank may not be able to obtain necessary short-term funding and inter-bank deposits through the exchange market and inter-bank market, which may have a material adverse effect on the Bank's liquidity or financial condition*". In addition, the Bank shares a common major shareholder with a company that has received negative publicity due to sanctions and penalties levied by the PRC government in connection with such company's improper behaviour in its trading of securities. Furthermore, the Bank's practices of selecting third party service providers have been questioned by and subject to negative media coverage, which the Bank believes is without merit. In response, the Bank has made timely clarifications of such negative publications. However, if the Bank or the PRC banking industry as a whole suffers from similar negative media reports or criticism in the future, the Bank cannot make any representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Any negative coverage, whether or not related to the Bank or the Bank's related parties and regardless of truth or merit, may have an impact on the Bank's reputation and, consequently, may undermine the confidence of the Bank's customers and investors, which may in turn materially and adversely affect the Bank's business, results of operations, financial condition, reputation and prospects.

The Bank is subject to counterparty risks in its derivative transactions.

The Bank acts primarily as an intermediary in domestic and international foreign exchange and derivative markets, and the Bank currently has exchange rate contracts, interest rate contracts and commodity derivatives contracts with a number of domestic and international banks, financial institutions and other entities. As a result, the Bank is subject to credit risk from its various counterparties. As at 30 June 2020, the notional amount of the Bank's outstanding derivative financial instruments amounted to RMB2,553,160 million, and the fair value of the Bank's outstanding derivative assets and liabilities amounted to RMB14,659 million and RMB15,725 million, respectively. Although the Bank cautiously evaluates the credit risks from its counterparties in its derivative transactions and believe that the overall credit quality of the Bank's counterparties is adequate, there can be no assurance that parties with significant risk exposure will not have difficulty in fulfilling derivative contracts that may cause losses for the Bank.

Due to restrictions in certain PRC regulations, the Bank's investments are concentrated in certain types of investment products. The Bank may experience significant decreases in the value of a particular type of investment.

As a result of current PRC regulatory restrictions, substantially all of the Bank's RMB-denominated investment assets are concentrated in a limited number of investments permitted for PRC commercial banks, such as PRC government bonds, bills and open market instruments issued by PBOC, bonds issued by PRC policy banks and credit products issued by PRC financial and non-financial institutions (including bonds and subordinated notes issued by PRC commercial banks and insurance companies). These restrictions limit the Bank's ability to diversify its investment portfolio and seek higher returns by making investments comparable with those of banks in other countries as well as the Bank's ability to manage its liquidity in the same manner as banks in other countries. In addition, the Bank is exposed to a certain level of risk as a result of the concentration of the Bank's RMB-denominated fixed income securities investments. For example, fluctuation in interest rates or deterioration of the financial condition of the issuers of such fixed income securities may cause their value to decrease. A decrease in the value of any of these types of investments could have a material adverse effect on the Bank's business, financial condition and results of operations.

Risks Relating to the PRC Banking Industry

The Bank faces increasingly intense competition in the PRC's banking industry and competition from other investment and financing channels.

The banking industry in the PRC is becoming increasingly competitive. The Bank faces competition from commercial banks in all of its principal areas of business where the Bank has operations. On 1 July 2013, the General Office of the State Council of the PRC issued the Guidance Letter regarding Financial Support for

Promoting Economic Restructuring and Transformation (國務院辦公廳關於金融支持經濟結構調整和轉型升級的指導意見) (the "**Guidance Letter**"). The Guidance Letter, among others, encourages investment by private-sector capital in financial institutions and the establishment of privately-owned banks. The Guidance Letter provides a policy direction to the increasing involvement of private-sector capital in the financial industry in the PRC. In addition, the Mainland and Hong Kong Closer Economic Partnership Arrangement, which allows Hong Kong banks to operate in the PRC, may also increase competition in the PRC banking industry. The Bank faces increasing competition from privately owned banks, foreign-invested banks and financial institutions. The Bank competes with its competitors for substantially the same loan, deposit and fee and commission-based products and services customers. Moreover, the PRC Government has, in recent years, implemented a series of measures designed to further liberalise the banking industry, including those relating to interest rates and fee-and-commission based products and services, which, together with the emergence of internet finance, are changing the basis on which the Bank competes with other banks for customers. Such competition may materially and adversely affect the Bank's business and future prospects by, for example, reducing the Bank's market share in its principal products and services, reducing the Bank's fee and commission income, affecting the growth of the Bank's loan or deposit portfolios and their related products and services, reducing the Bank's interest income, increasing the interest expenses and decreasing its net interest margin, reducing the Bank's fees and commission income, leading to a deterioration of the Bank's asset quality and increasing competition for soliciting senior management talent and qualified professional personnel.

In addition, the Bank may face competition from direct corporate financing, such as the issuance of securities in the domestic and international capital markets. The domestic securities markets have experienced, and are expected to continue to experience, expansion and growth. If a substantial number of the Bank's customers choose alternative ways of financing to fund their capital needs, this may adversely affect the Bank's interest income, which could in turn materially and adversely affect the Bank's business, financial condition and results of operations.

In addition to competition from other banks and financial institutions, the Bank also faces competition from other forms of investment alternatives in the PRC. In recent years, financial disintermediation, which involves the movement of funds by investors from intermediary financial institutions such as savings and deposit-taking banks to direct investments, has increased in the PRC. The Bank's deposit customers may elect to convert their funds into stocks, bonds and wealth management products, which may result in a decrease in the Bank's customer deposits, therefore further affecting the level of funds available to the Bank for its lending business to generate net interest income. Meanwhile, financial disintermediation may result in a decrease in the enterprise demand for loans, which could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to risks related to uncertain changes in the regulatory environment of the PRC's banking industry.

The Bank's businesses are directly affected by changes in the PRC's banking regulatory policies, laws and regulations. The regulatory system and the laws and regulations governing the banking sector are subject to future changes, and there can be no assurance that such changes will not materially and adversely affect the Bank's business, financial condition and results of operations.

In addition, the Bank's overseas branches, subsidiaries and representative offices have to comply with the local laws and regulations of the relevant jurisdiction and are subject to regulation and approval by the local regulatory authorities in the relevant jurisdiction. There can be no assurance that the Bank's overseas branches, subsidiaries and representative offices can always satisfy applicable laws and regulatory requirements. If the Bank does not meet such requirements, its business in the relevant jurisdiction may be affected, which may materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to risks related to changes in monetary policy.

PRC monetary policy is set by PBOC in accordance with the macroeconomic environment. In addition, PBOC controls monetary supply through open market operations and adjustments to the deposit reserve ratio and rediscount rate in order to achieve targeted control over the economy. As commercial banks are a major means to implement monetary policy, changes in monetary policy will affect their operations and profitability. If the Bank cannot timely adjust its operating strategy in response to the changes in monetary policy, the Bank's business, financial condition and results of operations may be materially and adversely affected.

The growth rate of the banking industry in the PRC may not be sustainable.

The Bank expects the banking industry in the PRC to expand as a result of anticipated growth in the PRC's economy, increases in household income, further social welfare reforms, demographic changes and the opening of the PRC's banking industry to foreign participants. However, it is not clear how certain trends and events, such as the pace of the PRC's economic growth, the PRC's implementation of its commitments to World Trade Organisation accession, the development of the domestic capital and insurance markets and the ongoing reform of the social welfare system, will affect the PRC's banking industry. In addition, the banking industry in the PRC may be affected by systemic risks. Consequently, there can be no assurance that the growth and development of the PRC's banking industry will be sustainable.

The effectiveness of the Bank's credit risk management is affected by the quality and scope of information available in the PRC.

National credit information databases developed by PBOC have been operational only since 2006. Due to the short operational history, such databases are not able to provide complete credit information on many of the Bank's credit applicants. Therefore, the Bank's assessment of the credit risk associated with a particular customer may not be based on complete, accurate or reliable information. As a result, the Bank's ability to manage effectively its credit risk may be adversely affected, which may materially and adversely affect the Bank's business, financial condition and results of operations.

Risks Relating to the PRC

The slowdown of the PRC's economy caused in part by the recent challenging global economic conditions may adversely affect the Bank.

A substantial part of the Bank's revenue is derived from the PRC. The Bank relies, to a significant degree, on its domestic operations to achieve revenue growth. Domestic demand for banking services is materially affected by growth of private consumption and overall economic growth in the PRC. The global crisis in financial services and credit markets in 2008 caused a slowdown in the economic growth in many countries, including the PRC. Although the PRC's economic growth has increased compared to its level immediately after the global financial crisis, it has displayed signs of slowdown as evidenced by a decrease in the growth rate of the PRC's gross domestic product in recent years. This was caused by a combination of factors most of which are beyond the Bank's control, such as the global economic conditions, governmental policies and changes in market dynamics globally and regionally, the trade war between the United States and PRC and COVID-19 spreading globally. In 2018, the PRC government reported a GDP of RMB90.03 trillion, representing year-on-year growth of 6.6 per cent. In 2019, the PRC Government reported a GDP of RMB98.6515 trillion, representing year-on-year growth of 6.0 per cent. In January 2021, the PRC Government reported a preliminary GDP for the whole year of 2020 of RMB101.5986 trillion, representing year-on-year growth of 2.3 per cent. Although the PRC government has recently taken several measures and actions with an aim to increase investors' confidence in the PRC economy, there can be no assurance that those measures will be effective. There are uncertainties relating to the overall prospects for the global and the PRC economies this year and beyond, which may have a material adverse impact on the Bank's business, prospects, financial conditions and results of operations. See also "*Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations.*"

Turmoil in the financial markets could increase the Bank's cost of borrowing and impede access to or increase the cost of financing the Bank's operations and investments.

The availability of credit to entities operating within emerging markets, including the Bank, is significantly influenced by levels of investor confidence in such markets as a whole. Any factors that may affect market confidence could affect the costs or availability of funding for entities within emerging markets. Historically, challenging market conditions in emerging markets have resulted in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. On 31 January 2020, the United Kingdom officially exited the EU following a UK-EU Withdrawal Agreement signed in October 2019. In December 2020, the United Kingdom, the European Union and the European Atomic Energy Community concluded the EU-UK Trade and Cooperation Agreement, which is provisionally applicable from 1 January 2021 and awaits ratification by the European Parliament and the Council of the EU and legal revision before it formally comes into effect. It is unclear how Brexit would result in volatility in the global financial market, and the mid- to long-term economic uncertainty to the economy in the United Kingdom, the EU and globally. In the United States, the current administration policies have created uncertainty for the global economy and financial markets. In 2015, the PRC stock markets have experienced significant turmoil and disruption. Throughout June and early July of 2015, the Shanghai Composite Index experienced significant declines and many PRC-listed companies were subject to trading suspensions on major stock exchanges. The PRC government responded by cutting interest rates, suspending initial public offering and starting investigations into market manipulation in an effort to stabilise the market. Due to its increasing financial reliance upon PRC, Hong Kong's stock markets experienced a similar fluctuation during the relevant times and the Hang Seng Index had a record-breaking slump in a single day in the recent decade. As the Bank's shares are listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange, significant fluctuations in these financial markets could cause substantial adverse effects on the Bank's business operations and investments as a whole.

Certain facts and statistics in this Supplemental Offering Circular and the Original Offering Circular are derived from publications not independently verified by the Issuer, the Bank, the Group, the Dealers, the Joint Lead Managers or their respective directors, officers, employees, affiliates or advisers.

Some of the facts and statistics in this Supplemental Offering Circular and the Original Offering Circular relating to the PRC, the PRC economy and industries in which the Group operates and its related industry sectors are derived from various publications and obtained in communications with various agencies that the Issuer and the Bank believe to be reliable. However, none of the Issuer, the Bank, the Group, the Dealers, the Joint Lead Managers or their respective directors, officers, employees, affiliates or advisers can guarantee the quality or reliability of certain source materials. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this Supplemental Offering Circular and the Original Offering Circular relating to the PRC economy and the industries in which the Group operates and its related industry sectors may be inaccurate. In all cases, Noteholders should consider how much weight or importance they should attach to or place on such facts and statistics.

The PRC's economic, political and social conditions, as well as government policies, could affect the Bank's businesses.

A substantial majority of the Bank's businesses, assets and operations is located in the PRC. Accordingly, the Bank's business prospects, financial condition and results of operations are, to a significant degree, subject to the economic, political and legal developments in the PRC. The PRC's economy differs from the economies of most developed countries in many respects, including, among others, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. A substantial portion of productive assets in the PRC is still owned by the PRC government. The government also exercises significant control over the PRC's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the PRC government has pushed forward a large number of economic reform measures to introduce market forces and promote the establishment of sound corporate governance structures. Such economic reform measures may be adjusted, modified or applied differently depending on the industries and regions of the country. As a result, the Bank may not benefit from certain of such measures.

The PRC government has the power to implement macroeconomic controls affecting the PRC's economy. The government has implemented various measures in an effort to control the growth rate of certain industries and restrain inflation. As measured by GDP, the PRC has been one of the world's fastest growing economies in recent years. The PRC's real GDP growth was 6.6 per cent., 6.0 per cent. and 2.3 per cent. in 2018, 2019 and 2020, respectively. However, the PRC may not be able to sustain such a growth rate. During the recent global financial crisis and economic slowdown, the growth of the PRC's GDP slowed. If the PRC's economy experiences a decrease in growth rate or a significant downturn, the unfavourable business environment and economic condition for the Bank's customers could negatively impact their ability or willingness to repay the Bank's loans and reduce their demand for the Bank's banking services. The Bank's business, financial condition and results of operations may be materially and adversely affected.

Interpretation and enforcement of the laws in the PRC may involve uncertainties.

As a substantial part of the Group's business is conducted in the PRC and a substantial part of the Group's assets is located in the PRC, its operations are affected by and subject to the PRC legal system and PRC laws and regulations.

Since 1979, the PRC government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Group.

In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainties. The interpretation of PRC laws may be subject to domestic political and policy changes. For example, on 14 September 2015, the NDRC issued the NDRC Circular, which came into effect on the same date. According to the NDRC Circular, domestic enterprises and/or their overseas controlled entities shall procure the registration of any issue of debt securities outside the PRC with the NDRC prior to such issue, and notify the particulars of such issue within prescribed timeframe after such issue. The NDRC Circular also indicates that several provinces and large banks with strong comprehensive economic strength and sound risk prevention and control mechanisms will be selected by the NDRC to expand the pilot reform of managing the amount of foreign debt by segment (外債規模切塊管理), under which the NDRC will, based on the actual need of each of such pilot regions and enterprises, verify and determine its yearly maximum quota of foreign debt at one time. The NDRC Circular is a recent regulation and its interpretation may involve significant uncertainty. In addition, the administration of the NDRC Circular may be subject to a certain degree of executive and policy discretion by the NDRC.

Further, there can be no assurance that the Bank will be able to comply with the NDRC requirements to provide the notification of the particulars of the issue of the Notes to the NDRC within the prescribed timeframe. In addition, while the NDRC Circular does not expressly state the legal consequences of non-compliance with such post-issue notification requirements, the NDRC has indicated that issuers, underwriters, counsels and other parties involved in the transaction may be blacklisted and punished for non-compliance with the NDRC Circular requirements. Therefore, there can be no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for the Issuer, the Bank, the Notes or the investors in the Notes. There can also be no assurance that the registration with the NDRC, if applied for or the quota granted to the Bank will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the performance or validity and enforceability of the Notes in the PRC. Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

On 29 April 2016, PBOC issued the Circular on Implementing Overall Macro-prudential Management System for Cross-border Financing on a Nationwide Scale (中國人民銀行關於在全國範圍內實施全口徑跨境融資宏觀審慎管理的通知) (the "**2016 Macro-prudential Management Circular**") which came into effect on 3 May 2016. The 2016 Macro-prudential Management Circular established a mechanism aimed at regulating cross border financing activities conducted by domestic institutions, including domestic enterprises and financial institutions other than governmental financing platforms and real estate enterprises, based on the capital or net asset of the borrowing entities using a prudent management principle on a macro nationwide scale.

The 2016 Macro-prudential Management Circular was replaced by the Circular on Matters Concerning Macro-prudential Management on Overall Cross-border Financing (中國人民銀行關於全口徑跨境融資宏觀審慎管理有關事宜的通知) (the "**2017 Macro-prudential Management Circular**"), promulgated by PBOC on 12 January 2017, and the 2017 Macro-prudential Management Circular does not change the filing, reporting and other requirements on PRC domestic enterprises and financial institutions that engage in cross-border financing activities.

In connection with the establishment of the Programme or any issuance by the Issuer, the Bank has not made and does not intend to make any filing with PBOC under the 2017 Macro-prudential Management Circular. The establishment of the Programme and an issuance by the Issuer, as an overseas branch, do not involve any "cross-border financing activities" under the 2017 Macro-prudential Management Circular given the proceeds will not be remitted into the Mainland China. Accordingly, the filing requirements under the 2017 Macro-prudential Management Circular do not apply.

The 2017 Macro-prudential Management Circular is a newly published regulation. Neither PBOC nor SAFE has promulgated implementation rules for the 2017 Macro-prudential Management Circular as at the date of this Supplemental Offering Circular. The filing process of and legal consequences of non-compliance with the aforesaid regulations and the interpretation and enforcement of the 2017 Macro-prudential Management Circular thus involve substantial uncertainties due to its recent promulgation and publication. Following the date of this Supplemental Offering Circular, if the Bank is required to make or take other steps to comply with the 2017 Macro-prudential Management Circular, the Issuer will also take the necessary steps to comply with such requirements.

In addition, the Group cannot predict the effects of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the inconsistencies between local rules and regulations and national law. As a result, there is substantial uncertainty as to the legal protection available to the Group and investors in the Notes. The Group may be required in the future to procure additional permits, authorisations and approvals for the Group's existing and future operations, which may not be obtainable in a timely fashion or at all. Any failure to obtain such permits or authorisations may have an adverse effect on the Group's financial condition and results of operations.

There may be difficulties in effecting service of legal process and enforcing judgments against the Bank and its management.

The Bank is a company incorporated under the laws of the PRC, and a substantial majority of the Bank's businesses, assets and operations are located in the PRC. In addition, a substantial majority of the Bank's directors, supervisors and executive officers reside in the PRC, and substantially all of their assets are located in the PRC. As a result, it may not be possible to serve legal written process within the United States or elsewhere outside the PRC upon the Bank or such directors, supervisors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable State securities laws.

Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the United States, the United Kingdom, Japan and many other countries. According to the Civil Procedure Law of the PRC (as amended in 2017), the PRC courts can recognise and enforce foreign judgments in accordance with the principal of reciprocity in the absence of international treaties. In addition, pursuant to the Arrangement of the Supreme People's Court between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排), if the parties have expressly agreed in writing that the Hong Kong Court has sole jurisdiction over civil and commercial cases, the Chinese courts may recognise and enforce final judgments made by specific courts in Hong Kong (including the Court of Final Appeal, Court of Appeal, Court of First Instance and District Court) in relation to payments if such judgments have come into effect without fraud or any other procedural problems and the enforcement of which is not considered to be contrary to the social and public interest of the PRC. Other than that, judgments made by courts in the United States and other courts in Hong Kong may not be recognised or enforced in the PRC.

As a result, recognition and enforcement in the PRC of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible.

Increases in the costs of labour may have an adverse impact on the Group's results of operations.

The PRC Labour Contract Law (中華人民共和國勞動合同法) became effective on 1 January 2008, and it was amended on 28 December 2012, which has taken effect on 1 July 2013. The current PRC Labour Contract Law has imposed greater liabilities on employers and significantly increased the cost of an employer's decision to reduce its workforce. Further it requires certain terminations to be based upon seniority instead of merit. In the event that the Group decides to significantly change or decrease the Group's workforce within the PRC, the PRC Labour Contract Law could adversely affect the Group's financial condition and results of operations. In addition, the PRC government has continued to introduce various new labour-related regulations after the promulgation of the PRC Labour Contract Law. Among other things, the Paid Annual Leave Provisions (職工帶薪年休假條例), which became effective on 1 January 2008, require that paid annual leaves ranging from five to fifteen days be available to nearly all employees and further require that employers compensate an employee for any annual leave days the employee is unable to take in the amount of three times of such employee's daily salary, subject to certain exceptions.

On 28 October 2010, the Standing Committee of the National People's Congress promulgated the PRC Social Insurance Law (中華人民共和國社會保險法) which has taken effect on 1 July 2011 and was amended on 29 December, 2018. According to the PRC Social Insurance Law, employees will participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay for the social insurance premiums for such employees.

To further strengthen the protection on labour remuneration, rest and vacations, social insurance and other basic rights and interests of labourers, the Opinion of the Central Committee of the Communist Party of China and the State Council on Building Harmonious Labour Relationships (中共中央、國務院關於構建和諧勞動關係的意見) was issued on 21 March 2015, which acts as a guideline on PRC labour legislation.

As a result of the implementation of these and any future rules and regulations designed to enhance the standard for labour protection, the Group's labour costs may continue to increase. If the costs of labour increase significantly, and the Group cannot offset such increase by reducing other costs or cannot pass on such increase to for example, the buyers or tenants of its commercial properties in the PRC, its business, the Group's results of operations and financial position may be materially and adversely affected.

In addition, a labour shortage required for the Group's business operation may cause similar adverse effects, particularly if the Group is unable to identify and employ other appropriate means to reduce the costs. In such circumstances, the profit margin may decrease and the financial results may be adversely affected. Inflation in the PRC has also increased in recent years. Inflation in the PRC increases the costs of labour, and rising labour costs may increase the Group's operating costs and partially erode the cost advantage of the Group's PRC-based operations and therefore negatively impact the Group's profitability.

Future fluctuations in the value of the currencies in which the Group uses in its business could have an adverse effect on the Group's financial condition and results of operations.

While the Group's recording currencies are Renminbi, for the purposes of its financial statements, a portion of the Group's revenue, expenses and bank borrowings is denominated in currencies other than Renminbi as a result of the Group's use of financial instruments in its ordinary course of operating and its investment activities. The Group monitors its financial risks and seeks to mitigates its currency risk through investments denominated in U.S. dollars. As a result, fluctuations in exchange rates, particularly between Renminbi and U.S. dollar, could affect the Group's profitability and may result in foreign currency exchange losses with respect to its foreign currency-denominated assets and liabilities.

The exchange rate of Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's, as well as international, political and economic conditions and the PRC government's fiscal and currency policies. Starting from 1994, the conversion of Renminbi into foreign currencies, including U.S. dollars, was based on rates set daily by PBOC based on the previous business day's inter-bank foreign exchange market rates and the current exchange rates on the world financial markets. For more than 10 years, the official exchange rate for conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by approximately 2 per cent. against U.S. dollar. In July 2008, the PRC government announced that its exchange rate regime would change to a managed floating mechanism based on market supply and demand. Given domestic and overseas economic developments, PBOC decided to further adjust the Renminbi exchange rate regime in April 2012 to enhance the flexibility of the RMB exchange rate. On 17 March 2014, PBOC continued to expand the floating range of Renminbi against U.S. dollar. PBOC surprised markets in August 2015 by devaluing Renminbi several times, lowering its daily mid-point trading price significantly against U.S. dollar. The currency devaluation of Renminbi was intended to bring it more in line with the market by taking market signals into account, but also boosts the competitiveness of PRC's exports. The PRC government may make further adjustments to the exchange rate system in the future. There can be no assurance that Renminbi will not experience significant appreciation or depreciation against U.S. dollar in the future. Any significant increase or decrease in the value of Renminbi against U.S. dollar could affect the value of the Group's financial instrument and financing cost and may materially and adversely affect the financial condition and results of operation of the Group.

There is foreign exchange control in the PRC.

The Group's PRC subsidiaries are subject to PRC laws and regulations on currency conversion. In the PRC, SAFE regulates the conversion of Renminbi into foreign currencies. Currently, foreign-invested enterprises ("**FIEs**") are required to apply to SAFE for "Foreign Exchange Registration Certificates for FIEs." With such registration certifications, FIEs are allowed to open foreign currency accounts including the "basic account" and "capital account." Currently, conversion within the scope of the "basic account" for current account type purposes such as the remittance of foreign currencies for payment of dividends, can be effected without the approval of SAFE. However, the conversion of currency in the "capital account," for capital items such as direct investments, loans and securities, still requires the approval of SAFE.

The Group has PRC subsidiaries that are FIEs and the ability of these subsidiaries to pay dividends or make other distributions to the Group may be restricted by, among other things, the availability of funds, and statutory and other legal restrictions including PRC foreign exchange control restrictions. To the extent that the ability of the Group's subsidiaries to distribute to the Group is restricted, it may have an adverse effect on the Group's cash flows.

Inflation in the PRC could materially and adversely affect the Group's profitability and growth.

While the PRC economy has grown rapidly, the growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for the Group's products and services rise at a rate that is insufficient to compensate for the rise in its costs, the Group's business may be materially and adversely affected. In order to control inflation in the past, the PRC government has imposed controls on bank credits, limits on loans for fixed assets and restrictions on state bank lending. Such an austerity policy can lead to a slowing of economic growth. A slowdown in the PRC economy could also materially and adversely affect the Group's business and prospects.

Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations.

Any occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, Severe Acute Respiratory Syndrome ("**SARS**"), Ebola virus disease ("**Ebola**"), Middle East Respiratory Syndrome corona virus ("**MERS**"), H5N1 influenza, H1N1 influenza, H7N9 influenza or COVID-19, may adversely affect the Bank's business, financial condition and results of operations. An outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect the Bank's business, financial condition and results of operations. In particular, the on-going COVID-19 pandemic has resulted in many countries, including China, Japan, the United States, members of the European Union and the United Kingdom, declaring a state of emergency and imposing extensive business and travel restrictions with a view to containing the pandemic. Widespread reductions in consumption, industrial production and business activities arising from the COVID-19 pandemic will significantly disrupt the global economy and global markets and is likely to result in a global economic recession. In addition, COVID-19 has led to significant volatility in the global markets across all asset classes, including stocks, bonds, oil and other commodities and this volatility may persist for some time. There is no assurance that the outbreak will not lead to decreased demand for services the Bank provides; nor is there assurance that the outbreak's adverse impact on the PRC economy and the Bank's customers will not adversely affect the level of non-performing loans. The outbreak may also adversely affect the Group's ability to keep normal operations and provide uninterrupted services to its customers. Moreover, the PRC has experienced natural disasters such as earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and in turn the Bank's business, financial condition and results of operations. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, Ebola, SARS, MERS, H5N1 influenza, H1N1 influenza, H7N9 influenza, COVID-19 or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of these epidemics, will not seriously interrupt the Bank's operations or those of the Bank's customers, which may have a material adverse effect on the Bank's business, financial condition and results of operations. The outbreak of the COVID-19 pandemic aggravated and complicated the operational environment in the banking industry. The Bank promptly adjusted its strategies and achieved favorable growth in wealth management and transaction banking, but there were relatively larger impacts on the retail banking sector by the pandemic and the growth in income from credit card business declined.

Risks Relating to Financial Information

The summary consolidated interim financial information of the Bank as at and for the six months ended 30 June 2019 and 2020 included in this Supplemental Offering Circular has been reviewed but has not been audited by a certified public accountant.

The unaudited reviewed consolidated interim financial information of the Bank as at and for the six months ended 30 June 2019 and 2020 included in this Supplemental Offering Circular was prepared in accordance with IFRS and has been reviewed but has not been audited by a certified public accountant, and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit. None of the Issuer, the Bank, the Group, the Joint Lead Managers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited reviewed consolidated interim financial information for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Bank's financial condition and results of operations. In addition, the unaudited reviewed consolidated financial information of the Bank as at and for the six months ended 30 June in respect of any financial year should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year ending 31 December of the same financial year.

The unaudited and unreviewed consolidated quarterly financial information of the Bank as at and for the nine months ended 30 September 2019 and 2020 included in this Supplemental Offering Circular has not been audited or reviewed by a certified public accountant.

The unaudited and unreviewed consolidated quarterly financial information of the Bank as at and for the nine months ended 30 September in respect of any financial year included in this Supplemental Offering Circular has not been audited or reviewed by a certified public accountant, and should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit and/or a review. None of the Issuer, the Bank, the Group, the Joint Lead Managers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of such unaudited and unreviewed consolidated quarterly financial information for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Bank's financial condition and results of operations. In addition, the unaudited and unreviewed consolidated financial information of the Bank as at and for the nine months ended 30 September in respect of any financial year should not be taken as an indication of the expected financial condition or results of operations of the Bank for the full financial year ending 31 December of the same financial year.

Historical consolidated financial information of the Bank is not indicative of its current or future results of operations.

The historical financial information of the Bank included in this Supplemental Offering Circular (read together with the Original Offering Circular) is not indicative of its future financial results. Such financial information is not intended to represent or predict the Bank's results of operations of any future periods. The Bank's future results of operations may change materially if its future growth deviates from the historical trends for various reasons, including factors beyond its control, such as changes in economic environment, PRC rules and regulations and the competitive landscape of the banking industry.

The Bank's new accounting standard differs from its old standard, as a result of which certain historical financials may be difficult to compare.

The Bank adopted new standards, including IFRS 9, Financial Instruments, IFRS 15 and Amendments, Revenue from Contracts with Customers, and several other amendments and interpretations on 1 January 2018. These new standards and the impact of their initial application which are effective for accounting periods starting on or after 1 January 2018 are described in Note II (1.1) to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank did not restate the comparative information of financial instruments covered by IFRS 9 for the year 2017. As a result, the audited consolidated financial information of the Bank as at and for the year ended 31 December 2018 may not be directly comparable with the audited consolidated financial information of the Bank as at and for the year ended 31 December 2017. The differences arising from the adoption of IFRS 9 are directly reflected in the shareholder's equity as at 1 January 2018. The Group has adjusted retained earnings and other comprehensive income on 1 January 2018 to reflect the impact to of IFRS9 on consolidated statements, but did not restate the comparative data. For further details of the specific impact of the adoption of the new guidelines by the Bank, please refer to Note V to the Bank's audited consolidated financial statements as at and for the year ended 31 December 2018. The Bank has also adopted new standards, namely IFRS 16 – Leases, starting from 1 January 2019. The new standards require lessees to adopt a singular model to recognise the right-of-use assets and lease liabilities for all leases (except short-term leases and low-value assets leases elected to be accounted for using a practical expedient) and recognise depreciation and interest expense respectively. According to the transitional regulations, enterprises are not subject to restating comparable figures for previous periods. Therefore, the Bank has disclosed its accounting statements in accordance with IFRS 16 without restating the comparable figures for the end of 2018. Its implementation has no material impact on the financial report of the Bank. Investors must therefore exercise caution when making such comparisons and when evaluating the Bank's financial condition, results of operations and results.

Risks Relating to Listing of the Notes in Macau

As of the date of this Supplemental Offering Circular, MOX is a relatively new trading platform, having been inaugurated on December 2018. MOX is entitled to amend its trading rules and guidelines in a manner and without notice beyond the control of the Bank.

Investors should be aware of the potential risks in respect of the listing of the Notes on the MOX and there are not many prior cases of listing of notes on MOX for reference.

USE OF PROCEEDS

The net proceeds from the issue of the Notes will be used by the Issuer for general funding purposes.

PRICING SUPPLEMENT

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018).

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Professional Investors**") only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This document is not for distribution to professional investors (as defined in Section 11 of the Guideline on Provision and Distribution of Financial Products (Circular 033/B/2010-DSB/AMCM)) ("**MOX Professional Investors")** only. **Investors should not purchase the Notes in the primary or secondary markets unless they are MOX Professional Investors and understand the risks involved. The Notes are only suitable for MOX Professional Investors. The Chongwa (Macao) Financial Asset Exchange Co., Ltd. (the "MOX") has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Document to MOX Professional Investors only have been reproduced in this document. Listing of the Notes on the MOX is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Group or quality of disclosure in this document.** The MOX takes no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Pricing Supplement dated 4 March 2021

China Everbright Bank Co., Ltd., Hong Kong Branch

Issue of U.S.$550,000,000 0.929 per cent. Notes due 2024
under the U.S.$5,000,000,000 Medium Term Note Programme

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated 22 July 2020. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated 22 July 2020 and the documents incorporated by reference thereto and the supplemental Offering Circular dated 4 March 2021 (the "**Supplemental Offering Circular**").

1.	(i)	Issuer:	China Everbright Bank Co., Ltd., Hong Kong Branch
2.	(i)	Series Number:	10
	(ii)	Tranche Number:	1
3.	Specified Currency or Currencies:		U.S. dollar ("U.S.$")
4.	Aggregate Nominal Amount:		
	(i)	Series:	U.S.$550,000,000
	(ii)	Tranche:	U.S.$550,000,000
5.	(i)	Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii)	Net Proceeds	U.S.$548,521,150
6.	(i)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii)	Calculation Amount:	U.S.$1,000
7.	(i)	Issue Date:	11 March 2021
	(ii)	Interest Commencement Date:	11 March 2021
8.	Maturity Date:		11 March 2024
9.	Interest Basis:		0.929 per cent. Fixed Rate (further particulars specified below)
10.	Redemption/Payment Basis:		Redemption at par
11.	Change of Interest or Redemption/Payment Basis:		Not Applicable
12.	Put/Call Options:		Not Applicable
13.	Date of Board approval for issuance of Notes:		The issue of the Notes thereunder were authorised by Authorisation (2014) No. 851, Authorisation (2015) No. 338, Authorisation (2016) No. 390 and Authorisation (2017) No. 640 of the Bank passed on 29 December 2014, 18 June 2015, 16 June 2016 and 1 November 2017, respectively.

14.	Date of the relevant NDRC approval for issuance of Notes:	NDRC pre-issuance registration: Pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (Fa Gai Wai Zi [2015] No 2044) (国家发展改革委关于推进企业发行外债备案登记制管理改革的通知(发改外资[2015] 2044 号)) issued by the NDRC and a quota of foreign debt (the "Quota") was granted by the NDRC on 9 June 2020.
15.	Listing:	Application will be made to The Stock Exchange of Hong Kong Limited (expected effective listing date: 12 March 2021). Application will be made to the Chongwa (Macao) Financial Asset Exchange Co., Ltd. (expected effective listing date: 12 March 2021).
16.	Method of Distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17.	Fixed Rate Note Provisions		Applicable
	(i)	Rate of Interest:	0.929 per cent. per annum payable semi-annually in arrear
	(ii)	Interest Payment Date(s):	11 March and 11 September in each year
	(iii)	Fixed Coupon Amount(s):	U.S.$4.645 per Calculation Amount
	(iv)	Broken Amount(s):	Not Applicable
	(v)	Day Count Fraction:	30/360
	(vi)	Determination Dates:	Not Applicable

	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
18.	Floating Rate Note Provisions		Not Applicable
19.	Zero Coupon Note Provisions:		Not Applicable
20.	Index-Linked Interest Note/other variable-linked interest Note Provisions		Not Applicable
21.	Dual Currency Note Provisions		Not Applicable

PROVISIONS RELATING TO REDEMPTION

22.	Call Option	Not Applicable
23.	Put Option	Not Applicable
24.	Final Redemption Amount of each Note	U.S.$1,000 per Calculation Amount
25.	Early Redemption Amount	Not Applicable

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	Form of Notes:	Registered Notes: Global Note Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Note Certificate
27.	Additional Financial Centre(s) or other special provisions relating to payment dates:	Hong Kong
28.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
29.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	Not Applicable
30.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	Not Applicable
31.	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
32.	Consolidation provisions:	The provisions in Condition 20 (Further Issues) apply
33.	Any applicable currency disruption/ fallback provisions:	Not Applicable
34.	Other terms or special conditions:	Not Applicable

35.	Credit Linked Provisions:		Not Applicable

DISTRIBUTION

36.	(i)	If syndicated, names of Managers:	China Everbright Bank Co., Ltd., Hong Kong Branch Agricultural Bank of China Limited Hong Kong Branch Bank of Communications Co., Ltd. Hong Kong Branch, a joint stock company incorporated in the People's Republic of China with limited liability CCB International Capital Limited Citigroup Global Markets Limited CMBC Securities Company Limited Bank of China Limited Bank of China (Hong Kong) Limited Agricultural Bank of China Limited, Singapore Branch ABCI Capital Limited Industrial and Commercial Bank of China Limited, Singapore Branch Industrial and Commercial Bank of China (Macau) Limited ICBC International Securities Limited Industrial and Commercial Bank of China (Asia) Limited China Construction Bank (Asia) Corporation Limited BOCOM International Securities Limited China Minsheng Banking Corp., Ltd., Hong Kong Branch Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch SPDB International Capital Limited Industrial Bank Co., Ltd. Hong Kong Branch Nanyang Commercial Bank, Limited The Bank of East Asia, Limited China International Capital Corporation Hong Kong Securities Limited Huatai Financial Holdings (Hong Kong) Limited China Industrial Securities International Brokerage Limited Haitong International Securities Company Limited China Everbright Securities (HK) Limited China CITIC Bank International Limited BOSC International Company Limited CLSA Limited CMB International Capital Limited Natixis
	(ii)	Stabilisation Manager(s) (if any):	Citigroup Global Markets Limited
37.	If non-syndicated, name and address of Dealer:		Not Applicable

38.	Total commission and concession:	The Issuer has agreed to pay the Managers a management commission based on the gross subscription moneys of the Notes
39.	U.S. Selling Restrictions:	Reg. S Category 1; TEFRA not applicable
40.	Prohibition of Sales to EEA and UK Retail Investors:	Not Applicable
41.	Prohibition of Sales to UK Retail Investors:	Not Applicable
42.	Additional selling restrictions:	Applicable. See the section titled "*Selling Restrictions*" in the Supplemental Offering Circular.

OPERATIONAL INFORMATION

43.	ISIN Code:	XS2297070190
44.	Common Code:	229707019
45.	CMU Instrument Number:	Not Applicable
46.	LEI	The Legal Entity Identifier of the Issuer is 549300WVNR4RWTGIV379
47.	Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	Not Applicable
48.	Delivery:	Delivery against payment
49.	Additional Paying Agent(s) (if any):	Not Applicable
50.	Registrar (if other than Citibank, N.A., London Branch):	Not Applicable

GENERAL

51.	Private Bank Rebate/Commission:	Not Applicable
52.	The aggregate principal amount of Notes issued has been translated into United States dollars at the rate of [•], producing a sum of (for Notes not denominated in United States dollars):	Not Applicable
53.	Ratings:	The Notes to be issued have been rated: S&P: BBB+ Fitch: BBB

FINANCIAL/TRADING POSITION

Since 30 June 2020, there has been no material adverse change in the financial position or prospects, nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

STABILISING

In connection with this issue, Citigroup Global Markets Limited (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilisation Manager(s) to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on The Hong Kong Stock Exchange of the Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme.

This Pricing Supplement comprises the final terms required for issue and admission to trading on the MOX of the Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme.

LISTING APPLICATION

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer.

This document includes particulars given in compliance with the Rules and Regulations Governing the Listing of Securities on the MOX for the purpose of giving information with regard to the Issuer.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Signed on behalf of China Everbright Bank Co., Ltd., Hong Kong Branch:

By: ……………………………………………
Duly authorised

By: ……………………………………………
Duly authorised

CAPITALISATION AND INDEBTEDNESS

The section entitled "Capitalisation and Indebtedness" in the Original Offering Circulars shall be deleted in its entirety and replaced with the following:

As at 30 June 2020, the Bank had an issued share capital of RMB52,489 million divided into approximately 12,679 million H shares of RMB1.00 each and approximately 39,810 million A shares of RMB1.00 each.

The following table sets out the Bank's consolidated capitalisation and indebtedness as at 30 June 2020 and as adjusted to give effect to the issuance of the Notes prior to deducting the commissions and other estimated expenses payable by the Group in connection with this offering.

This table should be read in conjunction with the audited consolidated financial statements of the Bank and related notes thereto included elsewhere in this Supplemental Offering Circular:

	As at 30 June 2020			
	Actual		As adjusted	
	(RMB in millions)	*(U.S.$ in millions)*[1]	*(RMB in millions)*	*(U.S.$ in millions)*[1]
Debt				
Debt securities issued	359,887	55,986	359,887	55,986
Notes to be issued hereby	-	-	3,536	550
Shareholders' Equity				
Share capital	52,489	8,165	52,489	8,165
Other equity instrument	70,067	10,900	70,067	10,900
Capital reserve	53,533	8,328	53,533	8,328
Other comprehensive income	2,766	430	2,766	430
Surplus reserve	26,245	4,083	26,245	4,083
General reserve	59,718	9,290	59,718	9,290
Retained earnings	125,494	19,522	125,494	19,522
Total equity attributable to equity shareholders of the Bank	390,312	60,719	390,312	60,719
Non-controlling interests	1,131	176	1,131	176
Total equity	391,443	60,895	391,443	60,895
Total capitalisation[2]	5,388,434	838,249	5,391,970	838,799

Note:

(1) For convenience only, all translations from Renminbi into U.S. dollars are made at the rate of RMB6.4282 to U.S.$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 January 2021.

(2) Total capitalisation equals the sum of debt and total equity.

There has been no material adverse change to the capitalisation or indebtedness of the Bank since 30 June 2020.

DESCRIPTION OF THE BANK

The section "Description of the Bank" on pages 182 to 211 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

The Bank is a national joint stock commercial bank committed to establishing itself as one of the most innovative commercial banks in the PRC. The A shares of the Bank have been listed on the Shanghai Stock Exchange (Stock Code: 601818) since August 2010 and the H shares of the Bank have been listed on the Hong Kong Stock Exchange (Stock Code: 6818) since December 2013. Since its operations commenced on 18 August 1992, the Bank has provided comprehensive and competitive financial products and services to a wide range of customers primarily in the PRC, including retail customers, corporate customers, government agencies and financial institutions, and has conducted a proprietary trading business and other trading operations for the Bank's clients. To adapt to changing market trends and the development of the macro-economy and the banking sector in the PRC, the Bank will continue to intensify its business transformation efforts, diligently develop its capital-efficient operations, build a diversified financial services platform, support the development of the PRC economy and promote technological innovation. The Bank believes that these core initiatives will facilitate the growth of its business.

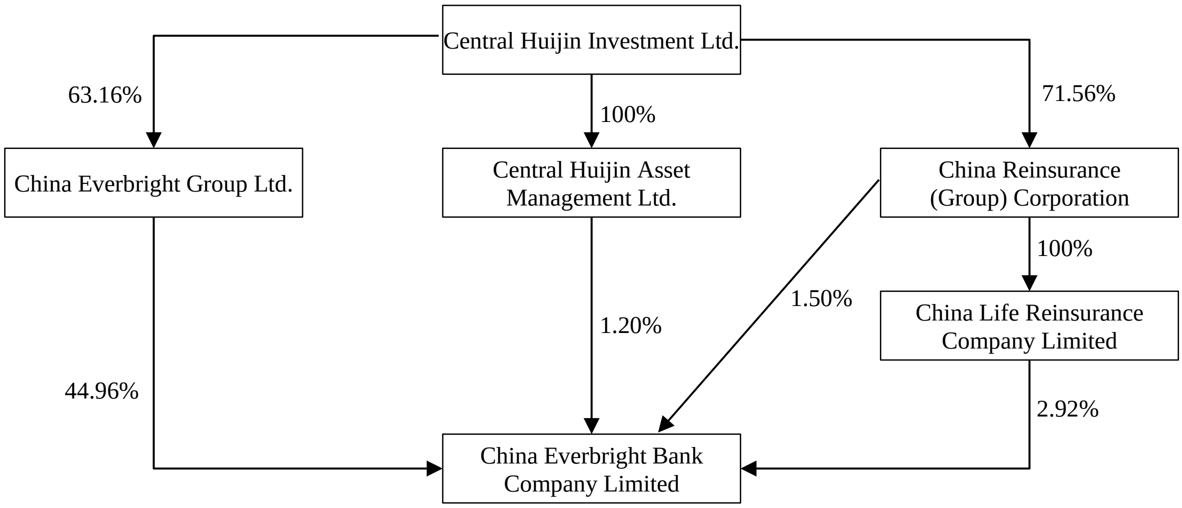
The Bank's principal business segments are corporate banking, retail banking and financial market. The Bank's corporate banking business consists primarily of corporate loans, SME loans, trade finance, discounted bills and corporate deposits, as well as fee-and commission-based products and services. The Bank's retail banking business consists primarily of personal loans, bank cards, personal deposits and fee-and commission-based products and services. The Bank's financial market business primarily covers inter-bank money market transactions, repurchases transactions and inter-bank investments. It also covers customer-driven derivatives and foreign currency trading, as well as management of the Bank's overall liquidity position, including the issuance of debts.

In recent years, the Bank's business scale and customer base have continued to expand. The Bank's total assets, loans and advances to customers and deposits from customers grew from RMB4,088,243 million, RMB2,032,056 million and RMB2,272,665 million, respectively, as at 31 December 2017, to RMB4,357,332 million, RMB2,421,329 million and RMB2,571,961 million, respectively, as at 31 December 2018, and further grew to RMB4,733,431 million, RMB2,712,204 million and RMB3,017,888 million, respectively, as at 31 December 2019. As at 30 June 2020, the Bank's total assets, loans and advances to customers and deposits from customers amounted to RMB5,388,434 million, RMB2,921,562 million and RMB3,672,102 million, respectively, The Bank's net profit grew from RMB31,611 million for the year ended 31 December 2017 to RMB33,721 million for the year ended 31 December 2018, and further grew to RMB37,441 million for the year ended 31 December 2019. For the six months ended 30 June 2020, the Bank's net profit amounted to RMB18,421 million, representing a decrease of 10.07 per cent. compared with the six months ended 30 June 2019.

The Bank also strives to provide comprehensive financial services to its customers, which further enhances the Bank's net fee and commission income. The contribution of the Bank's net fee and commission income to the Bank's operating income changed from 33.44 per cent. for the year ended 31 December 2017 to 17.91 per cent. for the year ended 31 December 2018, and further changed to 17.43 per cent. for the year ended 31 December 2019, and amounted to 19.59 per cent. for the six months ended 30 June 2020, representing an increase by 0.34 percentage point from 19.25 per cent. as for the same period of the 2019.

The Bank's head office is located in Beijing and the Bank has a nationwide branch network. The Bank's branch network further expanded to the international market by establishing its first overseas branch in Hong Kong in December 2012. The Bank has a strategic focus on the PRC's more economically developed regions, such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta and has supported the One Belt One Road, construction of Xiong'an New Area and free trade zones in the PRC.

The following chart sets out a simplified corporate structure of the Bank which shows, among other things, the direct shareholding in the Bank of certain shareholders as at the date of this Supplemental Offering Circular[1]:



Note:

(1) Central Huijin Investment Ltd. transferred the 10,250,916,094 A shares it held directly in the Bank to China Everbright Group Ltd. on 9 July 2020. After the equity change, China Everbright Group Ltd. directly held 44.96% of shares of the Bank, and Central Huijin Investment Ltd. no longer directly held any shares of the Bank.

(2) On 14 October 2020, China Everbright Group Ltd. increased its holding of 1,542,553,191 A shares of the Bank through the conversion of convertible bonds. Before the conversion, China Everbright Group Ltd. directly and indirectly held 25,472,743,396 ordinary shares of the Bank, accounting for 48.53 per cent. of the total equity. After the conversion, China Everbright Group Ltd. directly and indirectly held 27,015,296,587 ordinary shares of the Bank, accounting for 49.999 per cent. of the total equity. For more details, see "*Recent Developments of the Bank - Increase of Shareholding in the Bank by Controlling Shareholder China Everbright Group Ltd.*" and "*Substantial Shareholders*" in this Supplemental Offering Circular.

RECENT DEVELOPMENTS OF THE BANK

Impact of the COVID-19 Pandemic

The outbreak of the COVID-19 pandemic aggravated and complicated the operational environment in the banking industry. The Bank promptly adjusted its strategies and achieved favorable growth in wealth management and transaction banking, but there were relatively larger impacts on the retail banking sector by the pandemic and the growth in income from credit card business declined. For certain risks that the COVID-19 pandemic poses on the Bank, see "*Risk factors – Risks Relating to the Bank's Business-The Bank's business is inherently subject to market fluctuations and general economic conditions, particularly in the PRC*." and "*Risk factors – Risks relating to the PRC - Any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC may have a material adverse effect on the Bank's business, financial condition and results of operations*."

Opening of business of Beijing Sunshine Consumer Finance Co., Ltd.

In January 2020, CBIRC approved the Bank's establishment of Beijing Sunshine Consumer Finance Co., Ltd. in Beijing. The company opened for business on 17 August 2020.

Progress in the Establishment of CEB Tokyo Representative Office

In January 2020, CBIRC and Financial Services Agency of Japan reviewed and approved the application for the establishment of the Bank's Tokyo representative office in succession. As at 30 September 2020, the work was in progress.

Completion of Issuance of Non-fixed Term Capital Bonds

Upon the approval from CBIRC and PBOC, the Bank completed the issuance of RMB40.0 billion of non-fixed term capital bonds on 22 September 2020. The coupon rate is 4.60 per cent. for the first 5 years, and shall be adjusted every 5 years. The Bank has the conditional redemption right on each interest payment date in the 5th year and thereafter. After deducting relevant issuance expenses, all the proceeds from the bond issuance will be used to replenish additional tier-1 capital of the Bank.

2020 Interim Financial Results

On 30 September 2020, the 2020 Interim Financial Statements was published on the website of the Hong Kong Stock Exchange.

The 2020 Interim Financial Statements (which includes the comparative financial information as at and for the six months ended 30 June 2019) included in this Supplemental Offering Circular have been reviewed by Ernst & Young, but have not been audited.

Such unaudited but reviewed consolidated financial information should not be relied upon to provide the same quality of information associated with information that has been subject to audit. Potential investors must exercise caution when using such data to evaluate the Bank's financial condition and results of operation. Such unaudited and reviewed consolidated financial information as at and for the six months ended 30 June 2020 should not be taken as an indication of the expected financial condition and results of operations for the Bank for the full financial year ending 31 December 2020.

Increase of Shareholding in the Bank by Controlling Shareholder China Everbright Group Ltd.

On 14 October 2020, China Everbright Group Ltd. increased its holding of 1,542,553,191 A shares of the Bank through the conversion of convertible bonds. Before the conversion, China Everbright Group Ltd. directly and indirectly held 25,472,743,396 ordinary shares of the Bank, accounting for 48.53 per cent. of the total equity. After the conversion, China Everbright Group Ltd. directly and indirectly held 27,015,296,587 ordinary shares of the Bank, accounting for 49.999 per cent. of the total equity.

2020 Third Quarter Financial Results

On 30 October 2020, the 2020 Third Quarter Financial Report was published on the website of the Hong Kong Stock Exchange. The Group's total assets for the nine months ended 30 September 2020 increased to RMB5,287,597 million, representing an increase of 11.71 per cent., as compared with the total assets as at 31 December 2019. The total liabilities registered RMB4,846,827 million, representing an increase of 11.49 per cent., as compared with the total liabilities as at 31 December 2019. The balance of deposits was reported RMB3,530,089 million, up by 16.97 per cent., as compared with the balance of deposits as at 31 December 2019. Total loans and advances to customers stood at RMB2,962,788 million, representing an increase of 9.24 per cent. over the end of the previous year.

During the nine months ended 30 September 2020, the Group realised a net profit of RMB29,704 million, a decrease of 5.60 per cent., as compared with the corresponding period in the previous year. Its operating income was RMB106,956 million, up by 6.60 per cent., as compared with the corresponding period in the previous year. The Group's net interest income realised for the nine months ended 30 September 2020 was RMB82,209 million, an increase of 9.20 per cent., as compared with the corresponding period in the previous year and accounting for 76.86 per cent. of the total operating income of the Group.

During the nine months ended 30 September 2020, the Group's net fee and commission income was RMB19,664 million, up by 8.14 per cent., as compared with the corresponding period in the previous year and accounting for 18.39 per cent. of the total operating income.

During the nine months ended 30 September 2020, the Group incurred operating expenses of RMB28,307 million, a decrease of 3.72 per cent., as compared with the corresponding period in the previous year. Its impairment losses on assets were RMB42,989 million, up by 28.69 per cent., as compared with the corresponding period in the previous year as the Bank continued to strengthen the liquidation and disposal of non-performing loans in the third Quarter of 2020 in line with its efforts to maximise the value of non-performing assets, reduce losses and increase returns.

As at the end of the nine months ended 30 September 2020, the non-performing loans of the Group totalled RMB45,234 million, representing an increase of RMB3,022 million, as compared with 31 December 2019. Its non-performing loan ratio was 1.53 per cent., decreased by 0.03 per cent. as compared with 31 December 2019. Its provision coverage ratio was 182.06 per cent, representing an increase of 0.44 percentage point as compared with 31 December 2019. As at the end of the nine months ended 30 September 2020, the Group recorded a liquidity coverage ratio of 134.70 per cent., against a liquidity coverage ratio of 125.12 per cent. as compared with 31 December 2019.

As at the end of the nine months ended 30 September 2020, the Group's capital adequacy ratio reached 13.83 per cent. Its tier-1 capital adequacy ratio was reported 11.58 per cent., while its common equity tier-1 capital adequacy ratio was reported 8.80 per cent., all of which met the regulatory requirements. As at the end of the reporting period, the leverage ratio of the Group was 6.89 per cent., up by 0.06 percentage point as compared with 31 December 2019.

The summary consolidated statement of profit or loss and other comprehensive income of the Group for the nine months ended 30 September 2019 and 2020 and the summary consolidated statement of the Group's financial position as at 30 September 2020 as included in this Supplemental Offering Circular are derived from the Group's "2020 Third Quarter Financial Report" filed with the Hong Kong Stock Exchange on 30 October 2020, which was prepared in accordance with IFRS. These results have not been audited or reviewed by the Bank's independent auditors.

None of the Issuer, the Bank, the Group, the Joint Lead Managers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated quarterly financial information as at and for the ninth months ended 30 September 2019 and 2020 for an assessment of the Bank's financial condition and results of operations. Such unaudited and unreviewed consolidated financial information should not be relied upon to provide the same quality of information associated with information that has been subject to audit. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results. Such unaudited and unreviewed consolidated quarterly financial information as at and for the nine months ended 30 September 2020 should not be taken as an indication of the expected financial condition and results of operations of the Bank for the full financial year ending 31 December 2020.

Connected Transaction with China Minmetals Corporation

On 30 October 2020, the 20th meeting of the 8th Board of Directors of the Bank reviewed and approved the "Proposal of Approving Comprehensive Credit Line for China Minmetals Corporation". The Bank approved to grant China Minmetals Corporation a comprehensive credit line of RMB8 billion with a term of 36 months and with a credit method.

The Change of Registered Capital and the Amendments to The Articles of Association of The Bank

The Bank publicly issued A share convertible corporate bonds in the total amount of RMB30 billion in March 2017, with a maturity period of 6 years. As of 31 December 2020, the number of accumulated converted shares of such A share convertible corporate bonds is 1,542,813,979 shares, an increase of 1,542,781,841 shares from the end of 2017. In addition, the Bank non-publicly issued preference shares in the total amount of RMB35 billion in July 2019, an increase of 350,000,000 shares from the end of 2017.

As of 31 December 2020, upon the conversion of A share convertible corporate bonds and the issuance of preferred shares, the share structure of the Bank is: 54,031,908,979 ordinary shares, of which 41,353,173,479 A shares and 12,678,735,500 H shares; the number of preferred shares is 650,000,000.

According to the above changes in shares and the relevant procedural requirement of the domestic local industrial and commercial registration authority, on 29 January 2021, the Board of Directors of the Bank resolved to change the registered capital of the Bank to RMB54,031,908,979, and make corresponding adjustments to the relevant terms of registered capital in the articles of association of the Bank. The above matters are subject to the approval by the general meeting of the Bank and the CBIRC. The amended articles of association will take effect from the date of approval by the CBIRC.

Appointments and Resignations of Directors and Supervisors

As at the date of this Supplemental Offering Circular, the Board of Directors consists of fifteen members, including six Non-Executive Directors, three Executive Directors and six Independent Non-Executive Directors. The re-elected directors shall perform their duties right upon their election. On 5 February 2021, the Bank has received the "Approval by China Banking and Insurance Regulatory Commission of Appointment Qualifications of Four Individuals Including Fu Wanjun of China Everbright Bank 《中國銀保監會關於光大銀行付萬軍等四人任職資格的批覆》 (Yin Bao Jian Fu [2021] No.104), pursuant to which the appointment qualification of Mr. Fu Wanjun, Mr. Yao Wei, Mr. Yao Zhongyou and Mr. Qu Liang as the directors of the Bank were approved. The Board of Supervisors consists of eight members, including two Shareholder Supervisors, three External Supervisors and three Employee Supervisors. See "*Directors, Supervisors and Senior Management"* in this Supplemental Offering Circular for details of the senior management of the Bank as at the date of this Supplemental Offering Circular.

2020 Preliminary Financial Results

On 21 January 2021, the Group published its 2020 preliminary annual results on the website of the Hong Kong Stock Exchange. The 2020 preliminary annual results are preliminary data of the group calculated in accordance with PRC Accounting Standards and have not been audited. Investors should exercise caution when referring to such information

In 2020, in the face of a series of difficulties and challenges brought by the COVID-19 pandemic, the Bank focused on both pandemic prevention and control as well as business development and made efforts to ensure stability on operation. Meanwhile, the Group focused on its strategic vision to become a first-class wealth management bank by highlighting value creation and high-quality development, steadily growing the business scale, reducing non-performing indicators, continuously improving operating efficiency, and the overall business has shown a healthy momentum and made progress while maintaining stability.

During 2020, the Group reported positive growth in operating income whilst total profit and net profit attributable to equity shareholders of the Group remained stable. As at the end of 2020, the Group also recorded a significant increase in net assets and owner's equity attributable to the ordinary shareholders of the Group. As at the end of 2020, the amount of NPLs and the NPL ratio of the Group decreased whilst the Group reported an increase in the provision coverage ratio.

None of the Issuer, the Bank, the Group, the Joint Lead Managers or their respective directors, officers, employees, agents, affiliates or advisers makes any representation or warranty, express or implied, regarding the sufficiency of the Bank's unaudited and unreviewed consolidated financial information as at and for the year ended 31 December 2020 for an assessment of the Bank's financial condition and results of operations. Such unaudited consolidated financial information is preliminary only should not be relied upon to provide the same quality of information associated with information that has been subject to audit. Accordingly, potential investors must exercise caution when using such data to evaluate the Bank's financial condition, results of operations and results.

COMPETITIVE STRENGTHS

The Bank's principal competitive strengths include:

Distinctive model-based operations and strong focus on strategic and emerging industries

The Bank's model-based operations provide customised financing solutions to satisfy industry-specific demands and diversified customer needs. The Bank efficiently replicates and applies these financing solutions to customers in the same industry or with similar demands. The Group focuses on its strategic customers, listed companies and other quality large and medium-sized enterprises. The Bank also selects upstream and downstream SME customers according to supply-chain financing needs. The Bank has also created cooperative platforms to provide competitive small and micro-products to cater for differentiated financing services of small and micro enterprises and enhanced the scope of services to small and micro-sized enterprises. Tapping on technology, the Bank has also sought to strengthen its investment in financial technology, strengthen the application of big data in the financial field and promote the intelligent and online application in marketing, approval process and post-loan services for small and micro-sized customers.

The Bank's SME business has leveraged on the risk mitigation function of the Bank's model-based operations and adopted on-site inspections and customised assessments to effectively reduce the Bank's risk exposure.

In addition, the Bank places a strong focus on supporting strategic and emerging industries in the PRC. The Bank actively supports the development of "green financing" in the PRC. Embracing the trend of developing an energy efficient economy, the Bank launched a low-carbon financial service package, "Guang He Dong Li" (光合動力), to meet the needs of enterprises seeking financing for their low-carbon projects. The Bank's "Guang He Dong Li" (光合動力) low-carbon financial product has won many awards.

The Bank also focuses on financing for high-tech companies. It provides strong financial support to enterprises in strategic and emerging industries of the PRC that possess core technology and strong research and development capabilities.

In addition, the Bank actively supports government procurement financing. It launched "Government Procurement Financing Loans" (政採融易貸), a financial product offered to SME suppliers whose target customers are government agencies.

Supported by the strength of China Everbright Group Ltd., the Bank also enjoys substantial cross-selling and collaboration opportunities from effective customer resources sharing. For example, on 13 January 2017, the Bank announced that it had entered into an agreement with China Everbright Group Ltd., under which China Everbright Group Ltd. had proposed to subscribe to no more than RMB8.8 billion of domestic convertible bonds to be issued by the Bank, and in September 2019, China Everbright Group Ltd. entered into an agreement with the Bank, under which the Bank would provide bond underwriting services for two years for an annual total value of RMB5 billion of bonds to be issued by China Everbright Group Ltd., subject to an annual fee cap of RMB90 million.

The Bank believes that its strong focus on strategic and emerging industries in the PRC will enable the Bank to continue expanding its business in the PRC.

Effective capital management and operation

The Bank focuses on capital management in its business operations. It promotes the use of economic metrics such as EVA (Economic Value Added) as key performance indicators and has transformed the Bank's performance evaluation system by adopting a system that evaluates operational performance on a risk adjusted basis as opposed to using financial indicators.

The Bank has established a capital-efficient business model focusing on SMEs and micro enterprises, electronic banking and wealth management businesses. The Bank's overall credit structure improved over the years, with balances of personal loans as a percentage of total loans and advances changing from 40.85 per cent. as at 31 December 2017 to 43.50 per cent. as at 31 December 2018, and to 42.68 per cent. as at 31 December 2019, and 40.74 per cent. as at 30 June 2020. As a result, the Bank's capital efficiency and profitability has fluctuated.

The Bank's cost-to-income ratio[1] decreased from 32.36 per cent. for the year ended 31 December 2017 to 29.48 per cent. for the year ended 31 December 2018 and further decreased to 27.85 per cent. for the year ended 31 December 2019. The Bank's cost-to-income ratio amounted to 26.68 per cent. for the six months ended 30 June 2019, which was continually decreased to 25.91 per cent. for the six months ended June 2020. The Bank's return on average total assets increased from 0.78 per cent. for the year ended 31 December 2017 to 0.80 per cent. for the year ended 31 December 2018 and further increased to 0.82 per cent. for the year ended 31 December 2019. The Bank's return on average total assets amounted to 0.91 per cent. for the six months ended 30 June 2019, and further decreased to 0.73 per cent. for the six months ended 30 June 2020.

Fast growing retail banking business

By implementing a differentiated and comprehensive retail banking strategy, the Bank has identified its wealth management, micro enterprise financial services and credit card businesses as key growth drivers. The Bank targets mid-to high-end customers and is committed to providing comprehensive financial services by (i) promoting cross-selling among various business lines and (ii) effectively leveraging the Bank's products, brands and channel resources. For the years ended 31 December 2017, 2018, 2019 and for the six months ended 30 June 2019 and 2020, the Bank's retail banking business generated operating income of RMB35,572 million, RMB46,518 million, RMB54,683 million, RMB27,039 million and RMB29,283 million, respectively, representing 38.66 per cent., 42.14 per cent., 41.13 per cent., 40.83 per cent. and 40.58 per cent. of the Bank's total operating income, respectively.

The Bank's credit card business grew as a result of effective marketing and continuous innovation. Supported by the Bank's advanced IT platform, the Bank has issued different customised credit card products, which have been well received by customers. Currently the main credit card products of the Bank included four series products namely "Cute Series (萌系列)", "UP Series (UP 系列)", "Big Trip (大出行)" and "Big Health (大健康)", which target to the young customers and high-net-worth customers; and among others, the predecessor of "Big Trip" is the "Big Travel (大旅遊)". "Big Health (大健康)" is aiming to satisfy customers' demand on health and sports after the outbreak of COVID-19 by providing relevant service products such as "Filial Peity Card (孝心卡)" and "MIGU Run Co-branded Card (咪咕善跑聯名卡)" etc.

In adherence to its founding mission of "serving the people and solving their difficulties", the Bank set up the E-Cloud Banking Services Department to take charge of the business development of China's largest convenient bill payment platform and put the inclusive finance strategy into practice. The Bank continued to increase the types of bills that can be paid on the platform, facilitated the online collection of non-tax government revenues and promoted platform exports. The E-Cloud Banking Services were launched across the board to additionally incorporate non-tax cloud, social security cloud, property management cloud, healthcare cloud and education cloud. The Cloud Fee Payment client launched eight life modules, namely, insurance, security, going abroad, tourism, medical treatment, housekeeper, handing cards and wealth management.

Through adopting efficient management plans, the Bank has improved service efficiency, further streamlined the operational processes of the Bank's credit card business and enhanced the Bank's management quality at various stages. Furthermore, the outsourcing of the Bank's standardised businesses has effectively reduced the Bank's operating costs. The Bank has also adopted a refined marketing strategy based on customer segmentation which enabled the Bank to achieve a manageable cost-to-income ratio for the Bank's credit card business.

[1] Excluding business tax and surcharges.

The Bank believes that its comprehensive retail banking strategy and its well-established credit card business gives it a competitive advantage over other industry players and enables the Bank to maintain its industry-leading position.

Outstanding innovative DNA

The Bank was incorporated at the right time when a competitive financial market had just emerged in China, and pursued exploration and innovation. It has secured impressively innovative achievements. With its innovative efforts, it became the first bank that launched the RMB wealth management product and RMB structured finance product, the first one to be licensed for running the national treasury business on an agency basis, and one of the first banks owning the dual qualifications for enterprise annuity custodian and account manager across the country. Besides, it accomplished the first market-oriented debt-for-equity swap project, and forged the largest open-ended payment platform named “Cloud Fee Payment” nationwide.

Leading roles in some businesses

The Bank has obtained comparative advantages in wealth management business, and is devoted to building the image of “leading wealth management bank”. Its investment banking business segment as the first mover in the industry is able to provide corporate customers with comprehensive investment banking services. The Bank also intends to establish a wealth management subsidiary, to promote innovation and to provide customers with comprehensive, diversified and customised wealth management. Its e-banking business has focused on building an open service system based on an open-ended platform, which has developed into an industry leading business model. Focusing on customer service, the credit card business of the Bank has gained a superior position among its peers with rapid growth generated by technology-driven innovation and services provided by the Bank. With comprehensive resources and the quality of the customers of the Bank which the Bank is able to leverage on, the Bank is able to establish a comprehensive product and investment and financing system to cater for the diversified needs of different customers and facilitate the smooth development of the net value of the wealth management business through effective online and offline integration transformation. The Bank has also developed an advanced IT system, in particular for the Bank’s wealth management business. It has established a full-service business system covering the four segments of sales and products, asset management, valuation and data analysis, which provides strong support for the transformation and development of the asset management business.

Prudent risk management

The Bank proactively implements comprehensive and effective risk management measures. Based on the Basel III framework, the Bank established a comprehensive risk management system covering various aspects of its businesses, adopted an internal ratings system with high sensitivity, improved risk assessment and risk-adjusted pricing ability and increased capital efficiency of its operations.

The Bank has an independent and professional risk management organisation structure. The Bank has established risk management teams to key business lines and branch outlets and has strengthened the Bank’s risk management and control efforts in its major business areas. As a result, the Bank improved the professional standards and independence of its risk management team and has aligned its risk management practices more closely with the market.

The continued improvement of the Bank’s risk management capability has enabled the Bank to effectively handle the challenges brought by the recent economic downturn and manage its overall risks. The Bank had firmly safeguarded the Bank’s risk management bottom-line across the board and strengthened the credit risk management. As at 31 December 2017, 2018, 2019 and 30 June 2020, the Bank’s NPL ratio was 1.59 per cent., 1.59 per cent., 1.56 per cent. and 1.55 per cent., respectively.

The Bank has implemented a comprehensive risk management review on its off-balance sheet businesses and effectively capped the growth of such businesses through risk quota management and economic capital evaluation. The Bank has incorporated its off-balance sheet businesses into its integrated credit management system and centralised its credit risk management in accordance with standard credit policies. By imposing strict restrictions on loan extensions and by strictly managing loan approvals, the Bank emphasises the prevention of its exposure to risks, associated with LGFVs and real estate loans from impacting the Bank's off-balance sheet businesses. The Bank's micro enterprise credit business has also prudently expanded in consumer spending related industries and through limited lending to speculative ventures.

Advanced IT platform and industry-leading digital banking innovation

In line with the trend which features electronic accounts and online transactions, the Bank has focused on developing internet banking, mobile finance and self-service banking. Through establishing a number of "Sunshine E-series" (陽光 e 系列) platforms and promoting internet banking portals such as those at Taobao.com and Sohu.com, the Bank has (i) created an integrated wealth management platform through websites, online banking, mobile phones and network messaging; (ii) increased the effectiveness of its product sales via electronic channels; and (iii) achieved remarkable growth in the Bank's income. In addition, the Bank has strengthened the development of its electronic channels, promoted major electronic channels (including a multi-function homepage, internet banking, short message service banking, automatic teller machine ("**ATM**") and telephone banking) and enhanced its synergy with physical outlets and achieved growth in its customer base. For example, in 2015, the Bank promoted the issuance of credit cards via a mobile phone app to gradually replace the Bank's PAD card issuing device. This was a key feature in the Bank's move towards mobility in issuing cards.

In the first half of 2020, the Bank renamed and upgraded the Electronic Banking Department to the Digital Banking Department in an effort to further advance its digital transformation. The Bank capitalised on the agile advantage of digital banking, rolled out non-contact financial services to help with the fight against COVID-19, and went digital at a faster speed. As at 30 June 2020, 98.60 per cent. of counter transactions were handled through electronic channels, 0.26 percentage point higher than the last year. The Bank continued to expand the coverage of the Wealth E-SBU (which stands for "Ecosystem, Electronic and Everbright Strategic Business Unit") platform and accelerated the building of a "mega-wealth" ecosphere.. Mobile banking (V7.0) was launched, and the "Wealth +" brand was upgraded. The number of monthly active users of mobile banking reached 10,297,200, an increase of 45.52 per cent. year on year. The Bank strengthened the "Cloud Payment" service on an industry-oriented basis, with a total turnover of RMB5.30 trillion. Online inclusive finance loans were issued in the form of "Sunshine Loan", with big data-based smart risk control in place. The balance of "Reassuring Loan" stood at RMB77,273 million, and more than RMB210 billion of which was extended in aggregate during the first half of 2020. With a focus on innovative application of blockchain, the Bank built the "Sunshine Blockchain" by rolling out financial products such as "Blockchain Payment", "Blockchain Custody" and "Blockchain Payroll".

Unified Sunshine brand

The Bank has upheld the business philosophy of "Sharing Sunshine Innovating Life" for many years, where it has stepped up its brand building efforts to create the "Sunshine" brand series. Thanks to the brand, it develops a favourable image in the market, gains fairly great reputation, and demonstrates considerable brand competitiveness.

The Bank has implemented the transformation of asset management business and continuously improved the "Sunshine" brand image.

Experienced management team

The Bank's senior management team has extensive experience in the banking and financial industry in the PRC. The key members of the Bank's senior management have an average of approximately 21 years of management experience related to the financial industry. The Bank's chairman and president have held various major leadership positions in the financial industry. The Bank's senior management led the implementation of the Bank's business transformation and the optimisation of the Bank's organisation and have achieved remarkable results in recent years.

The Bank's experienced management team has a successful track record of implementing a series of transformational initiatives, including the Bank's financial restructuring and the improvement of the Bank's corporate governance and risk management structures. Under the leadership of its management team, the Bank has significantly improved its operations and financial results, and is moving toward its goal of becoming a world-class commercial bank.

STRATEGIES

The Bank's strategic vision is to build the image of "leading wealth management bank". The Bank will adhere to reform and innovation, seek development amid stability, strive to develop itself into a first-class wealth management bank that bears vision and value, seeks for quality, featured and innovative development, never oversteps its bottom line, and is reputable, dynamic and responsible, in order to create greater value for the shareholders and customers. The Bank will focus on the operation of key business and strengthen the capacity for high-quality development. It will gather its pace in the transformation towards an "efficient, technology-driven and ecological" banking, raise service awareness and enhance the Bank's competitive advantages.

Implement the strategy of "building a leading wealth management bank" and pursuing high-quality development.

In the first half of 2020, the Bank continually focused on the strategy of building a first-class wealth management bank, pursued high-quality development, and accelerated the transformation towards operations that are agile, technological-driven, and with a focus on the China Everbright Group eco-system. The Bank will continue to push forward the transformation and innovation of the three main businesses of corporate banking, retail and asset management, in order to serve the real economy and create well-regarded products and outlets. Therefore, the Bank plans to roll out well-regarded and innovative products and integrate channels and resources to advance the E-SBU. The Bank will also deepen institutional reform and refine the market-based operating mechanism, and at the same time seize the opportunities to expand its international presence with its characteristics. In addition, the Bank will continue to promote the digitalisation of businesses, in order to develop its internet banking and to maintain its leading position for its cloud fee payments platform. The Bank will continue to work towards the goal of "building a leading wealth management bank".

Enhance the Bank's capabilities for providing comprehensive financial services to its large corporate customers.

Keeping up with industry trends such as interest rate liberalisation and financial disintermediation allows the Bank to continue to provide innovative products and services to satisfy the diversified financing needs of its customers by providing a comprehensive financial services platform. The Bank will improve internal cooperation among its corporate banking, investment banking, treasury, custodian and other business lines to provide comprehensive financial services for the Bank's large corporate customers. In addition, the Bank will actively promote supply-chain financing and strive to maintain its leading market share with in the debt securities underwriting market in the PRC. The Bank will continue to increase its synergy with China Everbright Group Ltd. and its subsidiaries in the areas of leasing, securities and insurance, develop and maintain customer resources, promote cross-selling and increase the Bank's ability to provide comprehensive financial services as well as to enhance its overall competitiveness.

Develop the Bank's SME and micro enterprise financial services.

The Bank will continue to promote innovation in its business model, services and product offerings in order to accelerate the development of the Bank's SME and micro enterprise businesses. The Bank's long-term goal is to optimise its overall customer structure and expand its core customer base among SMEs and micro enterprises. The Bank will target industries that are less cyclical, such as staple goods, and expand its settlement business, in order to strengthen the Bank's deposit base and increase the proportion of its SME and micro enterprise businesses in its overall business.

To achieve these goals, the Bank will:

- adhere to its model-based operations and continue to refine its policies, allocate resources and further develop a professional team to serve the strategic needs of its SME and micro enterprise customers. The Bank will continue to accelerate the development of business models to expand its customer base and improve its service capabilities. The Bank will also further innovate its model for its medium-size enterprise customers;
- strengthen its IT support system for the development of its SME and micro enterprise businesses, establish a comprehensive electronic credit approval system and refine the Bank's risk-adjusted pricing system to improve its overall profitability; and
- further improve its financial services for its micro enterprise customers through internal cooperation between the Bank's corporate and retail banking businesses, streamlined operational procedures, a refined evaluation system and consolidated bank-wide platforms. The Bank will also promote its financial services for its micro enterprises customers through its electronic network to enhance its efficiency while meeting the Bank's risk management requirements.

Develop and improve the Bank's trading, agency and wealth management service businesses.

In response to market demand, the Bank will continue to develop and improve its trading, agency and wealth management services. As a result, the Bank expects to increase the revenue contribution of these business lines. The Bank will also develop its money market, agency business, precious metal agency service and other business lines, while striving to maintain its market-leading position in debt securities investment. Through resource integration, product innovation, channel expansion, customer service and risk control improvement and the establishment of an integrated financial services platform, the Bank aims to further solidify its brand and influence in the inter-bank market.

Through product innovation and improvements in research capabilities, the Bank will continue to strengthen its "Sunshine Wealth Management" brand and increase its contribution to the Bank's overall profits. It will also continue to improve its wealth management business operations, IT platforms, organisational structure and incentives in accordance with its plans to transform its wealth management business into an asset management business.

Strive to develop the Bank's electronic banking business.

The Bank plans to continue to develop the "Everbright Bank Online" project to integrate the Bank's electronic banking channels with its physical branch outlets. The Bank also plans to combine physical outlets, electronic channels and customer relationship managers to consolidate its sales efforts and resources and continuously advance its electronic banking business to maintain an industry leading position.

To achieve the above goals, the Bank will:

- promote the development of the Bank's mobile finance infrastructure and gradually implement a new service model integrating mobile banking, short message service (SMS) banking and mobile payment;
- continue to develop (i) the payment platform, to establish advanced open management and technology platform, and to provide professional payment solutions for customers, (ii) the "Sunshine Loan" platform which provides on-line lending service for its clients and other internet users through its financing business system; and
- further intensify the Bank's efforts to attract electronic banking customers in order to expand the Bank's customer base.

Strengthen and optimise the Bank's physical network.

The Bank will steadily increase the total number of outlets, continue to optimise its coverage within the PRC and improve its network operation efficiency.

The Bank's network expansion plan will primarily include: 1) developing tier-two branches and sub-branches in the PRC's main tier-two cities where the Bank does not have coverage; 2) moderately increasing penetration in existing covered regions; and 3) establishing more self-service banking centres, community branches and specialised branches.

The Bank will integrate the services and marketing capability of the Bank's various channels to achieve synergies and economies of scale. By further integrating physical outlets and electronic channels, the Bank will establish a more customer-centric service platform comprised of tier-one and tier-two branches, self-service banking centres, community branches, specialised branches and electronic banking.

Strengthen advantages in the Bank's core banking business.

The Bank will strengthen business development in its corporate banking business. The Bank will continue to promote its corporate banking operations. It intends to deepen the application of its model-based operations, focus on key industries and core companies and expand both upstream and downstream along the supply chain to effectively mitigate its credit risks. The Bank will also endeavour to increase its overall revenue and promote the expansion of its SME and micro enterprise customer base. Furthermore, the Bank will actively promote growth in the Bank's corporate customer base by developing its supply chain financing business, including creating and improving relevant financial products, trade finance products, cash management products and account settlement products.

The Bank will also actively develop its retail banking business. The Bank plans to further develop its retail banking business by focusing on financial services for micro enterprises and wealth management for retail customers, supplemented by account settlement tools, cross-sales and the establishment of a centralised, comprehensive service system for mid-to high-end retail customers. The Bank will continuously and progressively develop its retail banking business through the utilisation of the Bank's large, organised pool of customer resources and establish retail banking as a cornerstone for its continued and steady growth. The Bank plans to strengthen its credit card business and steadily increase its contributions to the profitability of its retail banking business and the Bank as a whole.

In addition, the Bank will continue to solidify its liability business. The Bank will actively develop products to attract deposits and funds, enter into large projects and optimise the Bank's liabilities structure by strengthening its core deposits business, thereby improving the stability of its liability business.

Enhance capital planning and management.

The Bank will uphold and enhance capital planning and management by adhering to three principles: (i) effective capital deployment, (ii) prudent use of capital and (iii) maximisation of risk-adjusted returns. In addition, the Bank will formulate mandatory plans for replenishing operating capital and set up effective capital replenishment channels. Through these plans, the Bank will be able to optimise its capital replenishment model and broaden its sources of capital so as to maintain organic capital growth.

To achieve these goals, the Bank will:

- further improve its organisational structure for capital management and continue to integrate its capital management processes. The Bank will also develop and promote the integrated application of economic capital and technology in capital management, thereby improving the management of economic and regulatory capital in a centralised manner. Through strengthening the Bank's overall coordination in capital and resource allocation, the Bank will be able to promote seamless integration between capital management and comprehensive risk management;

- develop and apply three core tools: (i) a capital allocation system based on return on economic capital, (ii) a risk-based pricing mechanism focusing on risk-adjusted revenue and (iii) a performance assessment system based on RAROC (Risk-Adjusted Return On Capital)/EVA (Economic Value Added) of economic capital in order to strengthen the implementation of the Bank's capital management objectives; and
- emphasise organic capital replenishment to support sustainable growth and development. The Bank will also set up a multi-channel external capital replenishment mechanism to progressively optimise its capital management tools and ensure its financial efficiency and stability. The Bank aims to maintain sufficient capital in order to ensure that its total capital and core capital can meet regulatory requirements and the Bank's business lines can achieve sustainable development.

Achieve prudent risk controls.

Sticking to the principle of "all-round, whole-process, all staff participation", the Bank is committed to maintaining a comprehensive risk management system that enhances the Bank's overall strategy and long-term strategic position and addresses various quantifiable risks, including credit risk, market risk, operational risk, liquidity risk, strategic risk and reputation risk. The Bank plans to:

- take proactive measures to adapt to global economic and financial developments and strengthen the Bank's comprehensive risk management capabilities to mitigate systematic and regional risks;
- improve the Bank's credit risk management system and structure, deepen the Bank's model-based operations, enhance its portfolio management and strengthen risk management in key business areas to manage its risks. The Bank also maintains prudent provision policies to respond to the dynamic operating environment;
- proactively respond to the consequences of interest-rate liberalisation and exchange rate policy reform in the PRC, strengthen the Bank's banking book and trading book interest risk management system and enhance its market risk management capabilities;
- actively implement liquidity management strategies to maintain an appropriate level of liquidity throughout the Bank's operations;
- promote product innovation by following the principles of "risk control, cost consideration, increased transparency and sufficient risk compensation capability". In accordance with the Bank's innovative business strategy, the Bank will develop an innovative risk management system covering both on-and off-balance sheet assets, banking book and trading book; and
- widen the application of the Bank's risk management policies to cover comprehensive financial services, financial services for SMEs and micro enterprises, as well as e-banking and other areas of the Bank's strategic focus.

Foster a strong corporate culture.

The Bank believes that having a strong corporate culture is critical to ensuring its sustainable and steady growth. To continue to foster a strong corporate culture, the Bank will:

- cultivate a robust risk management culture. The Bank balances risks against returns and establishes a healthy risk management culture to ensure prudent growth;
- foster a culture that promotes innovation. The Bank's growth has been fundamentally linked to its continued ability to innovate while controlling costs and employing prudent and comprehensive risk management processes. The Bank continues to improve its performance appraisal and incentive systems that reward success, promote innovation and business development and manage risks associated with innovation;

- create a learning-oriented environment. The Bank is committed to broadening the level of staff training and utilising a modern learning platform. By cultivating highly-skilled individuals and providing its staff with continuous training, the Bank aims to improve its adaptability to challenging market conditions;
- encourage employee morale. The Bank seeks to create a harmonious professional environment with growth opportunities and a culture that promotes teamwork and loyalty so as to align the Bank's employees' interests with its long-term growth; and
- actively engage in social responsibility endeavours. The Bank will strengthen its social responsibility awareness and continue to be an active corporate citizen. The Bank will further support the economic growth of under-developed regions and actively participate in social assistance programmes, including supporting social projects such as "Water Cellar for Mothers" (母親水窖) and continue to donate funds to local Red Cross Society branches, and focus its efforts on the harmonious development of both its business and society.

THE BANK'S PRINCIPAL BUSINESSES

The Bank's principal business segments are corporate banking, retail banking and financial market. The following table sets forth, for the periods indicated, the Bank's operating income by business segments:

	For the six months ended 30 June				For the year ended 31 December			
	2019		2020		2018		2019	
	Amount	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*	*Amount*	*% of total*
	(RMB in millions, except percentages)							
Corporate banking business	26,843	40.54	30,488	42.25	44,836	40.62	53,275	40.08
Retail banking business	27,039	40.83	29,283	40.58	46,518	42.14	54,683	41.13
Financial market business	12,247	18.49	12,354	17.12	18,935	17.15	24,765	18.63
Other business	95	0.14	32	0.04	97	0.09	216	0.16
Total	66,224	100.00	72,157	100.00	110,386	100.00	132,939	100.00

Corporate Banking Business

The Bank provides a broad range of financial products and services to government agencies, financial institutions and corporations. Corporate banking constitutes the Bank's primary source of income and consists primarily of corporate loans, SME loans, trade finance, discounted bills and corporate deposits, as well as fee- and commission-based products and services such as agency services for public finance, tariff payment and guarantee services, remittance and settlement services, acceptance and guarantee services, assets custody services, cash management, investment banking and financial advisory services.

As at 31 December 2017, 2018, 2019 and 30 June 2020, the Bank's corporate loans balance (including discounted bills) accounted for 59.15 per cent., 56.50 per cent., 57.32 per cent. and 59.26 per cent. of the Bank's total loans, respectively, and the Bank's corporate deposits[2] accounted for 79.08 per cent., 75.44 per cent., 75.41 per cent. and 75.90 per cent. of the Bank's total deposits from customers, respectively. Operating income from corporate banking accounted for 46.29 per cent., 40.62 per cent., 40.08 per cent., 40.54 per cent. and 42.25 per cent. of the Bank's total operating income for the years ended 31 December 2017, 2018, 2019 and for the six months ended 30 June 2019 and 2020, respectively.

[2] Corporate deposits include corporate demand deposits and corporate time deposits.

Customer Base

The Bank has extensive customer relationships with many large Chinese business groups and leading companies, government agencies, financial institutions and SMEs which the Bank believes have strong growth potential. The Bank has provided banking services to a large number of state-owned enterprises under the direct administration of the State-owned Assets Supervision and Administration Commission of the State Council ("**SASAC**"), as well as to a large number of enterprises included in the Top 500 Enterprises of the PRC List jointly published by the PRC Enterprise Confederation and the PRC Enterprise Directors Association (中國企業聯合會及中國企業家協會). The Bank has developed relationships with more than 1,000 large business groups and leading companies in their respective industries in the PRC. The Bank believes that it is one of the few PRC commercial banks approved by MOF to simultaneously engage in the following three types of business: (i) the direct payment of expenditures on behalf of MOF, (ii) the authorised payment of expenditures on behalf of MOF and (iii) the non-tax revenue collection on behalf of MOF. The Bank is a leading domestic underwriter of short-term commercial paper and medium-term notes in the PRC. In addition to expanding the Bank's customer base, the Bank has also focused on optimising the Bank's customer mix.

SMEs are strategically important to the Bank's development and growth. The Bank mainly focuses on the following three types of SMEs: (i) supply chain participants who have advanced production facilities and equipment as well as advanced technologies to provide long term supporting services or supplies to large state-owned enterprises, leading companies, government agencies and other core clients; (ii) SMEs clustered in certain regions or industries who have brands with sound reputations and high market shares in these regions or industries; and (iii) high-tech SMEs which have been included in the national SME administration and service system, including technological SMEs within national-level high-tech industrial parks, software parks, industrial bases for the Torch Programme (a national programme to develop high and new technologies) and national university technology parks.

The Bank also focuses on developing long-term relationships with customers in economically more developed regions in the PRC such as the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, as well as in those industries which are strategically important to the PRC economy. The Bank also continued to adjust its loan portfolios. As at 30 June 2020, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which represented 10.60 per cent., 9.72 per cent., 7.96 per cent., 6.55 per cent. and 4.32 per cent. of the Bank's total loans and advances, respectively, and together represented 39.15 per cent. of the balance of the Bank's total loans and advances as at the same date. As at 31 December 2019, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which represented 9.96 per cent., 9.64 per cent., 7.81 per cent., 6.27 per cent. and 4.17 per cent. of the Bank's total loans and advances, respectively, and together represented 37.85 per cent. of the balance of the Bank's total loans and advances as at the same date. As at 31 December 2018, the top five industries to which the Bank provided corporate loans were: (i) manufacturing, (ii) water, environment and public utility management, (iii) real estate, (iv) leasing and commercial services and (v) wholesale and retail trade, which represented 10.28 per cent., 9.19 per cent., 7.93 per cent., 6.20 per cent. and 4.59 per cent. of the Bank's total loans and advances, respectively, and together represented 38.19 per cent. of the balance of the Bank's total loans and advances as at the same date.

Major Products and Services

Corporate Loans

Corporate loans represented the largest component of the Bank's loan portfolio as at 30 June 2020. Based on maturity, the Bank's corporate loans can be classified into short-term loans and medium-to long-term loans. The Bank's corporate loans mainly include supply chain finance, SME loans and trade finance. The Bank's corporate loans are predominantly RMB-denominated. As at 31 December 2017, 2018, 2019 and 30 June 2020, the Bank had RMB1,179,663 million, RMB1,332,629 million, RMB1,490,033 million and RMB1,649,826 million in corporate loans outstanding, respectively.

- Supply Chain Finance

  In response to the growing demand for financially efficient supply chains, the Bank provides its targeted customers with supply chain finance by extending the Bank's banking services to their customers and suppliers. The banking services which the Bank provides to the customers and suppliers on the supply chain primarily comprise working capital loans, discounted bills, bank acceptance bills, settlement, letters of credit and letters of guarantee. The Bank's supply chain finance solutions connect the Bank's key customers with manufacturers, suppliers, distributors, end users and other parties at upstream and downstream levels of the supply chain.

  The Bank believes that supply chain finance represents an opportunity for the Bank to transform from a bank that meets only a fraction of its customers' trade needs to an integral and valued business partner that provides optimal solutions across its customers' entire supply chain. Supply chain finance helps the Bank's customers reduce costs and optimise working capital from one end of the supply chain to the other. Moreover, it creates deeper and broader customer relationships for the Bank during the process and creates synergies among its various business lines.

  The Bank believes that it has a first-mover advantage and is the market leader in the supply chain finance business in the PRC. The Bank started providing supply chain finance for the automotive industry under its brand "Full Link" (全程通) in 2000, which provides comprehensive and customised banking services to suppliers of automobile spare parts, automakers and distributors at each stage of the automotive production and distribution processes. At the upstream and midstream levels, the Bank provides suppliers of automobile spare parts and automakers with working capital loans, discounted bills and letters of credit to facilitate the production of automobiles and import of spare parts. At the downstream level, the Bank provides distributors with loans and discounted bills.

  The Bank's success in providing supply chain finance in the automotive industry provides a template for the Bank to replicate such business model across other industries. The Bank has been expanding its supply chain finance business into other industries that the Bank believes have strong growth potential and which contribute to the real economy, such as the pharmaceutical industry, the home appliance industry and healthcare and other industries. 30 per cent. of the Bank's customers to whom the Bank provides letters of guarantee are in the construction industry. The Bank's payment systems has also created an e-payment system for customs tax that is integrated with the Customs' Department in the PRC, allowing the import and expert enterprises to enter into agreements online, pay custom duties and have access to their funds online. Such customers would also have access to the levy tax protection products of the Bank and have the benefit to release the funds first before signing, creating a win-win situation for both the Bank and the customers.

- SME Loans

  Since 2009, the Bank has established the SME and related divisions at the Bank's headquarters and branch outlets on an ongoing basis. The Bank's specialised service team and tailored credit approval procedure drive the development of the Bank's SME business and enhance the efficiency and quality of the Bank's SME service efficiency and quality. The Bank has expanded its SME coverage to all its branches. Under the Bank's "Sunshine Value Plan" (陽光值計劃), the Bank provides its SME customers with not only traditional banking services, such as working capital loans and discounted bank acceptance bills, but also innovative and value-added services in the areas of securities, insurance and investment banking. In 2011, the Bank expanded its SME business to small enterprise financing so as to diversify the Bank's revenue sources and increase customer loyalty by providing comprehensive financial services through multiple channels. In 2012, the Bank also launched the "Thousands of Customers Growth Plan"

(千戶成長計劃) to cultivate high-quality enterprise customers with high-growth potential and provide them with multi-market, multi-product financing solutions to meet their ever-changing needs as they progress through their different stages of business development. As at 30 June 2020, the Bank had a balance of inclusive finance loans to small and micro businesses of RMB178,830 million, representing an increase of 15.08 per cent. comparing to the year ended 31 December 2019.

The Bank has developed tailored credit plans for SMEs through model-based operations. Over the last three years, the Bank's SME loan business has grown. The Bank's prudent risk management systems help to ensure that the risk relating to the Bank's SME business is properly managed. As at 30 June 2020, the Bank has achieved compliance with CBIRC's indicators on "two no less than and two controls".

The Bank provides trade finance services to customers engaging in domestic or international trade. It also actively transformed its trade finance modal to transactional banking, creating the "Sunshine Supply Chain" product lines, leveraging the advantages of capital-efficient assets and product innovation to stimulate the growth of fee-based business income. The Bank's domestic trade finance services primarily comprise domestic letters of credit, factoring, supply chain buyers' finance and supply chain sellers' finance, among others. The Bank's international trade finance services primarily comprise import finance bills, export finance bills, packing loans, export discounts, forfeiting, factoring and trade finance under export credit insurance. Taking advantage of favourable national policies relating to the China (Shanghai) Free Trade Pilot Zone ("**Shanghai FTZ**"), the Bank actively promoted its trade finance business, including international settlement and cross-border financing business by leveraging its overseas branches and Shanghai FTZ branches, which jointly acted as an extended financial service platform. As at 30 June 2020, the overall balance of the on-balance-sheet and off-balance-sheet trade finance increased by 9.19 per cent. as compared to the year ended 31 December 2019.

Discounted Bills

Discounted bills refer to the Bank's discounted purchase of bank acceptance bills and commercial acceptance bills with a remaining maturity of less than six months (no longer than one year for electronic commercial bills). The Bank may resell these bills to PBOC or other financial institutions authorised to conduct bill discounting, which would provide the Bank with additional liquidity and net interest income. As at 31 December 2017, 2018, 2019 and 30 June 2020, the Bank had outstanding discounted bills of RMB22,389 million, RMB35,497 million, RMB64,663 million and RMB81,540 million, respectively, representing 1.10 per cent., 1.47 per cent., 2.38 per cent. and 2.79 per cent., respectively, of the Bank's total loans and advances to customers for the same period. The Bank has proactively participated, together with PBOC, in the development of the Bank's electronic bill business and the construction and promotion of the e-bill system. As a result, the Bank was granted the "Business Development Award for Electronic Commercial Bills" (電子商業匯票業務拓展獎) by PBOC.

Corporate Deposits

The Bank offers its corporate customers time and demand deposits in Renminbi and other major foreign currencies through a range of products. As at 31 December 2017, 2018, 2019 and 30 June 2020, the Bank had RMB1,797,159 million, RMB1,940,108 million, RMB2,275,772 million and RMB2,787,274 million in corporate deposits outstanding, respectively. As at 30 June 2020, the Bank's corporate deposits accounted for 75.90 per cent. of the Bank's total deposits from customers.

Fee-and Commission-based Products and Services

As part of the Bank's endeavour to provide comprehensive financial services to its corporate customers, the Bank also provides its corporate customers with a broad range of fee-and commission-based products and services, including agency services for public finance, tariff payment and guarantee services, remittance and settlement services, acceptance and guarantee services, asset custody services, cash management services and investment banking and financial advisory services. As the Bank has focused on developing and offering fee-and commission-based corporate banking products and services in recent years, the Bank's fee and commission income relating to its corporate banking business amounted to RMB6,160 million, RMB5,542 million and RMB6,100 million for the years ended 31 December 2017, 2018 and 2019. For the six months ended 30 June 2019 and 2020, the Bank's fee and commission income relating to its corporate banking business amounted to RMB3,652 million and RMB4,653 million respectively.

- Agency Services for Public Finance

  The Bank provides agency services to central and local governments in respect of the collection of revenues and payment of expenditures. The Bank believes that it is one of the few PRC commercial banks approved by MOF to simultaneously engage in the following three types of business: (i) the direct payment of expenditures on behalf of MOF, (ii) the authorised payment of expenditures on behalf of MOF and (iii) the non-tax revenue collection on behalf of MOF.

- Tariff Payment and Guarantee Services

  The Bank cooperates with the General Administration of Customs of the PRC to provide online tariff payment and guarantee services for the Bank's corporate customers.

  In March 2007, the Bank became one of the first banks authorised by the General Administration of Customs of the PRC to provide banking guarantee services (銀關保) to the Bank's online tariff payment customers. Under the banking guarantee services, subject to requests from import and export enterprises, the Bank presents the online payment guarantee notes to the governing customs according to the relevant regulations of the General Administration of Customs of the PRC. The Bank's payment guarantee notes enable import and export enterprises to obtain preferential treatment of "clearance before payment", pursuant to which those enterprises will obtain a grace period of 15 days for delayed tariff payment.

- Remittance and Settlement Services

  The Bank provides its corporate customers with remittance, foreign currency exchange and settlement services for bank drafts, bank notes, corporate checks and other negotiable instruments. For the years ended 31 December 2017, 2018 and 2019, the Bank's fee and commission income generated from the Bank's settlement and clearing services amounted to RMB1,066 million, RMB1,279 million and RMB1,538 million, respectively. For the six months ended 30 June 2019 and 2020, the Bank's fee and commission income generated from the Bank's settlement and clearing services amounted to RMB1,067 million and RMB1,291 million respectively.

- Acceptance and Guarantee Services

  The Bank provides surety services to its corporate banking customers primarily through letters of credit, bid guarantees, performance guarantees and other forms of bank guarantees. For the years ended 31 December 2017, 2018, 2019 and for the six months ended 30 June 2019 and 2020, the Bank's fee and commission income generated from the Bank's acceptance and guarantee services amounted to RMB861 million, RMB1,120 million, RMB1,360 million, RMB1,067 million and RMB1,291 million, respectively.

- Asset Custody Services

  The Bank provides custody services to securities investment funds, securities companies' collective asset management plans, enterprise annuity funds, private wealth management and qualified domestic institutional investors in the PRC ("**QDIIs**"), as well as custody services to trust companies' collective capital trust plans, industrial investment funds and equity funds. The Bank is also among the first batch of national joint stock commercial banks to obtain both enterprise annuity account manager and custodian qualifications.

For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Bank's custody and other fiduciary business fees amounted to RMB1,683 million, RMB1,358 million, RMB1,446 million, RMB855 million and RMB958 million, respectively.

- Cash Management Services

  The Bank provides integrated cash management services to its corporate customers to assist them in managing their cash flow. The Bank's cash management services include cash collection, disbursement, account management, liquidity management, wealth management and financing services. Through the Bank's branch and sub-branch network, as well as its internet banking system, the Bank provides its customers who have group entities in multiple locations with comprehensive and one-stop cash management services.

- Investment Banking and Financial Advisory Services

  The Bank provides investment banking services and financial advisory services to its corporate customers. The Bank believes that it was among the first batch of PRC commercial banks to be qualified to underwrite short-term commercial paper when the PRC government started to permit this business in May 2005. Since then, the Bank has actively sought to develop its capabilities and has become a market leader in this product area. The Bank's main products include short-term commercial paper, medium-term notes, extra short-term commercial paper, private placement notes, SME combined notes and asset-backed notes. For the six months ended 30 June 2020, the Bank led the underwriting in bond issuance with a total value of RMB289,693 million, ranking the sixth largest in the market, representing a year-on-year increase of 54.40 per cent., including underwriting of RMB21,680 million of anti-pandemic bonds and issuance of RMB1,876 million of asset-backed notes (ABN) for enterprises.

  Through the Bank's financial advisory service platform, the Bank provides its customers with tailored financial solutions and advice, including derivatives, debt financing, structured financing and in-depth industry and financial markets analysis.

Marketing

The Bank implements a number of marketing strategies. The Bank seeks to provide differentiated products and services tailored to its customers to meet their specific needs. When marketing the Bank's services and products, the Bank takes into consideration various factors such as customer recognition and loyalty, risk tolerance, market demand and competition. The Bank's head office is responsible for formulating the Bank's overall corporate banking business development plans and establishing its general marketing guidelines based on industry, geographical region, customer and product considerations. The Bank's branches develop and implement detailed marketing plans tailored to key regions, customers and businesses based on these guidelines. The Bank's head office and branches in strategically important cities are generally responsible for coordinating client coverage and marketing efforts for the Bank's largest corporate customers in an effort to ensure consistency and quality of service.

The Bank's customer relationship managers are responsible for marketing the Bank's services and products to both existing and prospective customers as well as conducting market analysis and client assessment. The Bank provides its customer relationship managers with ongoing training programmes to improve their product knowledge, marketing skills and credit assessment capabilities.

The Bank encourages cooperation and cross-selling among different departments and different business lines and has placed significant emphasis on teamwork and cross-department and cross-business line initiatives in marketing. The Bank also cooperates with other financial services subsidiaries of China Everbright Group Ltd. in order to offer the Bank's customers a more comprehensive range of financial services.

Retail Banking Business

The Bank offers its retail banking customers a wide range of products and services, including personal loans, bank cards, personal deposits and fee-and commission-based products and services. The Bank believes that the Bank's retail banking business is critical to the Bank's success. The Bank has strategically accelerated the development of its retail banking business and continuously reinforced the image of the Bank's "Sunshine" brand through expanding its market share, improving its customer base and providing its customers with innovative products and services to satisfy their various demands.

The Bank's retail banking business has experienced continued growth in recent years and as at 30 June 2020, it represented the second largest component of the Bank's loan portfolio. The Bank's personal loans accounted for 40.85 per cent., 43.50 per cent., 42.68 per cent. and 40.74 per cent. of the Bank's total loans and advances as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively, and the Bank's personal deposits (including personal demand deposits and personal time deposits) accounted for 16.90 per cent., 20.01 per cent., 22.78 per cent. and 22.95 per cent. of the Bank's total deposits from customers as at the same dates, respectively. For the years ended 31 December 2017, 2018 and 2019, and for the six months ended 30 June 2019 and 2020, the Bank's retail banking business generated operating income of RMB35,572 million, RMB46,518 million, RMB54,683 million RMB27,039 million and RMB29,283 million, respectively, representing 38.66 per cent., 42.14 per cent., 41.13 per cent., 40.82 per cent. and 40.58 per cent. of the Bank's total operating income, respectively.

Customer Base

The Bank has established an extensive retail banking customer base. The Bank classifies its customers into ordinary customers and mid-to high-end customers and has focused the Bank's marketing efforts on its mid-to high-end customers, many of whom are senior management officers and small business owners. Among the Bank's mid-to high-end customers, the Bank defines affluent customers as those who have adaily average assets throughout the month of between RMB500,000 and RMB6 million and private banking customers as those who have a daily average assets throughout the month of more than RMB6 million.

In light of the growth of GDP and personal disposable income in the PRC, the Bank believes that the number of the Bank's mid-to high-end customers and the average value of their financial assets will continue to increase. The Bank intends to further broaden its customer base and improve its customer loyalty by providing tailored retail banking products, expanding the Bank's retail banking sales force and applying differential pricing policies. Moreover, the Bank has expanded the use of electronic banking platforms such as internet banking, mobile banking and ATMs, which offer greater convenience to its customers and at the same time reduce its operating expenses.

Leveraging on its brand name, in 2020, the Bank continuously strived to expand the base of new customers and tap the value of existing customers toward the core objective of "a bigger, better-structured customer base". Coordinated online and offline operation was strengthened through customer lifecycle management, backed by data mining models.

Major Products and Services

Personal Loans

As at 31 December 2017, 2018, 2019 and 30 June 2020, the Bank's personal loans outstanding totalled RMB830,004 million, RMB1,053,203 million, RMB1,157,508 million and RMB1,190,196 million, respectively.

- Personal Residential Housing Mortgage Loans

  The Bank provides its customers with personal residential housing mortgage loans for the purchase of residential properties. As at 30 June 2020, the amount of the Bank's personal housing mortgage loans outstanding was RMB440,833 million, accounting for 37.04 per cent. of its total personal loans and advances and increased by 6.42 per cent. from RMB414,211 million as at 31 December 2019. For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Bank's retail banking business generated operating income of RMB35,572 million, RMB46,518 million, RMB54,683 million, RMB27,039 million and RMB29,283 million respectively, representing 38.66 per cent., 42.14 per cent., 41.13 per cent., 40.83 per cent. and 40.58 per cent. of the Bank's total income, respectively.

In light of the PRC's increasing urbanisation and as the PRC's residential property market matures, the Bank expects mortgages for the purchase of secondary market properties to increase as a proportion of its total personal residential housing mortgage lending business. The Bank's personal residential housing mortgage loans are generally secured by the underlying property being purchased.

In recent years, the PRC government has implemented a series of adjustment measures aimed at cooling down the PRC real estate market. For example, on 26 February 2013, the State Council promulgated the Notice of the General Office of the State Council on Continuing Regulation and Control of Real Estate Market (國務院辦公廳關於繼續做好房地產市場調控工作的通知), which PRC banks to strictly follow the government policies regarding down payment and lending rates for first-time homebuyers and tighten the credit policies for second-time homebuyers. The circular also imposed a 20 per cent. tax on profit generated from certain residential property transactions. On 1 February 2016, PBOC and CBRC issued a notice regarding purchase of second residential property and first ordinary owner-occupied residential property. Such notice requires that for a household owning one residential property with outstanding housing loans on that property and applying for housing loans for the purchase of a second ordinary owner-occupied residential property for the purpose of improving housing conditions, the minimum down payment ratio of the loan shall be not less than 30 per cent. The notice also requires that in the cities where no residential property purchase restriction policies are implemented, for households purchasing their first ordinary owner-occupied residential property, the minimum down payment ratio of the loan shall be not less than 25 per cent. in principal, but may be decreased by 5 per cent. at the discretion of the local authorities. On December 28, 2020, the PBOC and the CBIRC promulgated a notice regarding concentration ratio of real estate loans which caps the percentage of the balance of real estate loans/personal residential loans of a banking financial institution to its balance of RMB loans. The Bank has strictly followed the relevant laws, regulations, policies and measures while providing its branches with flexibility in formulating their own personal residential housing mortgage loan policies based on local situation and regulatory requirements of and guidelines issued by local governments. While the new policies and measures will generally influence the demand for mortgage loans in the market, the Bank's personal residential housing mortgage loans outstanding nonetheless experienced steady growth in recent years.

In order to satisfy the diverse demands of the Bank's customers, the Bank has initiated an electronic preliminary loan approval procedure which allows its customers to be informed of the results of the approval process during their secondary market property transaction. To facilitate the efficiency of the loan approval process, the Bank also introduced an automatic approval procedure in 2011. In addition, the Bank has introduced collateralised loans with maximum limits and with a simplified approval process, whereby a borrower may use a purchased residential property as collateral to take out loans that can be revolved within 30 years within the relevant loan's credit limit. The Bank also developed a standard e channel self-service loan, which provides its customers with innovative experience of small amount consumer finance.

- Personal Commercial Properties Mortgage Loans

The Bank provides its customers with personal commercial properties mortgage loans for the purchase of commercial properties. The Bank targets quality borrowers to enhance the quality of the mortgage loans granted by it.

- Micro enterprise Equipment Loans

  Micro enterprise equipment loans are a type of loan specially designed for the Bank's retail customers who purchase equipment for developing their businesses. Under the arrangement of micro enterprise equipment loans, the Bank provides equipment purchasers with mortgage loans pursuant to cooperation agreements the Bank enters into with equipment manufacturers. The Bank's clients normally repay the loan with cash generated from their operations. In the event that an equipment purchaser fails to repay the loan, the manufacturer shall repurchase and dispose of the equipment to repay the outstanding loan pursuant to the cooperation agreement.

  Micro enterprise equipment loans generally have a relatively low NPL ratio. In addition, the equipment manufacturers had placed risk deposits with the Bank in full, which in turn mitigates against the Bank's risk exposure.

- Personal Consumption Loans

  The Bank's personal consumption loans mainly comprise consumer loans and automobile loans. The Bank provides consumer loans for living expenses and general consumption, such as home renovations, car parking spaces, large-ticket durable goods and overseas education.

  The Bank provides automobile loans for up to 80 per cent. of the purchase price of the automobile and usually requires the purchased automobile or parcels of residential property as collateral for the loan. The Bank targets customers with good credit history for automobile loans.

Bank Cards

The Bank offers a number of bank card products to its customers, comprising a variety of debit cards and credit cards. The Bank believes that it was the first bank in the PRC to offer a combined debit and credit card. For the years ended 31 December 2017, 2018 and 2019, and for the six months ended 30 June 2019 and 2020, the Bank's bank card service fees amounted to RMB20,372 million, RMB11,523 million, RMB14,163 million, RMB6,957 million and RMB6,253 million respectively, representing 61.69 per cent., 51.37 per cent., 54.52 per cent., 49.35 per cent. and 40.66 per cent. of the Bank's total fee and commission income for the same periods.

The Bank is a member of China UnionPay Co., Ltd. ("**China UnionPay**"), the PRC's national inter-bank card information exchange and transaction network organisation. The Bank held a 2.56 per cent. shareholding in China UnionPay as at 30 June 2020.

- Debit Card Services

  The Bank issues debit cards under the brand name "Sunshine Card" (陽光卡) to customers who maintain deposit accounts with the Bank. The Bank's Sunshine debit card provides its customers with access to various financial services, including cash deposit and withdrawal, fund transfer, settlement and bill payment services. In addition, its debit card can also be used for fund transactions, foreign exchange transactions, wealth management and some of the Bank's other fee-and commission-based businesses.

  The Bank has established different levels of Sunshine debit cards to meet the needs of different customers. The Bank issues Sunshine gold cards to those who have assets under the Bank's management of no less than RMB100,000 and no more than RMB500,000, Sunshine platinum cards to those who have assets under the Bank's management of no less than RMB500,000 and no more than RMB1 million and Sunshine diamond cards to those who have assets under the Bank's management of more than RMB1 million. From time to time, the Bank introduces new types of debit cards with special features or co-branded cards with the Bank's business partners. For example, the Bank introduced the "Sunshine Ladies' Card" (陽光伊人卡) for its female customers and "Sunshine Auto Card" (陽光行車卡) specifically designed for automobile owners. The Bank has also enhanced risk control standards for its debit cards.

Focusing on ten areas of people's daily life such as "medical service, dining, housing, traveling and tourism, education, entertainment, health, safety and beauty", the Bank continues to promote innovation in its debit card business. For example, the Bank launched a new function for its debit cards under which customers can make small payments online through their bank cards without using password, providing convenient and secure payment services.

- Credit Card Services

  The Bank's credit card business has grown in recent years. As at 31 December 2017 and 2018, the number of the Bank's issued credit cards was approximately 45 million and 61 million in aggregate, respectively. In 2019, the Bank issued approximately 11.50 million new credit cards. As at 31 December 2020, about 8.38 million new credit cards were issued by the Bank.

  Along with growth in scale, the Bank constantly seeks to optimise the customer structure and increase the profitability of the Bank's credit card business.

  The Bank has successfully launched numerous innovative products. For example, the Bank was the first PRC commercial bank to issue the Visa Infinite Card in the PRC, and the Bank believes it was a first mover to launch the UnionPay Platinum Credit Card, mobile phone dynamic password authentication and interest-free instalment functions. The Bank believes it was also the first to issue a combined debit and credit card, which combines the debit account and credit account of a customer into one. The Bank also launched credit card products integrated with traditional Chinese cultural elements, such as the "Fortune Card" (福卡), which features the Chinese character "Fortune" (福).

  Additionally, the Bank has strengthened its risk management platform through technology-based risk control, promoted its data open platform and distributed cloud platform, improved its risk integrated management platform, and actively applied big data and artificial intelligence technologies to strengthen its risk monitoring, early warning and response capabilities to better manage the risks arising out of the expansion of the Bank's credit card business.

Personal Deposits

The Bank offers demand deposits and time deposits denominated in Renminbi and foreign currencies to its retail banking customers. Personal demand deposits include general demand deposits and flexible-term deposits. Personal time deposits consist of general time deposits, call deposits and education savings deposits, as well as deposits by instalments and withdrawals in lump sums, deposits in lump sums and withdrawals by instalments and time deposits with periodic interest payments that can be withdrawn on demand. The Bank currently offers regular time deposit products with terms ranging from three months to five years for RMB-denominated deposits and longer than one month for foreign currency-denominated deposits. Seizing the opportunities derived from the PRC government's efforts to transform shanty areas and urbanisation drive, the Bank launched "one-stop service" for shanty area transformation projects, which increased both the scale and profit of the Bank's personal deposits business. In 2019, in adhering to the operating philosophy of "developing via deposit business", the Bank deepened customer-oriented integrated operations and kept the scale of personal deposits expanding on a steady footing. It strengthened product innovation by launching the "Payroll Manager", a payroll-based integrated financial service platform.

The Bank's personal deposits (including personal demand deposits and personal time deposits) amounted to RMB384,135 million, RMB514,746 million, RMB687,571 million and RMB842,651 million as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively, accounting for 16.90 per cent., 20.01 per cent., 22.78 per cent. and 22.95 per cent. of the Bank's total deposits from customers as at the same dates.

Fee- and Commission-based Products and Services

The Bank offers its retail banking customers a wide range of fee- and commission-based products and services, such as personal wealth management, bancassurance, brokerage, fund agency services, securities agency services, remittance, international travel financial services and agency trading of gold. For the years ended 31 December 2017, 2018, 2019 and for the six months ended 30 June 2019 and 2020, the Bank's net fee and commission income relating to its retail banking business amounted to RMB22,598 million, RMB13,485 million, RMB16,115 million, RMB8,634 million and RMB8,893 million respectively.

- Personal Wealth Management Services

  The Bank believes it is one of the first few banks that has been authorised by PRC regulators to provide Renminbi wealth management services. The Bank believes that it has developed very strong brand recognition in the market under the Bank's brand name "Sunshine Wealth Management" (陽光理財) for the breadth, depth and quality of its personal wealth management products and services. In particular, in 2018, the Bank focused on the implementation of the strategy of building a leading wealth management bank, launching a more diversified wealth management products and attracted more extensive customers including traditional personal customers, corporate customers, institutional customers and government customers. The Bank offers a comprehensive portfolio of personal wealth management products, including fixed income products, stock investment products, bond investment products, fund products, insurance products, QDIIs and other structured products and financial advisory services, while managing investments, risks and returns. The Bank also sought to adapt to the development trend of FinTech and responded to the digital, intelligent requirements of the time in its wealth management business. For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, the Bank's fee and commission income relating to its wealth management services amounted to RMB3,400 million, RMB876 million, RMB634 million, RMB266 million and RMB1,463 million respectively.

- Fund Agency Services

  The Bank provides custody services to customers such as fund companies, trust companies, insurance asset management companies, and other asset management companies.

- International Travel Financial Services

  As a financial institution recognised by the embassies of various countries, including the United Kingdom, Ireland, Australia and Singapore, the Bank provides one-stop professional international travel financial services. The Bank has introduced more than 20 types of products to cover the financial needs of the Bank's customers for travel, overseas study and immigration under its "Everbright International Travel" (光大出國通) brand. In January 2019, the Bank was awarded the "Gold Metal Market Potential Financial Products of The Year" (年度金牌市場潛力金融產品) by virtue of its prominent strength in delivering innovative financial service products relating to overseas study.

- Agency Trading of Gold

  The Bank acts as an agent for its customers to trade gold at its branches. In 2009, the Bank started to operate gold trading platforms for its retail banking customers. As a member of the financial category of the Shanghai Gold Exchange, the Bank developed a brokerage system to accept individual customer orders to trade on the Shanghai Gold Exchange.

Marketing

The Bank's head office formulates the overall marketing strategies, guidelines and standards for promoting its retail banking products and services. The Bank's branches formulate specific marketing plans in accordance with instructions from its head office and tailor such plans to specific regions, customer preferences and market conditions. The Bank's customer relationship managers implement the marketing strategies and plans through various marketing channels.

The Bank markets its retail products and services to its customers through physical and electronic channels. The Bank's branches and sub-branches are strategically located in regions where it believes its key target customers are located. The Bank also emphasises the importance of internet banking and mobile banking for its retail banking business.

The Bank categorises its customers into ordinary customers and mid-to high-end customers. The Bank's marketing efforts in relation to ordinary customers are primarily based on reaching out to customers by its on-site customer relationship managers, presentations given at the Bank's branches and general media advertisements. For the Bank's mid-to high-end customers, it has introduced customised financial products and value-added services tailored to its customers' individual risk appetites, financial goals and service preferences.

The Bank emphasises the importance of synergies between the Bank's corporate and retail banking businesses as well as synergies among different business lines of retail banking. The Bank also promotes cross-selling among different business lines and segments. For example, the Bank emphasises the development of retail banking businesses such as payroll services for its corporate banking customers and promotes its credit cards and wealth management products to eligible retail banking customers. The Bank's branches are required to prepare their own working plans to incentivise cross-selling. The Bank has adopted measures to motivate its staff to participate in marketing initiatives and it has provided regular training to its sales force.

Financial Market Business

The Bank's financial market business primarily covers inter-bank money market transactions, repurchases transactions and inter-bank investments. It also covers customer-driven derivatives and foreign currency trading, as well as management of the Bank's overall liquidity position, including the issuance of debts. The Bank also trades in debt securities, derivatives and foreign currency trading for its own accounts. For the years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2019 and 2020, operating income from the Bank's financial market business amounted to RMB13,735 million, RMB18,935 million, RMB24,765 million, RMB12,247 million and RMB12,354 million, respectively, representing 14.93 per cent., 17.15 per cent., 18.63 per cent., 18.49 per cent. and 17.12 per cent. of the Bank's total operating income, respectively.

Treasury Business

The Bank strengthened its fund management, ensured liquidity safety and improved capital operation efficiency. It moderately increased the investment in bonds, improved bond investment structure by buying more treasury bonds, local government bonds and policy financial bonds, and enhanced portfolio income. Moreover, the Bank increased the proportion of trading and franchise business in order to reduce the asset dependent business. It promoted the high-quality development of gold leasing business, and increased the income of fee-based business. It improved the comprehensive risk management and control system to ensure the treasury business could run compliantly and orderly. As at 30 June 2020, the balance of bonds in the Bank's proprietary account amounted to RMB857,939 million, accounting for 15.92 per cent. of the Bank's total assets, 48.56 per cent. of which were government bonds and local government bonds. According to overall evaluation by the National Interbank Funding Centre, the Bank was at the forefront of core traders in the interbank market.

Inter-bank Business

The Bank promotes product innovation and continues to increase the variety of its inter-bank products. In 2018, the Bank improved its interbank investment structure and increased investment in standardised products. It strengthened the management of interbank asset and liability portfolio, adjusted the term structure of assets and liabilities and met the needs of the bank-wide liquidity management. The Bank actively works with other banks and financial institutions to expand its inter-bank business. For the six months ended 30 June 2020, the Bank's inter-bank deposits amounted to RMB475,339 million.

Asset Management

The Bank continues to diversify its wealth management products and to optimise its asset portfolio. The Bank improved its asset quality and sought to promote the issuance of net asset value wealth management products. According to the new regulations on asset management, the Bank offered "Colourful Sunshine", a new generation net worth-based wealth management product series which includes stock, hybrid strategy, fixed income, cash management, alternative assets, private equity, and structured investment and financing It also continually seeks to enhance information technology system and has launched a fully functional asset management system. The Bank improved its risk management system and stimulated the stable transformation and development of its wealth management business. On 22 June 2018, the Shareholders' General Meeting of the Bank reviewed and approved the "Proposal on the Establishment of an Independent Legal Institution for Asset Management Business", which specified that the Bank would establish a wholly-owned wealth management subsidiary with a registered capital of RMB5 billion. On 19 April 2019, the Bank received approval from CBIRC to contribute RMB5 billion to Everbright Asset Management Company Limited (光大理財有限責任公司). As at 30 June 2020, the Bank recorded RMB795,425 million in balance of non-principal-guaranteed wealth management products, representing an increase of 2.13 per cent. from the year ended 31 December 2019.

Asset Custodian Services

The Bank has a leading insurance fund investment custody business in the PRC. It extended its product line by commencing services such as entrusted investment business custody, private equity funds custody and outsourcing business. In in the first half of 2020, the Bank continued to strengthen the custody service development, achieving growth in both custody size and income in spite of the industry hardships. For the six months ended 30 June 2020, the Bank's income from the custody business amounted to RMB884 million and its custody assets amounted to RMB6,171,118 million.

Electronic Banking

The Bank provides a broad array of electronic banking services including mobile banking, internet banking, phone banking and self-service banking. The number of monthly active users of mobile banking was 10.297 million , an increase of 45.52 per cent. year on year..

The Bank set up the Cloud Fee Payment Business Centre in charge of convenient fee payment business development. This business has obtained key support in the construction of Beijing FinTech and Specialised Service Innovation Demonstration Zone. By integrating and opening fee payment resources, its Cloud Fee Payment services cover over 8,000 items of 20 categories nationwide. Pursuing opening-up and cooperation, the Bank strengthened the cooperative relationships with important partners, and further increased its dominance as the provider of one of China's biggest (open) fee payment platform. As at 30 June 2020, the "Cloud Fee Payment" platform offered 8,654 fee payment projects in total, including 1,451 newly-added ones during the first half of 2020, showing an increase of 20.14 per cent. compared with the end of last year. The platform was exported to 495 agencies, including 80 newly-added ones over the first half of 2020, up by 40.35 per cent. from the same period of previous year. The platform served 557 million payers for the past three years, with 285 million active users, up by 20.01 per cent. on a yearly basis. It has processed 821 million transactions, up by 14.63 per cent. from the same period of last year. The total number of direct users of Cloud Fee Payment was 19,823,400, marking an increase of 71.59 per cent. over the end of last year. Besides, the number of monthly active users reached 2,540,200, rising by 253.37 per cent. year on year. Income from fee-based business stood at RMB274 million, up by 47.96 per cent. year on year.

Mobile Banking

The Bank's mobile banking services include account services, investment and wealth management, personal loans, credit card services, money transfer, fee payments and lifestyle-related services, overseas financial services, customer service and personal banking services, allowing its customers with mobile phones to access convenient and customised banking services.

Internet Banking

The Bank's internet banking platform, www.cebbank.com, consists of both corporate internet banking and retail internet banking systems. The Bank's corporate internet banking products and services include account inquiries, account management, money transfers and remittance, group treasury services, loans, foreign currency business, investment, treasury services and cash management. The Bank's retail internet banking products and services include account services, transfer and remittance, group assets and services, loans, foreign exchange business, investment, asset services and cash management.

The Bank continually seeks to improve the security of its internet banking system and has implemented various measures for strengthening the system and end-user security, including the use of third-party digital certification, security tokens and short message service (SMS) based dynamic password and identity verification services and SMS notices to its customers in relation to changes in their accounts.

Phone Banking

The Bank offers phone banking services through its customer service number "95595" 24 hours a day, seven days a week. The phone banking service hotline includes both automated and staffed services and can be accessed throughout the PRC. The Bank's phone banking services include account management, information inquiries, money transfers and remittance, bill payment, investment and wealth management and personal loans.

Self-service Banking

The Bank believes its self-service banking platform provides convenient and efficient services to its customers and reduces its operating expenses.

PRODUCTS AND SERVICES PRICING POLICY

The interest rates the Bank charges on its RMB-denominated loans are generally regulated by PBOC. For RMB-denominated corporate loans and personal loans (other than personal residential housing mortgage loans), there has been no lower limit on the interest rate since 20 July 2013 and no upper limit since 29 October 2004. Interest rates for foreign currency-denominated loans are generally not subject to PRC regulatory restrictions, and the Bank is permitted to negotiate the interest rates with customers on such loans.

Interest rates for the Bank's RMB-denominated demand and time deposits cannot be higher than 150 per cent. of the applicable PBOC benchmark interest rate. However, the Bank is permitted to provide negotiated time deposits to insurance companies and the National Council for Social Security Fund of the PRC under certain circumstances. The Bank is also permitted to negotiate the interest rates on foreign currency deposits other than those denominated in U.S. dollars, Euros, Japanese Yen and HK dollars in an amount less than U.S.$3 million or the equivalent.

With respect to fee- and commission-based business, certain services are subject to government guideline prices, such as basic Renminbi settlement services specified by CBIRC and the National Development and Reform Commission of the PRC.

In compliance with applicable regulatory requirements, the Bank prices its products based on criteria including the risk profile of the Bank's assets, an individual customer's contribution to the Bank's business, the Bank's costs, the expected risk- and cost-adjusted returns and the Bank's internal fund pricing benchmarks. In addition, the Bank considers general market conditions and market prices for similar products as well as services offered by its competitors.

DISTRIBUTION CHANNELS

The Bank provides its customers with services through its multi-channel distribution network. As at 30 June 2020, the Bank had a total of 1,290 domestic branches and outlets in the PRC, comprising 39 tier-one branches, 113 tier-two branches and 1,138 outlets (including sub-branches in different cities, county-level sub-branches, intra-city sub-branches and banking department of branches). As at 30 June 2020, the Bank had four branches outside Mainland China, in Hong Kong, Seoul, Luxembourg and Sydney. Tokyo representative office is under preparation for establishment. The Bank's distribution network is complemented by various electronic banking channels. For more information on the Bank's electronic banking channels, see *"− The Bank's Principal Businesses − Electronic Banking*". The Bank's head office is responsible for the overall decision-making and management of the Bank. The Bank's tier-one branches are generally located in the capital cities of provinces, autonomous regions or municipalities and certain other strategically important cities, while its tier-two branches are located in other cities within the PRC's provinces and autonomous regions. The tier-two branches report to the tier-one branches in their respective region and are able to establish lower-tier network outlets in the same city.

The Bank's branch network covers a large portion of the more economically developed areas in the PRC. As at 30 June 2020, the Bank had 246, 200 and 223 branch outlets in the Bohai Rim, the Yangtze River Delta and the Pearl River Delta, respectively.

INFORMATION TECHNOLOGY

The Bank considers information technology to be one of the driving forces of the Bank's development. The Bank has constructed a multi-level structure of information technology systems covering all aspects of its business operations, including channel management, customer management, product management, transaction processing, financial management, risk management, decision-making support and sharing support. Substantially all of the Bank's business transactions are processed and maintained by its information technology system. The Bank believes that the Bank's advanced information technology system has greatly improved, and will continue to improve, the Bank's efficiency, the quality of the Bank's customer service and the Bank's risk and financial management capabilities.

In recent years, the Bank focused on using customer profiling to achieve digitalised client management and precise marketing through the application of big data and artificial intelligence technologies, promoted intelligence products such as Cloud Fee Payment, Cloud Payment, Reassuring Loan, Sunshine Blockchain, Inclusive Finance Cloud and Trade Finance Cloud to achieve innovative breakthrough and increase in scale. The Bank also promoted channel development by improving the coordination of online, offline and remote channels, establishing digitalised financial service platform with all-channel capacity in order to lay a solid foundation for the transition of digitalisation.

During the first half of 2020, the Bank launched key innovation projects on blockchain. Responding to the call for the digitalization of industrial chain, Ant Duo-Chain (Guang Xin Tong) was launched to put forth efficient digital solutions through the blockchain platform to address the financing difficulties of micro and small enterprises, which won the Award of Honor, the best prize at the "2020 China Fintech Innovation Competition" organized by the China Financial Certification Authority (CFCA). The Bank also developed remote video services and fostered technological and talent strengths. The video function under mobile banking served customers for 270,000 person-times accumulatively, with a daily average at over 1,000 person-times and reporting customer satisfaction ratio of 99.49 per cent.

The Bank constructs its bank-wide information security system in accordance with its actual needs and by reference to international standards and norms. The Bank has adopted a variety of security measures to enhance the security of its information technology system and the reliability of its operations, including advanced firewall technologies, hacker detection systems, network monitoring and other safeguards and systems.

The Bank outsources some applications and information technology functions to independent third parties. The Bank selects suitably qualified outsourcing companies through a bidding process and conducts strict scrutiny of such third parties. Generally, the Bank enters into service contracts with outsourcing companies and then manages and supervises their daily operations. In addition, the Bank carries out inspections to assess their overall service quality and their main service personnel on a regular basis. In order to reduce the risks associated with the outsourcing, the Bank monitors the whole outsourcing process. In addition, the Bank focuses on the continued improvement of its technological capabilities throughout the outsourcing process, as well as the transfer of information.

COMPETITION

The Bank faces significant competition in its principal areas of business from other commercial banks and other financial institutions in the PRC. The Bank currently competes primarily with large commercial banks and other national joint stock commercial banks. The Bank also faces increasing competition from other financial institutions, including commercial banks and foreign banks operating in the PRC. The Bank's competition with other commercial banks and financial institutions in the PRC primarily focuses on the variety, pricing and quality of products and services, convenience of banking facilities, coverage of distribution network and brand recognition, as well as information technology capabilities. Furthermore, the Bank faces competition in the provision of financial services to its customers from non-banking institutions such as securities firms and insurance companies.

The Bank's competition with foreign-invested financial institutions will likely intensify in the future. In 2006, pursuant to its World Trade Organisation commitment, the PRC government eliminated measures restricting the geographical presence, customer base and operational licenses of foreign-invested banks operating in the PRC. In addition, the PRC's Closer Economic Partnership Arrangement with Hong Kong and Macau and the subsequent supplemental agreements, as well as the Cross-Straits Economic Cooperation Framework Agreement, allow banks from Hong Kong, Macau and Taiwan to conduct certain business in the PRC, which has also increased competition in the PRC banking industry. In addition, further policies and regulations such as the Opinion on Providing Financial Supports to Guangdong-Hong Kong-Macao Greater Bay Area issued by PBOC, CBIRC, CSRC and SAFE (《中國人民銀行、中國銀行保險監督管理委員會、中國證券監督管理委員會、國家外匯局關於金融支持粵港澳大灣區建設的意見》) on April 24, 2020 may provide further supports for the open-up of the banking, insurance and securities industry.

See "*Risk Factors − Risks Relating to the PRC Banking Industry − The Bank faces increasingly intense competition in the PRC's banking industry and competition from other investment and financing channels*".

In response to this competitive environment, the Bank intends to continue to implement its strategies to differentiate the Bank from its competitors and to enable the Bank to continue to compete effectively in the PRC commercial banking industry.

EMPLOYEES

As at 30 June 2020, the Bank had 45,004 employees (excluding those of the Bank's subsidiaries), comprising 6,781 employees at the Bank's head office and 38,223 employees at the Bank's branches and sub-branches.

The Bank contributes to its employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Bank has established a performance-based compensation system whereby an employee's compensation is determined based on his/her position and performance review. In addition, the Bank provides training programmes to its employees to improve their professional competence and skills.

The Bank provides its employees with training sessions on various topics, such as the international economic environment, globalisation of and competition in the finance industry, environmental-friendly finance, low-carbon economics, sustainable development, high-performance team building, banking industry innovation and service, detailed management, model-based operations, project management, corporate culture, bank development strategy, legal compliance, risk management, retail banking business, corporate banking business, financial compliance, information disclosure, electronic banking business and human resources management.

The Bank's labour union represents the interests of the employees and works closely with the Bank's management on labour-related issues. The Bank has not experienced any strikes or other material labour disputes that have interfered with the Bank's operations, and the Bank believes that the relationship between the Bank's management and the labour union has been, and remains to be, good.

As at 30 June 2020, the Bank had also engaged a number of independent contract workers by signing contracting agreements with third-party human resources agencies. In accordance with the temporary supplemental or replaceable employment policy stipulated under the PRC Labour Contract Law (中華人民共和國勞動合同法), these independent contract workers generally do not hold important positions with the Bank. Such independent contract workers enter into labour contracts with the relevant third-party human resources agencies instead of with the Bank. According to the contracting agreements with the third-party human resources agencies, the Bank is obliged to make salary payments, social insurance contributions and other related payments for the independent contract workers by payment to the third-party human resources agencies in advance. The third-party human resources agencies are responsible for the payment of salaries to the independent contract workers and social insurance contributions for the independent contract workers to the relevant governmental authorities. Although the Bank is under no statutory obligation to make social insurance contributions in relation to these independent contract workers under PRC law, if the third-party human resources agencies fail to do so, the Bank may be jointly liable for any claims brought by them. However, in such case the Bank would be entitled to seek indemnification from the third-party human resources agencies.

PROPERTIES

The Bank is headquartered in Beijing, PRC.

For some of the properties it holds and occupies in the PRC, the Bank has not obtained title certificates. The Bank is in the process of applying for the relevant land use rights and building ownership certificates that it has not yet obtained, and it plans to cooperate closely with the local land and property management authorities to expedite such applications and obtain the relevant valid title certificates as soon as practicable. The Bank has been unable to obtain certain of these title certificates due to various title defects or for other reasons. While there may be legal impediments to its obtaining certain of these title certificates as a result of these title defects, the aggregate gross floor area of these properties with defective titles is immaterial as compared to all of the properties it owns. The Bank believes that since the relevant properties are situated in different provinces in the PRC, the risk of losing the ability to use all of such properties at one time is comparatively low. It also believes that it will be able to obtain replacements in nearby locations, and accordingly, it is not expected that any relocation will have any material adverse impact on the operations and financial position of the Group as a whole.

For the leased properties in the PRC, the relevant lessors have not provided valid title certificates or consent to lease some of the properties, which are mainly served for commercial uses including outlets, offices and ATM. As the owner of the properties, the lessors are responsible for applying relevant valid title certificates or providing the Bank the consent to lease properties. In respect of this, the Bank has pro-actively procured these lessors to apply for the relevant valid title certificates or provide the Bank the consent to lease properties. The Bank is of the view that most of these leased properties occupied can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on its operations.

See "*Risk Factors − Risks Relating to the Bank's Business − The Bank does not possess the relevant land use right certificates or building ownership certificates for some of its properties, and the Bank may be required to seek alternative premises for some of the Bank's offices or business premises due to the Bank's landlords' lack of relevant title certificates for some leased properties*".

INTELLECTUAL PROPERTY

The Bank's intellectual property primarily includes trademarks, patents, domain names and copyrights. The Bank conducts business under the "China Everbright Bank," "CEB" and "中國光大銀行" brand names.

INSURANCE

The Bank maintains insurance coverage that is typical in the banking industry in the PRC and to cover amounts that the Bank believes to be adequate to its operations and circumstances.

LEGAL AND REGULATORY

Legal Proceedings

The Bank is involved in certain legal proceedings in the ordinary course of the Bank's business. Most of these proceedings involve enforcement claims initiated by the Bank to recover payments of the Bank's NPL. The legal proceedings against the Bank include actions relating to customer disputes and claims brought by the Bank's counterparties on contracts related to the Bank's banking operations.

As at the date of this Supplemental Offering Circular, the Bank was not involved in any litigation, arbitration or administrative proceedings, and was not aware of any such litigation, arbitration or administrative proceedings, whether pending or threatened, which are or might be material in the context of the Programme or the issuance of the Notes.

Regulatory Reviews and Proceedings

The Bank is subject to inspections and examinations by the relevant PRC regulatory authorities, including PBOC, CBIRC, MOF, CSRC, SAMR, SAFE, NAO and SAT, as well as their respective local offices. These audits and examinations have previously resulted in findings of non-compliance issues and the incurrence of certain penalties. Although these issues and penalties did not have any material adverse effect on the Bank's business, financial condition and result of operations, the Bank has implemented remedial and preventative measures to protect against the recurrence of such incidents. The Bank believes that, save as disclosed in this Supplemental Offering Circular, there were no other material breaches and material incidents of regulatory non-compliance.

DESCRIPTION OF THE ISSUER

The section "Directors of the Issuer" on pages 212 to 214 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

BACKGROUND

The Issuer was established in December 2012 as the first branch of the Bank outside Mainland China. The Issuer is positioned to leverage on the advantages brought along by the cross-border business linkage, tapping into Hong Kong's open market regime as well as its unique position as an offshore Renminbi centre.

As at the date of this Supplemental Offering Circular, the Chief Executive Officer and Chief Risk Officer of the Issuer were Mr. CHEN Linlong and Mr. WU Yik Tin, Desmond, respectively. As at 30 June 2020, the Issuer had 207 employees.

BUSINESS ACTIVITIES

The Issuer is a licensed bank in Hong Kong, with its office at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong, and is currently focusing on its wholesale banking business. It also provides featured banking services through its cross-border business collaboration with the Bank, with a focus on developing international settlement business, corporate business, trade financing business, treasury business and other businesses.

The Issuer primarily focuses on the Hong Kong, Macau and Taiwan markets, as well as the Greater China region, and targets corporate clients ranging from blue-chip companies, large-scale or medium-scale red-chip companies in these regions as well as multinational corporations.

The Issuer provides a comprehensive range of tailor-made products and services to its corporate clients, such as foreign exchange trading, deposits and remittance, trade financing, treasury products, various Renminbi banking services, syndicated loans, project loans and joint cross-border financing. In addition, the Issuer collaborates with local and overseas financial institutions to provide a financial services platform for its clients.

Major Products and Services

Corporate Deposits

The Issuer provides deposit services denominated in Hong Kong dollars and various foreign currencies with deposit term and rates that are competitive in the market to satisfy different financial demands in the daily operations of its corporate clients.

Remittance

Leveraging on the Bank's network throughout Hong Kong, Mainland China and overseas markets, the Issuer provides remittance services for its clients to facilitate their money transfer and allocation and trade settlement.

Trade Finance

The Issuer offers international settlement and trade financing services and solutions to its clients.

Loan

The Issuer provides tailor-made professional advice and solutions for its clients based on their business development and financial requirements, ranging from overdrafts to loans.

Treasury Products

The Issuer formulates plans catering for the market and provides trade services for its clients to timely seize opportunities in the global market.

Renminbi Business

The Issuer provides its clients with a wide range of Renminbi banking services by tapping into the Bank's nationwide branch network.

Financial Institution Business

Through its close collaboration with local and overseas financial peers and partners, the Issuer establishes a strong one-stop integrated financial services platform for its clients.

Global Markets Business

The Issuer is licensed for Type 1 and Type 4 regulated activities under the SFO and is able to advise and deal in securities for its clients.

HONG KONG REGULATORY GUIDELINES

The banking industry in Hong Kong is regulated by and subject to the provisions of the Banking Ordinance (Cap. 155) of Hong Kong (the "**Banking Ordinance**") and to the powers and functions ascribed by the Banking Ordinance to the HKMA. The Banking Ordinance provides that only banks which have been granted a banking license by the HKMA may carry on banking business (as defined in the Banking Ordinance) in Hong Kong and contains controls and restrictions on such licensed banks.

The provisions of the Banking Ordinance are implemented by the HKMA, the principal function of which is to promote the general stability and effectiveness of the banking system, especially in the area of supervising compliance with the provisions of the Banking Ordinance. The HKMA supervises licensed banks through, *inter alia*, a regular information gathering process, the main features of which are as follows:

- each licensed bank must submit a monthly return to the HKMA setting out the assets and liabilities of its principal place of business in Hong Kong and all local branches and a further comprehensive quarterly return relating to its principal place of business in Hong Kong and all local branches and the HKMA has the right to allow returns to be made at less frequent intervals;

- the HKMA may order a licensed bank, any of its subsidiaries, its holding company or any subsidiaries of its holding company to provide such further information (either specifically or periodically) as it may reasonably require for the exercise of its functions under the Banking Ordinance or as it may consider necessary to be submitted in the interest of depositors or potential depositors of the licensed bank concerned. Such information shall be submitted within such period and in such manner as the HKMA may require. The HKMA may also require a report by the licensed bank's auditors (approved by the HKMA for the purpose of preparing the report) confirming whether or not such information or return is correctly compiled in all material respects;

- licensed banks may be required to provide information to the HKMA regarding companies in which they have an aggregate of 20 per cent. or more direct or indirect shareholding or with which they have common directors or managers (as defined in the Banking Ordinance), the same controller (as defined in the Banking Ordinance), with common features in their names or a concert party arrangement to promote the licensed bank's business;

- licensed banks are obliged to report to the HKMA immediately if there is a likelihood of becoming unable to meet their obligations;

- the HKMA may direct a licensed bank to appoint an auditor to report to the HKMA on the state of affairs and/or profit and loss of the licensed bank or the adequacy of the licensed bank's systems of control of the licensed bank or other matters as the HKMA may reasonably require; and

- the HKMA may, at any time, with or without prior notice, examine the books, accounts and transactions of any licensed bank, and in the case of a licensed bank incorporated in Hong Kong, any local branch, overseas branch, overseas representative office or subsidiary, whether local or overseas, of such licensed bank. Such inspections are carried out by the HKMA on a regular basis.

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which include the FIRO Group Entities. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, in the context of a resolution of any FIRO Group Entity, the relevant resolution authority will have the ability to resolve the Issuer as if it were a within scope financial institution for the purposes of FIRO and take certain actions and make certain directions in relation to it. Any such actions could potentially affect contractual and property rights relating to the Bank. In addition, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of nay priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result.

RISK MANAGEMENT

The section "Risk Management" on pages 215 to 238 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

OVERVIEW

As a commercial bank, the Bank is subject to a number of risks, primarily including credit risk, market risk, operational risk, liquidity risk and compliance risk. In order to manage these risks, the Bank is committed to establishing a comprehensive risk management system that covers the identification, assessment, measurement, monitoring, reporting and control of such risks. The Bank has been dedicated to strengthening its risk management, with the NPL ratio of the Bank's total loans and advances to customers being 1.59 per cent., 1.59 per cent., 1.56 per cent. and 1.55 per cent. as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively.

The Bank's principles for risk management are to steer the optimisation of business portfolios by using the Bank's economic capital management framework and risk pricing mechanism to facilitate the match between the returns and the risks assumed, and to maintain the Bank's risk exposure within acceptable risk levels in coordination with the implementation of the Bank's overall business strategies and comprehensive risk management system. On this basis, the Bank ultimately aims to maximise returns to its shareholders by maintaining capital adequacy levels that balance the Bank's risk exposure with its strategic objectives while striving to comply with the relevant regulatory requirements.

The Bank's risk management principles are as follows:

(i) Comprehensive risk management: to establish and refine the Bank's comprehensive risk management covering various major risks;

(ii) Independent risk management: the Bank's risk management system is kept independent from the Bank's business operational system; and

(iii) "Creating value through effective risk management": the Bank creates business value by achieving a balance between risk and return and a balance between control and efficiency.

The Bank's risk management objectives are as follows:

(1) To cultivate a proactive risk management culture of "creating value through effective risk management" by:

- improving the Bank's policies and procedures, strengthening the Bank's training and implementing a position certification system to improve the quality of the Bank's business and risk management personnel;
- senior management setting an example for the Bank's staff and increasing accountability in order to raise staff's awareness of risk; and
- including risk management performance as an evaluation criterion for staff appraisal, branches, sub-branches and various departments.

(2) To formulate and adhere to proactive and prudent risk management policies by:

- applying differentiated policies at different levels, standardising the policy and management procedure through expert participation, regular reviews, and implementing the Bank's principles of fully identifying risks, accurately assessing risks, and taking reasonable risks;
- establishing regular review mechanisms and continuous optimisation of the relevant mechanisms in order to better balance the relationship between principles and flexibility, the relationship

between differentiation and consistency and the relationship between economic interests and social responsibility; and

- enhancing the Bank's policy execution system.

(3) To build up a risk management organisational matrix by:

- building up the Bank's risk management organisational structure and system in accordance with the principles of vertical management for credit risk, centralised management for market risk and hierarchical management for operational and compliance risks in order to reflect the risk management needs of the Bank's business development;
- improving the Bank's risk management organisational matrix and extending such structure to tier-two branches, cross-city and county-level sub-branches;
- defining a clear allocation of functions and responsibilities among the Bank's various committees, departments, units and personnel to prevent any gap or overlap of duties and authorities, and to increase the Bank's risk management efficiency; and
- ensuring the independence and professionalism of the Bank's Risk Management Department and aligning its functions closer to market conditions and the Bank's business objectives.

(4) To ensure prudent and effective risk management processes by:

- focusing on the different characteristics of credit risk, market risk, operational risk, liquidity risk and compliance risk and building corresponding risk management processes;
- implementing a system of comprehensive early warnings, prompt risk reporting and a swift response to risks; and
- ensuring that the Board of Directors, its Risk Management Committee and senior management promptly monitor various risks and adopt effective measures to prevent and resolve such risks.

(5) To set up an appropriate and active advanced technology support system for proactive risk management by:

- following the core principles of Basel III and adopting the best practices of banks both within and outside the PRC;
- setting up a technology support system that covers effective measurement, analysis and management of credit risk, market risk, operational risk, liquidity risk and compliance risk; and
- utilising advanced technology to support more specialised and targeted risk management processes.

KEY RECENT IMPROVEMENTS IN RISK MANAGEMENT

The key risk management improvements the Bank has made in recent years are as follows:

- In January 2007, the Bank implemented a risk and control self-assessment programme across various business lines as well as in the Bank's branches and sub-branches, conducted risk investigations using process analysis methodologies by taking into consideration internal and external data relating to operational risk incidents together with findings from audit and compliance inspections, and improved the effectiveness of risk control measures.
- In November 2007, the Bank established the Operation Management Department, which is responsible for managing clearing and settlement activities within the Bank, approving the disbursement of corporate and retail credit and conducting centralised management for letters of credit, letters of guarantee and

other settlement products. By standardising the Bank's operations, the Operation Management Department helped improve the standards of the Bank's centralised management and the Bank's operations, enhance risk management and improve operational efficiency.

- In February 2008, the Bank integrated the functions and personnel of the three regional credit approval centres into the credit approval department of the Bank's head office, which is responsible for approving loans falling outside the limit of authority of the branch-level Chief Risk Officers. Additional integration of resources was carried out to further standardise and regulate the credit approval process.
- In December 2009, the Bank completed and submitted a Compliance Self-assessment Report and 13 sub-reports concerning compliance guidelines to CBRC.
- In March 2010, the Bank initiated a compliance platform project to fulfil the requirements of the New Basel Capital Accord, which mainly includes compliance self-assessment, project management and the establishment of a risk-weighted assets system.
- In June 2010, the Bank implemented the Bank's operational risk management system.
- In December 2010, the Bank implemented the Bank's market risk management system.
- In November 2011, the Bank submitted an assessment application for the implementation of Basel II to CBRC.
- In January 2012, the Bank began implementing plans to consolidate the Bank's risk management functions by shifting the main reporting line of each business line's Chief Risk Officer and risk management team to the Risk Management Department in order to strengthen the independence of the Bank's risk management functions. The Bank completed such adjustments in December 2012.
- During 2012, the Bank adopted multiple measures to strengthen its risk management, including: (i) enhancing capital management by improving policies and management processes, bolstering capital deployment plans and promoting organic integration between capital management, risk management, assets and liabilities management and financial and business planning; (ii) launching a series of plans and proposals to improve risk management procedures, including an early warning platform for corporate customers, obtaining market information on risks, assessments on the impact of the Bank's debts and promoting accuracy and precision in the Bank's comprehensive risk management system; and (iii) formally commencing the Bank's risk-weighted assets system, which calculates risk-weighted assets based on four methods: initial capital method, weighted method, basic internal rating, and advanced internal rating (with the second, third and fourth methods falling under the principle of the new capital method).
- In early 2013, the Bank completed upgrades of its credit rating system for corporate customers and further improved both the stability of the Bank's credit rating model and the practical business applicability of the Bank's non-retail internal rating adjustments system.
- In May 2013, the Bank established the Credit Management Department at the head office in order to implement a risk management system that better suits the development of the SME and micro-enterprise financial services. The Credit Management Department also aims to enhance the Bank's risk management capability, strengthen the Bank's post-credit management and ensure the quality and stability of the Bank's credit assets.
- During 2014, the Bank dynamically adjusted its credit policies so as to revitalise existing lending and make good use of new credit resources. System, mechanism and procedures of the Bank were improved to enhance the effectiveness of risk management. The Bank also established an external compliance database through the consultation project of implementing internal control standards and compliance management, and the system development was completed and applied across the Bank. Besides, the

Bank combined reputation risk management and its strategic development and corporate brand building efforts to further optimise and improve its warning mechanism and countermeasures for reputation risk.

- During 2015, the Bank proactively responded to new challenges in credit risk management during the macro economic downturn. It formulated the Initiative to Further the Reform in Risk Management. Responsibilities of various functional departments involved in risk management are further clarified. The Bank also started the development and construction of a new generation of anti-money laundering system.

- During 2016, the Bank established three lines of defence in business, risk management and internal audit on the principle of "full range, whole process and all staff control", and improved credit approval efficiency by implementing a "One-stop" approval process for corporate credit business with general risks. Credit Management of the key group clients was strengthened by establishing a Strategic Corporate Banking Department at the headquarter. Credit Risk Alert System was put into operation, control over key sectors of the credit business was tightened, centralised registration of collaterals, inspection of tax receipts and signed underwriting formalities were tightened. Besides, the Bank managed to launch the Data Market of Market Risk and pushed forward the building of the Market Risk Metering Engine in the aim of enhancing its abilities of integrating market risks information and its risk measuring capabilities. The Bank continuously improved its operational risk management framework and system by establishing new operational Loss Data Collection reporting standards, re-checking history loss events, re-setting Key Risk Index and threshold value.

- During 2017, the Bank strove to optimise the credit structure, took serving the real economy as the fundamental approach to guarding against risk, actively supported enterprises in transformation and upgrading, and properly developed industrial finance in a down-to-earth manner. Based on major national strategies such as the "Three New Strategies", the construction of Xiong'an New Area and the development of "Guangdong-Hong Kong-Macao Greater Bay Area", the Bank made great efforts to develop infrastructure finance. While the deleverage initiative gained momentum day by day, the Bank upheld "daytime liquidity security and regulatory attainment" as its bottom line for risk management, in a bid to keep the bank-wide liquidity risk management indicators within a reasonable range.

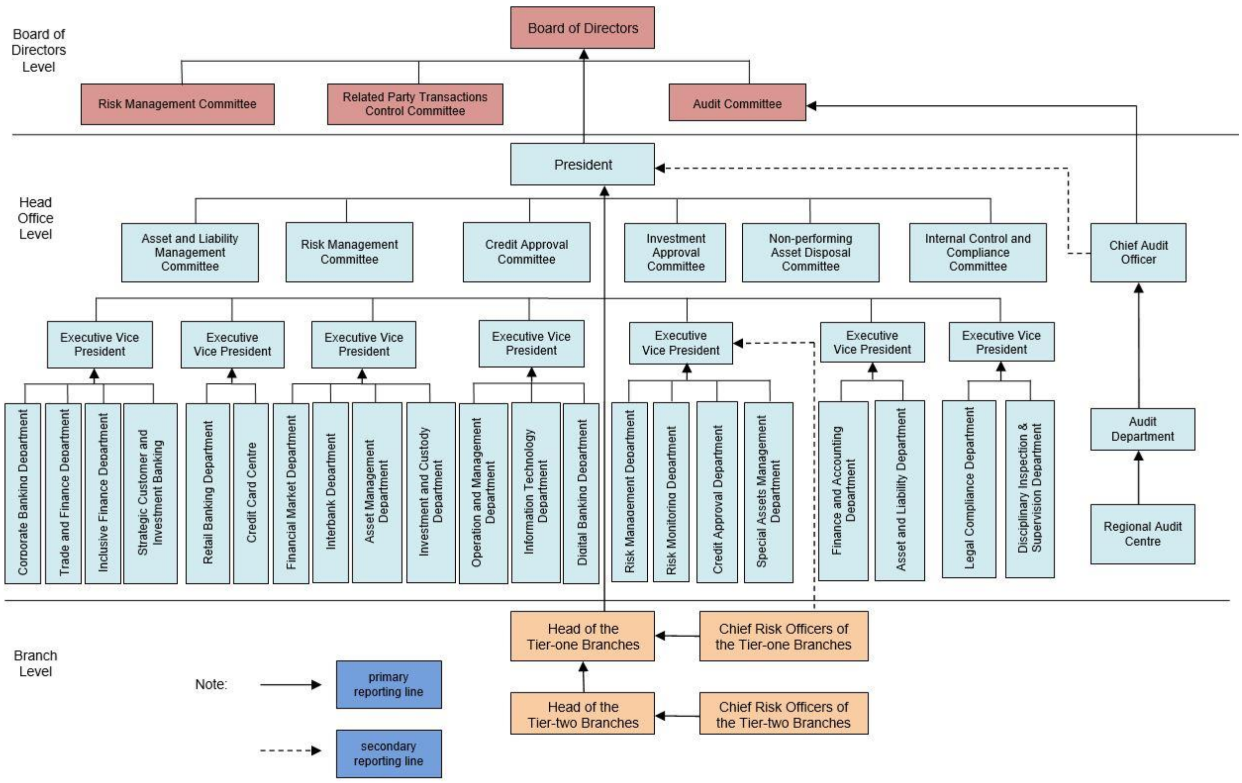
- During 2018, the Bank continued to improve its comprehensive risk management system, performed its duties in relation to "three lines of defence", and strengthened the coordinated management of various risks as per the unified management of policy, approval, monitoring and resolution. the Bank comprehensively carried on centralised Anti-money Laundering operation model while setting up Anti-money Laundering centres inside branches.

- During 2019, the Bank continued to improve its comprehensive risk management system, improved the credit structure, held a prudent and sound liquidity risk management policy, improved its market risk management system, actively established an organisational structure and management system for large exposures management, incorporated country risk into its comprehensive risk management system, continuously emphasised responsibilities of the "first line of defense" in operational risk management, strengthen the compliance risk management, established a reputational risk management mechanism applicable to the whole bank, formulated money laundering risk management policies and revised the AML internal control rules, upheld the business strategy of "aggregate management, prudent implementation, differential credit extension and strict risk control" in the real estate sector and firmly conducted the supply-side structural reform.

- The ability to manage the Bank's liquidity needs for its day-to-day operations is one of the key priorities for the Bank. In response to concerns about the tightening of liquidity in the PRC banking industry from time to time which resulted in significant temporary fluctuations in the inter-bank lending rate during certain periods, the Bank has emphasised amongst its departments the overriding importance of sound liquidity, increased its reserve level, and arranged for stronger short-term liquidity commitments, as well as implemented further upgrades to its internal controls to mitigate potential operational risk, including: (i) centralising liquidity gap solutions through inter-bank financing under the Bank's head office; (ii) enhancing the daily critical point calibration mechanism; (iii) re-evaluating the operational and liquidity risk management system and the reporting mechanism; (iv) strengthening the Bank's procedures in emergency management; and (v) controlling the scale of the Bank's inter-bank business and executing improved matching of inter-bank assets and liabilities.

RISK MANAGEMENT STRUCTURE

The chart below illustrates the Bank's risk management structure:



Board of Directors and Board Committees

The Board of Directors is the highest decision-making authority within the Bank in terms of risk management and is responsible for determining the overall risk management strategies and making important decisions for the Bank. It is also responsible for: determining the Bank's risk tolerance; examining the risk precaution measures formulated by the Bank's senior management; deciding on the fundamental management system and the establishment of the Bank's internal management organisation; appointing senior management; examining the internal control assessment reports provided by management, audit and regulatory authorities; reviewing and commenting on the effectiveness of the Bank's internal control system; and supervising senior management's continuous improvement of the Bank's internal control system. The Board of Directors performs its risk management functions through the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee.

The Risk Management Committee is responsible for formulating the Bank's risk management strategies and overall risk tolerance, and implementing such strategies and risk tolerance upon approval of the Board of Directors. It is also responsible for: supervising senior management in their management of credit, market and operational risks; assessing the Bank's risk management system and making recommendations to the Board of Directors; preparing periodical risk management reports for submission to the Board of Directors; developing management targets with respect to the Bank's capital adequacy ratio; and advising on related information disclosure.

The Audit Committee is responsible for monitoring and supervising the Bank's internal control function as well as overseeing the Bank's accounting policies and financial reporting procedures.

The Related Party Transactions Control Committee is responsible for the implementation of policies and guidelines relating to the review, approval, management and supervision of the Bank's related party transactions, as well as the assessment of the potential risks they may give rise to.

For further details of the respective responsibilities of the Bank's Board of Directors, as well as the Risk Management Committee, the Audit Committee and the Related Party Transactions Control Committee, see "*Directors, Supervisors and Senior Management – Board of Directors Committees*".

Senior Management and Special Committees

Based on the risk management strategies reviewed and approved by the Board of Directors, the senior management formulates, implements and manages various policies, systems, rules and limits covering a wide range of risks during the course of their day-to-day operations and management functions in order to ensure that all types of risks are effectively managed and controlled. The Bank's senior management has established the following special committees: the Asset and Liability Management Committee, the Risk Management Committee, the Credit Approval Committee, the Non-performing Asset Disposal Committee and the Internal Control and Compliance Early Warning Committee, which coordinate, organise and supervise their respective risk management functions.

President

The Bank's President is responsible for the operation and management of the Bank, including overall risk management and implementation of decisions made by the Board of Directors. The Bank's President submits business plans to and implements such plans upon approval by, the Board of Directors. The Bank's President also formulates the Bank's internal management organisational structure, core management policies and specific rules and procedures. The President may undertake other functions and exercise other powers as conferred upon him under the articles of association or by the Board of Directors.

Executive Vice President in Charge of Risk Management

The Bank's Executive Vice President in charge of risk management reports to the Board of Directors' Risk Management Committee and the President on bank-wide risk exposure, material matters relating to risk and corresponding solutions, as well as the organisation and operation of the Bank's risk management system. The Bank's Executive Vice President in charge of risk management is also responsible for formulating and, upon obtaining the relevant approval, implementing the Bank's risk management framework, principles and strategies based on the Bank's overall development strategies. Furthermore, based on his authority, the Bank's Executive Vice President in charge of risk management: approves and supervises the implementation of risk management indicators for various business activities, bank-wide risk management policies and reporting processes; carries out assessments of the risk management system; examines and approves the detailed rules on risk management; and is responsible for tailoring the Bank's risk management system to achieve its risk management objectives. The Chief Risk Officers of tier-one branches report to the Bank's Executive Vice President in charge of risk management.

Special Committees under Senior Management

- **Risk Management Committee.** By taking into consideration the external economic environment and the Bank's business development and risk management, the Risk Management Committee reviews the Bank's risk management strategies and provides suggestions on amendments to such strategies to the Bank's President at the executive meetings. It is also responsible for: the review of the Bank's risk management policies, procedures and rules and regulations, as well as their implementation upon submission and approval in accordance with the management procedure; the review of reports on the bank-wide risk profile, material matters relating to risk and risk management, and the organisation and operation of the Bank's risk management functions; and the review of risk management issues raised by relevant departments of the Bank's head office and by the Bank's branches.

- **Asset and Liability Management Committee.** The Asset and Liability Management Committee is responsible for reviewing and providing guidance for the Bank's business development plans. It is also responsible for reviewing and determining annual targets and plans for the allocation of assets, liabilities and off-balance sheet items and making adjustments to such targets and plans in accordance with specific circumstances. Further, it regularly reviews reports on the bank-wide asset and liability status. It is also responsible for the management of bank-wide liquidity risk and the interest rate risk of banking books.

- **Credit Approval Committee.** The Credit Approval Committee is responsible for the examination and approval of credit applications that are beyond the limits of authority of the Credit Approval Department of the Bank's head office and for providing guidance on matters relating to credit examination and approval throughout the Bank.

- **Non-performing Asset Disposal Committee.** The Non-performing Asset Disposal Committee reviews and approves procedures, incentive measures and relevant policies for the disposal and recovery of non-performing assets as well as examines and approves asset disposal proposals, the repayment of debts by assets, loan foreclosure on repossessed assets, loan write offs and litigation relating to non-performing assets and risk agency matters.

- **Internal Control and Compliance Early Warning Committee.** The Internal Control and Compliance Early Warning Committee reviews early warning signal reports, approves proposals for handling early warning signals, instructs relevant departments to conduct special investigations, implements action plans in relation to early warning signals and performs other compliance functions with respect to the management of early warning signals.

Head Office Risk Management Departments

Risk Management Department

The Risk Management Department coordinates and puts in place comprehensive risk management for credit, market and operational risk. It is responsible for: formulating policies and procedures for risk management; regular review and modification according to actual circumstances, and setting out relevant implementation rules; formulating, tracking and improving the Bank's credit policies, risk management system and methods and the rules and processes of making credit-related decisions; compiling and collating various types of risk management reports and reporting to senior management, the Asset and Liability Management Committee and the Risk Management Committee of the Bank and the Risk Management Committee of the Board of Directors in a timely manner; formulating strategic plans for the Bank's credit portfolios composition; analysing the performance of the Bank's credit portfolios; and organising, developing and maintaining risk management systems and models.

Credit Approval Department

In accordance with the Bank's credit policies and procedures, the Credit Approval Department is responsible for: examining, considering and approving various types of credit business applications within their limit of authority; administering the specific delegation of credit approval authority in the Bank's credit business; formulating plans for credit approval authority delegation in the Bank's credit business; organising, monitoring, administering and appraising the bank-wide implementation of credit approval authority delegation; and periodically reviewing the credit examination and approval activities of lower-level credit approval functions.

Credit Management Department

The Credit Management Department performs three core functions: (i) data analysis and model building at the portfolio level, (ii) post-credit-granting review and management and risk warning at the business level, and (iii) key operating procedure control at the process level. The Credit Management Department is responsible for coordinating credit risk monitoring and portfolio management for large, medium, small and micro-sized credit granting operations at the Bank. Additionally, the Credit Management Department conducts industry and credit asset portfolio data analysis, formulates and maintains the Bank's post-credit-granting management system, reviews and examines credit and loans granted to corporate and retail customers, monitors and administers key credit business procedures, and monitors events associated with material risks.

Legal and Compliance Department

The Legal and Compliance Department is responsible for: coordinating and organising the management of internal control, compliance risk and legal risk within the Bank; developing the relevant compliance risk management policies and systems; providing guidance for implementing bank-wide compliance tasks; organising legal and compliance inspections for the Bank's businesses and communicating with external regulatory authorities in connection with compliance matters.

Special Loan Administration Department

The Special Loan Administration Department is responsible for: formulating implementation rules on the management of non-performing assets; managing NPL; filing claims against borrowers who become bankrupt or insolvent, or handling follow-up work against borrowers who are liquidated or dissolved; handling debt restructuring in relation to non-performing assets; assessing the rating, interest suspension, waivers of interest and other issues relating to non-performing assets and reporting to the Non-performing Asset Disposal Committee for approval; and preparing application materials relating to debt write-offs for submission to the Non-performing Asset Disposal Committee for examination and approval.

Other Departments

In addition to those set forth above, certain other departments also implement risk management policies and procedures and perform certain management functions within their scope of operation.

Risk Management Structure at the Branch and Sub-branch Levels

Tier-one Branches

The Bank has implemented a programme to assign Chief Risk Officers to tier-one branches. While Chief Risk Officers at the branch level are directly under the leadership of the Bank's head office, they also report to the local branch heads and are subject to the guidance of the Risk Management Department, Credit Approval Department, Credit Management Department, Special Loan Administration Department and Legal and Compliance Department in the Bank's head office in relation to business matters so as to maintain the independence of the risk management of tier-one branches. Chief Risk officers at the branch level supervise the Risk Management Department, Special Loan Administration Department and Legal and Compliance Department of their respective branches and are responsible for managing the credit risk of such branches and examining and approving loans within their limit of authority. They also assist the branch heads in managing operational and compliance risks.

The Head of Tier-one Branches are ultimately responsible for tier-one branch-level operational and management matters. They are in charge of the overall risk management tasks of their local branches and are responsible for creating a favourable atmosphere for risk management and for establishing an effective risk management system. Based on the principle of the hierarchical management of operational and compliance risks, branch heads are responsible for establishing branch-level operational risk and compliance risk management systems at the request of the Bank's head office and have primary responsibility for the management of such risks at the branch level. In accordance with the principle of vertical management of credit risk, branch heads support their respective branch's Chief Risk Officers in managing credit risk by examining the branch/regional marketing guidelines and by exercising the "veto right" in the dual approval process for corporate credit applications.

Tier-two Branches, Cross-city and County-level Sub-branches

In order to standardise the risk management of tier-two branches, cross-city sub-branches and county-level sub-branches and to promote the healthy and orderly development of the Bank's businesses, the Bank has begun to apply the risk management system of tier-one branches to its tier-two branches, cross-city sub-branches and county-level sub-branches.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss that the Bank may suffer from default by an obligor or counterparty of his/her obligations or commitments under a contract. The Bank is exposed to credit risk mainly in the form of loan portfolios, investment portfolios, guarantees and balance sheet and off-balance sheet credit risk exposure. To address the Bank's off-balance sheet credit risk, the Bank implemented a comprehensive risk management programme for all of its off-balance sheet businesses to prevent them from over-expanding by utilising measures such as risk quotas and economic capital evaluations. The Bank incorporated its off-balance sheet businesses into its uniform credit management system and centralised its credit risk management.

The Bank manages credit risk by adopting normalised and unified processes and standards for its credit business. The Risk Management Department of the Bank's head office, in conjunction with other relevant departments, regularly reviews and modifies the workflow and standards adopted for the Bank's credit business. Credit risk management includes corporate credit, retail credit and financial institution credit management and may be broadly divided into three segments, namely: (i) acceptance of credit applications and credit investigations; (ii) credit examination and approval; and (iii) opening of credit lines and post-disbursement management.

Management of Credit Risk Associated with Corporate Credit Business

Acceptance of Credit Applications and Credit Investigation

All applications made to the Bank for corporate credit are handled by the Bank's customer relationship managers. The Bank adheres to the "two-person investigation" principle in carrying out its credit investigations. The primary customer relationship managers and supporting customer relationship managers conduct comprehensive investigations on applicants or target customers, collect relevant information and data and thoroughly assess the credit applicant's eligibility for credit, the customer's solvency, business compliance by which the credit will be utilised and the reasonableness of credit plans. The credit investigation consists mainly of on-site investigation, which is supplemented by indirect investigations. Visits are made to the applicant's financial department, production and operation premises, key managers, clients and creditors with a view to obtaining first-hand data and gaining a comprehensive understanding of the production and operation, management, financial affairs, credit status, and industry information relating to the applicant. If necessary, the Bank may verify the authenticity of the information provided by customers through third party credit investigation agencies, relevant governmental departments, social intermediaries and other commercial banks and file such information for the Bank's records. If a customer relationship manager determines that an applicant meets the requirements of the Bank's credit policies and the basic criteria for credit, the customer relationship manager will request that the applicant submits their credit application and the relevant documents required in connection with the credit application.

The risk managers work in parallel with the customer relationship managers during the credit investigation process to uncover and assess credit risk and provide their opinions on the appropriateness of credit extension. The analysis and assessment of credit business usually include: (i) risk rating; (ii) assessment of credit business; and (iii) assessment of collateral.

(i) *Risk rating*

The Bank's rating of risks associated with the corporate loan business generally consists of borrower rating and facility rating. In general, the Bank carries out both borrower rating and facility rating for the Bank's normal risk corporate loan business and, if the loan is guaranteed, the Bank carries out guarantor rating. Borrower rating is an assessment of a borrower's willingness and ability to repay its debts in the future, based on a comprehensive analysis of the quantitative and qualitative risk factors of a borrower (or a guarantor), and the rating results are shown by credit ratings. The Bank's borrower rating system is composed of 24 different grades, with each individual grade corresponding to a probability of default (PD) in a one-year horizon. Facility rating is an assessment of the expected loss rate (ER) of specific transactions. A comprehensive consideration of borrower rating and default loss rate is shown as the product of the PD and loss given default (LGD). The assessment results are classified into 12 grades.

The Bank uses an internal rating system to rate the risks associated with the Bank's corporate credit business. The Bank's internal rating system, which was developed under the guidance of Basel II, was introduced on a bank-wide basis in 2004. On the basis of business performance indicators and data on the financial status of customers and through customer assessment models, the system measures the probability of default of customers, and, on that basis, computes the preliminary results of customer rating. The customer relationship managers are responsible for the preliminary assessment of borrower rating and risk managers are responsible for review and approval of the borrower rating. The Bank treats credit risk rating results as an important basis for decision-making for its credit business, and have established clear guidelines on thresholds based on risk ratings.

(ii) *Assessment of credit business*

The investigation and assessment of the first source of repayment is the primary part of the credit investigation. Customer relationship managers are responsible for credit analysis and assessment.

The analysis and assessment of credit risk mainly include investigation of: (i) the integrity of a borrower; (ii) authority for a borrower to borrow funds; (iii) use of loans; (iv) profitability of the borrower and the professional management capability for the operation of such borrower; (v) professional knowledge of the borrower; (vi) prospects of the industry in which the borrower operates; (vii) repayment terms; (viii) sources of repayment funds; (ix) forecast of cash flow in various business cycles; (x) current credit and financial information of the borrower and relevant members of its group company; and (xi) valuation of collateral (or pledge) and its validity as well as the ability of guarantors to repay for borrowers and the validity of the guarantee.

(iii) *Assessment of collateral*

For loans with collateral, the value of collateral is usually required to be evaluated by independent appraisers. While different loan-to-value ratios will apply to loans secured by collateral based on the type and the specific condition of such collateral, the ratio should not generally exceed the maximum loan-to-value ratio for such type of collateral. Set out below are the loan-to-value ratios for major types of collateral:

Major types of collateral	**Maximum loan-to-value ratio**
Land use right mortgage (assignment)	70%
Real estate	40%-60%
Machinery and equipment	30%-40%
Certificates of deposits, treasury bonds, financial bonds	80%-90%
Warehouse receipts, bill of lading	70%

Major types of collateral	Maximum loan-to-value ratio
Other rights [(1)]	40%-80%
Other movable assets	50%

Note:

(1) Mainly include other property rights that may be pledged pursuant to the laws and administrative regulations of the PRC, such as receivables, transferable fund shares and shareholder rights.

Where loans are to be guaranteed by a third party with joint and several liability, the Bank conducts an assessment of the guarantor's financial status, credit records and ability to repay for borrowers.

Credit Examination and Approval

Approval Authority

The Bank's Credit Approval Departments are independent from the Bank's business operation units. The examination and approval of credit follow the principles of objectivity and impartiality and opinions as to decision-making are given independently without any interference from internal or external factors. All credit projects are handled in conformity with the stipulations set by the Bank with respect to the investigation and granting of credit and the processes for examination and approval.

The Bank's normal-risk corporate loans are examined and approved by the Bank's authorised approval authorities and personnel, including the Bank's head office's Credit Approval Committee and Credit Approval Department, the Chief Risk Officer of the SME Business Department of the Bank's head office, the Chief Risk Officers of the branches, the general manager of the Risk Management Department of the branches as well as the heads of branch-level SME credit management centres and other authorised personnel, in each case according to the particular authorities granted to them. The Bank's low-risk corporate loans are examined and approved by authorised examination and approval officers in various business lines.

Examination and Approval Process

(i) Normal-risk corporate credit business

Generally, the credit approval process includes the following stages of review and approval:

(1) the customer relationship manager completes a credit investigation report and, upon approval from the persons in charge of the relevant operational units, submits the report to the branch risk manager for review and issuance of a review report;

(2) upon review by the branch-level risk manager, any matter within the authority of the general manager of the branch-level Risk Management Department will be sent to him/her for review and approval. The general manager of the branch-level Risk Management Department directly issues rejections of credit applications and sends accepted applications to the head of the branch-level corporate banking business, who holds veto power, for review and as part of the dual approval process. The head of the branch-level corporate banking business then signs his or her opinion and issues the decision;

(3) upon review by the branch-level risk manager, any matter that exceeds the authority of the general manager of the branch-level Risk Management Department must be submitted as a separate review report to the branch-level Credit Review Committee for comments (certain applications are not subject to this review process and can be directly submitted to branch-level risk officer). Credit applications not approved by the Credit Review Committee are submitted to the Chief

Risk Officer, who then issues the rejections. Credit applications that have been reviewed and approved by the Credit Review Committee are submitted to the branch's Chief Risk Officer for approval within the limits of his authority as part of the dual approval process, and then submitted to the branch head, who holds veto power, for review and approval; and

(4) credit applications accepted by the Chief Risk Officer but that exceed the Chief Risk Officer's approval authority may only be submitted to the Bank's head office if the branch head signs a written consent. All credit applications submitted to the head office by the branches and relevant departments of the head office are initially examined for preliminary approval by a junior examination officer of the Credit Approval Department, and then submitted to the competent higher-level review officer or institution for final approval. In accordance with the different features of credit applications, such applications may be approved by meetings or by authorised officers of the Credit Approval Department of the Bank's head office.

(ii) Examination and approval of credit applications from SMEs

For the Bank's SME customers, the approval process generally follows the above process for credit applications. However, an SME applicant of a tier-one branch shall also undergo credit investigation by the SME credit management centre of the Risk Management Department of that branch, followed by a report issued on the investigation. Any applications approved at this stage will then be examined for approval by the head of the branch-level SME credit management centre, unless such approval would exceed his authority, in which case the application will be referred to the general manager of the branch-level Risk Management Department or the branch-level Chief Risk Officer for examination and approval within the limits of his authority. An application which has been approved by the head of the branch-level SME credit management centre within the limits of his authority will then require the issuance of a signed opinion from the general manager of the SME Business Department, who holds a veto right.

For tier-two branches, cross-city sub-branches and county-level sub-branches that have a Chief Risk Officer, an application by an SME customer must be investigated by the risk manager of the branch or sub-branch and then submitted to the Chief Risk Officer of the branch or sub-branch for examination and approval within the limits of his authority. Where the approval of an application requires higher authority, the application will be referred to the tier-one branch Chief Risk Officer for examination and approval within the limits of his authority.

Since 2012, the Bank has implemented various measures in order to proactively address potential risks in connection with the downturn in macroeconomic conditions, as well as strengthen the Bank's risk management and improve asset quality. First, the Bank implemented improved business modelling and improved risk mitigation functions. Second, the Bank strengthened its risk monitoring system and conducted real-time surveillance and on-site examinations. Third, the Bank maintained monitoring of risks associated with SMEs, enhanced monitoring of customers with NPL and increased the Bank's clearing and recovery efforts.

(iii) LGFV credit business

For the Bank's LGFV credit business, the Bank has implemented a risk management system that governs the whole process of the extension of such credit by adhering to commercial principles and by standardising the Bank's operations. In conducting risk assessments to ensure that the borrowers (particularly with respect to new loans) meet the Bank's credit standards, the Bank takes into account the overall solvency of the LGFVs and their debt servicing ability so as to prudently evaluate the risks associated with granting loans to such entities, including collateral risk and maturity risk. In the post-disbursement stage, the Bank continuously monitors factors that may affect repayment and the Bank uses a comprehensive early warning system to identify, categorise, report and address maturity risk. The Bank has developed rating tools that classify the underlying risks of loans to such entities in a more accurate and objective manner and analytical tools to strengthen maturity risk analysis and monitoring.

CBRC requires PRC banks to classify LGFV loans in accordance with the level of cash flow coverage, which refers to a borrower's cash flow divided by the total loan principal and the interest incurred. As at 31 December 2017, the cash flow of the majority of the Bank's LGFV borrowers was sufficient to cover 100 per cent. (or above) of the principal and the interest incurred. The remaining loans were secured by valid guarantees or collaterals or those originated from economically developed regions equivalent to or above the prefectural level.

(iv) Corporate real estate loan business

The Bank requires the implementation of credit life cycle process management for the Bank's corporate real estate loan business, which means that the Bank focuses on mid-to high-end customers and have put in place a specialised and centralised management system for the Bank's entire corporate real estate loan business. The Bank has established the real estate finance centre under the Corporate Banking Department of the Bank's head office, which is responsible for coordinating the Bank's corporate real estate loan operations and reviewing relevant project proposals. The Credit Approval Committee of the Bank's head office, the real estate credit approval centre of the Credit Approval Department and the Chief Risk Officers at the branch level are authorised to carry out the examination and approval of loan applications. After credit extension, the Bank requires that the utilisation of credit match the construction progress of a real estate development project. During the post-disbursement stage, the Bank requires that management, control and risk investigation for loans be strengthened by strictly monitoring the source of funds for repayment and conducting regular reappraisals of the value of collateral and pledged assets. Since 2008, the Bank has been conducting special stress tests on real estate loans and loans granted to industries related to real estate and developing risk measurement tools for loans granted to industries related to real estate.

(v) Low-risk corporate credit business

The Bank's low-risk corporate credit business is conducted through a special credit approval process, and applications are examined and approved by authorised approval officers from the corporate banking business line within the limits of their authority. Low-risk corporate credit applicants are required to fulfil the following conditions: (1) the collateral and pledged assets are cash-equivalent assets or guarantees provided by financial institutions recognised by the Bank; (2) the security provided can discharge in full the obligations relating to the Bank's creditor's rights (including principal, interest and service fees); and (3) the security is not legally defective and there is no associated policy risk.

Opening of Credit Lines and Post-disbursement Management

Opening of Credit Lines

The opening of credit lines involves fulfilling prerequisites for the granting of credit, entering into relevant contracts, loan reviews and making necessary accounting entries. After a credit application is approved, a credit line can be opened only after a disbursement approval centre at the branch level has determined upon examination that the prerequisites for the granting of credit have been fulfilled, the credit contract has been signed by an authorised person, the relevant legal procedures have been completed and the validity of any security has been confirmed. Substantially all of the Bank's credit contracts are in the standard form prescribed by the Bank's Legal and Compliance Department, and those that are not are subject to approval by the Bank's Legal and Compliance Department.

Post-disbursement Management

The Bank has established a post-disbursement management system with defined responsibilities and standardised methods to continuously monitor factors that may affect repayment. The Bank conducts off-site and on-site inspections and applies risk modelling techniques on the basis of the Bank's experience in order to detect the potential risks associated with a specific borrower, issue early warnings and adopt remedial measures. Customer relationship managers are responsible for the day-to-day credit check on the operating conditions and use of credit by their respective borrowers, so as to detect any signs of potential credit default and to adopt risk mitigation measures as soon as possible. Risk monitoring centres of the Risk Management/Credit Management Departments at the branch level are responsible for post-disbursement organisation, supervision, guidance, inspection and reporting. The Bank emphasises monitoring factors that may have a negative impact on the ability of borrowers to make repayment, mainly including (i) the operating and overall credit risk status of a borrower, including its receivables and inventory, changes in operating cash flow and unusual cash outflows; (ii) the status of projects into which loans are injected; and (iii) the condition of assets collateralised or pledged as security for credit, as well as the condition of guarantors.

Early Warning

Following the principles of prompt reporting and quick response, the Bank has established a comprehensive early warning system that sets out early warning processes, including identification, categorisation, verification, reporting, handling and cancellation. The Bank has three types of early warnings based on their degree of urgency and have designed action plans to deal with different types of early warnings so that business units are able to take the necessary measures to deal with risks promptly. The Bank's head office maintains a Risk Management Committee, and each branch has early warning committees, which coordinate the early warning work of the Bank's head office and the branches, respectively. The Bank's head office's Risk Management Committee and the branch-level early warning committees are responsible for early warning management at their respective levels and hold regular meetings to review the status of systematic risk and individual risk in order to deal with early warning signals promptly and to assess the results of response measures.

Loan Classification and Provision of Reserve

In 1999, in accordance with the requirements of regulatory authorities, the Bank started to apply a five-category loan classification system. The Bank carries out loan classification and makes provisions for losses in accordance with the relevant requirements of PRC regulations as well as the requirements of PRC and international accounting standards.

The classification of loan risks and estimation of expected losses are carried out at different levels. Customer relationship managers are responsible for the preliminary classification of risks as well as for estimating the losses of NPL, the results of both of which are then subject to review by risk managers. At the credit application stage, reports are submitted to the upper level following credit granting procedure to obtain determination from the relevant examination and approval institutions, and the scope of authority for determination is the same as the scope of authority for examination and approval. For the day-to-day management of existing credit, the Bank's head office Credit Management Departments, Chief Risk Officers at the branch level and branch risk managers make the final determination within the limits of their authority.

At the beginning of 2007, on the basis of the Bank's existing five-category classification system and internal rating-based approach, the Bank adopted a 12-category loan classification system that refined the Bank's loan classification in accordance with the default risks of a corporate borrower and facility risk arising from the loan. Based on the varying degrees of credit asset risk, the Bank's 12-category loan classification further expands the "normal" grade under the original five-category loan classification system into seven grades, which are expressed from P1 to P7. The original "special mention" class is further broken down into two grades, which are expressed by SM1 and SM2. Loans under "sub-standard", "doubtful", and "loss" classes remain unchanged and are collectively referred to as non-performing credit assets.

The following table illustrates the Bank's five-category and 12-category loan classification systems:

12-Category Loan Classification	Names under the Five Category Classification	Names under the 12-Category Loan Classification
1	Normal	Grade 1 Pass (P1)
2	Normal	Grade 2 Pass (P2)

12-Category Loan Classification	Names under the Five Category Classification	Names under the 12-Category Loan Classification
3	Normal	Grade 3 Pass (P3)
4	Normal	Grade 4 Pass (P4)
5	Normal	Grade 5 Pass (P5)
6	Normal	Grade 6 Pass (P6)
7	Normal	Grade 7 Pass (P7)
8	Special Mention	Grade 1 Special Mention (SM1)
9	Special Mention	Grade 2 Special Mention (SM2)
10	Sub-standard	Sub-standard (SS)
11	Doubtful	Doubtful (DF)
12	Loss	Loss (LS)

Through this loan classification system, the Bank classifies corporate loans on the basis of both quantitative and qualitative factors by analysing the default risk of a corporate borrower and facility risk arising from the loan and considering the estimated impairment losses.

The Bank's loan classification system is designed to help the Bank to better monitor changes in the Bank's asset quality, detect potential credit risks and more effectively conduct post-disbursement management of the Bank's loan portfolio. The Bank believes that this system has helped the Bank strengthen its loan monitoring capabilities.

The Bank makes provision for losses arising from different types of its corporate credit assets in two ways: individually assessed provisions and collectively assessed provisions. Loss estimation is carried out on an individual basis for non-performing credit assets, whereas collective loss provisions are applied to credit assets classified as "normal" and "special mention".

Termination of loans to potential high-risk customers

The Bank has established an exit management mechanism for potential high-risk customers in order to optimise the Bank's portfolio of borrowers and prevent potential risks from materialising. Potential high-risk customers are those who are expected to suffer an adverse impact on their repayment ability or to experience adverse changes in their financial condition. For such customers, the Bank normally reduces credit limits, terminates credit lines, ceases the renewal of credit facilities and requests the provision of additional risk mitigation and other measures in accordance with the relevant provisions of their respective loan contracts.

NPL Management

The Bank proactively manages NPL to reduce the associated risks to its loan portfolio, promptly write off doubtful debts and improve its recovery on disposals.

The Non-performing Asset Disposal Committees at the Bank's head office and branch level are responsible for managing and recovering the Bank's NPL. They are also responsible for approving disposal and recovery plans for non-performing assets, including asset restructuring, settlement of loans by taking collateral, write-off of loans and other related issues. Steps taken for the recovery of NPL mainly include collection, foreclosure on collateral, legal proceedings, reduction or waiver of interest, loan restructuring, write-offs and collection by third parties.

Credit Risk Management for Retail Credit Business (Excluding Credit Cards)

Acceptance of Credit Applications and Credit Investigation

When handling a new business, a customer relationship manager of the Bank's retail credit business is required to have a face-to-face interview with the credit applicant, and all documents must be signed by the applicant in the presence of the manager. The applicant will be requested to sign an application form and provide his or her identity card, proof of income, transaction contracts, certification of ownership of assets collateralised or pledged as security, a written undertaking from the guarantor (if any) and materials proving the guarantor's creditworthiness. The Bank mainly relies on income, credit history and loan repayment ability to assess the applicant.

The Bank's retail credit business customer relationship managers are responsible for assessing retail credit applicants and completing the reporting materials required for approval. The assessment mainly focuses on the credit risk of the applicant and the valuation of the loan collateral. The Bank conducts its credit investigations through on-site investigations, telephone interview and information inquiries as well as through other channels and methods to verify the authenticity of loan-related information. For mortgage loans that are doubtful or that are particularly large, customer relationship managers may take additional verification steps by making "home visits". The appraisal of the collateral for retail loans is similar to the appraisal of the collateral for corporate loans. In the case of secured loans, the Bank usually requests an independent appraiser approved by it to appraise the security provided.

On the basis of the results of inquiries made with the personal credit database of PBOC, and in light of the results of the assessment of the applicant's risk profile and the risk mitigation factors, retail customer relationship managers will prepare reporting materials for approval.

Credit Approval

The Bank's retail credit approval is carried out by branch Chief Risk Officers or persons authorised by them within the limits of their authority, except for high-risk retail credit business applicants, which must go through panel examination and approval. The Bank's retail credit business is mainly approved by authorised individuals.

Loan Disbursement and Post-disbursement Management

After the loan applications of individual customers are approved, the authorised signatory of the Bank's business units, the borrower and the guarantor (if any), jointly enter into retail loan contracts and a disbursement will be made after the loan prerequisites are satisfied. In the Bank's retail loan monitoring, the Bank focuses on the repayment ability of the borrower and the status of assets collateralised or pledged as security and any change in their value. The Bank adopts a five-category classification for retail loans by reference to the risks associated with the loans.

Once a loan becomes overdue, the customer relationship manager or specific collectors will, in the context of the individual circumstances leading to the overdue balance and the accompanying risks, demand repayment through various actions, including the use of telephone, e-mail, letters and home visits.

Based on the actual conditions of non-performing retail loans, repayment will be demanded from the borrowers and guarantors by one or several of the following ways: collection, litigation, appointment of factoring agents or repayment of loans by assets.

Credit Card Risk Management

Identification of Credit Risk

The Credit Card Centre imposes different criteria for credit cards granted to different types of customers, making full use of risk measurement methods such as application grading models, behaviour assessment models, initial credit line models and dynamic management of credit lines so as to manage credit card risk in a quantitative manner, which enables the Bank to carry out differential management of customers with differing risk profiles and income statuses. On this basis, the Bank decides whether a card should be issued and, if so, what type of card should be issued and what credit limit should be granted. The Bank's Credit Card Centre has completed building the Internal Assessment System, and is now using the measurement methods under Basel II to monitor changes in asset quality.

The Bank's Credit Card Centre has set up a specialised risk data analysis team, which pays close attention to the macroeconomic development of the PRC as well as the development of the credit card business in the banking industry. Furthermore, based on the requirements of the Bank's business, the Bank collects information relating to credit risk control measures of other banks through a number of channels and provide such information to risk policy-makers for their reference. Based on the Bank's business planning and risk management targets, the Bank adjusts its credit card policy in line with the current forecast of the credit card business in a timely manner.

The Bank investigates and identifies potential customer credit risks through a number of channels, including making full use of internal and external credit investigation means such as the Bank's credit card blacklist system, the personal credit information database of PBOC, the identity verification system of the Ministry of Public Security, China UnionPay's risk information sharing system and the industry-wide risk information sharing system.

Credit Risk Control System

The Credit Card Centre has established the Risk Management Department, Credit Approval Department, Collection Management Department, Strategy Research Department and other departments so as to strengthen the exchange and coordination of information related to risk prevention. The Bank updates guidelines for the examination and approval of credit card applications every year. The guidelines set out the Bank's risk management guiding principles, classify the clients into different types, namely supported, restricted and prohibited, and clarify the approval process for special cases. The Bank has developed its own examination and approval management system, online credit limit adjustment system, electronic debt collection system and operational risk reporting system. In addition, the Bank has carried out operational risk and control self-assessment (RCSA) for the purpose of identifying risks and refining the Bank's internal controls. The Credit Card Centre has introduced the TRIAD customer management system which aims to improve the Bank's customer satisfaction through effective allocation of resources under the Bank's customer credit line management and behaviour management, while controlling risk.

Since 2012, the Bank has made persistent efforts to improve its risk management methods. The Bank deploys differentiated risk management strategies that account for client attributes and transaction behaviour, which allows the Bank to focus on its large number of customers while also refining its credit card risk management. Meanwhile, the Bank optimised its internal ratings system based on Basel II through the Bank's re-examination algorithms, which make adjustments for the probability of default and changes in economic conditions.

Credit Risk Management for Financial Institution Credit Business

The Bank's financial institution credit business primarily includes (i) investments in domestic financial bonds and other quoted securities, financial institution placements and borrowing, and trading of derivatives and (ii) investments in overseas negotiable instruments and overseas financial institution placements. The Bank sets up credit limits with respect to countries, regions and domestic and overseas counterparties. Such limits are subject to the approval of the Credit Approval Department and the Credit Approval Committee of the Bank's head office within their respective limits of authority.

Credit Risk Management System

The Bank's credit risk management systems include the Bank's corporate credit risk management system, retail credit risk management system and financial institution credit risk management system.

The Bank's corporate credit risk management system allows for the electronic handling and streamlining of the credit granting process, from credit application, review and approval to disbursement approval and post-disbursement management. The Bank pursues the continued development of its corporate loan risk management system to enhance its functions. In particular, by targeting credit extensions to micro-enterprises, the Bank has developed an electronic procedure and risk model catering to the characteristics of micro-enterprises in the Bank's risk management system, which provide systemic support for the whole procedure, including risk identification, measurement, monitoring, mitigation and control.

The Bank's retail credit risk management system is a comprehensive retail loan risk management system, which comprises an analysis modelling software, decision-making engines, process management and numerous relevant data sets, which are key to the establishment of a comprehensive risk management system for the Bank. The entire retail credit management process can be managed through this electronic system, which includes loan applications, on-line approval, loan disbursement and post-disbursement management.

The Bank's financial institution credit risk management system facilitates the process of information collection and credit applications, customer rating, credit approvals, disbursement and post-disbursement monitoring in relation to financial institutions.

LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risk where although a bank is solvent, it may be unable to obtain sufficient funds in a timely manner or at a reasonable cost, to cope with asset growth or settle due and payable debts. Most of the funds held by the Bank come from the deposits of the Bank's customers. In recent years, the Bank's customers' deposits have grown in quantity and diversified in types and term length. Based on an estimation of the Bank's future cash flow, the Bank takes action to maintain an appropriate percentage of liquid assets.

The Bank's Asset and Liability Management Committee is responsible for managing the Bank's overall liquidity. The Asset and Liability Management Committee, with the Bank's President as its chairman, is responsible for formulating policies relating to liquidity based on relevant regulatory requirements and the principle of prudence. The objectives of the Bank's liquidity policies are as follows:

- to maintain the Bank's liquidity at a stable and sufficient level and to ensure that the Bank is in a position to fulfil payment obligations in a timely manner and meet its liquidity demands relating to its assets, liabilities and off-balance sheet operations, both in the case of normal business operations and in stressed circumstances, by setting up a methodical and comprehensive liquidity risk management system; and
- to make reasonable and timely adjustments to the scale and structure of the Bank's assets and liabilities based on market changes and business development and to pursue the maximisation of profits and the minimisation of costs in order to maintain an appropriate level of liquidity with an aim to ensure the "safety, liquidity and efficiency" of the Bank's capital.

The Bank's Planning and Finance Department is responsible for the daily management of the Bank's liquidity risk and for formulating and timely revising the Bank's liquidity risk management strategies. It is also responsible for the identification, measurement, monitoring and reduction of bank-wide liquidity risk. The Bank's Treasury Department is responsible for the day-to-day position management and forecasts and for maintaining the Bank's highly liquid asset portfolio at an appropriate level based on the Bank's liquidity risk management strategies. In the event of a material incident relating to payment obligations or any structural change, timely reports as well as recommendations must be given to the Asset and Liability Management Committee.

The Bank mainly adopts a liquidity gap analysis to measure liquidity risk and adopts different scenario analysis and stress tests to assess the impact created by the relevant liquidity risk. While the Bank reduces its liquidity risk by term matching, diversification of liabilities and other on-balance sheet business adjustments in light of internal transfer pricing and external pricing, the Bank also attempts to adjust for any liquidity shortfall by making use of monetary swaps and other financial derivatives.

MARKET RISK MANAGEMENT

Market risk means the risk of losses to the Bank's businesses resulting from an adverse movement of market prices, including interest rates, exchange rates, commodity prices and stock prices.

The Board of Directors bears ultimate responsibility for monitoring and managing the Bank's exposure to market risk to ensure that the Bank can effectively identify, measure, monitor and control the different types of market risk to which the Bank's businesses are exposed. The Risk Management Committee of the Board of Directors is responsible for monitoring market risk management within its limit of authority delegated by the Board of Directors and reviewing the Bank's strategies, policies and procedures relating to market risk management together with relevant proposals on the acceptable market risk level put forward by senior management. Most of the market risks to which the Bank is exposed in its business operations and development are concentrated in the Bank's treasury management, including (i) money market activities, (ii) investment portfolio management and (iii) treasury transactions on behalf of customers. The Planning and Finance Department is responsible for the day-to-day monitoring and management of the underlying interest rate risk and foreign exchange risk of banking books. The Risk Management Department is responsible for establishing and improving the Bank's market risk management system, formulating market risk management policies and identifying, monitoring and reporting the Bank's market risk exposure.

In accordance with the requirements of regulatory authorities and the general practices of the banking industry, the Bank divides its on and off-balance sheet assets into two categories: trading books and banking books. Based on the nature and characteristics of the relevant accounts, the Bank adopts methods to identify, measure, monitor and control market risk. Trading books refer to the financial instruments and commodities positions that could be traded freely. Banking books represent business other than trading books. The Bank primarily measures and monitors the market risk associated with trading books through sensitivity indicators, scenario analysis and foreign exchange exposure analysis. The Bank measures and monitors the market risk associated with banking books through sensitivity gap analysis, stress tests and effective duration analysis.

The Bank aims to effectively identify, measure and monitor factors relating to market risk. In order to ensure that the market risk the Bank assumes is within its risk tolerance, the Bank has established a tiered cap system for market risk management. The first tier sets a cap on the level of overall market risk exposure deemed acceptable to the Bank. The second tier sets exposure caps on both interest rate and exchange rate risk. Third- and fourth-tier caps are business- and product-type specific. To ensure the implementation of the Bank's tiered cap system, the Bank has implemented a suite of cap management procedures, covering application, approval, monitoring, early warning, reporting and action plans with respect to such caps.

In order to further enhance the Bank's trading and market risk management ability, the Bank has established a comprehensive market risk management system. The main functions of this system include front, middle and back-office monitoring and processing of treasury transactions. The system also provides a specialised platform for trading and market risk management. At the same time, the Bank has also introduced a Value-at-Risk (VaR) measurement model in order to enhance the Bank's ability to measure and manage market risk to prepare for the Bank's implementation of Basel II.

Interest Rate Risk Management

The Bank's interest rate risk mainly relates to the repricing risk in the Bank's commercial banking business and the risk of the Bank's treasury position. The objectives of the Bank's interest rate risk management are to develop measures to monitor and control interest rate risk, to establish proper mechanisms to measure, analyse and follow up on changes of such risk and to take appropriate steps before escalation of interest rate risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of interest rate risk and to safeguard the safety, liquidity and profitability of the Bank's business operations.

The Bank has adopted an interest rate risk management policy that serves as the foundation for the Bank's bank account interest rate risk management mechanisms and strategies. The Bank actively explores and improves its interest rate risk management mechanisms, and endeavours to establish an appropriate asset-liability pricing mechanism by using a fund transfer pricing system, with a focus on profit. The Bank has also improved and upgraded its assets and liabilities management system and improved the relevance of system applications towards interest rate risk management.

In the Bank's interest rate risk management, the Bank has taken steps in conducting active management of assets and liabilities, and applying the results of gap analysis of asset-liability management to the adjustment of portfolios and the control of liability costs so as to increase the Bank's bank-wide net interest margin.

The Bank assesses the interest rate risk relating to banking books mainly through repricing gap analysis and net profit and interest income simulation analysis. The Bank regularly monitors the position of the gap and conducts stress tests by using gap data. On this basis, the Bank adjusts repricing term structures of interest-earning assets and interest-bearing liabilities and uses derivatives to hedge against interest rate risk. At the same time, the Bank closely monitors the movement of interest rates of local and foreign currencies, and, in line with changes in market interest rates, adjusts the Bank's interest rates for deposits and loans denominated in both local and foreign currencies so as to mitigate interest rate risk.

With respect to the Bank's financial market business, the Bank adopts such techniques as duration and present value per basis point to measure interest rate risk, and applies stress tests and scenario analysis to monitor and control risks.

Exchange Rate Risk Management

The Bank's exchange rate risk primarily arises from the proprietary foreign currency portfolio within the Treasury Department's proprietary investments, and other foreign currency transactions. The objectives of the Bank's exchange rate risk management are to develop measures to monitor and control exchange rate risk, to establish proper mechanisms to measure, analyse and follow up on changes in such risk and to take appropriate steps before escalation of exchange rate risk to reduce the Bank's potential loss so that the Bank operates its business within an acceptable range of exchange rate risk and to safeguard the safety, liquidity and profitability of the Bank's business operations. The Bank's exchange rate risk is reflected in the mismatch of the currencies in which the Bank's assets and liabilities are denominated and the possible adverse impact of exchange rate fluctuation on the Bank's profit and capital in foreign currencies.

The Bank has adopted exchange rate risk management measures across the Bank to centralise the management of exchange risks related to the Bank's account. The Bank endeavours to match relevant foreign currency assets with liabilities and controls the exchange risks by making available and utilising various currency sources. The Bank strictly controls risk exposure in foreign exchange settlement and sales and takes measures to improve the position-closing method for foreign exchange settlement and sales. The Bank also implements a "multiple price quotations per day" mechanism to reduce exchange risk. The Bank actively researches, designs and develops various derivative financial instruments and innovative financial products, aiming at managing exchange rate risk by utilising appropriate financial instruments.

OPERATIONAL RISK MANAGEMENT

Operational risk represents the risk of loss associated with deficiencies and failures of internal processes, personnel and information systems, or external events. The operational risk that the Bank faces primarily includes, among others, internal and external fraud, damage to tangible property, disruptions to the Bank's operations or information technology system and problems associated with transaction settlement as well as business processes management. Operational risk also includes legal risk but does not include strategic or reputational risk.

The Bank's operational risk management aims to control operational risk within an acceptable range, to increase service efficiency and optimise work flow, to lower management costs and increase profitability, to reduce the impact of contingencies and to ensure the normal and continuous operation of the Bank's business.

The Bank has established a hierarchical operational risk management structure, operating under the guidance of the operational risk management policies formulated by the board and implemented by the Bank's senior management, with three lines of defence. The Board of Directors is ultimately responsible for operational risk management. The Bank's senior management actively leads the relevant initiatives; branch-level management teams are responsible for operational risk management at their respective branches, with branch heads having ultimate responsibility at branch level.

Business units and functional departments constitute the first line of defence to safeguard against operational risk, directly bearing and managing the operational risk of their own departments or lines and assuming primary responsibility for operational risk management. The Risk Management Department and Legal and Compliance Department constitute the second line of defence to safeguard against operational risk, and are responsible for establishing an operational risk management framework and guarding, supporting and monitoring the implementation of the Bank's operational risk management at all levels. The Internal Audit Departments and Discipline and Inspection Departments constitute the third line of defence against operational risk. The Internal Audit Departments are responsible for auditing the implementation of the Bank's operational risk management system across the Bank and reporting related issues to the senior management and the Audit Committee of the Board of Directors, and the Discipline and Inspection Departments carry out investigations and culpability verifications and ensure that the relevant individuals are held accountable for any operational issues identified.

The Bank has preliminarily established an operational risk identification and assessment system, which is based on operational risk and control self-assessment (RCSA), supplemented by an operational risk event reporting system and key operational risk indicators and supported by internal audit and compliance assessments. Under the hierarchical management of operational risk, different business lines or business departments are responsible for applying the relevant tools to identify, assess and control operational risk and adopt appropriate risk management measures.

The Bank has implemented the operational risk and control self-assessment (RCSA) process and has incorporated this into the daily work of the Bank's business lines, branches and sub-branches. The RCSA is implemented by the institute or department that assumes direct responsibility for operational risk for the purpose of internally assessing operational risks and effectiveness of control in accordance with the principles of operational risk management.

The Bank has established an operational risk reporting system whereby various business lines and various branches and sub-branches are required to report on operational risk events in accordance with the predetermined reporting scope, route and format. The operational risk reporting system helps to pinpoint weak links in operational risk control by identifying the spread of losses, and can be used to verify the results of operational risk control self-assessment so as to evaluate the quality of the RCSA.

The Bank has set up a key risk indicator (KRI) system for operational risk, which covers the Bank's main risk categories and key product groups. By continuously monitoring key risk indicators, the Bank aims to keep abreast of changes in its operational risk exposure and to enhance the Bank's adaptable supervision capabilities so as to actively manage operational risk and be able to issue early warnings prior to the occurrence of potential operational risk incidents.

COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of legal sanctions, regulatory penalties, material financial losses, or reputational damage to a commercial bank resulting from the failure to comply with applicable laws and regulations as well as relevant industry standards. Compliance risk management is an important part of the Bank's overall risk management and the Bank has accordingly placed strong emphasis on compliance risk management throughout the Bank's internal control structure and procedures. The Board of Directors is ultimately responsible for matters relating to compliance risk and the Legal and Compliance Departments at both the Bank's head office and at the branch level take responsibility for coordinating bank-wide compliance risk management, including the implementation of an integrated and coordinated compliance risk management system and the adoption of tracking and monitoring measures. The Bank continuously provides effective guidance, monitoring, alerts, identification and assessment with respect to compliance risk, and actively promotes systematic compliance management.

CAPITAL MANAGEMENT UNDER COMPREHENSIVE RISK MANAGEMENT

The Bank believes it has an established capital management system and promotes organic integration between the Bank's capital management, risk management and assets and liabilities management units. The Bank also strengthened its valued-based portfolio management system to enhance its systematic risk management capability.

The Bank's capital management organisational structure encompasses the board, supervisory committee and senior management. The Bank emphasises efficiency in the Bank's capital management by using RAROC (Risk-Adjusted Return On Capital) /EVA (Economic Value Added) indicators as guidance. The Bank also utilised a number of tools in its capital management, such as (i) advanced audit mechanisms, (ii) a multi-tiered capital management and internal capital adequacy assessment programme (ICAAP) and (iii) a risk-weighted assets system at the accounting level (including standard and advanced methods for capital measurement).

Anti-Money Laundering

In accordance with relevant legal and regulatory requirements on anti-money laundering, the Bank has formulated rules, regulations and policies for the monitoring, reporting and managing of money laundering risk, which are reviewed on an annual basis and revised as necessary to satisfy the Bank's own risk management requirements and those of relevant regulators.

The Bank carries out anti-money laundering training by internal or third-party consultants to increase the awareness among the Bank's staff of money laundering risks. The Bank has established an anti-money laundering leading team and an anti-money laundering work office. The anti-money laundering leading team is responsible for spearheading the Bank's bank-wide anti-money laundering initiatives, formulating and overseeing the implementation of relevant laws and regulatory rules on the identification and handling of large transactions and suspicious transactions. It is comprised of the respective heads of the Legal and Compliance Department, Operation Management Department, Transaction Banking Department, Corporate Banking Department and other related departments. Each such department bears management responsibility for anti-money laundering activities in accordance with its authority. The anti-money laundering work office is within the Legal and Compliance Department, and is responsible for the day-to-day bank-wide management of money laundering risk and coordinating the reporting of anti-money laundering work of relevant departments, and the consolidation and reporting of the data of large transactions and suspicious transactions.

INTERNAL CONTROL

The Bank continues to enhance its internal control functions and its corporate governance and strives to achieve the best practice standards of the banking industry.

The Bank maintains a three-tiered internal control management system, which consists of the decision-making level, the implementation level and the supervision and evaluation level.

Decision-making Level

The Board of Directors has ultimate decision-making authority and is mainly responsible for deciding the Bank's internal control strategy and making the most significant business decisions. The Board of Directors is also responsible for reviewing the internal control reports submitted by the Bank's senior management, auditors and regulators, conducting all overall assessment of the integrity and effectiveness of the bank-wide internal control system, and supervising senior management to carry out continuous improvement and refinement of the Bank's internal control system.

Implementation Level

The Bank's senior management is supervised by the Board of Supervisors and is responsible for: (i) implementing the various strategies, policies, systems and procedures approved by the Board of Directors; (ii) establishing an organisational structure with specific authorisation and duties as well as clear reporting lines; (iii) setting up a procedure for identifying, measuring and managing risks; developing and implementing sound and effective internal control measures; and (iv) adopting measures to rectify any existing internal control deficiencies.

The special committees under senior management, including, among others, the Risk Management Committee, the Asset and Liability Management Committee and the Internal Control and Compliance Early Warning Committee, are responsible for internal control and risk management within their respective limits of authority.

Business departments in the Bank's head office are responsible for departmental internal control matters, including the implementation of internal control policies and procedures, identification and management of internal control deficiencies and timely reporting on their internal control efforts to senior management.

Management at the branch level is responsible for branch-level internal control matters, including, at the request of senior management or the business departments of the Bank's head office, the formulation of specific detailed implementation rules and business procedures and the establishment and enhancement of internal control mechanisms.

Supervision and Evaluation Level

The Board of Supervisors is responsible for supervising the Bank's compliance with the relevant laws and regulations, as well as supervising the Board of Directors and senior management in their performance of their respective duties and inspecting and supervising the Bank in connection with matters relating to internal control. The Audit Department is responsible for carrying out audits, supervision and assessment of the Bank's business operations, internal control and risk profile across the Bank.

INTERNAL AUDIT

Pursuant to the Guidelines on Internal Audit for Banking Financial Institutions (銀行業金融機構內部審計指引) issued by CBRC, the Bank began to reform its internal audit system at the end of 2006. The Bank has put in place an independent vertical audit management system under which the Bank's audit functions are accountable to the Board of Directors and report to the Board of Directors, the Audit Committee of the Board of Directors and the Bank's senior management. The Bank has also implemented an internal audit organisational structure comprising the Audit Department of the Bank's head office and five audit centres. The Audit Department and the audit centres are independent of other business departments and branches.

They conduct their audit, supervision and assessment of matters relating to the business and operational management, internal control and risk profile across the Bank and supervise the audited authorities and departments to perform their duties by carrying out routine audits, special audits and audits into economic liabilities arising from existing and departing officers. The Audit Department is responsible for: (i) carrying out audits of the Bank's business operations, internal controls and risk profile across the Bank; (ii) making consistent efforts to improve review and supervision of the Bank's internal controls; and (iii) continuously strengthening the normalisation and standardisation of the Bank's internal control process, which has resulted in the quality and results of the Bank's audits improving continuously and promoted stable and healthy business operations across the Bank.

The Audit Department is responsible for auditing and assessing bank-wide operational activities, risk profile, internal control and corporate governance effectiveness; formulating the parameters for audit work and audit business systems across the Bank; formulating and organising the implementation of annual work plans; managing and giving guidance to the audit centres; and conducting audits of the line departments, key businesses of the Bank's head office and key branches.

Each regional audit centre is responsible for the implementation of annual work plans at the regional level and examining and assessing business operations, risk profile, internal control and corporate governance of branches within its region.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The section "Directors, Supervisors and Senior Management" on pages 239 to 251 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

Directors

The following table sets out certain information relating to the Bank's directors as at the date of this Supplemental Offering Circular:

Name	Age	Position	Appointment Date
Mr. LI Xiaopeng	61	Chairman of the Board of Directors, Non-executive Director and Secretary of Communist Party of China ("**CPC**") Committee	16 March 2018
Mr. WU Lijun	56	Vice Chairman, Non-Executive Director	25 March 2020
Mr. LIU Jin	54	Executive Director, President, Deputy Secretary of CPC Committee	25 March 2020
Mr. YAO Zhongyou	57	Executive Director, Executive Vice President and Member of CPC Committee	5 February 2021
Mr. QU Liang	54	Executive Director, Executive Vice President, Member of CPC Committee and Secretary of CPC Committee and President of Beijing Branch	5 February 2021
Mr. FU Wanjun	52	Non-Executive Director and Member of the CPC Committee	5 February 2021
Mr. YAO Wei	45	Non-Executive Director and Standing Member of CPC Committee	5 February 2021
Mr. LIU Chong	51	Non-Executive Director	26 December 2019
Ms. YU Chunling	54	Non-Executive Director	2 November 2019
Mr. XU Hongcai	56	Independent Non-executive Director	11 February 2015
Mr. FENG Lun	61	Independent Non-executive Director	11 February 2015
Mr. WANG Liguo	63	Independent Non-executive Director	10 January 2017
Mr. SHAO Ruiqing	63	Independent Non-executive Director	5 August 2019
Mr. HONG Yongmiao	57	Independent Non-executive Director	12 September 2019
Mr. LI Yinquan	65	Independent Non-executive Director	11 June 2020

Mr. LI Xiaopeng, aged 61, joined the Bank as Chairman of the Board of Directors in March 2018 and has served as Secretary of CPC Committee of the Bank since December 2017. Currently, he is also the secretary of CPC Committee and chairman of China Everbright Group Ltd., honorary principal of Party School of China Everbright Group and Everbright University, chairman of the Board of Directors at China Everbright Group Holdings Limited, the honorary chairman of the Hong Kong Chinese Enterprises Association and vice president of China Tourism Association. He was member of CPC Committee and deputy general manager of Henan Provincial Branch of Industrial and Commercial Bank of China ("**ICBC**"), general manager of the Banking

Department of the Head Office of ICBC, secretary of CPC Committee and general manager of Sichuan Provincial Branch of ICBC, member of CPC Committee and vice president of China Huarong Asset Management Corporation, member of CPC Committee and assistant president of ICBC, secretary of CPC Committee and general manager of Beijing Municipal Branch of ICBC, member of CPC Committee, executive director and vice president of ICBC, deputy secretary of Secretary of CPC Committee and chairman of the Board of Supervisors of China Investment Corporation, and deputy secretary of CPC Committee, vice chairman and general manager of China Merchants Group. He was also chairman of ICBC International Holdings Limited, chairman of ICBC Financial Leasing Co., Ltd., chairman of ICBC Credit Suisse Asset Management Co., Ltd., vice chairman of China Merchants Bank, chairman of China Merchants Energy Shipping Co., Ltd., chairman of the Board of Directors of China Merchants Port Holdings Company Limited, chairman of China Merchants Huajian Highway Investment Co., Ltd., chairman of China Merchants Capital Investment Co., Ltd., chairman of China Merchants Joint Development Co., Ltd., and chairman of China Merchants Investment Development Company Limited. He is a graduate of Wuhan University with a Doctoral degree in Economics, and is a senior economist. Mr. Li is a member of the Committee for Economic Affairs of the Thirteenth Session of the CPPCC National Committee.

Mr. WU Lijun, aged 56, has served as Vice Chairman and Non-Executive Director of the Bank since March 2020. He is currently Deputy Secretary of CPC Committee, Vice Chairman and General Manager of China Everbright Group Ltd. He served as the Deputy Director (Deputy Bureau Level) of the State Material Reserve Regulatory Centre of the Ministry of Domestic Trade, person in charge of the Information Centre, Deputy Director (Presiding) of the Training Centre, Director of the Personnel Education Department and Director of the Party Organisation Department of the China Securities Regulatory Commission. He also served as the member of the CPC Party Committee and Assistant Chairman of the China Securities Regulatory Commission, the Chairman of the Board of Directors and CPC Party Secretary (Deputy Minister Level) of the Shenzhen Stock Exchange. He obtained a doctorate degree in economics from Renmin University of China. He is a senior economist.

Mr. LIU Jin, aged 54, has served as Executive Director of the Bank since March 2020, President of the Bank since January 2020, and became Deputy Secretary of CPC Committee of the Bank in November 2019. He is currently Member of CPC Committee and Executive Director of China Everbright Group Ltd. He was Representative of the London Representative Office of ICBC, General Manager of the International Banking Department, Member of CPC Committee and Deputy General Manager of Shandong Branch of ICBC, Vice Chairman, Executive Director, General Manager of ICBC (Europe) and General Manager of ICBC Frankfurt Branch, General Manager of the Investment Banking Department of the Head Office, Secretary of CPC Committee and General Manager of Jiangsu Branch of ICBC, and member of CPC Committee and Vice President of China Development Bank. He graduated from Shandong University with a master's degree in English Language and Literature, and is a senior economist.

Mr. YAO Zhongyou, aged 57, is currently a member of the CPC Committee and vice president of the Bank. He served as the clerk, deputy manager of the International Business Department of Hebei Provincial Branch, president, secretary of the CPC Leading Group of the CPC Committee of Chengde Branch, director of the general office, deputy president and member of the CPC Committee of Hebei Provincial Branch, deputy general manager of Equity Management Department of China Everbright (Group) Corporation, executive director, member of CPC Committee and vice president of Everbright Financial Holding Asset Management Co., Ltd., and general manager of Financial Management Department of China Everbright (Group) Corporation. He graduated from Wuhan University majoring in finance and obtained a master's degree in economics. He is a senior economist.

Mr. QU Liang, aged 54, is currently a member of the CPC Committee and vice president of the Bank and secretary of the CPC Committee and president of Beijing Branch of the Bank. He served as the vice general manager of the Corporate Business Department of Henan Provincial Branch of Industrial and Commercial Bank of China; director of the office of Zhengzhou Branch, the general manager of the Corporate Banking

Department II, the general manager of the Corporate Banking Department I; the vice general manager of the corporate banking division at the head office, secretary of the CPC Committee, president of Hohhot Branch; secretary of the CPC Committee, president of Chongqing Branch of China Merchants Bank; officer for deepening reform of the leading group office for the comprehensive deepening reform (director of department of head office level) of China Everbright Group Ltd. He graduated from Zhengzhou University with a degree in politics, majoring in politics, and obtained a master's degree in law, majoring in economic law, at Zhengzhou University. He is a senior economist.

Mr. FU Wanjun, aged 52, is currently a member of the CPC Committee and vice general manager of China Everbright Group Ltd. He served as the deputy manager of the Credit and Loan Department II, deputy manager and manager of the Marketing Department II, assistant to the president, vice president, member of the CPC committee of Urumqi Branch, secretary of the CPC Committee and president of Yinchuan Branch, secretary of the CPC Committee and president of Xinjiang District (Urumqi) Branch, secretary of the CPC Committee and president of Chongqing Branch, general manager (principal level in provincial branches) of the Corporate and Institutional Business Department of the head office, chief operating officer (corporate and institutional business segment) of Bank of Communications. He obtained an executive master in business administration degree from Dalian University of Technology. He is a senior economist.

Mr. YAO Wei, aged 45, is currently a standing member of CPC Committee and chief accountant of Overseas Chinese Town Group Company Limited. He successively served as deputy director and director of asset division (fixed assets), and the head of the internal control unit of account division of the Finance Department in Daya Bay Nuclear Power Operations and Management Co., Ltd.; staff, budget management director of finance department, tax management manager, senior manager and head of comprehensive finance division of China Guangdong Power Holding Co., Ltd.; chief accountant of CGN Wind Energy Co., Ltd.; chief accountant of CGN Meiya Power Holdings Co., Ltd. (changed its name to CGN New Energy Holdings Co., Ltd.); vice general manager (presiding) and general manager of the Finance Department, general manager of the Finance and Asset Management Department of China General Nuclear Power Corporation; chief accountant of CGN Solar Energy Development Co., Ltd.; chairman of CGNPC International Limited and executive director of Shenzhen Nengzhihui Investment Co., Ltd. He graduated from Zhongnan University of Economics and Law majoring in accounting and obtained a bachelor's degree in economics. He is a certified public accountant.

Mr. LIU Chong, aged 51, has served as a Non-Executive Director of the Bank since December 2019. He currently serves as Member of CPC Committee and Managing Director of COSCO Shipping Development Co., Ltd., and concurrently as Vice Chairman of China International Marine Containers (Group) Ltd. and Non-Executive Director of China Cinda Asset Management Co., Ltd. He successively served as Deputy General Manager of China Shipping Investment Co., Ltd., Deputy General Manager of China Shipping Logistics Co., Ltd., Chief Accountant of China Shipping (Hainan) Haisheng Co., Ltd., Director of Capital Management Department of China Shipping (Group) Company, Chief Accountant of China Shipping Container Lines Co., Ltd., and General Manager of China Shipping Investment Co., Ltd. He graduated from Sun Yat-sen University majoring in economics and obtained a bachelor's degree in Economics. He is a senior accountant.

Ms. YU Chunling, aged 54, is currently the secretary of the CPC Committee, the vice chairman and general manager of China Re Asset Management Company Ltd. She had served as a deputy director of the Planning Office of the Comprehensive Planning Bureau, the director of the Comprehensive Office of the Investment Business Bureau, the director of the Operation Management Office of the Comprehensive Planning Bureau, a deputy director of Operation Centre, a deputy director of the Comprehensive Planning Bureau, the director of the Fund Bureau, the president of Tianjin Branch of the China Development Bank, and the deputy secretary of the CPC Committee of China Re Asset Management Company Ltd. Ms. Yu graduated from Chinese Academy of Fiscal Sciences of the Ministry of Finance majoring in finance and obtained a Doctoral degree in Economics. He is a senior accountant.

Mr. XU Hongcai, aged 56, has served as Independent Non-Executive Director of the Bank since February 2015. He is currently an executive director of China Association of Policy Science, deputy officer and researcher of the Economic Policy Committee, and a visiting scholar of the University of British Columbia, Canada. He successively served as assistant engineer of China National Petrochemical Corp., a staff member at the Financial Claims Office of the Head Office of the PBOC, deputy general manager at Shanghai Office of GF Securities, vice president at Beijing Venture Capital Co., Ltd., professor of Capital University of Economics and Business and deputy chief economist of China Centre for International Economic Exchanges. He graduated from Renmin University of China with a master's degree in Philosophy, and then graduated from the Graduate School of Chinese Academy of Social Sciences with a Doctoral degree in Economics.

Mr. FENG Lun, aged 61, has served as Independent Non-Executive Director of the Bank since February 2015. He is Executive Director of Beijing Sifang Yufeng Investment Co., Ltd. He served as a lecturer of the Party School of the Central Committee of CPC, Deputy Department Director of the Research Institute of the State Economic System Reform Commission, Senior Vice President of the Research Centre of the Hainan Reform and Development Research Institute and Director of China Minsheng Banking Corp., Ltd. He founded the Vantone Group in 1991. He obtained a bachelor's degree in Economics from Northwest University, a master's degree in Law from the Party School of the Central Committee of CPC, a Doctorate degree in Law from the Graduate School of Chinese Academy of Social Sciences and a Master of Public Policy (MPP) degree from Lee Kuan Yew School of Public Policy at the National University of Singapore.

Mr. WANG Liguo, aged 63, has served as Independent Non-Executive Director of the Bank since January 2017. He currently works as professor (national second class) and doctoral tutor of Dongbei University of Finance and Economics, chief expert of Major Bidding Projects of the National Social Science Fund, director of China Investment Association, executive director of Construction Economics Branch of China Construction Industry Association, vice chairman of Dalian Engineering Consulting Association and chairman of Dalian Yadong Investment Consulting Co., Ltd. He has served as lecturer and associate professor of Dongbei University of Finance and Economics, dean of the School of Investment Engineering Management of Dongbei University of Finance and Economics, and a member of the Evaluation Committee of Higher Education Engineering Management of the Ministry of Housing and Urban-Rural Development. He graduated from Dongbei University of Finance and Economics with a bachelor's degree and a master's degree in Economics and then a Doctoral degree in Industrial Economics.

Mr. SHAO Ruiqing, aged 63, is currently a professor and doctoral tutor in Shanghai Lixin University of Accounting and Finance. He also holds positions including the vice president of China Communications Accounting Society, an executive director of Accounting Society of China, a director of China Audit Society, the vice president and chairman of the academic committee of Shanghai Accounting Association, an executive director of Shanghai Audit Association, a member of accounting & finance expert advisory committee of Ministry of Transport, the consulting expert of state-owned assets report of Ministry of Finance, an independent director of China Eastern Airlines Corporation Limited, an independent director of HUAYU Automotive Systems Co., Ltd., an independent director of Tibet Urban Development and Investment Co., Ltd., an independent director of Shanghai Carthane Company Limited. He served as a teaching assistant, lecturer and associate professor of the Department of Economics of Shanghai Maritime University (during the period of which, he received the Sino-British Friendship Scholarship for studying and research in Maritime Finance at University of Wales in the United Kingdom); associate professor and dean of the Department of Accounting of Shanghai Maritime University; professor and dean of the Department of Finance & Accounting of Shanghai Maritime University (during the period of which, he received national fund from Studying Abroad Program and was a senior visiting scholar at University of Sydney, Australia); professor and deputy dean of School of Management of Shanghai Maritime University; professor, doctoral tutor and dean of School of the Economics and Management of Shanghai Maritime University; professor, doctoral tutor and vice president of Shanghai Lixin University of Accounting; and external supervisor of China Merchants Bank. He respectively obtained a bachelor's degree in Economics of Shanghai Maritime University, a master's degree in Management of Shanghai University of Finance and Economics and the Ph.D. in Management of Tongji University. He is entitled to a special government allowance provided by the State Council, and is also an honorary fellow member of the Association of International Accountants.

Mr. HONG Yongmiao, aged 57, is currently an academician of the Academy of Sciences for the Developing World, a bachelor of the Econometric Society, a professor of Economics and International Studies at Cornell University in the United States and a vice chairman of Economics Professional Teaching Mentoring Committee of Higher College of Ministry of Education and a lecture professor of Economics of the "Changjiang Scholars" launched by the Ministry of Education (Xiamen University). He also serves as the senior editor of Economics of the Journal of Management Science and Engineering of the National Natural Science Foundation of China as well as the editorial board of Economic Research Journal of Chinese Academy of Social Sciences. He is a member of the Academic Committee of China Economic Quarterly of Peking University and an independent director of Xiamen Bank. He was previously the host of the National Science Fund for Distinguished Young Scholars of National Natural Science Foundation of China and the president of the Chinese Economists Society. He also acted as an independent director of ICBC. He respectively obtained a bachelor's degree in Science and a master's degree in Economics of Xiamen University, and a Ph.D. in Economics of University of California, San Diego in the United States.

Mr. LI Yinquan, aged 65, has served as an Independent Non-executive Director of the Bank since June 2020. He served as the director of China Merchants Capital Investment Co., Ltd. He also served as the independent non-executive director of Genertec Universal Medical Group Company Limited, Million Cities Holdings Limited and Hong Kong Shanghai Alliance Holdings Limited and Kimou Environmental Holding Limited. He served as the assistant to the general manager, cadre at deputy general manager level of the International Business Department, person in charge of the Preparatory Group of the New York Branch, deputy general manager of the Personnel and Education Department and deputy general manager of the Hong Kong Branch of the Agricultural Bank of China. He also served as the general manager of the Planning and Finance Department, chief financial officer, vice president and chief accountant of China Merchants Group Co., Ltd., as well as the general manager, CEO and chairman of China Merchants Capital Investment Co., Ltd. and the executive director of China Merchants Holdings (International) Company Limited, the non-executive director of China Merchants Bank Co., Ltd., the executive director of China Merchants Energy Shipping Co., Ltd. and the executive director of China Merchants China Direct Investments Limited. He graduated from the Graduate School of the People's Bank of China from which he obtained a master's degree in economics. He later obtained a master's degree in finance for development in Finafrica Institute, Italy. He is a senior economist.

Supervisors

The following table sets out certain information relating to the Bank's supervisors as at the date of this Supplemental Offering Circular:

Name	Age	Position	Appointment Date
Mr. YIN Lianchen	54	Shareholder Representative Supervisor	23 December 2014
Mr. WU Junhao	55	Shareholder Representative Supervisor	19 November 2009
Mr. WU Gaolian..................	68	External Supervisor	29 June 2016
Mr. WANG Zhe....................	60	External Supervisor	15 November 2016
Mr. QIAO Zhimin	68	External Supervisor	12 September 2019
Mr. XU Keshun....................	54	Employee Supervisor	26 July 2019
Mr. SUN Jianwei..................	54	Employee Supervisor	26 July 2019
Mr. SHANG Wencheng........	45	Employee Supervisor	26 July 2019

Mr. YIN Lianchen, aged 54, has served as Supervisor of the Bank since December 2014. He is currently Managing Director and Chief Investment Officer of China Everbright Limited and Non-Executive Director of Everbright Securities Co., Ltd. He successively served as General Manager of the Corporate Administration

Department, Director of the Securities Brokerage Department and Director of the Corporate Communications Department of China Everbright Limited, Chief Representative of China Desk of Moody's KMV, Deputy General Manager of Beijing Yonder Investment Group, Division Chief in the Executive Office of China Everbright (Group) Corporation and Assistant General Manager of China Everbright Limited. He graduated from Nankai University with a master's degree in Western Financial Accounting.

Mr. WU Junhao, aged 55, has served as Supervisor of the Bank since November 2009. He is Manager of the Financial Management Department of Shenergy (Group) Limited and concurrently serves as Director of Orient Securities Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. He successively served as Executive Deputy General Manager of Shanghai New Resources Investment Consulting Company, Deputy General Manager of Shanghai Bailitong Investment Company, Deputy Director of Shanghai Shenergy Asset Management Co., Ltd., and Deputy Director, Director and Senior Director of the Asset Management Department and Deputy (Acting) Director and General Manager of the Financial Management Department of Shenergy (Group) Co., Ltd. He graduated from East China Normal University and later obtained a master's degree in Enterprise Management at East China Normal University.

Mr. WU Gaolian, aged 68, has served as External Supervisor of the Bank since June 2016. He successively served as a committee member of County Committee, Deputy County Magistrate and Deputy Managing Magistrate of Fusong County, Jilin, General Manager of Tonghua Branch, Jilin, Deputy General Manager of Jilin Branch, General Manager of Guangxi Branch and General Manager of Liaoning Branch of the People's Insurance Company (the People's Insurance (Property) Company of China, Ltd.), Vice President of the People's Insurance Company (Group) of China (People's Insurance Company of China Holdings Company), Director and President of China Reinsurance (Group) Corporation, Director of the Bank, and Director of China Everbright Group Ltd. He graduated from the Graduate School of Chinese Academy of Social Sciences with Monetary and Banking major. He holds a master's degree and is a senior economist.

Mr. WANG Zhe, aged 60, has served as External Supervisor of the Bank since November 2016. He is currently Secretary General of Association of Shanghai Internet Financial Industry and serves concurrently as Vice President of Shanghai Financial Association, Independent Director of Shanghai Pudong Development Bank, and Non-Executive Director of Boill Healthcare Holdings Limited. He successively served as a staff member of Monetary Division and Deputy Division Chief of General Office of the PBOC, Manager of China Gold Coin Shenzhen Commercial Centre, Vice General Manager of Shenzhen Branch of China CITIC Bank, General Manager of China Gold Coin Shenzhen Commercial Centre, Deputy General Manager of China Gold Coin Incorporation, General Manager, Chairman and Party Secretary of Shanghai Gold Exchange, and CPC Committee Secretary of China Foreign Exchange Trade System. He graduated from Southwestern University of Finance and Economics majoring in Business Administration and holds a master's degree.

Mr. QIAO Zhimin, aged 68, has served as External Supervisor of the Bank since September 2019. He is concurrently Independent Director of Wuhan Rural Commercial Bank Co., Ltd. He successively served as Deputy Division Director of the Finance and Accounting Department of the Head Office, Deputy General Manager of Luxemburg Branch and Deputy General Manager of the General Planning Department of Head Office of BOC; Deputy Director-General of the Accounting Department and Deputy Director-General of the First Banking Supervision Department of PBOC; Chief of Regulation Team (Director-General Level) for ICBC; Director of the Finance and Accounting Department of the CBRC; Vice Chairman of the Fourth Session of the Board of Supervisors and Chairman of the Fifth Session of the Board of Supervisors for China Minsheng Banking Corp., Ltd.; and Independent Non-Executive Director of the Bank. He graduated from Hunan College of Finance and Economics and majored in Finance. He holds a master's degree and a certificate of senior accountant.

Mr. XU Keshun, aged 54, who has served as the Employee Supervisor of the Bank since July 2019, is currently Chief of the Office of the Board of Supervisors of the Bank (General Manager level of the Head Office). He served as the chief deputy clerk of the Personnel Division and Office of Henan Branch of China Construction Bank; the deputy general manager (presiding) of the Personnel and Education Department, the general manager of the Business Development Department of Zhengzhou Branch of the China Investment Bank and the deputy general director of the Personnel and Education Department of the head office; the director of the Audit Division of Henan Branch of China Development Bank; a member of the Party Committee and Vice President of Zhengzhou Branch of the Bank, secretary of the Party Committee, president of Yantai Branch, the secretary of the Party Committee and President of Zhengzhou Branch of the Bank. He obtained a master's degree of EMBA from Guanghua School of Management of Peking University and is a senior economist.

Mr. SUN Jianwei, aged 54, who has served as the Employee Supervisor of the Bank since July 2019, is currently General Manager of the Legal Compliance Department of the Bank. He served as the deputy manager of the Foreign Exchange and Credit Department of the International Department, assistant to the director of the Credit Review Division of the Credit Department, director of the Recovery Division of the Asset Preservation Department, director of the System Clearing Division, director of the System Management Division and assistant to the General Manager of the Bank; a member of the Party Committee, assistant to the President and chief risk officer of Kunming Branch; a member of the Party Committee, Vice President, chief risk officer and secretary of the Disciplinary Committee of Shijiazhuang Branch; the deputy secretary (presiding) of the Party Committee, Vice President (presiding), secretary of the Party Committee and President of Heilongjiang Branch. He graduated from Dongbei University of Finance and Economics with a master's degree and is an economist.

Mr. SHANG Wencheng, aged 45, who has served as the Employee Supervisor of the Bank since July 2019, is currently General Manger of the Audit Department of the Bank. He served as the deputy director of the Financial Management Division of the Planning and Finance Department, the accredited financial controller (senior manager level) of the Credit Card Centre of the Planning and Finance Department, the accredited financial supervisor (senior manager level) of the Information Technology Department, the senior manager of the Financial Management Division, senior manager of the Management Accounting Division, the deputy director of the Eastern Audit Centre (Assistant General Manager and Deputy General Manager level of the Head Office) and deputy general manager of the Audit Department of the Bank. He graduated from Dongbei University of Finance and Economics with a master's degree, and then obtained a doctor's degree of Dongbei University of Finance and Economics in finance. He is a senior economist and a certified public senior accountant.

Senior Management Members

The following table sets out certain information relating to the Bank's senior management members as at the date of this Supplemental Offering Circular:

Name	Age	Position
Mr. LIU Jin....................................	54	Executive Director, President, Deputy Secretary of CPC Committee
Mr. WU Chongkuan......................	58	Member of CPC Committee and Chairman of the Working Committee of the Labour Union
Mr. YAO Zhongyou	57	Executive Director, Executive Vice President and Member of CPC Committee
Mr. HUANG Haiqing....................	56	Member of CPC Committee and Secretary of Disciplinary Committee
Mr. QU Liang................................	54	Executive Director, Executive Vice President, Member of CPC Committee and Secretary of CPC Committee and President of Beijing Branch
Mr. LI Jiayan.................................	57	Secretary to the Board and Representative of Securities Affairs
Ms. QI Ye......................................	51	Vice President and Member of CPC Committee

Name	Age	Position
Mr. YANG Bingbing	49	Vice President and Member of CPC Committee

The biographies of the senior management personnel are as follows:

Mr. LIU Jin, please refer to "*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*".

Mr. WU Chongkuan has served as Member of CPC Committee (Executive Vice President Level) of the Bank since April 2014. He is currently Chairman of the Labour Union Committee and Chairman of the Labour Union of the Bank, and Vice Chairman of the Labour Union Committee of China Everbright Group Ltd. He joined the Bank in May 1997 and took several positions including: Head and General Manager of the General Office, General Manager of Special Assets Management Department (during which he concurrently served as the Head of the Bank's Xi'an Group for Accepting Branches of China Investment Bank); Secretary of CPC Committee and General Manager of Heilongjiang Branch; Secretary of CPC Committee and General Manager of Shanghai Branch; and Director of the Working Committee of the Labour Union. He previously served as Director of the Research and Comprehensive Division of China International Staff Service Centre, Head and General Manager of the Fund Business Department of China Rural Development Trust Investment Company, etc. Mr. Wu graduated from Northwestern Polytechnical University majoring in space engineering. He is a Bachelor of Engineering and an engineer.

Mr. YAO Zhongyou - please refer to "*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*".

Mr. HUANG Haiqing has served as Member of CPC Committee and Secretary of Discipline Committee of the Bank since he joined the Bank in June 2016. He successively served as Deputy Chief of Jiangxi Province Yichun Area Hardware, Electric Material and Chemical Equipment Company, Director of the Xinhua North Office of Haikou branch, Deputy Division Chief of the Deposits Department and Deputy Director (Division Chief Level) of the General Office of Hainan Provincial Branch of ICBC, Senior Manager of the General Management Department, Director of the CPC Committee Office and Head of Organisation Department of the CPC Committee of the Haikou Office of China Huarong Asset Management Co., Ltd, Deputy General Manager of the Banking Department of the Head Office and Deputy General Manager of Pudong Branch of Bank of Shanghai, and Assistant Mayor, Vice Mayor and member of the CPC Committee of Xi'an City. He graduated from Southwest University of Finance and Economics. He holds a Doctoral degree in Economics and a certificate of senior economist.

Mr. QU Liang - please refer to "*DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS - Directors*".

Ms. QI Ye has served as Vice President of the Bank since July 2020. She joined the Bank in 1992 and was successively a member of the Credit Department of the Head Office, an official of the Hainan Representative Office, Assistant to President and Executive Vice President of the Haikou (Subordinate) Branch, Deputy General Manager of the Personal Business Department of the Head Office (later renamed as the Retail Business Department), Chief Risk Officer of the Retail Business Department (Deputy General Manager level of the Head Office), Accredited Chief Retail Risk Officer of the Risk Management Department (Deputy General Manager level of the Head Office), Chief Risk Officer of the Micro-financial Department (General Manager level of the Head Office), Deputy General Manager (General Manager level of the Head Office) and General Manager of the Retail Business Department. She graduated from the Economics Department of Beijing Normal University majoring in economic management, and later obtained a Master's Degree of Business Administration in International Business Administration jointly organized by the Peking University and Fordham University. She is an economist.

Mr. YANG Bingbing has served as Vice President of the Bank since July 2020. He joined the Bank in 2005 and has served successively as Assistant to General Manager and Deputy General Manager of the Risk Management Department of the Head Office, Deputy General Manager (presiding) and General Manager of the Information Technology Department, and General Manager of the Electronic Banking Department. He served as Deputy Chief Clerk and Chief Clerk of the Unified Credit Management Division of the Risk Management Department of the Head Office (during which, he served as Deputy Director (presiding) of the Credit Management Division of the Risk Management Department of Bank - 1 - of China (Hong Kong) Limited), and Senior Risk Manager (Risk Management Planning) of the Risk Management Department of Bank of China Limited. He graduated from the School of Business Administration of the Hong Kong Polytechnic University with a Master's Degree in Business Administration. He is a senior economist.

COMPANY SECRETARY

Mr. LI Jiayan has served as Secretary to the Board of Directors of the Bank since January 2018 and Member of CPC Committee (Executive Vice President Level) of the Bank since July 2019, and concurrently served as Representative of Securities Affairs of the Bank. He joined the Bank in November 2005, and successively served as Deputy General Manager of the Development Research Department, Deputy General Manager of the Strategic Management Department, Deputy Chief of the Office of the Board of Directors and Supervisors (Deputy General Manager Level), Deputy Chief of the Office of the Board of Directors (the Listing Office), Representative of Securities Affairs (General Manager Level), Chief of the Listing Office (General Manager Level) and General Manager of the Capital and Securities Affairs Management Department. He used to work as Deputy Chief of the Project Approval Division of the Foreign Investment Office, Director of the Foreign Investors' Complaints Centre, and Chief of the Coordination and Management Division of the Foreign Investment Office of Wuhan Municipal Government, and Executive Deputy General Manager of Wuhan PKF International Investment Co., Ltd. He graduated from School of Law, Wuhan University with a bachelor's degree and a master's degree in Law. Then he went to the University of California, Berkeley, School of Law for further study, where he obtained a master's degree and a Doctoral Degree in Law.

BOARD OF DIRECTORS COMMITTEES

There are seven committees under the Board of Directors, namely the Strategy Committee, Audit Committee, Risk Management Committee, Nomination Committee, Remuneration Committee, Related Party Transactions Control Committee and Inclusive Finance Development and Consumer Rights and Interests Protection Committee. The committees operate in accordance with the terms of reference established by the Board of Directors of the Bank.

Strategy Committee

The Strategy Committee consists of five directors, namely Mr. LI Xiaopeng, Mr. WU Lijun, Mr. LIU Jin, Mr. XU Hongcai, and Mr. HONG Yongmiao, among whom Mr. LI Xiaopeng acts as chairman of the Strategy Committee. The primary duties of the Strategy Committee are to (i) study and regularly advise on the Bank's business objectives and medium-to-long-term development strategy in accordance with the Bank's operations and changes in the market; (ii) review the Bank's capital management objectives and the Bank's capital replenishment plan in accordance with the Bank's strategic objectives and advise on disclosure of the Bank's capital adequacy ratio; (iii) review the annual business plans and any material change or adjustments in implementation and advise the Board of Directors accordingly; (iv) review and advise on operation and management reform plans, material investment plans and capital operation plans of the entire Bank that are subject to approval by the Board of Directors; (v) regularly assess and inspect the implementation of the above issues after they have been approved by the Board of Directors and report back to the Board of Directors; and (vi) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Audit Committee

The Audit Committee consists of six directors, namely, Mr. WANG Liguo, Mr. XU Hongcai, Mr. SHAO Ruiqing, Mr. FU Wanjun, Mr. YAO Wei and Mr. LI Yinquan among which Mr. SHAO Ruiqing acts as chairman of the Audit Committee. The Audit Committee has the appropriate accounting qualifications as required under Rule 3.10(2) of the Listing Rules. The primary duties of the Audit Committee are to: (i) inspect the Bank's internal control system and supervise its implementation so as to ensure the adequacy and effectiveness of the Bank's internal controls, discuss the internal control system with senior management so as to ensure that senior management has established an effective internal control system and conduct studies (either voluntarily or under the authorisation of the Board of Directors) on significant investigation findings in respect of internal control issues and provide feedback to senior management; (ii) inspect the Bank's accounting policies, financial position, financial reporting procedures and financial control, review the Bank's financial statements and make judgments in respect of the truthfulness, accuracy and completeness of the financial information contained therein, be responsible for the Bank's annual auditing as well as the completeness of its annual reports, interim reports and quarterly reports, and review significant financial opinions set out in the financial statements and reports and submit the same to the Board of Directors for consideration and approval; (iii) regularly review the work reports of the Bank's internal audit department, inspect and supervise the Bank's internal audit work and the internal audit system and its implementation, direct the work of the Bank's internal audit department, appraise and monitor the work performance of the Bank's internal audit department, ensure coordination between the Bank's internal audit department and external auditors and ensure the internal audit department has full support within the Bank and its work performance is under supervision; (iv) recommend to the Board of Directors in respect of the engagement and removal of external auditors, approve the remuneration and engagement terms of external auditors, deal with any matters regarding the resignation or dismissal of external auditors, direct and supervise the work of external auditors, formulate policies regarding the provision by external auditors of non-audit services and supervise their implementation, act as the major representative of the Bank for supervising the relationship between the Bank and external auditors, review the explanatory letter on audit matters given by external auditors to senior management, any material queries raised by external auditors to the senior management on accounting records, financial accounts or systems of control and the response made by senior management and ensure that the Board of Directors can respond in a timely manner to the issues raised in the explanatory letter on audit matters given by external auditors to senior management; (v) evaluate the Bank's policies and practices for compliance with relevant legal and regulatory requirements, formulate and evaluate the code of conduct and the compliance manual for directors and employees, evaluate the Bank's compliance with the Listing Rules and the disclosures made in the "Corporate Governance Report" and appoint independent legal counsels or advisors whenever the Committee deems necessary; and (vi) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Risk Management Committee

The Risk Management Committee consists of six directors, namely, Mr. LIU Jin, Mr. YAO Zhongyou, Ms. YU Chunling, Mr. LIU Chong, Mr. FU Wanjun and Mr. SHAO Ruiqing among whom Mr. LIU Jin acts as chairman of the Risk Management Committee. The primary duties of the Risk Management Committee are to: (i) formulate the Bank's risk management policies and determine overall risk tolerance before submitting to the Board of Directors for approval and implementing them afterwards; (ii) supervise the risk control undertaken by senior management in respect of credit risk, market risk, operational risk and liquidity risk; (iii) assess the Bank's basic risk management system and risk management mechanism and advise the Board of Directors on improvements to the Bank's risk management; (iv) regularly submit risk management reports to the Board of Directors; (v) formulate the Bank's capital adequacy ratio management objectives and examine and supervise the implementation of capital planning; (vi) regularly examine the Bank's capital adequacy ratio indicators and provide recommendations to the Bank's management; and (vii) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Nomination Committee

The Nomination Committee consists of four directors, namely, Mr. LI Xiaopeng, Mr. HONG Yongmiao, Mr. XU Hongcai and Mr. LI Yinquan among whom Mr. XU Hongcai acts as chairman of the Nomination Committee. The primary duties of the Nomination Committee are to: (i) build a talent pipeline of qualified alternative directors and senior management; (ii) formulate procedures and standards for selecting directors and senior management members, conduct a preliminary examination of the qualifications and conditions of candidates and advise the Board of Directors accordingly; (iii) make recommendations for the Board of Directors' approval regarding the composition of the other special committees of the Board of Directors based on nomination by the chairman, the integrated evaluation of the directors' expertise and the wishes and needs of the Board of Directors; (iv) annually assess the structure, composition (including skills, knowledge and experience) and number of the members of the Board of Directors and make recommendations as to adjustments to be made to the Board of Directors in line with the Bank's strategies; (v) evaluate the training provided to and the professional development of the directors and senior management; and (vi) handle other matters required by law, administrative regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Remuneration Committee

The Remuneration Committee consists of six directors, namely, Mr. LI Xiaopeng, Mr. FENG Lun, Mr. WANG Liguo, Mr. SHAO Ruiqing, Mr. HONG Yongmiao and Mr. LI Yinquan among whom Mr. HONG Yongmiao acts as chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to: (i) formulate the administrative system for remuneration of directors and senior management of the Bank and make recommendations regarding the system to the Board of Directors and supervise its implementation; (ii) review the performance and duties of the directors and senior management and to make recommendations on appraisal and assessment to the Board of Directors; (iii) make recommendations on remuneration packages for directors and senior management and report the same to the Board of Directors for approval; (iv) review the basic policies relating to bank-wide salaries and benefits of the employees, make recommendations to the Board of Directors and supervise its implementation; and (v) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Related Party Transactions Control Committee

The Related Party Transactions Control Committee consists of seven members, namely Ms. YU Chunling, Mr. XU Hongcai, Mr. FENG Lun, Mr. WANG Liguo, Mr. SHAO Ruiqing, Mr. LI Yinquan and Mr. HONG Yongmiao, among whom Mr. LI Yinquan acts as the chairman of the Related Party Transactions Control Committee. The primary duties of the Related Party Transactions Control Committee are to: (i) keep records of the ordinary related party transactions approved by the Credit Approval Committee of the Bank's head office authorised by the Bank's President or other duly authorised entities; (ii) examine material related party transactions and report the same to the Board of Directors for approval; (iii) after the end of each operating year, make a detailed report to the Board of Directors on the overall status, risks and structure of related party transactions entered into during the year; (iv) formulate measures on the management of the Bank's related party transactions and submit proposed measures to the Board of Directors for approval before implementation; (v) identify the Bank's related parties, report the same to the Board of Directors and Board of Supervisors and promptly announce a list of related parties to the relevant personnel; and (vi) handle other matters required by law, regulations, rules, normative documents, regulatory rules of the jurisdiction where the Bank's shares are listed, the Bank's articles of association, or as authorised by the Board of Directors.

Inclusive Finance Development and Consumer Rights and Interests Protection Committee

The Inclusive Finance Development and Consumer Rights and Interests Protection Committee consists of five members, namely, Mr. LIU Jin, Mr. QU Liang, Mr. YAO Wei, Mr. LIU Chong and Mr. WANG Liguo, among whom Mr. LIU Jin acts as the chairman of the Inclusive Finance Development and Consumer Rights and

Interests Protection Committee. The primary duties of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee are to (i) formulate a development strategic plan for the Bank's inclusive finance business; (ii) review the Bank's general policy for inclusive finance, and assess evaluation measures and annual business plan; (iii) guide and supervise the senior management on the development of inclusive finance work; (iv) formulate strategies, policies, and objectives of the Bank's protection of consumer rights and interests; (v) urge the Senior Management to effectively implement consumer rights and interests protection related work; and supervising and evaluating consumer rights and interests protection work of the Bank.

SUBSTANTIAL SHAREHOLDERS

The section "Substantial Shareholders" on page 252 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

CHINA EVERBRIGHT GROUP LIMITED

As at the date of this Supplemental Offering Circular, China Everbright Group Limited directly held 21,816,856,370 A shares and 1,782,965,000 H shares of the Bank, together representing approximately 44.96 per cent. of the Bank's total issued ordinary shares.[1]

Note:

(1) Upon the approval from Ministry of Finance and CBIRC, Central Huijin Investment Ltd. ("Huijin") transferred 10,250,916,094 A shares it held in the Bank (representing 19.53 per cent. of the total share capital of the Bank) to China Everbright Group Limited. Upon the completion of the equity change on 9 July 2020, Huijin no longer directly held any shares of the Bank, and China Everbright Group Limited directly held 23,599,821,370 shares of the Bank (including 21,816,856,370 A shares and 1,782,965,000 H shares), representing 44.96 per cent. of the total share capital of the Bank.

(2) On 14 October 2020, China Everbright Group Ltd. increased its holding of 1,542,553,191 A shares of the Bank through the conversion of convertible bonds. Before the conversion, China Everbright Group Ltd. directly and indirectly held 25,472,743,396 ordinary shares of the Bank, accounting for 48.53 per cent. of the total equity. After the conversion, China Everbright Group Ltd. directly and indirectly held 27,015,296,587 ordinary shares of the Bank, accounting for 49.999 per cent. of the total equity.

EXCHANGE RATES

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of Renminbi appreciated by 2 per cent. against U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows Renminbi to fluctuate against U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by PBOC. The floating band was further widened to 1.0 per cent. on 16 April 2012. These changes in currency policy resulted in Renminbi appreciating against U.S. dollar by approximately 26.9 per cent. from 21 July 2005 to 31 December 2013. On 14 March 2014, PBOC further widened the floating band against U.S. dollar to 2.0 per cent. On 11 August 2015, PBOC announced to improve the central parity quotations of Renminbi against U.S. dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by PBOC on 11 August 2015, Renminbi depreciated significantly against U.S. dollar. In January and February 2016, Renminbi experienced further fluctuation in value against U.S. dollar. The PRC government may adopt further reforms of its exchange rate system, including making Renminbi freely convertible in the future.

The following table sets forth information concerning exchange rates between Renminbi and U.S. dollar for the periods presented:

	Renminbi per U.S. dollar Noon Buying Rate (1)			
Period	**End**	**Average (2)**	**High**	**Low**
		(RMB per U.S.$1.00)		
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
2014	6.2046	6.1704	6.2591	6.0402
2015	6.4778	6.2869	6.4896	6.1870
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020	6.5250	6.8878	7.1681	6.5208
2021				
January	6.4282	6.4672	6.4822	6.4282
February	6.4730	6.4601	6.4869	6.4344

Notes:

(1) Exchange rates between Renminbi and U.S. dollar represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Annual and semi-annual averages have been calculated from month-end rate. Monthly averages have been calculated using the average of the daily rates during the relevant period.

SUBSCRIPTION AND SALE

The section "European Economic Area and the United Kingdom" on pages 264 to 265 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

European Economic Area

Prohibition of Sales to EEA Retail Investors

If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area (each, a "Member State"), each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto (or are the subject of the offering contemplated by a supplemental offering circular, as the case may be) to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(i) *Approved prospectus*: if the Pricing Supplement or supplemental offering circular in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus (which is not a supplemental offering circular) has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(ii) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(iii) *Fewer than 150 offerees*: at any time to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iv) *Other Exempt offers*: at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression "**Prospectus Regulation**" means Regulation (EU) 2017/1129.

The section "Selling Restrictions Addressing Additional United Kingdom Securities Laws" on page 266 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

United Kingdom

Prohibition of Sales to UK Retail Investors

If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto (or are the subject of the offering contemplated by a supplemental offering circular, as the case may be) to the public in the United Kingdom except that it may make an offer of such Notes to the public in that United Kingdom:

(i) *Approved prospectus*: if the Pricing Supplement or supplemental offering circular in relation to the Notes specify that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Article 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by final terms contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable, and the Issuer has consented in writing to its use for the purpose of that Public Offer;

(ii) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(iii) *Fewer than 150 offerees*: at any time to fewer than 150 persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iv) *Other Exempt offers*: at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes and the expression "**UK Prospectus Regulation**" means Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA.

Other UK regulatory restrictions

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

(a) *No deposit taking*: in relation to any Notes having a maturity of less than one year:

   (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

   (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

      (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

      (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

   where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer.

(b) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not, if it was not an authorised person, apply to the Issuer.

(c) *General compliance*: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

GENERAL INFORMATION

The section "General Information" on pages 269 to 270 of the Original Offering Circular shall be deleted in its entirety and replaced with the following:

1. LISTING

Application has been made to the Hong Kong Stock Exchange for the listing of, and dealing in, the Notes by way of debt issues to Professional Investors only. The issue price of the Notes listed on the Hong Kong Stock Exchange will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of the Notes, commence on or about the next business day following the date of listing of the Notes.

Admission to the Hong Kong Stock Exchange and quotation of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Programme, the Notes, the Issuer or the Group. The Hong Kong Stock Exchange assumes no responsibility for the correctness of any of the statements made or opinions or reports contained herein.

In addition, an application has been made to the MOX for the listing of the Notes by way of debt issues to Professional Institutional Investors (which are (i) individuals that have a portfolio of not less than MOP$8,000,000, or (ii) corporations or partnerships that have either a portfolio of not less than MOP$8,000,000 or total assets of not less than MOP$40,000,000). This Supplemental Offering Circular is for distribution to Professional Institutional Investors only. Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Institutional Investors and understand the risks involved. The Notes are only suitable for Professional Institutional Investors. See also "*Risk Factors – Risks relating to Listing of the Notes in Macau*".

The listing of the Notes on the MOX is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Group or quality of disclosure in this document. The MOX takes no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. Potential investors should exercise caution before making investment decisions.

2. AUTHORISATION

The establishment of the Programme and the issue of the Notes thereunder were authorised by Authorisation (2014) No. 851, Authorisation (2015) No. 338, Authorisation (2016) No. 390 and Authorisation (2017) No. 640 of the Bank passed on 29 December 2014, 18 June 2015, 16 June 2016 and 1 November 2017, respectively. Each of the Bank and the Issuer has obtained, or will obtain, all necessary consents, approvals and authorisations in connection with the issue of the Notes and the performance of their respective obligations under the Notes. In connection with Notes issued by the Bank, the Bank will apply for all necessary registration with respect to the use of proceeds of Notes or the payment of principal and interest in accordance with applicable laws. The repayment of the principal and/or interest of the notes by the Bank may be adversely affected in the event any required registration is not obtained. The Bank does not however expect that any registration would be refused.

3. LEGAL AND ARBITRATION PROCEEDINGS

None of the Issuer, the Bank nor the Group is or has been involved in any governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the

Issuer is aware), which may have, or have had during the 12 months prior to the date of this Supplemental Offering Circular, a significant effect on the financial or trading position or profitability of the Group.

4. **SIGNIFICANT/MATERIAL CHANGE**

Since 30 June 2020, there has been no material adverse change in the financial position or prospects nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

5. **AUDITOR**

The Bank's audited consolidated financial statements as at and for the years ended 31 December 2018 and 2019, which are included in the Original Offering Circular, have been audited by Ernst & Young, as stated in its respective reports appearing therein.

The unaudited but reviewed consolidated financial statements of the Bank as at and for the six months ended 30 June 2020, which are included elsewhere in this Supplemental Offering Circular, have not been audited by a certified public accountant but have been reviewed by Ernst & Young. Consequently, such unaudited but reviewed consolidated financial statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit.

The unaudited and unreviewed consolidated financial statements of the Bank as at and for the nine months ended 30 September 2020, which are included elsewhere in this Supplemental Offering Circular, have not been audited and reviewed by a certified public accountant. Consequently, such unaudited and unreviewed consolidated financial statements should not be relied upon by investors to provide the same quality of information associated with information that has been subject to an audit and/or review.

6. **DOCUMENTS ON DISPLAY**

So long as the Notes are outstanding, copies of the following documents may, when published, be inspected during normal business hours on any weekday (Saturdays and public holidays excepted) at the office of the Issuer at 23/F, Everbright Centre, 108 Gloucester Road, Wan Chai, Hong Kong and the specified office of the Fiscal Agent at 39th Floor, Champion Tower, Three Garden Road, Central, Hong Kong:

(i) the memorandum and articles of association of the Bank;

(ii) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2018 and 2019 (together with the audit reports in connection therewith);

(iii) the unaudited but reviewed consolidated financial statements of the Bank as at and for the six months ended 30 June 2020;

(iv) the unaudited and unreviewed consolidated financial statements of the Bank as at and for the nine months ended 30 September 2020;

(v) copies of the latest annual report and audited annual consolidated financial statements, and any consolidated interim financial statements (whether audited or unaudited and reviewed or unreviewed) published subsequently to such audited annual financial statements, of the Bank;

(vi) the Pricing Supplement in relation to the Notes;

(vii) the Fiscal Agency Agreement (which contains the forms of the Notes in global and definitive form); and

(viii) a copy of the Original Offering Circular together with this Supplemental Offering Circular and any other documents incorporated herein or therein.

7. **CLEARING OF THE NOTES**

The Legal Entity Identifier of the Issuer is 549300U6PKQ4H1P34E17. The Notes have been accepted for clearance through Euroclear and Clearstream via the following codes:

ISIN: XS2297070190 .

Common Code: 229707019 .

8. NATIONAL DEVELOPMENT AND REFORM COMMISSION FILINGS

Pursuant to the Enterprise Foreign Debt Filing Certificate (《企業借用外債登記證明》) (發改辦外資備 [2020] 373 號) issued by the NDRC and the Quota granted by the NDRC on 9 June 2020, the Bank is not required to complete the pre-issuance registration in respect of the Notes with the NDRC as the Notes will be issued within the Quota, but the Bank is still required to file with the NDRC the requisite information on the issuance of the Notes after the issuance of such Notes. The Bank undertakes to provide the requisite information on the issuance of the Notes to the NDRC within the time period prescribed by the NDRC Regulations and the terms of the Quota.

INDEX TO FINANCIAL STATEMENTS

For the consolidated financial statements of the Bank as at and for the years ended 31 December 2017 and 2018, which have been audited by Ernst & Young in accordance with IFRS, please refer to the Original Offering Circular.

Note:

The Bank's consolidated financial statements set out here in are reproduced from the Bank's interim report for the six months ended 30 June 2020 and quarterly report for the nine months ended 30 September 2020, respectively. Page references referred to in the auditor's reports named above refer to pages set out in such interim or quarterly reports (as the case may be).

Report on Review of Interim Financial Information

To the Board of Directors of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the accompanying interim financial information of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (together, the "Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2020 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

28 August 2020

Unaudited Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2020
(Expressed in millions of Renminbi, unless otherwise stated)

		For the six months ended 30 June	
	Note III	2020 Unaudited	2019 Unaudited
Interest income		111,120	103,050
Interest expense		(56,454)	(53,867)
Net interest income	1	54,666	49,183
Fee and commission income		15,377	14,097
Fee and commission expense		(1,244)	(1,348)
Net fee and commission income	2	14,133	12,749
Net trading gains	3	57	69
Dividend income		1	11
Net gains arising from investment securities	4	2,779	2,974
Net foreign exchange gains		71	778
Other net operating income		450	460
Operating income		72,157	66,224
Operating expenses	5	(19,446)	(18,363)
Operating profit before impairment		52,711	47,861
Credit impairment losses	6	(30,526)	(23,331)
Other impairment losses	7	(147)	(48)
Profit before tax		22,038	24,482
Income tax	8	(3,617)	(3,998)
Net profit		18,421	20,484
Net profit attributable to:			
Equity shareholders of the Bank		18,363	20,444
Non-controlling interests		58	40
		18,421	20,484
Earnings per share			
Basic earnings per share (in RMB/share)	9	0.31	0.37
Diluted earnings per share (in RMB/share)	9	0.28	0.33

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

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020
(Expressed in millions of Renminbi, unless otherwise stated)

		For the six months ended 30 June	
	Note III	2020 Unaudited	2019 Unaudited
Net profit		18,421	20,484
Other comprehensive income, net of tax:			
Items that will not be reclassified to profit or loss:			
– Equity instruments at fair value through other comprehensive income			
– Net change in fair value		1	5
– Related income tax effect	22(b)	–	(1)
Subtotal		1	4
Items that will be reclassified to profit or loss:			
– Debt instruments at fair value through other comprehensive income			
– Net change in fair value		507	728
– Changes in allowance for expected credit losses		(252)	248
– Reclassified to the profit or loss upon disposal		(276)	(161)
– Related income tax effect	22(b)	(1)	(183)
– Exchange differences on translation of financial statements		51	4
Subtotal		29	636
Other comprehensive income, net of tax		30	640
Total comprehensive income		18,451	21,124
Total comprehensive income attributable to:			
Equity shareholders of the Bank		18,392	21,084
Non-controlling interests		59	40
		18,451	21,124

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

Unaudited Condensed Consolidated Statement of Financial Position

As at 30 June 2020

(Expressed in millions of Renminbi, unless otherwise stated)

	Note III	30 June 2020 Unaudited	31 December 2019 Audited
Assets			
Cash and deposits with the central bank	10	379,643	364,340
Deposits with banks and other financial institutions	11	43,658	31,358
Precious metals		13,430	10,826
Placements with banks and other financial institutions	12	59,423	60,270
Derivative financial assets	13	14,659	13,805
Financial assets held under resale agreements	14	192,506	6,835
Loans and advances to customers	15	2,845,757	2,644,136
Finance lease receivables	16	94,449	83,723
Financial investments	17	1,636,080	1,433,546
– Financial assets at fair value through profit or loss		318,028	211,406
– Debt instruments at fair value through other comprehensive income		207,534	180,005
– Equity instruments at fair value through other comprehensive income		874	623
– Financial investments measured at amortised cost		1,109,644	1,041,512
Fixed assets	19	19,387	19,342
Right-of-use assets	20	11,462	11,684
Goodwill	21	1,281	1,281
Deferred tax assets	22	19,717	16,306
Other assets	23	56,982	35,979
Total assets		5,388,434	4,733,431
Liabilities and equity			
Liabilities			
Due to the central bank	25	167,722	224,838
Deposits from banks and other financial institutions	26	478,539	444,320
Placements from banks and other financial institutions	27	189,515	166,225
Financial liabilities at fair value through profit or loss	28	142	100
Derivative financial liabilities	13	15,725	13,893
Financial assets sold under repurchase agreements	29	27,433	25,603
Deposits from customers	30	3,672,102	3,017,888
Accrued staff costs	31	10,939	8,007
Taxes payable	32	7,751	9,322
Lease liabilities	33	10,893	11,069
Debt securities issued	34	359,887	371,904
Other liabilities	35	56,343	54,208
Total liabilities		4,996,991	4,347,377

	Note III	30 June 2020 Unaudited	31 December 2019 Audited
Liabilities and equity (Continued)			
Equity			
Share capital	36	52,489	52,489
Other equity instrument	37	70,067	70,067
of which: preference shares		64,906	64,906
Capital reserve	38	53,533	53,533
Other comprehensive income	39	2,766	2,737
Surplus reserve	40	26,245	26,245
General reserve	40	59,718	59,417
Retained earnings	41	125,494	120,494
Total equity attributable to equity shareholders of the Bank		390,312	384,982
Non-controlling interests		1,131	1,072
Total equity		391,443	386,054
Total liabilities and equity		5,388,434	4,733,431

Approved and authorised for issue by the board of directors on 28 August 2020.

Li Xiaopeng Chairman of the Board of Directors, Non-executive Director	Liu Jin President Executive Director	Sun Xinhong General Manager of Financial Accounting Department

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

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020
(Expressed in millions of Renminbi, unless otherwise stated)

For the six months ended 30 June 2020

		Unaudited										
		Attributable to equity shareholders of the Bank										
			Other equity instrument									
	Note III	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2020		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054
Changes in equity for the period:												
Net profit		–	–	–	–	–	–	–	18,363	18,363	58	18,421
Other comprehensive income	39	–	–	–	–	29	–	–	–	29	1	30
Appropriation of profit:	41											
– Appropriation to general reserve		–	–	–	–	–	–	301	(301)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(11,233)	(11,233)	–	(11,233)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,829)	(1,829)	–	(1,829)
Balance at 30 June 2020		52,489	64,906	5,161	53,533	2,766	26,245	59,718	125,494	390,312	1,131	391,443

For the six months ended 30 June 2019

		Unaudited										
		Attributable to equity shareholders of the Bank										
			Other equity instrument									
	Note III	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473
Changes in equity for the period:												
Net profit		–	–	–	–	–	–	–	20,444	20,444	40	20,484
Other comprehensive income	39	–	–	–	–	640	–	–	–	640	–	640
Appropriation of profit:	41											
– Appropriation to general reserve		–	–	–	–	–	–	1	(1)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(8,451)	(8,451)	(1)	(8,452)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,060)	(1,060)	–	(1,060)
Balance at 30 June 2019		52,489	29,947	5,161	53,533	2,295	24,371	54,037	111,228	333,061	1,024	334,085

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

For the year of 2019

		Audited											
		Attributable to equity shareholders of the Bank											
			Other equity instrument										
	Note III	Share capital	Preference shares	Others	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
Balance at 1 January 2019		52,489	29,947	5,161	53,533	1,655	24,371	54,036	100,296	321,488	985	322,473
Changes in equity for the year:												
Net profit		–	–	–	–	–	–	–	37,354	37,354	87	37,441
Other comprehensive income	39	–	–	–	–	1,082	–	–	–	1,082	1	1,083
Capital contribution by other equity instrument holders		–	34,959	–	–	–	–	–	–	34,959	–	34,959
Appropriation of profit:	41											
– Appropriation to surplus reserve		–	–	–	–	–	1,874	–	(1,874)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	–	5,381	(5,381)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	–	(8,451)	(8,451)	(1)	(8,452)
– Dividends to preference shareholders		–	–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2019		52,489	64,906	5,161	53,533	2,737	26,245	59,417	120,494	384,982	1,072	386,054

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

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the six months ended 30 June	
	2020 Unaudited	2019 Unaudited
Cash flows from operating activities		
Net profit	18,421	20,484
Adjustments for:		
Impairment losses on assets	30,673	23,379
Depreciation and amortisation	2,503	2,261
Unwinding of discount	(372)	(433)
Dividend income	(1)	(11)
Unrealised foreign exchange gains	(114)	(3)
Net gains on investment securities	(28,292)	(26,812)
Net gains on disposal of trading securities	(673)	(484)
Revaluation losses on financial instruments at fair value through profit or loss	100	1,377
Interest expense on debt securities issued	5,920	8,243
Interest expense on lease liabilities	243	236
Net losses on disposal of fixed assets	6	6
Income tax	3,617	3,998
	32,031	32,241
Changes in operating assets		
Net increase in deposits with the central bank, banks and other financial Institutions	(9,502)	(4,237)
Net decrease in placements with banks and other financial institutions	6,159	16,822
Net increase in financial assets held for trading	(39,672)	(20,535)
Net increase in loans and advances to customers	(231,656)	(190,681)
Net increase in financial assets held under resale agreements	(185,652)	(29,234)
Net increase in other operating assets	(28,666)	(48,911)
	(488,989)	(276,776)
Changes in operating liabilities		
Net increase/(decrease) in deposits from banks and other financial institutions	34,847	(100,679)
Net increase in placements from banks and other financial institutions	23,679	12,014
Net increase/(decrease) in financial assets sold under repurchase agreements	1,799	(21,762)
Net decrease in amounts due to the central bank	(57,483)	(25,000)
Net increase in deposits from customers	649,522	383,891
Income tax paid	(9,037)	(6,573)
Net increase in other operating liabilities	1,235	17,813
	644,562	259,704
Net cash flows from operating activities	187,604	15,169
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	345,868	242,850
Investment income received	27,786	28,148
Proceeds from disposal of fixed assets and other assets	2	4
Payments on acquisition of investments	(507,352)	(248,317)
Payments on acquisition of fixed assets, intangible assets and other long-term assets	(1,238)	(1,339)
Net cash flows (used in) from investing activities	(134,934)	21,346

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

	Note III	For the six months ended 30 June 2020 Unaudited	2019 Unaudited
Cash flows from financing activities			
Net proceeds from issue of new debt securities		–	1,822
Repayments of debts issued		(10,931)	–
Interest paid on debt securities issued		(7,008)	(9,379)
Dividends paid		(10,555)	(9,510)
Other net cash flows from financing activities		(1,514)	(1,338)
Net cash flows used in financing activities		(30,008)	(18,405)
Effect of foreign exchange rate changes on cash and cash equivalents		831	38
Net increase in cash and cash equivalents	45(a)	23,493	18,148
Cash and cash equivalents as at 1 January		117,499	187,680
Cash and cash equivalents as at 30 June	45(b)	140,992	205,828
Interest received		84,539	78,130
Interest paid (excluding interest expense on debt securities issued)		(45,744)	(40,704)

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

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

(Expressed in millions of Renminbi, unless otherwise stated)

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the "Bank") commenced its operations in Beijing, the People's Republic of China ("the PRC") on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank was licensed as a financial institution by the China Banking and Insurance Regulatory Commission (the "CBIRC"), formerly the China Banking Regulatory Commission No. B0007H111000001 and was issued the business licence of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, the People's Republic of China.

The principal activities of the Bank and its subsidiaries (Note III 18) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the CBIRC. The Group mainly operates in Mainland China and also has a number of overseas branches and subsidiaries. For the purpose of these financial statements, Mainland China refers to the PRC excluding Hong Kong Special Administrative Region of the PRC ("Hong Kong"), Macau Special Administrative Region of the PRC ("Macau") and Taiwan. Overseas refers to countries and regions other than Mainland China.

II BASIS OF PREPARATION

1 Compliance with International Financial Reporting Standards ("IFRSs")

The unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting ("IAS 34") and should be read in conjunction with the annual financial statements for the year ended 31 December 2019.

Except as described in Note II 3 below, the principal accounting policies adopted in the preparation of the unaudited condensed consolidated interim financial information are consistent with those used in the Group's annual financial statements for the year ended 31 December 2019.

2 Use of estimates and assumptions

The preparation of the consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results in the future may differ from those reported as a result of the use of estimates and assumptions about future conditions. The nature and assumptions related to the Group's accounting estimates are consistent with those adopted in the Group's financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020.

II BASIS OF PREPARATION (CONTINUED)

3 Significant accounting policies

3.1 Standards, amendments and interpretations effective in 2020

On 1 January 2020, the Group adopted the following new standards, amendments and interpretations.

IFRS 3 Amendments	Definition of a Business
IAS 1 and IAS 8 Amendments	Definition of Material
IFRS 9, IAS 39 and IFRS 7 Amendments	Interest Rate Benchmark Reform

IFRS 3 Amendments clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 provide a new definition of materiality. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by the primary users of general purpose financial statements based on those financial statements. The amendments clarify that materiality depends on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

Amendments to IFRS 9, IAS 39 and IFRS 7 modify some specific hedge accounting requirements. During the period of uncertainty arising from phasing-out of interest-rate benchmarks with an alternative nearly risk-free interest rate ("RFR"), the entities that apply these hedge accounting requirements can assume that the interest rate benchmarks on which the hedged cash flows and cash flows of the hedging instrument are based are not altered as a result of interest rate benchmark reform. The amendments must be applied retrospectively.

The adoption of the above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

(Expressed in millions of Renminbi, unless otherwise stated)

II BASIS OF PREPARATION (CONTINUED)

3 Significant accounting policies (continued)

3.2 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2020

		Effective for annual periods beginning on or after
IFRS 3 Amendments	*Reference to the Conceptual Framework*	1 January 2022
IAS 16 Amendments	*Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
IAS 37 Amendments	*Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
IAS 1 Amendments	*Classification of Liabilities as Current or Non-current*	1 January 2023
IFRS 17 and Amendments	*Insurance Contracts*	1 January 2023
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2018-2020 Cycle (issued in May 2020)		1 January 2022

The above standards, amendments and interpretations does not have any significant impact on the operating results, financial position and comprehensive income of the Group.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

		For the six months ended 30 June	
	Note	2020	2019
Interest income arising from			
Deposits with the central bank		2,570	2,493
Deposits with banks and other financial institutions		461	953
Placements with banks and other financial institutions		667	1,824
Loans and advances to customers	(a)		
–Corporate loans and advances		38,801	34,631
–Personal loans and advances		38,142	34,977
–Discounted bills		1,221	953
Finance lease receivables		2,714	2,073
Financial assets held under resale agreements		497	1,251
Investments		26,047	23,895
Subtotal		111,120	103,050
Interest expenses arising from			
Due to the central bank		3,619	4,030
Deposits from banks and other financial institutions		4,839	6,500
Placements from banks and other financial institutions		2,409	3,389
Deposits from customers			
–Corporate customers		29,166	22,528
–Individual customers		10,202	8,235
Financial assets sold under repurchase agreements		299	942
Debt securities issued		5,920	8,243
Subtotal		56,454	53,867
Net interest income		54,666	49,183

Note:

(a) *The interest income arising from impaired financial assets for the period ended 30 June 2020 amounted to RMB372 million (Six months ended 30 June 2019: RMB433 million).*

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Net fee and commission income

	For the six months ended 30 June	
	2020	2019
Fee and commission income		
Bank card service fees	6,253	6,957
Agency services fees	2,144	1,919
Wealth management service fees	1,463	266
Settlement and clearing fees	1,291	1,067
Acceptance and guarantee fees	985	824
Custody and other fiduciary business fees	958	855
Underwriting and advisory fees	907	1,096
Others	1,376	1,113
Subtotal	15,377	14,097
Fee and commission expense		
Bank card transaction fees	889	964
Settlement and clearing fees	81	68
Others	274	316
Subtotal	1,244	1,348
Net fee and commission income	14,133	12,749

3 Net trading gains

	For the six months ended 30 June	
	2020	2019
Trading financial instruments		
– Derivatives	(443)	(393)
– Debt securities	476	535
Subtotal	33	142
Precious metal contracts	24	(73)
Total	57	69

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Net gains arising from investment securities

	For the six months ended 30 June	
	2020	2019
Net gains arising from financial investments at fair value through profit or loss	2,855	2,848
Net losses arising from debt instruments at fair value through other comprehensive income	(545)	(116)
Net gains arising from loans and advances to customers at fair value through other comprehensive income	168	93
Net gains/(losses) arising from financial investments measured at amortised cost	25	(12)
Net revaluation gains reclassified from other comprehensive income on disposal	276	161
Total	2,779	2,974

5 Operating expenses

	For the six months ended 30 June	
	2020	2019
Staff costs		
–Salaries and bonuses	9,108	8,055
–Pension and annuity	557	970
–Housing allowances	471	406
–Staff welfares	173	168
–Others	985	1,045
Subtotal	11,294	10,644
Premises and equipment expenses		
–Depreciation of the right-of-use assets	1,316	1,158
–Depreciation of fixed assets	779	738
–Amortisation of intangible assets	252	189
–Interest expense on lease liabilities	243	236
–Rental and property management expenses	232	265
–Amortisation of other long-term assets	156	176
Subtotal	2,978	2,762
Tax and surcharges	752	695
Other general and administrative expenses	4,422	4,262
Total	19,446	18,363

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Credit impairment losses

	For the six months ended 30 June	
	2020	2019
Loans and advances to customers		
–measured at amortised cost	29,189	22,780
–measured at fair value through other comprehensive income	86	116
Debt instruments at fair value through other comprehensive income	(344)	133
Financial investments measured at amortised cost	413	(46)
Finance lease receivables	622	344
Others	560	4
Total	30,526	23,331

7 Other impairment losses

	For the six months ended 30 June	
	2020	2019
Other assets	91	48
Others	56	–
Total	147	48

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 Income tax

(a) Income tax:

	Note III	For the six months ended 30 June 2020	2019
Current tax		7,489	9,021
Deferred tax	22(b)	(3,413)	(4,905)
Adjustments for prior year	8(b)	(459)	(118)
Total		3,617	3,998

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	For the six months ended 30 June 2020	2019
Profit before tax		22,038	24,482
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		5,510	6,121
Effect of different tax rates applied by certain subsidiaries		(3)	(3)
Non-deductible expenses			
–Staff costs		34	48
–Impairment losses on assets		720	49
–Others		128	154
Subtotal		882	251
Non-taxable income	(i)	(2,313)	(2,253)
Subtotal		4,076	4,116
Adjustments for prior year		(459)	(118)
Income tax		3,617	3,998

Note:

(i) Non-taxable income mainly includes interest income of PRC treasury bonds and dividend of funds.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the period.

	For the six months ended 30 June	
	2020	2019
Net profit attributable to equity holders of the Bank	18,363	20,444
Less: Dividends on preference shares declared	1,829	1,060
Net profit attributable to ordinary shareholders of the Bank	16,534	19,384
Weighted average number of ordinary shares in issue (in million shares)	52,489	52,489
Basic earnings per share (in RMB/share)	0.31	0.37

Weighted average number of ordinary shares in issue (in million shares)

	For the six months ended 30 June	
	2020	2019
Issued ordinary shares as at 1 January	52,489	52,489
Weighted average number of ordinary shares in issue	52,489	52,489

Diluted earnings per share was computed by dividing the net profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

	For the six months ended 30 June	
	2020	2019
Net profit attributable to ordinary shareholders of the Bank	16,534	19,384
Add: interest expense on convertible bonds, net of tax for the six months ended 30 June	462	446
Net profit used to determine diluted earnings per share	16,996	19,830
Weighted average number of ordinary shares in issue(in million shares)	52,489	52,489
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	7,556	7,264
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	60,045	59,753
Diluted earnings per share (in RMB/share)	0.28	0.33

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10 Cash and deposits with the central bank

	Notes	30 June 2020	31 December 2019
Cash on hand		8,032	4,355
Deposits with the central bank			
–Statutory deposit reserves	(a)	305,865	297,528
–Surplus deposit reserves	(b)	59,672	57,546
–Foreign currency risk reserves	(c)	4,445	3,732
–Fiscal deposits		1,496	1,050
Subtotal		379,510	364,211
Accrued interest		133	129
Total		379,643	364,340

Notes:

(a) The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	30 June 2020	31 December 2019
Reserve ratio for RMB deposits	9.00%	10.50%
Reserve ratio for foreign currency deposits	5.00%	5.00%

The statutory deposit reserves are not available for the Group's daily business. The RMB deposit reserve ratio of the Group's subsidiaries in Mainland China is executed in accordance with the relevant regulations of the PBOC. The amounts of statutory deposit reserves placed with the central banks of overseas are determined by local jurisdictions.

(b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.

(c) The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 30 June 2020, the foreign currency risk reserve ratio was 20% (31 December 2019: 20%).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Deposits in mainland China		
–Banks	16,350	12,868
–Other financial institutions	5,716	528
Deposits outside mainland China		
–Banks	22,058	18,399
Subtotal	44,124	31,795
Accrued interest	27	6
Total	44,151	31,801
Less: Provision for impairment losses	(493)	(443)
Net balances	43,658	31,358

12 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Placements in mainland China		
–Banks	8,439	4,160
–Other financial institutions	9,050	29,777
Placements outside mainland China		
–Banks	41,947	26,291
Subtotal	59,436	60,228
Accrued interest	147	213
Total	59,583	60,441
Less: Provision for impairment losses	(160)	(171)
Net balances	59,423	60,270

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Derivatives and hedge accounting

Derivative financial instruments included forward, swap, futures and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the period. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the period, they do not represent exposure at risk.

(a) Analysed by nature of contract

	30 June 2020		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
–Interest rate swaps	1,360,618	10,166	(10,899)
–Interest rate options	200	–	–
–Interest rate futures	25	–	–
Currency derivatives			
–Foreign exchange swaps and cross-currency interest rate swaps	1,120,772	3,860	(4,158)
–Foreign exchange options	37,946	386	(430)
–Foreign exchange forwards	30,334	219	(162)
Credit derivatives	3,265	28	(76)
Total	2,553,160	14,659	(15,725)

	31 December 2019		
		Fair value	
	Notional amount	Assets	Liabilities
Interest rate derivatives			
–Interest rate swaps	1,298,443	3,655	(3,680)
Currency derivatives			
–Foreign exchange swaps and cross-currency interest rate swaps	1,365,001	9,483	(9,557)
–Foreign exchange options	78,260	392	(386)
–Foreign exchange forwards	29,168	229	(197)
Credit derivatives	4,254	46	(73)
Total	2,775,126	13,805	(13,893)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13 Derivatives and hedge accounting (continued)

(b) Analysed by credit risk-weighted amount

	30 June 2020	31 December 2019
Counterparty default risk-weighted assets		
–Interest rate derivatives	980	492
–Currency derivatives	3,396	3,449
–Credit derivatives	274	317
Credit value adjustment	2,223	1,710
Total	6,873	5,968

The risk-weighted assets for counterparty credit risk ("CCR") of derivatives of the Group were calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations under the advanced capital measurement approaches. For derivative transactions, risk-weighted assets for CCR include the risk-weighted assets for default risk, the risk-weighted assets for credit valuation adjustment ("CVA").

The risk-weighted assets for CCR of derivatives of the Group were calculated in accordance with the Assets Measurement Rules for Counterparty Default Risks of Derivatives since 1 January 2019.

(c) Hedging accounting

As at 30 June 2020, the notional amount of the derivative financial instruments used by the Group for the fair value hedging instrument in the hedge accounting was RMB2,653 million (31 December 2019: RMB14 million), and the fair value of the derivative financial instrument was RMB-177 million (31 December 2019: RMB-95 thousands).

For the six months ended 30 June 2020, the fair value changes recognised in the profit or loss attributed to the ineffective hedging were not significant.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	30 June 2020	31 December 2019
In mainland China		
–Banks	5,592	2,000
–Other financial institutions	186,851	4,702
Outside mainland China		
–Other financial institutions	37	126
Subtotal	192,480	6,828
Accrued interest	37	8
Total	192,517	6,836
Less: Provision for impairment losses	(11)	(1)
Net balances	192,506	6,835

(b) Analysed by type of security held

	30 June 2020	31 December 2019
Bonds		
–Government bonds	29,081	2,062
–Other debt securities	162,772	4,766
Bank acceptances	627	–
Subtotal	192,480	6,828
Accrued interest	37	8
Total	192,517	6,836
Less: Provision for impairment losses	(11)	(1)
Net balances	192,506	6,835

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Loans and advances to customers

(a) Analysed by nature

	30 June 2020	31 December 2019
Loans and advances to customers measured at amortised cost		
Corporate loans and advances	1,616,572	1,463,630
Discounted bills	71	488
Personal loans and advances		
–Personal housing mortgage loans	440,833	414,211
–Personal business loans	160,648	158,871
–Personal consumption loans	142,023	140,545
–Credit cards	446,692	443,881
Subtotal	1,190,196	1,157,508
Loans and advances to customers at fair value through other comprehensive income		
Fox-domestic credit	33,254	26,403
Discounted bills	81,469	64,175
Subtotal	114,723	90,578
Total	2,921,562	2,712,204
Accrued interest	8,488	8,160
Gross loans and advances to customers	2,930,050	2,720,364
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(84,293)	(76,228)
Net loans and advances to customers	2,845,757	2,644,136
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(524)	(438)

As at the end of the reporting period, part of the above loans and advances to customers were pledged for repurchase agreements, see Note III 24(a).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Loans and advances to customers (continued)

(b) Analysed by economic sector

	30 June 2020		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	309,743	10.60%	111,222
Water, environment and public utility management	283,903	9.72%	114,508
Real estate	232,625	7.96%	145,334
Leasing and commercial services	191,288	6.55%	73,962
Wholesale and retail trade	126,274	4.32%	46,589
Construction	108,135	3.70%	33,960
Finance	94,401	3.23%	4,496
Transportation, storage and postal services	91,113	3.12%	37,008
Agriculture, forestry, husbandry and fishery	49,807	1.71%	14,971
Production and supply of electricity, gas and water	44,725	1.53%	12,929
Others	117,812	4.03%	38,844
Subtotal of corporate loans and advances	1,649,826	56.47%	633,823
Personal loans and advances	1,190,196	40.74%	581,895
Discounted bills	81,540	2.79%	74,664
Total	2,921,562	100.00%	1,290,382
Accrued interest	8,488		
Gross loans and advances to customers	2,930,050		
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(84,293)		
Net loans and advances to customers	2,845,757		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(524)		

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2019		
	Amount	Percentage	Loans and advances secured by collateral
Manufacturing	270,177	9.96%	102,716
Water, environment and public utility management	261,465	9.64%	111,707
Real estate	211,918	7.81%	130,785
Leasing and commercial services	170,068	6.27%	65,501
Wholesale and retail trade	113,140	4.17%	42,016
Construction	94,793	3.50%	35,149
Finance	87,226	3.22%	36,653
Transportation, storage and postal services	76,907	2.84%	12,380
Agriculture, forestry, husbandry and fishery	45,948	1.69%	13,517
Production and supply of electricity, gas and water	41,459	1.53%	12,962
Others	116,932	4.31%	45,051
Subtotal of corporate loans and advances	1,490,033	54.94%	608,437
Personal loans and advances	1,157,508	42.68%	550,653
Discounted bills	64,663	2.38%	62,914
Total	2,712,204	100.00%	1,222,004
Accrued interest	8,160		
Gross loans and advances to customers	2,720,364		
Less: provision for impairment losses of loans and advances to customers measured at amortised cost	(76,228)		
Net loans and advances to customers	2,644,136		
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(438)		

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

As at 30 June 2020, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers is as follows:

	30 June 2020					
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Impairment charged during the year	Written-off during the year
Manufacturing	13,526	(3,230)	(6,143)	(6,392)	3,098	1,172

(c) Analysed by type of collateral

	30 June 2020	31 December 2019
Unsecured loans	903,317	852,885
Guaranteed loans	727,863	637,315
Secured loans		
–By tangible assets other than monetary assets	920,198	862,021
–By monetary assets	370,184	359,983
Total	2,921,562	2,712,204
Accrued interest	8,488	8,160
Gross loans and advances to customers	2,930,050	2,720,364
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(84,293)	(76,228)
Net loans and advances to customers	2,845,757	2,644,136
Provision for impairment losses of loans and advances to customers at fair value through other comprehensive income	(524)	(438)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Loans and advances to customers (continued)

(d) Analysed by geographical sector

	30 June 2020		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	628,662	21.52%	246,828
Central	506,243	17.33%	282,834
Pearl River Delta	375,485	12.85%	243,951
Western	370,701	12.69%	205,252
Bohai Rim	361,693	12.38%	210,935
Northeastern	124,158	4.25%	82,949
Overseas	101,748	3.48%	11,476
Head Office	452,872	15.50%	6,157
Total	2,921,562	100.00%	1,290,382

	31 December 2019		
	Loan balance	Percentage	Loans and advances secured by collateral
Yangtze River Delta	556,102	20.49%	219,717
Central	447,249	16.49%	256,676
Bohai Rim	349,559	12.89%	199,916
Western	348,706	12.86%	200,481
Pearl River Delta	341,541	12.59%	220,143
Northeastern	121,928	4.50%	80,011
Overseas	96,174	3.55%	38,005
Head Office	450,945	16.63%	7,055
Total	2,712,204	100.00%	1,222,004

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Loans and advances to customers (continued)

(d) Analysed by geographical sector (continued)

As at the end of the reporting period, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers is as follows:

	30 June 2020			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Yangtze River Delta	6,810	(8,526)	(5,389)	(3,415)
Central	5,088	(5,300)	(3,180)	(3,183)
Bohai Rim	6,579	(2,474)	(2,916)	(3,458)
Western	5,253	(3,782)	(4,120)	(2,700)
Pearl River Delta	4,945	(4,897)	(2,906)	(2,142)
Total	28,675	(24,979)	(18,511)	(14,898)

	31 December 2019			
	Impaired loans and advances	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)
Yangtze River Delta	6,831	(6,439)	(4,847)	(3,625)
Central	5,031	(4,094)	(2,461)	(3,218)
Bohai Rim	5,797	(2,159)	(2,435)	(3,032)
Western	4,951	(2,849)	(4,212)	(2,707)
Pearl River Delta	4,155	(4,219)	(1,829)	(1,811)
Total	26,765	(19,760)	(15,784)	(14,393)

For the definition of regional divisions, see Note III 48(b).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Loans and advances to customers (continued)

(e) Overdue loans analysed by overdue period

	30 June 2020				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	16,494	12,003	953	31	29,481
Guaranteed loans	4,367	4,218	4,746	594	13,925
Secured loans					
– By tangible assets other than monetary assets	7,010	4,382	5,143	1,151	17,686
– By monetary assets	1,040	891	1,682	12	3,625
Subtotal	28,911	21,494	12,524	1,788	64,717
Accrued interest	146	–	–	–	146
Total	29,057	21,494	12,524	1,788	64,863
As a percentage of gross loans and advances to customers	0.99%	0.73%	0.43%	0.06%	2.21%

	31 December 2019				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	15,557	11,118	323	33	27,031
Guaranteed loans	4,954	4,953	3,726	609	14,242
Secured loans					
– By tangible assets other than monetary assets	5,692	4,973	4,421	1,429	16,515
– By monetary assets	1,434	1,449	837	36	3,756
Subtotal	27,637	22,493	9,307	2,107	61,544
Accrued interest	69	–	–	–	69
Total	27,706	22,493	9,307	2,107	61,613
As a percentage of gross loans and advances to customers	1.01%	0.83%	0.34%	0.08%	2.26%

Overdue loans represent loans, of which the whole or part of the principal or interest was overdue for one day or more.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Loans and advances to customers (continued)

(f) Loans and advances and provision for impairment losses

	30 June 2020				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,741,374	134,775	45,413	2,921,562	1.55%
Accrued interest	6,537	1,576	375	8,488	
Gross loans and advances to customers	2,747,911	136,351	45,788	2,930,050	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(31,447)	(27,488)	(25,358)	(84,293)	
Net loans and advances to customers	2,716,464	108,863	20,430	2,845,757	

	31 December 2019				
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total	Stage 3 loans and advances as a percentage of loans and advances
Loan principal	2,546,902	123,090	42,212	2,712,204	1.56%
Accrued interest	6,701	1,158	301	8,160	
Gross loans and advances to customers	2,553,603	124,248	42,513	2,720,364	
Less: Provision for impairment losses of loans and advances to customers measured at amortised cost	(24,060)	(27,574)	(24,594)	(76,228)	
Net loans and advances to customers	2,529,543	96,674	17,919	2,644,136	

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Loans and advances to customers (continued)

(g) Reconciliation of provision for impairment losses

		For the six months ended 30 June 2020			
	Note	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(i)	(24,060)	(27,574)	(24,594)	(76,228)
Transfer to Stage 1		(1,307)	1,258	49	–
Transfer to Stage 2		679	(695)	16	–
Transfer to Stage 3		129	6,212	(6,341)	–
Charge for the period		(11,085)	(7,865)	(15,810)	(34,760)
Release for the period		4,199	1,176	196	5,571
Disposal		–	–	2,643	2,643
Write-off and transfer out		–	–	19,640	19,640
Recovery of loans and advances written off		–	–	(1,529)	(1,529)
Unwinding of discount on allowance		–	–	372	372
Exchange fluctuation and others		(2)	–	–	(2)
As at 30 June 2020	(i)	(31,447)	(27,488)	(25,358)	(84,293)

		2019			
	Note	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(i)	(23,335)	(21,264)	(22,610)	(67,209)
Transfer to Stage 1		(2,089)	2,038	51	–
Transfer to Stage 2		742	(787)	45	–
Transfer to Stage 3		156	2,233	(2,389)	–
Charge for the year		(3,899)	(10,693)	(38,804)	(53,396)
Release for the year		4,365	899	311	5,575
Disposal		–	–	13,826	13,826
Write-off and transfer out		–	–	26,576	26,576
Recovery of loans and advances written off		–	–	(2,428)	(2,428)
Unwinding of discount on allowance		–	–	828	828
As at 31 December 2019	(i)	(24,060)	(27,574)	(24,594)	(76,228)

Note:

(i) *The above reconciliation of provision for impairment losses only represents provision for impairment losses of loans and advances to customers measured at amortised cost. As at 30 June 2020, the balance of provision for impairment losses of loans and advances to customers at fair value through other comprehensive income was RMB524 million (31 December 2019: RMB438 million).*

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	30 June 2020	31 December 2019
Rescheduled loans and advances to customers	11,454	11,888
Of which: Rescheduled loans and advances to customers overdue more than 90 days	535	898

16 Finance lease receivables

	Note	30 June 2020	31 December 2019
Minimum finance lease receivables		112,189	99,825
Less: unearned finance lease income		(15,982)	(14,662)
Present value of minimum lease receivable		96,207	85,163
Accrued interest		1,036	936
Less: impairment losses		(2,794)	(2,376)
Net balance	(i)	94,449	83,723

Minimum finance lease receivables analysed by remaining period is listed as follows:

	30 June 2020	31 December 2019
Less than 1 year (inclusive)	27,451	23,619
1 year to 2 years (inclusive)	23,751	20,418
2 year to 3 years (inclusive)	19,046	17,123
3 year to 4 years (inclusive)	14,904	12,628
4 year to 5 years (inclusive)	11,780	9,745
More than 5 years	15,257	16,292
Total	112,189	99,825

Note:

(i) As at the end of the reporting period, part of finance lease receivables were pledged for borrowing from banks, see Note III 24(a).

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Financial investments

	Notes	30 June 2020	31 December 2019
Financial assets at fair value through profit or loss	(a)	318,028	211,406
Debt instruments at fair value through other comprehensive income	(b)	207,534	180,005
Equity instruments at fair value through other comprehensive income	(c)	874	623
Financial investments measured at amortised cost	(d)	1,109,644	1,041,512
Total		1,636,080	1,433,546

(a) Financial assets at fair value through profit or loss

	Notes	30 June 2020	31 December 2019
Debt instruments held for trading	(i)	58,732	18,602
Financial assets designated at fair value through profit or loss	(ii)	3	4
Other financial assets at fair value through profit or loss	(iii)	259,293	192,800
Total		318,028	211,406

(i) Debt instruments held for trading

	Notes	30 June 2020	31 December 2019
Issued by the following governments or institutions:			
In mainland China			
– Government		3,438	132
– Banks and other financial institutions		6,660	4,975
– Other institutions	(1)	43,432	9,436
Outside mainland China			
– Banks and other financial institutions		4,006	2,624
– Other institutions		1,196	1,435
Total		58,732	18,602
Listed	(2)	5,947	4,716
Of which: listed in Hong Kong		2,460	1,703
Unlisted		52,785	13,886
Total		58,732	18,602

Notes:

(1) Debt instruments issued by other institutions in mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(2) At the end of the reporting period, some of the debt instruments held for trading were pledged for repurchase agreements. See Note III 24(a).

(3) Listed investments include debt instruments traded on a stock exchange.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Financial investments (continued)

(a) Financial assets at fair value through profit or loss (continued)

(ii) Financial assets designated at fair value through profit or loss

	30 June 2020	31 December 2019
Fixed interest rate personal mortgage loans	3	4

For fixed interest rate personal mortgage loans, the Group used interest rate swaps to manage the associated interest rate risk. The changes in fair value during the reporting period, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

(iii) Other financial assets at fair value through profit or loss

	30 June 2020	31 December 2019
Fund investments	219,996	159,760
Equity instruments	2,510	2,019
Others	36,787	31,021
Total	259,293	192,800

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income

(i) Analysed by type and location of counterparty:

	Notes	30 June 2020	31 December 2019
In mainland China			
– Government		45,782	40,880
– Banks and other financial institutions	(1)	64,134	51,640
– Other institutions	(2)	61,647	56,371
Outside mainland China			
– Government		2,533	98
– Banks and other financial institutions		7,453	7,574
– Other institutions		22,689	19,777
Subtotal		204,238	176,340
Accrued interest		3,296	3,665
Total	(3)(4)	207,534	180,005
Listed	(5)	50,183	43,019
Of which: listed in Hong Kong		34,615	29,884
Unlisted		154,055	133,321
Subtotal		204,238	176,340
Accrued interest		3,296	3,665
Total		207,534	180,005

Notes:

(1) *Debt instruments issued by banks and other financial institutions mainly represent debt securities issued by banks and other financial institutions in mainland China.*

(2) *Debt instruments issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.*

(3) *As at 30 June 2020, the provision for impairment losses of the debt instruments at fair value through other comprehensive income approximated to RMB485 million (31 December 2019: RMB826 million).*

(4) *At the end of the reporting period, part of the debt instruments at fair value through other comprehensive income were pledged for repurchase agreements and time deposits, see Note III 24(a).*

(5) *Listed investments include debt instruments traded on a stock exchange.*

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Financial investments (continued)

(b) Debt instruments at fair value through other comprehensive income (continued)

(ii) Reconciliation of provision for impairment losses on debt instruments at fair value through other comprehensive income

	For the six months ended 30 June 2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(708)	–	(118)	(826)
Net charge for the period	(197)	–	–	(197)
Release for the period	443	–	98	541
Others	(3)	–	–	(3)
As at 30 June 2020	(465)	–	(20)	(485)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(384)	–	–	(384)
Transfer to Stage 3	2	–	(2)	–
Net charge for the year	(343)	–	(116)	(459)
Release for the year	20	–	–	20
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(708)	–	(118)	(826)

(c) Equity instruments at fair value through other comprehensive income

	Notes	30 June 2020	31 December 2019
Equity instruments at fair value through other comprehensive income	(i)	874	623
Listed	(ii)	22	21
Of which: listed in Hong Kong		–	–
Unlisted		852	602
Total		874	623

Notes:

(i) The Group designated the equity instruments not held for trading as measured at fair value through other comprehensive income. As at 30 June 2020, the fair value was RMB874 million (31 December 2019: RMB623 million). For the six months ended 30 June 2020, the Group has not received any dividend from the above equity instruments (for the six months ended 30 June 2019: RMB11 million).

(ii) Listed investments include equity instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Financial investments (continued)

(d) Financial investments measured at amortised cost

	Notes	30 June 2020	31 December 2019
Debt securities	(i)	851,878	773,460
Others	(ii)	246,000	256,649
Subtotal		1,097,878	1,030,109
Accrued interest		16,571	15,786
Total		1,114,449	1,045,895
Less: Provision for impairment losses		(4,805)	(4,383)
Net balance		1,109,644	1,041,512
Listed	(iii)	155,412	139,562
Of which: listed in Hong Kong		21,617	20,905
Unlisted		937,661	886,164
Subtotal		1,093,073	1,025,726
Accrued interest		16,571	15,786
Net balance		1,109,644	1,041,512

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(i) Debt securities measured at amortised cost were analysed by type and location of counterparty as follows:

	Notes	30 June 2020	31 December 2019
In mainland China			
– Government		372,116	340,733
– Banks and other financial institutions	(1)	287,056	228,028
– Other institutions	(2)	172,850	183,628
Outside mainland China			
– Government		1,549	1,891
– Banks and other financial institutions		9,738	5,486
– Other institutions		8,569	13,694
Subtotal		851,878	773,460
Accrued interest		13,695	13,140
Total	(3)	865,573	786,600
Less: Provision for impairment losses		(2,071)	(1,657)
Net balance		863,502	784,943
Fair Value		879,145	796,461

Notes:

(1) *Debt securities issued by banks and other financial institutions mainly represent debt securities and asset-backed instruments issued by banks and other financial institutions in mainland China.*

(2) *Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.*

(3) *As at the end of the reporting period, part of the debt securities measured at amortised cost were pledged for repurchase agreements, time deposits and derivative transactions, see Note III 24(a).*

(ii) Other financial investments measured at amortised cost mainly include trust and other rights to earnings.

(iii) Listed investments include debt instruments traded on a stock exchange.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Financial investments (continued)

(d) Financial investments measured at amortised cost (continued)

(iv) Reconciliation of provision for impairment losses on financial investments measured at amortised cost:

	For the six months ended 30 June 2020			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2020	(2,513)	(101)	(1,769)	(4,383)
Transfer to Stage 1	(1)	1	–	–
Transfer to Stage 3	–	75	(75)	–
Net charge for the period	(1,176)	–	(251)	(1,427)
Release for the period	943	4	67	1,014
Exchange fluctuation and others	(9)	–	–	(9)
As at 30 June 2020	(2,756)	(21)	(2,028)	(4,805)

	2019			
	Stage 1 (12-month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Lifetime ECL)	Total
As at 1 January 2019	(3,531)	–	(1,163)	(4,694)
Transfer to Stage 1	3	(3)	–	–
Transfer to Stage 3	8	–	(8)	–
Net charge for the period	–	(98)	(723)	(821)
Release for the period	1,010	–	125	1,135
Exchange fluctuation and others	(3)	–	–	(3)
As at 31 December 2019	(2,513)	(101)	(1,769)	(4,383)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Investments in subsidiaries

	Note	30 June 2020	31 December 2019
Everbright Financial Leasing Co., Ltd.		4,680	4,680
CEB International Investment Co., Ltd.		2,267	2,267
Shaoshan Everbright Rural Bank Co., Ltd		105	105
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.		70	70
China Everbright Bank Company Limited (Europe)		156	156
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.		105	105
Everbright Wealth Co., Ltd.	(i)	5,000	5,000
Total		12,383	12,383

The details of the subsidiaries are presented as follows:

Corporate name	Registered address	Registered capital	Investment proportion	Voting proportion	Main business	Economic nature/type
Everbright Financial Leasing Co., Ltd.	Wuhan, Hubei	5,900	90%	90%	Leasing transactions	Incorporated company
CEB International Investment Co., Ltd.	Hong Kong	2,267	100%	100%	Investment banking	Limited company
Shaoshan Everbright Rural Bank Co., Ltd	Shaoshan, Hunan	150	70%	70%	Banking business	Incorporated company
Jiangsu Huai'an Everbright Rural Bank Co., Ltd.	Huai'an, Jiangsu	100	70%	70%	Banking business	Incorporated company
China Everbright Bank Company Limited (Europe)	Luxembourg	156	100%	100%	Banking business	Incorporated company
Jiangxi Ruijin Everbright Rural Bank Co., Ltd.	Ruijin, Jiangxi	150	70%	70%	Banking business	Incorporated company
Everbright Wealth Co., Ltd. (Note i)	Qingdao, Shandong	5,000	100%	100%	Wealth management	Limited company

(i) In September 2019, the Bank registered and established its wholly-owned subsidiary, Everbright Wealth Co., Ltd. ("Everbright Wealth") in Qingdao, Shandong province, with a registered capital of RMB5 billion.

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 June 2020
(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Fixed assets

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2020	12,949	5,657	2,210	6,667	4,498	31,981
Additions	270	–	104	242	143	759
Disposals	–	–	–	(98)	(46)	(144)
Foreign currency conversion difference	–	81	–	–	–	81
As at 30 June 2020	13,219	5,738	2,314	6,811	4,595	32,677
Accumulated depreciation						
As at 1 January 2020	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Charge for the period	(192)	(103)	–	(257)	(227)	(779)
Disposals	–	–	–	92	43	135
Foreign currency conversion difference	–	(7)	–	–	–	(7)
As at 30 June 2020	(4,296)	(518)	–	(5,060)	(3,257)	(13,131)
Provision for impairment						
As at 1 January 2020	(159)	–	–	–	–	(159)
As at 30 June 2020	(159)	–	–	–	–	(159)
Net book value						
As at 30 June 2020	8,764	5,220	2,314	1,751	1,338	19,387

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19 Fixed assets (continued)

	Premises (Note (i))	Aircraft (Note (ii))	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2019	11,737	5,725	2,100	6,195	4,172	29,929
Additions	69	170	1,256	871	459	2,825
Transfers in/(out)	1,146	–	(1,146)	–	–	–
Disposals	(3)	(332)	–	(399)	(133)	(867)
Foreign currency conversion difference	–	94	–	–	–	94
As at 31 December 2019	12,949	5,657	2,210	6,667	4,498	31,981
Accumulated depreciation						
As at 1 January 2019	(3,703)	(240)	–	(4,789)	(2,797)	(11,529)
Charge for the year	(404)	(200)	–	(480)	(401)	(1,485)
Disposals	3	38	–	374	125	540
Foreign currency conversion difference	–	(6)	–	–	–	(6)
As at 31 December 2019	(4,104)	(408)	–	(4,895)	(3,073)	(12,480)
Provision for impairment						
As at 1 January 2019	(159)	–	–	–	–	(159)
As at 31 December 2019	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2019	8,686	5,249	2,210	1,772	1,425	19,342

Notes:

(i) *As at 30 June 2020, title deeds were not yet finalised for the premises with a carrying amount of RMB43 million (31 December 2019: RMB45 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.*

(ii) *As at 30 June 2020, Everbright Financial Leasing, the Group's subsidiary leases certain aircrafts and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB5,220 million (31 December 2019: RMB5,249 million). As at the end of the reporting period, part of finance lease receivables were pledged for borrowings from banks, see Note III 24(a).*

The net book values of premises at the end of the reporting period are analysed by the remaining term of lease as follows:

	30 June 2020	31 December 2019
Held in mainland China		
– Medium term leases (10 to 50 years)	8,520	8,454
– Short term leases (less than 10 years)	244	232
Total	8,764	8,686

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20 Right-of-use Assets

	Premises	Transportation and others	Total
Cost			
As at 1 January 2020	14,023	66	14,089
Additions	1,208	5	1,213
Charge for the period	(366)	(3)	(369)
Foreign currency conversion difference	9	–	9
As at 30 June 2020	14,874	68	14,942
Accumulated depreciation			
As at 1 January 2020	(2,388)	(17)	(2,405)
Charge for the period	(1,308)	(8)	(1,316)
Reduction for the period	240	2	242
Foreign currency conversion difference	(1)	–	(1)
As at 30 June 2020	(3,457)	(23)	(3,480)
Net book value			
As at 30 June 2020	11,417	45	11,462

	Premises	Transportation and others	Total
Cost			
As at 1 January 2019	11,768	61	11,829
Additions	2,557	8	2,565
Charge for the year	(303)	(3)	(306)
Foreign currency conversion difference	1	–	1
As at 31 December 2019	14,023	66	14,089
Accumulated depreciation			
As at 1 January 2019	–	–	–
Charge for the year	(2,412)	(17)	(2,429)
Reduction for the year	24	–	24
As at 31 December 2019	(2,388)	(17)	(2,405)
Net book value			
As at 31 December 2019	11,635	49	11,684

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Goodwill

	30 June 2020	31 December 2019
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed the "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

22 Deferred tax assets and liabilities

(a) Analysed by nature

	30 June 2020		31 December 2019	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	78,868	19,717	65,221	16,306
Deferred income tax liabilities	–	–	(6)	(1)
Total	78,868	19,717	65,215	16,305

(b) Movements of deferred tax

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/(liabilities)
1 January 2020	14,664	(243)	1,884	16,305
Measured through profit or loss	2,114	156	1,143	3,413
Measured through other comprehensive income	67	(68)	–	(1)
30 June 2020	16,845	(155)	3,027	19,717

	Provision for impairment losses Note(i)	Fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/(liabilities)
1 January 2019	9,724	(674)	1,744	10,794
Recognised in profit or loss	5,042	705	140	5,887
Recognised in other comprehensive income	(102)	(274)	–	(376)
31 December 2019	14,664	(243)	1,884	16,305

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax (continued)

Notes:

(i) *The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets at the end of the reporting period. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the reporting period, together with write-offs which fulfil specific criteria as set out in the PRC tax rules and are approved by the tax authorities.*

(ii) *Fair value changes of financial instruments are subject to tax when realised.*

23 Other assets

	Note	30 June 2020	31 December 2019
Other receivables	(a)	45,320	25,614
Fixed assets purchase prepayment		850	795
Long-term deferred expense		797	871
Intangible assets		1,659	1,646
Repossessed assets		428	478
Land use rights		92	88
Accrued interest		4,364	2,988
Others		3,472	3,499
Total		56,982	35,979

Note:

(a) *Other receivables mainly include items in the process of clearing and settlement. The amount of impairment allowance is not material.*

24 Pledged assets

(a) Assets pledged as collateral

Assets pledged by the Group as collateral for liabilities include discounted bills, debt securities, finance lease receivables and fixed assets. They are mainly pledged for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 30 June 2020 was RMB78,908 million (31 December 2019: RMB86,375 million).

(b) Collateral received

The Group accepted securities as collateral that is permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in six months ended 30 June 2020. As at 30 June 2020, the Group's collateral received from banks and other financial institutions has expired (31 December 2019: Nil). As at 30 June 2020, the Group had no collateral that was sold or re-pledged, but was obligated to return (31 December 2019: Nil). These transactions are conducted under standard terms in the normal course of business.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25 Due to the central bank

	30 June 2020	31 December 2019
Due to the central bank	163,997	221,480
Accrued interest	3,725	3,358
Total	167,722	224,838

26 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Deposits in mainland China		
– Banks	149,041	170,505
– Other financial institutions	327,264	269,224
Deposits outside mainland China		
– Banks	107	1,836
Subtotal	476,412	441,565
Accrued interest	2,127	2,755
Total	478,539	444,320

27 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	30 June 2020	31 December 2019
Placements in mainland China		
– Banks	104,943	89,480
– Other financial institutions	11,406	1,004
Placements outside mainland China		
– Banks	72,439	74,625
Subtotal	188,788	165,109
Accrued interest	727	1,116
Total	189,515	166,225

28 Financial liabilities at fair value through profit or loss

	30 June 2020	31 December 2019
Short position in debt securities	142	100
Total	142	100

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	30 June 2020	31 December 2019
In mainland China		
– Banks	22,505	23,064
Outside mainland China		
– Banks	4,267	2,390
– Other financial institutions	637	131
Subtotal	27,409	25,585
Accrued interest	24	18
Total	27,433	25,603

(b) Analysed by collateral

	30 June 2020	31 December 2019
Debt securities	20,239	14,771
Bank acceptances	7,170	10,814
Subtotal	27,409	25,585
Accrued interest	24	18
Total	27,433	25,603

30 Deposits from customers

	30 June 2020	31 December 2019
Demand deposits		
– Corporate customers	900,884	783,859
– Individual customers	291,724	217,892
Subtotal	1,192,608	1,001,751
Time deposits		
– Corporate customers	1,656,330	1,262,657
– Individual customers	546,317	466,413
Subtotal	2,202,647	1,729,070
Pledged deposits	234,670	232,522
Other deposits	4,022	21,682
Subtotal deposits from customers	3,633,947	2,985,025
Accrued interest	38,155	32,863
Total	3,672,102	3,017,888

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Accrued staff costs

	Notes	30 June 2020	31 December 2019
Salary and welfare payable		9,058	6,269
Pension payable	(a)	763	620
Supplementary retirement benefits payable	(b)	1,118	1,118
Total		10,939	8,007

Notes:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in the prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the reporting period.

Except as mentioned in Note (a) and Note (b) above, the Group has no significant responsibilities to pay any other retirement benefits to retired employees.

32 Taxes payable

	30 June 2020	31 December 2019
Income tax payable	4,439	6,446
Value added tax payable	2,840	2,446
Others	472	430
Total	7,751	9,322

33 Lease liabilities

	30 June 2020	31 December 2019
Within 1 year (inclusive)	2,617	2,611
1 to 2 years (inclusive)	2,282	2,283
2 to 3 years (inclusive)	1,943	1,937
3 to 5 years (inclusive)	2,646	2,711
More than 5 years	3,103	3,292
Total undiscounted lease liabilities	12,591	12,834
Lease liabilities	10,893	11,069

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34 Debt securities issued

	Notes	30 June 2020	31 December 2019
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	27,791	55,782
Tier-two capital bonds issued	(c)	39,984	39,983
Convertible bonds issued	(d)	27,970	27,547
Interbank deposits issued	(e)	222,470	199,057
Certificates of deposit issued	(f)	19,227	19,249
Medium term notes	(g)	13,676	20,428
Subtotal		357,818	368,746
Accrued interest		2,069	3,158
Total		359,887	371,904

(a) Subordinated debts issued

	Notes	30 June 2020	31 December 2019
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Notes:

(i) *Fixed rate subordinated debts of RMB6.70 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.*

(ii) *As at 30 June 2020, the fair value of the total subordinated debts issued approximated to RMB6,994 million (31 December 2019: RMB6,998 million).*

(b) Financial bonds issued

	Notes	30 June 2020	31 December 2019
Financial fixed rate bonds maturing in February 2020	(i)	–	27,999
Financial fixed rate bonds maturing in July 2020	(ii)	21,999	21,995
Financial fixed rate bonds maturing in November 2021	(iii)	4,993	4,990
Financial fixed rate bonds maturing in January 2022	(iv)	799	798
Total		27,791	55,782

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34 Debt securities issued (continued)

(b) Financial bonds issued (continued)

Notes:

(i) *Fixed rate financial bonds of RMB28.00 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.*

(ii) *Fixed rate financial bonds of RMB22.00 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.*

(iii) *Fixed rate financial bonds of RMB5.00 billion with a term of three years were issued by Everbright Financial Leasing on 8 November 2018. The coupon rate is 4.12% per annum.*

(iv) *Fixed rate financial bonds of RMB0.80 billion with a term of three years were issued by Everbright Financial Leasing on 18 January 2019. The coupon rate is 3.49% per annum.*

(v) *As at 30 June 2020, the fair value of the total financial bonds issued approximated to RMB27,916 million (31 December 2019: RMB56,058 million).*

(c) Tier-two capital bonds issued

	Notes	30 June 2020	31 December 2019
Tier-two capital fixed rate bonds maturing in March 2027	(i)	27,989	27,988
Tier-two capital fixed rate bonds maturing in August 2027	(ii)	11,995	11,995
Total		39,984	39,983

Notes:

(i) *Fixed rate tier-two capital bonds of RMB28.00 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.*

(ii) *Fixed rate tier-two capital bonds of RMB12.00 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.*

(iii) *As at 30 June 2020, the fair value of the total tier-two capital bonds issued approximated to RMB41,058 million (31 December 2019: RMB40,935 million).*

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34 Debt securities issued (continued)

(d) Convertible bonds issued

	30 June 2020	31 December 2019
Fixed rate six years convertible bonds issued in March 2017	27,970	27,547

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note III 37	Total
Nominal value of convertible bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Accumulated amortisation as at 1 January 2020		2,786	–	2,786
Accumulated conversion amount as at 1 January 2020		(1)	–	(1)
Balance as at 1 January 2020		27,547	5,161	32,708
Amortisation during the period		423	–	423
Conversion amount during the period	(iv)	–	–	–
Balance as at 30 June 2020		27,970	5,161	33,131

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

Notes:

(i) *Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the forth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of the par value, including interest for the sixth year.*

(ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.*

(iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 30 June 2020, the new conversion price is RMB3.76 per share.*

(iv) *As at 30 June 2020, a total of RMB1,003,000 (31 December 2019: RMB965,000) convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 237,665 shares (31 December 2019: 228,101 shares).*

(v) *For the six months ended 30 June 2020, a total of RMB300 million interests on the convertible bonds have been paid by the Bank (Six month ended 30 June 2019: RMB150 million).*

(e) Interbank deposits issued

For the six months ended 30 June 2020, 133 inter-bank deposits were issued by the Bank and measured at amortized cost with carrying amount is RMB191,640 million (six months ended 30 June 2019: RMB95,530 million). The carrying amount of inter-bank deposits due in the six months ended 30 June 2020 was RMB168,960 million (six months ended 30 June 2019: RMB95,960 million). As at 30 June 2020, the fair value of its outstanding interbank deposits issued was RMB219,726 million (31 December 2019: RMB196,493 million).

(f) Certificates of deposit issued

As at 30 June 2020, the certificates of deposit were issued by the Bank's Hong Kong branch, Seoul branch and Sydney branch and measured at amortised cost. The fair value of the certificates of deposit issued approximated to their carrying amount.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34 Debt securities issued (continued)

(g) Medium term notes

	Notes	30 June 2020	31 December 2019
Medium term notes with fixed rate maturing in 8 March 2020	(i)	–	3,472
Medium term notes with floating rate maturing in 13 June 2020	(ii)	–	3,484
Medium term notes with floating rate maturing in 13 June 2021	(iii)	2,370	2,342
Medium term notes with floating rate maturing in 13 June 2021	(iv)	2,121	2,091
Medium term notes with floating rate maturing in 19 September 2021	(v)	2,119	2,083
Medium term notes with floating rate maturing in 24 June 2022	(vi)	3,538	3,484
Medium term notes with floating rate maturing in 11 December 2022	(vii)	3,528	3,472
Total		13,676	20,428

Notes:

(i) *Fixed rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.*

(ii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.*

(iii) *Floating rate medium term notes of EUR300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 0.43% per annum.*

(iv) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 6 June 2018. The initial coupon rate is 3.18% per annum.*

(v) *Floating rate medium term notes of USD300 million with a term of three years were issued by the Bank's Hong Kong branch on 12 September 2018. The initial coupon rate is 3.19% per annum.*

(vi) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 17 June 2019. The initial coupon rate is 3.13% per annum.*

(vii) *Floating rate medium term notes of USD500 million with a term of three years were issued by the Bank's Hong Kong branch on 4 December 2019. The initial coupon rate is 2.59% per annum.*

(viii) *As at 30 June 2020, the fair value of the medium term notes approximated to RMB13,709 million (31 December 2019: RMB20,478 million).*

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Other liabilities

	Notes	30 June 2020	31 December 2019
Deferred income	(a)	6,442	6,710
Bank loans	(b)	18,669	17,597
Finance leases payable		5,525	4,876
Provisions	(c)	3,193	2,751
Payment and collection clearance accounts		1,780	1,761
Dormant accounts		398	354
Dividend payables		2,528	21
Deferred tax liabilities		–	1
Others		17,808	20,137
Total		56,343	54,208

Notes:

(a) *Deferred income primarily comprised the deferred credit card income and deferred revenue of credit card points.*

(b) *As at 30 June 2020, the Group's subsidiary Everbright Financial Leasing borrowed long-term loans with terms of 1 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loans is RMB18,669 million (31 December 2019: RMB17,597 million).*

(c) *As at 30 June 2020, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB142 million (31 December 2019: RMB255 million).*

36 Share capital

The Bank's shareholding structure as at the end of the reporting period is as follows:

	30 June 2020	31 December 2019
Ordinary shares listed in mainland China (A share)	39,810	39,810
Ordinary shares listed in Hong Kong (H share)	12,679	12,679
Total	52,489	52,489

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Other equity instrument

	Note III	30 June 2020	31 December 2019
Preference shares (Notes (a), (b), (c), (d))		64,906	64,906
Equity of convertible bonds	34(d)	5,161	5,161
Total		70,067	70,067

(a) Preference shares at the end of the reporting period

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1					
2015-6-19	5.30%	100	200	20,000	Mandatory conversion trigger events
Everbright P2					
2016-8-8	3.90%	100	100	10,000	Mandatory conversion trigger events
Everbright P3					
2019-7-15	4.80%	100	350	35,000	Mandatory conversion trigger events
Subtotal				65,000	
Less: Issuing costs				(94)	
Book value				64,906	

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Other equity instrument (continued)

(b) Main Clauses

(i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt, holders of Tier-two capital bonds and holders of convertible bonds, but will be senior to the ordinary shareholders.

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Trigger Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the Preference Shares into A shares, in order to restore the Common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If Preference Shares were converted to A shares, it could not be converted to Preference Shares again;

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBIRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; or (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all Preference Shares into A shares.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Other equity instrument (continued)

(b) Main Clauses (continued)

(vi) Redemption

Subject to the prior approval of the CBIRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the Preference Shares on any redeemable day (the payment date for dividends of the Preference Shares each year) after the fifth year following the completion date of the Issuance of the Preference Shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the Preference Shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the Preference Shares. Where redemption is in part, the Preference Shares shall be redeemed based on the same proportion and conditions. Preference Shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

(c) Changes in preference shares outstanding

	1 January 2020		Additions for the period		30 June 2020	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	650	64,906	–	–	650	64,906

	1 January 2019		Additions for the year		31 December 2019	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	350	34,959	650	64,906

(d) Interests attributable to equity instruments' holders

Items	30 June 2020	31 December 2019
Total equity attributable to equity shareholders of the Bank	390,312	384,982
– Equity attributable to ordinary shareholders of the Bank	325,406	320,076
– Equity attributable to preference shareholders of the Bank	64,906	64,906
Total equity attributable to non-controlling interests	1,131	1,072
– Equity attributable to non-controlling interests of ordinary shares	1,131	1,072
– Equity attributable to non-controlling interests of preference shares	–	–

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38 Capital reserve

	30 June 2020	31 December 2019
Share premium	53,533	53,533

39 Other comprehensive income

	30 June 2020	31 December 2019
Items that will not be reclassified to profit or loss		
Fair value changes on equity instruments at fair value through other comprehensive income	15	14
Remeasurement of defined benefit plan	(303)	(303)
Subtotal	(288)	(289)
Items that will be reclassified to profit or loss		
Debt instruments at fair value through other comprehensive income	2,936	2,959
– Net change in fair value	2,161	1,998
– Net change in expected credit loss	775	961
Exchange differences on translation of financial statements	118	67
Subtotal	3,054	3,026
Total	2,766	2,737

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value change on debt instruments at fair value through other comprehensive income	Net change in ECL on debt instruments at fair value through other comprehensive income	Fair value change on equity instruments at fair value through other comprehensive income	Exchange differences on translation of financial statements of overseas subsidiaries	Remeasurement of defined benefit plan	Total
As at 1 January 2019	1,094	654	10	20	(123)	1,655
Changes in amount for the previous year	904	307	4	47	(180)	1,082
As at 1 January 2020	1,998	961	14	67	(303)	2,737
Changes in amount for the period	163	(186)	1	51	–	29
As at 30 June 2020	2,161	775	15	118	(303)	2,766

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund. The Bank is required to allocate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the MOF, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

41 Appropriation of profits

(a) At the Annual General Meeting of shareholders held on 5 June 2020 the shareholders approved the following profit appropriations for the year ended 31 December 2019:

- Appropriated RMB1,874 million (5.12% of the net profit of the Bank) to surplus reserve, the accumulated amount of withdrawal has reached 50% of the Bank's registered capital;
- Appropriated RMB5,380 million to general reserve; and
- Declared cash dividends of RMB11,233 million to all ordinary shareholders of 52,489 million shares representing RMB2.14 per 10 shares before tax.

(b) At the Board Meeting held on 5 June 2020, the dividend distribution of the Everbright P1 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, accruing from 25 June 2019, and are calculated using the 5.30% of dividend yield ratio for the Everbright P1.

(c) At the Board Meeting held on 27 March 2020, the dividend distribution of the Everbright P3 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB769 million representing RMB2.20 per share before tax, accruing from 18 July 2019, and are calculated using the 4.80% of dividend yield ratio for the Everbright P3.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41 Appropriation of profits (continued)

(d) At the Annual General Meeting of shareholders held on 30 May 2019, the shareholders approved the following profit appropriations for the year ended 31 December 2018:

- Appropriated RMB3,317 million (10% of the net profit of the Bank) to surplus reserve;
- Appropriated RMB1,701 million to general reserve; and
- Declared cash dividends to all ordinary shareholders of RMB8,451 million representing RMB1.61 per 10 shares before tax.

(e) At the Board Meeting held on 30 May 2019, the dividend distribution of the Everbright P1 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.30 per share before tax, accruing from 25 June 2018, and are calculated using 5.30% of dividend yield ratio for the Everbright P1.

(f) At the Board Meeting held on 30 July 2019, the dividend distribution of the Everbright P2 was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB390 million representing RMB3.90 per share before tax, accruing from 13 August 2018, and are calculated using 3.90% of dividend yield ratio for the Everbright P2.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Involvement with structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include fund investments and asset management plans at fair value through profit or loss, asset management plans and asset-backed securities at amortised cost. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at the end of the reporting period:

	30 June 2020		31 December 2019	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Financial assets at fair value through profit or loss				
– Fund investments	219,996	219,996	159,760	159,760
– Asset management plans	22,971	22,971	18,686	18,686
Financial investments measured at amortised cost				
– Asset management plans	246,142	246,142	256,569	256,569
– Asset-backed securities	119,747	119,747	119,439	119,439
Total	608,856	608,856	554,454	554,454

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 30 June 2020, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

As at 30 June 2020, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group is RMB795,425 million (31 December 2019: RMB778,837 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2020 but matured before 30 June 2020 was nil (Six months ended 30 June 2019: nil).

For the six months ended 30 June 2020, the amount of fee and commission income received from the unconsolidated structured entities by the Group was RMB1,463 million (Six months ended 30 June 2019: RMB266 million).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42 Involvement with structured entities (continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in: (continued)

For the purpose of asset-liability management, wealth management products may cause short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into transactions with these wealth management products in accordance with market principles. Such financing provided by the Group was included in "Financial assets held under resale agreements". As at 30 June 2020, the balance of above transactions was RMB18,929 million (31 December 2019: RMB9,106 million in "Placements with banks and other financial institutions"). The maximum exposure to loss of those placements approximated to the carrying amount. For the six months ended 30 June 2020, the amount of interest receivables from the above financing recognised was not material for the Group in the statement of profit or loss.

In addition, as at 30 June 2020, the Group hold interests in the unconsolidated structured entities of asset securitization transactions, refer to Note III 43. During the six months ended 30 June 2020, the Group's income from these structured entities was immaterial.

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial assets and financial liabilities items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

43 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial de-recognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Transferred financial assets (continued)

Credit assets backed securitization

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. The asset-backed securities held by the Group in the securitisation transactions was nil as at 30 June 2020 (31 December 2019: RMB13 million).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. As at June 30 2020, the Group has no continuing involvement in credit asset-backed securities.

Transfer of right to earnings

The Group enters into transfer of right to earnings of credit assets transactions in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors.

With respect to the credit assets that were transferred and qualified for de-recognition, the Group derecognised the transferred credit assets in their entirety. As at 30 June 2020, the Group held no share in corresponding transaction.

As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial assets and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 30 June 2020, loans with an original carrying amount of RMB2,318 million (31 December 2019: RMB2,590 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches, which were accounted for in other assets and other liabilities. As at 30 June 2020, the carrying amount of assets that the Group continues to recognise amounts to RMB379 million (31 December 2019: RMB614 million).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines. The capital of the Group is divided into common equity tier-one capital, additional tier-one capital and tier-two capital.

Capital adequacy ratio management is the key in capital management. The capital adequacy ratio reflects the soundness of the Group's operations and risk management capabilities. The main objective in capital adequacy ratio management is to set an optimal capital adequacy ratio that meets the regulatory requirements by benchmarking against the capital adequacy ratio level of leading global banks with reference to the Group's own business environment and conditions.

The Group considers its strategic development plans, business expansion plans and risk variables when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio. The required information is filed with the CBIRC by the Group and the Bank semi-annually and quarterly.

Since 1 January 2013, the Group has started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". Systemically important bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

The on-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. Similar treatment is adopted for off-balance sheet exposure, with adjustments made to reflect the more contingent nature of any potential losses. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The Group's capital adequacy ratio and related information are calculated on the basis of financial statements prepared in accordance with PRC GAAP. During the reporting period, the Group complied with the capital requirements imposed by the regulatory authorities.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44 Capital management (continued)

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements:

	30 June 2020	31 December 2019
Total common equity tier-one capital	326,205	320,793
Share capital	52,489	52,489
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	61,460	61,431
Surplus reserve	26,245	26,245
General reserve	59,718	59,417
Retained earnings	125,494	120,494
Qualifying portions of non-controlling interests	799	717
Common equity tier-one capital deductions	(2,943)	(2,930)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use right	(1,659)	(1,646)
Net deferred tax assets arising from operating losses that depend on future profits	(3)	(3)
Net common equity tier-one capital	323,262	317,863
Additional tier-one capital	65,013	65,002
Additional tier-one capital instruments	64,906	64,906
Qualifying portions of non-controlling interests	107	96
Tier-one capital net	388,275	382,865
Tier-two capital	86,084	82,640
Qualifying portions of tier-two capital instruments issued and share premium	44,524	46,683
Excess loan loss provisions	41,347	35,766
Qualifying portions of non-controlling interests	213	191
Net capital base	474,359	465,505
Total risk-weighted assets	3,722,155	3,456,054
Common equity tier-one capital adequacy ratio	8.68%	9.20%
Tier-one capital adequacy ratio	10.43%	11.08%
Capital adequacy ratio	12.74%	13.47%

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents:

	For the six months ended 30 June	
	2020	2019
Cash and cash equivalents as at 30 June	140,992	205,828
Less: Cash and cash equivalents as at 1 January	117,499	187,680
Net increase in cash and cash equivalents	23,493	18,148

(b) Cash and cash equivalents:

	30 June 2020	30 June 2019
Cash on hand	8,032	5,171
Deposits with the central bank	59,672	106,461
Deposits with banks and other financial institutions	38,904	61,900
Placements with banks and other financial institutions	34,384	32,296
Total	140,992	205,828

46 Related party relationships and transactions

(a) The immediate and ultimate parent companies

The immediate and ultimate parents of the Group are China Everbright Group Ltd. ("China Everbright Group") and China Investment Corporation, respectively.

The uniform social credit code of China Everbright Group is 91100000102063897J, and the transactions and balances with China Everbright Group and its affiliates are listed in Note III 46(b)(ii).

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties

(i) Other related parties information

Other related parties having transactions with the Group:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co., Ltd. ("Everbright Securities")	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Industry (Group) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Investment and Assets Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Real Estate Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Financial Holding Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Life Insurance Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Xinglong Trust Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Pramerica Fund Management Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Futures Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Fortune Investment Co.,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Capital Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happy Life International Leasing Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Cloud Payment Internet Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright jin'ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Securities Finance Holding Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service (Group) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Cachet Pharmaceutical Company Limited	Affiliate of China Everbright Group Ltd.
– China Youth Travel Service Limited	Affiliate of China Everbright Group Ltd.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Other related parties having transactions with the Group (continued):

Related party	Relationship with the Group
Affiliated companies (continued)	
– Hangzhou jin'ou Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Technology Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happiness International Commercial Factoring Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Sunshine Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Guokaitai Industrial Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Zhongqing Chuangyi Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shenzhen Qianhai Everbright Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Senior Healthcare Co., Ltd	Affiliate of China Everbright Group Ltd.
– China Everbright Culture Investment Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Development Investment Co., Ltd	Affiliate of China Everbright Group Ltd.
– Beijing Caiwan Internet Information Service Co., Ltd	Affiliate of China Everbright Group Ltd.
–Everbright Huichen Senior Care Service Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Cloud Payment Technology Co., Ltd	Affiliate of China Everbright Group Ltd.
– CYTS Real Estate (Jiangsu) Co., Ltd	Affiliate of China Everbright Group Ltd.
– Shanghai Guiyun Asset Management Co., Ltd	Affiliate of China Everbright Group Ltd.
– Shanghai Yuanfu Asset Management Co., Ltd	Affiliate of China Everbright Group Ltd.
– Everbright Jujiahuimin Co., Ltd	Affiliate of China Everbright Group Ltd.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Other related parties having transactions with the Group (continued):

Related party	Relationship with the Group
Other related parties	
– Overseas Chinese Town Holding Company	Shareholder, Common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust Co., Ltd.	Common key management
– Haitong Securities Co., Ltd.	Common key management
– China UnionPay Co., Ltd.	Common key management
– Orient Securities Co., Ltd.	Common key management
– Konka Group Co., Ltd.	Common key management
– China Pacific Property Insurance Co., Ltd.	Common key management
– China Pacific Life Insurance Co., Ltd.	Common key management
– First-trust Fund Management Co., Ltd.	Common key management
– COSCO Shipping Development Co., Ltd.	Common key management
– China COSCO Shipping Co., Ltd.	Common key management
– Shenergy Group Co., Ltd.	Common key management
– Bohai Securities Co., Ltd.	Common key management
– Shanghai Gas (Group) Co., Ltd.	Common key management
– China Marine Bunker (PetroChina) Co., Ltd.	Common key management
– Peacebird Group Co., Ltd.	Common key management
– Shenzhen Vphonor Information Technology Co., Ltd.	Common key management
– Shanghai Zhongbo Enterprise Management Development Co., Ltd.	Common key management
– Shanghai Insurance Exchange Co., Ltd.	Common key management
– Beijing Jingneng Clean Energy Co., Ltd.	Common key management
– Shijiazhuang Hualin Food Co., Ltd.	Common key management
– Zhengzhou Chemical Light Industry Co., Ltd.	Common key management
– China Eastern Airlines Co., Ltd	Common key management
– Huadian Fuxin Energy Co., Ltd	Common key management
– Shanghai Benemae Pharmaceutical Co., Ltd.	Common key management
– China Cinda Asset Management Co., Ltd.	Common key management

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows:

	China Everbright Group (Note III 46(a))	Affiliated Companies	Others	Total
Transactions with related parties for the six months ended 30 June 2020:				
Interest income	–	327	287	614
Interest expense	(67)	(177)	(204)	(448)
Balances with related parties as at 30 June 2020:				
Placements with banks and other financial institutions	–	500	–	500
Derivative financial assets	–	–	40	40
Financial assets held under resale agreements	–	369	376	745
Loans and advances to customers	–	8,207	13,324	21,531
Financial assets at fair value through profit or loss	–	8,458	701	9,159
Debt instruments at fair value through other comprehensive income	103	260	–	363
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	112,283	512	112,795
Other assets	–	844	–	844
Total	103	130,921	15,051	146,075
Deposits from banks and other financial institutions	–	3,850	1,536	5,386
Derivative financial liabilities	–	–	65	65
Deposits from customers	5,769	12,605	55,993	74,367
Total	5,769	16,455	57,594	79,818
Significant other sheet items with related parties as at 30 June 2020:				
Guarantee granted (Note)	180	–	–	180

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows (continued):

	China Everbright Group (Note III 46(a))	Affiliated Companies	Others	Total
Transactions with related parties for the six months ended 30 June 2019:				
Interest income	–	265	164	429
Interest expense	(88)	(164)	(230)	(482)
Balances with related parties as at 31 December 2019:				
Placements with banks and other financial institutions	–	508	2,002	2,510
Derivative financial assets	–	–	12	12
Loans and advances to customers	–	7,251	9,064	16,315
Financial assets at fair value through profit or loss	–	7,727	–	7,727
Debt instruments at fair value through other comprehensive income	178	385	–	563
Equity instruments at fair value through other comprehensive income	–	–	98	98
Financial investments at amortised cost	–	113,480	256	113,736
Other assets	–	3,261	–	3,261
Total	178	132,612	11,432	144,222
Deposits from banks and other financial institutions	–	3,147	1,528	4,675
Derivative financial liabilities	–	–	11	11
Deposits from customers	4,652	15,696	35,638	55,986
Other liabilities	–	693	167	860
Total	4,652	19,536	37,344	61,532
Significant other sheet items with related parties as at 31 December 2019:				
Guarantee granted (Note)	180	–	–	180

Note: As at 30 June 2020, the Bank has guarantee obligations relating to the China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2019: RMB180 million) due to one of the state-owned commercial banks.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Related party relationships and transactions (continued)

(c) China Investment Corporation, Central Huijin Investment Ltd. and its affiliates

Approved by the State Council of the PRC, China Investment Corporation ("CIC") was established on 29 September 2007 with a registered capital of USD200 billion. Central Huijin Investment Ltd. ("Huijin") is a wholly-owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

Huijin was established as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with a registered capital of RMB828,209 million. Apart from holding equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchases and sales of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, convertible bonds, interbank deposit and certificates of deposit which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the reporting period.

The Group's material transactions with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	For the six months ended 30 June	
	2020	2019
Interest income	496	616
Interest expense	(1,577)	(1,755)

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Related party relationships and transactions (continued)

(c) China Investment Corporation, Central Huijin Investment Ltd. and its affiliates (continued)

The Group's material balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	30 June 2020	31 December 2019
Deposits with banks and other financial institutions	9,462	9,552
Precious metals	13	51
Placements with banks and other financial institutions	26,522	13,909
Derivative financial assets	2,207	3,764
Financial assets held under resale agreements	3,445	997
Loans and advances to customers	2,243	694
Financial assets at fair value through profit or loss	29,669	36,270
Debt instruments at fair value through other comprehensive income	29,716	27,611
Financial investments measured at amortised cost	121,931	106,537
Other assets	845	419
Deposits from banks and other financial institutions	88,755	81,621
Placements from banks and other financial institutions	82,914	70,629
Derivative financial liabilities	2,229	3,678
Financial assets sold under repurchase agreements	–	2,970
Deposits from customers	47,879	14,586
Other liabilities	88	30

(d) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sales, purchases, underwriting and redemption of bonds issued by other state-owned entities; purchases, sales and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Related party relationships and transactions (continued)

(e) Key management personnel

	For the six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Remuneration	13,198	6,991
Retirement benefits	388	526
– Basic social pension insurance	179	302

(f) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Aggregate amount of relevant loans outstanding as at the period end	8,722	8,867
Maximum aggregate amount of relevant loans outstanding during the period	8,733	8,994

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Statement of financial position of the Bank

	Note III	30 June 2020	31 December 2019
Assets			
Cash and deposits with the central bank		379,485	364,184
Deposits with banks and other financial institutions		40,624	28,648
Precious metals		13,430	10,826
Placements with banks and other financial institutions		60,399	60,466
Derivative financial assets		14,631	13,754
Financial assets held under resale agreements		192,469	6,709
Loans and advances to customers		2,844,133	2,642,764
Financial investments		1,624,733	1,425,223
– Financial assets at fair value through profit or loss		313,275	207,634
– Debt instruments at fair value through other comprehensive income		201,051	175,565
– Equity instruments at fair value through other comprehensive income		869	618
– Financial investments measured at amortised cost		1,109,538	1,041,406
Investments in subsidiaries	18	12,383	12,383
Fixed assets		14,118	14,041
Right-of-use assets		11,395	11,599
Goodwill		1,281	1,281
Deferred tax assets		18,898	15,446
Other assets		55,654	34,243
Total assets		5,283,633	4,641,567

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Statement of financial position of the Bank (continued)

	30 June 2020	31 December 2019
Liabilities and equity		
Liabilities		
Due to the central bank	167,625	224,758
Deposits from banks and other financial institutions	484,490	450,716
Placements from banks and other financial institutions	124,834	108,045
Derivative financial liabilities	15,648	13,821
Financial assets sold under repurchase agreements	24,793	24,542
Deposits from customers	3,670,687	3,016,555
Accrued staff costs	10,716	7,834
Taxes payable	7,454	8,729
Lease liabilities	10,826	10,986
Debts securities issued	353,951	366,061
Other liabilities	26,528	28,218
Total liabilities	4,897,552	4,260,265
Equity		
Share capital	52,489	52,489
Other equity instrument	70,067	70,067
of which: preference shares	64,906	64,906
Capital reserve	53,533	53,533
Other comprehensive income	2,674	2,617
Surplus reserve	26,245	26,245
General reserve	58,523	58,523
Retained earnings	122,550	117,828
Total equity	386,081	381,302
Total liabilities and equity	5,283,633	4,641,567

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Segment reporting

The Group manages its business by business line and geographical area. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, trade financing and deposit taking activities, agency services, cash management services, financial consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchase transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

Measurement of segment assets and liabilities and measurement of segment income, expenses and results are based on the Group's accounting policies.

Internal charges and transfer prices are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense earned from third parties are referred to as "external net interest income". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Segment reporting (continued)

(a) Segment results, assets and liabilities

	For the six months ended 30 June 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	11,445	27,913	15,308	–	54,666
Internal net interest income/(expense)	13,932	(7,580)	(6,352)	–	–
Net interest income	25,377	20,333	8,956	–	54,666
Net fee and commission income	4,653	8,893	587	–	14,133
Net trading gains	–	–	57	–	57
Dividend income	–	–	1	–	1
Net (losses)/gains arising from investment securities	(35)	1	2,813	–	2,779
Foreign exchange gains/(losses)	120	37	(86)	–	71
Other net operating income	373	19	26	32	450
Operating income	30,488	29,283	12,354	32	72,157
Operating expenses	(8,402)	(9,932)	(1,054)	(58)	(19,446)
Operating profit before impairment	22,086	19,351	11,300	(26)	52,711
Credit impairment losses	(12,214)	(18,195)	(117)	–	(30,526)
Other impairment losses	(112)	(33)	(2)	–	(147)
Profit before tax	9,760	1,123	11,181	(26)	22,038
Other segment information					
– Depreciation and amortisation	1,224	1,148	131	–	2,503
– Capital expenditure	525	650	63	–	1,238

	30 June 2020				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	2,157,491	1,282,940	1,926,517	488	5,367,436
Segment liabilities	2,912,829	901,025	1,177,240	3,369	4,994,463

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	For the six months ended 30 June 2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	12,764	26,851	9,568	–	49,183
Internal net interest income/(expense)	9,849	(8,503)	(1,346)	–	–
Net interest income	22,613	18,348	8,222	–	49,183
Net fee and commission income	3,652	8,634	463	–	12,749
Net trading gains	–	–	69	–	69
Dividend income	–	–	–	11	11
Net gains arising from investment securities	89	6	2,869	10	2,974
Foreign exchange gains	157	38	583	–	778
Other net operating income	332	13	41	74	460
Operating income	26,843	27,039	12,247	95	66,224
Operating expenses	(7,664)	(9,543)	(1,117)	(39)	(18,363)
Operating profit before impairment	19,179	17,496	11,130	56	47,861
Credit impairment losses	(11,117)	(12,150)	(64)	–	(23,331)
Other impairment losses	(38)	(10)	–	–	(48)
Profit before tax	8,024	5,336	11,066	56	24,482
Other segment information					
– Depreciation and amortisation	1,055	1,075	131	–	2,261
– Capital expenditure	691	586	62	–	1,339

	31 December 2019				
	Corporate banking	Retail banking	Financial market business	Others	Total
Segment assets	1,938,565	1,276,983	1,499,765	531	4,715,844
Segment liabilities	2,405,750	779,244	1,157,929	4,432	4,347,355

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note III	30 June 2020	31 December 2019
Segment assets		5,367,436	4,715,844
Goodwill	21	1,281	1,281
Deferred tax assets	22	19,717	16,306
Total assets		5,388,434	4,733,431
Segment liabilities		4,994,463	4,347,355
Dividend payables	35	2,528	21
Deferred tax liabilities	35	–	1
Total liabilities		4,996,991	4,347,377

(b) Geographical information

The Group operates principally in China with branches located in main provinces, autonomous regions and municipalities directly under the central government. Also, the Group set up branches in Hong Kong, Luxembourg, Seoul and Sydney, and with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Ruijin city of Jiangxi Province, Qindao city of Shandong Province, Hong Kong and Luxembourg.

Non-current assets include fixed assets, right-of-use assets, intangible assets and land use rights. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

– "Yangtze River Delta" refers to the following areas serviced by subsidiary and branches of the Bank, Huai'an Everbright: Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the following areas serviced by branches of the Bank and Everbright Wealth: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;

– "Central" refers to the following areas serviced by subsidiaries and branches of the Bank, Everbright Financial Leasing, Shaoshan Everbright and Ruijin Everbright: Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the following areas serviced by branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining, Yinchuan and Lhasa;

– "Northeastern" refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Segment reporting (continued)

(b) Geographical information (continued)

– "Overseas" refers to the following areas serviced by branches of the Bank: Hong Kong, Seoul, Luxembourg, Sydney; and

– "Head Office" refers to the head office of the Group.

	Operating Income								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Overseas	Head Office	Total
For the six months ended 30 June 2020	13,664	9,515	11,176	12,401	8,527	3,200	1,381	12,293	72,157
For the six months ended 30 June 2019	11,957	8,578	9,866	10,596	7,105	2,937	1,068	14,117	66,224

	Non-current Asset (Note(i))								
	Yangtze River Delta	Pearl River Delta	Bohai Rim	Central	Western	North eastern	Overseas	Head Office	Total
30 June 2020	3,763	3,205	3,593	8,501	3,112	1,459	540	8,427	32,600
31 December 2019	3,729	3,244	3,782	8,568	2,843	1,539	566	8,489	32,760

Note:

(i) Including fixed assets, right-of-use assets, intangible assets and land use rights.

49 Risk Management

The Group's primary risk management objectives are to maximise value for equity holders while maintaining risk within acceptable parameters, optimising capital allocation and satisfying the requirements of the regulatory authorities, the Group's depositors and other stakeholders for the Group's prudent and stable development.

The Group has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk and operational risk.

This note presents information about the Group's exposure to each of the above risks and their sources, and the Group's objectives, policies and procedures for measuring and managing these risks.

The Group's risk management policies were established to identify and analyse the risks to which the Group is exposed, to set appropriate risk limits, and to design relevant internal control policies and systems for monitoring risks and adhering to risk limits. Risk management policies and relevant internal control systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Internal Audit Department of the Group undertakes both regular and ad hoc reviews of the compliance of internal control implementation with risk management policies.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and bond investment portfolios and guarantees granted.

Credit business

The board of directors is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies. The board gives advice on internal controls relating to risk management. The senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. The senior management is responsible for the improvement of risk management system and establishment of risk management policies and rules. The senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And the senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

– The Corporate Banking Department, Investment Banking Department, Inclusive Finance Department, Credit Card Centre and Retail and Wealth Management Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, and they are the first line of defence of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

– The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Risk Monitoring Department, and Special Assets Management Department. They are the second line of defence of the internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution".

– The Internal Audit Department is the third line of defence of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

The Group continuously improves the internal control mechanism and strengthens the management of the credit business. The Group has established comprehensive assessment and inquiry mechanisms, assigning the credit management accountability to the relevant departments and individuals.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

For corporate businesses, the Group has established industry-specific limits for credit and investment approval. It has put in place dynamic monitoring mechanism, with regular reporting of credit exposures to the board. The Group's credit risk management covers key operational phases, including pre-lending evaluations, credit approval, loan payment and post-lending monitoring. With respect to pre-lending evaluations, the Group assesses customer credit ratings and performs integrated analysis on the risk and return of the loan. In the credit approval phase, the Group has established standardized system and procedures for credit evaluation and approval in accordance with the principle of separation of duties for approval and lending as well as hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conforms with the intended use of the loan approved. During the post-lending monitoring, the Group continually monitors outstanding loans and other credit related businesses. Any adverse events that may significantly affect a borrower's repayment ability are reported immediately, and actions are taken to mitigate the risks.

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, a standardized review and approval policies and process in accordance with the principal of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collateral and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan.

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The Bank implemented a customer credit rating system based on the PD model. The PD model uses the principle of logistic regression to predict the PD for customers in the coming year. According to the calculated PD value, the risk rating of the customer is obtained through the relevant mapping relationship table. The Group conducts recheck and optimization testing of the model according to the customer's actual default each year to better identify the credit risk.

The customer credit ratings in the internal model are based on four categories of A, B, C and D which are further classified into twenty four grades as AAA+, AAA, AAA-, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C and D. Credit grading D equates to defaulted customers while the others are assigned to performing customers.

Management periodically reviews various elements of the Group's credit risk management process, in the context of loan portfolio growth, the changing mix and concentration of assets, and the evolving risk profile of the credit portfolio. From time to time, in this regard, refinements are made to the Group's credit risk management processes to most effectively manage the effects of these changes on the Group's credit risk. These refinements include, among other things, adjustments to portfolio level controls, such as revisions to lists of approved borrowers, industry limits and underwriting criteria. Where circumstances related to specific loans or a group of loans increase the Bank's credit risk, actions are taken, to the extent possible, to strengthen the Group's security position.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

Treasury business

The Group implemented differentiated risk access standards of investments, ensured the credit risk exposure of financial market business to be controlled within a reasonable range to meet the Group's risk preference. At the same time, the Group set credit risk limits for different counterparties, taking into considerations factors including industries, single borrowers and ratings. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised regularly.

Credit risk measurement

Measurement of ECL

The ECL is a weighted average of credit losses on financial instruments weighted at the probability of default. Credit loss is the difference between all receivable contractual cash flows according to the contract and all cash flows expected to be received by the Group discounted to present value at the original effective interest rate, i.e. the present value of all cash shortfalls.

According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECL by three stages:

Stage 1: The financial instruments without significant increases in credit risk after initial recognition are included in Stage 1 to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage 2, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

Stage 3: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage 3, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting period, the impairment allowance was measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the end of the reporting period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group measures the impairment allowance of the financial instruments at the end of the reporting period according to the ECL in the next 12 months.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
For purchased or originated credit-impaired financial assets, the Group only recognises the lifetime cumulative change in ECL after initial recognition at the end of the reporting period as impairment allowance. At the end of the each reporting period, the Group recognises the amount of the changes in ECL as an impairment loss or gain in profit or loss.

The Group shall measure ECL of a financial instrument in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

- The time value of money;

- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

The Group conducted an assessment of ECL according to forward-looking information and used complex models and assumptions in its expected measurement of credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g., the likelihood of default by customers and the corresponding losses). The Group adopts judgement, assumptions and estimation techniques in order to measure ECL according to the requirements of accounting standards such as:

- Criteria for judging significant increases in credit risk

- Definition of credit-impaired financial asset

- Parameters for measuring ECL

- Forward-looking information

- Modification of contract cash flows

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at the end of each reporting period. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group and external credit risk rating. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments at the end of the reporting period with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria

- At the reporting date, the decrease in customer rating is considered significant, comparing with the one at initial recognition

Qualitative criteria

- Significant adverse change in debtor's operation or financial status

- Be classified into Special Mention category within five-tier loan classification

Backstop criteria

- The debtor's contractual payments (including principal and interest) are more than 30 days past due

The Group continued to make judgments based on substantive risk assessment and comprehensively considered the operations and repayment capacity of borrowers, as well as any changes to the impact of COVID-19 on these borrowers, to assess whether the credit risk of relevant financial instruments had increased significantly since initial recognition. For borrowers who applied for temporary deferral of principal repayment and interest payment, deferred repayment and other credit support measures in the wake of COVID-19, the Group did not consider these support measures as triggers of a significant increase in credit risk.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Group overdue for more than 90 days.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). Based on the current New Basel Capital Accord used in risk management and the requirements of IFRS 9, the Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collateral, repayments.) and forward-looking information in order to establish the model of PD, LGD and EAD.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Parameters of ECL measurement (continued)
Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking into account the forward-looking information and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the difference of credit products, and the type of collateral, the LGD varies. The LGD is the percentage of loss of risk exposure after the time of default, based on historical statistics, the loss rate may be different in various economic environments.

- EAD is the amount that the Group should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types, such as GDP, PPI, CPI, Investment in fixed assets, Home price index, Aggregate financing to the real economy.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Group combined statistic model and experts' judgement in this process, according to the result of model and experts' judgement, the Group predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

Credit risk measurement (continued)

Measurement of ECL (continued)
Forward-looking information (continued)
In addition to providing a baseline economic scenario, the Group combines statistic model with experts' judgement to determine the weight of the other possible scenarios. The Group measures the weighted average ECL of 12 months (Stage 1) or life time (Stage 2 and Stage 3). The weighted average credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario. The Group increased the weight of the pessimistic scenarios, with comprehensive consideration of the impact of the COVID-19 epidemic and other factors on the economic development trend.

Modification of contractual cash flows

A modification or re-negotiation of a contract between the Group and a counterparty may result in a change to the contractual cash flows without resulting in the de-recognition of the financial assets. Such restructuring activities include extended payment term arrangements, repayment schedule modifications and changes to the interest settlement method. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in de-recognition of the original asset and the book value of the financial asset is recalculated and the related gain or loss is included in current profit and loss. The recalculated book value of the financial asset is determined based on the present value of the contractual cash flows following the renegotiation or modification, as calculated using the original effective interest rate of the financial asset.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1. This is only the case for assets which have performed in accordance with the new terms for twelve consecutive months or more.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets, including derivative financial instruments. The maximum exposure to credit risk in respect of the statement of financial position items as at the end of the reporting period is disclosed in Note III 52(a).

	30 June 2020				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	379,643	–	–	–	379,643
Deposits with banks and other financial institutions	43,658	–	–	–	43,658
Placements with banks and other financial institutions	59,196	–	227	–	59,423
Financial assets held under resale agreements	192,506	–	–	–	192,506
Loans and advances to customers	2,716,464	108,863	20,430	–	2,845,757
Finance lease receivables	92,179	2,265	5	–	94,449
Financial investments	1,312,301	180	4,697	318,902	1,636,080
Others (Note)	48,607	–	–	16,044	64,651
Total	4,844,554	111,308	25,359	334,946	5,316,167

	31 December 2019				
	Stage 1	Stage 2	Stage 3	N/A	Total
Assets					
Cash and deposits with the central bank	364,340	–	–	–	364,340
Deposits with banks and other financial institutions	31,358	–	–	–	31,358
Placements with banks and other financial institutions	60,000	270	–	–	60,270
Financial assets held under resale agreements	6,835	–	–	–	6,835
Loans and advances to customers	2,529,543	96,674	17,919	–	2,644,136
Finance lease receivables	80,839	2,869	15	–	83,723
Financial investments	1,215,372	1,375	4,770	212,029	1,433,546
Others (Note)	29,249	–	–	13,848	43,097
Total	4,317,536	101,188	22,704	225,877	4,667,305

Note: Others comprise precious metal (at fair value portion), derivative financial assets and assets from wealth management business, interests receivable and other receivables recorded in other assets.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

(ii) Credit rating

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	30 June 2020	31 December 2019
Impaired		
Carrying amount	668	366
Provision for impairment losses	(441)	(366)
Subtotal	227	–
Overdue but not impaired		
– grade B to BBB	–	270
Neither overdue nor impaired		
– grade A to AAA	288,239	73,880
– grade B to BBB	1,984	5,879
– unrated (Note)	5,137	18,434
Subtotal	295,360	98,193
Total	295,587	98,463

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(a) Credit risk (continued)

(ii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the major rating agencies where the issuers of the securities are located. The carrying amounts of debt securities investments analysed by the rating agency designations as at the end of the reporting period are as follows:

	30 June 2020	31 December 2019
Impaired		
Carrying amount	1,635	1,662
Provision for impairment losses	(1,120)	(1,038)
Subtotal	515	624
Neither overdue nor impaired		
Bloomberg Composite		
– grade AAA	413	1,033
– grade AA- to AA+	1,550	810
– grade A- to A+	25,750	25,497
– grade lower than A–	22,637	30,001
Subtotal	50,350	57,341
Other agency ratings		
– grade AAA	797,011	740,453
– grade AA- to AA+	88,939	63,240
– grade A- to A+	571	548
– grade lower than A–	2,454	2,119
– unrated	196,107	120,451
Subtotal	1,085,082	926,811
Total	1,135,947	984,776

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices.

The board of directors is ultimately responsible for monitoring the Group's market risk to ensure that the Group has effectively identified, measured monitored and control all types of market risk. The Risk Management Committee monitors the market risk management process within the scope authorised by the board of directors, which include review and approval of market risk management strategies, policies and procedures as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis under the banking book. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Scenario analysis is a multi-factor analysis method which assesses the impact of multiple factors interacting simultaneously, taking into consideration of the probabilities of various scenarios.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

Sensitivity gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(b) Market risk (continued)

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

Repricing risk
Repricing risk, which is also known as "maturity mismatch risk", is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group's income or its inherent economic value to vary with the movement in interest rates.

The Assets and Liability Management Department of the Group is responsible for measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

Trading interest rate risk
Trading interest rate risk mainly arises from the treasury's investment portfolios. Interest rate risk is monitored using the effective duration analysis method. The Group employs basis point value methods to measure its interest rate sensitivity, which is expressed as changes in the fair value of its investment portfolios given a 1 basis point (0.01%) movement in the interest rates.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period:

	30 June 2020						
	Effective interest rate (*)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.43%	379,643	19,672	359,971	–	–	–
Deposits with banks and other financial institutions	1.16%	43,658	27	40,619	3,012	–	–
Placements with banks and other financial institutions	2.23%	59,423	147	43,641	15,139	496	–
Financial assets held under resale agreements	1.69%	192,506	37	192,469	–	–	–
Loans and advances to customers	5.52%	2,845,757	29,541	2,101,109	615,696	95,580	3,831
Finance lease receivables	6.01%	94,449	1,408	52,902	18,337	16,010	5,792
Financial investments	4.10%	1,636,080	62,058	315,650	245,234	612,398	400,740
Others	–	136,918	133,762	–	–	–	3,156
Total assets	4.68%	5,388,434	246,652	3,106,361	897,418	724,484	413,519
Liabilities							
Due to the central bank	3.33%	167,722	3,725	85,340	78,657	–	–
Deposits from banks and other financial institutions	2.30%	478,539	2,127	375,782	100,630	–	–
Placements from banks and other financial institutions	2.53%	189,515	733	132,260	56,222	300	–
Financial assets sold under repurchase agreements	2.20%	27,433	24	24,020	3,150	239	–
Deposits from customers	2.37%	3,672,102	42,771	2,078,450	811,153	739,722	6
Debt securities issued	3.27%	359,887	2,069	159,737	145,605	5,792	46,684
Others	–	101,793	80,840	9,740	7,308	3,905	–
Total liabilities	2.48%	4,996,991	132,289	2,865,329	1,202,725	749,958	46,690
Asset-liability gap	2.20%	391,443	114,363	241,032	(305,307)	(25,474)	366,829

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the respective periods, and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities of the Group as at the end of the reporting period (continued):

	31 December 2019						
	Effective interest rate (*)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.46%	364,340	15,487	348,853	–	–	–
Deposits with banks and other financial institutions	1.73%	31,358	6	29,359	1,993	–	–
Placements with banks and other financial institutions	2.97%	60,270	213	42,793	16,775	489	–
Financial assets held under resale agreements	2.51%	6,835	8	6,827	–	–	–
Loans and advances to customers	5.64%	2,644,136	29,609	1,992,591	531,959	86,871	3,106
Finance lease receivables	5.78%	83,723	951	69,524	289	9,195	3,764
Financial investments	4.26%	1,433,546	67,851	234,363	201,092	599,514	330,726
Others	–	109,223	106,094	–	–	–	3,129
Total assets	4.76%	4,733,431	220,219	2,724,310	752,108	696,069	340,725
Liabilities							
Due to the central bank	3.34%	224,838	3,358	7,000	214,480	–	–
Deposits from banks and other financial institutions	2.89%	444,320	2,913	339,180	102,227	–	–
Placements from banks and other financial institutions	3.10%	166,225	1,122	98,731	66,372	–	–
Financial assets sold under repurchase agreements	2.22%	25,603	18	20,422	5,163	–	–
Deposits from customers	2.28%	3,017,888	34,570	1,867,333	645,265	470,708	12
Debt securities issued	3.69%	371,904	3,158	142,222	174,052	5,789	46,683
Others	–	96,599	76,614	12,735	4,195	3,048	7
Total liabilities	2.58%	4,347,377	121,753	2,487,623	1,211,754	479,545	46,702
Asset-liability gap	2.18%	386,054	98,466	236,687	(459,646)	216,524	294,023

* *Effective interest rate represents the ratio of interest income/expense to average interest-bearing assets/liabilities.*

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 30 June 2020, assuming other variables remain unchanged, an increase in estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB976 million (31 December 2019: decrease by RMB969 million), and equity to decrease by RMB6,320 million (31 December 2019: decrease by RMB5,039 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB1,114 million (31 December 2019: increase by RMB1,017 million), and equity to increase by RMB6,803 million (31 December 2019: increase by RMB5,316 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

– Interest rate movements at the end of the reporting period apply to all derivative and non-derivative financial instruments of the Group;

– An interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the assets and liabilities portfolio;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the Group's net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the reporting period are as follows:

	30 June 2020			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	368,891	10,278	474	379,643
Deposits with banks and other financial institutions	14,279	21,058	8,321	43,658
Placements with banks and other financial institutions	17,979	38,938	2,506	59,423
Financial assets held under resale agreements	192,469	37	–	192,506
Loans and advances to customers	2,675,625	108,356	61,776	2,845,757
Finance lease receivables	93,277	1,172	–	94,449
Financial investments	1,538,388	86,110	11,582	1,636,080
Others	123,131	12,869	918	136,918
Total assets	5,024,039	278,818	85,577	5,388,434
Liabilities				
Due to the central bank	167,722	–	–	167,722
Deposits from banks and other financial institutions	478,267	152	120	478,539
Placements from banks and other financial institutions	80,035	85,130	24,350	189,515
Financial assets sold under repurchase agreements	22,512	3,269	1,652	27,433
Deposit from customers	3,492,777	144,398	34,927	3,672,102
Debt securities issued	326,960	29,151	3,776	359,887
Others	95,286	5,061	1,446	101,793
Total liabilities	4,663,559	267,161	66,271	4,996,991
Net position	360,480	11,657	19,306	391,443
Off-balance sheet credit commitments	1,475,774	47,044	13,515	1,536,333
Derivative financial instruments (Note)	4,058	11,062	(14,780)	340

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the reporting period are as follows (continued):

	31 December 2019			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with the central bank	353,625	10,258	457	364,340
Deposits with banks and other financial institutions	8,822	15,096	7,440	31,358
Placements with banks and other financial institutions	33,091	23,340	3,839	60,270
Financial assets held under resale agreements	6,708	127	–	6,835
Loans and advances to customers	2,488,590	100,219	55,327	2,644,136
Finance lease receivables	82,800	923	–	83,723
Financial investments	1,345,906	79,341	8,299	1,433,546
Others	98,151	10,053	1,019	109,223
Total assets	4,417,693	239,357	76,381	4,733,431
Liabilities				
Due to the central bank	224,838	–	–	224,838
Deposits from banks and other financial institutions	442,306	1,488	526	444,320
Placements from banks and other financial institutions	55,186	92,685	18,354	166,225
Financial assets sold under repurchase agreements	23,074	2,529	–	25,603
Deposit from customers	2,839,940	146,468	31,480	3,017,888
Debt securities issued	332,159	35,802	3,943	371,904
Others	86,763	7,987	1,849	96,599
Total liabilities	4,004,266	286,959	56,152	4,347,377
Net position	413,427	(47,602)	20,229	386,054
Off-balance sheet credit commitments	1,220,466	53,513	13,517	1,287,496
Derivative financial instruments (Note)	(28,453)	51,603	(17,294)	5,856

Note: Derivative financial instruments reflect the net notional amounts of derivatives.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	30 June 2020	31 December 2019
Exchange rates against RMB for the HK dollar	0.9127	0.8949
Exchange rates against RMB for the US dollar	7.0739	6.9687

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 30 June 2020, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB29 million (31 December 2019: increase by RMB7 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB29 million (31 December 2019: decrease by RMB7 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

– The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates (central parity) against RMB;

– At the end of reporting period, the fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;

– Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;

– The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;

– Other variables (including interest rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(b) Market risk (continued)

Price risk

Price risk mainly comes from equity investments held by the Group and the trading precious metal investments. The Group's risk of commodity or shares price from investment is not significant.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

– Maintaining liquidity at a stable and sufficient level; establishing integrated liquidity risk management system; ensuring the meeting of liquidity requirements on a timely basis and the payments to various businesses, whether under a normal operating environment or a state of stress; and

– Making timely and reasonable adjustments to capital structure and scale in response to market changes and business developments; achieving the integration of the security, liquidity, and effectiveness of the Bank's funds.

The Asset and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium and longterm working capital on a regular basis, and for formulating liquidity management strategies. The Asset and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plan to respond to various possible liquidity risks.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2020							
	Overdue/ Indefinite	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	Total
Assets								
Cash and deposits with the central bank	311,806	67,837	–	–	–	–	–	379,643
Deposit with banks and other financial institutions	–	39,957	317	372	3,012	–	–	43,658
Placements with banks and other financial institutions	227	–	37,064	6,424	15,195	513	–	59,423
Financial asset held under resale agreements	–	–	192,506	–	–	–	–	192,506
Loans and advances to customers	45,766	414,254	108,509	161,204	719,813	711,915	684,296	2,845,757
Finance lease receivables	28	–	1,878	3,997	16,974	58,265	13,307	94,449
Financial investments	6,651	220,155	78,894	48,063	247,960	632,607	401,750	1,636,080
Others	67,718	51,385	1,590	1,111	2,563	9,390	3,161	136,918
Total assets	432,196	793,588	420,758	221,171	1,005,517	1,412,690	1,102,514	5,388,434
Liabilities								
Due to the central bank	–	–	42,323	45,590	79,809	–	–	167,722
Deposits from banks and other financial institutions	–	156,457	58,211	162,846	101,025	–	–	478,539
Placements from banks and other financial institutions	–	6	77,013	55,731	56,465	300	–	189,515
Financial assets sold under repurchase agreements	–	–	20,396	3,637	3,161	239	–	27,433
Deposit from customers	–	1,439,145	275,795	377,617	824,503	755,036	6	3,672,102
Debt securities issued	–	–	60,594	86,831	122,844	42,934	46,684	359,887
Others	–	42,147	6,256	5,603	14,958	27,584	5,245	101,793
Total liabilities	–	1,637,755	540,588	737,855	1,202,765	826,093	51,935	4,996,991
Net position	432,196	(844,167)	(119,830)	(516,684)	(197,248)	586,597	1,050,579	391,443
Notional amount of derivative financial instruments	–	–	440,167	390,678	968,300	749,469	4,546	2,553,160

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period (continued):

	31 December 2019							
	Overdue/ Indefinite	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	Total
Assets								
Cash and deposits with the central bank	301,750	62,590	–	–	–	–	–	364,340
Deposit with banks and other financial institutions	–	28,209	439	717	1,993	–	–	31,358
Placements with banks and other financial institutions	270	–	34,032	8,630	16,841	497	–	60,270
Financial asset held under resale agreements	–	–	6,835	–	–	–	–	6,835
Loans and advances to customers	33,760	409,336	162,556	132,922	635,142	612,104	658,316	2,644,136
Finance lease receivables	4	4	2,277	3,446	13,853	49,946	14,193	83,723
Financial investments	9,100	159,827	37,613	36,928	235,099	614,108	340,871	1,433,546
Others	63,610	28,678	2,015	2,765	5,698	3,325	3,132	109,223
Total assets	408,494	688,644	245,767	185,408	908,626	1,279,980	1,016,512	4,733,431
Liabilities								
Due to the central bank	–	–	7,210	–	217,628	–	–	224,838
Deposits from banks and other financial institutions	–	179,958	73,454	87,280	103,628	–	–	444,320
Placements from banks and other financial institutions	–	6	50,449	48,909	66,861	–	–	166,225
Financial assets sold under repurchase agreements	–	–	15,720	4,715	5,168	–	–	25,603
Deposit from customers	–	1,150,257	366,487	385,159	645,265	470,708	12	3,017,888
Debt securities issued	–	–	17,233	85,324	175,856	46,808	46,683	371,904
Others	–	41,076	8,245	3,294	18,649	20,388	4,947	96,599
Total liabilities	–	1,371,297	538,798	614,681	1,233,055	537,904	51,642	4,347,377
Net position	408,494	(682,653)	(293,031)	(429,273)	(324,429)	742,076	964,870	386,054
Notional amount of derivative financial instruments	–	–	404,966	378,775	1,314,045	673,700	3,640	2,775,126

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the reporting period:

	30 June 2020							
	Carrying amount	Contractual undiscounted cash flow	Repayable 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
Non-derivative financial liabilities								
Due to the central bank	167,722	169,383	–	42,375	45,827	81,181	–	–
Deposits from banks and other financial institutions	478,539	482,212	158,414	58,263	163,440	102,095	–	–
Placements from banks and other financial institutions	189,515	190,672	6	77,067	55,850	57,439	310	–
Financial assets sold under repurchase agreements	27,433	27,469	–	20,400	3,648	3,180	241	–
Deposits from customers	3,672,102	3,755,790	1,439,145	276,091	379,418	836,959	824,170	7
Debt securities issued	359,887	385,173	–	62,737	88,527	127,527	55,274	51,108
Other financial liabilities	64,185	67,346	20,264	4,547	4,632	12,776	19,041	6,086
Total non-derivative financial liabilities	4,959,383	5,078,045	1,617,829	541,480	741,342	1,221,157	899,036	57,201
Derivative financial liabilities								
Derivative financial instruments settled on net basis		(781)	–	6	6	(121)	(519)	(153)
Derivative financial instruments settled on gross basis								
– Cash inflow		1,132,752	–	357,151	334,695	424,485	16,421	–
– Cash outflow		(1,131,948)	–	(356,980)	(333,843)	(424,689)	(16,436)	–
Total derivative financial liabilities		804	–	171	852	(204)	(15)	–

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flows of the financial liabilities at the end of the reporting period (continued):

	31 December 2019							
	Carrying amount	Contractual undiscounted cash flow	Repayable 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
Non-derivative financial liabilities								
Due to the central bank	224,838	228,879	–	7,224	–	221,655	–	–
Deposits from banks and other financial institutions	444,320	448,811	179,959	75,916	87,926	105,010	–	–
Placements from banks and other financial institutions	166,225	167,904	6	50,558	49,207	68,133	–	–
Financial assets sold under repurchase agreements	25,603	25,667	–	15,723	4,734	5,210	–	–
Deposits from customers	3,017,888	3,049,947	1,150,257	372,046	390,510	655,277	481,840	17
Debt securities issued	371,904	405,350	–	17,555	93,250	182,147	59,086	53,312
Other financial liabilities	76,519	79,880	21,059	8,237	3,298	19,361	21,857	6,068
Total non-derivative financial liabilities	4,327,297	4,406,438	1,351,281	547,259	628,925	1,256,793	562,783	59,397
Derivative financial liabilities								
Derivative financial instruments settled on net basis		327	–	17	108	158	44	–
Derivative financial instruments settled on gross basis								
– Cash inflow		1,388,726	–	363,750	307,177	704,146	13,653	–
– Cash outflow		(1,387,827)	–	(362,637)	(307,299)	(704,213)	(13,678)	–
Total derivative financial liabilities		899	–	1,113	(122)	(67)	(25)	–

This analysis of the financial instruments by contractual undiscounted cash flow might diverge from actual results.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	30 June 2020			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	333,995	506	4,512	339,013
Guarantees, acceptances and other credit commitments	1,156,630	40,305	385	1,197,320
Total	1,490,625	40,811	4,897	1,536,333

	31 December 2019			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	312,090	5,474	6,179	323,743
Guarantees, acceptances and other credit commitments	912,051	51,355	347	963,753
Total	1,224,141	56,829	6,526	1,287,496

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49 Risk Management (continued)

(d) Operational risk

Operational risk refers to the risk of losses associated with internal processes deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group establishes a framework of operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;

– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;

– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

– An evaluation system on the operational risk management as well as an inquiry and disciplinary system on the non-compliance issues; and

– An independent risk assessment framework based on the internal audit and the compliance review.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period. The fair values of unlisted equity investments are estimated using comparable firm approach, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present values of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the reporting period, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present values of the forward prices and the contractual prices at the end of the reporting period, or are based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Reuters' quoted price.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Fair value (continued)

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets held under resale agreements, precious metals, loans and advances to customers, finance lease receivables and financial investments.

Cash and deposits with the central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions and financial assets held under resale agreements are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Most of loans and advances to customers, finance lease receivables and financial investments measured at amortized cost except for debt securities investments are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Financial assets at fair value through profit or loss, debt instruments at fair value through other comprehensive income, equity instruments at fair value through other comprehensive income and part of precious metals are stated at fair value. The carrying amount and fair value of debt securities investments measured at amortised cost are disclosed in Note III 17.

(ii) Financial liabilities

The Group's financial liabilities mainly include deposits from banks and other financial institutions, placements from banks and other financial institutions, financial assets sold under repurchase agreements, deposits from customers, due to the central bank, financial liabilities at fair value through profit or loss and debt securities issued. Except the debt securities issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "debt securities investments measured at amortised cost", and "debt securities issued" not presented at fair value at the end of reporting period:

	Carrying value		Fair value	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
Financial assets				
Debt securities investments measured at amortised cost	863,502	784,943	879,145	796,461
Financial liabilities				
Debt securities issued	359,887	371,904	357,604	371,869

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities (continued)

Debt securities investments measured at amortised cost are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of debt securities issued are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly (i.e. prices) or indirectly (i.e. derived from prices). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated derivative contracts and structured deposits with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is with reference to another instrument that is substantially the same.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value

	30 June 2020			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	4,465	–	4,465
– Interest rate derivatives	–	10,165	1	10,166
– Credit derivatives	–	28	–	28
Loan and advances to customers	–	114,723	–	114,723
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	5,947	52,785	–	58,732
– Financial assets designated at fair value through profit or loss	–	–	3	3
– Other financial assets at fair value through profit or loss	226,765	28,318	4,210	259,293
Debt instruments at fair value through other comprehensive income	50,766	156,768	–	207,534
Equity instruments at fair value through other comprehensive income	22	–	852	874
Precious metals	1,385	–	–	1,385
Total	284,885	367,252	5,066	657,203
Liabilities				
Financial liabilities at fair value through profit or loss	142	–	–	142
Derivative financial liabilities				
– Currency derivatives	–	4,750	–	4,750
– Interest rate derivatives	–	10,898	1	10,899
– Credit derivatives	–	76	–	76
Total	142	15,724	1	15,867

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial assets				
– Currency derivatives	–	10,104	–	10,104
– Interest rate derivatives	–	3,653	2	3,655
– Credit derivatives	–	46	–	46
Loans and advances to customers	–	90,578	–	90,578
Financial assets at fair value through profit or loss				
– Debt instruments held for trading	4,716	13,886	–	18,602
– Financial assets designated at fair value through profit or loss	–	–	4	4
– Other financial assets at fair value through profit or loss	164,806	23,964	4,030	192,800
Debt instruments at fair value through other comprehensive income	43,527	136,478	–	180,005
Equity instruments at fair value through other comprehensive income	21	–	602	623
Precious metals	43	–	–	43
Total	213,113	278,709	4,638	496,460
Liabilities				
Financial liabilities at fair value through profit or loss	100	–	–	100
Derivative financial liabilities				
– Currency derivatives	–	10,140	–	10,140
– Interest rate derivatives	–	3,678	2	3,680
– Credit derivatives	–	72	1	73
Total	100	13,890	3	13,993

During the reporting period, there were no significant transfers within the fair value hierarchy of the Group.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movements during the period ended 30 June 2020 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2020	2	4,034	602	4,638	(3)	(3)
Total gains or losses:						
– In profit or loss	(1)	(1)	–	(2)	2	2
Purchases	–	209	250	459	–	–
Settlements	–	(29)	–	(29)	–	–
30 June 2020	1	4,213	852	5,066	(1)	(1)
Total gains or losses for the period included in profit or loss for assets and liabilities held at the end of the reporting period	(1)	(1)	–	(2)	2	2

The movements during the year ended 31 December 2019 in the balance of Level 3 fair value measurements are as follows:

	Derivative financial assets	Financial assets at fair value through profit or loss	Equity instruments at fair value through other comprehensive income	Total assets	Derivative financial liabilities	Total liabilities
1 January 2019	7	3,141	352	3,500	(8)	(8)
Total gains or losses:						
– In profit or loss	(5)	(725)	–	(730)	4	4
Purchases	–	1,906	250	2,156	–	–
Settlements	–	(288)	–	(288)	1	1
31 December 2019	2	4,034	602	4,638	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	(5)	(725)	–	(730)	4	4

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "debt securities investments measured at amortised cost" and "debt securities issued" not presented at fair value on the statement of financial position:

	30 June 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	157,278	721,867	–	879,145
Financial liabilities				
Debt securities issued	28,975	328,629	–	357,604

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities investments measured at amortised cost	142,394	654,067	–	796,461
Financial liabilities				
Debt securities issued	31,658	340,211	–	371,869

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using cash flow discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 30 June 2020, the carrying amounts of financial instruments valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position.

	30 June 2020	31 December 2019
Entrusted loans	141,232	139,790
Entrusted funds	141,232	139,790

52 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card commitments, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise under takings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	30 June 2020	31 December 2019
Loan commitments		
– Original contractual maturity within one year	20,393	19,855
– Original contractual maturity more than one year (inclusive)	8,923	13,732
Credit card commitments	309,697	290,156
Subtotal	339,013	323,743
Acceptances	793,215	609,169
Letters of guarantee	125,961	128,746
Letters of credit	277,959	225,653
Guarantees	185	185
Total	1,536,333	1,287,496

The Group may be exposed to credit risk in all the credit businesses above. Group management periodically assesses the estimated credit risk and makes provision for any expected credit losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(Expressed in millions of Renminbi, unless otherwise stated)

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Commitments and contingent liabilities (continued)

(b) Credit risk-weighted amount of credit commitments

	30 June 2020	31 December 2019
Credit risk-weighted amount of credit commitments	391,398	380,959

The credit risk-weighted amount of credit commitments represents to the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional). The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Capital commitments

As at the end of reporting period, the Group's authorised capital commitments are as follows:

	30 June 2020	31 December 2019
Contracted but not paid		
– Purchase of property and equipment	1,362	1,100
Approved but not contracted for		
– Purchase of property and equipment	2,983	2,817
Total	4,345	3,917

(d) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 30 June 2020.

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at the end of reporting period, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	30 June 2020	31 December 2019
Redemption commitments	5,774	6,626

III NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Commitments and contingent liabilities (continued)

(e) Outstanding litigations and disputes

As at 30 June 2020, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB1,221 million (31 December 2019: RMB1,384 million). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels(Note III 35). The Group considers that the provisions made are reasonable and adequate.

53 Subsequent Events

The commencement of business of Beijing Sunshine Consumer Finance Co., Ltd. was approved

In the 28th Meeting of the Seventh Session of the Board of Directors of the Bank held on 15 September 2019, the Beijing Sunshine Consumer Finance Company Limited was approved to be established by the Bank together with China Youth Tourism Holding Co., Ltd. and other promoters. The Bank will invest RMB600 million, representing 60% of the equity.

On 1 January 2020, the Bank received the Approval Regarding the establishment of Beijing Sunshine Consumer Finance Company Limited (CBIRC Approval [2020] No. 16) from CBIRC.

On 10 August 2020, the Bank received the Approval Regarding the commencement of business of Beijing Sunshine Consumer Finance Company Limited (Jing CBIRC Approval [2020] No. 466) from CBIRC Beijing Bureau.

China Everbright Bank Company Limited
Consolidated Statement of Profit or Loss
For the nine months ended 30 September 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the nine months ended 30 September	
	2020	2019
Interest income	165,737	156,535
Interest expense	(83,528)	(81,252)
Net interest income	82,209	75,283
Fee and commission income	21,589	20,301
Fee and commission expense	(1,925)	(2,117)
Net fee and commission income	19,664	18,184
Net trading gains	208	457
Dividend income	1	35
Net gains arising from investment securities	3,988	4,523
Net foreign exchange gains	119	1,171
Other net operating income	767	679
Operating income	106,956	100,332
Operating expenses	(28,307)	(29,402)
Operating profit before impairment	78,649	70,930
Credit impairment losses	(42,989)	(33,406)
Other impairment losses	(302)	(189)
Profit before tax	35,358	37,335
Income tax	(5,654)	(5,869)
Net profit	29,704	31,466
Net profit attributable to:		
Equity shareholders of the Bank	29,605	31,399
Non-controlling interests	99	67
	29,704	31,466
Earnings per share		
Basic earnings per share (in RMB/share)	0.52	0.57
Diluted earnings per share (in RMB/share)	0.47	0.51

(Expressed in millions of Renminbi, unless otherwise stated)

	For the nine months ended 30 September	
	2020	2019
Net profit	29,704	31,466
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss:		
- Equity instruments at fair value through other comprehensive income		
- Net change in fair value	1	5
- Related income tax effect	-	(1)
Subtotal	1	4
Items that will be reclassified to profit or loss:		
- Debt instruments at fair value through other comprehensive income		
- Net change in fair value	(1,491)	1,490
- Changes in allowance for expected credit losses	(305)	290
- Reclassified to the profit or loss upon disposal	(706)	(169)
- Related income tax effect	621	(382)
- Exchange differences on translation of financial statements	(45)	91
Subtotal	(1,926)	1,320
Other comprehensive income, net of tax	(1,925)	1,324
Total comprehensive income	27,779	32,790
Total comprehensive income attributable to:		
Equity shareholders of the Bank	27,683	32,722
Non-controlling interests	96	68
	27,779	32,790

China Everbright Bank Company Limited
Consolidated Statement of Profit or Loss
For the three months from 1 July to 30 September 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months from 1 July to 30 September	
	2020	2019
Interest income	54,617	53,485
Interest expense	(27,074)	(27,385)
Net interest income	27,543	26,100
Fee and commission income	6,212	6,204
Fee and commission expense	(681)	(769)
Net fee and commission income	5,531	5,435
Net trading gains	151	388
Dividend income	-	24
Net gains arising from investment securities	1,209	1,549
Net foreign exchange gains	48	393
Other net operating income	317	219
Operating income	34,799	34,108
Operating expenses	(8,861)	(11,039)
Operating profit before impairment	25,938	23,069
Credit impairment losses	(12,463)	(10,075)
Other impairment losses	(155)	(141)
Profit before tax	13,320	12,853
Income tax	(2,037)	(1,871)
Net profit	11,283	10,982
Net profit attributable to:		
Equity shareholders of the Bank	11,242	10,955
Non-controlling interests	41	27
	11,283	10,982
Earnings per share		
Basic earnings per share (in RMB/share)	0.21	0.20
Diluted earnings per share (in RMB/share)	0.18	0.18

China Everbright Bank Company Limited
Consolidated Statement of Comprehensive Income
For the three months from 1 July to 30 September 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the three months from 1 July to 30 September	
	2020	2019
Net profit	11,283	10,982
Other comprehensive income, net of tax:		
Items that will not be reclassified to profit or loss:		
- Equity instruments at fair value through other comprehensive income		
- Net change in fair value	-	-
- Related income tax effect	-	-
Subtotal	-	-
Items that will be reclassified to profit or loss:		
- Debt instruments at fair value through other comprehensive income		
- Net change in fair value	(1,998)	762
- Changes in allowance for expected credit losses	(53)	42
- Reclassified to the profit or loss upon disposal	(430)	(8)
- Related income tax effect	622	(199)
- Exchange differences on translation of financial statements	(96)	87
Subtotal	(1,955)	684
Other comprehensive income, net of tax	(1,955)	684
Total comprehensive income	9,328	11,666
Total comprehensive income attributable to:		
Equity shareholders of the Bank	9,291	11,638
Non-controlling interests	37	28
	9,328	11,666

China Everbright Bank Company Limited
Consolidated Statement of Financial Position
As at 30 September 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	30 September 2020	31 December 2019
Assets		
Cash and deposits with the central bank	361,300	364,340
Deposits with banks and other financial institutions	48,077	31,358
Precious metals	10,826	10,826
Placements with banks and other financial institutions	57,314	60,270
Derivative financial assets	16,576	13,805
Financial assets held under resale agreements	76,297	6,835
Loans and advances to customers	2,889,677	2,644,136
Finance lease receivables	95,494	83,723
Financial investments	1,633,082	1,433,546
- Financial assets at fair value through profit or loss	293,100	211,406
- Debt instruments at fair value through other comprehensive income	192,527	180,005
- Equity instruments at fair value through other comprehensive income	875	623
- Financial investments measured at amortised cost	1,146,580	1,041,512
Fixed assets	22,143	19,342
Right-of-use assets	11,083	11,684
Goodwill	1,281	1,281
Deferred tax assets	20,133	16,306
Other assets	44,314	35,979
Total assets	5,287,597	4,733,431

(Expressed in millions of Renminbi, unless otherwise stated)

	30 September 2020	31 December 2019
Liabilities and equity		
Liabilities		
Due to the central bank	177,367	224,838
Deposits from banks and other financial institutions	458,926	444,320
Placements from banks and other financial institutions	166,453	166,225
Financial liabilities at fair value through profit or loss	21	100
Derivative financial liabilities	17,630	13,893
Financial assets sold under repurchase agreements	20,036	25,603
Deposits from customers	3,530,089	3,017,888
Accrued staff costs	11,188	8,007
Taxes payable	9,103	9,322
Lease liabilities	10,585	11,069
Debts securities issued	398,525	371,904
Other liabilities	46,904	54,208
Total liabilities	4,846,827	4,347,377

(Expressed in millions of Renminbi, unless otherwise stated)

	30 September 2020	31 December 2019
Liabilities and equity (Continued)		
Equity		
Share capital	52,489	52,489
Other equity instrument	110,057	70,067
of which: preference shares	64,906	64,906
Capital reserve	53,533	53,533
Other comprehensive income	815	2,737
Surplus reserve	26,245	26,245
General reserve	59,724	59,417
Retained earnings	136,341	120,494
Total equity attributable to equity shareholders of the Bank	439,204	384,982
Non-controlling interests	1,566	1,072
Total equity	440,770	386,054
Total Liabilities and equity	5,287,597	4,733,431

Approved and authorized for issue by the board of directors on 30 October 2020.

Li Xiaopeng
Chairman of the Board of Directors,
Non-executive Director

Liu Jin
President
Executive Director

Sun Xinhong
General Manager of
Financial Accounting Department

China Everbright Bank Company Limited
Consolidated Cash Flow Statement
For the nine months ended 30 September 2020
(Expressed in millions of Renminbi, unless otherwise stated)

	For the nine months ended 30 September	
	2020	2019
Cash flows from operating activities		
Net profit	29,704	31,466
Adjustments for:		
Impairment losses on assets	43,291	33,595
Depreciation and amortisation	3,773	3,640
Unwinding of discount	(567)	(553)
Dividend income	(1)	(35)
Unrealised foreign exchange losses/(gains)	185	(306)
Net gains on investment securities	(43,380)	(41,005)
Net gains on disposal of trading securities	(419)	(771)
Revaluation losses on financial instruments at fair value through profit or loss	365	1,006
Interest expense on debt securities issued	8,686	11,991
Interest expense on lease liabilities	364	368
Net losses on disposal of fixed assets	9	17
Income tax	5,654	5,869
	47,664	45,282
Changes in operating assets:		
Net increase in deposits with the central bank, banks and other financial institutions	(1,007)	(29,021)
Net decrease in placements with banks and other financial institutions	8,238	18,766
Net increase in financial assets held for trading	(30,584)	(19,928)
Net increase in loans and advances to customers	(289,331)	(264,581)
Net increase in financial assets held under resale agreements	(69,454)	(32,900)
Net increase in other operating assets	(19,830)	(47,531)
	(401,968)	(375,195)

(Expressed in millions of Renminbi, unless otherwise stated)

	For the nine months ended 30 September	
	2020	2019
Cash flows from operating activities (continued)		
Changes in operating liabilities:		
Net increase / (decrease) in deposits from banks and other financial institutions	15,963	(64,811)
Net increase in placements from banks and other financial institutions	814	25,454
Net decrease in financial assets sold under repurchase agreements	(5,611)	(19,629)
Net decrease in amount due to the central bank	(46,222)	(27,700)
Net increase in deposits from customers	504,712	388,629
Income tax paid	(9,362)	(8,524)
Net increase in other operating liabilities	1,754	27,652
	462,048	321,071
Net cash flows from operating activities	107,744	(8,842)
Cash flows from investing activities		
Proceeds from disposal and redemption of investments	578,700	444,649
Investment income received	42,471	43,941
Proceeds from disposal of fixed assets and other long-form assets	362	368
Payments on acquisition of investments	(747,892)	(490,723)
Payments on acquisition of fixed assets, intangible assets and other long-form assets	(4,878)	(2,731)
Net cash flows from investing activities	(131,237)	(4,496)

(Expressed in millions of Renminbi, unless otherwise stated)

	For the nine months ended 30 September	
	2020	2019
Cash flows from financing activities		
Capital contribution by non-controlling interests	400	-
Net proceeds from issue of preference shares	-	34,959
Net proceeds from issue of debts	66,801	-
Repayments of debts issued	-	(37,900)
Interest paid on debt securities issued	(8,877)	(13,491)
Dividends paid	(13,452)	(9,902)
Payments on other financing activities	(2,219)	(2,110)
Net cash flows from financing activities	42,653	(28,444)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,121)	1,605
Net increase/ (decrease) in cash and cash equivalents	18,039	(40,177)
Cash and cash equivalents as at 1 January	117,499	187,680
Cash and cash equivalents as at 30 September	135,538	147,503
Interest received	125,485	117,829
Interest paid (excluding interest expense on debts securities issued)	(70,332)	(67,934)

ISSUER

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ISSUING AND PAYING AGENT, TRANSFER AGENT AND REGISTRAR

Citibank, N.A., London Branch
c/o Citibank, N.A. Dublin Branch
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FISCAL AGENT AND CMU LODGING AND PAYING AGENT

Citicorp International Limited
39th Floor, Champion Tower
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LEGAL ADVISERS

To the Issuer
as to Hong Kong law

Linklaters
11th Floor, Alexandra House
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To the Issuer
as to PRC law

King & Wood Mallesons
40th Floor, Office Tower A
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Chaoyang District
Beijing 100020, PRC

To the Joint Lead Managers
as to English law

Clifford Chance
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To the Joint Lead Managers
as to PRC law

Jun He
20/F, China Resources Building
8 Jianguomenbei Avenue
Beijing 100005, PRC

Pricing supplement for the Notes dated 4 March 2021

PRICING SUPPLEMENT

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are prescribed capital markets products (as defined in the CMP Regulations 2018).

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Professional Investors**") only.

Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by Professional Investors only and will be listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This document is not for distribution to professional investors (as defined in Section 11 of the Guideline on Provision and Distribution of Financial Products (Circular 033/B/2010-DSB/AMCM)) ("**MOX Professional Investors**") only. **Investors should not purchase the Notes in the primary or secondary markets unless they are MOX Professional Investors and understand the risks involved. The Notes are only suitable for MOX Professional Investors. The Chongwa (Macao) Financial Asset Exchange Co., Ltd. (the "MOX") has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Document to MOX Professional Investors only have been reproduced in this document. Listing of the Notes on the MOX is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, the Issuer or the Group or quality of disclosure in this document.** The MOX takes no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Pricing Supplement dated 4 March 2021

China Everbright Bank Co., Ltd., Hong Kong Branch

Issue of U.S.$550,000,000 0.929 per cent. Notes due 2024
under the U.S.$5,000,000,000 Medium Term Note Programme

The document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated 22 July 2020. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular dated 22 July 2020 and the documents incorporated by reference thereto and the supplemental Offering Circular dated 4 March 2021 (the "**Supplemental Offering Circular**").

1	(i)	Issuer:	China Everbright Bank Co., Ltd., Hong Kong Branch
2	(i)	Series Number:	10
	(ii)	Tranche Number:	1
3	Specified Currency or Currencies:		U.S. dollar ("U.S.$")
4	Aggregate Nominal Amount:		
	(i)	Series:	U.S.$550,000,000
	(ii)	Tranche:	U.S.$550,000,000
5	(i)	Issue Price:	100.00 per cent. of the Aggregate Nominal Amount
	(ii)	Net Proceeds	U.S.$548,521,150
6	(i)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(ii)	Calculation Amount:	U.S.$1,000
7	(i)	Issue Date:	11 March 2021
	(ii)	Interest Commencement Date:	11 March 2021
8	Maturity Date:		11 March 2024
9	Interest Basis:		0.929 per cent. Fixed Rate (further particulars specified below)
10	Redemption/Payment Basis:		Redemption at par
11	Change of Interest or Redemption/Payment Basis:		Not Applicable
12	Put/Call Options:		Not Applicable
13	Date of Board approval for issuance of Notes:		The issue of the Notes thereunder were authorised by Authorisation (2014) No. 851, Authorisation (2015) No. 338, Authorisation (2016) No. 390 and Authorisation (2017) No. 640 of the Bank passed on 29 December 2014, 18 June 2015, 16 June 2016 and 1 November 2017, respectively.
14	Date of the relevant NDRC approval for		NDRC pre-issuance registration: Pursuant to the

	issuance of Notes:	Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (Fa Gai Wai Zi [2015] No 2044) (国家发展改革委关于推进企业发行外债备案登记制管理改革的通知(发改外资[2015] 2044 号)) issued by the NDRC and a quota of foreign debt (the "Quota") was granted by the NDRC on 9 June 2020.
15	Listing:	Application will be made to The Stock Exchange of Hong Kong Limited (expected effective listing date: 12 March 2021). Application will be made to the Chongwa (Macao) Financial Asset Exchange Co., Ltd. (expected effective listing date: 12 March 2021).
16	Method of Distribution:	Syndicated

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

17	Fixed Rate Note Provisions		Applicable
	(i)	Rate of Interest:	0.929 per cent. per annum payable semi-annually in arrear
	(ii)	Interest Payment Date(s):	11 March and 11 September in each year
	(iii)	Fixed Coupon Amount(s):	U.S.$4.645 per Calculation Amount
	(iv)	Broken Amount(s):	Not Applicable
	(v)	Day Count Fraction:	30/360
	(vi)	Determination Dates:	Not Applicable
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable
18	Floating Rate Note Provisions		Not Applicable
19	Zero Coupon Note Provisions:		Not Applicable
20	Index-Linked Interest Note/other variable-linked interest Note Provisions		Not Applicable
21	Dual Currency Note Provisions		Not Applicable

PROVISIONS RELATING TO REDEMPTION

22	Call Option	Not Applicable
23	Put Option	Not Applicable
24	Final Redemption Amount of each Note	U.S.$1,000 per Calculation Amount
25	Early Redemption Amount	Not Applicable

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26	Form of Notes:	Registered Notes:

		Global Note Certificate exchangeable for Individual Note Certificates in the limited circumstances described in the Global Note Certificate
27	Additional Financial Centre(s) or other special provisions relating to payment dates:	Hong Kong
28	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	Not Applicable
29	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]:	Not Applicable
30	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	Not Applicable
31	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
32	Consolidation provisions:	The provisions in Condition 20 (Further Issues) apply
33	Any applicable currency disruption/ fallback provisions:	Not Applicable
34	Other terms or special conditions:	Not Applicable
35	Credit Linked Provisions:	Not Applicable

DISTRIBUTION

36	(i)	If syndicated, names of Managers:	China Everbright Bank Co., Ltd., Hong Kong Branch Agricultural Bank of China Limited Hong Kong Branch Bank of Communications Co., Ltd. Hong Kong Branch, a joint stock company incorporated in the People's Republic of China with limited liability CCB International Capital Limited Citigroup Global Markets Limited CMBC Securities Company Limited Bank of China Limited Bank of China (Hong Kong) Limited Agricultural Bank of China Limited, Singapore Branch ABCI Capital Limited Industrial and Commercial Bank of China Limited, Singapore Branch Industrial and Commercial Bank of China (Macau) Limited ICBC International Securities Limited Industrial and Commercial Bank of China (Asia) Limited China Construction Bank (Asia) Corporation Limited

		BOCOM International Securities Limited China Minsheng Banking Corp., Ltd., Hong Kong Branch Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch SPDB International Capital Limited Industrial Bank Co., Ltd. Hong Kong Branch Nanyang Commercial Bank, Limited The Bank of East Asia, Limited China International Capital Corporation Hong Kong Securities Limited Huatai Financial Holdings (Hong Kong) Limited China Industrial Securities International Brokerage Limited Haitong International Securities Company Limited China Everbright Securities (HK) Limited China CITIC Bank International Limited BOSC International Company Limited CLSA Limited CMB International Capital Limited Natixis
	(ii) Stabilisation Manager(s) (if any):	Citigroup Global Markets Limited
37	If non-syndicated, name and address of Dealer:	Not Applicable
38	Total commission and concession:	The Issuer has agreed to pay the Managers a management commission based on the gross subscription moneys of the Notes
39	U.S. Selling Restrictions:	Reg. S Category 1; TEFRA not applicable
40	Prohibition of Sales to EEA and UK Retail Investors:	Not Applicable
41	Prohibition of Sales to UK Retail Investors:	Not Applicable
42	Additional selling restrictions:	Applicable. See the section titled "*Selling Restrictions*" in the Supplemental Offering Circular.

OPERATIONAL INFORMATION

43	ISIN Code:	XS2297070190
44	Common Code:	229707019
45	CMU Instrument Number:	Not Applicable
46	LEI	The Legal Entity Identifier of the Issuer is 549300WVNR4RWTGIV379
47	Any clearing system(s) other than Euroclear/Clearstream and the CMU and the relevant identification number(s):	Not Applicable
48	Delivery:	Delivery against payment
49	Additional Paying Agent(s) (if any):	Not Applicable

50	Registrar (if other than Citibank, N.A., London Branch):	Not Applicable

GENERAL

51	Private Bank Rebate/Commission:	Not Applicable
52	The aggregate principal amount of Notes issued has been translated into United States dollars at the rate of [•], producing a sum of (for Notes not denominated in United States dollars):	Not Applicable
53	Ratings:	The Notes to be issued have been rated: S&P: BBB+ Fitch: BBB

FINANCIAL/TRADING POSITION

Since 30 June 2020, there has been no material adverse change in the financial position or prospects, nor any significant change in the financial or trading position or prospects of the Issuer, the Bank or the Group.

STABILISING

In connection with this issue, Citigroup Global Markets Limited (the "**Stabilisation Manager**") (or persons acting on behalf of any Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there is no obligation on such Stabilisation Manager(s) to do this. Such stabilisation, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilisation shall be in compliance with all applicable laws, regulations and rules.

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on The Hong Kong Stock Exchange of the Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme.

This Pricing Supplement comprises the final terms required for issue and admission to trading on the MOX of the Notes described herein pursuant to the U.S.$5,000,000,000 Medium Term Note Programme.

LISTING APPLICATION

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer.

This document includes particulars given in compliance with the Rules and Regulations Governing the Listing of Securities on the MOX for the purpose of giving information with regard to the Issuer.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of China Everbright Bank Co., Ltd., Hong Kong Branch:

By: ....

Duly authorised

Name: Wally Kwok
Title: Chief Marketing Officer

By: ....

Duly authorised

Name: Desmond Wu
Title: Chief Risk Officer